

LAW OFFICES

GULLETT, SANFORD, ROBINSON & MARTIN, PLLC

GARETH S. ADEN  
G. RHEA BUCY  
CHRISTOPHER W. CARDWELL  
GEORGE V. CRAWFORD, JR.  
GEORGE V. CRAWFORD III  
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DAN HASKELL  
ANDRA J. HEDRICK  
LINDA W. KNIGHT  
JOEL M. LEEMAN  
ALLEN D. LENTZ  
MOLLIE E. MAHAN

STREET ADDRESS:  
315 DEADERICK STREET, SUITE 1100  
NASHVILLE, TENNESSEE 37238

MAILING ADDRESS:  
POST OFFICE BOX 198888  
NASHVILLE, TENNESSEE 37219-8888

TELEPHONE (615) 244-4994

FACSIMILE (615) 256-6339

WWW.GSRM.NET

JOSEPH MARTIN, JR.  
MARISSA A. MOSES  
WM. ROBERT POPE, JR.  
JACK W. ROBINSON, JR.  
JACK W. ROBINSON, SR.  
WESLEY D. TURNER  
PHILLIP P. WELTY  
MARK H. WESTLAKE

OF COUNSEL  
TREVOR W. HOWELL  
JOHN D. LENTZ  
SULLIVAN F. MARSDEN

B. B. GULLETT  
1905-1992  
VALERIUS SANFORD  
1923-2001

December 4, 2006

Ms. Darlene Standley, Chief  
Utilities Division  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

RE: Application of Community Initiative for a Certificate of Public Convenience and Necessity to Provide Natural Gas Services in Certain Areas of Macon County, Tennessee (including within the City of Red Boiling Springs); to Approve the Transfer of Customers and Certain Assets and Customers of RBS Gas Utility, Inc.; to Approve Franchise from The City of Red Boiling Springs; to Confirm Cancellation of Special Contract of RBS Utility, Inc.; and to Set Rates and Approve Tariff

**Docket No. 06-00281**

Dear Ms. Standley:

In response to your data request of November 27, 2006, enclosed are the following responses and documents from Community Initiative ("CI"):

1. CI's contract with AUI states that AUI will be paid an annual sum of \$250,000 to manage RBS Utility. Please identify, by line item, what portion of the expenses listed in the five year income statement provided on November 21, 2006, will be covered by the \$250,000 management fee each year. For expenses not covered by the \$250,000 paid to AUI, please itemize the expense and explain who will pay the expense.

RESPONSE: All operating expenses, including AUI's Management Fee, will ultimately be paid by CI from the operations of the utility. Some expenses such as Salaries and Wages, Repair and Maintenance, Insurance and Professional Services will be paid directly by AUI and reimbursed by CI through AUI's Management Fee.

Ms. Darlene Standley, Chief

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2. Please provide a five year forecast of customer and usage volumes.

RESPONSE: CI has no such forecast of future customers and usage volumes. The five year income statement forecast previously submitted was prepared at a very high level without detail supporting calculations. As indicated in the five-year income statement, the future revenues were calculated assuming an annual growth rate of 10% due to expected system expansion.

3. Please itemize each expense included on the income statement.

RESPONSE: CI does not have a list of itemized expenses that were included on its forecasted pro forma income statement. The five-year income statement forecast previously submitted was prepared at a very high level without detail supporting calculations. As indicated in the five-year income statement, the individual expenses have been adjusted by different items that are fully explained in the footnotes to the statement.

4. Is interest on the \$600,000 short term loan reflected in the income statement? If so, please identify the expense. If not, please explain.

RESPONSE: No. As shown on the five-year income statement previously submitted, no interest is included in the calculation of net operating income as is customary. Typically, interest expense is later deducted from net operating income to arrive at net income. However, the TRA traditionally has only considered the calculation of net operating income in setting the rates for the utilities that it regulates.

5. Is the \$350,000 of the short term loan included in the calculation of working capital?

RESPONSE: No. The working capital calculated in the five-year Rate Base forecast only includes the investment necessary to bridge the gap between the time expenses are incurred and when CI receives the revenues to pay for them.

Typically debt, such as the short-term loan mentioned here, is not included in the calculation of rate base. Instead, the cost of this debt is applied to the Rate Base calculation to determine the amount of return that should be included in CI's rates.

6. Please identify the accumulated depreciation at the time of purchase. Is this reflected in the combined statement?

RESPONSE: Both the Utility Plant and related accumulated depreciation that will exist on CI's books at the time of purchase will be the same as they were on the Receiver's books prior to the purchase. However, an Acquisition Adjustment will be recorded on the books for the difference between the net book

Ms. Darlene Standley, Chief

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value (original plant cost less accumulated depreciation) and the \$250,000 purchase price.

For example, the balance sheet at December 31, 2005 provided by the Receiver shows Net Plant of \$1,237,858.24. If the purchase had occurred at December 31, 2005, an Acquisition Adjustment would be recorded for \$987,858.24 reflecting the difference between the Net Plant of \$1,237,858.23 and the \$250,000.00 purchase price.

The net result of recording an Acquisition Adjustment will be to reflect the purchase price of \$250,000 as the new net book value. This was done by CI in its five-year forecast of Rate Base.

7. Please provide supporting calculations for the annual depreciation expense included in the five year forecast.

RESPONSE: As explained in footnotes C and J of the five-year forecast, CI has applied an overall depreciation rate of 10% to the net plant balance to calculate depreciation expense.

8. Identify the amount of deferred federal income taxes in the combined statement. Include all calculations.

RESPONSE: There are no accumulated deferred federal income taxes on the books of the utility that were supplied to AUI by the Receiver. AUI is unaware of any difference between the Utility's previous book and tax depreciation rates that would trigger the recognition of deferred federal income taxes.

9. Who is responsible for retaining qualified personnel who meet gas safety guidelines? Who will pay for the associated expense, AUI or CI?

RESPONSE: AUI is responsible for retaining and paying for all personnel of the Utility.

10. Please provide a copy of the contracts with Hal Novak and Earl Burton. Who will pay these contracts, AUI or CI?

RESPONSE: A copy of AUI's contracts with Hal Novak (WHN Consulting) and Earl Burton (Tennessee Energy Consultants) are attached. AUI is responsible for retaining and paying for all outside contractors of the Utility.

11. Will current contracts for outsourced labor be retained? If so, who will pay these contracts, AUI or CI?

RESPONSE: Any existing outsourced labor contracts will not be retained.

Ms. Darlene Standley, Chief

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12. Is it CI's intent to issue an RFP for gas procurement? If so, please explain the RFP process CI plans to use. If not, please explain how CI can insure that it is procuring gas at a prudent cost for consumers.

RESPONSE: Initially, CI will not issue an RFP because of the time constraints involved with the transfer in ownership. One of the challenges with an RFP is the relative size of the gas requirements and whether or not an RFP would attract potential suppliers that would result in substantial savings for the gas system. For that reason, CI's consultant, Tennessee Energy Consultants, has negotiated a transportation rate that will be based on the monthly Nymex close plus transportation and Fuel. Intra-month purchases would be based on a Gas Daily Price plus transportation and Fuel. Given time to develop the gas requirements for an RFP, CI could issue an RFP at the next renewal date which would begin January 1, 2008.

The current quote for gas transportation, Nymex plus \$0.34 plus fuel, is considerably less than the costs of transportation if CI contracted for its own assets which would run approximately \$0.21/dekatherm at full load factor. Based on a 45% load factor, this transportation costs would run closer to \$0.50 per dekatherm plus pipeline shrinkage. Therefore, the current transportation is a good value relative to the market costs of transportation if CI contracted directly for the pipeline capacity.

All natural gas purchases will be based on the monthly Nymex close or Nymex futures if CI elects to hedge natural gas costs over a period of time. CI will document all purchases and validate gas costs relative to the applicable index or daily cash pricing for which the gas was purchased. This data should be sufficient for the TRA to validate the prudence of gas purchases.

13. Please explain the \$70,000 decrease in salary and wages between the first year and second year of the five year forecast. Please explain why this decrease is not reflected in the management fee paid to AUI.

RESPONSE: The first-year total salary and wage cost of \$191,615 for the RBS gas system reflects an incremental \$70,000 of management costs that will be necessary to initially set the policy and procedures of running the day-to-day operations of the Utility. It is expected that the management costs allocated to the RBS gas system will decline after this initial first year of operations.

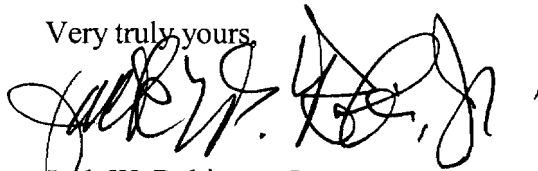
In addition to the RBS gas system, CI and AUI are currently reviewing acquisition possibilities of other small natural gas utilities which can be acquired without an extensive addition to personnel. AUI expects to allocate the \$70,000 of management costs previously allocated to the RBS gas system to the acquisition of these other utilities.

14. Please explain the annual increases in Plant in Service reflected in the five year forecast. Describe the area of expansion. Provide a price out of the additional customers and usage generated each year due to this expansion.

RESPONSE: Please refer to CI's response to Items 2 and 3 of this data request. CI has no such price-out or forecast of future customers and usage volumes. The five-year income statement and Rate Base forecast previously submitted was prepared at a very high level without detail supporting calculations. As indicated in the five-year income statement, the future revenues were calculated assuming an annual growth rate of 10% due to expected system expansion. In addition, please refer to the previously submitted engineering report, which was provided to you at our November 21, 2006 meeting, that outlines the projected expansion for the utility lines.

Should you have any additional questions, please do not hesitate to contact me.

Very truly yours,

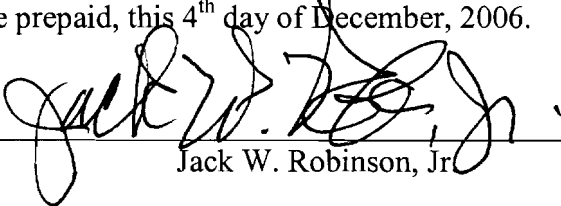


Jack W. Robinson, Jr.

JWRjr:plw  
Enclosures

**CERTIFICATE OF SERVICE**

I hereby certify that I have served a copy of the foregoing document upon the City of Red Boiling Springs, Tennessee, c/o Jon A. Wells, Esq., city attorney, 206 Court Square, P. O. Box 116, Lafayette, Tennessee 37083-0116; Macon County, Tennessee, c/o County Mayor Glen H. Donoho, Room 201 Macon County Courthouse, Lafayette, Tennessee 37083; the City of Lafayette, Tennessee, c/o Jon A. Wells, Esq., city attorney, 206 Court Square, P. O. Box 116, Lafayette, Tennessee 37083-0116; the Consumer Advocate Division, Tennessee Attorney General's Office, Attn.: Timothy Phillips, Esq., Senior Counsel, 425 Fifth Avenue North, Nashville, Tennessee 37243-0491; J. Graham Matherne, Esq., attorney for Receiver of RBS Gas Utility, Inc., Wyatt, Tarrant & Combs LLP, Suite 1500, 2525 West End Avenue, Nashville, Tennessee 37203-1423; Nestle Waters North America, Attn: Plant Manager, Highway 52, Red Boiling Springs, Tennessee 37150; and Nestle Waters North America, Attn: Legal Department, 666 West Putnam Avenue, Greenwich, Connecticut 06830, by depositing a copy of the same in the United States mail, first class mail, postage prepaid, this 4<sup>th</sup> day of December, 2006.

  
\_\_\_\_\_  
Jack W. Robinson, Jr.

## SERVICES AGREEMENT

This Services Agreement ("Agreement") is entered into this first (1<sup>st</sup>) day of November, 2006, by and between AUI, L.L.C. ("Company"), and William H. Novak, a sole proprietor ("Consultant") and CPA doing business as WHN Consulting.

**WHEREAS**, Company is engaged in the business of providing utility services (the "Business"); and

**WHEREAS**, Company is required to provide state regulatory agencies (the "Regulators") with certain accounting records and to provide periodic financial reports along with other data; and

**WHEREAS**, Company desires to retain the services of Consultant to assist it with the accounting and non-docketed regulatory duties required in the Business, and other accounting services, which Company may from time to time request of Consultant; and

**WHEREAS**, Consultant is engaged on a free-lance basis from time to time by various businesses to assist them with utility accounting and regulatory requirements; and

**WHEREAS**, it is the intention of the parties hereto that Consultant be retained to perform accounting and non-docketed regulatory services on an as requested basis by Company.

**NOW, THEREFORE**, in consideration of the promises and agreements hereinafter set forth, the parties do hereby agree as follows:

Section 1. Services to Be Provided by Consultant. Company hereby retains Consultant and Consultant hereby agrees to provide accounting and regulatory assistance and advice in connection with the Company's non-docketed filings and submittals to the Regulators. Such assistance and advice is limited to only those informal and recurring matters before the Regulator that are not assigned with a docket number. **Consultant is not providing any legal advice. Company must rely on the review of its own legal professionals for such advice.**

Section 2. Compensation and Expenses.

(a) Consulting Fee. In consideration of Consultant's performance of the Services, Company shall pay to Consultant a consulting fee at a rate of \$100.00 per hour of which Services are actually performed until the termination of the Agreement pursuant to Section 3. Consultant's hourly fees will be rounded to ten minute increments.

(b) Expenses. Company shall reimburse Consultant for all usual and customary business expenses incurred by Consultant while performing Services for Company in accordance with Company's customary policies and procedures, including but not limited to, reproduction expenses, overnight delivery expenses, travel and lodging.

(c) Payment Terms. Consultant will invoice Company on a monthly basis on or before the 15<sup>th</sup> day of the subsequent month for Consultant's hourly fees along with any expense invoices that Consultant has received on Company's behalf. Company will pay Consultant's invoices within 30 days of receipt of a proper invoice.

### Section 3. Term and Termination.

(a) Unless earlier terminated pursuant to Section 3(b), the term of this Agreement shall commence on November 1, 2006 and shall terminate on December 31, 2006 (the "Initial Term"). This Agreement shall then automatically renew for additional three-month periods (each a "Renewal Term") unless terminated pursuant to Section 3(b). The Initial Term and all Renewal Terms shall be referred to as the "Term."

(b) This Agreement and the rights and obligations of the parties, other than those rights and obligations set forth in Section 6, which shall survive such termination in accordance with their terms, will immediately terminate upon the first to occur of the following events:

- (i) Fifteen (15) days written notice by either party to the other party of its decision to terminate this Agreement, which it may do with or without cause at any time in its sole discretion;
- (ii) the mutual written agreement of Company and Consultant; or
- (iii) any breach by either party of any of the terms, conditions, or covenants embodied in this Agreement, and the failure to cure the same within ten (10) days following written notice of such breach by the nonbreaching party.

(c) Except for payments for fees earned and expenses incurred prior to the date of the termination of this Agreement, all payments to Consultant under Section 2 shall cease immediately upon the date of such termination. Consultant shall not be entitled to any additional pay, remuneration or reimbursement for his performance of the Services in exchange for his covenants in Section 6. Any termination of this Agreement shall not alter Consultant's obligations under Section 6, nor the time periods during which Consultant is subject to those obligations.

Section 4. Duties and Responsibilities. During the Term, Consultant agrees to perform the Services at the direction of Company and to serve Company faithfully, diligently and to the best of his ability in his performance of the Services. In connection with his performance of the Services, Consultant will be subject to such policies, procedures, directions and restrictions as Company may reasonably establish, and provide to Consultant in writing, from time to time.

Section 5 Relationship of the Parties. Consultant is entering into this Agreement as, and will continue to be an independent contractor and is not and shall not make any claim that he is



an employee, agent, servant or representative of Company. Consultant shall have no authority to transact business, enter into agreements or otherwise make commitments on behalf of Company unless expressly authorized to do so in writing by an authorized officer of Company. Consultant shall not be entitled to any benefits accorded to Company's employees, including, without limitation, worker's compensation, disability insurance, medical or dental benefits, vacation or sick pay. Company is only interested in the results of Consultant's performance of the Services. Consultant shall have sole control of the manner and means of his performance responsibilities under this Agreement.

Section 6 Confidentiality. During the Term of this Agreement and for a period of two (2) years thereafter, Consultant agrees to treat as confidential any information, whether oral, written, electronic or otherwise, provided by Company to Consultant that Company identifies as confidential or that Consultant, considering the circumstances of disclosure and the subject matter of the information disclosed, should reasonably consider to be confidential. All written documents containing any confidential information shall be returned to Company by Consultant and all electronic confidential information shall be destroyed by Consultant when the Agreement terminates or at any time upon Company's request. This confidentiality provision shall not apply when Consultant has received such information from a third party on a non-confidential basis and not derived from Company. Consultant may disclose confidential information only if Consultant receives written permission from Company to disclose such information.

Section 7 Taxes. Consultant shall be responsible for all state, federal, and local withholdings and/or taxes, including estimated taxes and social security, and appropriate reporting for Consultant or any employees or agents of Consultant.

Section 8 Records. Consultant agrees to keep full and accurate records of all consulting work performed under this Agreement.

Section 9 Indemnification. Consultant agrees to indemnify, defend and save harmless Company, its employees, officers, directors, members and managers from and against any and all suits, claims, demands, losses, damages, fines, or judgments, and any expenses in connection with such, including without limitation, attorney's fees (collectively, the "Losses"), based upon or arising out of loss, damage or injury to the person or property of any other person or business entity resulting from any act or omission of Consultant, or its agents, in connection with the performance of the Services by Consultant. Company agrees to indemnify, defend and save harmless Consultant from and against any and all Losses, based upon or arising out of loss, damage or injury to the person or property of any other person or business entity resulting from the sole act or omission of Company, or its agents, in connection with the performance of the Services by Consultant, so long as such loss, damage or injury is in no way related to, a result of or arising from an act or omission of Consultant.

Section 10. Notices. All notices and other communications required or permitted under this Agreement shall be validly given, made, or served if in writing and delivered personally or sent by registered mail, to Consultant or Company at the following addresses:

**addressed to Consultant at:**

William H. Novak, CPA  
WHN Consulting  
19 Morning Arbor Place  
The Woodlands, TX 77381

**addressed to Company at:**

Jeffery A. Callahan  
AUI, L.L.C.  
222 West Spring Street  
Cookeville, TN 38501

Any notice which is delivered personally shall be deemed effective upon receipt by such party and any notice appropriately addressed and mailed shall be deemed effective on the third business day after the date it was placed in the mail, or if earlier, the time of actual receipt.

Section 11. Waiver. There shall be no waiver of any term, provision or condition of this Agreement unless the waiver is evidenced in writing. No such waiver shall be deemed to be a continuing waiver of such term, provision or condition of this Agreement unless the writing which evidences such waiver so states.

Section 12. Titles and Captions. All section titles or captions contained in this Agreement are for convenience only and shall not be deemed part of the context or affect the interpretation of this Agreement.

Section 13 Presumption. This Agreement or any section thereof shall not be construed against any party due to the fact that said Agreement or any section thereof was drafted by said party.

Section 14 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original and both of which shall constitute one and the same instrument, binding on all parties hereto even though all the parties are not signatories to the same counterpart.

Section 15 Parties in Interest. Nothing herein shall be construed to be to the benefit of any third party, nor is it intended that any provision shall be for the benefit of any third party.

Section 16. Savings Clause. If any provision of this Agreement, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

Section 17. Entire Agreement. This Agreement contains the entire understanding between and among the parties and supersedes any prior understandings and agreements whether written or oral among them respecting the subject matter of this Agreement.

Section 18 Agreement Binding. This Agreement shall be binding upon the heirs, executors, administrators, successors and assigns of the parties hereto. This Agreement may not

be assigned by either party without the written consent of the other party, which consent shall not be unreasonably withheld, except that Company, upon notice to Consultant, may assign this Agreement to any of its affiliates without the written consent of Consultant.

Section 19. Amendment. This Agreement may be amended only by the written agreement of the parties hereto.

Section 20. Further Action. The parties hereto shall execute and deliver all documents, provide all information and take or forbear from all such action as may be necessary or appropriate to achieve the purposes of the Agreement.

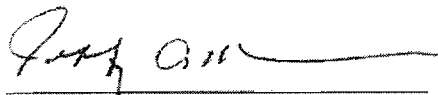
Section 21. Survival. Consultant expressly agrees that any termination or rescission of this Agreement, regardless of the circumstances of or reason for such termination or rescission, shall not terminate, modify or any way diminish the enforceability of the covenants and agreements contained in this Agreement, including, without limitation, Sections 6, all of which covenants and agreements shall survive such termination or rescission.

Section 22. Conflict of Interest. Consultant warrants that no other contract or duty on its part now in existence conflicts with this Agreement and if Consultant becomes aware of any such conflict of interest, Consultant shall immediately notify Company.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**COMPANY:**  
**AUI, L.L.C.**

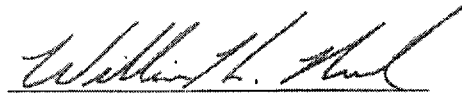
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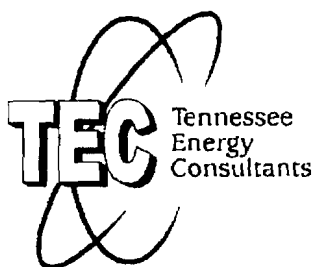
Jeffery A. Callahan, President

**CONSULTANT:**  
**WHN Consulting**

By:



William H. Novak



100 E. 100 Street, Suite 400 • Cookeville, TN 38501 • 615.264.1773

October 30, 2006

Jeff Callahan  
AUI, LLC  
222 West Spring St  
Cookeville TN 38501

Dear Jeff,

This is a letter of agreement for energy advisory services to AUI LLC (AUI) and Earl Burton dba Tennessee Energy Consulting (TEC). The scope of this agreement covers services for Red Boiling Springs Gas System. (System)

The following energy advisory services are to be provided with agreement:

- A. TEC will review gas requirements for the Red Boiling Springs Gas System, develop contract terms, and solicit potential gas suppliers who manage natural gas assets and have ability to provide for system's requirements.
- B. TEC will assist AUI with forecasting revenue and margin requirements necessary to cover related O&M Costs, costs of debt and profit.
- C. TEC will forecast natural gas costs each month and assist AUI with filing PGAs required by Tennessee Regulatory Authority.
- D. TEC will manage monthly natural gas costs and buy incremental natural gas supplies as necessary to balance AUI with interstate pipeline.
- E. TEC will assist AUI with rate design and negotiating natural gas contracts with endusers. (Nestle's)
- F. TEC will calculate year end unaccounted for gas, and provide data to AUI.
- G. TEC will review natural gas invoices monthly, and request funds for remittance.
- H. TEC will assist with hedging strategy for AUI and propose other options to hedge natural gas costs that will reduce the transaction costs of hedging gas costs.
- I. TEC will assist AUI with marketing efforts to advise customers on areas concerning the benefits of natural gas, natural gas appliances, and conservation.

**Fixed Fee Retainer**

	Costs
Monthly Fee*	\$250/month
Additional hours	\$75.00/hr

Monthly Fee\*: Retainer includes monthly review of financials and gas costs and setting monthly gas rates and conferring with the City. Other Accounting reporting meetings and so forth will be charged at the hourly rate above.

This agreement will be effective for the time period of December 1, 2006 through November 30, 2007. Agreement will roll over month to month unless terminated by either party.

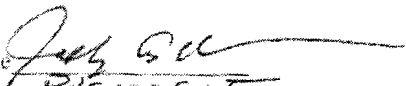
Please feel free to call me at 423-421-3732, if you have any questions. I will be happy to provide you with a list of local references who are familiar with my professional abilities, character and integrity.

Additional energy services and projects that require commitment of resources can be contracted between TEC and AUI, LLC. TEC has knowledge of other companies who have experience with Pipeline Safety regulations and compliance and would be glad to assist wherever possible.

Sincerely,

Earl Burton P.E.  
Tennessee Energy Consulting

AUI, LLC  
Agreed.

Name   
Title PRESIDENT  
Date NOVEMBER 2006