

**WHN CONSULTING**

---

19 Morning Arbor Place  
The Woodlands, TX 77381

March 19, 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 Kings Chapel  
Capacity, LLC Pursuant to TRA Rule 1220-4-12-.07(8)  
Docket No. 07-00062

Dear Chairman Kyle:

On behalf of Kings Chapel Capacity, 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

The Company transferred contributed wastewater plant from the developer of Ashby Subdivision to Kings Chapel Capacity in November, 2006, and the utility began providing wastewater service to end users at that time. Therefore, the age of all plant components of the wastewater system are two (2) months at December 31, 2006. The depreciation rates used by the Company are 2.00% for account 360 - collection sewers and 3.85% for account 380- treatment disposal equipment. These depreciation rates were approved in the Company's CCN. There have been no plant replacements or major repairs since the plant was first placed in service in November, 2006.

**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

The Company does maintain a reserve/escrow account to accumulate funds dedicated to plant replacement. Funding for the reserve/escrow is \$10.13 per bill, and was established in the rates set in the Company's CCN. Because the Company only began providing service in November 2006, a formal escrow account has not yet been created. Instead, a liability has been recorded on the Company's financial statements and reflected in the 2006 TRA annual report on page F4 in the amount of \$210 in account 235.1 – Escrowed Deposits. This amount represents the product of each bill rendered by the Company in 2006 when multiplied by the monthly reserve/escrow rate of \$10.13 per bill.

Funds from this reserve/escrow account can only be used for major repairs or replacement of existing utility property. To date, no funds have been withdrawn from this reserve account. At this time, Kings Chapel Capacity believes that it is too early to determine if an adjustment to its monthly escrow/reserve rates is necessary since service was only started in November 2006.

- 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

Not applicable. The Company maintains an escrow/reserve account as described in Item 3.

- 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.