September 28, 2012

Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: TRA DR 1

Dear Ms. Dillon,

Enclosed please find the Company responses to TRA DR 1 and the attachments.

If you have any questions I can be reached at (949) 331 – 7496 or thartline@navitasutility.com.

Sincerely,

Thomas Hartline

TH/teh

TRA Data Request #1

Direct expense questions

For the TRA Data Request #1 the Navitas noted a number of questions, 1., 2., 7., 8., 13., & 14., regarding allocation and direct expenses. Navitas believes it would be beneficial to have a discussion herein as to the how and why our allocation is conducted. Then subsequent to this response, and if needed a follow-up discussion, have the TRA reissue those questions as needed.

While Navitas only possesses a rudimentary understanding of the Distrigas method through discussions with other jurisdictions, within the vernacular of regulated utilities, the following is the understanding of the Company. On a monthly basis, Navitas Utility Corporation ("NUC"), the operator of the sub systems, bills the entity for the following: the natural gas commodity used (as a pass through) [Distrigas step 1]; a fee for each meter in service on the system (note meter count and customer count are different, hence the separate billing) [Distrigas step 1]; a charge per customer based on the customer density per mile of pipe for each of the sub-systems; and any unusual third-party charges applicable to that entity [Distrigas step 1]. Subsequent to the test case year the following changes and refinements have been implemented: a fuel surcharge per customer has been added [Distrigas step 2]; the customer charge has been separated into three components of a billing charge [Distrigas step 2], an accounting charge [Distrigas step 2], and density based operations charge [Distrigas step 2]. Note the charges by the operator are set such that NUC should break even on an operating income basis.

Before preceding some background information and history may be beneficial. From May 2007 through March 2009, Navitas acquired twenty separate sub-systems, in three accounting entities, with two separate tariff rates all in the State of Oklahoma. Subsequently, beginning in 2011, Navitas acquired two sub-systems in Tennessee and one in Kentucky in addition to constructing a green-field project in Oklahoma, such that there are now six separately accounted for regulated entities covering twenty-four sub-systems, in twenty-three counties serving approximately 4,800 customers with four different tariff rates in three jurisdictions. All of these sub-systems are serviced by NUC by just thirty-two employees spread over seven locations.

Thus Navitas is faced with two issues:

1. It needed a very simple, very efficient, and very fair method, which allowed the Company to effectively allocate costs to each of its sub-systems.
2. The Company was concerned with how to fairly address the complaint of some of its suburban customers that they were subsidizing the extreme rural customers. As it happens, a number of decades ago, utilities dealt with this issue by having different urban and rural tariffs.

Geographic density is the determinate factor in field service expense analysis (with system age and therefore replacement being a separate analysis of net plant). Rural sub-systems are somewhat amorphous rendering the calculation of geographic density cumbersome. As a proxy, mile of pipe density is used in its stead. NUC services sub-systems, which range from less than one customer per-mile of pipe to more than forty-five customers per-mile of pipe (major utilities typically have in excess of fifty or sixty customers per mile).

To address these two issues, Navitas developed an allocation and a tariff structure based on the customer density per mile of pipe. This density information is readily obtainable and verifiable from annual reporting and monthly customer billing data. For the tariff structure, Navitas defined four density classes: community (1-20), town (21-35), city (36-50), metro (51 or greater). For the billing from NUC to the regulated sub-systems, finer increments of 5 were used.

First and foremost, the Company believes the direct cost method would be unworkable as most of our employees work on multiple sub-systems each day the paperwork alone would be overwhelming. More importantly, the cost associated with tracking would be substantial. At minimum, Navitas would need at least one additional employee to assist with the allocation. Many companies, including Navitas, use the benchmark all in (e.g. – salary, benefits, taxes, training, tooling, etc.) annual cost of $100,000 per employee. With less than 5,000 customers this would amount to over $1 per month per customer just to handle the allocation paperwork. Not a good use of rate payer money.

That being said, Navitas does recognize some issues with the allocation.

1. Prior to 2011, since all activity was in a single jurisdiction, the Company presented combined data rendering allocation moot since they were effectively eliminated in the consolidation.
2. NUC does not true-up its operating losses. Theoretically, especially in a test case year, NUC should eliminate its at-risk activities, if any, and then true up the allocation to eliminate the operating losses.
   The at-risk activities are the pursuit of acquisitions of regulated utilities in the same or other jurisdictions. While the success of these acquisitions should result in lower costs to the rate payer due to a wider base on which to spread fixed costs, NUC recognizes that this type of risk is not contemplated in the regulated utility structure. Note there was no at-risk activity in 2011 or 2012 to date.
   Currently, approximately near our anniversary date of May 31st, the Company reviews the allocation rate in a manner such that in the coming year the NUC operating income achieves break-even. Since this is a look back analysis, generally inflation will push NUC into an operating loss.

Navitas has agreed to work with the Tennessee Consumer Advocate to perform a post allocation review.

Questions answered in Consumer Advocate Discovery Request #1

For the TRA Data Request #1 the Company believes questions 5., 6., & 11., were answered in the Consumer Advocate Discovery Request #1, which was copied to the TRA.

Question generating request for clarification

Before proceeding with question 12., Navitas would like to have a discussion with the TRA to gain a better understanding of its purpose and direction.

Questions answered herein

3. Provide the number of total Navitas customers by state and by class

	Tennessee	Kentucky	Oklahoma
Residential/Sm Com	426	72	3715
Commercial	76	54	237
Industrial	10		7
Ag heat			14
Ag power			167
Total	512	126	4134

4. Explain what entities are included in the Company response to MFR Item #11. …

C__ This is seen as [company acronym] CBS or CIS or CCF – These stand for Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Cash Flow, respectively.

NC pf Navitas companies pro forma – This is a consolidation of Navitas Assets, LLC (consolidated) and Navitas Utility Corporation. While these two entities are not affiliates, they are sister companies (in accordance with ERISA rules) as they are owned by the same shareholders (although in different amounts). This pro forma consolidation is a requirement of the Company acquisition loan with the USDA.

NUC Navitas Utility Corporation – This is the operator of all the sub-systems in the various jurisdictions. It holds all employees, rolling stock, tooling, meters, insurance, etc.

NALLC C__ Navitas Assets, LLC Consolidated – This is the consolidation of NALLC, FCFA (consolidated), NTNNG, & NKYNG.

FCFA C__ Fort Cobb Fuel Authority, LLC Consolidated – This is the consolidation of FCFA, LDiv, NOK3, N1, & NW.

FCFA Fort Cobb Fuel Authority, LLC – This is the Fort Cobb system, which was the initial acquisition. Additionally, the Krebs, Velma, Greenfield, Kinta, and Dustin sub-system acquisitions were absorbed into this entity. It consists of the pipe in the ground, the tariff (right-to-serve), and certain real property used in the regulated operations.

LDiv LeAnn Division – This is the separately tariffed LeAnn system, consisting of thirteen sub-systems. It consists of the pipe in the ground, the tariff (right-to-serve), and certain real property used in the regulated operations.

NOK3 Navitas OK 3, LLC – This is the Rimrock sub-system purchased from CenterPoint Energy. It consists of the pipe in the ground, the tariff (right-to-serve), and certain real property used in the regulated operations. As-well-as regulated irrigation engines.

N1 Navitas 1, LLC – This is a special purpose entity holding the transportation equipment.

NW Navitas – WinStar, LLC – This is a joint venture with the Chickasaw Nation consisting of a green field pipeline. It consists of the pipe in the ground, the tariff (right-to-serve), and certain real property used in the regulated operations.

NALLC Navitas Assets, LLC – This is the holding company for the tariffed entities and certain regulated and unregulated real property.

NTNNG Navitas TN NG, LLC – This is the Jellico, and Byrdstown – Fentress, sub-systems. It consists of the pipe in the ground, the tariff (right-to-serve), and certain real property used in the regulated operations.

NKYNG Navitas KY NG, LLC – This is the Albany sub-systems. It consists of the pipe in the ground, the tariff (right-to-serve), and certain real property used in the regulated operations.

NC Bal Sht Navitas Companies Balance Sheet – This is a summary of annual balance sheets.

NALLC CIS LTM Navitas Assets, LLC Consolidated Income Statement Last Twelve Months – The previous NALLC CIS presents the income statement (as do all the CIS) year to date, thus from 1/1/XX through the end of the quarter being reported. Whereas, this CIS presents the income statement for the last twelve months ending the 1st, 2nd, or 3rd quarter (in accordance with that being reported).

NC pf CIS LTM Same as the previous except for Navitas companies pro forma.

9. For actual 2011 and projected 2012 provide the book depreciation and the tax depreciation for Direct Tennessee Plant and Allocated Plant separately.

Please see attached excel spreadsheets for NTNNG, NALLC, FCFA, NUC, & N1. Note for NALLC and FCFA the shared equipment is highlighted in yellow.

Additionally, the Company noted there is a discrepancy between MFR 51 and MFR 56a with regard to the shared equipment and tooling. In MFR 51 the Company included the entirety of the NUC assets, in 56a on the shared assets are included. The correct view is the lesser amount in 56a. This needs to be propagated throughout.

10. Provide all accounting entries booked related to the purchase of Navitas TN NG, LLC.

Enclosed is a report from the asset clearing account. The Company uses this account to hold new acquisitions during the transition and true-up phase. The Company suggests, as it did with the Consumer Advocate DR 1 question 8 that a secure method for granting access to the accounting system be established such that the TRA is able to gain and follow the detail of each journal entry.