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BEFORE THE TENNESSEE REGULATORY AUTHORITY

T.R.A. DOCKET ROOM

NASHVILLE, TENNESSEE

August 31, 2006

IN RE:

**SHILOH FALLS UTILITIES, INC.
COMPLIANCE AUDIT**

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Docket No. 06-00177

**NOTICE OF FILING BY UTILITIES DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

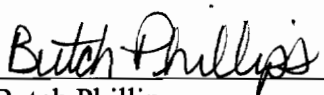
Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority gives notice of its filing of the Shiloh Falls Utilities, Inc.'s Compliance Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the compliance audit of Shiloh Falls Utilities, Inc. (the "Company").
2. The Staff began its audit on June 13, 2006 and completed its audit of same on August 14, 2006.
3. On August 18, 2006, the Utilities Division issued its preliminary compliance audit findings to the Company, and on August 25, 2006, the Company responded thereto.
4. The preliminary compliance audit report was modified to reflect the Company's responses and a final compliance audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

The Report contains the audit findings of the Utilities Division, the Company's responses thereto and the recommendations of the Utilities Division in connection therewith.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:



Butch Phillips
Utilities Division of the
Tennessee Regulatory Authority

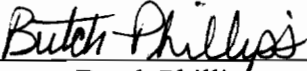
CERTIFICATE OF SERVICE

I hereby certify that on this 31st day of August, 2006, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Mrs. Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mrs. Lisa Thomas, President
Shiloh Falls Utilities, Inc.
P. O. Box 1027
Savannah, Tennessee 38372

Mr. Gilbert Parrish, Attorney At-Law
60 Brazelton Street, Unit # 9
Savannah, Tennessee 38372



Butch Phillips

COMPLIANCE AUDIT REPORT
OF
SHILOH FALLS UTILITIES, INC.
DOCKET NO. 06-00177

PREPARED BY
TENNESSEE REGULATORY AUTHORITY
UTILITIES DIVISION
August 2006

EXHIBIT A

COMPLIANCE AUDIT
SHILOH FALLS UTILITIES, INC.

DOCKET NO. 06-00177

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I. INTRODUCTION

The subject of this audit is Shiloh Falls Utilities, Inc.'s ("Company" or "Shiloh") compliance with the Rules and Regulations of the Tennessee Regulatory Authority ("TRA" or the "Authority") as they apply to wastewater utilities. At the direction of the Chief of the Utilities Division, the compliance audit was conducted by Butch Phillips and Ron Graham of the Utilities Division. The Company made its books and records available to Staff at 450 Church St., Savannah, Tennessee. The Staff's findings and recommendations resulting from the audit can be found in section V. of this report.

II. BACKGROUND

Shiloh is a small wastewater system located in Counce, Tennessee in Hardin County. It is owned in equal shares by Shackelford Development Company, Inc. and SPD Company, LLC. Both companies are owned by the Shackelford family. The Company currently has approximately 103 customers, which includes a small retail customer.

Shiloh was originally granted approval for a Certificate of Public Convenience and Necessity (CCN) in Tennessee Public Service Commission ("TPSC") Docket No. 95-03948. The last time this Company appeared before this agency was in Docket No. 02-00289. In that Docket, TRA Staff conducted a compliance audit of the Company's books and records. Staff issued its report containing five (5) findings on April 24, 2003. The matter came before the Authority on June 16, 2003, at which time the Directors approved and adopted the compliance audit report.

III. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gives jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The TRA's Utilities Division is responsible for auditing those gas, electric, and water companies under its jurisdiction, to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority.

IV. SCOPE OF AUDIT

The Staff examined Shiloh's books and records for the twelve months ended December 31, 2005, and conducted tests of accounts as it considered necessary to determine if the Company is complying with the Uniform System of Accounts for Class C Wastewater utilities as well as TRA rules, regulations, and other directives of the Authority.

V. AUDIT FINDINGS

Staff audit resulted in three (3) findings. A discussion of those findings along with Staff's recommendation to remedy the findings and the Company's response to the findings are found below.

EXPLANATION OF FINDINGS

FINDING # 1:

Exception

The Company is delinquent in its customer billings.

Discussion

The Company via a data request response indicated that it's customer billings are in arrears by several months. The company also submitted a schedule indicating that the billings would be brought current during December 2006.

The Company, according to it's data response, identified a billing problem approximately eighteen months ago. The cause of the problem was Shiloh Falls' billing software and the billing software utilized by First Utility District, the water provider for the area. In addition, the Company reported that it has obtained new billing software that reduces the time it takes to process customer bills from two days to two hours.

Staff believes that it is important for Shiloh to remain current with all billings to ensure that it receives sufficient revenue to pay for its operational expenses. By becoming lax in its billing process, the Company runs the risk of not collecting the revenue that it is entitled to and potentially, if enough bills become uncollectible, to experience net operational losses.

Recommendation

The Staff recommends that Shiloh Falls should bring customer billings current within sixty (60) days of the filing of this report and to subsequently provide written confirmation to the Authority that the billings are current.

Company Response

We disagree with this recommendation and respectfully request that Shiloh Falls Utilities be allowed to continue with the billing schedule currently in place. Although we are running in arrears on our billing, by billing for two months each month, we will be billing

currently in December, 2006. This may or may not fall within the proposed 60 day requirement, depending upon the date that the final report is filed. The utility does not have a cash flow problem and has not experienced any loss of revenue from the delayed billings, other than those accounts which were a problem prior to the billing delays. Our present schedule is not detrimental to either the utility or our customers. To require that we adopt a shorter schedule could prove to be a hardship to some of our customers – an unnecessary burden given that our current schedule is sufficient to correct the problem in a reasonable amount of time with no adverse effects to anyone.

FINDING # 2:**Exception**

The Company incorrectly recorded a capital expenditure as normal operational expense.

Discussion:

During a review of vendor invoices paid by the Company, Staff discovered that Shiloh recorded \$850 for major repairs to a lift station pump as a monthly expense. Uniform System of Accounts for Class "C" Wastewater Utilities sets a monetary level for capitalizing versus expensing for Class C wastewater utilities at \$150.00.

Recommendation:

Shiloh should reclassify this amount from a repair and maintenance expense to Utility Plant in Service (USOA Account No. 360) and depreciate over the extended life of the pump.

Company Response:

We agree to comply with this recommendation and will request that our accountant reclassify this expenditure.

FINDING # 3:

Exception:

The Company tariff is not in compliance with TRA Rule 1220-4-1.

Discussion:

Staff discovered the following deficiencies during a review of the Company's tariff:

1. The Company could not produce a copy of the tariff page (First Revision Page No. 8) on file at the Authority which contains its sewer billing rates. A check of customer bills showed that the Company is billing customers consistent with the rates contained on this revised rate schedule.
2. The tariff does not conform to tariff specifications contained in TRA Rule 1220-4-1-.02, in that there is no name and title of the issuing officer on each tariff sheet.
3. Tariff sheets in effect with an issue date of May 18, 2001 do not include an effective date. In addition these tariff sheets contain a business address that is not current and a telephone number that has been disconnected.
4. Pursuant to TRA Rule 1220-4-1-.06, all utilities issuing tariffs or schedules of rates and changes must file a copy of the tariff with the Authority at least 30 days in advance of the proposed effective date. The "Application and Contract for Service" found in Shiloh's tariff is not the form currently used by the Company. The Company did not file the new service agreement with the Authority.
5. Tariff Sheet "Original Page No. 7" has not been revised to contain the current public contact information.
6. Tariff Sheet "Original Page No. 4" states that a customer's service may be terminated for non-payment of bill and in addition, the penalties for non-payment. For environmental and health reasons, water service should be discontinued whenever sewer service is disconnected. This step also provides motivation for a customer to pay the outstanding sewer bill. The Company told the Staff during the on-site visit that the provider of water services, First Utility District of Hardin County is unwilling to terminate water service for failure of a sewer customer to pay for sewer service. Pursuant to TRA Rule 1220-4-13-.14(2), after the effective date of the this rule, a utility shall refuse new wastewater service to a customer unless the customer agrees to sign a "Subscription Service Contract" that would allow the utility to either install a water cutoff valve on the customer's premises for use by the utility or allow the utility to execute an agreement with the water provider to terminate water service.

7. There is no current map of the service territory included with the tariff or available from the Company during the on-site visit by Staff.

Recommendation:

Shiloh should work with TRA Staff to file a revised tariff correcting the above deficiencies within sixty (60) days of the issuance of the compliance report.

Company Response:

We will comply with this recommendation and will instruct our attorney to contact the TRA Staff and begin the necessary revisions to our tariff.

**VI. ESCROW DETERMINATION PURSUANT TO TRA RULE
1220-4-13-.07(8)**

Issue:

Whether a need exists for Shiloh Falls to maintain an Escrow Account.

Discussion:

As stated in Rule 1220-4-13.06(8), "The requirement for a public wastewater utility to maintain a reserve/escrow account shall be determined by the Authority on a case by case basis..." During the audit review, Staff noted that the Company does not maintain an escrow account for the purpose of non-routine or emergency system repairs.

On March 18, 2005 in response to a TRA Staff data request in Docket No. 04-00434, Shiloh Falls stated that "Extensive system repairs or operations necessitated by an emergency situation would be funded through capital investment from the owners of the utility company."

Recommendation:

Staff does not recommend that the Company be required to maintain an escrow account based upon the owner's assertions that any extensive or emergency repairs will be funded by the owner as needed.

Company Response:

We agree with this recommendation and thank the TRA for their conclusion.

VII. STAFF SUMMARY

The Company's customer billings are in arrears and it should make efforts to bring them current as soon as possible. The Staff has outlined in the report, discovered during the audit, the material deficiencies in this report and will work with the utility to remedy these deficiencies. Shiloh has access to outside accounting personnel to assist in maintaining financial compliance.

In Docket No. 02-00289 the company was cited in several areas for various accounting and billing errors. Upon review of the Company's books and records the Audit Staff believes these prior issues have been corrected.