

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

March 26, 2007

VIA HAND DELIVERY

Sara Kyle, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Docket to Determine the Reserve/Escrow Requirement for Aqua Utilities
Pursuant to TRA Rule 1220-4-12-.07(8)
Docket No. 07-00059

Dear Chairman Kyle:

On behalf of Aqua Utilities, attached are the Company's responses to the TRA Staff's corrected data request of March 13, 2007.

If you have any questions in regards to these responses, please contact me at 713-298-1760.

Sincerely,



William H. Novak

- 1. Provide a narrative that includes the age of major plant assets (by account number) at December 31, 2006, depreciation rates on those assets, and plant replacements or major repairs made during the last five (5) years.**

Company Response

Substantially all of the major plant assets for Aqua Utilities were placed in service in 1990. The major plant assets, which are also included on the Company's 2006 TRA Annual Report, are presented below. There have been no major repairs or replacements to utility plant within the last five (5) years.

The Company utilizes depreciation rates of 2.50%

Major Plant Assets:

Account number 2101 – Utility Plant in Service – Wastewater

Original Plant in service - \$250,000.00 – acquired 9/1/96, 40 year life
Replacement pumps in lift station – replaced 1/17/01, \$4,650.00, 10 year life
Replacement, pumps and control panel – lift station, \$4,650.00, replaced 7/11/01, 10 year life
Equipment, acquired 11/30/01, \$1,135.01, 10 year life
Pump replacement on lift station, \$4,650.00, 12/28/01, 10 year life
Repair of lift station pump, \$4,650.00, 1/1/2000, 10 year life
Replaced sewage meter at lagoon, \$3,092.67, 6/1/04, 10 year life
Replaced pumps in lift station, \$4,650.00, 9/13/04, 10 year life
Replaced pumps in lift station, \$3,750.00, 6/20/05, 10 year life
Replaced pumps in lift station, \$4,750.00, 8/26/05, 10 year life
Additional plant in service, \$103,822.84, 6/30/97, 40 year life
Additional plant in service, \$51,418.56, 6/30/99, 40 year life
Additional plant in service, \$20,510.33, 6/30/00, 40 year life
Additional plant in service, \$9,281.00, 6/30/01, 40 year life
Additional plant in service, \$4,600.00, 6/30/02, 40 year life
Additional plant in service, \$24,543.40, 6/30/04, 40 year life
Additional plant in service, \$3,175.00, 6/30/01, 40 year life
Replaced sewer pump in lift station, \$3,250.00, 3/15/06, 10 year life
Replaced wiring and control panel in lift station, \$3,650.00, 4/15/06, 10 year life
Repair of pump at lift station, \$2,750.00, 9/8/06, 10 year life
Software, \$347.50, 12/30/03, 3 year life
Sewer lines, installed at various dates, \$17,250.00, 40 year life

Total Utility Plant in Service amount, \$530,576.31

2. Provide the following information that would be considered currently pending:

- a. Lawsuits or any known financial exposure;**
- b. Notices of Noncompliance from any source;**
- c. Notices of Violation from any source;**
- d. Orders or Moratoriums from any source; and/or**
- e. Any other compliance issues related to wastewater service.**

Company Response

The Company has no pending issues against it as described above.

- 3. Does the Company currently maintain an escrow account to accumulate funds dedicated to plant replacement or non-routine operation and maintenance? If yes:**
- a. Provide funding source;**
 - b. Provide an Excel spreadsheet (by email to ronl.graham@state.tn.us or on CD) that details monthly deposits and withdrawals since inception through December 31, 2006. For withdrawals, include a brief description of the purpose.**
 - c. Provide a copy of the legal document establishing this escrow account.**
 - d. Is the account separately recorded on the Company's financial statements?**
 - e. What is the account number and where on the Company's annual 12/31/06 report to the TRA is the account disclosed?**
 - f. For what purposes can funds from this account be used?**
 - g. Provide internal procedures for deposits and disbursements to this account?**
 - h. Who is (are) the person(s) responsible for carrying out these procedures?**
 - i. Who is the person that is authorized to approve disbursements?**
 - j. How were the escrow rates determined?**
 - k. Is an adjustment needed in the escrow rates? If so, why and how much?**

Company Response

Not applicable. The Company does not maintain an escrow/reserve account.

- 4. If the Company does not maintain an escrow account to fund plant replacement and non-routine operation and maintenance expenses, please explain and justify why an escrow is not necessary. Provide a copy of the latest bank statement showing the Company's cash reserves and a financial statement showing the financial viability of the Company.**

Company Response

At some point, the Company may well be willing to entertain creating an escrow/reserve account. However, the creation of such an account was not addressed by the TRA in Aqua's latest rate case (Docket 06-00187) where new rates became effective on March 1, 2007.

These new rates only marginally increased the existing rates which have been in place for over seventeen years. The customers of Aqua Utilities have been paying the lowest utility rates in Hardin County. Their rates have, in effect, been heavily subsidized by the developer. The negative cash flows of the utility have required the developer to fund the plant replacement and non-routine operation and maintenance expenses. With Aqua Utilities paying the City of Savannah \$2.00 / 1,000 gallons and charging rates under the new rate order of \$2.89 / 1,000 gallons, the financial condition is not expected to improve.

At this time, the Company is awaiting the TRA's Order in this case so it can pursue its appeal options. As such, it is the Company's position that a change in rate structure to include escrow/reserve rates would not be appropriate at this time.

Attached is a copy of the Company's bank statement and financial statements at December 31, 2006.

AQUA UTILITIES COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

CURRENT ASSETS

Cash	\$ (2,117.09)
Accounts Receivable	748.24
Miscellaneous Deferred Debits	35,042.42

TOTAL CURRENT ASSETS

33,673.57

FIXED ASSETS

Construction work in progress - water	686,241.33
Construction work in progress - wastewater	888,411.60
Utility Plant in Service - Water	453,044.94
Utility Plant in Service - Wastewater	530,576.29
Less: Accumulated Depreciation - Water	(129,727.61)
Accumulated Depreciation - Wastewater	(163,570.42)

NET FIXED ASSETS

2,264,976.13

TOTAL ASSETS

\$ 2,298,649.70

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

C.I.A.C. - Water	\$ 208,629.38
C.I.A.C. - Wastewater	242,512.33
Less: Accumulated Amort. C.I.A.C. - Water	(32,024.10)
Accumulated Amort. C.I.A.C. - Wastewater	(38,077.34)

TOTAL CURRENT LIABILITIES

381,040.27

TOTAL LIABILITIES

381,040.27

CAPITAL & OTHER CREDITS

Common Stock Issued	1,000.00
Proprietary Capital	2,183,823.20
Retained Earnings	(197,913.70)
Current Earnings	(69,300.07)

TOTAL FUND EQUITY

1,917,609.43

TOTAL LIABILITIES AND FUND EQUITY

\$ 2,298,649.70

See accountants' compilation report.

AQUA UTILITIES COMPANY, INC.
STATEMENT OF INCOME
FOR THE 1 MONTH AND 12 MONTHS ENDED DECEMBER 31, 2006

	1 MONTH ENDED		12 MONTHS ENDED	
	December 31, 2006	%	December 31, 2006	%
REVENUE				
Water Revenue	\$ 2,651.88	70.02	\$ 44,938.71	61.74
Wastewater Revenue	1,135.28	29.98	20,182.61	27.73
Other water revenue	0.00	0.00	67.16	(0.09)
Other wastewater revenue	0.00	0.00	67.14	(0.09)
Non-utility income	0.00	0.00	7,529.64	(10.35)
TOTAL REVENUE	3,787.16	100.00	72,785.26	100.00
WATER EXPENSE				
Contractual Services:				
Billing	375.00	9.90	4,500.00	9.90
Professional Services	1,675.00	44.23	14,312.50	44.23
Testing	237.50	6.27	4,350.00	6.27
Other	350.00	9.24	8,898.80	12.23
Purchased Water	1,611.20	42.54	40,904.00	42.54
Miscellaneous	144.17	3.81	2,022.08	144.17
Depreciation	(4,230.59)	(111.71)	6,041.73	(4,230.59)
Bad Debts - Water	0.00	0.00	64.25	0.00
TOTAL WATER EXPENSES	162.28	4.29	81,093.36	111.41
WASTEWATER EXPENSE				
Contractual Services:				
Billing	375.00	9.90	4,500.00	9.90
Professional Services	1,675.00	44.23	15,412.50	44.23
Testing	237.50	6.27	4,350.00	6.27
Other	475.00	12.54	6,393.00	12.54
Purchased Power	719.99	19.01	10,175.30	19.01
Depreciation	(4,663.40)	(123.14)	10,342.70	(123.14)
Miscellaneous	144.16	3.81	2,338.95	3.81
Bad Debts - Wastewater	0.00	0.00	64.24	0.00
TOTAL WASTEWATER EXPENSES	(1,036.75)	(27.38)	53,576.69	73.61
OTHER				
Taxes other than income	0.00	0.00	7,407.81	0.00
Non-utility expense	1.42	0.00	7.47	0.00
TOTAL OTHER EXPENSE	1.42	0.04	7,415.28	0.00
TOTAL EXPENSES	(873.05)	(23.05)	142,085.33	195.21
NET INCOME (LOSS)	\$ 4,660.21	123.05	\$ (69,300.07)	(95.21)

See accountants' compilation report.



1410 Wayne Rd. • P.O. Box 1207
Savannah, TN 38372
731-925-9046

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Date 12/29/06 Page 1
Primary Account 10502268
Enclosures 38

AQUA UTILITIES COMPANY INC
408 MAIN ST
SAVANNAH TN 38372-2057

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----- CHECKING ACCOUNTS -----

BUSINESS CHECKING		Number of Enclosures	38
Account Number	10502268	Statement Dates 12/01/06 thru 12/31/06	
Previous Balance	1,736.68	Days in the statement period	31
17 Deposits/Credits	32,744.56	Average Ledger	2,962
22 Checks/Debits	32,721.08	Average Collected	1,545-
Service Charge	.00		
Interest Paid	.00		
Ending Balance	1,760.16		

Deposits and Descriptive Credits

Date	Description	Amount
12/01	DDA REGULAR DEPOSIT	117.90
12/04	DDA REGULAR DEPOSIT	4,320.00
12/05	DDA REGULAR DEPOSIT	247.14
12/05	DDA REGULAR DEPOSIT	402.10
12/06	DDA REGULAR DEPOSIT	202.99
12/06	DDA REGULAR DEPOSIT	4,000.00
12/14	DDA REGULAR DEPOSIT	477.89
12/14	DDA REGULAR DEPOSIT	496.63
12/14	DDA REGULAR DEPOSIT	500.00
12/15	DDA REGULAR DEPOSIT	371.34
12/15	DDA REGULAR DEPOSIT	500.00
12/15	DDA REGULAR DEPOSIT	4,675.00
12/22	DDA REGULAR DEPOSIT	725.00
12/28	DDA REGULAR DEPOSIT	481.01
12/28	DDA REGULAR DEPOSIT	14,550.00
12/29	DDA REGULAR DEPOSIT	222.09
12/29	DDA REGULAR DEPOSIT	455.47

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Date 12/29/06 Page 2
Primary Account 10502268
Enclosures 38

BUSINESS CHECKING

10502268 (Continued)

Withdrawals and Descriptive Debits

Date	Description	Amount
12/15	DEBITS TGI CHECK ORDER	47.50
	1621758580 12/15/06	
	ID #-0000	
	TRACE #-084000025276638	

Checks in Serial Number Order

Date	Check No	Amount	Date	Check No	Amount
12/01	2693	500.00	12/20	2705	500.00
12/07	2694	323.00	12/19	2706	175.00
12/04	2695	175.00	12/15	2707	4.33
12/08	2696	1,500.00	12/28	2708	141.17
12/11	2697	257.00	12/19	2709	100.00
12/04	2698	475.00	12/22	2710	125.00
12/08	2699	2,636.80	12/15	2711	500.00
12/04	2700	4,320.00	12/29	2713*	175.00
12/11	2701	175.00	12/28	2714	719.99
12/07	2703*	60.00	12/29	2715	14,539.98
12/20	2704	5,271.31			

* Indicates a skip in Check Number Sequence

Daily Balance Summary

Date	Balance	Date	Balance	Date	Balance
12/01	1,354.58	12/08	1,037.01	12/20	1,027.73
12/04	704.58	12/11	605.01	12/22	1,627.73
12/05	1,353.82	12/14	2,079.53	12/28	15,797.58
12/06	5,556.81	12/15	7,074.04	12/29	1,760.16
12/07	5,173.81	12/19	6,799.04		

- 5. Is Contribution in Aid of Construction (CIAC) amortized at the same rate that plant is depreciated? If no, explain and provide CIAC amortization rates by plant account.**

Company Response

Yes. The Company's depreciation rate is identical to its CIAC amortization rate.

- 5. Is Contribution in Aid of Construction (CIAC) amortized at the same rate that plant is depreciated? If no, explain and provide CIAC amortization rates by plant account.**

Company Response

Yes. The Company's depreciation rate is identical to its CIAC amortization rate.