

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

July 3, 2007

Ms. Darlene Standley, Chief
Utilities Division
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 Ms. Standley:

On behalf of Kings Chapel Capacity, attached are the Company's responses to the TRA Staff's data request of June 26, 2007.

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

Sincerely,



William H. Novak

1. Please provide several examples of system repairs or replacements that Kings Chapel would consider non-routine. For each example, provide the estimated cost for parts and labor to effectuate the repair or replacement.

RESPONSE:

At some point in time, all of the wastewater plant providing service to customers of KCC will have to be replaced. It is KCC's position that the escrow funds are only to be used for replacement of capital plant items included in the Company's rate base that were originally contributed by the developer.

KCC estimates that the parts and labor required to replace its Collection Sewers Equipment (USOA Account #360) would be approximately \$250,000 in today's dollars. KCC also estimates that the parts and labor required to replace its Treatment & Disposal Equipment (USOA Account #380) would be \$400,000 in today's dollars.

2. Does Kings Chapel have the necessary funds available should a non-routine repair or replacement be necessary? If so, identify the source of such funds.

RESPONSE:

KCC does not have the funds available for the replacement of the capital plant mentioned in Item #1. Unlike a traditional utility, KCC has no amount for depreciation or capital recovery included in its rates since all of its initial plant was contributed by the developer. Therefore, KCC has no funding mechanism to replace its capital plant. Instead, KCC's rates are designed to only provide for the on-going day-to-day operations of the utility.

3. If Kings Chapel does not have the necessary funds available, would the Company have the ability to borrow the necessary funds from a financial institution? Why or why not?

RESPONSE:

KCC as a stand alone utility, would not have the ability to borrow the necessary funds from a financial institution for capital replacement without first receiving rate relief for capital replacement from the TRA. As a public utility, KCC has no collateral to offer a financial institution other than any incremental rate relief approved by the TRA for plant replacement.

4. Please provide the life expectancy of each major plant component and the approximate current replacement cost of each component.

RESPONSE:

| | Life Expectancy | Replacement Cost |
|--------------------------------|----------------------------|-----------------------------|
| Collection Sewers Equipment | 50 Years | \$250,000 |
| | | |
| Treatment & Disposal Equipment | 24 Years | \$400,000 |

5. Please provide the depreciation rate applied to each plant component identified above.

RESPONSE:

KCC uses a depreciation rate of 2.00% representing a 50 year life on USOA Account #360 – Collection Sewers Equipment, and a 3.85% depreciation representing a 24 year life for USOA Account #380 – Treatment & Disposal Equipment.

Although no depreciation study has ever been undertaken by KCC, these depreciation rates are the same as that adopted by the TRA in the last rate case for Tennessee Wastewater Service in Docket No. 99-00393.

6. Is the monthly escrow amount of \$10.13 currently tariffed and established at the time the original CCN was granted used for routine or non-routine maintenance expenses?

RESPONSE:

It is KCC's position that the escrow funds are only to be used for replacement of capital plant items included in the Company's rate base that were originally contributed by the developer. Therefore, the escrowed funds would not be used for either routine or non-routine maintenance expense items.

It is also KCC's opinion that these escrowed funds should be placed in a separate escrow account rather than cash accounts. At some point, these escrowed funds should serve as financial security, replacing bonds or letters of credit. Additionally, when the escrowed funds for a defined service territory reach a predetermined amount, consideration should be given towards reducing the escrow rate for that particular wastewater system.