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June 20, 2012

FILED ELECTRONICALLY

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Docket No. 12-00060

Ms. Sharla Dillon, Docket Manager
Dockets and Records Office
TENNESSEE REGULATORY AUTHORITY
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

RE: Application of Bristol Tennessee Essential Services for Expanded Certificate
of Public Convenience and Necessity to Provide Competing Telecommunications
Services Statewide

Dear Ms. Dillon:

Enclosed please find an original and four (4) copies of the Application of Bristol Tennessee
Essential Services for Expanded Certificate of Public Convenience and Necessity to Provide
Competing Telecommunications Services Statewide. Copies of the enclosed Application are being
provided to those persons listed in the Certificate of Service.

Also enclosed with the hard copy of this letter is our firm's check in the amount of \$25.00 in
payment of the filing fees.

If you have any questions about the attached, please do not hesitate to give us a call.

Sincerely,

Mark W. Smith

MWS:md
Enclosures

MILLER & MARTIN PLLC

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REGIONS BANK

87-1/640

878280

06-20-12

\$ *****25.00

PAY TWENTY-FIVE AND 00/100 DOLLARS

PAY TO THE ORDER OF Tennessee Regulatory Authority

460 James Robertson Parkway
Nashville, TN 37243-0505

MEMO

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AUTHORIZED SIGNATURE MP

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⑈878280⑈ ⑆064000017⑆ 0082496056⑈

MILLER & MARTIN PLLC

Request Number: 278825

Check Number: 878280

Payee: Tennessee Regulatory Authority

878280

Invoice #	Inv. Date	G/L Acct	Client	Matter	Narrative	Amount	Inv. Total
06202012	Jun 20/12		15518	0001	Filing Fee - Application-Expanded Certificate of Public Convenience and Necessity. VENDOR: Tennessee Regulatory Authority; INVOICE#: 06202012; DATE: 6/20/2012	25.00	25.00
Invoice Totals:						\$25.00	\$25.00

Micki Dron-6

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

APPLICATION OF BRISTOL)	
TENNESSEE ESSENTIAL SERVICES)	
TO EXPAND ITS CERTIFICATE OF)	
CONVENIENCE AND NECESSITY TO)	DOCKET NO.
PROVIDE COMPETING)	
TELECOMMUNICATIONS SERVICES)	
STATEWIDE)	

**APPLICATION OF BRISTOL TENNESSEE ESSENTIAL SERVICES
FOR EXPANDED CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
TO PROVIDE COMPETING TELECOMMUNICATIONS SERVICES STATEWIDE**

Bristol Tennessee Essential Services ("BTES" or "Applicant"), by and through its undersigned counsel, and pursuant to Tenn. Code Ann. §§ 65-4-201 through 65-4-204 and Chapter 1220-4-8 of the Rules and Regulations of the Tennessee Regulatory Authority ("TRA" or "Authority"), as applicable, hereby submits this *Application of Bristol Tennessee Essential Services for Expanded Certificate of Public Convenience and Necessity to Provide Competing Telecommunications Services Statewide* (the "*Application*") and applies to modify its Certificate of Public Convenience and Necessity for authority to provide competing telecommunications services.

In its Order dated March 21, 2006, in Docket No. 05-00251, the Authority found that BTES satisfied the managerial, technical, and financial requirements set forth in Tenn. Code Ann. § 65-4-201(c) to provide telecommunications services within Sullivan County.¹ The Authority also found that BTES had filed an acceptable Small and Minority-Owned

¹ See Order Approving Application For Certificate of Public Convenience and Necessity, *In Re: Application of Bristol Tennessee Essential Services for a Certificate of Public Convenience and Necessity to Provide Telecommunications Service*, TRA Docket No. 05-00251 (March 21, 2006) ("*Order Approving BTES Application*").

Telecommunications Business Participation Plan pursuant to Tenn. Code Ann. § 65-5-112. BTES now seeks expanded authority to provide telecommunications services on a statewide basis, as business conditions warrant, including the areas served by incumbent local exchange carriers with fewer than 100,000 total access lines in Tennessee. As demonstrated below, the granting of this *Application* will provide significant benefits to Tennessee consumers and thereby serve the public interest.

In support of its *Application*, BTES submits the following.

I. **DESCRIPTION OF THE APPLICANT**

1. Legal Name of Applicant: Applicant's legal name is Bristol Tennessee Essential Services. BTES maintains its principal place of business at:

Bristol Tennessee Essential Services
2470 Volunteer Parkway
Bristol, TN 37620
Telephone: (423) 968-1526
Facsimile: (423) 793-5545

2. Contact Persons: Correspondence or communications pertaining to this *Application* should be directed to:

Mark W. Smith
MILLER & MARTIN PLLC
832 Georgia Avenue, Suite 1000
Chattanooga, Tennessee 37402
Telephone: (423) 785-8357
Facsimile: (423) 321-1527
msmith@millermartin.com

3. Corporate Liaison: Questions concerning the ongoing operations of BTES should be directed to:

Dr. R. Michael Browder
2470 Volunteer Parkway
Bristol, TN 37620
Telephone: (423) 793-5531
Facsimile: (423) 793-5545

II. QUALIFICATIONS

1. Managerial: The Authority granted BTES a Certificate of Public Convenience and Necessity in 2006 based, in part, upon finding that BTES possessed the requisite managerial qualifications to provide telecommunications services in Tennessee.² Since that time, BTES has supplemented its staff of experienced telecommunications personnel and gained valuable experience as a telecommunications provider. This experience provides BTES with the foundation necessary to provide the proposed telecommunications services and to serve Tennessee's telecommunications consumers. BTES is managerially qualified to provide telecommunications services statewide. Attached hereto as Exhibit A is a list of the names of the Applicant's principal company officers and a description of each officer's background and experience. As shown in Exhibit A, these officers of the company have substantial managerial experience in the areas of utility engineering, utility operations, utility customer service, and utility marketing.

2. Financial Qualifications: The Authority granted BTES a Certificate of Public Convenience and Necessity in 2006 based, in part, upon finding that BTES possessed the requisite financial qualifications to provide telecommunications services in Tennessee.³ BTES is financially qualified to provide telecommunications services statewide as business conditions warrant. BTES submits as Exhibit B its 2011 Annual Report, which demonstrates that BTES is financially qualified to provide local exchange services statewide as business conditions warrant.

² See *Order Approving BTES Application* at 6-7 ("With respect to the managerial and technical ability of BTES, compelling evidence has been presented to demonstrate that BTES possesses an experienced management staff. . . The Authority concludes that BTES possesses the requisite expertise to provide the applied-for services based upon the foregoing demonstration of managerial fitness and technical ability.").

³ See *Order Approving BTES Application* at 6.

3. Technical Qualifications: The Authority granted BTES a Certificate of Public Convenience and Necessity in 2006 based, in part, upon finding that BTES possessed the requisite technical qualifications to provide telecommunications services in Tennessee.⁴ Since that time, BTES has supplemented its staff of experienced telecommunications personnel, gained valuable telecommunications experience, and successfully serviced its telecommunications customers. Information concerning the technical expertise of BTES' senior management team is included in Exhibit A. This experience provides BTES with the foundation necessary to provide the proposed telecommunications services and to serve Tennessee's telecommunications consumers. Hence, BTES is technically qualified to offer local exchange services statewide.

III. PROPOSED SERVICES

1. BTES currently offers a full range of telecommunications services, including, but not limited to, dedicated and switched access services, private line services, local dial tone, 911 services and enhanced services in its authorized service area. BTES operates as a facilities-based local exchange provider, utilizing capacity on its own Passive Optical network (PON).

2. BTES is authorized to provide services within Sullivan County, Tennessee, and it desires to expand those services to other Tennessee counties to provide more consumers with increased carrier choices, competitive pricing, increased reliability, responsiveness, and innovation.⁵ BTES currently provides service via its own PON network but may in the future utilize services from other carriers as it expands its service offerings.

3. To the extent required by state law, BTES will not provide telecommunications services in any area of the State of Tennessee covered by this *Application* without first seeking

⁴ *Id.*

⁵ Consistent with Tenn. Code Ann. § 7-52-403(b), BTES is not seeking expanded authority to provide services within the service area of an existing telephone cooperative with fewer than 100,000 total access lines organized and operating under the provisions of Title 65, Chapter 29.

and obtaining the consent of the affected municipality, or local government, in said area(s).

4. To the extent that any rural incumbent LEC possesses an exemption or suspension under Section 251(f) of the Federal Communications Act, BTES does not seek interconnection under Section 251(c) at this time, nor does BTES seek at this time to challenge any such exemption from any of the other obligations specified in Section 251(c).

IV. **REGULATORY MATTERS**

1. Applicant is familiar with and will adhere to all applicable Authority policies, rules, and orders governing the provision of local exchange telecommunications services in the State of Tennessee.

2. The Applicant has previously elected to operate pursuant to market regulation.⁶

3. A certificate of service stating that notice of this *Application* has been served on all eighteen (18) incumbent local exchange telephone companies in Tennessee is attached hereto.

4. BTES is aware of its obligation to comply with the requirements of county-wide calling, as set forth in Tenn. Code Ann. § 65-21-114.

V. **PUBLIC INTEREST STATEMENT**

1. The Authority approved BTES' application for a Certificate of Public Convenience and Necessity on March 21, 2006, based, in part, upon finding that granting the same was in the public interest.⁷ Since that time, BTES has developed and matured as a seasoned telecommunications provider, and the FCC has determined that Tenn. Code. Ann. § 65-4-201(d) is preempted by Federal law.⁸ Moreover, the Attorney General for the State of

⁶ *In re: Bristol Tennessee Essential Services' Notice of Intent to Operate Pursuant to Market Regulation*, TRA Docket No. 11-00068 (May 5, 2011).

⁷ *See Order Approving BTES Application*.

⁸ *See In the Matter of AVR, L.P. d/b/a Hyperion of Tennessee, L.P. Petition for Preemption of Tennessee Code Annotated § 65-4-201(d) and Tennessee Regulatory Authority Decision Denying Hyperion's Application Requesting*

Tennessee has issued an opinion that § 65-4-201(d) is not enforceable.⁹

2. The grant of this *Application* will further the public interest by expanding the availability of telecommunications services, consistent with state law and as BTES' business circumstances permit, throughout the State of Tennessee. Specifically, Tennessee consumers will benefit directly through the use of the competitive local services to be offered by BTES. Further, the public will benefit indirectly because the competitive presence of BTES will increase the incentives for telecommunications providers to operate more efficiently, offer more innovative services, reduce prices, improve the quality and coverage of their services, and increase investment in broadband infrastructure.

3. The granting of this *Application* would be consistent with the public policy of the State of Tennessee, as set forth at Tenn. Code Ann. § 65-4-123, "to foster the development of an efficient, technologically advanced statewide system of telecommunications services by permitting competition in all telecommunications services market[.]"

Authority to Provide Service in Tennessee Rural LEC Areas, Memorandum Opinion and Order, FCC 99-100, 14 F.C.C.R. 11,064 (rel. May 27, 1999), *aff'd* 16 F.C.C.R. 1247 (Jan. 8, 2001).

⁹ See Office of the Attorney General, Opinion No. 01-036, 2001 Tenn. AG Lexis 36 (Mar. 19, 2001).

VI. **CONCLUSION**

For the foregoing reasons, Bristol Tennessee Essential Services respectfully requests the Authority to modify its Certificate of Public Convenience and Necessity on an expedited basis and authorize it to provide telecommunications services throughout the State of Tennessee.

Respectfully submitted,

C. THOMAS DAVENPORT, JR.



C. Thomas Davenport, Jr.
General Counsel, BTES
640 State Street
Bristol, TN 37620
(423) 989-6500



Mark W. Smith
MILLER & MARTIN PLLC
832 Georgia Avenue, Suite 1000
Chattanooga, Tennessee 37402
Telephone: (423) 785-8357
Facsimile: (423) 321-1527
msmith@millermartin.com

Attorneys for: Bristol Tennessee Essential Services

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy has been forwarded via U.S. Mail to the following on this the 20th day of June, 2012.

Ardmore Telephone Company
237 N. 8th Street
Mayfield, KY 42066

BellSouth Telecommunications, Inc.
333 Commerce Street
Nashville, TN 37201-3300

Century Tel of Adamsville
611 Commerce Street
Suite 2605
Nashville, TN 37203

Century Tel of Claiborne
611 Commerce Street
Suite 2605
Nashville, TN 37203

Century Tel of Ooltewah-Collegedale
611 Commerce Street
Suite 2605
Nashville, TN 37203

Concord Telephone Exchange, Inc.
P.O. Box 22995
Knoxville, TN 37933-0995

Crockett Telephone Company
Attention: Lisa Wigington
P.O. Box 24207
Jackson, MS 39225

Frontier Communications of Tennessee
300 Bland Street
Bluefield, WV 24701-3020

Frontier Communications Of The Volunteer State
300 Bland Street
Bluefield, WV 24701-0770

Humphreys County Telephone Company
P.O. Box 22995
Knoxville, TN 37933-0995

Loretto Telephone Company
P.O. Box 130
Loretto, TN 38469

Millington Telephone Company, Inc.
4880 Navy Road
Millington, TN 38053

Peoples Telephone Company
Attention: Lisa Wigington
P.O. Box 24207
Jackson, MS 39225

Tellico Telephone Company
P.O. Box 22995
Knoxville, TN 37933-0995

Tennessee Telephone Company
P.O. Box 22995
Knoxville, TN 37933-0995

United Telephone Company, Inc.
P.O. Box 38
Chapel Hill, TN 37034

United Telephone Southeast, LLC
611 Commerce Street
Suite 2605
Nashville, TN 37203

West Tennessee Telephone Co.
Attention: Lisa Wigington
P.O. Box 24207
Jackson, MS 39225



EXHIBIT A

Biographical Information - Principal Company Officers

R. Michael Browder is the Chief Executive Officer of BTES. He is responsible for managing and overseeing all the operations of BTES, subject to the ultimate oversight of the BTES Board of Directors. BTES' operations presently include electric, cable, Internet and telephone operations. He joined BTES as Director of Engineering and Operations in 1972; and was named General Manager in 1977. The position of General Manager was later designated as the Company's Chief Executive Officer.

Prior to joining BTES, Michael worked at Huntsville (Alabama) Utilities for five years. His final position at Huntsville (Alabama) Utilities was Superintendent of Engineering. In addition to a bachelor of electrical engineering from Auburn University and a master of administrative science from the University of Alabama-Huntsville, he earned a doctorate of educational leadership and policy analysis from East Tennessee State University.

Clayton Dowell is the Director of Engineering at BTES and is responsible for Electrical and Fiber Optic Engineering and the headend and telephone switch that provides Cable, Internet and Telephone services to our customers. He is responsible for engineering fiber designs for integration into BTES' existing fiber system and creates solutions for various innovative energy conservation projects including water heater management and peak load shifting. He is on the TVA and TVPPA Smart Grid Roadmap Committee where they developed a guide defining what smart grid means for the Tennessee Valley and the future of smart grid.

Clayton joined BTES in May 2009 as System Engineer and was promoted to the Supervisor of Fiber Optic Engineering in February 2010 and then promoted to his current position in May 2011. Clayton graduated from Northeast State Community College with an ASA of science degree in Pre-Engineering and a BS in a Electrical Engineering Tennessee Tech University, and is currently pursuing a MS degree in Engineering Management from the University of Tennessee. Clayton was on the TNCPE Board of Examiners in 2010, a 2011 graduate of the LEAD Bristol program, is on the NETTC Board of Directors and participates in numerous community activities.

Tara Gemmell is the Director of Management Services at BTES. She graduated from the University of Virginia's College at Wise in 2000 earning her Bachelor of Arts degree in English and Communications. She is a certified professional in human resources. Gemmell has over 10 years experience interviewing, hiring, training, managing and placing hundreds of temporary employees including recruiting from area colleges and technical schools. She currently is responsible for overseeing the customer service department as well as human resources. Her other responsibilities include planning, directing, coordinating and controlling a personnel program that covers recruitment, orientation, training, appraisals, counseling, job descriptions and wage and salary administration. She has obtained an OSHA 10 Certification.

Gemmell is a member of the Rotary Club of Bristol VA-TN and serves as an Examiner for the Tennessee Center for Performance Excellence.

Steve Keesling is the Supervisor of Technical Operations at BTES. With over 17 years of experience working in the Meter and Substation Department, he currently manages 26 employees. He is responsible for the security, safe operations and maintenance of 19 substations, scheduling, prioritizing and coordinating the work with line crews as well as with the engineering department. Keesling also is responsible for the installation, operations and maintenance of the outside fiber system and equipment associated with it.

Keesling is a graduate of Northeast State Community College and holds an Associates Degree in Electrical Technology. He is currently pursuing a BS degree at East Tennessee State University. He also is a Certified Meter Substation Technician.

Kenneth King graduated from the University of Tennessee in 1978 with a BS degree in Agricultural Engineering and began his career with Bristol Tennessee Essential Services that same year. He began as a Groundman/Apprentice Lineman and went through a certification for complete lineman training. He later was promoted to System Engineer and was promoted to Supervisor of Engineering in 1984. In 2001, he was promoted to Director of Operations and Safety, which is the title that he currently holds. He supervised the installation of over 1000 miles of multiple count fiber cables in the outside fiber plant..

King is a Certified Safety Professional and a Professional Member of the American Society of Safety Engineers. He has served on safety committees for APPA as well as TVPPA. He is a graduate of TVPPA's Certified Power Executive Program. King also is certified Instructor for the American Red Cross. He has been a past examiner for TNCPE.

Lola McVey is the Director of Accounting and Finance at BTES. She is responsible for planning, directing and coordinating the functions of accounting, finance, auditing and data processing services to ensure that financial records conform with generally accepted accounting principals, Federal Energy Regulatory Commission (FERC) and Tennessee Valley Authority (TVA) requirements. She prepares the Comprehensive Annual Financial Report and oversees the financial statement audit by an independent auditing firm. She also coordinates the annual budgeting process to prepare the operating and capital budgets.

McVey is a graduate of King College, where she majored in business and economics. She is a Certified Public Accountant and a Certified Government Financial Manager. She is currently a Tennessee Center for Performance Excellence Examiner and also serves on various boards within the community.

Michael Parker is the Network Supervisor at BTES. He graduated from ETSU in 2003 with a degree in Computer Science. He completed his master's degree in Engineering Technology in 2010. Past certifications include Microsoft Certified Systems Engineer (1999) and Cisco Certified Network Professional (2004).

He began his career at BTES in 2001. He designed a Gigabit Ethernet fiber optic network to connect 19 substations to the BTES Service Center. Over the next few years, he and two other team members designed the business plan for the cable TV and Internet business unit. In 2005, he oversaw the design and construction of the cable TV headend and Internet service provider networks. He has seen the network grow from its first customers in 2005 to over 12000 customers in 2010, surpassing the initial projections of the business plan.

As Network Supervisor, he now oversees the helpdesk along with the ISP and cable TV networks. His focus is on continuous improvement and providing the best services for BTES' customers.

He is a member of the Tri-Cities Rotary Club and formerly served on the board of directors of the Bristol Public Library. He is a past examiner for the Tennessee Center for Performance Excellence.

EXHIBIT B

BTES 2011 Annual Report

Comprehensive Annual Financial Report

Bristol Tennessee Essential Services
(A Self-Supported Enterprise Fund of the
City of Bristol, Tennessee)

Year ended June 30, 2011

Prepared by:
Accounting and Finance Department and CEO



Lola McVey
Director of Accounting and Finance



R. Michael Browder
Chief Executive Officer

Bristol Tennessee Essential Services
Comprehensive Annual Financial Report
Year ended June 30, 2011

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INTRODUCTORY



Bristol Tennessee Essential Services

Electric • Internet • Telephone • Cable

P.O. Box 549 • 2470 Volunteer Parkway • Bristol, TN 37621-0549
423/968-1526 • Fax 423/793-5545

November 7, 2011

To the Chairman and Members of the
Board of Directors of Bristol Tennessee Essential Services

Letter of Transmittal

The Comprehensive Annual Financial Report ("CAFR") of Bristol Tennessee Essential Services ("BTES"), a self-supporting governmental enterprise fund of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Board of Directors as per Chapter 32 Public Acts of Tennessee 1935, for the fiscal year ended June 30, 2011, is submitted herewith.

The CAFR was compiled by the staff of the Accounting and Finance Department with the close cooperation of our independent auditor. It represents the official report of BTES' financial operations and conditions to the citizens, the Board of Directors, BTES management, rating agencies and other interested parties.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with BTES. We believe the data, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations and cash flows of BTES.

All disclosures necessary for the reader to gain a thorough understanding of BTES' financial condition have been included.

In order to meet the needs of a broad spectrum of financial statement readers, the CAFR is presented in five sections:

- Introductory Section
- Financial Section
- State Schedules
- Statistical Section
- Internal Control and Compliance Section

The **Introductory Section** includes the table of contents, this transmittal letter, an organizational chart of BTES, BTES' general philosophy, background of BTES and a brief recap of fiscal year 2011.

The **Financial Section** is composed of the report of independent auditors; Management Discussion and Analysis ("MD&A"), including a narrative introduction, financial overview and financial analysis; and the financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements.

Letter of Transmittal (continued)

The **Statistical Section and State Schedules Section** includes selected financial and demographic trend information. The tables within this section differ from certain information in the financial section in that they represent some non-accounting data covering ten fiscal years. These data were accumulated through BTES statistical collection.

The **Internal Control and Compliance Section** includes the Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

The accompanying financial statements present the financial position, results of operations and cash flows of BTES, in accordance with the requirements of the Governmental Accounting Standards Board ("GASB").

This report does not include the financial activities of the City of Bristol, Tennessee. Financial reports are available directly from the City of Bristol, Tennessee.

LOCAL ECONOMY

Bristol, Tennessee is located in the northeastern portion of the state. It is one of three cities in Sullivan County, with the other two being Kingsport and Bluff City. The population of Sullivan County is 156,823. Its industrial base is primarily manufacturing, followed by the service sector and agriculture.

Because of its central location in the eastern United States, Bristol is within 600 miles of approximately 53% of the population of the United States. Interstate 81 passes through the city. Bristol is part of the consolidated metropolitan statistical area (CSA) of Bristol, Johnson City and Kingsport, commonly called the Tri-Cities CSA. With a population of 508,260 people, the Tri-Cities CSA is the 67th largest in the United States.

Bristol benefits from the state's high ranking in Alexander Grant and Company's GENERAL MANUFACTURING CLIMATES, which ranks Tennessee near the top in the nation as a place for manufacturing.

Bristol is a good place to work and live, with the following amenities:

- Excellent health care facilities
- Seven Tennessee Valley Authority lakes with 2,200 miles of shoreline
- Five national parks
- Bristol Motor Speedway (Two NASCAR dates per year with over 160,000 seats)
- Low crime rate
- Four distinct seasons
- Excellent schools
- Nine colleges and universities (Degrees ranging from Art to Medicine)
- Seven beautiful golf courses

Bristol and the surrounding areas continue to grow and prosper. Eastman Chemical Company is headquartered in Sullivan County. Exide's Super Battery Plant is in Bristol TN. Seaman Corporation continues to invest in their Bristol, TN facility with a recent expansion and capital investment of \$6 million. Triad Packaging also combined their Tennessee and North Carolina manufacturing operations to their Bristol, TN facility.

Letter of Transmittal (continued)

LONG-TERM FINANCIAL PLANNING

BTES has established a projected Five Year Plant Addition plan that includes major engineering and construction projects as well as the addition of two substations. BTES will also continue to provide a financially viable fiber optic path to each home or business served, resulting in instant power outage reporting, improved time to restore power, reduction in customer minutes of power outages and peak load reduction. BTES will also continue to evaluate other uses for the fiber optic system, including flex pay, in an effort to enhance cost, reliability and economic development.

RELEVANT FINANCIAL POLICIES

BTES used operating revenues to fund capital additions of \$4,864,029 in fiscal year 2011. BTES evaluates rates to assure they provide revenue to cover operating expenses and debt requirements. BTES also continually monitors cash position and planned capital expenditures to evaluate the need for additional long term debt.

MAJOR INITIATIVES

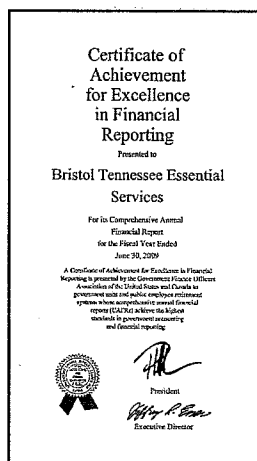
BTES is working with the Tennessee Valley Authority, the Electric Power Research Institute and Carina Technologies to implement a new water heater program. BTES is also participating in a Voltage Reduction pilot program through TVA to operate a load control program. Voltage regulators are at each substation to reduce the feeder voltage during high-demand periods, thus reducing the peak load. These two projects will help reduce the peak load for BTES and aligns with the TVA initiative. As TVA transitioned to a new rate structure in April 2011, this will help reduce BTES' cost of purchased power.

BTES began work on Internet Protocol Television (IPTV) deployment. This system will allow BTES to offer Video on Demand, more HD channels, ad insertion, whole home DVR and 3D channels in the future.

INDEPENDENT AUDIT

BTES has an annual audit performed by independent certified public accountants. The firm of Coulter & Justus, P. C., was selected by the Board of Directors. The auditor's report on the financial statements is included in the Financial Section of this report.

AWARDS



For the first time, the Government Finance Officers Association ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to BTES for its CAFR for the fiscal year ended June 30, 1997. BTES was also awarded the certificate for its CAFR for the fiscal years ended June 30, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010. To qualify for this prestigious award, BTES issued an easily readable and efficiently organized CAFR. In addition, this report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our present report continues to meet the program's requirements,

and we are submitting it to the GFOA to determine eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the staff of BTES. We express our sincere appreciation to those who assisted and contributed to its preparation.

Sincere appreciation is also expressed to Sam Coulter, CPA, Adam Allen, CPA and the staff at Coulter & Justus, P.C., for assistance throughout the year pertaining to various financial matters and for their assistance in the preparation of this report.

In closing, we would like to thank the members of the Board of Directors of Bristol Tennessee Essential Services for their interest and support in planning and conducting the operations of BTES in a responsible and progressive manner.

Respectfully submitted,



Lola McVey
Director of Accounting and Finance



R. Michael Browder
Chief Executive Officer

BACKGROUND INFORMATION

On June 30, 1945, the Tennessee Valley Authority (TVA) purchased the properties of East Tennessee Light and Power Company. Bristol Tennessee Electric System, now called Bristol Tennessee Essential Services (BTES), was started July 1, 1945 as a result of a referendum in which the citizens of Bristol, Tennessee voted to purchase from TVA a portion of these properties. A \$1.3 million issue of Electric Light and Power bonds was required to finance the transaction. BTES immediately agreed to terms of a 20-year power contract for TVA to supply power which BTES distributed to the public at substantially lower rates.

As per Chapter 32 Public Acts of Tennessee 1935 and the contract with TVA, a five-member board of directors was established by the city to have general supervision and control of the municipally-owned electric system with one member serving from City Council. Current board members include Chairman Patrick W. Hickie, Jr., CPA, Vice-Chairman Bryan K. Boyd, Kelly Graham, J. Scott MacMorran and City Council Representative David K. Shumaker.

The International Brotherhood of Electrical Workers (IBEW) has represented the trades and crafts employees since prior to TVA purchasing the system from East Tennessee Light and Power.

Sixty-five BTES employees serve over 33,000 customers in Bristol and Sullivan County in Tennessee and a portion of Washington County, Virginia - approximately 280 square miles of service area.

BTES purchases electric power from TVA, the nation's largest public power generator of electricity. For calendar year 2010, our residential customers paid approximately 8.32 cents per kilowatt hour, while the national average is 11.58 cents per kilowatt hour. BTES has had seven rate reductions since June 1982 with the most recent in October 1997. This does not include changes in wholesale power costs from TVA. In October 2003, TVA added an environmental charge to their rate to cover the cost of certain air pollution equipment. Since April 2006, cost of purchased power, fuel and capital for plant improvement and debt reduction has caused TVA to raise rates. Additionally, TVA implemented a Fuel Cost Adjustment in October 2006 which was reviewed quarterly and is now reviewed monthly. The Fuel Cost Adjustment was 0.2537 cents per kilowatt hour in June 2011.

The electricity we purchase from TVA is delivered at 161,000 volts to our two delivery points- Bluff City Primary and Blountville Primary Substations. We step it down to 69,000 volts for subtransmission to other substations and to 13,200/7620 volts for distribution. In some cases, small distribution substations provide additional voltage reduction to large general power loads. The voltage entering a customer's home is 120/240 volts which is utilized for lighting, heating and operating household appliances. Businesses and industries may be served at 208/120, 480/277, 4160/2400 and 13200/7620 volts or other standard voltages.

BTES provides high-speed Internet, telephone and cable television services over a fiber optic network. This same network provides numerous enhancements to BTES' electric system, including automatic meter reading, power outage detection and power outage reporting. In the future, this system will be used for pre-payment of electricity to offset the need for at risk customers to pay a deposit and for load management.

BACKGROUND INFORMATION (continued)

In 1994, BTES received the American Public Power Association's prestigious E. F. Scattergood System Achievement Award for outstanding achievement by a utility.

Also in 1994, BTES was one of three organizations to receive the Tennessee Quality Governor's Award, now called the Tennessee Center for Performance Excellence *Award of Excellence*, presented by Governor Ned McWherter. The other two recipients were Nissan and FedEx. Other organizations that have received this prestigious award include: Eastman Chemical Company, Philips Consumer Electronics Company, Bridgestone/Firestone Company, Eaton Corporation, Methodist Medical Center of Oak Ridge, Baptist Health Systems of Knoxville, Fleetguard, Caterpillar Financial Services, Memphis Light, Gas and Water, Eaton Aeroquip, Pal's Sudden Service, Tennessee Valley Authority Nuclear, John Deere Power Products and Mountain States Health Alliance.

In June 1996, BTES received the American Public Power Association's Golden Tree Award in recognition of BTES planting over one tree per customer.

In June 1997, BTES received the American Public Power Association's Community Service Award for outstanding civic and community involvement by our employees.

In October 1997, CEO R. Michael Browder received the 1997 Jim Spradley Award for individual accomplishments in the field of industrial and economic development in Tennessee that go above and beyond the requirements of the vocation for which they are compensated. The award was presented by Governor Don Sundquist at the Governor's Economic Summit in Nashville.

In May 2000, CEO R. Michael Browder received the Tennessee Valley Public Power Association's Distinguished Service Award for his exceptional performance and contributions toward the accomplishment of the organization's goals.

From July 2001 until June 2002, CEO R. Michael Browder served as Chairman of the Board of the American Public Power Association.

In October 2004, BTES received approval to offer cable television and Internet service.

On December 15, 2004, the BTES Board of Directors changed the name of the organization from *Bristol Tennessee Electric System* to *Bristol Tennessee Essential Services* to reflect the new services being offered.

In fall 2005, BTES began providing cable television and Internet service.

In March 2006, BTES received approval from the Tennessee Regulatory Authority to provide telephone service. In November 2006, BTES began providing telephone service.

In June 2008, BTES received the Energy Innovator Award from the American Public Power Association for encouraging innovative thinking, providing better service to electric customers and participating in projects that increase the efficiency of utility operations.

BACKGROUND INFORMATION (continued)

In February 2009, BTES received the National Arbor Day Foundation Tree Line USA Award for the ninth year in recognition of quality tree care, annual worker training, tree planting and public education.

In March 2009, BTES received the American Public Power Association's Reliable Public Power Provider (RP3) Award in recognition for providing consumers with the highest degree of reliable and safe electric service.

In June 2009, BTES again received the American Public Power Association's prestigious E. F. Scattergood System Achievement Award for outstanding achievement by a utility.

In February 2010, BTES received the National Arbor Day Foundation Tree Line USA Award for the tenth year in recognition of quality tree care, annual worker training, tree planting and public education.

In February 2010, CEO R. Michael Browder received the Ned R. McWherter Leadership Award from the Tennessee Center for Performance Excellence for exemplifying outstanding leadership.

In May 2010, BTES gain received the American Public Power Association's Community Service Award for outstanding civic and community involvement by our employees.

In July 2010, BTES received the Tennessee Municipal Electric Power Association's Community Service Award for participating in activities in the community that addresses community need, provide opportunities for employee involvement and providing improved service to customers.

In February 2011, BTES received the National Arbor Day Foundation Tree Line USA Award for the eleventh year in recognition of quality tree care, annual worker training, tree planting and public education.

In March 2011, BTES again received the American Public Power Association's Platinum Level Reliable Public Power Provider (RP3) Award in recognition for providing consumers with the highest degree of reliable and safe electric service.

For fiscal year 2010, BTES received the Government Finance Officers Association *Certificate of Achievement for Excellence in Financial Reporting* for the 14th year in a row.

RECAP OF FISCAL YEAR 2011

During the past year major engineering and construction projects include: rebuilt 1.68 miles of 3-phase electric distribution lines along Old Hickory Tree Road and Beidleman Creek Road; built .86 miles of 3-phase electric distribution lines along Hamilton Road behind Tri-Cities Regional Airport; rebuilt 13 spans on single phase electric distribution line along Sky-Wa-Mo Road; built 3 spans of

RECAP OF FISCAL YEAR 2011 (continued)

3-phase electric distribution lines into Fox Meadow Subdivision to serve section two; built 4 spans of 3-phase electric distribution lines for an emergency tie line for Wellmont's Bristol Regional Medical Center (BRMC) and used that line to replace the automatic switchgear servicing BRMC without an interruption in their service; built three spans of 3-phase electric distribution lines on Anderson Street; installed street lights for the City of Bristol at the following locations – Deer Harbor (6), Egypt Road (12), Edison Circle (19) and Raytheon Road (22), installed decorative street lights along 7th 8th streets and installed a traffic signal at Highway 394 and Highway 11-E. We also replaced 33 poles for CenturyLink and upgraded our Supervisory Control and Data Acquisition (SCADA) system and capacitor communication and control system.

We installed over 17,940 feet of underground primary conductors and over 9,440 feet of fiber optic cable to serve the following subdivisions and developments: Chadsworth Subdivision, Lakes Edge Subdivision, Tail Water Estates and Section II Fox Meadow Subdivision.

We installed over 2,650 kVA of three-phase padmount transformers to serve the following general power customers: Exide and The Academy at King.

Our outage time per customer was 58 minutes for calendar year 2010 which gives us a reliability index of 99.989%.

During the last five years, we have been able to maintain our goal of a five-year tree clearance cycle. We continue to monitor frequency of tree-caused outages by areas and make more frequent visits to these areas. In 2010-2011, we cleared trees along feeder lines at Vance Substation circuits 224,234,254 and 264, Bluff City District Substation circuits 234 and 264 and at Piney Flats Substation circuits 224 and 254.

Our goal is to maintain the distribution transformer capacity ratio to 200 percent of peak demand or less. We continue to work to improve this number. We will continue our transformer loading program to help us predict customer demand needs. The transformer loading program assists us in identifying transformers that we will investigate for being heavily loaded and change if necessary.

During our routine substation preventative maintenance program, we discovered potential problems and made repairs to regulators at Bluff City District and Industrial Substations, replaced the backup overcurrent relay at Adams Chapel Substation, reclosing relay for a 15kV breaker at Blountville Substation and a control switch relay for a 15kV breaker at Pemberton Substation. We also replaced the station battery charger at Pemberton Substation, replaced two 15kV breaker bypass switches at Piney Flats Substation and three lightning arrestors for a 15kV breaker at Vance Substation.

We did routine investigations on 105 three-phase general power meter installations, finding all to be okay.

We installed a 1Gbps circuit to the Sullivan County School System central office in partnership with Educational Networks of America (ENA). We also added five more schools to the VLAN for a total of 11. This multi-site private VLAN network is built using Alcatel ONTs. We are now serving 17 schools using this system.

RECAP OF FISCAL YEAR 2011 (continued)

We installed Alcatel 7450 Ethernet Service Switches at each of six POP sites along with two Alcatel 7750 core routers at the Service Center. These will be used to deliver IPTV services along with increased bandwidth to our customers. The 7750s will provide growth for our connections to the Internet, as well.

We installed our first primary rate interface (PRI) service over GPON. This provides 23 phone lines over a digital circuit. Because it was built using the GPON network, we now have a template to be able to offer these enhanced voice services to other customers in our service area.

We increased our Internet capacity from 400 Mbps to 700 Mbps in July 2010. In April of 2011, we increased again to a total of 1.2 Gbps between two carriers.

In April 2011, TVA changed the way it accounted for fuel costs in its wholesale electricity price. Previously, fuel appeared in two categories; most was included in the base rate, but some was recovered in the monthly "fuel cost adjustment". Beginning in April 2011, all fuel was included in a single fuel category, which still changes monthly, depending on the cost of fuel, purchased power and related items. This change lowered the "base rate" amount. The new "total monthly fuel cost" was larger than the past "fuel cost adjustment" because fuel costs that were included in the "base rate" were moved to the "total monthly fuel cost" category. This shift did not alter the total amount charged per kWh.

On April 1, 2011, TVA and the distributors of TVA power implemented new seasonal rate structures. TVA's costs to provide power vary significantly based on when customers are using electricity – both the time of year and time of day. The new rates better reflect those cost differences. In the summer months, the demand for power is higher in the afternoon when temperatures rise because consumers are running air conditioning at full power to keep cool. In the winter, demand for power is higher in the morning because that is when the temperature normally drops to the lowest point. When demand for power increases during these peak periods of the day, TVA has to operate its higher cost power plants or purchase power from others to meet demand. This increases TVA's costs. Since demand for power at peak times continues to increase, TVA has had to build or buy new power plants to ensure it has electricity available when consumers need it. Investing in new plants that are needed only a few hours a day is not the most efficient way to operate the power system. On April 1, 2011, BTES also changed its rate structure to reflect the seasonal differences. Summer rates will go from June through September, winter rates from December through March and transition rates from April through May and again from October through November. Residential customers also experienced an additional change in their rate structure. Previously, residential customers paid one rate for the first 1,000 kWh and another rate for any additional kWh usage. With the new rate structure, residential customers only pay one rate for all kWh. This will allow an easier transition to time-of-use rates in the future.

BTES is participating in a Voltage Reduction pilot program through TVA to operate a load control program. Voltage regulators are at each substation, line capacitors are remotely controlled and voltage is monitored along distribution lines at customer locations, to reduce the feeder voltage during high-demand periods, thus reducing the peak load and saving TVA on maximum required generating capacity. When TVA changed the wholesale rate structure to demand and energy in April 2011, BTES will save each month on demand charges.

RECAP OF FISCAL YEAR 2011 (continued)

As the city's largest taxpayer, we paid the maximum in-lieu-of-tax payments as provided by Tennessee State Law and the TVA Contract to the City of Bristol in the amount of \$1,646,426 for fiscal year 2011. Combined with taxes paid to Sullivan County and Bluff City, Tennessee and Washington County, Virginia, a grand total of \$2,137,636 was paid by BTES.

We planted 165 dogwoods during fiscal year 2011 through our Trade-A-Tree program. We also planted one Eastern Red Oak. We planted fifteen trees for the Vance Middle School Campus Sustainable Garden/Orchard project.

Currently, BTES has mapped all pole locations in the BTES service territory. We continue to update the mapping system as changes are made in the field.

Our electric bad debts, as a percentage of electric retail revenue, are 0.1 percent for the fiscal year 2011, which is below our stated goal of 0.25 percent. The industry target is 0.5 percent. This has been accomplished in a variety of ways. We diligently work to prevent customers from falling too far behind in paying their electric bill and thoroughly screen new applications to determine inclination to pay. In an effort to help those in need find necessary funding, we work with area churches, the Salvation Army, Bristol Faith in Action, United Way and the Upper East Tennessee Human Development Agency. BTES, our customers, United Way and Salvation Army come together to assist customers through our *Help Your Neighbor* program. Our deposit procedure seems to be working well. Residential customers who demonstrate a history of paying their bills in a timely manner may have their deposit waived. A general power customer with a calculated standard deposit of \$10,000 or less, which has a principal owner who has lived in our service area five or more years with good pay and credit history and is willing to guarantee the account, may have the deposit reduced or waived. To date, no adverse effects have been detected.

We continually update metering and billing functions and processes to provide documentation needed for TVA's compliance with the Sarbanes-Oxley Act.

We have been prepaying our power bill. Under this arrangement, we use an automated clearing house to send our money to TVA before actual payment is due. In return, we receive interest payments from TVA for the amount of their cost of short-term borrowing. This is used when TVA's rate is higher than we are able to receive through other investment vehicles.

We continued working with a local bank to process mail and drop box payments. This increases productivity for our Customer Service Department, while improving our cash management.

In December 2002, we purchased \$8 million of Discounted Energy Units from TVA. Our participation in the program will assure a long-term supply of power at a low price and increase our return on investments. Our power bill is being discounted by the principle and interest earned.

Efforts to increase sales of electricity continued. Efforts are ongoing to increase the use of electric heat pumps and electric water heaters, especially load-managed water heaters that can be switched off during peak-demand periods. During calendar year 2010, we inspected 164 heat pump installations and installed 694 water heaters. As of June 2011, BTES has over 15,600 load-managed water heaters. During calendar year 2010, TVA paid us \$976,754 for the ability to cycle these water

RECAP OF FISCAL YEAR 2011 (continued)

heaters off during peak times. Thirty-three loans were made through the Energy Savings Loan Program at a total of \$123,610. One hundred eleven heat pump loans were made totaling \$560,255.

As of June 2011, we are serving a total of 13,089 homes and businesses with Internet, telephone and/or cable television service. We are reading 12,076 electric meters using the fiber optic system.

BTES continually reviews our channel line-up and looks at each customer request. We have added MLB Network and CBS College Sports Network to our channel line-up.

We began work on the IPTV deployment. Activities included installing the infrastructure in the headend to encode the satellite feeds into IPTV packets and setting the servers that will control the IPTV network. We have also been trained on the use and maintenance of the IPTV system.

We continue to make subdivision development agreements available to developers. Instead of initially collecting the total cost for electric facilities installed to serve subdivisions, we offer to waive all or part of these costs for developers who agree to have all-electric homes with inspected heat pumps and load-managed water heaters and fiber optic services built in their developments. Total costs are charged for any lots on which homes are built that are not all-electric. We presently have 429 lots in 17 subdivisions covered under this type agreement.

Our marketing programs are proving to be effective as the data shows on electric usage in new homes where natural gas is available:

	Water Heater				Heating System			
	Gas		Electric		Gas		Electric	
2005	0	(0%)	62	(100%)	0	(0%)	62	(100%)
2006	1	(1.6%)	59	(98.3%)	1	(1.6%)	59	(98.3%)
2007	4	(2.6%)	151	(97.4%)	4	(2.6%)	151	(97.4%)
2008	3	(3.3%)	81	(96.7%)	3	(3.3%)	81	(96.7%)
2009	2	(4.4%)	43	(95.6%)	2	(4.4%)	43	(95.6%)
2010	0	(0%)	9	(100%)	0	(0%)	9	(100%)

Each customer who purchases a BTES water heater, has an inspected electric heat pump installed or purchased fiber optic services is surveyed by mail. The surveys are used to monitor quality and customer satisfaction of the programs and satisfaction with BTES employees, contractor employees and Quality Contractor Network employees.

We are currently working with TVA, the Electric Power Research Institute and Carina Technologies to implement a new water heater program. A control system was developed that will allow BTES to connect the water heater to the electric meter and its existing fiber optic network. Using this connection and thermocouples, BTES can read the temperature of the top and bottom thermostats. The water heaters can then be cycled off during on-peak hours but a minimum temperature point would be set for the top thermostat. If the water temperature decreased to the minimum temperature while the water heater was cycled off, that individual water heater could be allowed to be cycled back on to reach a load shed temperature point then turn off again. All the other water heaters above the minimum temperature could remain off. An emergency override to turn off all heaters, however,

RECAP OF FISCAL YEAR 2011 (continued)

is incorporated into the software. We have installed and tested 1,100 switches in Phase II to ensure that all products are functioning correctly.

Deloitte Consulting and TVA identified Bristol, Tennessee as a Pre-Qualified Data Center Site. Bristol West Industrial Park was one of only 12 locations in the seven-state Tennessee Valley Region to qualify as a potential data center site. This location was identified because it meets the criteria for electric service, fiber service, site considerations, labor accessibility and low risk for natural disasters required to locate a data center.

BTES' expansive broadband network along with our redundant state-of-the-art electrical infrastructure was recently recognized in Southern Business and Development Magazine. **Bristol, Tennessee was ranked third in their top ten locations to locate a data center.**

BTES also began a new marketing initiative advertising the ability to provide 1 Gigabit Internet service to every business and every home in our service area. This initiative emphasizes the ultra high-speed fiber optic connections available that is among the fastest available in the United States. BTES staff met with 29 site selection consultants in Dallas, Texas to market this state-of-the-art infrastructure.

For the 19th consecutive year, in cooperation with the Bristol Chamber of Commerce, the City of Bristol Tennessee and NETWORKS - Sullivan Partnership, we maintained the Governor's Three-Star Community Economic Preparedness Program Award which signifies that Bristol has the organization, attitude, facilities and skills to attract and retain industry. A major component of this certification is having available property for industrial development. The Bristol Industrial Park and the Bristol Business Park purchased by BTES has assisted in providing this component.

In calendar year 2010, BTES personnel worked with 160 existing industries to discuss electrical or fiber optic needs, expansion possibilities and their satisfaction with the service they are receiving. BTES worked with the City of Bristol, Tennessee; State of Tennessee; TVA and NETWORKS - Sullivan Partnership to identify and assist eight businesses with expansions or relocations to the Bristol area, resulting in the potential for 580 new jobs.

Our *Help Your Neighbor* program was conducted successfully for the 16th year to assist residential electric customers in paying their winter electric bills during difficult times. This year \$8,719.83 was contributed by customers and BTES' match, providing assistance for over 60 families. As in the past, the need of the customer is identified by the Salvation Army and funds are administered by the United Way.

Sixty-one percent of our employees had perfect attendance for calendar year 2010.

We had 234,313 safe working hours through June 2011.

During calendar year 2010, eight full-time employees left BTES. This prompted organizational changes and the hiring of seven new full-time employees.

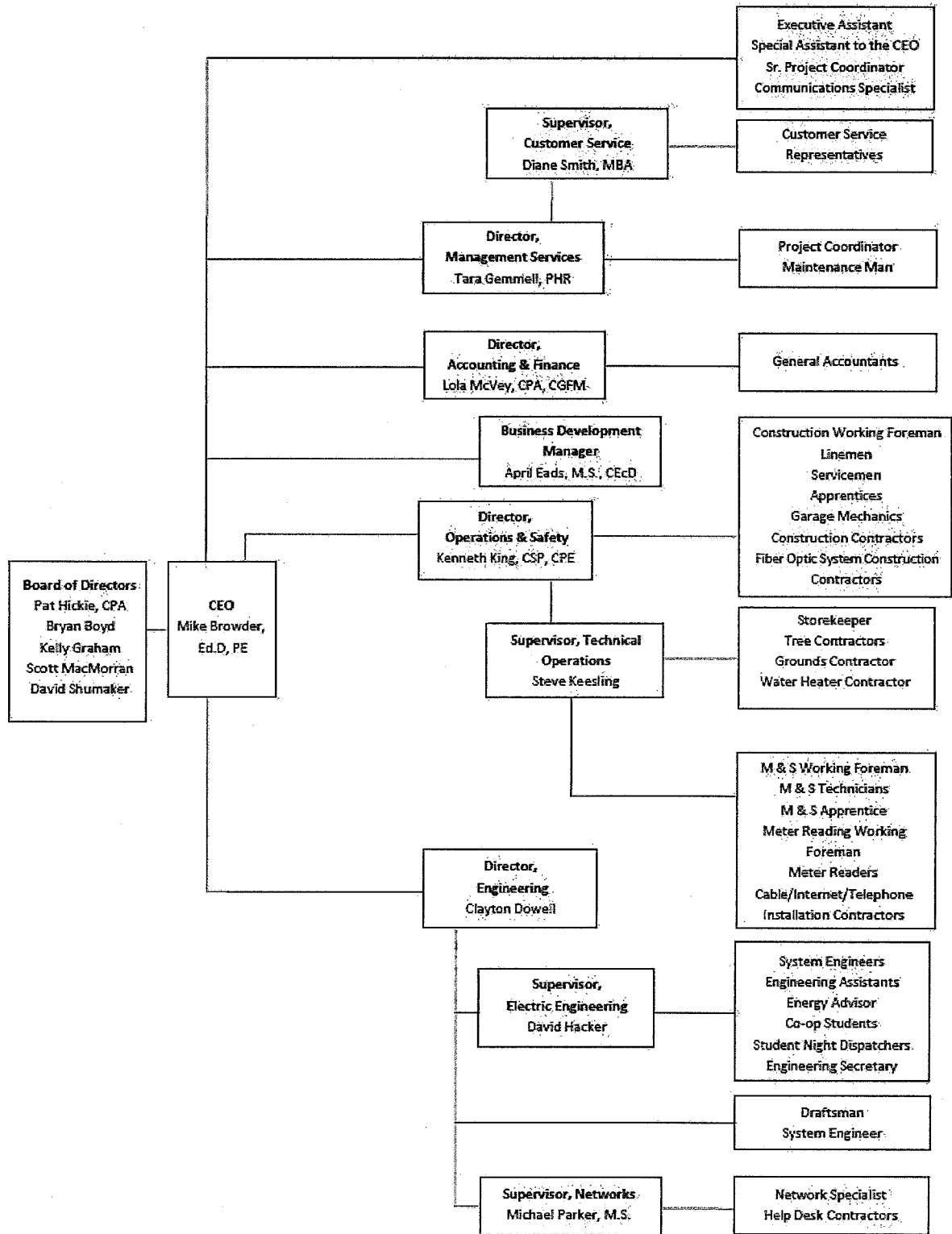
We presented 18 awards at our annual heat pump dinner for Quality Contractor Network members.

RECAP OF FISCAL YEAR 2011 (continued)

At the annual Service Awards Banquet, we presented awards representing 60 years of service including: one employee for 30 years of service, one employee for 15 years of service, one employee for 10 years of service, and one employee for five years of service to BTES and five recognition awards for new employees.

BTES employees continued a process improvement initiative. Data are gathered on every customer communication that is positive or an opportunity for improvement. The opportunities for improvement are categorized. From these categories, different departments choose their most important process improvement initiative. As a result of this project, several internal systems were automated, an online bill pay option was added and the wording of out disconnect notices was changed. We also implemented a training and testing program called Sysdine that allows every department to add in tutorials, flash cards and exams to help train our employees. Currently, 169 tutorials and 154 flash cards and exams have been added.

Organizational Chart



General Philosophy

■ ***Reliability For Our Customers Is Essential***

The customer is our reason for being and ultimately judges the quality of our service. We must provide safe, reliable, cost-effective service and properly allocate costs for BTES to survive, grow and meet the needs of our present and future customers.

■ ***BTES Employees Are Our Most Important Asset***

They provide the intelligence and determine the reputation of our organization. They are respected as valuable teamworkers striving to meet our goals of quality service. We are committed to providing a safe and healthy workplace for all BTES employees who are the driving force behind all we do.

■ ***Resources Must Be Wisely Allocated And Used***

Our resources (time, money, facilities and equipment) must be wisely allocated, utilized and invested to enable us to provide quality service at reasonable long-term rates.

■ ***Our Vendors And Suppliers Are Our Partners***

They provide goods and services that enable us to meet the needs of our customers. We will treat our vendors and suppliers with respect and create an environment which will ensure mutual success.

■ ***Increasing Sales Helps Keep Rates Down***

We are committed to increasing sales by developing additional load such as residential heat pumps, water heaters and industrial and commercial loads and by providing more customers with Internet, telephone and cable television services. This will help provide us a broader base to divide expenses which helps keep rates down.

■ ***Safety, Conservation And Efficient Use Of Electricity Are Essential***

We must provide a customer communication program through all area news media, school and civic programs, direct mail, in-house seminars and trade shows in order to educate and assist customers in the safety, conservation and efficient use of electricity.

■ ***Effective Use Of Fiber Optic System Enhances Quality of Life***

We must continually increase the ability of our fiber optic system to provide better cost effective opportunities for our residential, business, commercial, industrial and education customers. Quality of life, education and business will continue to be enhanced with even better fiber optic services. This will increase our customer's comfort, convenience, entertainment and productivity.

■ ***Planning Is Vital To Achievement***

To achieve our objectives at BTES, it is necessary that we clearly understand our plans, objectives and strategies as we strive to maintain our excellence in service.

■ ***Continuous Improvement Is The Key To Long-Term Success***

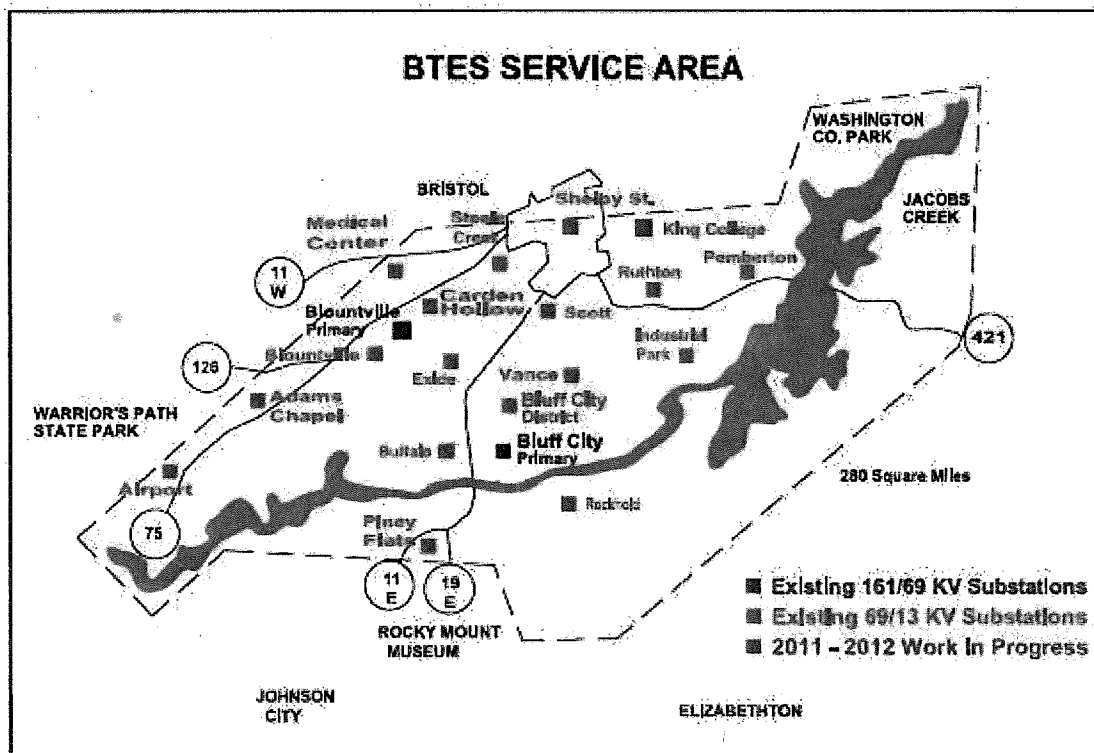
We must continually strive for excellence and quality in everything we do - in our workmanship and services, the appearance and safety of our workplace, human relations and our commitment to our community and ourselves.

■ ***We Want To Earn And Deserve The Trust And Respect Of Our Customers***

The customer entrusts his family's welfare to us to provide his electrical power, cable television, Internet and telephone needs. He must have complete confidence in the quality service we provide and the people who work for us.

■ ***A Positive Image Is A Valuable Asset***

We strongly believe in a professional image, and we will strive to maintain such an image in the eyes of our customers, vendors and business associates to improve the quality of life in our community.



Substations Owned and Operated by BTES

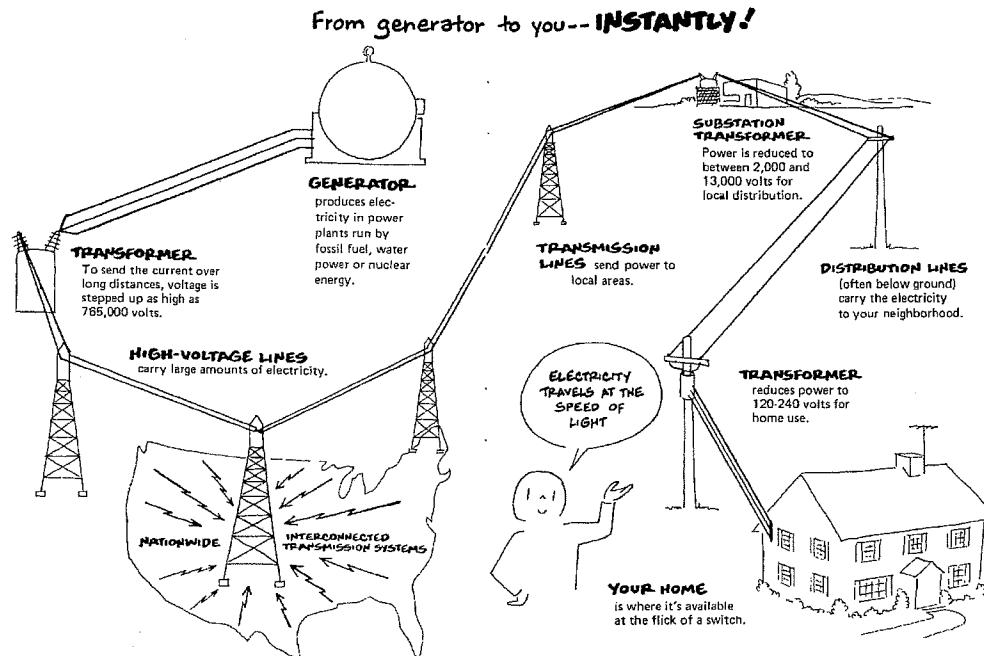
Bluff City Primary	*161/69 KV	200 MVA
Blountville Primary	*161/69 KV	200 MVA
Adams Chapel	69/13 KV	20 MVA
Airport	69/13 KV	20 MVA
Blountville	69/13 KV	25 MVA
Bluff City	69/13 KV	50 MVA
Buffalo	69/13 KV	20 MVA
Carden Hollow	69/13 KV	20 MVA
Exide	69/13 KV	40 MVA
Industrial Park	69/13 KV	20 MVA
King College	69/13 KV	20 MVA
Medical Center	69/13 KV	20 MVA
Pemberton	69/13 KV	20 MVA
Piney Flats	69/13 KV	20 MVA
Scott	69/13 KV	20 MVA
Shelby Street	69/13 KV	80 MVA
Steele Creek	69/13 KV	20 MVA
Ruthlon	69/13 KV	10 MVA
Vance	69/13 KV	25 MVA

*Delivery Point from TVA

Substations In the 2011-2012 Work Plan

Rockhold	69/13 KV	20 MVA
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Electric Utility Terms



Air-Source Heat Pump - A system that can supply both space heating and cooling. In the heating cycle, the heat pump removes heat from the outside air and pumps it indoors. When cooling, the heat pump absorbs heat from the indoors and rejects it to the outside.

Ampere - Unit of measurement of electric current. It's proportional to the quantity of electrons flowing through a conductor past a given point in one second.

Base Load - The minimum load over a given period of time.

Blackout - A temporary loss of electricity in an area because of failure of generation or transmission equipment.

Brownout - A voltage reduction during an electrical shortage that causes conditions such as dim lights.

Bus - An electrical conductor which serves as a common connection for two or more electrical circuits.

Capacity - The load for which a generating unit, generating station or other electrical apparatus is rated by the user or the manufacturer.

Circuit Breaker - A switch that opens an electric circuit when a short occurs.

Conductor - Any substance, usually metallic, that will carry electricity.

Degree Day - A unit measuring the extent to which the average daily temperature varies from a standard reference temperature. Based on a reference temperature of 65 degrees Fahrenheit, if the average temperature (high plus low divided by 2) for a day is 70, then there are five cooling degree days for that day. Likewise, if the average temperature was 60, then there were five heating degree days. This historical information can be used for forecasting system load and planning unit maintenance outages, to name a few.

Electric Utility Terms (continued)

Delivery Point - The point, usually a substation, to which electricity is transmitted from its generating sources.

Demand - The rate at which electric energy is delivered to a system. The primary source of demand is the power consuming equipment of the customers.

Depreciation - Charges made against income to equitably distribute the cost of the decrease in plant value during the period when services are obtained from use of the facilities. The decrease in plant value is caused by wear, deterioration or obsolescence.

Deregulation - Movement of an industry from one of monopolistic entities or environments to one free market enterprise; in the electric industry this involves elimination of service area and rate restrictions and obligation to serve; results in distributor choice of supplier and eventually customer choice of supplier.

Dispatching - The control of an electric system involving switching substations, transmission/distribution lines and other equipment. Monitoring and operating the SCADA system. Dispatching crews for emergencies and maintaining a log of work locations and purpose for outside crews.

Distribution System - A system that enables delivering electric energy at 2.4 kV to 25 kV from convenient points (substations) on the transmission system to the customers.

Earth Coupled Heat Pump - An efficient electrical device that heats or cools by moving heat into or out of a building. It uses an antifreeze solution or refrigerant in a pipe buried in the ground to collect or disperse heat. Also called geothermal system, ground source heat pump or water source heat pump.

Easement - A right obtained from property owners that allows utility companies to construct, operate, maintain, and control facilities such as transmission lines on the property.

Eminent Domain - The right of government to take, or to authorize the taking of, private property for public use, just compensation usually being given to the owner.

Electric Current - The flow of electric charge in a conductor between two points having a difference in potential, generally expressed in amperes.

Electric and Magnetic Fields (EMF) - Radiation surrounding conductors that carry electricity - present wherever electric power is being used.

Fault - A point of defect in an electric circuit that prevents the current from following the intended course.

Insulator - A non conductor, usually of glass or porcelain, for insulating and supporting electric wires.

Kilowatt - The basic unit of electric demand, equal to 1,000 watts - average household demand is 10 to 20 kilowatts.

Kilowatt Hour - A unit of energy or work equal to 1,000 watt-hours. The basic measure of electric energy generation or use. A 100-watt light bulb burning for 10 hours uses one kilowatt hour.

Electric Utility Terms (continued)

Load - The amount of electric power delivered or required at any specified point on a system. Load originates at the power consuming equipment of the customers.

Load Factor - The ratio of the average load in kilowatts supplied during a designated period to the peak load in kilowatts occurring in that period.

Load Management - A program used by an electric utility to control its customers' use of electricity during times when their demand for electricity is high. Can involve reducing voltage or cutting off air conditioners or water heaters for short periods by remote control.

Losses - Power (kilowatts) and energy (kilowatt hours) lost during the operation of an electric system. Losses occur principally when energy is transformed into waste heat in conductors and other electrical apparatus.

Megawatt - 1,000 kilowatts or 1,000,000 watts.

Megawatt Hour - 1,000 kilowatt hours.

Peak Demand - The maximum rate at which electric energy is delivered to or by a system during a specific period of time.

Power Factor - The ratio of real power (kilowatts) to apparent power (kilovolt-amperes) for any given load and time.

Power Theft - Tampering with a meter to lower electric bills which is a dangerous and illegal act.

Ratchet - An electric rate charge based on the exceptional load of a seasonal peak in respect to the other seasons.

SCADA - Supervisory Control Data Acquisition System - Through a master station comprised of the equipment and computer software, SCADA provides instantaneous substation monitoring and control in addition to complete system status such as electric load, voltage levels and interruptions of service. Data also includes system kilowatt hours, amperage on each feeder phase, voltage on each phase, substation kilowatt hours and instantaneous kilowatt demand by substation or transformer bank. It includes data used for system planning, emergency switching and system maintenance.

Substation - An assemblage of equipment that enables switching and/or changing or regulating the voltage of electricity.

Transformer - A device to change the voltage of alternating current electricity.

Transmission System - The system that transports electric energy in bulk form - usually in high voltage - from a source of supply to the distribution systems or other major parts of the electric system.

Volt - The force when steadily applied to a circuit having a resistance of one ohm, will produce a current of one ampere.

Watt - The electrical unit of power or the rate of doing work. The rate of energy transfer equivalent to one ampere flowing under a pressure of one volt at unity power factor. One horsepower is equivalent to approximately 746 watts.

Deregulation Dictionary

The following are terms that you may encounter when reading about deregulation in the electric utilities industry.

Access Charge - a charge levied on a power supplier, or its customer, for access to a utility's transmission or distribution system. It is a charge for the right to send electricity over another's wires.

Aggregator - an entity that combines the needs of several smaller customers into a larger block of power in order to get a better price.

Capacity - the amount of electricity for which a generating plant or transmission system is rated.

Commercial Customer - non-manufacturing business customer.

Customer Choice - allows retail customers to select the power supplier or generator they buy electricity from.

Demand - the amount of power a customer takes at a given moment.

Direct Access - the ability of an electric end-user to connect directly with a power supplier, thus bypassing its local utility.

Distribution System - local delivery system of electricity to the retail customer's home or business through distribution lines. BTES is a distribution system.

Electric Cooperative - a member-owned electric utility company that distributes electricity on a nonprofit basis. Example: Mountain Electric Cooperative.

Federal Energy Regulatory Commission (FERC) - the agency that has jurisdiction over natural gas pricing, hydroelectric licensing, oil pipeline rates and gas pipeline certification.

Generation Company (genco) - an entity that operates electricity-generating plants. The genco may own the generation plants or interact with short-term marketers on behalf of plant owners.

Independent Power Producer (IPP) - a private entity that generates electricity and sells it to other businesses, including utilities.

Independent System Operator (ISO) - the independent operator of a transmission system, responsible for guaranteeing open access, scheduling, system reliability and accounting.

Industrial Customer - business customer engaged in manufacturing.

Investor-owned Utility (IOU) - a stockholder-owned power company that generates and distributes electric energy for profit. Example: American Electric Power.

Municipal - electric distribution system owned by a city to provide service for its residents. Example: BTES.

Non-power Services - includes such services as gas, home security and telecommunications.

Power Marketer - an entity that provides bulk wholesale power for use at a specific place and time. The marketer may or may not generate the power. Example: Cinergy.

Regional Transmission Organization (RTO) - FERC Order 2000 requires all investor-owned utilities to consider joining a RTO.

Deregulation Dictionary (continued)

Retail Wheeling - a system in which individual retail electric customers are allowed to choose their electric supplier. Also known as retail competition.

Service Area - the geographic region that a utility is required to serve, or has the exclusive right to serve, in supplying electricity to the ultimate consumer.

Stranded Costs - costs of a utility that have already been legitimately and prudently incurred that are not economically viable in a competitive market.

Tennessee Valley Authority - generation and transmission company supplying power to 158 electric utilities in a seven-state region including Tennessee.

Transmission System - all the lines, poles and other equipment used to move bulk electricity from a generating plant to a distribution system.

Unbundling - separating the costs of operations of generation, transmission and distribution of electricity. An unbundled electric bill would list all costs associated with providing electricity to the consumer.

Wheeling - transmitting bulk electricity from a generating plant to a distribution system across a third system's lines.

Wheeling Charge - an amount charged to an electric system by another for the transmission of energy to and from another system.

Wholesale Customer - a power purchaser that buys for resale to retail customers. Example: BTES.

Source: Tennessee Magazine

Glossary of Broadband Terms

3G – Third Generation: Intended to be the next great wireless technology, wideband mobile services and applications offering users faster access to the web.

ADSL - Asymmetric Digital Subscriber Line: DSL service with a larger portion of the capacity devoted to downstream communications, less to upstream. Typically thought of as a residential service.

ATM – Asynchronous Transfer Mode: A data service offering by ASI, that can be used for interconnection of customer's LAN. ATM provides service from 1 Mbps to 145 Mbps utilizing Cell Relay Packets.

Bandwidth – The amount of data transmitted in a given amount of time; usually measured in bits per second, kilobits per second, and megabits per second.

Bit – A single unit of data, either a one or a zero. In the world of broadband, bits are used to refer to the amount of transmitted data. A kilobit (Kb) is approximately 1,000 bits. A megabit (Mb) is approximately 1,000,000 bits.

BPL – Broadband Over Powerline: A theoretical technology that would provide broadband service over existing electrical power lines.

BPON – Broadband Passive Optical Network: BPON is a point-to-multipoint fiber-lean architecture network system which uses passive splitters to deliver signals to multiple users. Instead of running a separate strand of fiber from the CO to every customer, BPON uses a single strand of fiber to serve up to 32 subscribers.

Broadband – A descriptive term for evolving digital technologies that provide consumers with integrated access to voice, high-speed data service, video-demand services, and interactive delivery services (e.g. DSL, Cable Internet).

CAP – Competitive Access Provider: (or "Bypass Carrier") A Company that provides network links between the customer and the Inter-Exchange Carrier or even directly to the Internet Service Provider. CAPs operate private networks independent of Local Exchange Carriers.

Cellular – A mobile communications system that uses a combination of radio transmission and conventional telephone switching to permit telephone communications to and from mobile users within a specified area.

CLEC – Competitive Local Exchange Carrier: Wireline service provider that is authorized under state and Federal rules to compete with ILECs to provide local telephone service. CLECs provide telephone services in one of three ways or a combination thereof: a) by building or rebuilding telecommunications facilities of their own, b) by leasing capacity from another local telephone company (typically an ILEC) and reselling it, and c) by leasing discreet parts of the ILEC network referred to as UNEs.

CO – Central Office: A circuit switch where the phone lines in a geographical area come together, usually housed in a small building.

Coaxial Cable – A type of cable that can carry large amounts of bandwidth over long distances. Cable TV and cable modem service both utilize this technology.

Glossary of Broadband Terms (continued)

CWDM – Coarse Wavelength Division Multiplexing (WDM): is generally held to be WDM with less than 8 active wavelengths per fiber.

Dial-Up – A technology that provides customers with access to the Internet over an existing telephone line.

DLEC – Data Local Exchange Carrier: DLECs deliver high-speed access to the Internet, not voice. DLECs include Covad, Northpoint and Rhythms.

Downstream – Data flowing from the Internet to a computer (Surfing the net, getting E-mail, downloading a file).

DSL – Digital Subscriber Line: The use of a copper telephone line to deliver “always on” broadband Internet service.

DSLAM – Digital Subscriber Line Access Multiplier: A piece of technology installed at a telephone company’s CO and connects the carrier to the subscriber loop (and ultimately the customer’s PC).

DWDM – Dense Wavelength Division Multiplexing (WDM): A SONNET term which is the means of increasing the capacity of Sonet fiber-optic transmission systems.

E-Rate – A Federal program that provides subsidy for voice and data lines to qualified schools, hospitals, CBOs, and other qualified institutions. The subsidy is based on a percentage designated by the FCC. CTF benefits are calculated net of the E-rate subsidy.

EON – Ethernet Optical Network: The use of Ethernet LAN packets running over a fiber network.

EvDO – Evolution Data Only: EvDO is a new wireless technology that provides data connections that are 10 times as fast as a regular modem.

FCC – Federal Communications Commission: A Federal regulatory agency that is responsible, among other things, of regulating VoIP.

FTTN – Fiber To The Neighborhood: A hybrid network architecture involving optical fiber from the carrier network, terminating in a neighborhood cabinet with converts the signal from optical to electrical.

FTTP – Fiber To The Premise (Or FTTB – Fiber To The Building): A fiber optic system that connects directly from the carrier network to the user premises.

GPON - Gigabyte-Capable Passive Optical Network: GPON uses a different, faster approach (up to 2.5 Gbit/s in current products) than BPON.

GPS – Global Positioning System: A system using satellite technology that allows an equipped user to know exactly where he is anywhere on earth.

GSM – Global System for Mobile Communications: This is the current radio/telephone standard in Europe and many other countries except Japan and the United States.

HFC – Hybrid Fiber Coaxial Network: An outside plant distribution cabling concept employing both fiber optic and coaxial cable.

IEEE - Institute of Electrical and Electronics Engineers

Glossary of Broadband Terms (continued)

ILEC – Incumbent Local Exchange Carrier: The traditional wireline telephone service providers within defined geographic areas. Prior to 1996, ILECs operated as monopolies having the exclusive right and responsibility for providing local and local toll telephone service within LATAs.

IP-VPN – Internet Protocol -Virtual Private Network: A software-defined network offering the appearance, functionality and usefulness of a dedicated private network

ISDN – Integrated Services Digital Network: An alternative method to simultaneously carry voice, data and other traffic, using the switched telephone network.

ISP – Internet Service Provider: A company providing Internet access to consumers and businesses, acting as a bridge between customer (end-user) and infrastructure owners for dial-up, cable modem and DSL services.

Kbps – Kilobits per second: 1,000 bits per second. A measure of how fast data can be transmitted.

LAN – Local Area Network: A geographically localized network consisting of both hardware and software. The network can link workstations within a building or multiple computers with a single wireless Internet connection.

LATA – Local Access and Transport Areas: A geographic area within which a divested Regional Bell Operating Company is permitted to offer exchange telecommunications and exchange access service. Calls between LATAs are often thought of as long distance service. Calls within a LATA (IntraLATA) typically include local and local toll services.

Local Loop – A generic term for the connection between the customer's premises (home, office, etc.) and the provider's serving central office. Historically, this has been a wire connection; however, wireless options are increasingly available for local loop capacity.

MAN – Metropolitan Area Network: A high-speed data intra-city network that links multiple locations with a campus, city or LATA. A MAN typically extends as far as 50 kilometers.

Mbps – Megabits per second: 1,000,000 bits per second. A measure of how fast data can be transmitted.

Overbuilders – Building excess capacity. In this context, it involves investment in additional infrastructure project to provide competition.

OVS – Open Video Systems: OVS is a new option for those looking to offer cable television service outside the current framework of traditional regulation. It would allow more flexibility in providing service by reducing the build out requirements of new carriers.

PON – Passive Optical Network: A Passive Optical Network consists of an optical line terminator located at the Central Office and a set of associated optical network terminals located at the customer's premise. Between them lies the optical distribution network comprised of fibers and passive splitters or couplers. In a PON network, a single piece of fiber can be run from the serving exchange out to a subdivision or office park, and then individual fiber strands to each building or serving equipment can be split from the main fiber using passive splitters / couplers. This allows for an expensive piece of fiber cable from the exchange to the customer to be shared amongst many customers thereby dramatically lowering the overall costs of deployment for fiber to the business (FTTB) or fiber to the home (FTTH) applications.

Glossary of Broadband Terms (continued)

Right-of-Way – A legal right of passage over land owned by another. Carriers and service providers must obtain right-of-way to dig trenches or plant poles for cable systems, and to place wireless antennae.

RPR – Resilient Packet Ring: RPR uses Ethernet switching and a dual counter-rotating ring topology to provide SONET-like network resiliency and optimized bandwidth usage, while delivering multi-point Ethernet/IP services.

RUS – Rural Utility Service: A division of the United States Department of Agriculture, it promotes universal service in unserved and underserved areas of the country with grants, loans, and financing.

SONNET – Synchronous Optical Network: A family of fiber-optic transmission rates.

Streaming – A Netscape innovation that downloads low bit text data first, then the higher bit graphics. This allows users to read the text of an Internet document first, rather than wait for the entire file to load.

Subscribership – Subscribership is how many customers have subscribed for a particular telecommunications service.

Switched Network – A domestic telecommunications network usually accessed by telephones, key telephone systems, private branch exchange trunks, and data arrangements.

T-1 – Trunk Level 1: A digital transmission link with a total signaling speed of 1.544 Mbps. It is a standard for digital transmission in North America.

T-3 – Trunk Level 3: 28 T1 lines or 44.736 Mbps.

UNE – Unbundled Network Elements: Leased portions of a carrier's (typically an ILEC's) network used by another carrier to provide service to customers.

Universal Service – The idea of providing every home in the United States with basic telephone service.

Upstream – Data flowing from your computer to the Internet (sending E-mail, uploading a file).

VDSL – Very High Data Rate Digital Subscriber Line: A developing technology that employs an asymmetric form of ADSL, with projected speeds of up to 155 Mbps.

Video On Demand – A service that allows users to remotely choose a movie from a digital library and be able to pause, fast-forward, or even rewind their selection.

VLAN – Virtual Local Area Network

VoIP – Voice Over Internet Protocol: A new technology that employs a data network (such as a broadband connection) to transmit voice conversations.

VPN – Virtual Private Network: VPN is a network that is constructed by using public wires to connect nodes. For example, there are a number of systems that enable you to create networks using the Internet as the medium for transporting data. These systems use encryption and other security mechanisms to ensure that only authorized users can access the network and that the data cannot be intercepted.

Glossary of Broadband Terms (continued)

WiMax - WiMax is a wireless technology that provides high-throughput broadband connections over long distances. WiMax can be used for a number of applications, including "last mile" broadband connections, hotspot and cellular backhaul, and highspeed enterprise connectivity for businesses.

Wireless – Telephone service transmitted via cellular, PCS, satellite, or other technologies that do not require the telephone to be connected to a land-based line.

Wireless Internet – 1) Internet applications and access using mobile devices such as cell phones and palm devices. 2) Broadband Internet service provided via wireless connection, such as satellite or tower transmitters.

Wireline – Service based on infrastructure on or near the ground, such as copper telephone wires or coaxial cable underground or on telephone poles.

Source: ConnectKentucky

FINANCIAL



Report of Independent Auditors

Board of Directors
Bristol Tennessee Essential Services

We have audited the accompanying financial statements of Bristol Tennessee Essential Services ("BTES"), an enterprise fund of the City of Bristol, Tennessee, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. We also have audited the Bristol Tennessee Essential Services Post Employment Benefits Trust (the "Trust"), a fiduciary fund of the City of Bristol, Tennessee, as of and for the years ended June 30, 2011 and 2010, as displayed in the basic financial statements. These financial statements are the responsibility of BTES' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only BTES and the Trust and do not purport to, and do not, present fairly the financial position of the City of Bristol, Tennessee, as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bristol Tennessee Essential Services as of June 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bristol Tennessee Essential Services Post Employment Benefits Trust as of June 30, 2011 and 2010, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2011, on our consideration of BTES' and the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Board of Directors
Bristol Tennessee Essential Services

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 3 through 12 and 44 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of measurement about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise BTES' and the Trust's basic financial statements. The introductory section, state schedules section, and statistical section are presented for purposes of additional analysis and not required parts of the basic financial statements. The state schedules section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other addition procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Coulter & Justus, P.C.

Knoxville, Tennessee
November 7, 2011

Bristol Tennessee Essential Services
Management's Discussion and Analysis
June 30, 2011

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. This section will provide narrative discussion and analysis of the financial activities of BTES. The financial performance of BTES is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The Introductory Section covers management's letter of transmittal and other BTES information.

Financial Statement Overview

The financial statements herein are comprised of the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the accompanying Notes to Financial Statements.

The Statements of Net Position include the assets and liabilities of BTES that represent the available resources and required obligations, with the difference reported as net position. The change in net position is a potential indicator of the improving or deteriorating financial position of BTES. The change in net position is a function of the revenues and expenses, which are recorded in the Statements of Revenues, Expenses, and Changes in Net Position. Revenues are recorded as they are earned and expenses are recorded when incurred (regardless of cash requirements). Cash activity for the period is presented in the Statements of Cash Flows and the activity is segmented between operating, investing, and financing activities. In addition, the Notes to the Financial Statements provides additional information to provide a full understanding of the financial activity and position of BTES.

BTES is a self-supporting enterprise of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Board of Directors as per Chapter 32 Public Acts of Tennessee 1935. BTES issues a comprehensive annual financial report which is incorporated in the City's comprehensive annual financial report.

Operating Highlights

Net Position and Capital Assets

As indicated in Table 1, net position continues to increase as a result of positive operations sufficient to support transfers and interest expense.

Management's Discussion and Analysis (continued)

Table 1

Bristol Tennessee Essential Services Condensed Balance Sheet			
	2011	June 30, 2010	2009
Current and other assets	\$ 36,202,188	\$ 32,881,092	\$ 32,923,094
Capital assets net of accumulated depreciation	77,858,917	78,084,671	74,900,953
Total assets	<u>114,061,105</u>	<u>110,965,763</u>	<u>107,824,047</u>
Current liabilities	7,389,569	11,691,696	13,067,795
Other Accrued Liabilities	319,075	595,607	489,039
Bonds Payable	21,920,614	22,438,976	22,938,551
Total liabilities	<u>29,629,258</u>	<u>34,726,279</u>	<u>36,495,385</u>
Net position:			
Invested in capital assets	55,433,303	53,974,367	51,492,401
Unrestricted	28,998,544	22,265,117	19,836,261
Total net position	<u>\$ 84,431,847</u>	<u>\$ 76,239,484</u>	<u>\$ 71,328,662</u>

During the year, gross capital assets increased by \$3,388,763 or 3%. The change in capital additions over the past two years is a result of build out of the fiber backbone and fiber to the home system. Refer to the Note 1 on Page 23 and Note 8 on Page 27 for more information regarding capital assets.

Management's Discussion and Analysis (continued)

Table 2

Bristol Tennessee Essential Services Capital Assets Years ended June 30,				
	2011	Net of Accumulated Depreciation	2010	Net of Accumulated Depreciation
Transmission Plant				
Land and land rights	\$ 94,696	\$ 94,696	\$ 94,696	\$ 94,696
Station equipment	2,823,268	886,301	2,823,268	999,560
Total Transmission Plant	<u>2,917,964</u>	<u>980,997</u>	<u>2,917,964</u>	<u>1,094,256</u>
Distribution Plant				
Land & land rights	881,765	881,765	855,111	855,111
Structures & improvements	862,742	53,439	862,742	81,764
Station equipment	12,141,863	2,620,288	11,930,652	2,648,873
Poles, towers, and fixtures	14,244,533	5,073,456	14,031,079	5,340,983
Overhead conductors and devices	7,237,042	2,082,843	7,128,205	2,125,051
Underground conduit	1,174,453	321,960	1,158,243	328,720
Underground conductors and devices	4,156,067	784,610	3,983,321	752,012
Line transformers	12,560,054	5,545,250	12,377,629	5,658,425
Services	3,482,052	1,108,929	3,337,260	1,068,678
Meters	4,167,915	2,462,452	4,065,754	2,436,129
Installation on customers' premises	1,089,559	(133,360)	1,076,633	(168,811)
Street lighting and signal systems	3,308,871	476,666	3,151,728	371,462
Total Distribution Plant	<u>65,306,915</u>	<u>21,278,299</u>	<u>63,958,357</u>	<u>21,498,397</u>
General Plant				
Land and land rights	101,831	101,831	101,831	101,831
Structures and Improvements	1,158,943	578,423	1,158,943	576,817
Office Furniture and Equipment	787,557	470,479	787,557	491,086
Transportation Equipment	2,456,423	1,085,759	2,020,382	518,944
Stores Equipment	24,143	1,718	24,143	1,718
Tools, shop, and garage equipments	131,389	10,133	131,383	10,127
Laboratory equipment	104,035	5,965	104,035	5,964
Power operated equipment	104,946	10,203	104,946	10,203
Communication equipment	58,115,505	51,987,386	54,854,191	50,770,448
Miscellaneous equipment	43,407	3,653	43,407	3,652
Total General Plant	<u>63,028,179</u>	<u>54,255,549</u>	<u>59,330,818</u>	<u>52,490,790</u>
Total Utility Plant in Service	131,253,059	76,514,846	126,207,139	75,083,443
Construction work in progress	1,092,637	1,092,637	2,750,894	2,750,894
Non-utility property	251,434	251,434	250,334	250,334
Total Capital Assets All Sources	<u>132,597,130</u>	<u>77,858,917</u>	<u>129,208,367</u>	<u>78,084,671</u>

Management's Discussion and Analysis (continued)

Table 3

Bristol Tennessee Essential Services
Additions and Retirements to Utility Plant in Service
Years ended June 30,

	2011	2010
Plant in service beginning	\$ 125,155,502	\$ 119,988,458
Increases	5,649,833	5,800,885
Decreases	630,566	633,841
Plant in service ending	<u>\$ 130,174,769</u>	<u>\$ 125,155,502</u>

Note: Plant in service does not include land, non-utility property or construction work in progress

Results of Operations

As indicated in Table 4, the net position of BTES increased by \$8,192,363 from fiscal year 2010 to 2011 and increased by \$4,910,822 from fiscal year 2009 to 2010. Operating revenues were principally derived from retail sales of electricity. Temperature throughout the year has historically been a main driver of electric sales. In addition, the Fuel Cost Adjustment has fluctuated monthly since October 2009 and was negative for 8 months in fiscal year 2010. In fiscal year 2011, the Fuel Cost Adjustment was positive and resulted in an increase in purchased power expense and increased revenue as compared to the previous fiscal year. After accounting for the differences related to the Fuel Cost Adjustment, revenue rose in relation to electric sales. In 2006 cable and Internet revenue was added as a form of operating revenue, and in 2007 telephone was added as a form of operating revenue. Revenues from these sources continue to grow as our subscriber base grows. See Figures 1, 2 and 3. As shown in Table 4, the internal tax equivalent payments made to the City of Bristol, Tennessee are reported as transfers.

Management's Discussion and Analysis (continued)

Table 4

Bristol Tennessee Essential Services
Condensed Statement of Revenues, Expenses and Changes in Net Position
Years ended June 30,

	2011	2010	2009
Revenues:			
Power revenues:			
Residential	\$ 44,671,055	\$ 37,557,979	\$ 42,051,413
Commercial (general power - under 50 kw)	5,864,765	5,086,485	5,567,336
Industrial (general power - 50 kw and over)	34,338,102	29,831,995	33,840,683
Street and outdoor lighting	1,284,120	1,182,331	1,269,807
Total power revenues	86,158,042	73,658,790	82,729,239
Cable revenues	6,660,565	5,763,092	4,405,446
Internet revenues	4,380,089	3,571,391	2,321,562
Telephone revenues	3,335,118	2,894,491	2,458,309
Other revenues	4,242,531	3,402,534	3,387,662
Non-operating revenues:			
Interest income	502,266	589,533	816,209
Plant cost recovered through contributions in aid of construction	(955,201)	(368,800)	(557,276)
Total Revenues	104,323,410	89,511,031	95,561,151
Expenses:			
Purchased power	75,426,055	64,460,545	74,785,352
Cable programing	4,406,643	3,601,999	2,619,886
Internet cost of sales	233,413	160,521	158,416
Telephone cost of sales	587,333	518,424	442,856
Operation expenses	4,659,765	4,581,593	4,042,459
Maintenance	4,104,859	4,636,085	4,129,790
Depreciation	4,092,948	3,583,004	3,387,977
Tax equivalents	506,799	489,528	407,073
Social security taxes	293,771	291,766	275,326
Interest expense on customer deposits	12,970	11,047	11,047
Interest expense on bonds payable	982,807	998,144	1,013,180
Amortization of bond issue costs	10,618	11,583	11,583
Total expenses	95,317,981	83,344,239	91,284,945
Income before transfers and taxes	9,005,429	6,166,792	4,276,206
State income tax	121,841	66,352	44,105
Transfers out - tax equivalents to City of Bristol	1,646,426	1,558,418	1,444,412
Contributions in aid of construction	955,201	368,800	557,276
Changes in net position	8,192,363	4,910,822	3,344,965
Beginning net position	76,239,484	71,328,662	67,983,697
Ending net position	\$ 84,431,847	\$ 76,239,484	\$ 71,328,662

Management's Discussion and Analysis (continued)

Figure 1

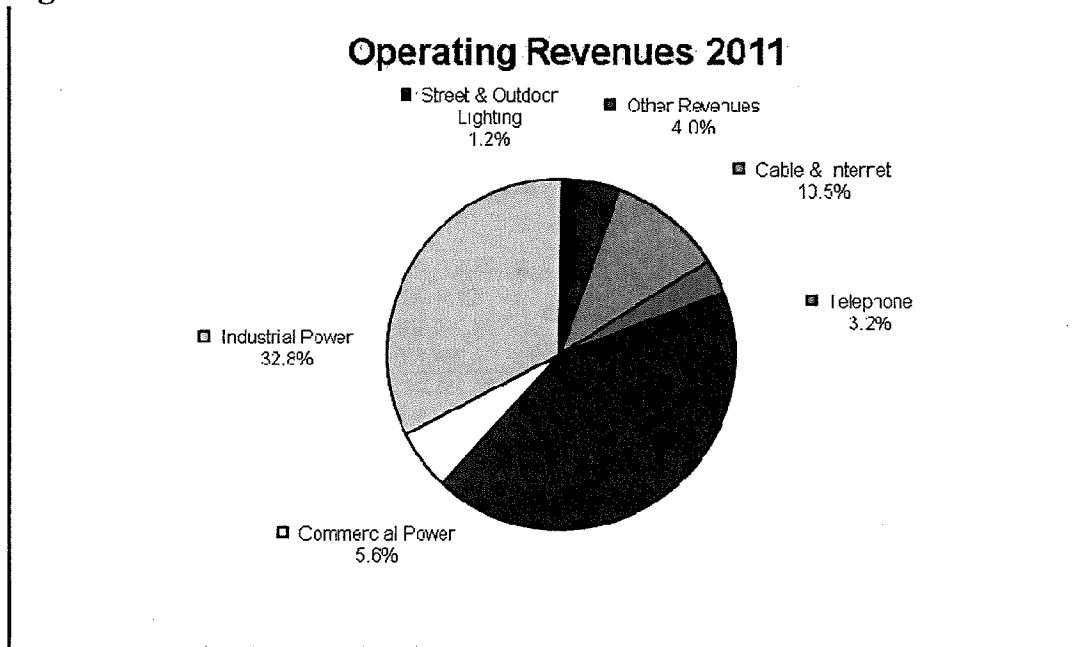
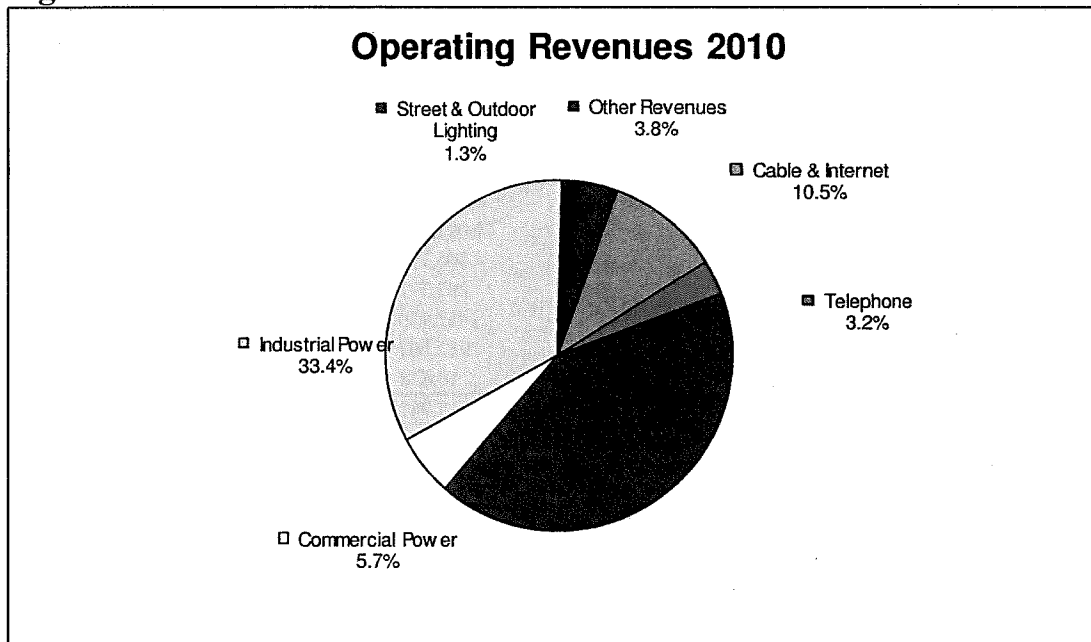
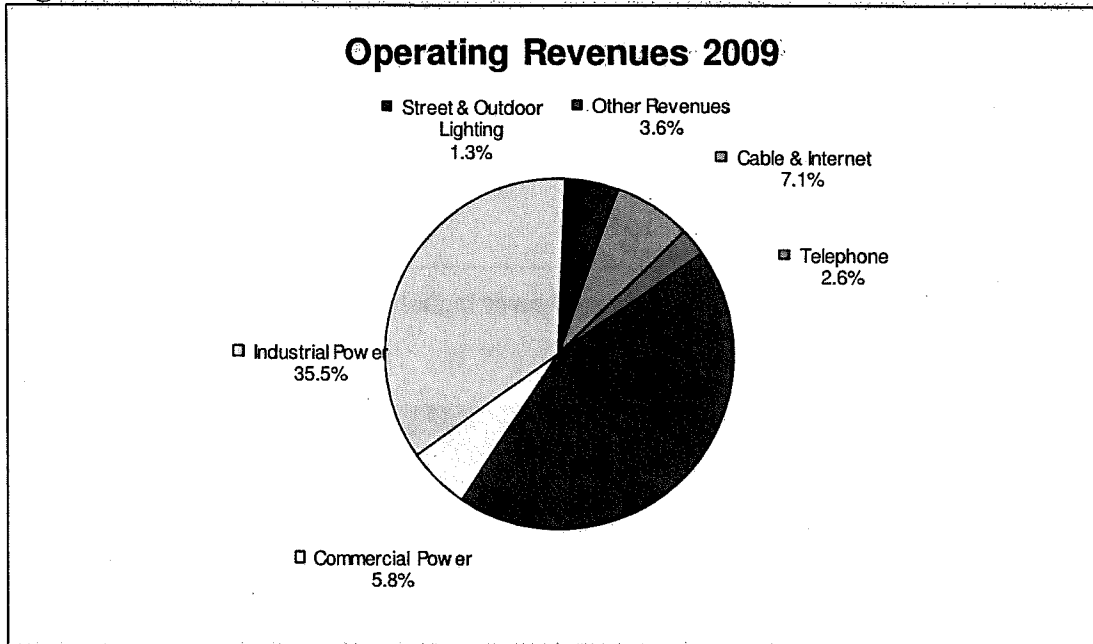


Figure 2



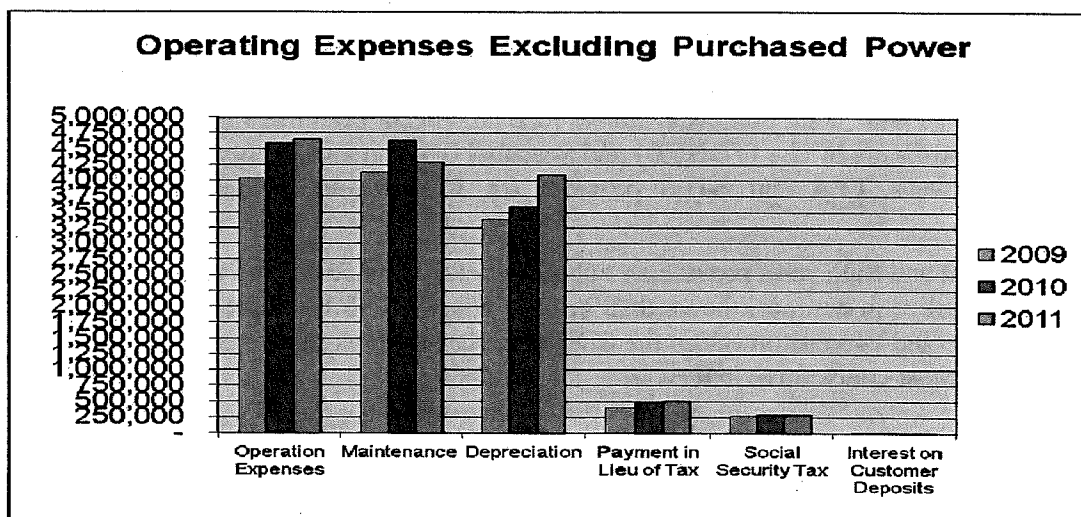
Management's Discussion and Analysis (continued)

Figure 3



Operating expenses, not including purchased power and cost of sales for cable, Internet and telephone continues to increase, as indicated in Figure 4 as a result of additional services being provided to an increased number of customers.

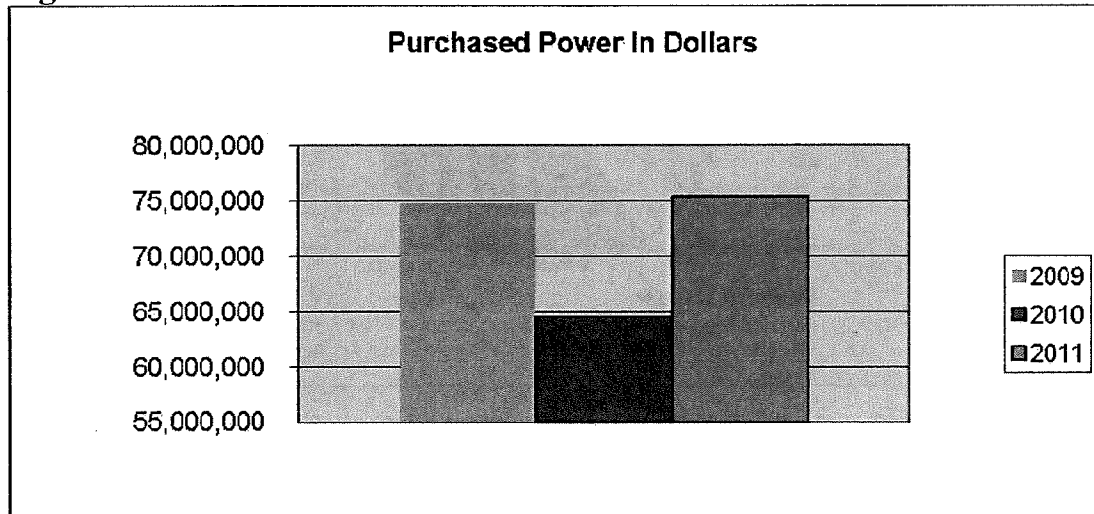
Figure4



Management's Discussion and Analysis (continued)

As indicated in Figure 5, purchased power costs were \$75,426,055 in 2011 as compared to \$64,460,545 in 2010, resulting in a 17% increase. Temperature is a main driver; however the Fuel Cost Adjustment was negative for 8 months in fiscal year 2010. This followed a 16.28% increase in October 2008 and is now being adjusted monthly to try to avoid large fluctuations. Refer to Results of Operation on Page 6 regarding fluctuation in the Fuel Cost Adjustment.

Figure 5



Power Rates

BTES purchases its entire year power supply requirements from Tennessee Valley Authority ("TVA"). Rate options available to BTES' retail customers include firm, Time Differentiated Hours of Use (TDHUD) and Seasonal Demand and Energy (SDE) rates. The contract between TVA and BTES provides for TVA regulation over retail rates to customers.

The TDHUD and SDE rates provide an opportunity for large customers to pay lower rates for electric usage in non-peak hours than in peak hours. BTES has three customers on the TDHUD rate and two customers on the SDE rate. Rate surveys show that BTES' rates are some of the most competitive in the U.S.

Management's Discussion and Analysis (continued)

Deregulation

Over the last few years, Congress has been debating legislation to restructure the electric utility industry. Because of TVA's unique situation, deregulation and competition at both national and state levels are moving more slowly to the Tennessee Valley. Under the existing law, TVA is the exclusive supplier of power within its statutorily defined service territory, an 80,000 square-mile area that includes virtually the entire state of Tennessee and parts of Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia. BTES is shielded from competition until federal restructuring addresses the current law. BTES continues to be involved in the restructuring effort individually and also as a member of the Tennessee Valley Public Power Association, the American Public Power Association, Tennessee Municipal Electric Power Association and the State of Tennessee Legislature.

Debt

On July 27, 2005, BTES issued \$23,910,000 in Electric Revenue Bonds, Series 2005 for the purpose of financing improvements to BTES' system and pre-purchasing electrical power from TVA. The bonds are limited obligations of BTES payable solely from the net revenues of BTES.

The activity in the bond liability for 2010 and 2011 represents the scheduled principal payments. Refer to the Note 10 on Page 29 for more information regarding long term debt.

Payment In Lieu of Taxes

BTES makes an in-lieu-of-tax payment to the municipalities and counties in which it sells power and has utility plant. For the City of Bristol, Tennessee, City of Bluff City, Tennessee and Sullivan County, Tennessee, the in-lieu-of-tax payment is based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). For Washington County, Virginia the in-lieu-of-tax payment is based on the real property tax rate of the utility plant.

For fiscal year 2011, BTES made in-lieu-of-tax payments to the City of Bristol, Tennessee (treated as transfers) in the amount of \$1,646,426. For Sullivan County, Tennessee, Bluff City, Tennessee and Washington County, Virginia BTES made in-lieu-of-tax payments for fiscal year 2011 in the amount of \$491,210.

Non-Operating Revenue

Interest from investments decreased from \$589,533 in 2010 to \$502,266 in 2011, resulting in an approximate 17.4% decrease due to lower interest rates and reduction of cash through capital asset acquisitions. As shown in Table 4, interest from investments is categorized as non-operating revenue. BTES continues to look for ways to maximize their earnings, such as the TVA's Discounted Energy Units Program discussed below.

Management's Discussion and Analysis (continued)

Discounted Energy Units (DEU) Program

BTES invested \$8,000,000 in TVA's Discounted Energy Units ("DEU") Program in December 2003. The goal of the DEU Program is to create a financial partnership between TVA and its distributors, such as BTES, to help finance the re-start of the Browns Ferry Unit One power generator. This facility uses nuclear fuel to generate electricity. The potential benefits for BTES are to ensure a reliable, low-cost power supply and provide a vehicle to better use operating cash and improve working capital liquidity. This program provides BTES discounted monthly electric purchases that are equal to the monthly principle and interest payments. The discount rate is 5.5% and has a term of 10 years.

BTES may borrow against part of the DEU investment in emergency situations, if needed. For fiscal years 2011 and 2010, BTES recognized \$110,530 and \$160,378, respectively, in interest income from the amortization of the DEUs which is included in non-operating revenues discussed above.

Bristol Tennessee Essential Services

Balance Sheets

June 30, 2011 and 2010

	June 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,574,079	\$ 8,260,242
Accounts receivable:		
Trade	7,373,202	6,378,649
Other	837,641	742,309
Allowance for bad debt	(707,095)	(619,563)
Net accounts receivable	7,503,748	6,501,395
Accrual for unbilled revenues	3,318,744	2,992,197
Due from City of Bristol, TN	181,324	54,307
Materials and supplies inventories	1,204,776	1,067,125
Current portion of customer notes receivable	440,000	410,000
Current portion of discounted energy units	986,131	933,485
Current portion of prepaid expense	1,100,000	-
Other current assets	163,801	127,437
Total current assets	23,472,603	20,346,188
Noncurrent assets:		
Capital assets:		
Capital assets in service	131,253,059	126,207,139
Less accumulated depreciation	(54,738,213)	(51,123,696)
	76,514,846	75,083,443
Construction in progress	1,092,637	2,750,894
Non-utility property	251,434	250,334
Net capital assets	77,858,917	78,084,671
Other assets:		
Long-term investments	8,000,000	8,000,000
Prepaid pension cost	397,822	453,279
Prepaid expense, less current portion	1,100,000	-
Customer notes receivable, less current portion	2,427,430	2,280,558
Discounted energy units, less current portion	513,778	1,499,894
Unamortized bond issue costs	290,555	301,173
Total other assets	12,729,585	12,534,904
Total noncurrent assets	90,588,502	90,619,575
Total assets	\$ 114,061,105	\$ 110,965,763

Bristol Tennessee Essential Services

Balance Sheets (continued)

June 30, 2011 and 2010

	June 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 2,535,342	\$ 7,083,466
Customer deposits and prepayments	2,143,249	2,078,716
Due to City of Bristol, TN	45,016	41,459
Interest payable	332,946	335,775
Deferred revenue	594,362	523,152
Other accrued liabilities	1,233,654	1,144,128
Current portion of bonds payable	505,000	485,000
Total current liabilities	7,389,569	11,691,696
Other noncurrent accrued liabilities	319,075	595,607
Bonds payable, less current portion	21,920,614	22,438,976
Total liabilities	29,629,258	34,726,279
Net position:		
Net investment in capital assets	55,433,303	53,974,367
Unrestricted	28,998,544	22,265,117
Total net position	84,431,847	76,239,484
Total liabilities and net position	<u>\$ 114,061,105</u>	<u>\$ 110,965,763</u>

See accompanying Notes to Financial Statements.

Bristol Tennessee Essential Services

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2011 and 2010

	Year ended June 30	
	2011	2010
Operating revenues:		
Power revenues:		
Residential	\$ 44,671,055	\$ 37,557,979
Commercial (general power - under 50 kw)	5,864,765	5,086,485
Industrial (general power - 50 kw and over)	34,338,102	29,831,995
Street and outdoor lighting	1,284,120	1,182,331
Total power revenues	86,158,042	73,658,790
Cable revenues	6,660,565	5,763,092
Internet revenues	4,380,089	3,571,391
Telephone revenues	3,335,118	2,894,491
Other revenues	4,242,531	3,402,534
Total operating revenues	104,776,345	89,290,298
Cost of sales:		
Power purchased from Tennessee Valley Authority	75,426,055	64,460,545
Cable programming expense	4,406,643	3,601,999
Internet cost of sales	233,413	160,521
Telephone cost of sales	587,333	518,424
Total cost of sales	80,653,444	68,741,489
Gross profit	24,122,901	20,548,809
Operating expenses:		
Operations	4,659,765	4,581,593
Maintenance	4,286,183	4,636,085
Depreciation	4,092,948	3,583,004
Tax equivalents	491,210	489,528
Social security taxes	309,360	291,766
Interest expense on customer deposits	12,970	11,047
Total operating expenses	13,852,436	13,593,023
Operating income	10,270,465	6,955,786

Bristol Tennessee Essential Services

Statements of Revenues, Expenses and Changes in Net Position (continued)

Years ended June 30, 2011 and 2010

	Year ended June 30	
	2011	2010
Nonoperating revenue (expense):		
Grant income	\$ 181,324	\$ -
Interest income (including \$110,530 in 2011 and \$160,378 in 2010 related to amortization of discounted energy units)	502,266	589,533
Interest expense	(982,807)	(998,144)
Amortization of bond issue costs	(10,618)	(11,583)
Plant cost recovered through contributions in aid of construction	(955,201)	(368,800)
Income before transfers and income taxes	9,005,429	6,166,792
State income tax expense	(121,841)	(66,352)
Transfers out--tax equivalents to the City of Bristol, TN	(1,646,426)	(1,558,418)
Contributions in aid of construction	955,201	368,800
Change in net position	8,192,363	4,910,822
Net position at beginning of year	76,239,484	71,328,662
Net position at end of year	<u>\$ 84,431,847</u>	<u>\$ 76,239,484</u>

See accompanying Notes to Financial Statements.

Bristol Tennessee Essential Services

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	Year ended June 30	
	2011	2010
Cash flows from operating activities		
Cash received from customers	\$ 98,102,705	\$ 86,668,496
Cash received from City of Bristol, TN	2,888,465	2,234,163
Cash paid to suppliers and vendors	(87,720,635)	(75,195,305)
Cash paid to employees for services	(4,009,530)	(3,906,026)
Net cash provided by operating activities	9,261,005	9,801,328
Cash flows from noncapital financing activities		
Transfers to City of Bristol, TN	(1,646,426)	(1,558,418)
State income tax	(121,841)	(66,352)
Net cash used in noncapital financing activities	(1,768,267)	(1,624,770)
Cash flows from investing activities		
Interest received on investments	400,563	438,422
Purchases of certificates of deposit	(27,105,906)	(31,203,351)
Sales of certificates of deposit	27,105,906	31,203,351
Net cash provided by investing activities	400,563	438,422
Cash flows from capital and related financing activities		
Principal payments on bonds payable	(485,000)	(470,000)
Interest payments on bonds payable	(985,636)	(1,015,550)
Net additions to capital assets	(4,864,029)	(7,130,611)
Contributions in aid of construction	955,201	348,328
Cash paid for prepayment of capital assets	(2,200,000)	-
Net cash used in capital and related financing activities	(7,579,464)	(8,267,833)
Increase in cash and cash equivalents	313,837	347,147
Cash and cash equivalents at beginning of year	8,260,242	7,913,095
Cash and cash equivalents at end of year	\$ 8,574,079	\$ 8,260,242

Bristol Tennessee Essential Services
Statements of Cash Flows (continued)
Years ended June 30, 2011 and 2010

	Year ended June 30	
	2011	2010
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 10,270,465	\$ 6,955,786
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,092,948	3,583,004
Provision for losses on accounts receivable	121,247	100,330
Redemption of discounted energy units	1,044,000	1,044,000
Changes in operating assets and liabilities:		
Accounts receivable	(1,060,466)	(1,122,275)
Accrual for unbilled revenues	(326,547)	506,671
Materials and supplies inventories	(137,651)	17,589
Customer notes receivable	(176,872)	(113,936)
Prepaid pension cost	55,457	55,458
Other assets	(25,745)	52,421
Trade accounts payable	(4,548,124)	1,023,182
Due to City of Bristol, TN	-	(213,744)
Unbilled power expense	-	(3,054,352)
Customer deposits and prepayments	64,532	402,894
Other accrued liabilities	(112,239)	564,300
Net cash provided by operating activities	<u>\$ 9,261,005</u>	<u>\$ 9,801,328</u>

Supplemental disclosure of noncash activities

Accounts payable at June 30, 2010 included \$1,186,328 for capital assets.

See accompanying Notes to Financial Statements.

Bristol Tennessee Essential Services Post Employment Benefits Trust

Statement of Plan Net Position

June 30, 2011 and 2010

	June 30	
	2011	2010
Assets		
Cash and cash equivalents	\$ 43,365	\$ 12,752
Investments	786,066	180,143
Net assets held in trust for OPEB	<u>\$ 829,431</u>	<u>\$ 192,895</u>

See accompanying Notes to Financial Statements.

Bristol Tennessee Essential Services Post Employment Benefits Trust

Statement of Changes in Plan Net Position

Years ended June 30, 2011 and 2010

	June 30	
	2011	2010
Additions		
BTES Contributions associated with ARC	\$ 595,607	\$ 200,000
BTES Contributions for claims made	386,971	442,242
Dividend Income	6,326	1,217
	<u>988,904</u>	<u>643,459</u>
Deductions		
Pension Benefits	(386,971)	(442,242)
Administrative fees	(3,000)	(2,000)
	<u>(389,971)</u>	<u>(444,242)</u>
Appreciation (depreciation) in the fair value of investments	<u>37,603</u>	<u>(6,322)</u>
Net increase	<u>636,536</u>	<u>192,895</u>
Net assets held in trust for OPEB, beginning of year	192,895	-
Net assets held in trust for OPEB, end of year	<u>\$ 829,431</u>	<u>\$ 192,895</u>

See accompanying Notes to Financial Statements.

Bristol Tennessee Essential Services

Notes to Financial Statements

June 30, 2011 and 2010

1. Significant Accounting Policies

General

Bristol Tennessee Essential Services ("BTES") is a self-supporting enterprise fund of the City of Bristol, Tennessee (the "City"). The City is the primary reporting entity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. The Board of Directors of BTES is the level of responsibility that has oversight and control of BTES. The Board of Directors sets all policies, local rates and appoints the Chief Executive Officer. The Board of Directors is composed of five members, one of whom is also a member of the City Council, who are appointed by the mayor and confirmed by the City Council. They serve four-year staggered terms. BTES manages, operates and maintains the electric, cable, Internet, and telephone utilities servicing the citizens of the City and surrounding areas. BTES issues a comprehensive annual financial report which is combined in the City's comprehensive annual financial report.

BTES has three business units within the enterprise fund, BTES accounts for the electric utility operations in the Electric Business Unit ("EBU"), the cable and Internet operations in the Cable and Internet Business Unit ("CBU"), and telephone operations in the Telephone Business Unit ("TBU").

BTES provides telecommunication services pursuant to Section 7-52-401 of the Tennessee Code Annotated ("TCA"). As required by Section 7-52-603 of the TCA, the EBU may not subsidize the operations of the CBU or the TBU with revenue from its power operations. In addition, the CBU and the TBU must maintain its own accounting records and any funds that are lent from the EBU must have a rate of interest, not less than the highest rate earned by the EBU on investment funds. See Note 17 for further discussion of these units.

The industries that CBU and TBU operate in are regulated by the Federal Communications Commission.

BTES classifies net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

1. Significant Accounting Policies (continued)

General (continued)

- **Restricted** – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net position consists of net position that do not meet the definition of “restricted or “net investment in capital assets.”

The unrestricted category includes a renewal and replacement fund of \$8,000,000 which was established by the Board of Directors to set aside funds for future construction, improvements and extensions of BTES.

Fiscal Year-End

BTES operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Measurement Focus

BTES operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

BTES utilizes the accrual basis of accounting whereby revenues are recorded in the period the related services are provided, and expenses are recorded in the period incurred. Accordingly, BTES has recorded an estimate of unbilled revenue and unbilled power expense. BTES considers all revenues and expenses to be operating, except for interest income, interest expense and amortization of bond issue costs, which are classified as nonoperating.

Cash and Cash Equivalents and Investments

Cash and cash equivalents include cash on hand and in demand deposits, and those investments which are generally a part of BTES short-term cash management activities. State statutes authorize BTES to invest in certificates of deposit, U.S. Treasury obligations, U.S. Agency issues and the State Local Government Investment Pool.

Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

1. Significant Accounting Policies (continued)

Materials and Supplies Inventories

Materials and supplies are valued at the lower of cost or market, utilizing the moving average method of determining cost.

Capital Assets

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. Substantially all renewals and betterments are capitalized in accordance with BTES' capitalization policy.

When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized. This treatment may result in accumulated depreciation exceeding the original cost of the asset when a fully depreciated asset is removed. The net effect of this treatment was \$18,467 in 2011 and \$52,869 in 2010, as reflected in Note 8.

Capital assets other than land, construction in progress and non-utility property, are depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of depreciable capital assets are as follows:

Transmission equipment, fixtures and devices	30 to 40 years
Fiber Optic system cable, equipment, fixtures and devices	40 years
Distribution transformers, meters, fixtures and devices	15 to 50 years
Buildings and improvements	50 years
Electronic communication equipment	15 to 20 years
Furniture, fixtures and equipment	5 to 25 years

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operating expenses in the Statements of Revenues, Expenses and Changes in Net Position and totaled \$170,603 in 2011 and \$147,801 in 2010. The cost of maintenance and repairs is charged to expense as incurred.

Compensated Absences

BTES recognizes the cost of vacation pay as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

1. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year have been reclassified to conform with 2011 classifications.

2. Cash and Investments

Cash and investments consist of the following as of June 30, 2011:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund:				
Certificate of deposit	\$ 267,838	.69%	3/25/11	6/30/11
Certificate of deposit	2,226,257	.69%	3/25/11	6/30/11
Certificate of deposit	2,400,000	.69%	3/25/11	6/30/11
Certificate of deposit	3,105,905	.64%	4/22/11	7/28/11
Total renewal and replacement fund	<u>8,000,000</u>			
Other funds:				
Certificate of deposit	2,900,000	.69%	3/25/11	6/30/11
Certificate of deposit	1,500,000	.59%	6/10/11	9/15/11
Certificate of deposit	1,000,000	.59%	5/27/11	9/01/11
Business money market account	21,891	.10%	—	—
Business money market account	558,729	.13%	—	—
Cash on deposit	2,593,459	Various	—	—
Total other funds	<u>8,574,079</u>			
Total cash and investments	<u><u>\$16,574,079</u></u>			

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

2. Cash and Investments (continued)

Cash and investments consist of the following as of June 30, 2010:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund:				
Certificate of deposit	\$ 267,838	1.75%	6/08/10	9/08/10
Certificate of deposit	2,226,257	1.75%	6/08/10	9/09/10
Certificate of deposit	2,400,000	1.75%	6/08/10	9/08/10
Certificate of deposit	3,105,905	1.29%	3/26/10	7/01/10
Total renewal and replacement fund	<u>8,000,000</u>			
Other funds:				
Certificate of deposit	2,900,000	1.75%	6/08/10	9/08/10
Certificate of deposit	1,500,000	1.29%	5/13/10	8/19/10
Certificate of deposit	1,000,000	1.29%	4/28/10	8/05/10
Business money market account	21,867	.10%	—	—
Business money market account	557,965	.13%	—	—
Cash on deposit	2,280,410	Various	—	—
Total other funds	<u>8,260,242</u>			
Total cash and investments	<u>\$16,260,242</u>			

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, BTES deposits may not be returned to it. BTES has no formal policy regarding custodial credit risk but requires that all funds not insured by the FDIC be part of the state collateral pool. As of June 30, 2011, BTES deposits in financial institutions (including certificates of deposit) of \$17,004,521 were entirely insured or collateralized with securities held by BTES agent in BTES' name. Carrying amounts differ from financial institution balances primarily due to outstanding checks and deposits in transit.

Interest Rate Risk

BTES has no formal policy regarding interest rate risk. Our investments are structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of BTES in order to avoid the forced redemption of investments prior to maturity. All investments as of June 30, 2011 met these requirements.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

3. Power Contract

BTES has a power contract with the Tennessee Valley Authority ("TVA") whereby BTES purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract. Either party may terminate this contract at any time upon not less than five years prior written notice.

4. Residential Energy Efficiency Program Loans

BTES provides loans to customers for heat pump and insulation costs under BTES Residential Energy Efficiency Program. The majority of these loans bears interest at rates ranging from 8% to 10.25% and has maturities of up to 10 years. Satisfactory credit reports are required prior to loan approval. Additionally, these loans are secured by a deed of trust on the property. BTES recorded interest income of approximately \$239,000 in 2011 and \$224,500 in 2010 related to these loans. These amounts offset operating expenses in the Statements of Revenues, Expenses and Changes in Net Position, since management believes this is an operating activity and the income should offset the additional expenses associated with maintaining this loan program.

5. Concentration of Credit Risk

BTES provides electric, cable, Internet and voice services primarily to customers in northeastern Tennessee. Electric customers include residential, commercial and industrial service. Residential and commercial customers are required to have satisfactory credit reports or place deposits with BTES that approximate two months' highest expected bill. Industrial customers are generally required to either place deposits with BTES that approximate two months' highest expected bill or obtain a letter of credit or surety bond as security. Interest accrues on any deposits at the passbook interest rate of the bank where the funds are deposited and totaled \$12,970 in 2011 and \$11,047 in 2010. Cable, Internet and telephone customers are billed in advance of their service. Deferred revenue in the amount of \$594,362 is recorded, of which \$483,324 relates to cable and Internet services and \$111,038 relates to telephone services. BTES also makes and services loans to customers for heat pump and insulation costs. A subordinate deed of trust is obtained on the related property for these loans. Loss experience on accounts and notes receivable has historically not been significant to BTES operations.

6. Discounted Energy Units

During 2003, BTES purchased \$8,000,000 in discounted energy units from TVA which are redeemable on a straight-line basis over ten years. The units carry a discount of 5.5% and amounted to \$1,499,909 and \$2,433,379 as of June 30, 2011 and 2010, respectively.

7. Prepayment

During 2011, BTES prepaid \$2,200,000 for devices used to implement a new water heater program we are working on with TVA and the Electric Power Research Institute. The prepayment resulted in a 12% discount on future purchases of Water Heater Intelligent System for Energy (WISE) devices. Management anticipates recognizing \$1,100,000 during fiscal year 2012 and the remainder in fiscal year 2013.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

8. Capital Assets

The following is a summary of capital assets for the year ended June 30, 2011:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 1,051,638	\$ 26,654	\$ -	\$1,078,292
Non-utility property	250,334	1,100	-	251,434
Construction in progress	2,750,894	137,669	1,795,926	1,092,637
Total capital assets not being depreciated	4,052,866	165,423	1,795,926	2,422,363
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	2,823,268	-	-	2,823,268
Distribution transformers, meters, fixtures and devices	62,240,504	1,550,188	228,283	63,562,409
Buildings and improvements	2,021,685	-	-	2,021,685
Furniture, fixtures and equipment	3,215,855	747,683	311,636	3,651,902
Fiber optic communications	54,854,190	3,351,962	90,648	58,115,504
Total capital assets being depreciated	125,155,502	5,649,833	630,567	130,174,768
Less accumulated depreciation:				
Transmission equipment, fixtures and devices				
Distribution transformers, meters, fixtures and devices	(1,823,434)	(113,534)		(1,936,968)
Buildings and improvements	(41,678,982)	(1,858,197)	317,866	(43,219,313)
Furniture, fixtures and equipment	(1,363,379)	(30,918)	4,475	(1,389,822)
Fiber Optic Communication	(2,174,159)	(201,469)	311,636	(2,063,992)
Fiber Optic Communication	(4,083,743)	(2,059,433)	15,057	(6,128,119)
Total accumulated depreciation	(51,123,697)	(4,263,551)	649,034	(54,738,214)
Net capital assets being depreciated	74,031,805	1,386,282	(18,467)	75,436,554
Total net capital assets	\$78,084,671	\$1,551,705	(\$1,777,459)	\$77,858,917

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

8. Capital Assets (continued)

The following is a summary of capital assets for the year ended June 30, 2010:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 1,051,638	\$ -	\$ -	\$1,051,638
Non-utility property	250,480		146	250,334
Construction in progress	1,733,283	3,203,140	2,185,529	2,750,894
Total capital assets not being depreciated	3,035,401	5,395,712	2,185,675	4,052,866
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	2,823,268	-	-	2,823,268
Distribution transformers, meters, fixtures and devices	62,044,632	609,242	413,370	62,240,504
Buildings and improvements	2,021,685	-	-	2,021,685
Furniture, fixtures and equipment	3,053,124	381,410	218,679	3,215,855
Fiber optic communications	50,045,749	4,810,233	1,792	54,854,190
Total capital assets being depreciated	119,988,458	5,800,885	633,841	125,155,502
Less accumulated depreciation:				
Transmission equipment, fixtures and devices				
Distribution transformers, meters, fixtures and devices	(1,710,616)	(112,818)		(1,823,434)
Buildings and improvements	(40,348,470)	(1,796,181)	465,669	(41,678,982)
Furniture, fixtures and equipment	(1,332,461)	(30,918)		(1,363,379)
Fiber Optic Communication	(2,224,324)	(168,514)	218,679	(2,174,159)
Total accumulated depreciation	(48,122,905)	(3,687,502)	686,710	(51,123,697)
Net capital assets being depreciated	71,865,553	2,113,383	(52,869)	74,031,805
Total net capital assets	\$74,900,954	\$5,316,523	(\$2,132,806)	\$78,084,671

9. Self-Insurance Plan

BTES is self-insured for employee group health benefits. A liability is recorded, if necessary, for those claims incurred but not paid prior to year-end, both reported and unreported, based on prior experience and claims reported subsequent to year-end. Changes in estimates for claims incurred but not reported are recorded in the year the estimates are revised. BTES' risk is \$75,000 per covered employee up to an annual maximum of \$852,583. An insurance company has insured all claims exceeding the annual maximum.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)

June 30, 2011 and 2010

9. Self-Insurance Plan (continued)

Activity in the estimated liability for claims incurred but not paid is as follows for the years ended June 30:

	2011	2010
Balance at beginning of year	\$177,416	\$177,416
Expense recorded related to:		
Current year	473,040	557,897
Prior year	90,385	164,366
Net expense recorded	563,425	722,263
Payments related to:		
Current year	550,890	557,897
Prior year	90,385	164,366
Total payments	641,275	722,263
Balance at end of year	\$99,566	\$177,416

10. Bonds Payable

Changes in bonds payable are summarized as follows:

	Balance July 1, 2010	Decreases	Balance June 30, 2011
Electric System Revenue Bonds, Series 2005	\$22,545,000	\$ (485,000)	\$22,060,000
Plus unamortized premium	378,976	(13,362)	365,614
Total bonds payable	\$22,923,976	\$ (498,362)	\$22,425,614

	Balance July 1, 2009	Decreases	Balance June 30, 2008
Electric System Revenue Bonds, Series 2005	\$23,015,000	\$ (470,000)	\$22,545,000
Plus unamortized premium	393,551	(14,575)	378,976
Total bonds payable	\$23,408,551	\$ (484,575)	\$22,923,976

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)

June 30, 2011 and 2010

10. Bonds Payable (continued)

During 2006, the City issued \$23,910,000 in 2005 Electric System Revenue Bonds (the "Bonds") on behalf of BTES. The Bonds were issued for the purposes of providing funds to construct improvements and extensions of BTES' transmission and distribution system and to pre-purchase electric power from TVA. The Bonds are payable in annual installments ranging from \$505,000 in 2012 to \$1,450,000 in 2036. Bonds maturing on or after September 1, 2016 (\$19,365,000) are callable by the City at par at any time in any amount on or after September 1, 2015.

The interest rates on the Bonds are fixed and for each series, however, the interest rates for each series vary between 3.25% to 5%, depending on the maturity. For 2011 and 2010, the effective annual interest rate on the Bonds was 4.489% and 4.648% respectively.

The Bonds are secured by the net power revenues of BTES. In addition, BTES has obtained a surety bond in lieu of funding a debt service reserve fund as required by the bond agreement.

Maturities of the Bonds as of June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 505,000	\$ 981,513	\$ 1,486,513
2013	520,000	964,225	1,484,225
2014	540,000	947,000	1,487,000
2015	555,000	928,859	1,483,859
2016	575,000	909,431	1,484,431
2017-2021	3,295,000	4,137,845	7,432,845
2022-2026	4,195,000	3,237,488	7,432,488
2027-2031	5,265,000	2,169,665	7,434,665
2032-2036	6,610,000	820,626	7,430,626
	<u>\$ 22,060,000</u>	<u>\$ 15,096,652</u>	<u>\$ 37,156,652</u>

11. Pension Plan

Plan Description

Employees of BTES are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

11. Pension Plan (continued).

Members joining BTES after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as BTES participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us/tcrs/PS/.

Funding Policy

BTES requires employees to contribute 5% of earnable compensation.

BTES is required to contribute at an actuarially determined rate using the frozen entry age actuarial cost method; the rate for 2010 13.27% and the 2011 rate was 12.76% of annual covered payroll. The contribution requirement of plan members is set by statute. The contribution requirement for BTES is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2011, BTES' annual pension cost of \$484,250 to TCRS was equal to BTES' required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. BTES' unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed July 1, 2009, which established contribution rates effective July 1, 2010.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)

June 30, 2011 and 2010

11. Pension Plan (continued)

Trend Information

<u>Year ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$484,250	100.00%	\$0.00
June 30, 2010	\$490,763	100.00%	\$0.00
June 30, 2009	\$471,232	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 79.26% funded. The actuarial accrued liability for benefits was \$17.60 million, and the actuarial value of assets was \$14.0 million, resulting in an unfunded actuarial accrued liability of \$3.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$3.5 million, and the ratio of the UAAL to the covered payroll was 103.36%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Prepaid Pension Cost

BTES has previously contributed amounts in excess of the annual pension cost to the PSPP and recorded these amounts as a prepaid pension cost.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

11. Pension Plan (continued)

Activity in the prepaid pension cost is as follows for the years ended June 30:

	2011	2010
Balance at beginning of year	\$453,279	\$508,737
Annual pension cost:		
Annual required contribution	484,250	490,763
Interest on prepaid pension cost	(28,208)	(34,075)
Adjustment to the annual required contribution	83,665	89,533
Total annual pension cost	539,707	546,221
Contributions made	484,250	490,763
Decrease in prepaid pension cost	(55,457)	(55,458)
Balance at end of year	\$397,822	\$453,279

12. 401(k) Retirement Plan

BTES administers a defined contribution plan in the form of a 401(k) plan (Bristol Tennessee Essential Services 401(k) Retirement Plan) available to all employees who have completed six months of employment. During 2011, the amount of payroll covered by the plan was \$3,398,970 of total payroll of \$3,959,676. During 2010, the amount of payroll covered by the plan was \$3,178,978 of total payroll of \$3,861,658. Under the plan terms, BTES will match participant contributions up to 3% of the participant's salary. Participants are not required but may contribute up to a total of 15% of their pre-tax earnings, subject to IRS limitations.

Additionally, participants may contribute up to 10% of their after-tax earnings. Participants are 100% vested in the employer contributions when they are made. During 2011 and 2010, BTES contributed \$174,770 and \$166,022, respectively, to the plan which represents 5.1% and 5.2%, respectively, of the covered payroll and 100% of the required contribution for each year. During 2011 and 2010, the participants contributed \$249,963 and \$225,505, respectively, which represents 7.3% and 7.1%, respectively, of the covered payroll.

13. Postemployment Benefits Other Than Pensions

BTES has established the Bristol Tennessee Essential Services Post Employment Benefits Trust (the "Trust") for the exclusive benefit of BTES retired employees and their dependents (who meet the eligibility requirements) to fund the postemployment benefits provided through the Bristol Essential Services Retirement Plan (the "Plan"). Amounts contributed to the Trust by BTES are held in trust and are irrevocable and are for the sole and exclusive purpose of funding benefits established by the Plan and the cost of operating and administering the Trust.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

13. Postemployment Benefits Other Than Pensions (continued)

Plan Description

BTES administers the Plan as a single-employer defined benefit Other Post Employment Benefit plan ("OPEB"). As discussed in Note 9, BTES is self-insured for employee group health benefits, with the medical plan administered by MCA Administrators and the prescription drug program administered by MEDCO. BTES also provides these benefits to certain retired employees, although not required to do so by any statutory, contractual or other authority. As of June 30, 2011, there were 27 retirees eligible to receive these benefits. Employees with 30 years of service or age 60 with 20 years of service are eligible for these benefits. BTES pays full coverage for all retirees who meet these eligibility requirements.

Additionally, BTES is self-insured for certain life insurance benefits for retirees. Employees who retire with 30 years of service or age 60 with a minimum of 20 years of service receive \$5,000 in life insurance for annual salaries less than \$10,000 plus \$1,000 in life insurance for each additional \$5,000 of annual salary or fraction thereof. As of June 30, 2011, there were 21 retirees eligible to receive these benefits and, accordingly, a liability for \$237,250 has been recorded for these benefits. BTES made no payments in 2011 and 2010 related to these benefits.

As of June 30, 2011, the Plan did not issue a stand alone financial report because the Trust Fund is included in BTES financial statements.

Significant Accounting Policies for the Trust

The Trust's financial statements are prepared using the accrual basis of accounting. BTES contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable.

Investments are reported at fair value, which is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities.

Funding Policy

BTES annual contribution is based on the annual required contribution of the employer ("ARC"), an actuarially determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)

June 30, 2011 and 2010

13. Postemployment Benefits Other Than Pensions (continued)

Annual OPEB Cost and Net OPEB Obligation

	2011	2010
Annual Required Contribution	\$319,075	\$306,568
Interest on Net OPEB Obligation	—	—
Adjustment to ARC	—	—
Annual OPEB Cost	319,075	306,568
Contribution Made	595,607	200,000
Increase in Net OPEB	(276,532)	106,508
Net OPEB Obligation – beginning of year	595,607	489,039
Net OPEB Obligation – end of year	\$319,075	\$595,607

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2011 is as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2011	\$319,075	187%	\$319,075
06/30/2010	\$306,568	65%	\$595,607
06/30/2009	\$247,432	0%	\$489,039
6/30/2008	\$241,607	0%	\$241,607

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/09	\$200,000	\$3,841,608	\$3,641,608	5.2%	\$3,231,177	112.7%
7/01/07	\$ 0	\$2,850,537	\$2,850,537	—	N/A	N/A

Actuarial Methods and Assumptions

- Funding Interest Rate 7.00%
- 2009 Medical/Drug Trend Rate 9.00%/10.00%
- Ultimate Medical/Drug Trend Rate 5.00%
- Year Ultimate Trend Rate Reached 2013/2014
- Actuarial Cost Method Projected Unit Credit
- Annual Payroll Growth Rate 2.50%
- Remaining Amortization period at June 30, 2010 26.39 years

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

13. Postemployment Benefits Other Than Pensions (continued)

Mortality

The mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 with projection scale AA.

Retirement Rates

It was assumed that the following percentage of eligible employees would retire each year.

<u>Age</u>	<u>Rate</u>
55	1.5%
60	9.0%
61	11.5%
62	21.5%
63	14.5%
64	16.0%
65	29.0%
70	17.5%
75	100.0%

Termination Rates

It was assumed that employees would terminate employment in accordance with the rates in the following table:

Male

<u>Age</u>	<u>Year of Employment</u>		
	<u>1st</u>	<u>2nd</u>	<u>Ultimate</u>
30	24.3%	20.0%	9.1%
40	20.4%	15.1%	2.5%
50	16.5%	12.7%	1.9%

Female

<u>Age</u>	<u>Year of Employment</u>		
	<u>1st</u>	<u>2nd</u>	<u>Ultimate</u>
30	24.3%	20.0%	11.1%
40	20.4%	15.1%	3.5%
50	16.5%	12.7%	2.4%

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)

June 30, 2011 and 2010

13. Postemployment Benefits Other Than Pensions (continued)

Trend Rates

It was assumed that health care costs would increase in accordance with the trend rates in the following table:

<u>Year</u>	<u>Medical</u>	<u>Drug</u>
2009	9.0%	10.0%
2010	8.0%	9.0%
2011	7.0%	8.0%
2012	6.0%	7.0%
2013	5.0%	6.0%
2014+	5.0%	5.0%

Participation Rate

It was assumed that 100% of the current active employees covered under the active plan on the day before retirement would enroll in the retiree medical plan upon retirement.

Percent Married

It was assumed that 75% of the male and 40% of the female employees who elect retiree health care coverage for themselves would also elect coverage for their spouse upon retirement. It was assumed that male spouses are three years older than their wives and female spouses are three years younger than the retiree. For current retirees, actual census information was used.

Per Capita Claims Costs

Paid claims for the medical plan for the period beginning on January 1, 2006 and ending December 31, 2009, formed the basis for the per capita claim rates. These claims were adjusted to an annual basis and trended forward to the valuation date. Aging factors were then applied to allow for the calculation of age-related per-capita claim rates.

Change in Assumptions

None

Change in Plan Provisions

None

Use of Assumptions

The preparation of the actuarial liabilities calculated above requires management to make assumptions that are disclosed above. Due to the use of these assumptions, actual results could differ from those estimates.

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)
June 30, 2011 and 2010

14. Net Position

Net position consists of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Net investment in capital assets consists of the following:		
Capital assets	\$77,858,917	\$78,084,671
Less bond payable	22,425,614	22,923,976
Less other borrowing associated with capital assets	-	1,186,328
Net investment in capital assets	<u>\$55,433,303</u>	<u>\$53,974,367</u>

Unrestricted net position consists of all other items in the balance sheet not reflected above.

15. Pole Attachment Settlement

During 2011, BTES entered into a settlement agreement with a local provider of cable, Internet and telephone services related to a disagreement about pole attachment fees. The settlement resulted in BTES receiving \$435,331 for pole attachments related to prior years.

16. Pledged Revenue

As discussed in Note 10, Bonds are secured by the net power revenues of BTES. Annual principal and interest payments in 2011 of \$1,483,837 were 13% of the net revenue available for debt service of \$11,458,113. Maturities of the Bonds as of June 30, 2011, are detailed in Note 10.

Schedule of Power System Revenue Bond Coverage (dollar amounts in thousands)

	<u>Power Operating Revenues</u>	<u>Power Operating Expenses</u>	<u>Net Revenue for Debt Service</u>	<u>Debt Service Requirements</u>			
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
2011	94,278	82,819	11,458	485	999	1,484	7.71
2010	80,465	72,465	8,000	470	1,016	1,486	5.38
2009	88,047	81,373	6,674	455	1,032	1,487	4.49
2008	74,007	70,699	3,308	440	1,047	1,487	2.22
2007	69,850	64,934	4,916	-	1,055	1,055	4.66
2006	66,376	62,283	4,093	-	627	627	6.53

Bristol Tennessee Essential Services
Notes to Financial Statements (continued)

June 30, 2011 and 2010

17. Risk Management

BTES is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries of employees for which BTES carries commercial insurance purchased from independent third parties. BTES experienced extensive roof damage as a result of high winds on April 27, 2011. Insurance coverage was adequate to replace the roof. BTES bears the risk of loss up to the deductible amounts which are disclosed in the accompanying Statistical Section.

18. Related Party Transactions

As described in Note 1, BTES is a self-supporting fund of the City. BTES provides electrical service to the City at standard electric rates which generated revenues of \$2,888,465 in 2011 and \$2,447,907 in 2010. As of June 30, 2011 and 2010, \$54,307 and \$54,307, respectively, was recorded as a receivable from the City for these revenues. Payment is due within approximately 30 days of the billing.

BTES made tax equivalent payments to the City of \$1,646,426 in 2011 and \$1,558,418 in 2010. These payments are based on BTES capital assets, along with average operating revenues less power costs.

During 2011, the City applied for funds from the state and federal government for recovery assistance from a natural disaster. A portion of these funds relates to recovery associated with services provided by BTES. As of June 30, 2011, BTES was due \$181,324 of the funds.

19. Business Unit Information

As discussed in Note 1, BTES operates three different business units. BTES allocates direct costs to the specific business unit, common costs (costs that cannot be directly assigned to a business unit) are allocated based on a direct analysis of the origin of the costs, an indirect, cost-causative linkage to another category for which direct assignment or allocation is available, or based on a general allocator. For inter-unit loans, the business unit charges the highest rate of interest earned on invested funds. Depreciation, pole attachment fees, interest expense, and taxes are allocated based on a per service usage model.

Bristol Tennessee Essential Services

Notes to Financial Statements (continued)

June 30, 2011 and 2010

19. Business Unit Information (continued)

Summary financial statement information for each of the business units are as follows (does not include inter-unit eliminations):

Balance Sheet by Business Unit

	June 30, 2011		
	EBU	CBU	TBU
Assets:			
Current assets	\$ 21,729,509	\$ 789,238	\$ 2,055,899
Due from other business units	2,194,132	-	-
Net capital assets	70,436,540	6,694,737	727,640
Other noncurrent assets	11,627,542	-	-
Total assets	<u>\$ 105,987,723</u>	<u>\$ 7,483,975</u>	<u>\$ 2,783,539</u>
Liabilities and net position:			
Current liabilities	\$ 6,112,967	\$ 1,079,974	\$ 196,628
Noncurrent liabilities	319,075	-	-
Due to other business units	-	2,194,132	-
Bonds payable, long-term portion	21,920,614	-	-
Total liabilities	<u>28,352,656</u>	<u>3,274,106</u>	<u>196,628</u>
Net investment in capital assets	50,205,058	4,500,605	727,640
Unrestricted	27,430,009	(290,736)	1,859,271
Total net position	<u>77,635,067</u>	<u>4,209,869</u>	<u>2,586,911</u>
Total liabilities and net position	<u>\$ 105,987,723</u>	<u>\$ 7,483,975</u>	<u>\$ 2,783,539</u>

Bristol Tennessee Essential Services

Notes to Financial Statements (continued)

June 30, 2011 and 2010

19. Business Unit Information (continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year ended June 30, 2011		
	EBU	CBU	TBU
Operating revenues	\$ 94,277,806	\$ 11,271,288	\$ 3,527,511
Cost of sales	75,426,055	7,715,895	1,811,754
Gross profit	18,851,751	3,555,393	1,715,757
Operating expenses	10,979,606	1,988,917	883,913
Operating income	7,872,145	1,566,476	831,844
Nonoperating expense	(1,231,599)	(33,437)	-
Income before transfers and income taxes	6,640,546	1,533,039	831,844
Transfers out	(1,549,794)	(35,779)	(60,853)
State income tax expense	-	(121,841)	-
Contributions in aid of construction	955,201	-	-
Change in net position	6,045,953	1,375,419	770,991
Net position at beginning of year	71,589,114	2,834,450	1,815,920
Net position at end of year	\$ 77,635,067	\$ 4,209,869	\$ 2,586,911

Condensed Statement of Cash Flows by Business Unit

	Year ended June 30, 2011		
	EBU	CBU	TBU
Net cash provided by (used in):			
Operating activities	\$ 7,491,973	\$ 841,108	\$ 927,924
Noncapital financing activities	(1,521,900)	(185,514)	(60,853)
Investing activities	400,563	-	-
Capital and related financing activities	(6,877,103)	(655,594)	(46,767)
Decrease in cash and cash equivalents	(506,467)	-	820,304
Cash and cash equivalents at beginning of year	7,237,246	-	1,022,996
Cash and cash equivalents at end of year	\$ 6,730,779	\$ -	\$ 1,843,300

Bristol Tennessee Essential Services

Notes to Financial Statements (continued)

June 30, 2011 and 2010

19. Business Unit Information (continued)

Summary financial statement information for each of the business units are as follows (does not include inter-unit eliminations):

Balance Sheet by Business Unit

	June 30, 2010		
	EBU	CBU	TBU
Assets:			
Current assets	\$ 18,581,390	\$ 545,435	\$ 1,219,363
Due from other business units	2,188,589	-	-
Net capital assets	70,676,352	6,608,254	800,065
Other noncurrent assets	12,534,904	-	-
Total assets	<u>\$ 103,981,235</u>	<u>\$ 7,153,689</u>	<u>\$ 2,019,428</u>
Liabilities and net position:			
Current liabilities	\$ 9,357,538	\$ 2,130,650	\$ 203,508
Noncurrent liabilities	595,607	-	-
Due to other business units	-	2,188,589	-
Bonds payable, long-term portion	22,438,976	-	-
Total liabilities	<u>32,392,121</u>	<u>4,319,239</u>	<u>203,508</u>
Invested in capital assets, net of related debt	48,754,637	4,419,665	800,065
Unrestricted	22,834,477	(1,585,215)	1,015,855
Total net position	<u>71,589,114</u>	<u>2,834,450</u>	<u>1,815,920</u>
Total liabilities and net position	<u>\$ 103,981,235</u>	<u>\$ 7,153,689</u>	<u>\$ 2,019,428</u>

Bristol Tennessee Essential Services

Notes to Financial Statements (continued)

June 30, 2011 and 2010

19. Business Unit Information (continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year ended June 30, 2010		
	EBU	CBU	TBU
Operating revenues	\$ 80,464,925	\$ 9,501,469	\$ 3,154,712
Cost of sales	64,460,545	6,549,520	1,562,232
Gross profit	16,004,380	2,951,949	1,592,480
Operating expenses	11,171,917	1,490,468	930,638
Operating income	4,832,463	1,461,481	661,842
Nonoperating expense	(738,961)	(50,033)	-
Income before transfers and income taxes	4,093,502	1,411,448	661,842
Transfers out	(1,477,908)	(24,727)	(55,783)
State income tax expense	-	(66,352)	-
Contributions in aid of construction	368,800	-	-
Change in net assets	2,984,394	1,320,369	606,059
Net position at beginning of year	68,604,720	1,514,081	1,209,861
Net position at end of year	\$ 71,589,114	\$ 2,834,450	\$ 1,815,920

Condensed Statement of Cash Flows by Business Unit

	Year ended June 30, 2010		
	EBU	CBU	TBU
Net cash provided by (used in):			
Operating activities	\$ 5,988,123	\$ 2,878,170	\$ 935,035
Noncapital financing activities	(1,477,908)	(817,676)	(55,783)
Investing activities	1,165,019	-	-
Capital and related financing activities	(6,033,273)	(2,060,494)	(174,066)
Decrease in cash and cash equivalents	(358,039)	-	705,186
Cash and cash equivalents at beginning of year	7,595,285	-	317,810
Cash and cash equivalents at end of year	\$ 7,237,246	\$ -	\$ 1,022,996

Bristol Tennessee Essential Services

Required Supplemental Information

June 30, 2011

Schedule of Funding Progress for Political Subdivision Pension Plan *(in thousands)*

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/09	\$13,951	\$17,603	\$3,652	79.26%	\$3,533	103.36%
07/01/07	13,703	16,363	2,660	83.74	3,222	82.56
07/01/05	12,335	13,290	955	92.81	2,890	33.06
07/01/03	11,831	12,907	1,076	91.66	2,584	41.64

Schedule of Employer Contributions for Political Subdivision Pension Plan

Fiscal Year	Annual Required Contribution	Contribution Made	Percentage Contributed
2011	\$484,250	\$484,250	100%
2010	\$490,763	\$490,763	100%
2009	471,232	471,232	100%
2008	491,517	491,517	100%
2007	478,187	478,187	100%
2006	338,163	338,163	100%
2005	332,686	332,686	100%

Note: The historical trend information about the Political Subdivision Pension Plan is presented as required supplementary information. The information is intended to help users assess the funding status on a going-concern basis and to assess progress made in accumulating assets to pay benefits when due.

Bristol Tennessee Essential Services
Required Supplemental Information (*continued*)

June 30, 2011

Schedule of Funding Progress for
Bristol Tennessee Essential Services Retiree Benefit Plan

Schedule of Funding Progress	Actuarial Valuation Date July 1, 2009
Active Employees	\$ 1,142,496
Inactive Employees	2,699,112
Actuarial Accrued Liability	3,841,608
Actuarial Value of Assets	-
Unfunded Actuarial Accrued Liability	3,841,608
Funded Ratio	0.0%
Annual Covered Payroll	3,231,177
Ratio of Unfunded Actuarial Accrued Liability to Covered Payroll	118.89%

Fiscal Year	Annual Required Contribution	Contribution Made	Percentage Contributed
2011	\$319,075	\$595,607	187%
2010	306,568	200,000	65%
2009	247,432	0	0%
2008	241,607	0	0%

Note: The historical trend information about the Bristol Tennessee Essential Services Retiree Benefit Plan is presented as required supplementary information. The information is intended to help users assess the funding status on a going-concern basis and to assess progress made in accumulating assets to pay benefits when due.

STATE SCHEDULES

State Schedules Section

State Schedules are presented as part of Bristol Tennessee Essential Services' Comprehensive Annual Financial Report to provide additional sufficient details to comply with Tennessee Code Annotated 7-52-401 and 7-52-601.

Contents	Page
Business Unit Balance Sheets	47
Business Unit Schedules of Revenues, Expenses and Changes in Net Position	49
Business Unit Schedules of Cash Flows	51

Bristol Tennessee Essential Services

Business Unit Balance Sheets

June 30, 2011

	Electric	Cable/Internet	Telephone
Assets			
Current assets:			
Cash and cash equivalents	\$ 6,730,779	\$ -	\$ 1,843,300
Accounts receivable:			
Trade	6,183,493	916,977	272,732
Other	837,642	-	-
Allowance for bad debt	(457,794)	(184,410)	(64,892)
Net accounts receivable	6,563,341	732,567	207,840
Accrual for unbilled revenues	3,318,744	-	-
Due from City of Bristol, TN	181,324		
Interest receivable	10,155	-	-
Materials and supplies inventories	1,165,050	39,726	-
Current portion of customer notes receivable	440,000	-	-
Current portion of discounted energy units	986,131	-	-
Current portion of prepaid expense	1,100,000		
Prepaid expenses and other current assets	131,942	16,945	4,759
Total current assets	20,627,466	789,238	2,055,899
Due from Other Business Units	2,194,132	-	-
Unrestricted noncurrent assets:			
Capital assets:			
Capital assets in service	121,824,021	8,205,059	1,223,979
Less accumulated depreciation	(52,731,552)	(1,510,322)	(496,339)
	69,092,469	6,694,737	727,640
Construction in progress	1,092,637	-	-
Non-utility property	251,434	-	-
Net capital assets	70,436,540	6,694,737	727,640
Other assets:			
Customer notes receivable, less current portion	2,427,430	-	-
Long-term investments	8,000,000	-	-
Prepaid pension cost	397,822	-	-
Prepaid expense	1,100,000		
Discounted energy units, less current portion	513,778	-	-
Unamortized bond issue costs	290,555	-	-
Total other assets	12,729,585	-	-
Total noncurrent assets	83,166,125	6,694,737	727,640
Total assets	\$ 105,987,723	\$ 7,483,975	\$ 2,783,539

Bristol Tennessee Essential Services
Business Unit Balance Sheets (continued)

June 30, 2011

	Electric	Cable/Internet	Telephone
Liabilities and net position			
Current liabilities:			
Trade accounts payable	\$ 2,017,450	\$ 489,011	\$ 28,881
Customer deposits and prepayments	2,143,249	-	-
Franchise fee due to City of Bristol, Tennessee	-	45,016	-
Interest payable	332,946	-	-
Deferred revenue	-	483,324	111,038
Other accrued liabilities	1,114,322	62,623	56,709
Current portion of bonds payable	505,000	-	-
Total current liabilities	6,112,967	1,079,974	196,628
Due to Other Business Units	-	2,194,132	-
Other noncurrent accrued liabilities	319,075	-	-
Bonds payable, less current portion	21,920,614	-	-
Total liabilities	28,352,656	3,274,106	196,628
Net position:			
Net investment in capital assets	50,307,846	4,500,605	727,640
Unrestricted	27,327,221	(290,736)	1,859,271
Total net position	77,635,067	4,209,869	2,586,911
 Total liabilities and net position	 <u>\$ 105,987,723</u>	 <u>\$ 7,483,975</u>	 <u>\$ 2,783,539</u>

Bristol Tennessee Essential Services

Business Unit Schedules of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2011

	Electric	Cable/Internet	Telephone
Operating revenues:			
Power revenues:			
Residential	\$ 44,671,055	\$ -	\$ -
Commercial (general power - under 50 kw)	5,864,765	-	-
Industrial (general power - 50 kw and over)	34,338,102	-	-
Street and outdoor lighting	1,284,120	-	-
Total power revenues	86,158,042	-	-
Cable revenues	-	6,660,565	-
Internet revenues	-	4,380,089	-
Telephone revenues	-	-	3,335,118
Interunit revenue	4,300,260	-	-
Other revenues	3,819,504	230,634	192,393
Total operating revenues	94,277,806	11,271,288	3,527,511
Cost of sales:			
Power purchased from Tennessee Valley Authority	75,426,055	-	-
Cable programming expense	-	4,406,644	-
Internet cost of sales	-	233,413	-
Interunit cost of sales	-	3,075,838	1,224,421
Telephone cost of sales	-	-	587,333
Total cost of sales	75,426,055	7,715,895	1,811,754
Gross profit	18,851,751	3,555,393	1,715,757
Operating expenses:			
Operations	2,915,260	1,153,383	591,122
Maintenance	3,889,804	240,447	155,932
Depreciation	3,404,645	569,111	119,192
Tax equivalents	447,567	25,976	17,667
Social security taxes	309,360	-	-
Interest expense on customer deposits	12,970	-	-
Total operating expenses	10,979,606	1,988,917	883,913
Operating income	7,872,145	1,566,476	831,844

Bristol Tennessee Essential Services

Business Unit Schedules of Revenues, Expenses and Changes in Net Position (continued)

Year ended June 30, 2011

	<u>Electric</u>	<u>Cable/Internet</u>	<u>Telephone</u>
Nonoperating revenue (expense):			
Grant Income	\$ 181,324	\$ -	\$ -
Interest income (including \$110,530 in 2011 and \$160,378 in 2010 related to amortization of discounted energy units)	535,703	-	-
Interest expense	(982,807)	(33,437)	-
Amortization of bond issue costs	(10,618)	-	-
Plant cost recovered through contributions in aid of construction	(955,201)		
Income before transfers and income taxes	6,640,546	1,533,039	831,844
State income tax expense	-	(121,841)	-
Transfers out--tax equivalents to the City of Bristol, TN			
Tennessee	(1,549,794)	(35,779)	(60,853)
Contributions in aid of construction	955,201		
Change in net position	6,045,953	1,375,419	770,991
Net position at beginning of year	71,589,114	2,834,450	1,815,920
Net position at end of year	<u>\$ 77,635,067</u>	<u>\$ 4,209,869</u>	<u>\$ 2,586,911</u>

Bristol Tennessee Essential Services
Business Unit Schedules of Cash Flows

Year ended June 30, 2011

	Electric	Cable/Internet	Telephone
Cash flows from operating activities			
Cash received from customers	\$ 83,457,866	\$ 11,116,706	\$ 3,528,133
Cash received from City of Bristol, Tennessee	2,863,130	25,335	-
Cash paid to suppliers and vendors	(74,819,493)	(10,300,933)	(2,600,209)
Cash paid to employees for services	(4,009,530)	-	-
Net cash provided by operating activities	7,491,973	841,108	927,924
Cash flows from noncapital financing activities			
Transfers to City of Bristol, Tennessee	(1,549,794)	(35,779)	(60,853)
State income tax	-	(121,841)	-
Net repayments on interunit loans	-	5,543	-
Interest payments on interunit loans	-	(33,437)	-
Net cash used in noncapital financing activities	(1,549,794)	(185,514)	(60,853)
Cash flows from investing activities			
Interest received on investments	400,563	-	-
Purchases of certificates of deposit	(27,105,906)	-	-
Sales of certificates of deposit	27,105,906	-	-
Net receipts from interunit loans	(5,543)	-	-
Interest receipts on interunit loans	33,437	-	-
Net cash provided by investing activities	428,457	-	-
Cash flows from capital and related financing			
Principal payments on bonds payable	(485,000)	-	-
Interest payments on bonds payable	(985,636)	-	-
Net additions to capital assets	(4,161,668)	(655,594)	(46,767)
Contributions in aid of construction	955,201	-	-
Cash paid for prepayment of capital assets	(2,200,000)	-	-
Net cash used in capital and related financing	(6,877,103)	(655,594)	(46,767)
Decrease in cash and cash equivalents	(506,467)	-	820,304
Cash and cash equivalents at beginning of year	7,237,246	-	1,022,996
Cash and cash equivalents at end of year	\$ 6,730,779	\$ -	\$ 1,843,300

Bristol Tennessee Essential Services
Business Unit Schedules of Cash Flows (continued)

Year ended June 30, 2011

	Electric	Cable/Internet	Telephone
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 7,872,145	\$ 1,566,476	\$ 831,844
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	3,404,645	569,111	119,192
Provision for losses on accounts receivable	62,691	48,765	9,791
Redemption of discounted energy units	1,044,000	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(802,075)	(236,514)	(21,877)
Accrual for unbilled revenues	(326,547)	-	-
Materials and supplies inventories	(97,925)	(39,726)	-
Customer notes receivable	(176,872)	-	-
Prepaid pension cost	55,457	-	-
Other assets	(5,271)	(16,328)	(4,146)
Trade accounts payable	(3,420,527)	(1,105,812)	(21,785)
Due to City of Bristol, Tennessee	-	-	-
Unbilled power expense	-	-	-
Customer deposits and prepayments	64,532	-	-
Other accrued liabilities	(182,280)	55,136	14,905
Net cash provided by operating activities	<u>\$ 7,491,973</u>	<u>\$ 841,108</u>	<u>\$ 927,924</u>

Supplemental disclosure of noncash activities

Accounts payable at June 30, 2011 and 2010 included \$29,935 and \$1,307,113, respectively for capital assets.

STATISTICAL

Statistical Section

This part of Bristol Tennessee Essential Services' Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the company's overall financial health.

Contents	Page
Financial Trends	54
<i>These schedules contain trend information to help the reader understand how the company's financial performance and well-being have changed over time.</i>	
Revenue Capacity	58
<i>These schedules contain information to help the reader assess the company's revenue source and, sales of electricity and fiber optic products.</i>	
Debt Capacity	66
<i>These schedules present information to help the reader assess the affordability of the company's current levels of outstanding debt and the company's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	67
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the company's financial activities take place.</i>	
Operating Information	70
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the company's financial report relates to the services the company provides and the activities it performs.</i>	

Bristol Tennessee Essential Services

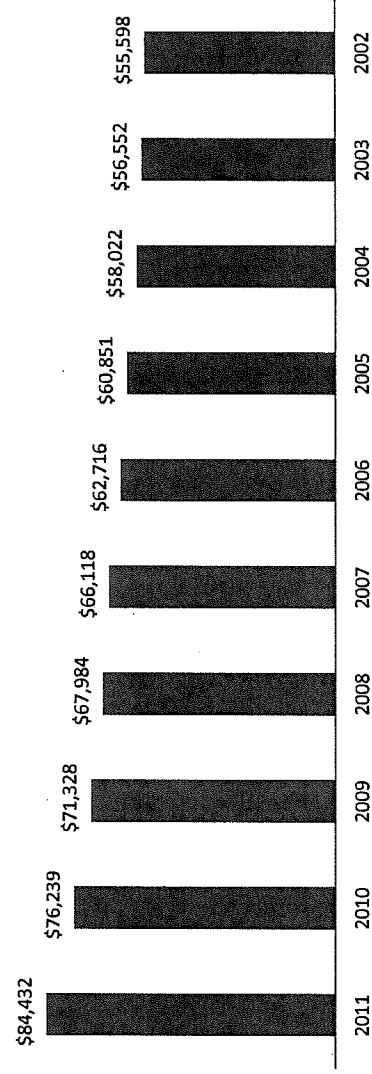
Schedule of Net Assets (Last Ten Years)

Fiscal Years 2011 - 2002 (in thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Invested in capital assets, net of related debt	\$ 55,433	\$ 53,974	\$ 51,492	\$ 46,269	\$ 35,243	\$ 33,531	\$ 34,026	\$ 31,895	\$ 31,568	\$ 29,297
Unrestricted	28,999	22,265	19,836	21,715	30,875	29,185	26,825	26,127	24,984	26,301
Total net assets	<u>\$ 84,432</u>	<u>\$ 76,239</u>	<u>\$ 71,328</u>	<u>\$ 67,984</u>	<u>\$ 66,118</u>	<u>\$ 62,716</u>	<u>\$ 60,851</u>	<u>\$ 58,022</u>	<u>\$ 56,552</u>	<u>\$ 55,598</u>

Note 1: Information is summarized from audited financial statements for the year indicated.

Schedule of Net Assets (In Thousands)



Bristol Tennessee Essential Services

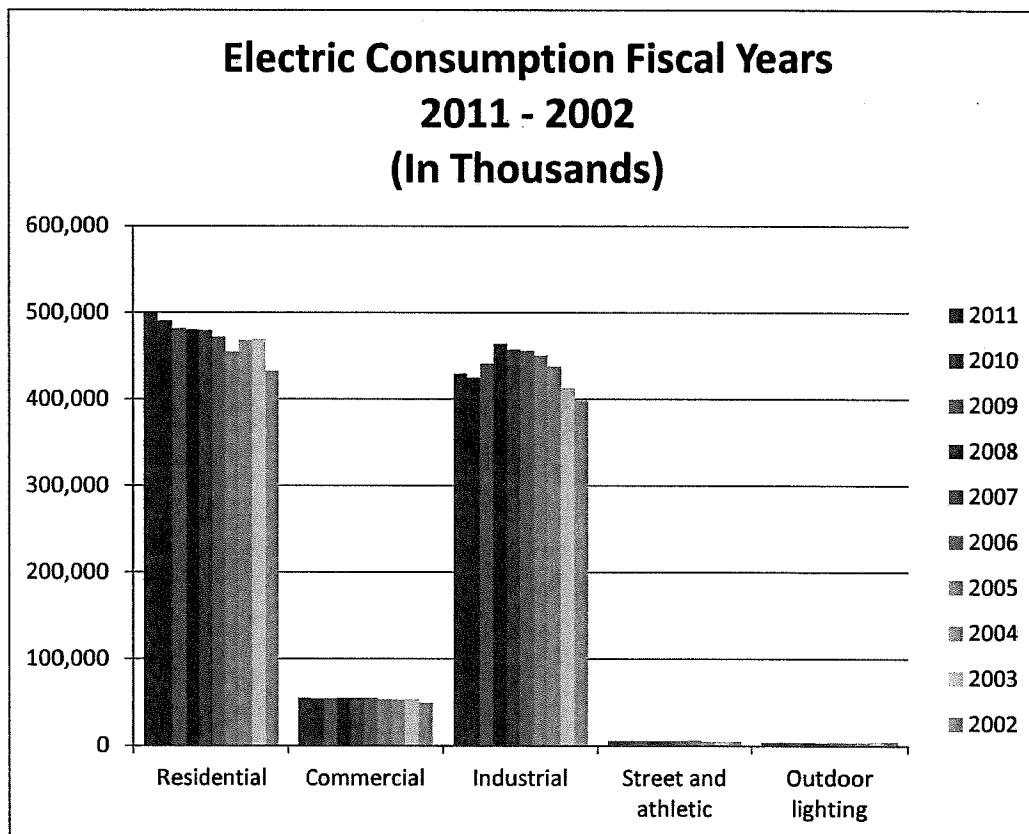
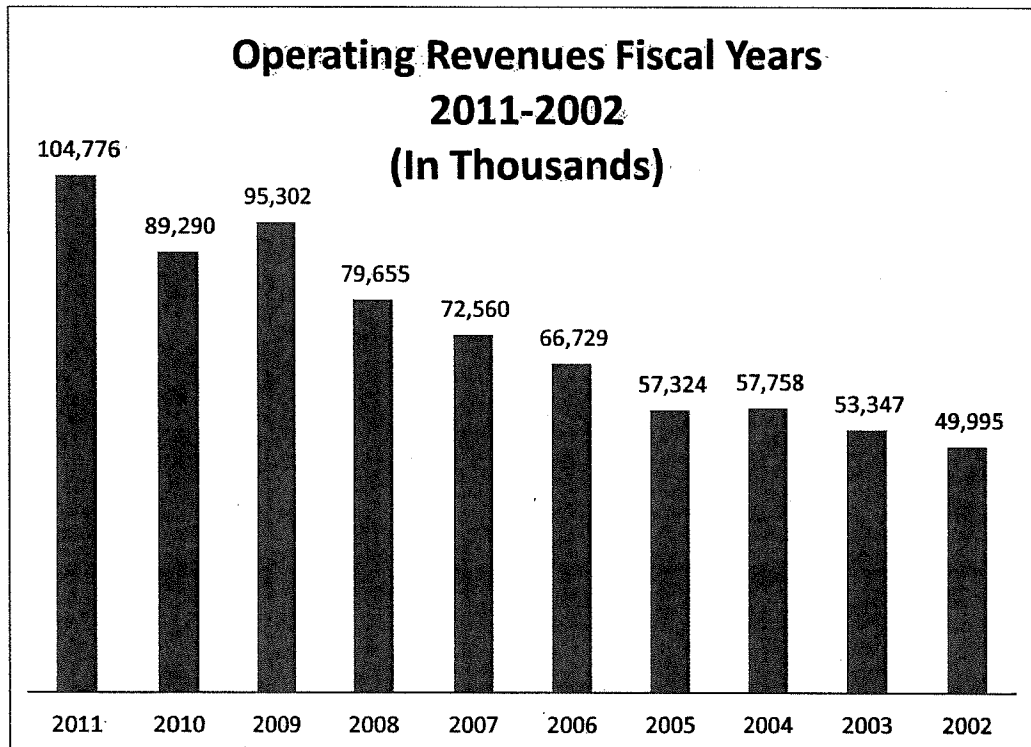
Statement of Revenues and Expenses (Last Ten Years)

Fiscal Years 2011-2002 (in thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating revenues:										
Residential	\$ 44,671	\$ 37,538	\$ 42,051	\$ 34,810	\$ 32,770	\$ 30,666	\$ 27,475	\$ 28,368	\$ 26,699	\$ 24,746
Commercial	5,865	5,087	5,567	4,822	4,585	4,363	3,936	3,888	3,621	3,373
Industrial	34,338	29,832	33,841	30,608	28,786	27,845	22,524	22,143	20,072	19,006
Street and outdoor lighting	1,284	1,182	1,270	1,089	1,033	984	965	911	855	852
Cable	6,661	5,763	4,405	2,765	1,605	248	-	-	-	-
Internet	4,380	3,571	2,322	1,373	687	105	-	-	-	-
Telephone	3,335	2,895	2,458	1,412	385	-	-	-	-	-
Other revenues	4,242	3,402	3,388	2,776	2,709	2,518	2,424	2,448	2,100	2,018
Total operating revenues	104,776	89,290	95,302	79,655	72,560	66,729	57,324	57,758	53,347	49,995
Cost of sales:										
Power purchased from TVA	75,426	64,460	74,785	64,518	59,438	56,598	47,253	48,516	44,857	41,676
Cable programming expense	4,407	3,602	2,620	1,548	801	71	-	-	-	-
Internet cost of sales	233	161	158	79	67	5	-	-	-	-
Telephone cost of sales	587	518	443	207	70	-	-	-	-	-
Total cost of sales	80,653	68,741	78,006	66,352	60,376	56,674	47,253	48,516	44,857	41,676
Gross profit	24,123	20,549	17,296	13,303	12,184	10,055	10,071	9,242	8,490	8,319
Operating expenses:										
Operations	4,660	4,581	4,043	3,646	3,363	2,826	2,829	2,743	2,599	2,412
Maintenance	4,286	4,636	4,130	3,563	3,029	2,750	2,560	2,635	2,533	2,319
Depreciation	4,093	3,583	3,388	2,756	2,377	2,024	1,938	1,898	1,960	1,918
Tax equivalents	491	490	407	377	318	238	214	212	206	195
Social security taxes	309	292	275	258	243	228	224	206	213	193
Interest on customer deposits	13	11	11	15	14	17	8	6	6	11
Total operating expenses	13,852	13,593	12,254	10,615	9,344	8,083	7,773	7,700	7,517	7,048
Operating income	10,271	6,956	5,042	2,688	2,840	1,972	2,298	1,542	973	1,271
Net non-operating revenue	(311)	(421)	(209)	429	1,655	986	892	628	587	591
Income before transfers	9,960	6,535	4,833	3,117	4,495	2,958	3,190	2,170	1,560	1,862
State Income Tax Expense	(122)	(66)	(44)	(52)	-	-	-	-	-	-
Transfers out--tax equivalents to the City of Bristol, Tennessee	(1,646)	(1,558)	(1,444)	(1,200)	(1,069)	(1,093)	(361)	(700)	(606)	(666)
Change in net assets	\$ 8,192	\$ 4,911	\$ 3,345	\$ 1,865	\$ 3,426	\$ 1,865	\$ 2,829	\$ 1,470	\$ 954	\$ 1,196

Note 1: Cable and internet services commenced in 2006.

Note 2: Telephone services commenced in 2007.



Bristol Tennessee Essential Services

Purchased Power, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2011-2002

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Purchased power from Tennessee Valley Authority (megawatt hours)	1,041,797	1,015,122	1,031,991	1,054,810	1,047,479	1,039,435	1,003,918	1,014,411	997,525	935,485
Consumption (megawatt hours):										
Residential	500,908	490,513	481,865	480,237	479,605	472,002	454,880	468,611	469,302	432,282
Commercial	55,661	54,484	54,714	55,235	55,411	55,620	53,642	53,344	54,335	49,880
Industrial	429,500	424,944	441,209	464,356	457,434	456,250	451,031	437,853	412,832	398,728
Street and athletic	5,849	5,857	5,681	5,535	5,719	5,638	6,455	5,164	5,255	5,209
Outdoor lighting	4,020	4,026	4,031	4,030	3,625	4,150	4,105	4,139	4,211	4,221
Internal use	-	-	-	-	-	-	-	-	-	-
Total consumption	995,938	979,824	987,500	1,009,393	1,001,794	993,660	970,113	969,111	945,935	890,320
Line losses and megawatt hours accounted for	45,859	35,298	44,491	45,417	45,685	45,775	33,805	45,300	51,590	45,165
Percentage of line losses and megawatt hours unaccounted for to purchased power	4.40%	3.48%	4.31%	4.31%	4.36%	4.40%	3.37%	4.47%	5.17%	4.83%
Active service (number of power customers):										
Residential	28,412	28,572	28,572	28,600	28,166	28,070	27,760	27,650	27,458	27,360
Commercial	3640	3558	3561	3537	3500	3,500	3,425	3,332	3,291	3,304
Industrial	633	627	647	649	636	622	609	614	591	588
Street and athletic	39	39	39	40	40	40	41	41	41	38
Outdoor lighting	148	150	153	157	161	159	160	161	160	158
	32,872	32,946	32,972	32,983	32,503	32,391	31,995	31,798	31,541	31,448

Note: Information is compiled from internally generated statistical reports.

Bristol Tennessee Essential Services

Schedule of Electric Rates (Last Ten Years) (Unaudited)

Fiscal Years 2011 - 2002

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Residential										
Monthly customer charge	8.42	\$	6.42	\$	6.42	\$	6.29	\$	6.29	\$ 5.52
Energy charge:										
Summer*	0.08712	-	-	-	-	-	-	-	-	-
Winter*	0.08438	-	-	-	-	-	-	-	-	-
Transition*	0.08267	-	-	-	-	-	-	-	-	-
First 1,000 kWh per month	-	0.07661	0.07407	0.07212	0.06157	0.06352	0.05374	0.05374	0.05018	0.05018
Additional kWh per month	-	0.08216	0.07962	0.07767	0.06701	0.06896	0.05918	0.05918	0.05615	0.05615
Commercial, Industrial, Governmental and Institutional										
Plan A-1 (demand up to 50 kW and usage up to 15,000 kWh):										
Customer charge per month	-	14.29	14.29	14.29	14.00	14.00	14.00	14.00	10.00	10.00
single phase self contained	13.86	-	-	-	-	-	-	-	-	-
single phase CT	13.86	-	-	-	-	-	-	-	-	-
three phase self contained	40.90	-	-	-	-	-	-	-	-	-
three phase CT	40.90	-	-	-	-	-	-	-	-	-
Energy charge	-	0.08799	0.08461	0.08236	0.07112	0.07346	0.06240	0.06240	0.05820	0.05820
Summer*	0.09821	-	-	-	-	-	-	-	-	-
Winter*	0.09547	-	-	-	-	-	-	-	-	-
Transition*	0.09376	-	-	-	-	-	-	-	-	-

* In April 2011 BTES went to seasonal billing.
The seasonal rates above include the June 2011 Fuel Cost Adjustment

Bristol Tennessee Essential Services

Schedule of Electric Rates (Last Ten Years) (Unaudited) (continued)

Fiscal Years 2011 - 2002										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Commercial, Industrial, Governmental and Institutional (continued)										
Plan A-2 (demand of 50 kW to 1,000 kW or demand less than 50 kW but usage in excess of 15,000 kWh):										
Customer charge per month		25.51	25.51	25.51	25.00	25.00	25.00	25.00	10.00	10.00
single phase self contained	48.43	-	-	-	-	-	-	-	-	-
single phase CT	48.43	-	-	-	-	-	-	-	-	-
three phase self contained	71.99	-	-	-	-	-	-	-	-	-
three phase CT	71.99	-	-	-	-	-	-	-	-	-
Demand charge:										
Excess of 50 kW	-	11.76	10.83	10.49	9.63	10.06	8.56	8.56	7.86	7.86
Summer*	10.15	-	-	-	-	-	-	-	-	-
Winter*	9.33	-	-	-	-	-	-	-	-	-
Transition*	9.33	-	-	-	-	-	-	-	-	-
Energy charge:										
First 15,000 kWh per month	-	0.08752	0.08414	0.08189	0.07066	0.07300	0.06194	0.06194	0.05774	0.05774
Summer*	0.09491	-	-	-	-	-	-	-	-	-
Winter*	0.09217	-	-	-	-	-	-	-	-	-
Transition*	0.09046	-	-	-	-	-	-	-	-	-
Additional kWh per month	-	0.04945	0.04900	0.04785	0.03947	0.04042	0.03420	0.03420	0.03184	0.03184
Summer*	0.06377	-	-	-	-	-	-	-	-	-
Winter*	0.06106	-	-	-	-	-	-	-	-	-
Transition*	0.05990	-	-	-	-	-	-	-	-	-
Plan A-3 (demand of 1,001 kW to 5,000 kW):										
Customer charge per month	100.00	25.51	25.51	25.51	25.00	25.00	25.00	25.00	10.00	10.00
Demand charge:										
First 1,000 kW	-	11.92	10.94	10.58	9.67	10.14	8.56	8.56	7.89	7.89
Excess of 1,000 kW	-	14.04	12.88	12.45	11.39	11.94	10.06	10.06	9.09	9.09
Summer*	10.50	-	-	-	-	-	-	-	-	-

* In April 2011 BTES went to seasonal billing.

The seasonal rates above include the June 2011 Fuel Cost Adjustment 59

Bristol Tennessee Essential Services

Schedule of Electric Rates (Last Ten Years) (Unaudited) (continued)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Fiscal Years 2011 - 2002										
Commercial, Industrial, Governmental and Institutional (continued)										
Plan A-3 (demand of 1,001 kW to 5,000 kW) (continued):										
Winter*	9.68	-	-	-	-	-	-	-	-	-
Transition*	9.68	-	-	-	-	-	-	-	-	-
Energy charge:										
Summer*	0.06377	0.04945	0.04900	0.04785	0.03947	0.04042	0.03420	0.03184	0.03184	0.03184
Winter*	0.06106	-	-	-	-	-	-	-	-	-
Transition*	0.05990	-	-	-	-	-	-	-	-	-
Plan B (demand of 5,001 kW to 15,000 kW)										
Customer charge per month	-	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00
Demand charge	-	14.78	13.59	13.16	12.33	12.89	10.96	10.96	10.23	10.23
Energy charge:	-									
First 620 kWh per month	-	0.04336	0.04333	0.04234	0.03514	0.03588	0.03050	0.03050	0.02825	0.02825
Additional kWh per month	-	0.03576	0.03636	0.03559	0.02883	0.02928	0.02477	0.02477	0.02306	0.02306
Plan C (demand of 15,001 kW to 25,000 kW)										
Customer charge per month	-	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00
Demand charge	-	14.89	13.70	13.27	12.44	13.00	11.07	11.07	10.34	10.34
Energy charge:	-									
First 620 kWh per month	-	0.04336	0.04333	0.04234	0.03514	0.03588	0.03035	0.03035	0.02825	0.02825
Additional kWh per month	-	0.03576	0.03636	0.03559	0.02883	0.02928	0.02477	0.02477	0.02306	0.02306
Plan D (demand in excess of 25,000 kW)										
Customer charge per month	-	-	-	-	-	-	-	-	1,500.00	1,500.00
Demand charge	-	-	-	-	-	-	-	-	12.60	12.60
Energy charge	-	-	-	-	-	-	-	-	0.02265	0.02265

* In April 2011 BTES went to seasonal billing.

The seasonal rates above include the June 2011 Fuel Cost Adjustment

Bristol Tennessee Essential Services

Schedule of Electric Rates (Last Ten Years) (Unaudited) (continued)

Fiscal Years 2011 - 2002

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Commercial, Industrial, Governmental and Institutional (continued)										
TOU GSB										
Customer charge per month	1,500.00	1,500.00	-	-	-	-	-	-	-	-
Admin charge:	350.00	-	-	-	-	-	-	-	-	-
Demand charge										
Summer*										
onpeak KW	15.38	15.45	-	-	-	-	-	-	-	-
offpeak KW excess onpeak	3.30	3.36	-	-	-	-	-	-	-	-
KW excess contract KW	15.38	15.45	-	-	-	-	-	-	-	-
Winter*										
onpeak KW	8.49	8.54	-	-	-	-	-	-	-	-
offpeak KW excess onpeak	3.30	3.36	-	-	-	-	-	-	-	-
KW excess contract KW	8.49	8.54	-	-	-	-	-	-	-	-
Transition*										
offpeak KW excess onpeak	3.30	3.36	-	-	-	-	-	-	-	-
KW excess contract KW	3.30	3.36	-	-	-	-	-	-	-	-
Energy charge										
Summer OnPeak	0.09483	0.09158	-	-	-	-	-	-	-	-
Summer OffPeak-First 425 HUI	0.06119	0.05793	-	-	-	-	-	-	-	-
Summer OffPeak-Next 195 HUI	0.04308	0.03982	-	-	-	-	-	-	-	-
Summer OffPeak-Over 620 HUI	0.02771	0.02445	-	-	-	-	-	-	-	-
Winter OnPeak	0.06509	0.06183	-	-	-	-	-	-	-	-
Winter OffPeak-First 425 HUD	0.06119	0.05793	-	-	-	-	-	-	-	-
Winter OffPeak-Next 195 HUD	0.04308	0.03982	-	-	-	-	-	-	-	-
Winter OffPeak-Over 620 HUD	0.02771	0.02445	-	-	-	-	-	-	-	-
Transition OffPeak-First 425 HI	0.06119	0.05793	-	-	-	-	-	-	-	-
Transition OffPeak-Next 195 HI	0.04308	0.03982	-	-	-	-	-	-	-	-
Transition OffPeak-Over 620 HI	0.02771	0.02445	-	-	-	-	-	-	-	-

* In April 2011 BTES went to seasonal billing.

The seasonal rates above include the June 2011 Fuel Cost Adjustment

Bristol Tennessee Essential Services

Schedule of Electric Rates (Last Ten Years) (Unaudited) (continued)

	Fiscal Years 2011 - 2002									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Commercial, Industrial, Governmental and Institutional (continued)										
TOU MSB										
Customer charge per month	1,500.00	1,500.00	-	-	-	-	-	-	-	-
Admin charge:	350.00	-	-	-	-	-	-	-	-	-
Demand charge										
Summer*										
onpeak KW	15.38	15.46	-	-	-	-	-	-	-	-
offpeak KW excess onpeak	3.30	3.37	-	-	-	-	-	-	-	-
KW excess contract KW	15.38	15.46	-	-	-	-	-	-	-	-
Winter*										
onpeak KW	8.49	8.55	-	-	-	-	-	-	-	-
offpeak KW excess onpeak	3.30	3.37	-	-	-	-	-	-	-	-
KW excess contract KW	8.49	8.55	-	-	-	-	-	-	-	-
Transition*										
offpeak KW excess onpeak	3.30	3.37	-	-	-	-	-	-	-	-
KW excess contract KW	3.30	3.37	-	-	-	-	-	-	-	-
Energy charge										
Summer OnPeak	0.08011	0.07685	-	-	-	-	-	-	-	-
Summer OffPeak-First 425 HUI	0.04685	0.04357	-	-	-	-	-	-	-	-
Summer OffPeak-Next 195 HUI	0.02874	0.02546	-	-	-	-	-	-	-	-
Summer OffPeak-Over 620 HUI	0.01337	0.01009	-	-	-	-	-	-	-	-
Winter OnPeak	0.05097	0.04771	-	-	-	-	-	-	-	-
Winter OffPeak-First 425 HUD	0.04685	0.04357	-	-	-	-	-	-	-	-
Winter OffPeak-Next 195 HUD	0.02874	0.02546	-	-	-	-	-	-	-	-
Winter OffPeak-Over 620 HUD	0.01337	0.01009	-	-	-	-	-	-	-	-
Transition OffPeak-First 425 HI	0.04685	0.04357	-	-	-	-	-	-	-	-
Transition OffPeak-Next 195 HI	0.02874	0.02546	-	-	-	-	-	-	-	-
Transition OffPeak-Over 620 HI	0.01337	0.01009	-	-	-	-	-	-	-	-

* In April 2011 BTES went to seasonal billing.

The seasonal rates above include the June 2011 Fuel Cost Adjustment

Bristol Tennessee Essential Services

Schedule of Electric Rates (Last Ten Years) (Unaudited) (continued)

Fiscal Years 2011 - 2002

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Commercial, Industrial, Governmental and Institutional (continued)										
SDE SMSB:										
Customer charge per month	1,500.00	-	-	-	-	-	-	-	-	-
Admin charge:	350.00	-	-	-	-	-	-	-	-	-
Demand charge										
Summer*	17.60	-	-	-	-	-	-	-	-	-
Winter*	11.46	-	-	-	-	-	-	-	-	-
Transition*	6.85	-	-	-	-	-	-	-	-	-
Energy charge										
Summer*	0.04170	-	-	-	-	-	-	-	-	-
Winter*	0.03719	-	-	-	-	-	-	-	-	-
Transition*	0.03614	-	-	-	-	-	-	-	-	-
SDE SMSC:										
Customer charge per month	1,500.00	-	-	-	-	-	-	-	-	-
Admin charge:	350.00	-	-	-	-	-	-	-	-	-
Demand charge										
Summer*	17.71	-	-	-	-	-	-	-	-	-
Winter*	11.57	-	-	-	-	-	-	-	-	-
Transition*	6.96	-	-	-	-	-	-	-	-	-
Energy charge										
Summer*	0.04140	-	-	-	-	-	-	-	-	-
Winter*	0.03718	-	-	-	-	-	-	-	-	-
Transition*	0.03617	-	-	-	-	-	-	-	-	-

Note 1: Summarized from internal records.

* In April 2011 BTES went to seasonal billing.

The seasonal rates above include the June 2011 Fuel Cost Adjustment

Bristol Tennessee Essential Services

Schedule of Telephone, Cable and Internet Rates (Unaudited)

Fiscal Years 2011 - 2007 (Last Five Years)

Telephone	2011	2010	2009	2008	2007
Basic Telephone Service	22.90	22.90	22.90	22.90	22.90
<i>Includes: Caller ID w/ Name and Number, Call Waiting/Cancel Call Waiting, Unconditional Call Forwarding, Remote Access to Call Forwarding, Three-Way Calling, Speed Calling (One Digit), Caller ID for Call Waiting</i>					
Enhanced Telephone Service	28.90	28.90	28.90	28.90	28.90
<i>Includes: Above list of features plus Voicemail, *67 Caller ID Blocking, *66 Repeat Dialing, *69 Call Return, Anonymous Call Rejection</i>					
100 Minutes Long Distance	6.95	6.95	6.95	6.95	6.95
200 Minutes Long Distance	12.95	12.95	12.95	12.95	12.95
500 Minutes Long Distance	24.95	24.95	24.95	24.95	24.95
Unlimited Minutes Long Distance	29.95	29.95	29.95	29.95	29.95
Cable Television					
Expanded Basic	39.95	39.95	39.95	39.95	39.95
Digital:					
Basic	51.95	51.95	50.95	50.95	49.95
Bronze	62.95	62.95	59.95	59.95	59.95
Silver	70.95	70.95	67.95	67.95	67.95
Gold	78.95	78.95	72.95	72.95	72.95
Spanish Tier	4.95	4.95	4.95	4.95	4.95
High Definition Tier	9.95	9.95	9.95	9.95	9.95
Sports Tier	4.00	4.00	4.00	4.00	4.00
Pay-Per-View Movies:					
New release	3.99	3.99	3.95	3.95	3.95
Premium Packages:					
Cinemax	12.95	12.95	9.95	9.95	9.95
HBO	14.95	14.95	11.95	11.95	11.95
Showtime	12.95	12.95	11.95	11.95	11.95
STARZ	10.95	10.95	9.95	9.95	9.95
Internet					
64K Tier	16.95	16.95	16.95	16.95	16.95
2 Mbps Tier (1.5 Mbps in 2007)	29.95	29.95	29.95	29.95	29.95
4 Mbps Tier (3 Mbps in 2007)	39.95	39.95	39.95	39.95	39.95
6 Mbps Tier (5Mbps in 2007)	49.95	49.95	49.95	49.95	49.95
12 Mbps Tier	59.95	59.95	59.95	-	-

Note 1: Summarized from internal records.

Note 2: Cable and Internet services commenced in 2006.

Note 3: Telephone service commenced in 2007.

Bristol Tennessee Essential Services

Schedule of Principal Customers Ranked by Kwh Usage (Unaudited)

Current Year and Nine Years Ago

Name	2011 Rank	2002 Rank
Exide Corporation	1	1
City of Bristol, Tennessee	2	4
Wellmont BRMC	3	2
Modern Forge of Tennessee	4	3
King Pharmaceuticals	5	5
Royal Mouldings	6	—
Daramic/Amerace, LLC	7	7
Bristol Metals, Inc.	8	8
GlaxoSmithCline Laboratories	9	6
Seaman Corporation	10	9
King College	11	12
Bristol Motor Speedway	12	8
Embarq/Sprint	—	10
Fingerhut	-	11

Note 1: Summarized from internal records.

Bristol Tennessee Essential Services

Schedule of Bonds Payable by Type

Fiscal Years 2011-2006 (Last Six Years)

	2011	2010	2009	2008	2007	2006
Revenue bonds (in thousands)	\$ 22,060	\$ 22,545	\$ 22,899	\$ 23,499	\$ 24,333	\$ 24,347
Number of customers	32,872	32,946	32,972	32,983	32,503	32,391
Outstanding debt per customer	\$ 671	\$ 684	\$ 694	\$ 712	\$ 749	\$ 752

Note: No outstanding debt existed prior to fiscal year 2006.

Bristol Tennessee Essential Services

Schedule of Power System Revenue Bond Coverage (in thousands)

Fiscal Years 2011-2006 (Last Five Years)

	Power Operating Revenues	Power Operating Expenses	Net Revenue for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2011	94,278	82,819	11,458	485	999	1,484	7.71
2010	80,465	72,465	8,000	470	1,016	1,486	5.38
2009	88,047	81,373	6,674	455	1,032	1,487	4.49
2008	74,007	70,699	3,308	440	1,047	1,487	2.22
2007	69,850	64,934	4,916	-	1,055	1,055	4.66
2006	66,376	62,283	4,093	-	627	627	6.53

Note 1: Power operating expenses do not include depreciation.

Note 2: No outstanding debt existed prior to fiscal year 2006.

Bristol Tennessee Essential Services

Ten Largest Employers

Current Year and Last Year

<u>Name</u>	<u>2010</u> <u>Number of</u> <u>Employees</u>	<u>2009</u> <u>Number of</u> <u>Employees</u>
Wellmont	1,885	1,639
City of Bristol TN	885	870
Exide	410	300
NESCC	340	320
HSN	291	285
Bristol Metals	310	285
The Robinette Company	250	250
Modern Forge	220	200
Kysor Panel	175	-
Seaman Corp	127	-
Touchstone Wireless	-	558
King Pharmaceuticals	-	477

Note 1: Summarized from internal records.

Note 2: Service area total employment information not available. Total employments figures are available only for the Tri-Cities CSA which is a much larger area that BTES service area. As a result, percentages of total employment would not be accurate.

**BRISTOL TENNESSEE ESSENTIAL SERVICES
CLIMATOLOGICAL DATA
FISCAL YEARS 2011-2002**

Fiscal Year	Heating Degree Days *	Cooling Degree Days *
2011	4282	1418
2010	4476	1083
2009	4315	1013
2008	4002	1031
2007	4140	1120
2006	4038	1163
2005	4222	1068
2004	4141	1027
2003	4064	1132
2002	3921	1189

SOURCE: U.S. Department of Commerce, National Oceanic and
Atmospheric Administration

* Degree Day is a unit measuring the extent to which the average of the daily high and daily low temperature varies from a standard reference temperature. Based on a reference temperature of 65 degrees Fahrenheit, if the average of the daily high and daily low temperature (high plus low divided by 2) for a day is 70, then there are five cooling degree days for that day. Likewise, if the average of the daily high and daily low temperature was 60, then there were five heating degree days. This historical information can be used for forecasting system load and planning unit maintenance outages, to name a few.

**BRISTOL TENNESSEE ESSENTIAL SERVICES
DEMOGRAPHIC AND ECONOMIC STATISTICS
TRI-CITIES, TENNESSEE-VIRGINIA CSA
CALENDAR YEARS 2010-2000**

Calendar Year	Population	Per Capita Income	Personal Income	Median Age	Unemployment Rate
2010	508,260	.*	.*	42.3	9.4%
2009	503,060	\$31,212	\$15,700,341	41.7	9.4%
2008	500,538	\$31,300	\$15,664,419	40.8	5.6%
2007	496,934	\$30,269	\$15,041,660	40.8	4.5%
2006	493,796	\$26,671	\$8,987,850	40.7	4.3%
2005	490,238	\$27,163	\$9,360,578	42.0	4.6%
2004	479,830	\$25,299	\$9,751,870	39.6	4.8%
2003	485,884	\$23,878	\$10,128,666	39.2	5.9%
2002	485,300	\$22,302	\$10,726,989	40.2	5.3%
2001	484,900	\$22,302	\$11,166,649	39.7	5.0%
2000	480,091	\$22,119	\$11,495,389	39.7	4.5%

Information obtained from First Tennessee Development District.

*The per capita income and personal income data for 2010 was not yet available due to adjusting of data to the new census data which takes longer.

Bristol Tennessee Essential Services

Schedule of Property, Casualty and Other Insurance (Unaudited)

June 30, 2011

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Crime	\$ 500,000	\$ 5,000	12/04/10 to 12/04/11	Travelers Casualty and Surety Company of America
Workers' compensation	1,000,000	-	12/04/10 to 12/04/11	Distributors Self Ins.
General liability:		0 to 1,000	12/04/10 to 12/04/11	Distributors Self Ins.
General aggregate	750,000			
Products-completed operations aggregate	250,000			
Personal and advertising injury	250,000			
Each occurrence	250,000			
Fire damage (any one fire)	250,000			
Medical expense (any one person)	50,000			
Employee benefits:				
Each claim	250,000			
Aggregate	250,000			
Excess general liability:			12/4/2010 to 12/04/11	Chubb Comeercial
Other aggregate limit	2,250,000			Excess Follow - Form Ins.
Products completed operations aggregate	750,000			
each occurrence	750,000			
Automobile policy:		100 to 1,000	12/04/10 to 12/04/11	Chubb Goup of Ins. Co.
Liability	1,000,000			
Comprehensive	Actual Cash Value			
Uninsured motorist	1,000,000			
Collision	Actual Cash Value			
Medical payments	5,000 per person			

Bristol Tennessee Essential Services

Schedule of Property, Casualty and Other Insurance (Unaudited) (continued)

June 30, 2011

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Commercial umbrella liability	\$ 20,000,000	\$ -	12/04/10 to 12/04/11	The North River Ins.
Property		5,000 to	12/04/10 to 12/04/11	Affiliated FM Ins. Co.
On premise property	30,107,571			
Flood	2,500,000	50,000		
Earthquake	10,000,000	50,000		
Directors, officers and employees liability and reimbursement policy	10,000,000	5,000 to 25,000	04/28/11 to 04/28/12	Zurich American Ins.
Boiler & machinery policy	1,000,000	5,000 to 50,000	12/04/10 to 12/04/11	Cincinnati Ins. Co.
Employment related practices liability:		10,000	4/28/11 to 04/28/12	Cincinnati Ins. Co.
Each insured event limit	1,000,000			
Total limit	1,000,000			

Note 1: Information is compiled from internal records.

Bristol Tennessee Essential Services

Schedule of Employees (Last Ten Years) (Unaudited)

Fiscal Years 2011 - 2002

<u>Fiscal Year</u>	<u>Full Time</u>	<u>Part Time</u>	<u>Total</u>
2011	59	7	66
2010	58	6	64
2009	60	5	65
2008	60	5	65
2007	60	2	62
2006	60	1	61
2005	60	1	61
2004	60	1	61
2003	60	5	65
2002	60	3	63

Note 1: Summarized from internal records.

BRISTOL TENNESSEE ESSENTIAL SERVICES**STATISTICS - JUNE 2011**

2470 Volunteer Parkway, Bristol, TN 37620

P. O. Box 549, Bristol, TN 37621

Telephone: 423-968-1526

FAX Number: 423-793-5545

Power Outage Number: 423-968-BTES (968-2837)

Internet, Telephone and Cable TV Help Desk: 423-793-5555

Miles of Line1,280

NUMBER OF CUSTOMERS

Large General Power (>50 kW)..... 633

Small General Power (<50 kW)..... 3,640

Residential28,412

Street and Outdoor Lighting187

Total32,872**Employees/1000 Customers2.01****NUMBER OF FIBER OPTIC CUSTOMERS**

Residential Cable Television Customers11,114

Commercial Cable Television Customers292

Residential Internet Customers9,193

Commercial Internet Customers461

Residential Telephone Customers.....7,345

Commercial Telephone Customers.....400

Total Services28,805**Total Homes and Businesses Served13,089**

INTERNAL CONTROL

EXHIBIT C

Pre-filed Testimony of Dr. R. Michael Browder, P.E.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

APPLICATION OF BRISTOL)	
TENNESSEE ESSENTIAL SERVICES)	
TO EXPAND ITS CERTIFICATE OF)	
CONVENIENCE AND NECESSITY TO)	DOCKET NO.
PROVIDE COMPETING)	
TELECOMMUNICATIONS SERVICES)	
STATEWIDE)	

**PRE-FILED TESTIMONY OF

DR. R. MICHAEL BROWDER

OF

BRISTOL TENNESSEE ESSENTIAL SERVICES**

JUNE 13, 2012

1 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

2 A: My name is R. Michael Browder, Ed. D., P.E., and I am the Chief Executive Officer of
3 BTES. BTES' principal office is located at 2470 Volunteer Parkway, Bristol, Tennessee
4 37621.

5 **Q: PLEASE BRIEFLY DESCRIBE YOUR DUTIES.**

6 A: As CEO, I have the responsibility for managing and overseeing all the operations of
7 BTES, subject to the ultimate oversight of the BTES Board of Directors. BTES'
8 operations presently include electric, cable, Internet and telephone operations.

9 **Q: PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL**
10 **BACKGROUND.**

11 A: I joined BTES as Director of Engineering and Operations in 1972; and in 1977, I was
12 named General Manager. The position of General Manager was later designated as the
13 Company's Chief Executive Officer. Prior to joining BTES, I worked at Huntsville
14 (Alabama) Utilities for five years, with my final position as Superintendent of
15 Engineering at Huntsville (Alabama) Utilities.

16 In addition to a bachelor of electrical engineering from Auburn University and a master
17 of administrative science from the University of Alabama-Huntsville, I earned a doctorate
18 of educational leadership and policy analysis from East Tennessee State University.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. The purpose of my testimony is to support the *Application of Bristol Tennessee Essential*
21 *Services for Expanded Certificate of Public Convenience and Necessity to Provide*
22 *Intrastate Telecommunications Services Statewide* (the "Application"). BTES
23 respectfully requests the Authority to modify its Certificate of Public Convenience and
24 Necessity and authorize it to provide telecommunications services throughout the State of
25 Tennessee, consistent with state law.

26 **Q. PLEASE DESCRIBE BTES' TELECOMMUNICATIONS OPERATIONS IN THE**
27 **STATE OF TENNESSEE.**

A. In its Order dated March 21, 2006, in TRA Docket No. 05-00251, the Tennessee Regulatory Authority ("Authority" or "TRA") found that BTES satisfied the managerial, technical and financial requirements set forth in Tenn. Code Ann. § 65-4-201(c) to provide telecommunications services within Sullivan County. The Authority also found that BTES had filed an acceptable Small and Minority-Owned Telecommunications Business Participation Plan. BTES currently offers a full range of telecommunications services, including, but not limited to, dedicated and switched access services, private line services, local dial tone, 911 services and enhanced services in its authorized service area. BTES operates as a facilities-based local exchange provider.

Q. WHAT IS BTES SEEKING IN ITS APPLICATION IN THIS DOCKET?

A. As noted earlier, BTES is authorized to provide a full range of telecommunications services within Sullivan County, Tennessee. BTES is currently seeking expanded authority to provide telecommunications services on a statewide basis, as business conditions warrant, including the areas served by incumbent local exchange carriers with less than 100,000 total access lines in Tennessee. Consistent with Tenn. Code Ann. § 7-52-403(b), BTES is not seeking expanded authority to provide services within the service area of an existing telephone cooperative with fewer than 100,000 total access lines organized and operating under the provisions of Title 65, Chapter 29.

Q. WHY IS BTES SEEKING EXPANDED AUTHORITY?

A. BTES desires to expand its telecommunications services to other Tennessee counties in order to provide more consumers with increased carrier choices, competitive pricing, increased reliability, responsiveness, and innovation. The granting of this Application will provide significant benefits to Tennessee consumers and thereby serve the public interest.

Q. DOES BTES CONTINUE TO MEET THE STATUTORY REQUIREMENTS SET FORTH IN TENN. CODE ANN. § 65-4-201(C)?

A. Yes. The Authority granted BTES a Certificate of Public Convenience and Necessity in 2006 based, in part, upon finding that BTES possessed the requisite managerial

56 qualifications to provide telecommunications services in Tennessee.¹ Since that time,
57 BTES has supplemented its staff of experienced telecommunications personnel and
58 gained valuable experience as a telecommunications provider. This experience provides
59 BTES with the foundation necessary to provide the proposed telecommunications
60 services and to serve Tennessee's telecommunications consumers. BTES remains
61 managerially qualified to provide telecommunications services statewide. Attached as
62 **Exhibit A** to the Application is a list of the names of the Applicant's principal company
63 officers and a description of each officer's background and experience. As shown in this
64 exhibit, these officers of the company have substantial managerial experience in the areas
65 of utility engineering, utility operations, utility customer service and utility marketing.

66 The Authority granted BTES a Certificate of Public Convenience and Necessity in 2006
67 based, in part, upon finding that BTES possessed the requisite financial qualifications to
68 provide telecommunications services in Tennessee. BTES remains financially qualified
69 to provide telecommunications services statewide. Attached as **Exhibit B** to the
70 Application is BTES' 2011 Annual Report, which demonstrates that BTES remains
71 financially qualified to provide local exchange services.

72 The Authority granted BTES a Certificate of Public Convenience and Necessity in 2006
73 based, in part, upon finding that BTES possessed the requisite technical qualifications to
74 provide telecommunications services in Tennessee. Since that time, BTES has
75 supplemented its staff of experienced telecommunications personnel, gained valuable
76 telecommunications experience, and successfully serviced its telecommunications
77 customers. Again, information concerning the technical expertise of BTES' senior
78 management team is included in **Exhibit A** to the Application. This experience provides
79 BTES with the foundation necessary to provide the proposed telecommunications
80 services and to serve Tennessee's telecommunications consumers. Hence, BTES remains
81 technically qualified to offer local exchange services.

82 **Q. WILL BTES CONTINUE TO COMPLY WITH THE TRA'S POLICIES, RULES,**
83 **AND ORDERS?**

¹ See *Order Approving BTES Application* at 6.

84 A. Yes.

85 **Q. WILL THE GRANTING OF THIS APPLICATION SERVE THE PUBLIC**
86 **INTEREST?**

87 A. Yes. The Authority approved BTES' application for a Certificate of Public Convenience
88 and Necessity in 2006, based, in part, upon finding that granting the same was in the
89 public interest. Since that time, BTES has developed and matured as a seasoned
90 telecommunications provider. The granting of this Application will further the public
91 interest by expanding the availability of telecommunications services, consistent with
92 state law and as BTES' business circumstances permit, throughout the State of
93 Tennessee. Specifically, Tennessee consumers will benefit directly through the use of
94 the competitive local services to be offered by BTES. Further, the public will benefit
95 indirectly because the competitive presence of BTES will increase the incentives for
96 telecommunications providers to operate more efficiently, offer more innovative services,
97 reduce prices, improve the quality and coverage of their services, and increase investment
98 in broadband infrastructure. Finally, the granting of this Application would be consistent
99 with the public policy of the State of Tennessee, as set forth at Tenn. Code Ann. § 65-4-
100 123, "to foster the development of an efficient, technologically advanced statewide
101 system of telecommunications services by permitting competition in all telecommunica-
102 tions services markets[.]"

103 **Q. IS THE APPLICATION TRUE AND CORRECT TO THE BEST OF YOUR**
104 **KNOWLEDGE, INFORMATION AND BELIEF?**

105 A. Yes.

106 **Q. DOES THIS CONCLUDE YOUR PRE-FILED TESTIMONY?**

107 A. Yes, it does. Thank you.

I swear that the foregoing testimony is true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "R. Michael Browder", written over a horizontal line.

R. Michael Browder, Ed. D., P.E.

Chief Executive Officer

Bristol Tennessee Essential Services



Report of Independent Auditors on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Directors
Bristol Tennessee Essential Services

We have audited the financial statements of Bristol Tennessee Essential Services, an enterprise fund of the City of Bristol, Tennessee, and Bristol Tennessee Essential Services Post Employment Benefits Trust, a fiduciary fund of the City of Bristol, Tennessee (collectively referred to as "BTES"), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BTES' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BTES' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BTES' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of BTES' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Board of Directors
Bristol Tennessee Essential Services

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BTES' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board, others within BTES' and the Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Coulter & Justus, P.C.

Knoxville, Tennessee
November 7, 2011