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January 17, 2008

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TN REGULATORY
DOCKET ROOM

Via Hand Delivery

Eddie Roberson, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Attention: Sharla Dillon

Re: Docket No. 07-00167 – Petition of Lynwood Utility Corporation to Approve
Alternative Form of Financial Security under Rule 1220-4-13-.07

Dear Chairman Roberson:

On December 6, 2007, I received a request from Darlene Standley, Chief of Utilities Division, to respond to the following question in the above captioned docket as set forth in her letter. By this letter I am responding to this request for information on behalf of Lynwood Utility Corporation.

REQUEST: In Docket No. 07-00263, Lynwood seeks approval of a loan in an amount not to exceed \$1 million and a working capital line of credit not to exceed \$250,000 from Tennessee Commerce Bank. During discussions with bank representatives, did Lynwood inquire whether Tennessee Commerce Bank would be willing to issue a letter of credit for \$467,000, the amount of security needed to satisfy TRA Rule 1220-4-13-.07(2)? If so, what was the bank's response?

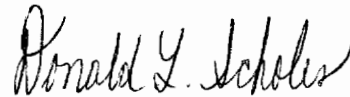
RESPONSE: Lynwood has requested Tennessee Commerce Bank to issue an irrevocable letter of credit in the amount of \$467,000 to comply with Rule 1220-4-13-.07(2). Tennessee Commerce Bank has declined to issue a letter of credit. I have enclosed a copy of the response of Tennessee Commerce Bank dated January 14, 2008, to Lynwood's request and a copy of Tennessee Commerce Bank's July 24, 2006, letter which is referenced by John Burton in his January 14, 2006 letter.



Eddie Roberson, Chairman
January 17, 2008
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I have enclosed 14 copies of this letter. Please return one of the copies to me stamped filed. If I can provide further information, please let me know.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald L. Scholes".

DONALD L. SCHOLES

Enclosures

c: Tyler Ring
Jim Ford



January 14, 2008

Mr. Tyler Ring
Lynnwood Utility Corporation
5250 Virginia Way, Suite 100
Brentwood, Tenn. 37027

Dear Tyler,

I have reviewed your request for an irrevocable letter of credit in favor of the Tennessee Regulatory Authority. In review of this request I still have the same concerns that I outlined to you in my letter dated July 24, 2006.

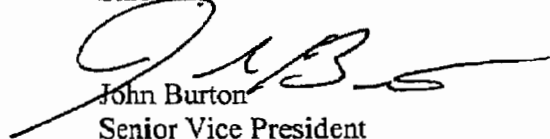
As we discussed when the Bank advanced funds to Lynnwood Utility to take out existing term debt, we could only consider this due to the property put up as collateral. If you remember the Bank stated that there was no room on the existing collateral to support additional debt.

As you know Tennessee Commerce Bank has enjoyed a good working relationship with you, your father and Tenn. Contractors. I am sorry that we have to decline this request, and that we have to have the same discussion for the third time.

If there were a way to structure an approval of the letter of credit request, it would impair your ability to support credit facilities for yourself and Tenn. Contractors going forward.

Unless the financial condition of Lynnwood Utility Corporation improves substantially, there is no reason for the Bank to review any new request for a letter of credit. I respectfully request that you seek an alternative to satisfy the Tennessee Regulatory Authority as Tennessee Commerce Bank can not approve your request as presented.

Sincerely



John Burton
Senior Vice President



July 24, 2006

Dear Tyler:

At your request I have reviewed again, the request of Lynwood Utility Corporation (Lynwood) for a \$500,000 letter of credit in favor of the Tennessee Regulatory Authority from Tennessee Commerce Bank (the Bank). You also requested that I advise Lynwood of the Bank's willingness to issue a letter of credit for lesser amounts of \$100,000 or \$50,000. The Bank is not willing to issue a letter of credit in any of these amounts for the following reasons:

- (1) The discretion of the Tennessee Regulatory Authority, as the beneficiary, to draw on the letter of credit is very broad and open ended. The proposed terms of the letter of credit do not allow for an appeal or time to cure any default. Therefore, the terms of the letter of credit require the Bank to assume a substantial amount of risk.
- (2) If the Bank decides not to renew the letter of credit and Lynwood is unable to get another financial institution to issue a replacement letter of credit, the Bank is obligated to fund the full amount of the letter of credit. Based upon the financial statements of Lynwood, the Bank has grave doubts that another financial institution would be willing to issue a replacement letter of credit for the same reasons the Bank is unwilling to issue any letter of credit. The Bank is not willing to run this risk in issuing a letter of credit for \$500,000, \$100,000 or \$50,000 to the Tennessee Regulatory Authority.
- (3) The financial statements of Lynwood and other information provided to me will not support the issuance of any letter of credit to the Tennessee Regulatory Authority on behalf of Lynwood. The 2005 annual report of Lynwood filed with the Tennessee Regulatory Authority shows Lynwood had a net loss for 2005 of \$34,325. For the 2004 Lynwood has net loss of \$185,988.
- (4) Since the end of the 2005 calendar year, Lynwood has signed a promissory note to Tenn. Contractors, Inc. for \$1,000,000 to be repaid over a 20

year period which has been approved by the Tennessee Regulatory Authority. The principal and interest payments on this note would appear to increase Lynwood's potential net loss for 2006 over its net loss for 2005. This note is secured by the land, sewer treatment plant and sewer collection system of Lynwood as it existed on December 31, 2004 and by 20% of any additions to its sewer system. Therefore, the Lynwood sewer system would provide little, if any, security to the Bank on the letter of credit.

As I indicated in my previous letter to you, if there were a way to structure an approval of a request for a letter of credit, it would impair your ability to support credit facilities for yourself and Tenn. Contractors, Inc. going forward.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Burton', with a long horizontal flourish extending to the right.

John Burton
Senior Vice President