

STATE OF TENNESSEE

Office of the Attorney General



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Reply to:  
Consumer Advocate and Protection Division  
Post Office Box 20207  
Nashville, TN 37202

March 19, 2002

Mr. David Waddell  
Executive Secretary  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

RE: IN RE: TARIFF OF ARDMORE COMMUNICATIONS, LLC, CROCKETT TELEPHONE COMPANY, INC., PEOPLES TELEPHONE COMPANY, INC., WEST TENNESSEE TELEPHONE COMPANY, INC., CENTURYTEL OF ADAMSVILLE, INC., CENTURYTEL OF OOLTEWAH-COLLEGE DALE, INC., LORETTO TELEPHONE COMPANY, MILLINGTON TELEPHONE COMPANY, INC., CONCORD TELEPHONE EXCHANGE, INC., HUMPHREYS COUNTY TELEPHONE COMPANY, TELlico TELEPHONE COMPANY, TENNESSEE TELEPHONE COMPANY, CITIZENS TELECOMMUNICATIONS COMPANY OF TENNESSEE, CITIZENS TELECOMMUNICATIONS COMPANY OF THE VOLUNTEER STATE LLC and UNITED TELEPHONE COMPANY TO PROVIDE RATE REDUCTIONS TO OFFSET A PORTION OF THE 2002 TAX CREDIT

Docket Nos.: 02-00125, 02-00130, 02-00131, 02-00132, 02-00133, 02-00134, 02-00135, 02-00137, 02-00138, 02-00139, 02-00140, 02-00141, 02-00142, 02-00143, 02-00144 and 02-00145

Dear Mr. Waddell:

Enclosed is an original and sixteen copies of the Brief of the Consumer Advocate & Protection Division of the State of Tennessee's Office of the Attorney General in the above-referenced dockets. At the March 12, 2002 Final Conference, the TRA Directors instructed us to file a brief addressing two issues in all sixteen dockets. Pursuant to my conversation with Gary Hotvedt, we are filing an original and sixteen copies for all of the above-referenced dockets. We request that this be filed with the Tennessee Regulatory Authority. We have served copies on all parties of record. If you have any questions, kindly contact me at (615) 532-3382. Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Shilina B. Chatterjee".

Shilina B. Chatterjee  
Assistant Attorney General

Enclosures

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**IN THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

|                                         |                              |
|-----------------------------------------|------------------------------|
| <b>IN RE: TARIFF OF ARDMORE</b>         | <b>) DOCKET NO. 02-00125</b> |
| <b>COMMUNICATIONS, LLC,</b>             | <b>) DOCKET NO. 02-00130</b> |
| <b>CROCKETT TELEPHONE COMPANY,</b>      | <b>) DOCKET NO. 02-00131</b> |
| <b>INC., PEOPLES TELEPHONE</b>          | <b>) DOCKET NO. 02-00132</b> |
| <b>COMPANY, INC., WEST TENNESSEE</b>    | <b>) DOCKET NO. 02-00133</b> |
| <b>TELEPHONE COMPANY, INC.,</b>         | <b>) DOCKET NO. 02-00134</b> |
| <b>CENTURYTEL OF ADAMSVILLE,</b>        | <b>) DOCKET NO. 02-00135</b> |
| <b>INC., CENTURYTEL OF OOLTEWAH-</b>    | <b>) DOCKET NO. 02-00137</b> |
| <b>COLLEGEDALE, INC., LORETTO</b>       | <b>) DOCKET NO. 02-00138</b> |
| <b>TELEPHONE COMPANY,</b>               | <b>) DOCKET NO. 02-00139</b> |
| <b>MILLINGTON TELEPHONE</b>             | <b>) DOCKET NO. 02-00140</b> |
| <b>COMPANY, INC., CONCORD</b>           | <b>) DOCKET NO. 02-00141</b> |
| <b>TELEPHONE EXCHANGE, INC.,</b>        | <b>) DOCKET NO. 02-00142</b> |
| <b>HUMPHREYS COUNTY TELEPHONE</b>       | <b>) DOCKET NO. 02-00143</b> |
| <b>COMPANY, TELICO TELEPHONE</b>        | <b>) DOCKET NO. 02-00144</b> |
| <b>COMPANY, TENNESSEE TELEPHONE</b>     | <b>) DOCKET NO. 02-00145</b> |
| <b>COMPANY, CITIZENS</b>                | <b>)</b>                     |
| <b>TELECOMMUNICATIONS COMPANY</b>       | <b>)</b>                     |
| <b>OF TENNESSEE, CITIZENS</b>           | <b>)</b>                     |
| <b>TELECOMMUNICATIONS COMPANY</b>       | <b>)</b>                     |
| <b>OF THE VOLUNTEER STATE LLC and</b>   | <b>)</b>                     |
| <b>UNITED TELEPHONE COMPANY TO</b>      | <b>)</b>                     |
| <b>PROVIDE RATE REDUCTIONS TO</b>       | <b>)</b>                     |
| <b>OFFSET A PORTION OF THE 2002 TAX</b> | <b>)</b>                     |
| <b>CREDIT</b>                           | <b>)</b>                     |

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**BRIEF OF CONSUMER ADVOCATE & PROTECTION DIVISION**

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**PAUL G. SUMMERS**  
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## **ISSUES PRESENTED FOR REVIEW**

- I. WHETHER OR NOT THE ESTIMATED NET TAX SAVINGS CREATED BY THE ACT MUST BE FLOWED THROUGH TO BUSINESS CUSTOMERS ONLY IN THE FORM OF PRICE ADJUSTMENTS TO THE TARIFFED RATES OF TELECOMMUNICATIONS SERVICES AS OPPOSED TO CREDITS**
- II. WHETHER OR NOT IT IS APPROPRIATE FOR QUALIFYING COMPANIES, PARTICULARLY RATE-OF-RETURN REGULATED COMPANIES TO DEDUCT COSTS FOR COMPLYING WITH THE ACT'S REQUIREMENTS IN SUCH COMPANIES CALCULATION OF ESTIMATED NET TAX SAVINGS**

## STATEMENT OF THE CASE

This matter came before the Tennessee Regulatory Authority ("TRA") when Loretto Telephone Company ("Loretto"), Millington Telephone Company, Inc. ("Millington"), United Telephone Company, Inc. ("United Telephone"), CenturyTel of Adamsville, Inc. ("CenturyTel Adamsville"), CenturyTel of Claiborne, Inc. ("CenturyTel Claiborne"), Ardmore Communications, LLC ("Ardmore"), Crockett Telephone Company, Inc. ("Crockett"), Peoples Telephone Company, Inc. ("Peoples"), West Tennessee Telephone Company, Inc. ("West Tennessee"), CenturyTel of Ooltewah-Collegedale ("CenturyTel of Ooltewah"), Concord Telephone Exchange, Inc. ("Concord"), Humphreys County Telephone Co. ("Humphreys"), Tellico Telephone Company ("Tellico"), Tennessee Telephone Company ("Tennessee Telephone"), Citizens Telecommunications Company of the Volunteer State LLC ("Citizens Volunteer State") and Citizens Telecommunications Company of Tennessee ("Citizens Tennessee") (collectively, the "Companies") filed Tariff Nos. 02-00137, 02-00138, 02-00145, 02-00133, 02-00134, 02-00125, 02-00130, 02-00131, 02-00132, 02-00135, 02-00139, 02-00140, 02-00141, 02-00142, 02-00143 and 02-00144, respectively to make rate reductions to offset the ad valorem tax equity payments or credits with a proposed effective dates as follows:

| <b>Effective Date</b> | <b>Company</b>                                                                                           |
|-----------------------|----------------------------------------------------------------------------------------------------------|
| January 1, 2002       | Loretto, Ardmore, Citizens of Volunteer State, Citizens of Tennessee, Millington and Tennessee Telephone |
| March 7, 2002         | United Telephone                                                                                         |
| March 11, 2002        | CenturyTel Ooltewah, CenturyTel Claiborne, Century Tel Adamsville, Humphreys County, Tellico, Concord    |
| April 1, 2002         | Peoples, West Tennessee, Crockett                                                                        |

Loretto, Millington, United Telephone, CenturyTel Adamsville, CenturyTel Claiborne, Ardmore, Crockett, Peoples, West Tennessee, CenturyTel of Ooltewah, Concord, Humphreys, Tellico, Tennessee Telephone, Citizens Volunteer State and Citizens Tennessee made its filing pursuant to Tennessee Code Annotated § 65-6-222. The Companies filed tariffs to provide reductions to offset a portion of the 2002 tax credit in order to comply with Tennessee Code Annotated § 67-6-222, however, their tariffs did not comply with the statute. Tennessee Code Annotated § 67-6-222 clearly states that any net tax savings that the Companies receive are to be passed onto business customers in the form of a price reduction.

Among other things, the Companies filed tariffs that included calculations that would result in understated rate reductions to business customers because they divided their annual tax savings over an 18 month period rather than a 12 month period. As a result, on March 5, 2002, the Consumer Advocate and Protection Division ("CAPD") of the Office of the Attorney General filed a Complaint and Petition to Intervene on all 16 tariffs that were filed by the above-referenced Companies.

On March 12, 2002, at the Final Conference the TRA directors suspended these tariffs until April 30, 2002 ordering the benefits to business customers must flow through on an annualized basis. Furthermore, the Directors of the TRA directed the CAPD and the Companies, either individually or collectively, to file legal briefs within seven (7) days on two issues. The following issues are to be addressed (1) whether or not the estimated net tax savings created by the act must be flowed through to business customers only in the form of price adjustments to the tariffed rates of telecommunications services as opposed to credits; and (2) whether or not it

is appropriate for qualifying companies, particularly rate-of-return regulated companies to deduct costs for complying with the Act's requirements in such companies calculation of estimated net tax savings.

**I. THE ESTIMATED NET TAX SAVINGS CREATED BY THE ACT MUST BE FLOWED THROUGH TO BUSINESS CUSTOMERS ONLY IN THE FORM OF PRICE ADJUSTMENTS TO THE TARIFFED RATES OF TELE-COMMUNICATIONS SERVICES AS OPPOSED TO CREDITS**

Tennessee Code Annotated § 67-6-222 (the "Act") provides for a Telecommunications Ad Valorem Tax Reduction Fund that provides for credits to be paid to telecommunications service providers whose properties are designated as public utility property for ad valorem tax purposes. These credits are to offset the higher rates that they pay because of their designation as a public utility. Tennessee Code Annotated § 67-6-222(5)(c) states that the net tax savings that a telecommunications service provider receives as a result of the payment they receive from the Telecommunications Ad Valorem Tax Reduction Fund is to be passed onto the business customers. In addition, the Bill's preamble also indicated that the savings that are realized by these telecommunications service providers will be passed-through to customers through a reduction in rates for telecommunication services.

**a. The Plain Language of the Statute States That Savings Shall be Passed Onto Business Customers in the Form of an Adjustment in Price**

The plain language of the statute states that the telecommunications service providers shall pass-through savings through an adjustment in the price of telecommunications services.

Tennessee Code Annotated § 67-6-222(c) states "...such net tax savings shall inure to the benefit of the business customers of such person through an adjustment in the price of telecommunications services provided by such person, including business and interconnection services." Tenn. Code Ann. § 67-6-222(c). (*Emphasis added*).

**b. The Legislative History Provides That the Savings Are to Flow to Business Customers in the Form of a Rate Reduction**

The legislative history is clear that the legislature intended the savings to business customers be in the form of a rate reduction.<sup>1</sup> (See Exhibit 1) The legislative intent was to ensure that business customers ultimately benefit from the tax savings that the telecommunications service providers realize as a result of this legislation. The legislative history states that businesses are to receive rate adjustments, not credits.

There are several discussions before the General Assembly that indicate that the rates for business consumers would be in the form of an adjustment to the prices that are paid by business customers for telecommunications services. First, the legislative history states that the legislation involved a series of credits that would offset higher property tax rates that are paid by telecommunications service providers and the net tax savings would be passed through in the form of reductions in the rate charges to their customers.<sup>2</sup> Second, there were discussions in the legislature that specifically referenced reduced rates for businesses. Senator Kisber stated that the amount of the credit that the public utility receives from the Fund will be “reflected in reduced tariffs or reduced rates to the businesses.”<sup>3</sup> (*emphasis added*). Therefore, the legislature wanted rates to be reduced.

The legislature contemplated that a price adjustment would be in the form of a reduction

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<sup>1</sup> Public Chapter 195 (SB 1484, HB 864), Hearing on SB 1484 Before the Senate Finance, Ways & Means, Tax Subcommittee, 2001 General Assembly (Tn. 2001) (statement of Senator Rochelle, April 5, 2001).

<sup>2</sup> Tax Equity Payments for Telecommunications Providers: Hearing on SB. 1484 Before the Senate Comm. on Ways and Means, April 24, 2001 (Senator Rochelle).

<sup>3</sup> Tax Equity Payments for Telecommunications Providers: HB. 864 Before the House of Representatives, April 30, 2001 (statement of Representative Kisber)

in price that a telecommunications service provider charged their business customers. The House Commerce Committee Amendment Number one to House No. 864 stated that the General Assembly found that it was in the best interest of Tennessee consumers of telecommunications services that any net tax savings experienced by such telephone companies be passed on to consumers in the form of reductions in the prices charged for the services provided by such telephone companies. (See Exhibit 2)

There is no indication anywhere in the legislative history that the Companies had the option to either offer an adjustment in price or a credit even if they both achieved the same result. The statute and the legislative history is clear and states that a rate reduction will be given to business customers as a result of the net tax savings that telecommunications service providers receive under the legislation.

**c. The Rate Reductions Will Not Result in Unwarranted Expenses**

The Companies belief that filing for rate reductions rather than credits would result in unwarranted expenses since it could lead to a rate case and it would be an additional burden on consumers since it will tend to increase costs is erroneous. The legislature did consider the costs of administering this legislation and they acknowledged that there would be costs and those costs would be borne by the State of Tennessee. They specifically provided for the recouping of these administrative costs in the statute. However, they did not expect the telecommunications service providers would have costs that they could not absorb or would be exorbitant costs.

**d. An Adjustment in Price Will not Result in a Rate Case**

Although the Companies may argue that there potentially could be an increase in rates, it is unfounded. The legislative history indicates that the legislature did not envision a rate increase.<sup>4</sup> A potential increase in rates that would spawn a rate case are moot because the statute provides for the Companies to continuously receive a tax savings. Also, the legislators did state that they worked with the TRA to ensure that rates would not later be raised and they would have to stay within the filed tariffs. In the unlikely event of an increase in rates, the Companies would only have to file another tariff adjusting the rate.

The legislative history states that the TRA would regulate the rates and rate structure, however, there was no mention that the filing of their annual tariff to comply with the statute would result in a rate case.<sup>5</sup>

The Companies can merely file a simple tariff annually indicating the adjustment in price and it would not be necessary to file a rate case. In prior instances before the TRA, adjustments to rates were made without instituting a rate case. In docket 97-07628 (commonly referred to as the "Megacom Order"), the TRA (formerly known as the Tennessee Public Service Commission (TPSC)) implemented a simple mechanism to adjust the carrier common line charge (CCLC) rate (a component of access service of LECs). That adjustment caused decreases and increases to the CCLC rate for some LECs. The procedure was not complicated.

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<sup>4</sup> Tax Equity Payments for Telecommunications Providers: Hearing on HB. 864 Before the House Comm. on Commerce, April 10, 2001 (Statements of Representative Kisber).

<sup>5</sup> Tax Equity Payments for Telecommunications Providers: Hearing on SB. 1484 Before the Senate Comm. on Ways and Means, Tax Sub-Comm. April 5, 2001 (Statement of Senator Cole).

**e. The Statute Specifically Requires a Rate Reduction as the Method to Pass-Through Savings to Business Consumers Even Though As a Practical Matter the Savings Can Be In the Form of a Rate Reduction or Credit**

As a practical matter, it is clear that the end result is that the business customer will receive the benefit by having a reduced rate for their telecommunications service whether it be in the form of a rate reduction or a credit. However, the statute provides for the form that should be used to pass-through the savings and it states that the business customers will receive a reduction in rates. Therefore, the TRA should not allow the Companies to file tariffs providing credits.

**II. QUALIFYING COMPANIES, PARTICULARLY RATE-OF-RETURN REGULATED COMPANIES MAY NOT DEDUCT COSTS FOR COMPLYING WITH THE ACT'S REQUIREMENTS IN THEIR CALCULATIONS OF ESTIMATED NET TAX SAVINGS**

The statute does not provide for the deduction of compliance costs. Courts must construe statutes as they are written. *BellSouth Telecommunications, Inc. v. Greer*, 972 S.W.2d 663, 673 (1997). Neither the language nor the legislative history indicates that compliance costs are to be included in the calculations of their tariffs made by the companies. There is no indication that compliance costs are to be included.

Compliance costs should not be deducted and should be borne by the Companies as part of their operating expenses. In instances, where compliance costs associated with a statute have been substantial, Congress believed that costs of compliance in an industry are costs of doing business. *American Textile Manufacturers Institute, Inc. v. Donovan*, 452 U.S. 490 (1981). The TRA should not allow compliance costs to be included in the calculations filed by the Companies.

If the companies are permitted to deduct compliance costs, they are reducing the savings that were mandated to be passed to business customers under Tennessee Code Annotated § 67-6-222. The following amounts are the approximate monthly amounts that business customers will pay for the benefit that the telecommunication service providers receive in tax savings on their property.<sup>6</sup>

| <b>Company</b>        | <b>Amount Charged for Compliance</b> |
|-----------------------|--------------------------------------|
| Loretto               | .12/month                            |
| Concord               | .01/month                            |
| Tellico               | .01/month                            |
| Tennessee Telephone   | .01/month                            |
| United Telephone      | .25/month                            |
| Millington            | .10/month                            |
| CenturyTel Adamsville | .03/month                            |
| CenturyTel Claiborne  | .03/month                            |
| CenturyTel Ooltewah   | .03/month                            |

Based on the overearnings of the respective companies, it appears that compliance costs should not be deducted in the calculations. Their existing revenue stream is adequate to cover costs. Moreover, these costs of compliance are reasonable costs associated with doing business. Based on a review of their most recent surveillance reports, a majority of the LECs, individually or combined under a parent company umbrella exceed their targeted fair rate of return. (See Exhibit 3)

In addition, those Companies that included compliance costs in their calculations, failed to substantiate their costs and failed to show the exact nature of the costs of compliance. They

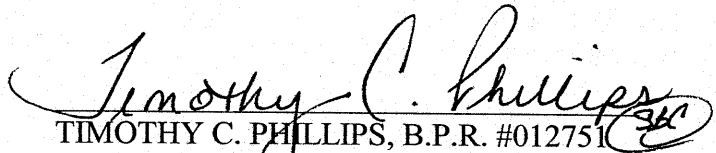
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<sup>6</sup> These amounts reflect the compliance costs that were included by the Companies.

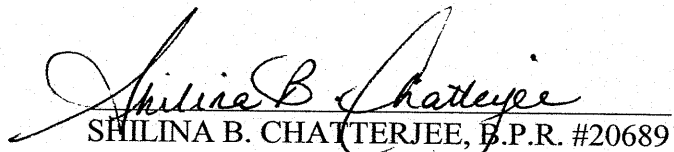
need to provide support for these compliance costs and that the costs have a recognizable impact upon their businesses.

Respectfully submitted,

PAUL G. SUMMERS, B.P.R. # 6285  
Tennessee Attorney General

Handwritten signature of Timothy C. Phillips in cursive script, with a circular stamp containing the number 341 to the right.

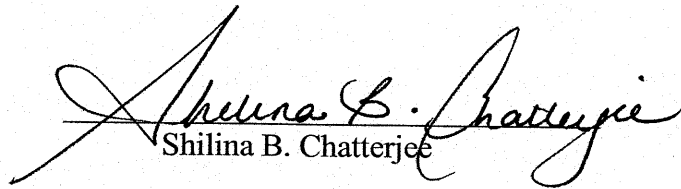
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Handwritten signature of Shilina B. Chatterjee in cursive script.

SHILINA B. CHATTERJEE, B.P.R. #20689  
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State of Tennessee  
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## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Brief of Consumer Advocate and Protection Division was served on parties of record via facsimile and U.S. Mail, postage prepaid, on March 19, 2002.

  
Shilina B. Chatterjee

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## **Exhibit #1**

**LEGISLATIVE HISTORY TRANSCRIPT  
PUBLIC CHAPTER 195 (SB 1484, HB 864)**

Prepared By: Wendy Bishop, Paralegal  
Prepared For: Bernadette Welch, Asst. Atty. General  
Date: January 4, 2002

**SENATE: FINANCE, WAYS & MEANS, TAX SUB-COMMITTEE  
April 5, 2001  
Tape # 1**

**SB 1484**

**ROCHELLE:** 1484 is the telecommunications tax reform bill, and this one is one that is complicated, of course. We have a looming problem of major proportions for local governments, in that the traditional telephone companies were classified as monopolies and as public utilities. Of course, for the last 20 years changes have occurred in the telecommunications industry. It is no longer a pure monopoly; it no longer can be argued totally that it is a public utility. So what we've tried to do and have had discussions over the last 4 or 5 years, is how can we address that issue without being totally disruptive to local governments who rely upon their property tax structure and basis for bonds and such. So what this does is this would have them keep paying to the local governments a property tax based on the public utility classification. You would then provide a tax equity credit to companies that are subject to that -- public utility, telecommunication companies that are classified like that. And that credit would basically be, the maximum amount it could be would be the difference between being classified as public utility versus commercial and industrial classification. We would then increase the sales tax rate on business **interstate** long distance telecommunications services from 3.5% to 7.5%, and that would be available then for use on the ad valorem tax equity credit. That is the same rate that is already charged on **intrastate** long distance telecommunications services. It would then pass through and apply the credit. In return, the telecom companies will be required to pass that tax savings on to business customers, the users of this interstate call, in the form of reduced prices, access charges, on the telecom services. Now that's what the bill does, there's an amendment that makes the bill that does those things. I move we recommend the bill with the amendment.

**CLABOUGH:** Senator Rochelle moves Senate Bill 1484 as amended. Senator Rochelle, if we could talk a little bit about this. In my discussions with everybody in the telecommunications industry in the last 24 hours; why are we going to shift the burden? As I understand it, the telecommunications industry are still going to basically pay the same amount of tax, bottom line. So why are we shifting that burden from them paying property tax to the business customer paying an additional sales tax?

**ROCHELLE:** It provides the funds to provide the credit. Then you offset the cost to the

business customer by reducing the access charge, which will lower the cost of his calls. And it's really revenue neutral to the state, revenue neutral to the business customers, neutral to the local governments, and the telephone company's advantage is that it has everyone in the business being, in effect, taxed on a level playing field. That then allows them all to compete without tax consequences interfering with that competition.

**CLABOUGH:** And who regulates that fund, and who, does TRA regulate the fund and regulate the reduced rates to businesses?

**ROCHELLE:** No, I believe Revenue will have the, well, we may want to hear from Mr. Cole, I may need some information on that. Mr. Cole has worked with us on the amendment.

**COLE:** I'm Mike Cole, Deputy Commissioner of Revenue. The way it would work, the fund itself would be administered by the Comptroller's office under the amendment, and the rates and the rate structure and everything would continue to be regulated by TRA.

**CLABOUGH:** Any questions? All those in favor of Senate Bill 1484 say aye. Aye. Bill moved to committee with favorable recommendations.

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**HOUSE: COMMERCE**  
**April 10, 2001**

**HB 864**

**KISBER:** House Bill 864 is a bill that is designed to address a problem that is not unique to Tennessee, but is happening throughout the country. And that is as technology has made the provision of telecommunication services more widely available, the types of companies and the convergence of these companies' technologies have made the tax systems which states and local governments have used to finance education and other services somewhat obsolete. And over the last couple of years, the telecommunication providers in Tennessee have been working with the Comptroller's office and with local governments in a way in which to fashion a system that would allow them to continue to pay the property taxes to the local governments at the assessment rate of 55% as opposed to those industries which are classified commercial/industrial, which are at a much lower rate, and also to be in a position to remain competitive. This bill is an attempt to do that. What this bill attempts to do is on business telephone services, raise the state sales tax to 7.5%, create a fund which 4% would go into to help those companies that are assessed at the 55% rate pay the property tax to bring them down to a comparable level to those that are assessed at the commercial/industrial rate. And the amendment that you have before you from the TRA would require them to lower the rates by a like amount, so that their rates would be competitive with those who provide the service that are taxed at the lower property tax assessment levels. We worked with the TRA as well on language that assures that they cannot then come back and raise rates, that they have to stay within the tariffs that they file with the TRA and utilize the tax savings that would be generated to reduce rates, which is their whole intent, because it's an effort to make sure that they're all playing on a level playing field. That's

what the bill attempts to do, Mr. Chairman, any questions, I'd appreciate y'all moving it out.

**RHINEHART:** Is there anyone from TRA here? Have you come to agreement with TRA?

**KISBER:** Yes, sir, we included the language that they requested us to include, and they were okay with the bill with their language. I dealt with Mr. Waddell (?) and their legal staff. Let's see, I've got a letter from them.

**SARGENT:** Now, for the records, this will keep the municipalities and counties whole; they will not lose anything on their uh, they will be made whole.

**KISBER:** That's exactly right.

**SARGENT:** Thank you.

**MCKEE:** Representative Kisber, the amendment also deletes the machinery and equipment sales tax exemption, too, doesn't it?

**KISBER:** That is correct.

**MCKEE:** And it removes the fiscal note?

**KISBER:** It removes the expense side of the fiscal note; there's still a fiscal note in that it raises a significant amount of money, and to the extent that there are dollars collected that aren't used for the property tax credit, those would revert to the general fund, plus .5% goes to the general fund for K-12 education and .5% is distributed to local governments under the existing scheme.

**FITZHUGH:** As I understand this, even though we're raising business tax rates from 3.5% to 7.5%, that there will be reductions in the rate so that there will be effectively no increase in taxes, or rates for that matter, for business customers that have to pay the increased tax rate. Is that correct?

**KISBER:** That's correct.

**FITZHUGH:** I don't understand this thing, but you're telling me that it's going to have no net negative effect on business telephone customers.

**KISBER:** And part of the reason, and it gets somewhat difficult, and as co-chairman of this task force on telecommunications and e-commerce, we spent a lot of time talking about these changes that are taking place and the effect they're having. Because of the way in which property taxes are building to the tariff and the higher assessment rate, they have to have a higher rate to charge in order to pay that. By flipping it and putting it on the outside, so to speak, they can then reduce that rate, and have it be competitive with those industries that are taxed at the lower rate, so that when you as a consumer are looking at the rates, you'll see that ABC is at 8 cents a minute, or \$35 a month, and XYZ is at \$35 a month, even though, for property tax purposes, they're structured differently.

**GODSEY:** Matt, just for the record, because we get eaten up on this all the time, this has nothing to do with residential telecommunications involvement, right?

**KISBER:** That is correct, it's strictly business service which is currently taxed at 3.5%. Residential is currently taxed at the full, so it puts it on similar footing in terms of the sales tax application, but then of course, the credit, which would reduce the rates for the property tax.

**RHINEHART:** Who gave you this legislation, Matt?

**KISBER:** This legislation comes from the telecommunications companies led primarily by Bell South, but has had involvement by all the major telecommunications companies in the state.

**RHINEHART:** So, it's a break for them, or they wouldn't have brought it to you.

**KISBER:** Well, I think it does two things. It's not necessarily a break for them. There's a benefit in that they will be able to compete with those industries that are similarly situated but have property tax assessment levels that are much lower, and the consumer will not have to pay any more because they're going to reduce the rates. So, in essence, what I believe it will do is keep competition in the state, because you'll be able to have multiple players irrespective of the way they're structured, which means the rate at which they pay property taxes.

**RHINEHART:** Let me ask our attorney, have you studied this bill?

**LEGAL STAFF:** As you know, this is a very complicated issue. I have absolutely no reason to doubt Chairman Kisber's interpretation as he has been very involved with the inception of this kind of legislation nationwide. The one thing that I would say is that TRA has not brought me anything specifically; what I've seen has only come through Chairman Kisber. I did not receive a summary or any further explanation from the Regulatory Authority; occasionally on bills of this proportion and magnitude, I do. So that's all I can say on the issue.

**RHINEHART:** So, in other words, you haven't received enough information to recommend the bill?

(Can't hear response)

**WOODS:** In the early stages when the bill was presented, there was a fear on the part of the local governments that they would lose some of their tax base. That's been resolved, hasn't it?

**KISBER:** That is correct, and I'll tell you one of the reasons why I agreed to take this bill on and to work with the interested parties, is that if we don't do something, I'm convinced that in the next few years we're going to see this industry radically change. And the ones who will be most dramatically impacted will be local governments because of the way in which they depend on higher assessment levels for their property taxes. And all you have to do is look at the way in which the national landscape is changing and the way in which technology is developing, and I think we're getting ahead of the curve in an effort to protect our local governments in a way in

which is beneficial to a consumer, as well.

**RHINEHART:** Matt, would you get with our attorney before this bill reaches the floor and explain this to her so that she may do an adequate job explaining it to us?

**KISBER:** I'd be happy to. (Discussion)

**WHITE:** Mr. Chairman, if no one else has any questions on this bill, I just call for questions, and let's vote on it.

**RHINEHART:** Why would you call for the question? Do you understand the bill?

**WHITE:** Pretty, good, yes, sir.

**RHINEHART:** Well, go ahead and explain it to us.

**WHITE:** Well, basically what it does is one company has their rates and their price, and so whenever they quote prices, they're higher than their competition, so they're trying to get in a different structure so that they can be competitive.

**RHINEHART:** They're not competitive at this time?

**WHITE:** That's right, under the way they're structured.

**RHINEHART:** How many years has it been since they've been competitive?

**WHITE:** It was before I got here. And I think I made a proper motion, and it was a second, and I called for question.

**RHINEHART:** Okay, are we ready for the vote on the question? We'll have a roll call vote. All those in favor will say aye, and all opposed say no when the role is called.

**(Roll call vote on the question; 21-2, 3 pass)**

**(Bill passed to Finance, Ways & Means)**

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**SENATE: FINANCE, WAYS & MEANS**

**April 24, 2001**

**Tape #2**

**SB 1484**

**ROCHELLE:** This is the telecommunications situation here; I hope that everybody has had a chance to talk about it. It's been thoroughly discussed in the prior committee. This addresses the

issue of where, because of changes across the nation in regard to the telecommunications industry, we are in jeopardy in Tennessee of having telecommunications companies declared as commercial enterprises as opposed to public utilities. What this does is set up a method whereby through a series of credits and reductions in rate charges, that the local governments can, we don't threaten their source of revenue, they would continue to collect on the basis of a public utility assessment. The companies that were paying on that higher assessment would be able to, it assesses a tax against them which they would be able to claim a credit against. They would then have to provide rate reductions for the amount of that credit. There is one additional amendment that has come on as a result of discussions to make sure that the telecommunications companies annually look at that issue and make sure that they adjust their rate structure downward as they receive any greater credit. So, with that understanding, I would move that the committee recommend the passage of the bill.

**HENRY:** Senator Rochelle, what was the vote on Tax Sub?

**ROCHELLE:** Unanimous. The big amendment, number 1, would become the base bill, then I have a second amendment that does guarantees on renewing it annually. So I move amendment number 1.

(Vote; adopted.)

**ROCHELLE:** Amendment number 2 requires an annual review to make sure that they give enough rate reduction to match the credit amount they receive.

(Vote on amendment 2; adopted.)

**HENRY:** Now Senator Rochelle, let me ask you, the bill with the amendments is said to be neutral. Therefore, it must shift a cost which is now being born by somebody to somebody else. Could you or somebody explain how that works, please?

**ROCHELLE:** Yes, it shifts it through a series of credits and such as that, really to the shareholders of the telephone company, who stand to gain because the telephone company, by being able to operate on a level playing field with other telecommunications companies in the same type of business, they would hope be able to secure more of the business on the competitive market. The shareholders take the hit at the beginning, but by allowing their company to be on a level playing field with those with which they are in competition, they stand the possibility of being able to build the value of their investment.

(Roll call vote; vote passed.)

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## HOUSE SESSION

April 30, 2001

Tape #H-50 and H-51

### HB 864

**KISBER:** As many of you are aware, I have had the privilege of serving for the past two years as co-chairman of the National Conference of State Legislature's task force on electronic commerce and telecommunications. One of the issues we have wrestled with, the e-commerce issue, has gotten the bulk of the attention, but one of the most important issues confronting states is the way in which the telecommunications industry is changing. If we look at the tax structure in TN and in most every other state, that tax structure reflects the days in which a telecommunications company was a public utility, which means that it was a monopoly. We think of the telephone company somewhat romantically in the days in which we had only one operating telephone company in most communities. Well, with the advent of technology and the changes that have taken place, today we have a multitude of companies engaged in the provision of telecommunications services, and depending on the way in which they are legally structured depends upon the type of taxes that they pay. If you are what we think of as a public utility telecommunications company, a company like Bell South or Sprint, or one who has provided the wide range of telephone and telecommunications services, you are probably a public utility, and by such, having that legal definition, you are assessed at a much higher property tax rate, both for real property and personal property, than those companies that are providing similar services that are taxed at a commercial and industrial rate. The difference can be anywhere from 27 to 45 percent.

What this legislation would do would be to take the rate, the sales tax that is paid by business customers, which is currently 3.5%, and would increase that to 7.5%. It would create a fund that the state would administer that would allow those public utility companies to get a credit based on the amount that's collected for the difference in the property tax at the public utility rate and the commercial and industrial rate. It also requires that the benefit that those public utility companies would receive from that payment would have to be reflected by statute every year as a reduction in the business rates that those business customers would be paying based on the credit that they receive. Some would ask, why would we want to do this? And I'll tell you. Because of the way in which we're structured, if you're a public utility, you're having to build into the cost of your rates those property taxes which are at a much higher assessment level than if you were a competitive industry taxed at the commercial and industrial rate. What this bill does is say that we will raise the sales tax, they will then be able to get a credit off of the difference between the public utility and the commercial and industrial rate, and that amount will then be reflected in reduced tariffs, or reduced rates to the businesses, thereby showing to the business payer no net increase, and in some instances it could be a net decrease, because of the effect of bringing more competition on a level playing field to an industry that is highly competitive and is bringing about new and emerging technologies. We as a state would tend to benefit. I know it's a very lengthy explanation. It's a somewhat complicated piece of legislation, but the end result is to ensure that we continue to allow that our local governments are not harmed by the changes that are taking place in this industry, that the property taxes that they

depend upon will be there, and that the business payers who would be paying it would see no net increase in their rates because they will be required each year to bring about a reduction in their tariffs based on the benefit that they receive. And, to the extent that the increase in the sales tax generates more revenues than needed to offset the property tax, that would go to the benefit of the general fund each and every year. To make this work, Mr. Speaker, we have a couple of amendments, and in order to get the bill in its proper position, I would move passage of House Bill 864 on third and final consideration.

**RHINEHART:** Would the clerk read the amendment.

**CLERK:** House Commerce Committee amendment number 1 amends House No. 864 by deleting all language after the enacting clause and by substituting instead the following:

Section 1. It is the finding of the General Assembly that one measure of the State's economic competitiveness is the presence of an efficient and affordable telecommunications infrastructure using the latest technological advancements. The General Assembly further finds that the telecommunications industry is undergoing a dramatic change that is altering the identity of its participants, the nature of services that the industry provides, and the methods used to deliver those services. The General Assembly finds that the telecommunications industry is becoming increasingly competitive, that the distinction among the providers of the various types of telecommunications services have become blurred, and that a full and fair competition within the telecommunications industry is beneficial to residents and businesses of Tennessee. Further, it is the finding of the General Assembly that the Tennessee property tax laws now place certain telephone companies at a competitive disadvantage because their properties are treated as a public utility property for ad valorem tax purposes and assessed at the ratio of 55%. As such, the properties' fair market values for the properties of other businesses, including those of certain other competitors, are treated as industrial and commercial property and assessed at lower ratios as such properties' fair market values. Accordingly, the General Assembly finds that in order to mitigate the effects of such competitive advantage, telephone companies whose properties are treated as public utility properties should be entitled to an ad valorem tax equity payment to be paid out of the telecommunications ad valorem tax reduction fund in an amount equal to their ad valorem property tax attributable to the difference between the assessment ratios. The General Assembly further finds, however, that it is in the best interest of the State and its political subdivisions that the revenues available to the State not be diminished by ad valorem tax equity payments made to such telephone companies, and that an increase in the sales tax imposed on interstate telecommunications services sold to businesses is expected to provide the State revenues to fund the payments made out of the ad valorem tax reduction fund. The General Assembly further finds that in the event sufficient funding is not reached by the increase in sales tax, that payments made to such telephone companies should be proportionately reduced until such funding is available. Furthermore, the General Assembly finds that it is in the best interest of Tennessee consumers of telecommunications services that any net tax savings experienced by such telephone companies be passed on to consumers in the form of reductions in the prices charged for the services provided by such telephone companies. Accordingly, the General Assembly finds that there is a compelling need to affect these changes in the tax system of the State in order to avoid placing certain telecommunication service providers at a competitive

disadvantage, to provide purchasers of telecommunication services with greater choices and lower prices, and to preserve the revenue base of the existing property tax system for the political subdivisions of the state.

Section 2. Tenn. Code Ann. §67-6-221 is amended by deleting that section in its entirety and substituting instead the following: (Reads new statute)

**RHINEHART:** Mr. Speaker, this is a Commerce committee amendment, and what it does, really, is raise the sales tax from 3.5% to 7.5%. The initial revenue will be placed in the telecommunications ad valorem tax reductions fund established by this Act. I'd like to move its adoption.

(Amendment 1 adopted).

**KISBER:** Amendment 2 is similar to the commerce committee amendment, but what it does is add specific dates on which the rate adjustments must take place each year, that reflects the benefit of the payments that have been made to the public utility and telecommunications companies, and I would move its adoption.

(Amendment 2 adopted.)

**KISBER:** Amendment 3 embodies all the language that has been currently adopted, but it removes the preamble from the legislation. There had been some concern among members that the preamble was not necessary. As we know the preamble is not part of the enacting statute, so therefore, amendment 3 would embody all the language that we have currently adopted minus the preamble, and I would move its adoption.

(Amendment 3 adopted.)

**KISBER:** Again, what this bill does is increase on the business telephone consumer the sales tax from 3.5 to 7.5%, but it turns around and gives a rate reduction equal to the benefit that would be received from the telecommunications companies for the property tax credits that they would receive, therefore making the bill in most business cases a wash, if not a net reduction. It also, with the amendments that have been adopted, has a new fiscal note. The fiscal memo is traveling with the amendment. The original fiscal note showed a loss of revenue to the state. The current fiscal note with the amendment language shows that it would have no significant increase in state expenditures. The other fiscal impact would be to increase revenues by approximately \$12,884,000, which are placed in the telecommunications ad valorem tax reduction fund in the state treasury. After administrative expenses are deducted, remaining revenues are paid to telecommunications companies and must be used to reduce business telephone rates charged to customers. Also, after all those credits are paid, any remaining amounts would revert to the general fund at the end of the year and would not be carried forward for the benefit of those uses. So pending any questions, Mr. Speaker, I would renew my motion for passage.

**ODOM:** I have two questions about this legislation, and let me say that I appreciate the explanation that you gave. Tell me, when we are talking about an entity that is a public utility as opposed to one that is designated as an industrial and commercial entity, are we basically talking

about public utilities versus private businesses?

**KISBER:** The statute defines what a public utility is, and when you are a public utility, you are assessed for property taxes at a higher rate. When we began discussions on this issue, recognition was that if we change that definition to make everybody similarly situated, we would have a tremendous negative impact on cities and counties. So we tried to find a way to make sure that we could accomplish the end result without adversely impacting consumers or cities and counties, and that's the result that's before us.

**ODOM:** I understand that, and I appreciate that, but again, going back to the question. I believe I know what a public utility is; a public utility is really something that started out as kind of quasi governmental in its earlier stages, is that not correct?

**KISBER:** Well, yeah, a public utility was a company deemed to be providing a necessary public service and granted certain privileges for that, in some instances monopoly characteristics, in return for higher taxes.

**ODOM:** I understand that. Now, when we have companies that are designated not public utilities, but industrial and commercial, we're basically talking about private companies, are we not? That never had that designation.

**KISBER:** That's correct.

**ODOM:** But they're doing the same thing, is that correct?

**KISBER:** That's correct.

**ODOM:** They have a substantial amount of the market now, since we went through the good and the bad of deed regulation, is that true?

**KISBER:** They are competitive, and by being competitive they are taking parts of the market, that's correct.

**ODOM:** So would you have any idea what percentage of the market we're talking about here?

**KISBER:** I don't know the market share.

**ODOM:** Well, it's important to know that, because when you talk about raising the sales taxes that businesses will pay for long distance service, I believe you said earlier that there would be no real effect, because it will be kind of a wash. The tax will be increased on those customers of public utilities, and that increase will be put over in this fund, which will help them compete better with the private companies, and that fund that's being created with that 12 million dollars will be used as a credit, so to speak, on the higher property taxes that the utility is paying to make them compete more with the private companies, is that true?

**KISBER:** That's correct.

**ODOM:** Now my concern is, it's been said a number of times that this is a wash, and that the businesses are really not going to be paying any more, but what I would submit to you is the case, and correct me if I'm wrong, what we're looking at, if your business happens to be the customer of one of these private companies, this bill will impose a 4% increase on what you're paying in long distance services because of the 4% tax increase. Now everybody's going to have to make a decision whether or not they want to do that, and whether the value of this legislation is worth that increase. Isn't that true, if you are a customer of a private company, of the one that is designated industrial and commercial, when this bill goes into effect, you'll be paying 4% more on your long distance phone bill, is that correct?

**KISBER:** That's correct. But they also are deriving the benefit by not being classified as a public utility, though providing a similar type service of providing the lower tariff. So what this will do is enable, we could go about this a number of different ways, but the only way it could be accomplished by holding local governments harmless is to approach it in the manner that's before us today.

**ODOM:** I understand that, and again, the impact of the 4% tax increase is also going to be on the business customer, and that's my point. I realize we find ourselves in a situation where private companies are paying less property taxes, and I know that's the dilemma that we have. But the bottom line is, we have a substantial number of businesses in this state that are using these private companies for long distance telephone services, and this bill is going to be a 4% increase on their long distance calls, and the question I asked you earlier is what percentage are we talking about. Because this bill is before us because of the change in the market place, because of what deregulation has brought about. And I just want the members to know that, because the people who have the companies providing long distance service that have talked with you up here over the last couple of weeks, the customers of those companies are probably not going to have any impact from this. They are going to pay more in sales tax, but that sales tax, that reduction is going to be used to lower the overhead of the company and the rates are probably not going to change that much. The problem is, if you represent private businesses that are in the business of providing long distance service, or if you represent businesses that are using private companies for their long distance services, this is a 4% tax increase. That's my understanding right now.

**KISBER:** Well, it all depends on how you approach the issue, and I'm not going to tell you you're wrong, but what I am going to say is these new entrants into the market have benefitted from being classified a different type of business, even though they are competing against an established business that's taxed at a much higher rate. This is no different than the way we approach trying to bring equity to the franchise excise tax law, because you can be a business that was paying no tax or paying the complete load of tax, based on your type of structure, but you might be providing the same type of service. So, I would submit that these new entrants in the market today are benefitting from being able to classify themselves because of their legal structure in a different manner to get a lower tax rate. And so, we can let one of two things happen. We can let the market continue to go as it is today, and ultimately they'll take all the

business away from the incumbent public utility, and therefore local governments will lose their revenues completely, and we'll be up here trying to decide how we're going to help hold local governments harmless with the requirements they have to fund education and other services. Or we can get proactive and try to figure out, what's a way to spare to the most number of people that are involved in this discussion and that does not harm our local communities, our local cities and counties. And I can tell you from my over a year's worth of discussion of this issue, that it is a very difficult issue, and this is the most fair way that anyone I know of could come forward with a way of trying to achieve all those policy goals. But those people who are customers today of these companies that are classified at the lower rate are already enjoying the benefit of the tax law, because they are able to take advantage of a lower tax rate, which is reflected in the tariff or in the rate they are paying, and this act, if it were passed, would bring equity to the situation.

**ODOM:** At any time during the process has anyone from the private businesses involved in this, have they sat down and been part of this? Because I think there's a good message to give them, and I think you just gave them that. But I would probably feel better about it if somewhere throughout the process a discussion had been held involving not just the public utilities, but the other private companies, too, because I'm not sure they realize that this is even up here. And so I appreciate your comments, thank you.

**KISBER:** I just want to clarify, representatives of some of the competitive companies were involved in discussions, and they weren't involved in discussions with me, but they were involved in discussions with the various companies that were working on this, and with the design and discussions that took place in trying to put this together. I'm not sure who they are because I was not involved in those discussions, but I was told that there were representatives of some of those affected companies involved.

**TURNER:** Representative Kisber, I've never been this confused, and I like to understand what I'm voting on before I do it. Which companies are we exempting here, what type of companies?

**KISBER:** We're not exempting anyone from property taxes. Let me try to go through it again as simply as I can. If you think back to the days in which we had one telephone company, whether it be South Central Bell or Sprint, whatever they were called, they were structured under state law as a public utility. And because they were a monopoly and were granted exclusive franchises, we taxed the heck out of them, both at the state and federal level. In around 1990, the business tax committee saw that there was a revolution coming in technology, and that there was going to be new entrants and a change in the way in which telecommunications services would be provided. And at the state level, we totally reformed the way in which we levied taxes on competitive companies, and even the public utility, their parts that had competition, like cellular services, were treated as such. And what we did in state law was we said we're going to abolish all of the gross receipts taxes, or most all of them, and replace them with an end user sales tax, because that's how competitive goods are sold. Well, that takes us through a few more years, and since then we've seen with the changes that took place in federal policy and technology, we have a whole host of companies now that can sell telecommunications services, phone service. They can hook you up to the local network and provide long distance. Now most of them are interested in business customers, because that's where the big money is. So I'm one of these new

entrants who have come into the market, and because of the way in which I've come into the market and I'm structured and classified, I only provide one niche part of the service. I can be structured as what's called a commercial/industrial company, and for property tax purposes, I'm assessed at a much lower level. So you have Bell South, Sprint, whomever, that's a public utility, that in real property is taxed 27% higher and in personal property some 45% higher because they're under the old monopoly structure. Their rates have to reflect those taxes. So, as a business rate, if I'm a business man, and South Central Bell gives me a rate of say \$50 because they're building in all these gross receipts taxes and property taxes, and I'm a new entrant that doesn't have those same levels, I can sell you that same service at say \$40. What this bill would do is allow for them to take the difference in property taxes, which is significant, and get a credit based on the increase in the sales tax that would be paid, so that they can reduce that base rate. So now I come in and I have a competitive company at \$40, and I have a public utility at or around \$40, I can make my decision based on true competition and not based on the demands that we place on them because they're defined as a public utility. That is in essence what it does. Because of the increase in the tax, then the credit that's given for the difference in the property tax, the legislation requires that that then be reflected in the tariff. The TRA has language that they gave me to make sure that that happens, and that that reduction has to occur by a certain date each year.

**RHINEHART:** We went through long hours of debate on this. There's nothing wrong with this legislation; it's revenue neutral in the end, and any additional revenue will be placed in a special fund. So, Mr. Speaker, I move the previous question on the bill.

(Vote, passed, 85-8, 2 present not voting.)

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## SENATE SESSION

May 2, 2001

Tape # 46

SB 1484

**ROCHELLE:** This is the telecommunications tax bill, and I hope everybody has had an opportunity to talk about it. This comes from the changes in the telecommunications industry, and the fact that we still treat some of the telecom companies as public utilities, and this affects their property tax. So the solution that's been proposed to that is for the locals to keep collecting based on them being a public utility and set up a new fund that would give them a way to get a credit on a statewide basis, and then increase the sales tax on the business interstate long distance telecom services to the same as the others are, and then pass through that tax savings to the customers in mandated reduced access charges, and with the House amendments would have definite time periods and an annual requirement that that be looked at each year. I believe that the House bill is on the desk, and so I'd move to substitute and conform with the House bill.

**WILDER:** Federal amendments are withdrawn.

**KYLE:** As I read the amended bill, it will impact the jurisdiction of the TN Regulatory Authority, and for those purposes I will I will now recuse myself from the debate and the vote on this bill.

**HENRY:** Are finance committee amendments numbers 1 and 2, are they in the House bill?

**WILDER:** Yes

**HENRY:** All right, I withdraw number 1.

**WILDER:** All amendments are withdrawn. All amendments to the House bill, without objection, every amendment is withdrawn.

(Vote, adopted.)

## **Exhibit #2**

Filed for intro on 02/07/2001  
SENATE BILL 1484 By  
Rochelle

HOUSE BILL 864  
By Kisber

AN ACT to provide for the levy of additional sales tax on interstate telecommunications services sold to businesses; to amend Tennessee Code Annotated, Section 67-4-2009, relative to provide for the pass-through to customers of certain savings through reduction in rates for telecommunications services; to provide a sales tax exemption for certain telecommunications equipment; to provide for effective dates.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. It is the finding of the general assembly that one measure of the state's economic competitiveness is the presence of an efficient and affordable telecommunications infrastructure using the latest technological advancements. The general assembly further finds that the telecommunications industry is undergoing a dramatic change that is altering the identify of its participants, the nature of services that the industry provides, and the methods used to deliver those services. The general assembly finds that the telecommunications industry is becoming increasingly competitive, that the distinctions among the providers of the various types of telecommunications services have become blurred, and that full and fair competition within the telecommunications industry is beneficial to all residents and businesses of Tennessee. Further, it is a finding of the general assembly that the Tennessee property tax laws now place certain telephone companies at a competitive disadvantage because their

properties are classified as "public utility property" and assessed at the ratio of fifty-five percent (55%) of such properties' fair market values while the properties of other businesses, including those of certain of their competitors, are classified as "industrial and commercial property" and assessed at lower ratios of such properties' fair market values. Accordingly, the general assembly finds that, in order to mitigate the effects of such competitive disadvantage, telephone companies whose properties are classified as "public utility property" should be entitled to a credit against their franchise and excise taxes in an amount equal to their ad valorem property tax attributable to the higher assessment ratio applicable to public utility property. The general assembly further finds, however, that it is in the best interests of the state and its political subdivisions that the revenues available to the state not be diminished by the franchise and excise tax credits allowed to certain telephone companies; and that an increase in the sales tax imposed on interstate telecommunications services is expected to provide to the State revenues approximately equal to the franchise and excise tax credits allowed to certain telephone companies. Furthermore, the general assembly finds that its in the best interests of Tennessee consumers of telecommunications services that any net tax saving experienced by such telephone companies be passed on to consumers in the form of reductions in the prices charged for the services provided by such telephone companies. Accordingly, the general assembly finds that there is a compelling need to effect these changes in the tax system of the state in order to avoid placing certain telecommunications services providers at a competitive disadvantage, to provide purchasers of telecommunications services with greater choices and lower prices, and to preserve the revenue base of the existing property tax system for the political subdivisions of the state.

SECTION 2. Tennessee Code Annotated, Section 67-6-221, is amended to read as follows:

**67-6-221. Interstate telecommunications services.**

(a) Notwithstanding any other provision of the law to the contrary, interstate telecommunication services sold to businesses shall be subject to a tax imposed at the rate of six percent (6%).

(b) The revenue from a rate equal to one-half percent (0.5%) of tax shall be deposited in the general fund and earmarked for education purposes for kindergarten through grade twelve (K-12) in accordance with Section 67-6-103(c)(2). The revenue from a rate equal to one-half percent (0.5%) of tax shall be distributed to incorporated municipalities in the proportion each population bears to the aggregate population of the state and to unincorporated areas of counties in the proportion each population bears to the aggregate population of the state, according to the most recent federal census and other census authorized by law. Counties and incorporated municipalities shall use such funds in the same manner and for the same purposes as funds distributed pursuant to Section 67-6-712. The revenue from a rate equal to two and one-half percent (2.5%) of tax shall be deposited in the telecommunications ad valorem tax reduction fund created by Section 5 of this act. All other revenue generated from the tax imposed by subsection (a) shall be deposited in the state general fund and allocated pursuant to Section 67-6-103(a).

SECTION 3. Tennessee Code Annotated, Section 67-4-2009, is amended by adding at the end thereof a new subsection (10) to read as follows:

(10)

(A) Pursuant to the rules of this subsection, every person providing telecommunications services subject to tax under Chapter 6 of this title shall be allowed as a credit against the sum total of the taxes imposed by the franchise tax law, compiled in Title 67, Chapter 4, Part 21, and by the excise tax law, compiled in Title 67, Chapter 4, Part 20, an

amount equal to the sum of (i) 27.27% of the aggregate ad valorem taxes paid to political subdivisions of this state relating to property assessed with a lien date on or after January 1, 2002, with respect to such person's public utility property, as defined in §67-5-501(8)(B), which is real property; and (ii) 45.45% of the aggregate ad valorem taxes paid to political subdivisions of this state relating to property assessed with a lien date on or after January 1, 2002, with respect to such person's public utility property, as defined in §67-5-501(8)(B), which is personal property.

(B) The credit allowed under this subsection shall be applied against any Tennessee franchise and excise taxes shown on a return filed by such person for taxable years ending on or after December 31, 2002.

(C) The excess, if any, of the credit allowed by this subsection over the aggregate franchise and excise tax liability of a person against which such allowable credit may be applied, as provided in this subsection, shall be deemed to be for which the taxpayer shall be entitled to a refund under §67-1-1802. Any such refund, together with interest thereon, must be paid by the commissioner within ninety (90) days of receipt by the commissioner of the return on which the credit allowed by this section is claimed. Failure of the commissioner to pay such refund within such ninety (90) day period, in whole or in part, shall entitle the aggrieved taxpayer to proceed with the remedies provided in §67-1-1802.

(D) To the extent that the amount contained in the telecommunications ad valorem tax reduction fund does not equal or exceed the total amount of credits or refunds as allowed by §67-4-2009(10), such credits and refunds shall be proportionately reduced by

the amount of the shortfall; provided, however, that any such reductions shall be carried forward to any succeeding year. The commissioner shall determine the amount of any reductions required pursuant to this subsection.

(E) With respect to any person or entity not required to file a return, including, but not limited to, telephone cooperatives, the credit allowed under this subsection shall be deemed to be a payment of tax in excess of the taxpayer's actual liability governed by the provisions of paragraph (C) of this subsection. Any such person shall notify the commissioner in writing of the amount of the credit claimed and, for purposes of paragraph (C) of this subsection, the date of receipt by the commissioner of such notice shall be deemed to be the date of receipt by the commissioner of the return on which the credit allowed by this subsection is claimed.

SECTION 4. Tennessee Code Annotated, Section 67-6-102(13), is amended by adding at the end thereof a new paragraph (J) to read as follows:

(J) Machinery, apparatus and equipment with all associated parts, appurtenances and accessories, including hydraulic fluids, lubricating oils, and greases necessary for operation and maintenance, repair, parts and any necessary repair or taxable installation labor therefor, which is (i) necessary to, and primarily for, the receiving, initiating, amplifying, processing, transmitting, retranslating, switching or monitoring of switching of telecommunications services for sale or internet access services for sale or any combination thereof, including, but not limited to, such machinery, apparatus and equipment used or consumed to upgrade systems to allow for the receiving, initiating, amplifying, processing, transmitting, retranslating, switching or monitoring of switching of

telecommunications services for sale or internet access services for sale or any combination thereof; and (ii) used by a person legally permitted to provide interstate telecommunications services to customers in this state.

SECTION 5. There is hereby created in the state treasury a special fund to be known as the telecommunications ad valorem tax reduction fund. The monies in the fund shall be used solely and exclusively for the purpose of providing funds to pay the credits or refunds allowed by Section 67-4-2009(10). Annually, monies shall be transferred to the state general fund in the amount equal to the total credits taken and refunds issued pursuant to Section 67-4-2009(10). The monies in the fund shall be invested in the same manner as the monies in the state general fund. Interest earned on investment of monies in the fund shall be deposited in and credited to the fund. Unexpended monies in the fund at the close of each fiscal year shall remain in the fund.

SECTION 6. To the extent that a person engaged in the business of providing telecommunications services subject to tax under Chapter 6 of this title experiences a net tax savings solely as a result of the amendment to Tennessee Code Annotated, Section 67-4-2009, enacted by Section 3 of this act, such net tax savings shall inure to the benefit of the customers of such person through a reduction in the price of telecommunications services provided by such person. For purposes of this section, "net tax savings" shall take into account and be reduced by any reduction in a company's share of the NECA settlement pool resulting from the provisions of this act.

SECTION 7. The provisions of this act are deemed not to be severable. Therefore, if the amendment to Tennessee Code Annotated, Section 67-4-2009, enacted by Section 3 of this act, is repealed, declared invalid or otherwise become inoperable, all other provisions of this act, shall by operation of law immediately become inapplicable inoperable and of no effect.

SECTION 8. The provisions of Section 2 of this act shall be effective with bills submitted by telecommunications service providers to their customers which are dated on or after January

1, 2002. Sections 3, 4, 5, and 6 of this act shall be effective on January 1, 2002. The remaining provisions of this act shall take effect upon becoming a law, the public welfare requiring it.

## **Exhibit #3**

**(Arranged alphabetically by company name)**

## TENNESSEE ONLY

QUARTERLY REPORT OF REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

| Item<br>(a)                                         | Amount For This Quarter |                  |                  | Year-to-Date     |                  | 12 Months-To-Date |                  |
|-----------------------------------------------------|-------------------------|------------------|------------------|------------------|------------------|-------------------|------------------|
|                                                     | This Year<br>(b)        | Last Year<br>(c) |                  | This Year<br>(d) | Last Year<br>(e) | This Year<br>(f)  | Last Year<br>(g) |
| <b>Operating Revenues</b>                           |                         |                  |                  |                  |                  |                   |                  |
| Local Revenues (5000 to 5069) .....                 | 138,127                 | 131,403          |                  | 274,484          | 261,996          | 542,826           | 515,436          |
| Access Revenues (5080 to 5084) .....                | 258,050                 | 237,953          |                  | 534,414          | 497,509          | 1,043,147         | 1,139,277        |
| Long Distance Revenues (5100 to 5169) .....         | 0                       | 0                |                  | 0                | 5                | 0                 | 5                |
| Miscellaneous Revenues (5200 to 5270) .....         | 33,671                  | 48,635           |                  | 78,136           | 100,066          | 170,693           | 189,905          |
| Uncollectible Revenues (5300 to 5302) .....         | 2,325                   | 2,325            |                  | 4,650            | 4,650            | 10,076            | 6,504            |
| <b>Total Operating Revenues (L1 to L4 Less L5)</b>  | <b>427,523</b>          | <b>415,666</b>   |                  | <b>882,384</b>   | <b>854,926</b>   | <b>1,746,590</b>  | <b>1,838,119</b> |
| <b>Operating Expenses</b>                           |                         |                  |                  |                  |                  |                   |                  |
| Plant Specific Expenses (6110 to 6441) .....        | 61,645                  | 73,798           |                  | 124,287          | 127,775          | 249,109           | 244,296          |
| Plant NonSpecific Expenses (6510 to 6540) .....     | 12,612                  | 10,430           |                  | 24,266           | 20,635           | 47,440            | 42,737           |
| Depreciation & Amortization (6560 to 6565) .....    | 72,784                  | 71,363           |                  | 145,479          | 142,213          | 290,019           | 283,170          |
| Customer Operations Expense (6610 to 6623) .....    | 28,378                  | 25,075           |                  | 54,488           | 54,061           | 116,748           | 112,667          |
| Corporate Operations Expense (6710 to 6790) .....   | 67,636                  | 62,629           |                  | 140,940          | 124,456          | 275,899           | 237,372          |
| Other Operation Taxes (7230 & 7240) .....           | 34,499                  | 55,108           |                  | 71,843           | 110,601          | 71,158            | 142,066          |
| Federal Income Tax (7210, 7220, and 7250) .....     | 40,322                  | 39,183           |                  | 65,029           | 78,366           | 94,790            | 133,063          |
| <b>Total Operating Expense (L7 to L13)</b>          | <b>317,846</b>          | <b>337,584</b>   |                  | <b>626,332</b>   | <b>658,107</b>   | <b>1,145,163</b>  | <b>1,195,371</b> |
| <b>Net Operating Income (L6 minus L14)</b>          | <b>109,677</b>          | <b>78,082</b>    |                  | <b>256,052</b>   | <b>196,819</b>   | <b>601,427</b>    | <b>642,748</b>   |
| Nonoperating Inc. (7310 to 7370)-(7410 to 7450)     | 5,243                   | 8,304            |                  | 10,083           | 27,249           | 29,154            | 57,734           |
| Interest Expense (7510 to 7540) .....               | 52,166                  | 53,753           |                  | 100,845          | 103,273          | 209,091           | 213,308          |
| Extraordinary Items (7610 to 7640) .....            |                         |                  |                  |                  |                  |                   |                  |
| <b>Net Income ....</b>                              | <b>62,754</b>           | <b>32,633</b>    |                  | <b>165,290</b>   | <b>120,795</b>   | <b>421,490</b>    | <b>487,174</b>   |
| <b>Selected Balance Sheet Items</b>                 |                         |                  |                  |                  |                  |                   |                  |
|                                                     | Balance End of Quarter  |                  | Average 12 M-T-D |                  |                  |                   |                  |
|                                                     | This Year<br>(h)        | Last Year<br>(i) | This Year<br>(j) | Last Year<br>(k) |                  |                   |                  |
| Plant in Service (2110 to 2690) .....               | 7,909,728               | 7,800,603        | 7,872,920        | 7,716,377        |                  |                   |                  |
| Property Held For Future Use (2002) .....           |                         |                  |                  |                  |                  |                   |                  |
| Plant Under Construction (2003 to 2004) .....       | 146,130                 | 125,069          | 130,473          | 61,119           |                  |                   |                  |
| Plant Acquisition Adjustment (2005) .....           |                         |                  |                  |                  |                  |                   |                  |
| Materials & Supplies (1220) .....                   | 78,479                  | 81,769           | 91,091           | 54,561           |                  |                   |                  |
| Depreciation Reserve (3100 to 3600 less 3300) ..... | 2,385,311               | 2,099,694        | 2,276,589        | 1,993,313        |                  |                   |                  |
| Unamortized Investment Tax Credit (4320) .....      |                         |                  |                  |                  |                  |                   |                  |
| Accumulated Deferred Income Taxes (4340) .....      | 1,010,226               | 1,009,014        | 1,010,824        | 994,029          |                  |                   |                  |
| Preferred Stock (4510) .....                        | 19,450                  | 19,450           | 19,450           | 19,450           |                  |                   |                  |
| Common Stock (4510) .....                           | 145,000                 | 145,000          | 145,000          | 145,000          |                  |                   |                  |
| Additional Paid in Capital (4520) .....             |                         |                  |                  |                  |                  |                   |                  |
| Retained Earnings (4550) .....                      | 6,126,182               | 5,897,546        | 6,037,861        | 5,912,369        |                  |                   |                  |
| Long Term Debt (4210 to 4270) .....                 | 14,218,141              | 14,508,214       | 14,370,608       | 14,649,968       |                  |                   |                  |

**TENNESSEE**

**For Quarter Ended June 30, 2001**

**PAGE 3**

| Line # |                                          | Average Quarterly Balance | Average for 12 MTD |
|--------|------------------------------------------|---------------------------|--------------------|
|        | <b>Additions:</b>                        |                           |                    |
| 1      | Plant in Service                         | 7,893,848                 | 7,872,920          |
| 2      | Plant Under Construction                 | 135,739                   | 130,473            |
| 3      | Property Held For Future Use             |                           |                    |
| 4      | Materials & Supplies                     | 76,209                    | 91,091             |
|        | Other Additions (Itemize):               |                           |                    |
| 5      | Working Capital                          | 56,757                    | 57,433             |
| 6      |                                          |                           |                    |
| 7      |                                          |                           |                    |
| 8      | <b>Total Additions</b>                   | <b>8,162,553</b>          | <b>8,151,917</b>   |
|        | <b>Deductions:</b>                       |                           |                    |
| 9      | Accumulated Depreciation                 | 2,348,919                 | 2,276,589          |
| 10     | Accumulated Deferred Income Taxes        | 1,008,484                 | 1,010,824          |
| 11     | Unamortized Investment Credit – Pre 1971 |                           |                    |
| 12     | Customer Deposits                        | 40,935                    | 40,235             |
|        | Other Deductions (Itemize):              |                           |                    |
| 13     |                                          |                           |                    |
| 14     |                                          |                           |                    |
| 15     |                                          |                           |                    |
| 16     | <b>Total Deductions</b>                  | <b>3,398,338</b>          | <b>3,327,648</b>   |
| 17     | <b>Rate Base</b>                         | <b>4,764,215</b>          | <b>4,824,269</b>   |
| 18     | Net Operating Income (NOI)               | 438,708                   | 601,427            |
|        | Adjustment to NOI (Itemize):             |                           |                    |
| 19     | Directors Salaries                       | 15,530                    | 60,554             |
| 20     |                                          |                           |                    |
| 21     |                                          |                           |                    |
| 22     |                                          |                           |                    |
| 23     |                                          |                           |                    |
| 24     | <b>Adjusted Net Operating Income</b>     | <b>454,238</b>            | <b>661,981</b>     |
| 25     | <b>Rate of Return (L24/I17)</b>          | <b>9.53%</b>              | <b>13.72%</b>      |

All amounts should be calculated in a manner consistent with the last Rate Order issued by the Commission for this company.

| ITEM                                 | AMOUNT FOR THE MONTH 11/30/01 |                  |                  | YEAR-TO-DATE (11 MOS. ENDING 11/30/01) |                    |                    | 12 MOS. ENDING 11/30/01 |                    |                    |
|--------------------------------------|-------------------------------|------------------|------------------|----------------------------------------|--------------------|--------------------|-------------------------|--------------------|--------------------|
|                                      | COMBINED                      | INTERSTATE       | INTRASTATE       | COMBINED                               | INTERSTATE         | INTRASTATE         | COMBINED                | INTERSTATE         | INTRASTATE         |
| <b>OPERATING REVENUES</b>            |                               |                  |                  |                                        |                    |                    |                         |                    |                    |
| LOCAL REVENUES                       | \$223,084                     | \$2,713          | 220,371          | \$2,386,271                            | \$28,986           | \$2,357,285        | \$2,596,761             | \$31,489           | \$2,565,272        |
| ACCESS REVENUES                      | \$434,648                     | \$220,711        | 213,937          | \$4,378,754                            | \$2,121,181        | 2,257,573          | \$4,821,159             | \$2,384,232        | 2,436,927          |
| LONG DISTANCE REVENUES               | \$95,235                      | (\$64)           | 95,299           | \$1,075,725                            | \$2,127            | 1,073,598          | \$1,371,421             | \$2,192            | 1,369,229          |
| MISCELLANEOUS REVENUES               | \$26,244                      | \$7,624          | 18,620           | \$275,284                              | \$100,475          | 174,809            | \$299,579               | \$110,212          | 189,367            |
| UNCOLLECTIBLE REVENUES               | (\$5)                         | 0                | (5)              | (\$185,016)                            | 0                  | (185,016)          | (\$186,516)             | 0                  | (186,516)          |
| <b>TOTAL OPERATING REVENUES</b>      | <b>\$779,205</b>              | <b>\$230,984</b> | <b>\$548,221</b> | <b>\$7,931,017</b>                     | <b>\$2,252,769</b> | <b>\$5,678,248</b> | <b>\$8,902,403</b>      | <b>\$2,528,125</b> | <b>\$6,374,278</b> |
| <b>OPERATING EXPENSES</b>            |                               |                  |                  |                                        |                    |                    |                         |                    |                    |
| PLANT SPECIFIC EXPENSES              |                               |                  |                  |                                        |                    |                    |                         |                    |                    |
| PLANT NONSPECIFIC EXPENSES           | \$114,345                     | 0.716419         | \$81,919         | \$1,296,188                            | 0.716419           | \$928,614          | \$1,426,388             | 0.716419           | \$1,023,324        |
| DEPRECIATION AND AMORTIZATION        | \$53,000                      | 0.664257         | 35,206           | \$371,295                              | 0.664257           | 246,635            | \$487,538               | 0.664257           | 323,851            |
| CUSTOMER OPERATIONS EXPENSE          | \$148,878                     | 0.701766         | 104,477          | \$1,856,485                            | 0.701766           | 1,162,465          | \$1,804,828             | 0.701766           | 1,286,567          |
| CORPORATE OPERATIONS EXPENSE         | \$60,143                      | 0.728280         | 43,801           | \$619,394                              | 0.728280           | 451,092            | \$678,546               | 0.728280           | 494,172            |
| OTHER OPERATING TAXES                | \$49,852                      | 0.720227         | 35,905           | \$470,176                              | 0.720227           | 338,633            | \$514,711               | 0.720227           | 370,708            |
| FIT                                  | \$42,449                      | 0.716424         | 30,412           | \$370,227                              | 0.716424           | 265,239            | \$411,472               | 0.716424           | 294,788            |
| <b>TOTAL OPERATING EXPENSES</b>      | <b>\$103,902</b>              | <b>31.463</b>    | <b>72,439</b>    | <b>\$1,048,509</b>                     | <b>287,070</b>     | <b>761,439</b>     | <b>\$1,191,941</b>      | <b>325,251</b>     | <b>866,690</b>     |
| <b>NET OPERATING INCOME</b>          | <b>\$572,569</b>              | <b>\$31,468</b>  | <b>\$404,158</b> | <b>\$5,832,274</b>                     | <b>\$287,075</b>   | <b>\$4,154,118</b> | <b>\$6,517,424</b>      | <b>\$325,255</b>   | <b>\$4,640,101</b> |
| <b>INTEREST ON CUSTOMER DEPOSITS</b> |                               |                  |                  |                                        |                    |                    |                         |                    |                    |
| FEDERAL INCOME TAX (.35)             | (\$149)                       | 0.715029         | (\$107)          | (\$1,947)                              | 0.715029           | (1,392)            | (\$2,154)               | 0.715029           | (\$1,540)          |
| ADJUSTED NOI                         | 52                            | 0                | 37               | 681                                    | 0                  | 487                | 754                     |                    | 539                |
| RATE OF RETURN                       | 206,539                       |                  | 143,994          | 2,097,478                              |                    | 1,523,225          | 2,383,579               |                    | 1,733,177          |
| PRIOR PERIOD ADJUSTMENTS             | 13.46%                        |                  | 13.08%           | 12.58%                                 |                    | 12.74%             | 13.18%                  |                    | 13.36%             |
| PRIOR PERIOD ADJUSTMENTS & NOI       | (\$1,175)                     |                  | (\$888)          | \$30,611                               |                    | \$1,805            | \$273,429               |                    | \$190,752          |
| NOI NET OF PRIOR PERIOD ADJUSTMENTS  | \$205,364                     |                  | \$143,106        | \$2,128,089                            |                    | \$1,525,030        | \$2,657,008             |                    | \$1,923,929        |
| RATE OF RETURN EXCLUDING PPA'S       | \$207,811                     |                  | \$144,882        | \$2,068,132                            |                    | \$1,521,420        | \$2,111,550             |                    | \$1,542,425        |
|                                      | 13.54%                        |                  | 13.16%           | 12.41%                                 |                    | 12.72%             | 11.88%                  |                    | 11.89%             |
| <b>SELECTED BALANCE SHEET ITEMS</b>  |                               |                  |                  |                                        |                    |                    |                         |                    |                    |
| PLANT IN SERVICE                     | 33,355,285                    | 0.715025         | 23,849,863       | 33,277,437                             | 0.715025           | 23,794,199         | 33,232,848              | 0.715025           | 23,762,317         |
| PROPERTY HELD FOR FUTURE USE         | 189,806                       | 0.715025         | 135,716          | 468,990                                | 0.715025           | 335,340            | 453,757                 | 0.715025           | 324,448            |
| PLANT UNDER CONSTRUCTION             | 12,896                        | 0.749224         | 9,662            | 15,620                                 | 0.749224           | 11,703             | 15,612                  | 0.749224           | 11,697             |
| PLANT ACQUISITION ADJUSTMENT         | 277,340                       |                  | 196,830          | 344,632                                |                    | 245,622            | 259,099                 |                    | 184,338            |
| MATERIALS AND SUPPLIES               | 12,142,552                    | 0.711672         | 8,641,514        | 12,671,060                             | 0.711672           | 9,017,639          | 12,634,359              | 0.711672           | 8,991,520          |
| WORKING CAPITAL                      | 173,532                       | 0.715025         | 124,080          | 184,601                                | 0.715025           | 131,994            | 185,831                 | 0.715025           | 132,874            |
| DEPRECIATION RESERVE                 | 3,071,680                     | 0.715026         | 2,196,331        | 3,030,198                              | 0.715026           | 2,166,670          | 3,025,037               | 0.715026           | 2,162,980          |
| UNAMORTIZED ITC                      | 29,815                        | 0.715029         |                  |                                        |                    |                    |                         |                    |                    |

| Line # |                                                                           | Average Monthly Balance | Average YTD BALANCE | Average MTD for 12 Months |
|--------|---------------------------------------------------------------------------|-------------------------|---------------------|---------------------------|
| 1.     | Plant in Service                                                          | \$23,849,863            | \$23,794,199        | \$23,762,317              |
| 2.     | Plant Under Construction                                                  | 135,716                 | 335,340             | 324,448                   |
| 3.     | Property Held for Future Use                                              |                         |                     |                           |
| 4.     | Materials and Supplies                                                    | 9,662                   | 11,703              | 11,697                    |
| 5.     | Working Capital                                                           | 196,830                 | 245,622             | 184,338                   |
| 6.     |                                                                           |                         |                     |                           |
| 7.     |                                                                           |                         |                     |                           |
| 8.     | Total Additions                                                           | \$24,192,071            | \$24,386,864        | \$24,282,800              |
| 9.     | Deductions:                                                               |                         |                     |                           |
| 10.    | Accumulated Depreciation                                                  | \$8,641,514             | \$9,017,639         | \$8,991,520               |
| 11.    | Unamortized Investment Tax Credit                                         | 2,196,331               | 2,166,670           | 2,162,980                 |
| 12.    | Customer Deposits                                                         | 124,080                 | 131,994             | 132,874                   |
| 13.    | Other Deductions (Itemize):                                               | 21,319                  | 25,311              | 25,671                    |
| 14.    |                                                                           |                         |                     |                           |
| 15.    |                                                                           |                         |                     |                           |
| 16.    | Total Deductions                                                          | \$10,983,244            | \$11,341,614        | \$11,313,045              |
| 17.    | Rate Base                                                                 | \$13,208,827            | \$13,045,250        | \$12,969,755              |
| 18.    | Net Operating Income                                                      | \$144,063               | \$1,524,130         | \$1,734,178               |
| 19.    | Adjustments to NOI (Itemize):                                             | (107)                   | (1,392)             | (1,540)                   |
| 20.    | Deposits                                                                  | 37                      | 487                 | 539                       |
| 21.    | Adjustment for FIT (.35)                                                  |                         |                     |                           |
| 22.    |                                                                           |                         |                     |                           |
| 23.    |                                                                           |                         |                     |                           |
| 24.    | Adjusted Net Operating Income                                             | \$143,994               | \$1,523,225         | \$1,733,177               |
| 25.    | Rate of Return (L24/L17)                                                  | 13.08%                  | 12.74%              | 13.36%                    |
| 26.    | Rate of Return, excluding prior period adjustment                         | 13.16%                  | 12.72%              | 11.89%                    |
| 27.    | Prior Period Adjustments (Net of Tax)<br>Refer to attached Schedule PPA.1 | (\$888)                 | \$1,805             | \$190,752                 |

**CENTURYTEL OF CLAIBORNE, INC.**  
**MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES**  
**AND INVESTMENTS - TELEPHONE COMPANIES**

| ITEM                                 | AMOUNT FOR THE MONTH 11/30/01 | COMBINED | INTERSTATE       | INTRASTATE       |
|--------------------------------------|-------------------------------|----------|------------------|------------------|
| <b>OPERATING REVENUES</b>            |                               |          |                  |                  |
| LOCAL REVENUES                       | \$278,468                     |          | \$0              | \$278,468        |
| ACCESS REVENUES                      | 346,285                       |          | \$157,481        | \$188,804        |
| LONG DISTANCE REVENUES               | 61,917                        |          | \$0              | 61,917           |
| MISCELLANEOUS REVENUES               | 30,447                        |          | \$7,147          | 23,300           |
| UNCOLLECTIBLE REVENUES               | 2,501                         |          | 0                | 2,501            |
| <b>TOTAL OPERATING REVENUES</b>      | <b>\$719,619</b>              |          | <b>\$164,628</b> | <b>\$554,991</b> |
| <b>OPERATING EXPENSES</b>            |                               |          |                  |                  |
| PLANT SPECIFIC EXPENSES              | \$134,237                     |          | 0.739485         | \$99,266         |
| PLANT NONSPECIFIC EXPENSES           | 54,891                        |          | 0.739229         | \$40,577         |
| DEPRECIATION AND AMORTIZATION        | 125,692                       |          | 0.736625         | \$92,588         |
| CUSTOMER OPERATIONS EXPENSE          | 70,398                        |          | 0.680278         | \$47,890         |
| CORPORATE OPERATIONS EXPENSE         | 39,976                        |          | 0.719764         | \$28,773         |
| OTHER OPERATING TAXES                | 33,835                        |          | 0.748460         | 25,324           |
| FIT                                  | 88,911                        |          | 13.654           | 75,257           |
| <b>TOTAL OPERATING EXPENSES</b>      | <b>\$547,939</b>              |          |                  | <b>\$409,676</b> |
| <b>NET OPERATING INCOME</b>          | <b>\$171,679</b>              |          |                  | <b>\$145,315</b> |
| <b>INTEREST ON CUSTOMER DEPOSITS</b> |                               |          |                  |                  |
| FEDERAL INCOME TAX (.35)             | (\$152)                       |          |                  | (\$112)          |
| ADJUSTED NOI                         | 53                            |          |                  | 39               |
| RATE OF RETURN                       | 171,581                       |          |                  | 145,242          |
| PRIOR PERIOD ADJUSTMENTS             | 15,06%                        |          |                  | 17,25%           |
| PRIOR PERIOD ADJUSTMENTS & NOI       | (\$1,852)                     |          |                  | (\$926)          |
| NOI NET OF PRIOR PERIOD ADJUSTMENTS  | \$169,729                     |          |                  | \$144,316        |
| RATE OF RETURN EXCLUDING PPA'S       | \$173,433                     |          |                  | \$146,168        |
|                                      | 15.22%                        |          |                  | 17.36%           |

| ITEM                                | AMOUNT FOR THE MONTH 11/30/01 | COMBINED | INTERSTATE       | INTRASTATE       |
|-------------------------------------|-------------------------------|----------|------------------|------------------|
| LOCAL REVENUES                      | \$278,468                     |          | \$0              | \$278,468        |
| ACCESS REVENUES                     | 346,285                       |          | \$157,481        | \$188,804        |
| LONG DISTANCE REVENUES              | 61,917                        |          | \$0              | 61,917           |
| MISCELLANEOUS REVENUES              | 30,447                        |          | \$7,147          | 23,300           |
| UNCOLLECTIBLE REVENUES              | 2,501                         |          | 0                | 2,501            |
| <b>TOTAL OPERATING REVENUES</b>     | <b>\$719,619</b>              |          | <b>\$164,628</b> | <b>\$554,991</b> |
| PLANT SPECIFIC EXPENSES             | \$134,237                     |          | 0.739485         | \$99,266         |
| PLANT NONSPECIFIC EXPENSES          | 54,891                        |          | 0.739229         | \$40,577         |
| DEPRECIATION AND AMORTIZATION       | 125,692                       |          | 0.736625         | \$92,588         |
| CUSTOMER OPERATIONS EXPENSE         | 70,398                        |          | 0.680278         | \$47,890         |
| CORPORATE OPERATIONS EXPENSE        | 39,976                        |          | 0.719764         | \$28,773         |
| OTHER OPERATING TAXES               | 33,835                        |          | 0.748460         | 25,324           |
| FIT                                 | 88,911                        |          | 13.654           | 75,257           |
| <b>TOTAL OPERATING EXPENSES</b>     | <b>\$547,939</b>              |          |                  | <b>\$409,676</b> |
| <b>NET OPERATING INCOME</b>         | <b>\$171,679</b>              |          |                  | <b>\$145,315</b> |
| INTEREST ON CUSTOMER DEPOSITS       |                               |          |                  |                  |
| FEDERAL INCOME TAX (.35)            | (\$152)                       |          |                  | (\$112)          |
| ADJUSTED NOI                        | 53                            |          |                  | 39               |
| RATE OF RETURN                      | 171,581                       |          |                  | 145,242          |
| PRIOR PERIOD ADJUSTMENTS            | 15,06%                        |          |                  | 17,25%           |
| PRIOR PERIOD ADJUSTMENTS & NOI      | (\$1,852)                     |          |                  | (\$926)          |
| NOI NET OF PRIOR PERIOD ADJUSTMENTS | \$169,729                     |          |                  | \$144,316        |
| RATE OF RETURN EXCLUDING PPA'S      | \$173,433                     |          |                  | \$146,168        |
|                                     | 15.22%                        |          |                  | 17.36%           |

| ITEM                                | YEAR-TO-DATE (11 MOS. ENDING 11/30/01) | COMBINED | INTERSTATE         | INTRASTATE         |
|-------------------------------------|----------------------------------------|----------|--------------------|--------------------|
| LOCAL REVENUES                      | \$3,005,560                            |          | \$0                | \$3,005,560        |
| ACCESS REVENUES                     | 3,537,879                              |          | \$1,626,828        | 1,911,051          |
| LONG DISTANCE REVENUES              | 793,074                                |          | \$173              | 792,901            |
| MISCELLANEOUS REVENUES              | 354,795                                |          | \$84,511           | 270,284            |
| UNCOLLECTIBLE REVENUES              | (101,491)                              |          | 0                  | (101,491)          |
| <b>TOTAL OPERATING REVENUES</b>     | <b>\$7,589,817</b>                     |          | <b>\$1,711,512</b> | <b>\$5,878,305</b> |
| PLANT SPECIFIC EXPENSES             | \$1,376,980                            |          | 0.739485           | \$1,018,256        |
| PLANT NONSPECIFIC EXPENSES          | 379,881                                |          | 0.739229           | 280,819            |
| DEPRECIATION AND AMORTIZATION       | 1,335,219                              |          | 0.736625           | 983,556            |
| CUSTOMER OPERATIONS EXPENSE         | 690,633                                |          | 0.680278           | 469,822            |
| CORPORATE OPERATIONS EXPENSE        | 436,149                                |          | 0.719764           | 313,924            |
| OTHER OPERATING TAXES               | 277,780                                |          | 0.748460           | 207,907            |
| FIT                                 | 1,049,321                              |          | 165,940            | 883,381            |
| <b>TOTAL OPERATING EXPENSES</b>     | <b>\$5,545,963</b>                     |          |                    | <b>\$4,157,666</b> |
| <b>NET OPERATING INCOME</b>         | <b>\$2,043,854</b>                     |          |                    | <b>\$1,720,639</b> |
| INTEREST ON CUSTOMER DEPOSITS       |                                        |          |                    |                    |
| FEDERAL INCOME TAX (.35)            | (\$2,055)                              |          |                    | (\$1,519)          |
| ADJUSTED NOI                        | 719                                    |          |                    | 532                |
| RATE OF RETURN                      | 2,042,518                              |          |                    | 1,719,652          |
| PRIOR PERIOD ADJUSTMENTS            | 16.45%                                 |          |                    | 18.74%             |
| PRIOR PERIOD ADJUSTMENTS & NOI      | \$18,296                               |          |                    | (\$5,852)          |
| NOI NET OF PRIOR PERIOD ADJUSTMENTS | \$2,060,814                            |          |                    | \$1,713,800        |
| RATE OF RETURN EXCLUDING PPA'S      | \$2,024,222                            |          |                    | \$1,725,504        |
|                                     | 16.30%                                 |          |                    | 18.81%             |

| ITEM                                | 12 MONTHS ENDING 11/30/01 | COMBINED | INTERSTATE         | INTRASTATE         |
|-------------------------------------|---------------------------|----------|--------------------|--------------------|
| LOCAL REVENUES                      | \$3,267,071               |          | \$0                | \$3,267,071        |
| ACCESS REVENUES                     | 3,906,823                 |          | \$1,834,032        | \$2,072,791        |
| LONG DISTANCE REVENUES              | 957,293                   |          | \$204              | \$957,089          |
| MISCELLANEOUS REVENUES              | 382,844                   |          | 2,521              | \$380,323          |
| UNCOLLECTIBLE REVENUES              | (112,191)                 |          | \$0                | (\$112,191)        |
| <b>TOTAL OPERATING REVENUES</b>     | <b>\$8,401,840</b>        |          | <b>\$1,836,757</b> | <b>\$6,565,083</b> |
| PLANT SPECIFIC EXPENSES             | \$1,504,856               |          | 0.739485           | \$1,112,819        |
| PLANT NONSPECIFIC EXPENSES          | 419,019                   |          | 0.739229           | 309,751            |
| DEPRECIATION AND AMORTIZATION       | 1,453,536                 |          | 0.736625           | 1,070,711          |
| CUSTOMER OPERATIONS EXPENSE         | 755,986                   |          | 0.680278           | 514,281            |
| CORPORATE OPERATIONS EXPENSE        | 484,919                   |          | 0.719764           | 349,027            |
| OTHER OPERATING TAXES               | 328,131                   |          | 0.748460           | 245,593            |
| FIT                                 | 1,208,819                 |          | 172,291            | 1,036,528          |
| <b>TOTAL OPERATING EXPENSES</b>     | <b>\$6,155,266</b>        |          |                    | <b>\$4,638,709</b> |
| <b>NET OPERATING INCOME</b>         | <b>\$2,246,574</b>        |          |                    | <b>\$1,926,373</b> |
| INTEREST ON CUSTOMER DEPOSITS       |                           |          |                    |                    |
| FEDERAL INCOME TAX (.35)            | (\$2,269)                 |          |                    | (\$1,677)          |
| ADJUSTED NOI                        | 794                       |          |                    | 587                |
| RATE OF RETURN                      | 2,245,099                 |          |                    | 1,925,283          |
| PRIOR PERIOD ADJUSTMENTS            | 16.70%                    |          |                    | 19.38%             |
| PRIOR PERIOD ADJUSTMENTS & NOI      | \$167,886                 |          |                    | \$82,612           |
| NOI NET OF PRIOR PERIOD ADJUSTMENTS | \$2,412,985               |          |                    | \$2,007,895        |
| RATE OF RETURN EXCLUDING PPA'S      | \$2,077,213               |          |                    | \$1,842,671        |
|                                     | 15.45%                    |          |                    | 18.55%             |

| SELECTED BALANCE SHEET ITEMS | AVERAGE MONTHLY (11/30/01) | COMBINED | INTERSTATE | INTRASTATE |
|------------------------------|----------------------------|----------|------------|------------|
| PLANT IN SERVICE             | 28,432,232                 |          | 0.739228   | 21,017,902 |
| PROPERTY HELD FOR FUTURE USE | 0                          |          |            |            |
| PLANT UNDER CONSTRUCTION     | 12,271                     |          | 0.739230   | 9,071      |
| PLANT ACQUISITION ADJUSTMENT | 0                          |          |            |            |
| MATERIALS AND SUPPLIES       | 25,019                     |          | 0.754628   | 18,880     |
| WORKING CAPITAL              | 299,502                    |          | 0.739012   | 216,507    |
| DEPRECIATION RESERVE         | 12,118,295                 |          | 0.739247   | 8,955,565  |
| UNAMORTIZED ITC              | 433                        |          | 0.739402   | 320        |
| ACCUMULATED DFD INCOME TAXES | 2,946,724                  |          | 0.739243   | 2,178,814  |
| CUSTOMER DEPOSITS            | 30,340                     |          |            | 22,429     |
| RATE BASE                    | 13,673,232                 |          |            | 10,105,232 |

| ITEM                            | AVERAGE YTD (11 MOS. ENDING 11/30/01) | COMBINED | INTERSTATE       | INTRASTATE       |
|---------------------------------|---------------------------------------|----------|------------------|------------------|
| LOCAL REVENUES                  | 27,603,723                            |          | 0.739228         | 20,405,445       |
| ACCESS REVENUES                 | 0                                     |          |                  |                  |
| LONG DISTANCE REVENUES          | 131,479                               |          | 0.739230         | 97,193           |
| MISCELLANEOUS REVENUES          | 27,073                                |          | 0.754628         | 20,430           |
| UNCOLLECTIBLE REVENUES          | 360,455                               |          | 0.739012         | 260,353          |
| <b>TOTAL OPERATING REVENUES</b> | <b>11,609,693</b>                     |          | <b>8,579,702</b> | <b>8,579,702</b> |
| PLANT SPECIFIC EXPENSES         | 1,732                                 |          | 0.739247         | 1,280            |
| PLANT NONSPECIFIC EXPENSES      | 2,929,470                             |          | 0.739402         | 2,166,056        |
| DEPRECIATION AND AMORTIZATION   | 37,363                                |          | 0.739243         | 27,620           |
| CUSTOMER OPERATIONS EXPENSE     | 13,544,472                            |          |                  | 10,008,762       |

| ITEM                            | AVERAGE 12 MONTHS ENDING 11/30/01 | COMBINED | INTERSTATE       | INTRASTATE       |
|---------------------------------|-----------------------------------|----------|------------------|------------------|
| LOCAL REVENUES                  | 27,513,841                        |          | 0.739228         | 20,339,002       |
| ACCESS REVENUES                 | 0                                 |          |                  |                  |
| LONG DISTANCE REVENUES          | 154,896                           |          | 0.739230         | 114,504          |
| MISCELLANEOUS REVENUES          | 27,111                            |          | 0.754628         | 20,459           |
| UNCOLLECTIBLE REVENUES          | 263,732                           |          | 0.739012         | 190,490          |
| <b>TOTAL OPERATING REVENUES</b> | <b>11,551,718</b>                 |          | <b>8,536,858</b> | <b>8,536,858</b> |
| PLANT SPECIFIC EXPENSES         | 1,876                             |          | 0.739247         | 1,387            |
| PLANT NONSPECIFIC EXPENSES      | 2,926,709                         |          | 0.739402         | 2,164,014        |
| DEPRECIATION AND AMORTIZATION   | 37,818                            |          | 0.739243         | 27,957           |
| CUSTOMER OPERATIONS EXPENSE     | 13,441,459                        |          |                  | 9,934,238        |

# CENTURYTEL OF CLAIBORNE, INC.

Supplemental Financial Data to PSC 3.02

For the Month Ended November 30, 2001

INTRASTATE

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| Line #                                                                        | Average<br>Monthly<br>Balance | Average<br>YTD<br>BALANCE | Average<br>for 12<br>MTD |
|-------------------------------------------------------------------------------|-------------------------------|---------------------------|--------------------------|
| Additions:                                                                    |                               |                           |                          |
| 1. Plant in Service                                                           | \$21,017,902                  | \$20,405,445              | \$20,339,002             |
| 2. Plant Under Construction                                                   | \$9,071                       | \$97,193                  | \$114,504                |
| 3. Property Held for Future Use                                               |                               |                           |                          |
| 4. Materials and Supplies                                                     | 18,880                        | 20,430                    | 20,459                   |
| Other Additions (Itemize):                                                    |                               |                           |                          |
| 5. Working Capital                                                            | 216,507                       | 260,353                   | 190,490                  |
| 6. RTB Stock                                                                  | 0                             | 0                         | 0                        |
| 7. Unamortized Rate Case Expense                                              |                               |                           |                          |
| 8. Total Additions                                                            | <b>\$21,262,360</b>           | <b>\$20,783,421</b>       | <b>\$20,664,455</b>      |
| Deductions:                                                                   |                               |                           |                          |
| 9. Accumulated Depreciation                                                   | \$8,955,565                   | \$8,579,702               | \$8,536,858              |
| 10. Accumulated Deferred Income Taxes                                         | 2,178,814                     | 2,166,056                 | 2,164,014                |
| 11. Unamortized Investment Tax Credit                                         | 320                           | 1,280                     | 1,387                    |
| 12. Customer Deposits                                                         | 22,429                        | 27,620                    | 27,957                   |
| Other Deductions (Itemize):                                                   |                               |                           |                          |
| 13.                                                                           |                               |                           |                          |
| 14.                                                                           |                               |                           |                          |
| 15.                                                                           |                               |                           |                          |
| 16. Total Deductions                                                          | <b>\$11,157,128</b>           | <b>\$10,774,658</b>       | <b>\$10,730,216</b>      |
| 17. Rate Base                                                                 | <b>\$10,105,232</b>           | <b>\$10,008,763</b>       | <b>\$9,934,239</b>       |
| 18. Net Operating Income                                                      | \$145,315                     | \$1,720,639               | \$1,926,373              |
| Adjustments to NOI (Itemize):                                                 |                               |                           |                          |
| 19. Adjustment for Interest on Customer Deposits                              | (112)                         | (1,519)                   | (1,677)                  |
| 20. Adjustment for FIT (.35)                                                  | 39                            | 532                       | 587                      |
| 21.                                                                           |                               |                           |                          |
| 22.                                                                           |                               |                           |                          |
| 23.                                                                           |                               |                           |                          |
| 24. Adjusted Net Operating Income                                             | <b>\$145,242</b>              | <b>\$1,719,652</b>        | <b>\$1,925,283</b>       |
| 25. Rate of Return (L24/L17)                                                  | 17.25%                        | 18.74%                    | 19.38%                   |
| 26. Rate of Return, excluding prior period adjustment                         | 17.36%                        | 18.81%                    | 18.55%                   |
| 27. Prior Period Adjustments (Net of Tax)<br>Refer to attached Schedule PPA.1 | (\$926)                       | (\$5,852)                 | \$82,612                 |

**CENTURYTEL OF OOLTEWAH-COLLEGE DALE, INC.**  
**MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES**  
**AND INVESTMENTS - TELEPHONE COMPANIES**

| ITEM                                 | AMOUNT FOR THE MONTH (1/30/01) |            | YEAR-TO-DATE (11 MOS. 11/30/01) |            | 12 M-T-D (12 MOS. ENDED 11/30/01) |            |
|--------------------------------------|--------------------------------|------------|---------------------------------|------------|-----------------------------------|------------|
|                                      | COMBINED                       | INTRASTATE | COMBINED                        | INTRASTATE | COMBINED                          | INTRASTATE |
| <b>OPERATING REVENUES</b>            |                                |            |                                 |            |                                   |            |
| LOCAL REVENUES                       | \$253,738                      |            | 2,681,141.63                    |            | \$2,922,855                       |            |
| ACCESS REVENUES                      | 230,200                        |            | 2,587,655                       |            | 2,831,230                         |            |
| LONG DISTANCE REVENUES               | 18,392                         |            | 188,214                         |            | (115,642)                         |            |
| MISCELLANEOUS REVENUES               | 15,213                         |            | 184,443                         |            | 198,369                           |            |
| UNCOLLECTIBLE REVENUES               | (9)                            |            | (39,104)                        |            | (45,104)                          |            |
| <b>TOTAL OPERATING REVENUES</b>      | <b>\$517,534</b>               |            | <b>\$5,602,350</b>              |            | <b>\$5,791,708</b>                |            |
| <b>OPERATING EXPENSES</b>            |                                |            |                                 |            |                                   |            |
| PLANT SPECIFIC EXPENSES              | \$115,125                      |            | \$1,262,998                     |            | \$1,368,759                       |            |
| PLANT NONSPECIFIC EXPENSES           | 35,701                         |            | 446,015                         |            | 519,362                           |            |
| DEPRECIATION AND AMORTIZATION        | 114,671                        |            | 1,232,267                       |            | 1,339,474                         |            |
| CUSTOMER OPERATIONS EXPENSE          | 61,025                         |            | 648,916                         |            | 710,649                           |            |
| CORPORATE OPERATIONS EXPENSE         | 43,771                         |            | 431,438                         |            | 476,672                           |            |
| OTHER OPERATING TAXES                | 28,991                         |            | 198,672                         |            | 219,315                           |            |
| FIT                                  | 30,508                         |            | 322,868                         |            | 230,843                           |            |
| <b>TOTAL OPERATING EXPENSES</b>      | <b>\$429,792</b>               |            | <b>\$4,543,173</b>              |            | <b>\$4,865,074</b>                |            |
| <b>NET OPERATING INCOME</b>          | <b>\$87,742</b>                |            | <b>\$1,059,178</b>              |            | <b>\$926,634</b>                  |            |
| <b>INTEREST ON CUSTOMER DEPOSITS</b> |                                |            |                                 |            |                                   |            |
| FEDERAL INCOME TAX (.35)             | 45                             |            | (\$1,452)                       |            | (\$1,582)                         |            |
| ADJUSTED NOI                         | 87,658                         |            | 508                             |            | 554                               |            |
| RATE OF RETURN                       | 6.16%                          |            | 1,058,234                       |            | 925,605                           |            |
| PRIOR PERIOD ADJUSTMENTS             | (\$1,118)                      |            | 5.97%                           |            | 4.72%                             |            |
| PRIOR PERIOD ADJUSTMENTS & NOI       | \$86,540                       |            | \$67,446                        |            | (\$225,887)                       |            |
| NOI NET OF PRIOR PERIOD ADJUSTMENTS  |                                |            | \$1,125,680                     |            | \$699,718                         |            |
| RATE OF RETURN EXCLUDING PPA'S       | 6.23%                          |            | 5.58%                           |            | 5.86%                             |            |

| SELECTED BALANCE SHEET ITEMS | AVERAGE MONTHLY (11/30/01) |            | AVERAGE YTD (11 MOS. ENDING 11/30/01) |            | AVERAGE 12 MONTHS ENDING 11/30/01 |            |
|------------------------------|----------------------------|------------|---------------------------------------|------------|-----------------------------------|------------|
|                              | COMBINED                   | INTRASTATE | COMBINED                              | INTRASTATE | COMBINED                          | INTRASTATE |
| <b>PLANT IN SERVICE</b>      |                            |            |                                       |            |                                   |            |
| RTB Stock                    | 26,348,938                 |            | 25,579,449                            |            | 25,509,822                        |            |
| PLANT UNDER CONSTRUCTION     | 203,500                    |            | 203,500                               |            | 203,500                           |            |
| PLANT ACQUISITION ADJUSTMENT | 480,202                    |            | 429,051                               |            | 433,394                           |            |
| MATERIALS AND SUPPLIES       | 0                          |            | 0                                     |            | 0                                 |            |
| WORKING CAPITAL              | 23,379                     |            | 26,863                                |            | 26,907                            |            |
| DEPRECIATION RESERVE         | 255,622                    |            | 2,789,366                             |            | 3,075,442                         |            |
| UNAMORTIZED ITC              | 7,008,010                  |            | 6,554,436                             |            | 6,503,128                         |            |
| ACCUMULATED DFD INCOME TAXES | 0                          |            | 0                                     |            | 0                                 |            |
| CUSTOMER DEPOSITS            | 3,186,791                  |            | 3,090,303                             |            | 3,078,749                         |            |
| RATE BASE                    | 25,895                     |            | 26,401                                |            | 26,371                            |            |
|                              | 17,090,945                 |            | 19,357,089                            |            | 19,640,817                        |            |

**CENTURYTEL OF OOLTEWAH-COLLEGE DALE, INC.**

Supplemental Financial Data to PSC 3.02  
For the month ended November 30, 2001

Page 2

| Line #                                                                        | Average<br>Monthly<br>Balance | Average<br>YTD<br>BALANCE | Average<br>for 12<br>MTD |
|-------------------------------------------------------------------------------|-------------------------------|---------------------------|--------------------------|
| Additions:                                                                    |                               |                           |                          |
| 1. Plant in Service                                                           | \$26,348,938                  | \$25,579,449              | \$25,509,822             |
| 2. Plant Under Construction                                                   | \$480,202                     | \$429,051                 | \$433,394                |
| 3. Property Held for Future Use                                               |                               |                           |                          |
| 4. Materials and Supplies                                                     | 23,379                        | 26,863                    | 26,907                   |
| Other Additions (Itemize):                                                    |                               |                           |                          |
| 5. Working Capital                                                            | 255,622                       | 2,789,366                 | 3,075,442                |
| 6. RTB Stock                                                                  | 203,500                       | 203,500                   | 203,500                  |
| 7.                                                                            |                               |                           |                          |
| 8. Total Additions                                                            | <b>\$27,311,641</b>           | <b>\$29,028,229</b>       | <b>\$29,249,065</b>      |
| Deductions:                                                                   |                               |                           |                          |
| 9. Accumulated Depreciation                                                   | \$7,008,010                   | \$6,554,436               | \$6,503,128              |
| 10. Accumulated Deferred Income Taxes                                         | 3,186,791                     | 3,090,303                 | 3,078,749                |
| 11. Unamortized Investment Tax Credit                                         | 0                             | 0                         | 0                        |
| 12. Customer Deposits                                                         | 25,895                        | 26,401                    | 26,371                   |
| Other Deductions (Itemize):                                                   |                               |                           |                          |
| 13.                                                                           |                               |                           |                          |
| 14.                                                                           |                               |                           |                          |
| 15.                                                                           |                               |                           |                          |
| 16. Total Deductions                                                          | <b>\$10,220,696</b>           | <b>\$9,671,140</b>        | <b>\$9,608,248</b>       |
| 17. Rate Base                                                                 | <b>\$17,090,945</b>           | <b>\$19,357,089</b>       | <b>\$19,640,817</b>      |
| 18. Net Operating Income                                                      | \$87,742                      | \$1,059,178               | \$926,634                |
| Adjustments to NOI (Itemize):                                                 |                               |                           |                          |
| 19. Adjustment for Interest on Customer Deposits                              | (129)                         | (1,452)                   | (1,582)                  |
| 20. Adjustment for FIT (.35)                                                  | 45                            | 508                       | 554                      |
| 21.                                                                           |                               |                           |                          |
| 22.                                                                           |                               |                           |                          |
| 23.                                                                           |                               |                           |                          |
| 24. Adjusted Net Operating Income                                             | <b>\$87,658</b>               | <b>\$1,058,234</b>        | <b>\$925,606</b>         |
| 25. Rate of Return (L24/L17)                                                  | 6.15%                         | 5.96%                     | 4.71%                    |
| 26. Rate of Return, excluding prior period adjustment                         | 6.23%                         | 5.59%                     | 5.87%                    |
| 27. Prior Period Adjustments (Net of Tax)<br>Refer to attached Schedule PPA.1 | (\$1,118)                     | \$66,328                  | (\$227,005)              |

CITIZENS COMMUNICATIONS  
MONTHLY COMMISSION REPORT OF REVENUES AND EXPENSES  
CTC - TENNESSEE  
DECEMBER 2001

| ITEM                             | Current Month   |                   |                   | Year-to-Date    |                   |                   | 12 Months To-Date |                   |                   |
|----------------------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | Combined<br>(b) | Interstate<br>(c) | Intrastate<br>(d) | Combined<br>(e) | Interstate<br>(f) | Intrastate<br>(g) | Combined<br>(h)   | Interstate<br>(i) | Intrastate<br>(j) |
| (a)                              |                 |                   |                   |                 |                   |                   |                   |                   |                   |
| Operating Revenues               |                 |                   |                   |                 |                   |                   |                   |                   |                   |
| 1 Local Network                  | 1,880           | -                 | 1,880             | 21,635          | -                 | 21,635            | 21,635            | -                 | 21,635            |
| 2 Network Access                 | 2,846           | 1,505             | 1,341             | 32,042          | 17,060            | 14,982            | 32,042            | 17,060            | 14,982            |
| 3 Long Distance Network          | 76              | (0)               | 76                | 1,127           | (0)               | 1,127             | 1,127             | (0)               | 1,127             |
| 4 Miscellaneous                  | 120             | 32                | 88                | 1,710           | 495               | 1,215             | 1,710             | 495               | 1,215             |
| 5 Less: Uncollectibles           | (124)           | -                 | (124)             | (173)           | -                 | (173)             | (173)             | -                 | (173)             |
| 6 TOTAL OPERATING REVENUES       | 4,797           | 1,537             | 3,260             | 56,341          | 17,555            | 38,786            | 56,341            | 17,555            | 38,786            |
| Operating Expenses               |                 |                   |                   |                 |                   |                   |                   |                   |                   |
| 7 Plant Specific                 | 881             | 218               | 663               | 9,171           | 2,267             | 6,904             | 9,171             | 2,267             | 6,904             |
| 8 General Plant                  | 407             | 98                | 308               | 4,425           | 1,070             | 3,355             | 4,425             | 1,070             | 3,355             |
| 9 Customer Operations            | 372             | 54                | 318               | 4,471           | 645               | 3,826             | 4,471             | 645               | 3,826             |
| 10 Corporate Operations          | 639             | 130               | 509               | 7,569           | 1,540             | 6,029             | 7,569             | 1,540             | 6,029             |
| 11 Other Operating               | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 12 Depreciation & Amortization   | 1,458           | 359               | 1,098             | 17,179          | 4,234             | 12,944            | 17,179            | 4,234             | 12,944            |
| 13 Operating Taxes (ex Income)   | 174             | 61                | 113               | 1,833           | 642               | 1,191             | 1,833             | 642               | 1,191             |
| 14 Operating Income Taxes        | 337             | 240               | 97                | 4,549           | 2,784             | 1,765             | 4,549             | 2,784             | 1,765             |
| 15 TOTAL OPERATING EXPENSES      | 4,268           | 1,160             | 3,108             | 49,197          | 13,183            | 36,014            | 49,197            | 13,183            | 36,014            |
| 16 NET OPERATING INCOME          | 529             | 377               | 152               | 7,145           | 4,373             | 2,772             | 7,145             | 4,373             | 2,772             |
| 17 Interest Charges Construction | (16)            | (3)               | (13)              | (170)           | (33)              | (137)             | (170)             | (33)              | (137)             |
| 18 Other Income                  | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 19 Misc. Income Charges & Taxes  | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 20 Fixed Charges                 | -               | -                 | -                 | 5               | 1                 | 4                 | 5                 | 1                 | 4                 |
| 21 Extraordinary & Delayed Items | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 22 NET INCOME                    | 545             | 380               | 165               | 7,310           | 4,404             | 2,905             | 7,310             | 4,404             | 2,905             |

CITIZENS COMMUNICATIONS  
MONTHLY COMMISSION REPORT OF INVESTMENTS  
CTC - TENNESSEE  
DECEMBER 2001

(000's omitted)

|                    |                                              | Intrastate        |                   | Average           |
|--------------------|----------------------------------------------|-------------------|-------------------|-------------------|
|                    |                                              | Average           | Y-T-D             | 12 MTD            |
|                    |                                              | Balance           | Balance           | Balance           |
|                    |                                              | \$                | \$                | \$                |
| 1                  | Telephone Plant in Service                   | 130,861           | 126,378           | 126,378           |
| 2                  | Telephone Plant under Construction           | 4,040             | 4,543             | 4,543             |
| 3                  | Materials and Supplies                       | 333               | 382               | 382               |
| 4                  | Working Capital                              | 1,886             | 1,751             | 1,751             |
| 5                  | <b>TOTAL</b>                                 | <b>\$ 137,120</b> | <b>\$ 133,053</b> | <b>\$ 133,053</b> |
| <b>Deductions:</b> |                                              |                   |                   |                   |
| 6                  | Depreciation Reserve                         | 72,681            | 68,868            | 68,868            |
| 7                  | Accumulated Deferred Federal Income Tax      | 6,978             | 6,605             | 6,795             |
| 8                  | Unamortized Investment Credit - Pre 1971     | 0                 | 0                 | 0                 |
| 9                  | Other Current Liabilities                    | 1,304             | 1,413             | 747               |
| 10                 | Customer Deposits                            | 100               | 188               | 188               |
| 11                 | <b>TOTAL</b>                                 | <b>\$ 81,062</b>  | <b>\$ 77,074</b>  | <b>\$ 76,598</b>  |
| 12                 | Rate Base                                    | <b>\$ 56,058</b>  | <b>\$ 55,979</b>  | <b>\$ 56,455</b>  |
| 13                 | Net Operating Income                         | 152               | 231               | 231               |
| 14                 | Adjustments to Net Income -Common Plant Cost | 0                 | 0                 | 0                 |
| 15                 | Income for Return                            | <b>\$ 152</b>     | <b>\$ 231</b>     | <b>\$ 231</b>     |
| 16                 | <b>Rate of Return - Annualized</b>           | <b>3.26%</b>      | <b>4.95%</b>      | <b>4.91%</b>      |

CITIZENS COMMUNICATIONS  
MONTHLY COMMISSION REPORT OF REVENUES AND EXPENSES  
CTC - VOLUNTEER STATE  
DECEMBER 2001

| ITEM                             | Current Month   |                   |                   | Year-To-Date    |                   |                   | 12 Months To-Date |                   |                   |
|----------------------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | Combined<br>(b) | Interstate<br>(c) | Intrastate<br>(d) | Combined<br>(e) | Interstate<br>(f) | Intrastate<br>(g) | Combined<br>(h)   | Interstate<br>(i) | Intrastate<br>(j) |
| Operating Revenues               |                 |                   |                   |                 |                   |                   |                   |                   |                   |
| 1 Local Network                  | 532             | -                 | 532               | 6,389           | -                 | 6,389             | 6,389             | -                 | 6,389             |
| 2 Network Access                 | 531             | 392               | 139               | 5,873           | 4,266             | 1,607             | 5,873             | 4,266             | 1,607             |
| 3 Long Distance Network          | 33              | 0                 | 33                | 396             | 0                 | 395               | 396               | 0                 | 395               |
| 4 Miscellaneous                  | 37              | 8                 | 29                | 475             | 133               | 342               | 475               | 133               | 342               |
| 5 Less: Uncollectibles           | (5)             | -                 | (5)               | (14)            | -                 | (14)              | (14)              | -                 | (14)              |
| 6 TOTAL OPERATING REVENUES       | 1,127           | 399               | 728               | 13,119          | 4,399             | 8,719             | 13,119            | 4,399             | 8,719             |
| Operating Expenses               |                 |                   |                   |                 |                   |                   |                   |                   |                   |
| 7 Plant Specific                 | 170             | 50                | 120               | 1,897           | 568               | 1,329             | 1,897             | 568               | 1,329             |
| 8 General Plant                  | 135             | 41                | 94                | 1,479           | 402               | 1,076             | 1,479             | 402               | 1,076             |
| 9 Customer Operations            | 109             | 19                | 90                | 1,314           | 233               | 1,081             | 1,314             | 233               | 1,081             |
| 10 Corporate Operations          | 211             | 66                | 145               | 2,183           | 516               | 1,667             | 2,183             | 516               | 1,667             |
| 11 Other Operating               | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 12 Depreciation & Amortization   | 458             | 218               | 240               | 4,419           | 1,495             | 2,924             | 4,419             | 1,495             | 2,924             |
| 13 Operating Taxes (ex Income)   | 39              | 19                | 20                | 330             | 91                | 239               | 330               | 91                | 239               |
| 14 Operating Income Taxes        | 3               | (5)               | 7                 | 583             | 426               | 157               | 583               | 426               | 157               |
| 15 TOTAL OPERATING EXPENSES      | 1,123           | 407               | 716               | 12,204          | 3,731             | 8,473             | 12,204            | 3,731             | 8,473             |
| 16 NET OPERATING INCOME          | 4               | (8)               | 12                | 915             | 669               | 246               | 915               | 669               | 246               |
| 17 Interest Charges Construction | (4)             | (1)               | (3)               | (80)            | (25)              | (54)              | (80)              | (25)              | (54)              |
| 18 Other Income                  | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 19 Misc. Income Charges & Taxes  | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 20 Fixed Charges                 | 0               | 0                 | 0                 | 8               | 2                 | 5                 | 8                 | 2                 | 5                 |
| 21 Extraordinary & Delayed Items | -               | -                 | -                 | -               | -                 | -                 | -                 | -                 | -                 |
| 22 NET INCOME                    | 8               | (6)               | 14                | 987             | 692               | 295               | 987               | 692               | 295               |

CITIZENS TELECOM  
MONTHLY COMMISSION REPORT OF INVESTMENTS  
CTC - VOLUNTEER STATE  
DECEMBER 2001

(000's omitted)

|                                                  | Intrastate                    |                             |                              |
|--------------------------------------------------|-------------------------------|-----------------------------|------------------------------|
|                                                  | Average<br>Monthly<br>Balance | Average<br>Y-T-D<br>Balance | Average<br>12 MTD<br>Balance |
| 1 Telephone Plant in Service                     | \$ 37,657                     | \$ 36,402                   | \$ 36,402                    |
| 2 Telephone Plant under Construction             | 734                           | 1,110                       | 1,110                        |
| 3 Materials and Supplies                         | -21                           | -2                          | -2                           |
| 4 Working Capital                                | 462                           | 443                         | 443                          |
| 5 TOTAL                                          | \$ 38,831                     | \$ 37,952                   | \$ 37,952                    |
| <b>Deductions:</b>                               |                               |                             |                              |
| 6 Depreciation Reserve                           | 18,233                        | 17,300                      | 17,300                       |
| 7 Accumulated Deferred Federal Income Tax        | 2,975                         | 2,781                       | 2,719                        |
| 8 Unamortized Investment Credit - Pre 1971       | 0                             | 0                           | 0                            |
| 9 Other Current Liabilities                      | 0                             | 0                           | 0                            |
| 10 Customer Deposits                             | 81                            | 91                          | 91                           |
| 11 TOTAL                                         | \$ 21,289                     | \$ 20,172                   | \$ 20,110                    |
| 12 Rate Base                                     | \$ 17,542                     | \$ 17,781                   | \$ 17,843                    |
| 13 Net Operating Income                          | 12                            | 21                          | 21                           |
| 14 Adjustments to Net Income - Common Plant Cost | 0                             | 0                           | 0                            |
| 15 Income for Return                             | \$ 12                         | \$ 21                       | \$ 21                        |
| 16 Rate of Return - Annualized                   | 0.79%                         | 1.39%                       | 1.38%                        |

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

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Concord Telephone Exchange

Month Ending December 31, 2001.

| Ln<br>No.                    | Item<br>(a)                                           | Total Company<br>12 Month<br>(b) | Interstate<br>12 Month<br>(c) | Intrastate<br>12 Month<br>(d) | Interstate % |
|------------------------------|-------------------------------------------------------|----------------------------------|-------------------------------|-------------------------------|--------------|
| OPERATING REVENUES           |                                                       |                                  |                               |                               |              |
| 1                            | Local Revenues (5000 - 5069)                          | \$ 7,732,301                     | \$ -                          | \$ 7,732,301                  |              |
| 2                            | Interstate Access (5081-5083)                         | 5,830,881                        | -                             | 5,830,881                     |              |
| 3                            | Interstate USF (50821)                                | -                                | -                             | -                             |              |
| 4                            | Intrastate Access (508421-50847)                      | 1,755,620                        | -                             | 1,755,620                     |              |
| 5                            | Long Distance Revenues (5100 - 5169)                  | 495,674                          | -                             | 495,674                       |              |
| 6                            | Miscellaneous Revenues (523-5269)                     | 339,563                          | -                             | 339,563                       |              |
| 7                            | B&C (5270)                                            | 247,499                          | -                             | 247,499                       |              |
| 8                            | Uncollectible Revenues (5300)                         | (35,504)                         | -                             | (35,504)                      |              |
| 9                            | Total Operating Revenues (L1 to L8)                   | \$ 16,366,034                    | \$ -                          | \$ 16,366,034                 |              |
| OPERATING EXPENSES           |                                                       |                                  |                               |                               |              |
| 10                           | Plt Specific Expense (6110 to 6441) + 7130            | \$ 1,086,118                     | \$ -                          | \$ 1,086,118                  | 0.00%        |
| 11                           | Plt Non Spec. Expense (6510 to 6540)                  | 1,045,162                        | -                             | 1,045,162                     | 0.00%        |
| 12                           | Depreciation & Amortization (6560)                    | 4,116,392                        | -                             | 4,116,392                     | 0.00%        |
| 13                           | Customer Operation Expense (6600)                     | 2,533,737                        | -                             | 2,533,737                     | 0.00%        |
| 14                           | Corporate Operation Expense (6700)                    | 2,676,102                        | -                             | 2,676,102                     | 0.00%        |
| 15                           | Other Operating Taxes (7240)                          | 390,761                          | -                             | 390,761                       | 0.00%        |
| 16                           | Federal Income Taxes (7220 and 72501)                 | 1,415,869                        | -                             | 1,415,869                     | 0.00%        |
| 17                           | State Income Taxes (7230 and 72502)                   | 257,120                          | -                             | 257,120                       |              |
| 18                           | Total Operating Expenses (L10 to L17)                 | \$ 13,521,261                    | \$ -                          | \$ 13,521,261                 |              |
| 19                           | Net Operating Income (L9 less L18)                    | \$ 2,844,773                     | \$ -                          | \$ 2,844,773                  |              |
| 20                           | Nonoperating Inc (7310 to 7370) and<br>(7410 to 7450) | 256,628                          | -                             | 256,628                       |              |
| 21                           | Interest Expense (7510 to 7540)                       | 240,842                          | -                             | 240,842                       |              |
| 22                           | Extraordinary Items (7610 to 7640)                    | -                                | -                             | -                             |              |
| 23                           | Nonregulated Income Items (7990)                      | (323,527)                        | -                             | (323,527)                     |              |
| 24                           | Net Income.....                                       | \$ 2,537,032                     | \$ -                          | \$ 2,537,032                  |              |
| Selected Balance Sheet Items |                                                       |                                  |                               |                               |              |
|                              |                                                       | 12 Mth Average                   | Interstate                    | Intrastate                    | Interstate % |
| 25                           | Plant in Service (2100-2400)                          | \$ 45,578,095                    | \$ -                          | \$ 45,578,095                 | 0.00%        |
| 26                           | Depreciation Reserve (3100-3120)                      | 23,878,867                       | -                             | 23,878,867                    | 0.00%        |
| 27                           | Property Held for Future Use (2002)                   | 79,845                           | -                             | 79,845                        | 0.00%        |
| 28                           | Plant Under Construction (2003)                       | 1,918,731                        | -                             | 1,918,731                     | 0.00%        |
| 29                           | Materials & Supplies (1220)                           | 105,163                          | -                             | 105,163                       | 0.00%        |
| 30                           | Unamortized ITC (4230)                                | -                                | -                             | -                             | 0.00%        |
| 31                           | Customer Deposits (4040)                              | -                                | -                             | -                             | 0.00%        |
| 32                           | Leases and Leasehold Improvements (net) (2681, 2682)  | 77,687                           | -                             | 77,687                        | 0.00%        |
| 33                           | RTB Stock (14021)                                     | 284,300                          | -                             | 284,300                       | 0.00%        |
| 34                           | Accumulated Deferred Income Taxes (4340,4361,1437)    | 1,660,865                        | -                             | 1,660,865                     | 0.00%        |
| 35                           | Preferred & Common Stock (4510)                       | 21,310                           | *****                         | *****                         |              |
| 36                           | Additional Paid In Capital (4520)                     | 129,667                          | *****                         | *****                         |              |
| 37                           | Retained Earnings (4550)                              | 24,781,215                       | *****                         | *****                         |              |
| 38                           | Long Term Debt (4210 to 4270) + 4050                  | 3,209,693                        | *****                         | *****                         |              |
| 39                           | Short Term Debt (4020)                                | -                                | *****                         | *****                         |              |

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

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Concord Telephone Exchange  
Month Ending December 31, 2001.

TENNESSEE INTRASTATE SUPPLEMENTAL FINANCIAL  
DATA TO PSC-3.01 FOR

| Ln<br>No. | SELECTED BALANCE SHEET ITEMS                                              | Average<br>Monthly<br>Balance | Average<br>12 Months<br>To Date | Average<br>12 Months<br>To Date |
|-----------|---------------------------------------------------------------------------|-------------------------------|---------------------------------|---------------------------------|
| (a)       |                                                                           |                               |                                 |                                 |
| 1         | Plant In Service                                                          | \$ 47,379,876                 | \$ 45,578,095                   | \$ 45,578,095                   |
| 2         | Plant Under Construction                                                  | 1,471,859                     | 1,918,731                       | 1,918,731                       |
| 3         | Plant Held for Future Use (Net)                                           | -                             | 79,845                          | 79,845                          |
| 4         | Materials & Supplies                                                      | 73,211                        | 105,163                         | 105,163                         |
| 5         | Capital Leases (Net)                                                      | 288,867                       | 77,687                          | 77,687                          |
| 6         | Working Capital (45 Days)                                                 | 763,015                       | 966,485                         | 966,485                         |
| 7         | RTB Stock                                                                 | 284,300                       | 284,300                         | 284,300                         |
| 8         | Total Additions                                                           | \$ 50,261,128                 | \$ 49,010,306                   | \$ 49,010,306                   |
|           | LESS:                                                                     |                               |                                 |                                 |
| 9         | Accumulated Depreciation                                                  | 25,322,667                    | 23,878,867                      | 23,878,867                      |
| 10        | Accumulated Deferred Taxes- Accelerated<br>Depreciation & Cost of Removal | 1,643,612                     | 1,660,865                       | 1,660,865                       |
| 11        | Unamortized ITC                                                           | -                             | -                               | -                               |
| 12        | Customer Deposits                                                         | -                             | -                               | -                               |
| 13        | Total Reductions                                                          | \$ 26,966,279                 | \$ 25,539,732                   | \$ 25,539,732                   |
| 14        | Rate Base                                                                 | \$ 23,294,849                 | \$ 23,470,574                   | \$ 23,470,574                   |
| 15        | Alternative Net Operating Income                                          | \$ 348,827                    | \$ 2,832,870                    | \$ 2,832,870                    |
| 16        |                                                                           |                               |                                 |                                 |
| 17        |                                                                           |                               |                                 |                                 |
| 18        |                                                                           |                               |                                 |                                 |
| 19        |                                                                           |                               |                                 |                                 |
| 20        |                                                                           |                               |                                 |                                 |
| 21        |                                                                           |                               |                                 |                                 |
| 22        |                                                                           |                               |                                 |                                 |
| 23        |                                                                           |                               |                                 |                                 |
| 24        |                                                                           |                               |                                 |                                 |
| 25        | Alternative Net Operating Income                                          | \$ 348,827                    | \$ 2,832,870                    | \$ 2,832,870                    |
| 26        | Return on Rate Base                                                       | 17.97%                        | 12.07%                          | 12.07%                          |

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

|    | Item<br>(a)                                          | Amount For The Month |                   |                   | Year - To - Date |                   |                   | 12 Months-To-Date |                   |                   |
|----|------------------------------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|    |                                                      | Combined<br>(b)      | Interstate<br>(c) | Intrastate<br>(d) | Combined<br>(e)  | Interstate<br>(f) | Intrastate<br>(g) | Combined<br>(h)   | Interstate<br>(i) | Intrastate<br>(j) |
| 1  | Operating Revenues                                   |                      |                   |                   |                  |                   |                   |                   |                   |                   |
| 2  | Local Revenues (5000 to 5069) .....                  | 96,731               | 0                 | 96,731            | 1,037,408        | 0                 | 1,037,408         | 1,122,267         | 0                 | 1,122,267         |
| 3  | Access Revenues (5080 to 5084) .....                 | 314,524              | 110,443           | 204,081           | 2,407,587        | 940,388           | 1,467,219         | 2,763,144         | 1,015,153         | 1,747,990         |
| 4  | Long Distance Revenues (5100 to 5169) .....          | 403                  | 0                 | 403               | 9,224            | 0                 | 9,224             | 10,409            | 0                 | 10,409            |
| 5  | Miscellaneous Revenues (5200 to 5270) .....          | (70,124)             | 2,648             | (72,772)          | (816,361)        | 39,016            | (855,377)         | (908,384)         | 45,008            | (953,392)         |
|    | Uncollectible Revenues (5300 to 5302) .....          | 345                  | 0                 | 345               | 3,881            | 0                 | 3,881             | 4,228             | 0                 | 4,228             |
| 6  | Total Operating Revenues (L1 to L4 less L5)          | 341,188              | 113,090           | 228,098           | 2,633,977        | 979,383           | 1,654,593         | 2,983,207         | 1,060,162         | 1,923,045         |
| 7  | Operating Expenses                                   |                      |                   |                   |                  |                   |                   |                   |                   |                   |
| 8  | Plant Specific Expenses (6110 to 6441) .....         | 21,504               | 3,421             | 18,083            | 286,331          | 45,554            | 240,777           | 305,131           | 48,545            | 256,586           |
| 9  | Plant NonSpecific Expenses (6510 to 6540) .....      | 49,531               | 13,636            | 35,895            | 583,592          | 160,664           | 422,928           | 831,496           | 173,852           | 657,644           |
| 10 | Depreciation & Amortization (6560 to 6666) .....     | 43,997               | 12,030            | 31,967            | 441,590          | 121,570           | 320,020           | 477,359           | 131,417           | 345,942           |
| 11 | Customer Operations Expense (6610 to 6623) .....     | 51,754               | 8,420             | 43,334            | 628,132          | 102,361           | 525,771           | 685,525           | 111,536           | 573,989           |
| 12 | Corporate Operations Expense (6710 to 6790) .....    | 57,037               | 12,297            | 44,740            | 466,672          | 100,614           | 366,058           | 502,066           | 108,245           | 393,821           |
| 13 | Other Operating Taxes (7230 & 7240) .....            | 19,304               | 3,108             | 16,196            | 141,713          | 22,857            | 118,856           | 135,845           | 21,912            | 113,933           |
|    | Federal Income Taxes (7210, 7220 and 7250) .....     | 28,211               | 7,806             | 20,405            | (48,325)         | (12,997)          | (35,328)          | 498               | 512               | (14)              |
| 14 | Total Operating Expenses (L7 to L13)                 | 271,037              | 60,718            | 210,319           | 2,500,705        | 540,623           | 1,960,082         | 2,737,920         | 596,019           | 2,141,901         |
| 15 | Net Operating Income (L6 minus L14)                  | 70,151               | 52,372            | 17,779            | 133,271          | 438,760           | (305,489)         | 245,287           | 464,143           | (218,855)         |
| 16 | Nonoperating Inc (7310 to 7370)-(7410 to 7450) ..... | 3,753                | 525               | 3,228             | 62,328           | 8,363             | 53,965            | 70,511            | 9,504             | 61,007            |
| 17 | Interest Expense (7510 to 7540) .....                | 8,440                | 1,362             | 7,078             | 115,716          | 17,994            | 97,722            | 128,872           | 19,784            | 107,078           |
| 18 | Extraordinary Items (7610 to 7640) .....             | 0                    | 0                 | 0                 | 0                | 0                 | 0                 | 0                 | 0                 | 0                 |
| 19 | Nonregulated Income Items .....                      | 4,962                | 695               | 4,267             | (21,411)         | (2,997)           | (18,414)          | (21,785)          | (3,049)           | (18,736)          |
| 20 | Net Income                                           | 70,426               | 52,230            | 18,196            | 58,506           | 426,132           | (367,626)         | 167,143           | 450,804           | (283,661)         |

| Selected Balance Sheet Items                           | Balance End of Month |                   |                   | Average 12 M-T-D |                   |                   |
|--------------------------------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|
|                                                        | Combined<br>(k)      | Interstate<br>(l) | Intrastate<br>(m) | Combined<br>(n)  | Interstate<br>(o) | Intrastate<br>(p) |
| 21 Plant in Service (2110 to 2690) .....               | 9,288,998            | 1,493,671         | 7,795,327         | 9,087,890        | 1,461,333         | 7,626,557         |
| 22 Property Held For Future Use (2002) .....           | 0                    | 0                 | 0                 | 0                | 0                 | 0                 |
| 23 Plant Under Construction (2003 to 2004) .....       | 1,639,516            | 263,634           | 1,375,882         | 937,820          | 150,801           | 787,018           |
| 24 Plant Acquisition Adjustment (2005) .....           | 0                    | 0                 | 0                 | 0                | 0                 | 0                 |
| 25 Materials & Supplies (1220) .....                   | 437,693              | 73,795            | 363,898           | 277,505          | 46,787            | 230,718           |
| 26 Depreciation Reserve (3100 to 3600 less 3300) ..... | 7,088,766            | 1,100,885         | 5,987,881         | 6,873,081        | 1,067,389         | 5,805,692         |
| 27 Unamortized Investment Tax Credit (4320) .....      | 34,569               | 5,369             | 29,200            | 38,412           | 5,965             | 32,447            |
| 28 Accumulated Deferred Income Taxes (4340) .....      | (1,280,572)          | (198,873)         | (1,081,699)       | (1,065,829)      | (165,523)         | (900,305)         |
| 29 Preferred Stock (4510) .....                        | 53,800               | XXXXXX            | XXXXXX            | 53,800           | XXXXXX            | XXXXXX            |
| 30 Common Stock (4510) .....                           | 550,000              | XXXXXX            | XXXXXX            | 550,000          | XXXXXX            | XXXXXX            |
| 31 Additional Paid In Capital (4520) .....             | 0                    | XXXXXX            | XXXXXX            | 0                | XXXXXX            | XXXXXX            |
| 32 Retained Earnings (4550) .....                      | 2,588,488            | XXXXXX            | XXXXXX            | 2,517,995        | XXXXXX            | XXXXXX            |
| 33 Long Term Debt (4210 to 4270) .....                 | 2,384,956            | XXXXXX            | XXXXXX            | 2,446,960        | XXXXXX            | XXXXXX            |

## SUPPLEMENTAL FINANCIAL DATA TO PSC 3.01

FOR THE MONTH ENDED

November 30, 2001

| Line # | Average Monthly Balance                  | Average Y-T-D Balance | Average for 12 M-T-D |
|--------|------------------------------------------|-----------------------|----------------------|
| 1      | \$9,278,439                              | \$9,160,939           | \$9,087,890          |
| 2      | Plant Under Construction                 |                       |                      |
| 3      | Property Held For Future Use             |                       |                      |
| 4      | Materials & Supplies                     |                       |                      |
| 5      | Other Additions (Itemize):               |                       |                      |
| 6      | Working Capital                          |                       |                      |
| 7      |                                          |                       |                      |
| 8      | <b>Total Additions</b>                   | \$11,445,140          | \$10,568,308         |
| 9      | <b>Deductions:</b>                       |                       |                      |
| 10     | Accumulated Depreciation                 | 7,068,081             | 6,890,508            |
| 11     | Unamortized Investment Credit - Pre 1971 | (1,262,905)           | (1,080,358)          |
| 12     | Customer Deposits                        | 34,889                | 38,092               |
| 13     | Other Deductions (Itemize):              | 15,350                | 16,835               |
| 14     | Deferred Revenue-TPSC ordered            | 0                     | 0                    |
| 15     |                                          |                       |                      |
| 16     | <b>Total Deductions</b>                  | \$5,855,415           | \$5,865,078          |
| 17     | <b>Rate Base</b>                         | \$5,589,725           | \$4,703,230          |
| 18     | <b>Net Operating Income (NOI)</b>        | 70,151                | 131,666              |
| 19     | Adjustments to NOI (Itemize):            |                       |                      |
| 20     | Less: Interest on Customer Deposits      | 74                    | 931                  |
| 21     | Add: Inside Wiring (NOI)                 | 139                   | (8,583)              |
| 22     | Add: Parent Tax Savings                  | 5,429                 | 50,248               |
| 23     | Less: Interstate B&C Net Income          | (3,813)               | (26,061)             |
| 24     | <b>Adjusted Net Operating Income</b>     | \$79,459              | \$198,460            |
| 25     | <b>Rate Of Return (L24/L17)</b>          | 17.06%                | 4.60%                |

All amounts should be calculated in a manner consistent with the last

Rate Order issued by the Commission for this company.

CONTINUING SURVEILLANCE CONSIDERATIONS. Estimate the effect on net operating income of very significant known changes occurring within the period covered by the report which are not fully reflected in the revenue and expense amounts shown in the report.

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

Page 3 of 7

Humphreys County Telephone  
Month Ending December 31, 2001.

| Ln<br>No.                           | Item<br>(a)                                           | Total Company<br>12 Month<br>(b) | Interstate<br>12 Month<br>(c) | Intrastate<br>12 Month<br>(d) | Interstate %<br>(e) |
|-------------------------------------|-------------------------------------------------------|----------------------------------|-------------------------------|-------------------------------|---------------------|
| <b>OPERATING REVENUES</b>           |                                                       |                                  |                               |                               |                     |
| 1                                   | Local Revenues (5000 - 5069)                          | \$ 308,419                       | \$ -                          | \$ 308,419                    |                     |
| 2                                   | Interstate Access (5081-5083)                         | 442,361                          | 442,361                       | -                             |                     |
| 3                                   | Interstate USF (50821)                                | 202,706                          | -                             | 202,706                       |                     |
| 4                                   | Intrastate Access (508421-50847)                      | 363,699                          | -                             | 363,699                       |                     |
| 5                                   | Long Distance Revenues (5100 - 5169)                  | 342,034                          | -                             | 342,034                       |                     |
| 6                                   | Miscellaneous Revenues (523-5269)                     | 23,055                           | -                             | 23,055                        |                     |
| 7                                   | B&C (5270)                                            | 37,557                           | 18,294                        | 19,263                        |                     |
| 8                                   | Uncollectible Revenues (5300)                         | (3,270)                          | -                             | (3,270)                       |                     |
| 9                                   | Total Operating Revenues (L1 to L8)                   | \$ 1,716,562                     | \$ 460,655                    | \$ 1,255,907                  |                     |
| <b>OPERATING EXPENSES</b>           |                                                       |                                  |                               |                               |                     |
| 10                                  | Plt Specific Expense (6110 to 6441) + 7130            | \$ 139,677                       | \$ 40,437                     | \$ 99,241                     | 28.95%              |
| 11                                  | Plt Non Spec. Expense (6510 to 6540)                  | 130,675                          | 37,661                        | 93,014                        | 28.82%              |
| 12                                  | Depreciation & Amortization (6560)                    | 393,407                          | 116,197                       | 277,210                       | 29.54%              |
| 13                                  | Customer Operation Expense (6600)                     | 224,104                          | 60,418                        | 163,685                       | 26.96%              |
| 14                                  | Corporate Operation Expense (6700)                    | 192,933                          | 55,131                        | 137,803                       | 28.58%              |
| 15                                  | Other Operating Taxes (7240)                          | 24,748                           | 7,269                         | 17,480                        | 29.37%              |
| 16                                  | Federal Income Taxes (7220 and 72501)                 | 177,356                          | 45,585                        | 131,771                       |                     |
| 17                                  | State Income Taxes (7230 and 72502)                   | 34,916                           | (1,515)                       | 36,431                        |                     |
| 18                                  | Total Operating Expenses (L10 to L17)                 | \$ 1,317,817                     | \$ 361,181                    | \$ 956,636                    |                     |
| 19                                  | Net Operating Income (L9 less L18)                    | \$ 398,745                       | \$ 99,474                     | \$ 299,271                    |                     |
| 20                                  | Nonoperating Inc (7310 to 7370) and<br>(7410 to 7450) | 52,041                           | -                             | 52,041                        |                     |
| 21                                  | Interest Expense (7510 to 7540)                       | 107,712                          | -                             | 107,712                       |                     |
| 22                                  | Extraordinary Items (7610 to 7640)                    | -                                | -                             | -                             |                     |
| 23                                  | Nonregulated Income Items (7990)                      | 44,618                           | -                             | 44,618                        |                     |
| 24                                  | Net Income.....                                       | \$ 387,691                       | \$ 99,474                     | \$ 288,217                    |                     |
| <b>Selected Balance Sheet Items</b> |                                                       |                                  |                               |                               |                     |
|                                     |                                                       | 12 Mth Average                   | Interstate                    | Intrastate                    | Interstate %        |
| 25                                  | Plant in Service (2100-2400)                          | \$ 4,827,129                     | \$ 1,391,179                  | \$ 3,435,950                  | 28.82%              |
| 26                                  | Depreciation Reserve (3100-3120)                      | 2,128,673                        | 629,023                       | 1,499,650                     | 29.55%              |
| 27                                  | Property Held for Future Use (2002)                   | -                                | -                             | -                             | 0.00%               |
| 28                                  | Plant Under Construction (2003)                       | 33,343                           | 9,609                         | 23,733                        | 28.82%              |
| 29                                  | Materials & Supplies (1220)                           | 10,832                           | 2,925                         | 7,907                         | 27.00%              |
| 30                                  | Unamortized ITC (4230)                                | 17,789                           | 5,153                         | 12,636                        | 28.97%              |
| 31                                  | Customer Deposits (4040)                              | 300                              | 75                            | 225                           | 24.90%              |
| 32                                  | Leases and Leasehold Improvements (net) (2681, 2682)  | -                                | -                             | -                             | 0.00%               |
| 33                                  | RTB Stock (14021)                                     | 22,000                           | 6,338                         | 15,662                        | 28.81%              |
| 34                                  | Accumulated Deferred Income Taxes (4340,4361,1437)    | 124,787                          | 36,151                        | 88,636                        | 28.97%              |
| 35                                  | Preferred & Common Stock (4510)                       | 20,000                           | *****                         | *****                         |                     |
| 36                                  | Additional Paid In Capital (4520)                     | 1,601,290                        | *****                         | *****                         |                     |
| 37                                  | Retained Earnings (4550)                              | 1,761,841                        | *****                         | *****                         |                     |
| 38                                  | Long Term Debt (4210 to 4270) + 4050                  | 1,611,308                        | *****                         | *****                         |                     |
| 39                                  | Short Term Debt (4020)                                | -                                | *****                         | *****                         |                     |

QUARTERLY REPORT OF REVENUES, EXPENSES  
AND INVESTMENTS-TELEPHONE COMPANIES

Loretto Telephone Company, Inc.

Company Name  
Quarter Ending

30-Sep-2001

| Income Statement Item (a)                             | Amount For This Quarter |                    | Year-To-Date       |                    | 12 Months-To-Date  |                    |
|-------------------------------------------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                                       | This Year (b)           | Last Year (c)      | This Year (d)      | Last Year (e)      | This Year (f)      | Last Year (g)      |
| <b>Operating Revenues</b>                             |                         |                    |                    |                    |                    |                    |
| Local Revenues (5000 to 5069) .....                   | \$441,213               | \$418,793          | \$1,317,630        | \$1,228,730        | \$1,733,681        | \$1,631,770        |
| Access Revenues (5080 to 5084) .....                  | \$688,866               | \$675,692          | \$2,057,735        | \$2,110,353        | \$2,795,698        | \$2,834,945        |
| Long Distance Revenues (5100 to 5169) .....           | \$0                     | \$0                | \$0                | \$0                | \$0                | \$0                |
| Miscellaneous Revenues (5200 to 5280) .....           | \$47,842                | \$65,091           | \$173,699          | \$191,120          | \$241,681          | \$253,993          |
| Uncollectible Revenues (5300 to 5302) .....           | \$1,943                 | \$1,522            | \$4,984            | \$1,762            | \$6,623            | \$5,631            |
| <b>Total Operating Revenues (L1 to L4 less L5)</b>    | <b>\$1,175,978</b>      | <b>\$1,158,054</b> | <b>\$3,544,080</b> | <b>\$3,528,441</b> | <b>\$4,764,437</b> | <b>\$4,715,077</b> |
| <b>Operating Expenses</b>                             |                         |                    |                    |                    |                    |                    |
| Plant Specific Expenses (6110 to 6441) .....          | \$283,797               | \$246,026          | \$718,014          | \$563,689          | \$940,826          | \$731,865          |
| Plant NonSpecific Expenses (6510 to 6540) .....       | \$78,004                | \$69,491           | \$217,266          | \$200,066          | \$298,666          | \$281,622          |
| Depreciation & Amortization (6560 to 6585) .....      | \$185,685               | \$202,572          | \$557,055          | \$607,296          | \$753,928          | \$816,976          |
| Customer Operations Expense (6610 to 6623) .....      | \$60,947                | \$55,636           | \$168,206          | \$192,260          | \$236,807          | \$287,190          |
| Corporate Operations Expense (6710 to 6790) .....     | \$200,174               | \$209,611          | \$662,705          | \$663,497          | \$925,313          | \$994,575          |
| Other Operating Taxes (7230 & 7240) .....             | \$55,108                | \$67,504           | \$165,252          | \$179,793          | \$213,546          | \$239,086          |
| Federal Income Taxes (7210, 7220 and 7250) .....      | \$106,483               | \$169,324          | \$319,452          | \$375,324          | \$473,088          | \$425,858          |
| <b>Total Operating Expenses (L7 to L13) .....</b>     | <b>\$970,198</b>        | <b>\$1,020,164</b> | <b>\$2,807,950</b> | <b>\$2,781,925</b> | <b>\$3,842,174</b> | <b>\$3,777,172</b> |
| <b>Net Operating Income (L6 minus L14) .....</b>      | <b>\$205,780</b>        | <b>\$137,890</b>   | <b>\$736,130</b>   | <b>\$746,516</b>   | <b>\$922,263</b>   | <b>\$937,905</b>   |
| Nonoperating Inc. (7310 to 7370)-(7410 to 7450) ..... | \$1,879                 | (\$8,271)          | \$24,524           | \$55,196           | (\$474)            | (\$17,508)         |
| Interest Expense (7510 to 7540) .....                 | \$68,491                | \$72,748           | \$206,320          | \$220,170          | \$279,914          | \$291,868          |
| Extraordinary Items (7610 to 7640) .....              | \$0                     | \$0                | \$0                | \$0                | \$0                | \$0                |
| <b>Net Income .....</b>                               | <b>\$139,168</b>        | <b>\$56,871</b>    | <b>\$554,334</b>   | <b>\$581,542</b>   | <b>\$641,875</b>   | <b>\$628,529</b>   |
| <b>Selected Balance Sheet Items</b>                   |                         |                    |                    |                    |                    |                    |
| Plant in Service (2110 to 2690) .....                 | \$13,423,696            | \$13,491,239       | \$13,462,517       | \$13,241,500       |                    |                    |
| Property Held for Future Use (2002) .....             | \$0                     | \$0                | \$0                | \$0                |                    |                    |
| Plant Under Construction (2003 to 2004) .....         | \$336,478               | \$42,347           | \$212,711          | \$84,285           |                    |                    |
| Plant Acquisition Adjustment (2005) .....             | \$0                     | \$0                | \$0                | \$0                |                    |                    |
| Materials & Supplies (1220) .....                     | \$43,497                | \$29,147           | \$36,104           | \$35,785           |                    |                    |
| Depreciation Reserve (3100 to 3600 less 3300) .....   | \$6,249,158             | \$6,021,291        | \$6,069,880        | \$5,683,976        |                    |                    |
| Unamortized Investment Tax Credit (4320) .....        | \$0                     | \$0                | \$0                | \$0                |                    |                    |
| Accumulated Deferred Income Taxes (4340) .....        | \$0                     | \$0                | \$0                | \$0                |                    |                    |
| Preferred Stock (4510) .....                          | \$28                    | \$28               | \$28               | \$28               |                    |                    |
| Common Stock (4510) .....                             | \$4                     | \$4                | \$4                | \$4                |                    |                    |
| Additional Paid in Capital (4520) .....               | \$35,368                | \$35,368           | \$35,368           | \$35,368           |                    |                    |
| Retained Earnings (4550) .....                        | \$3,210,526             | \$3,742,986        | \$3,436,807        | \$3,767,565        |                    |                    |
| Long Term Debt (4210 to 4270) .....                   | \$4,742,996             | \$5,085,968        | \$4,970,245        | \$5,267,879        |                    |                    |

## FOR THE QUARTER ENDED

30-Sep-2001

| Line # |                                                | Average Quarterly Balance | Average for 12 MTD  |
|--------|------------------------------------------------|---------------------------|---------------------|
|        | <b>Additions:</b>                              |                           |                     |
| 1      | Plant in Service                               | \$13,468,860              | \$13,462,517        |
| 2      | Plant Under Construction                       | \$389,375                 | \$212,711           |
| 3      | Property Held For Future Use                   | \$0                       | \$0                 |
| 4      | Materials & Supplies                           | \$35,096                  | \$36,104            |
|        | Other Additions (Itemize):                     |                           |                     |
| 5      | Working Capital                                | \$199,100                 | \$198,214           |
| 6      | RTB Stock                                      | \$570,435                 | \$559,824           |
| 7      |                                                |                           |                     |
| 8      | <b>Total Additions</b>                         | <b>\$14,662,866</b>       | <b>\$14,469,370</b> |
|        | <b>Deductions</b>                              |                           |                     |
| 9      | Accumulated Depreciation                       | \$6,188,745               | \$6,069,880         |
| 10     | Accumulated Deferred Income Taxes              | \$49,908                  | \$49,762            |
| 11     | Unamortized Investment Credit-Pre 1971         | \$0                       | \$0                 |
| 12     | Customer Deposits                              | \$65,430                  | \$64,596            |
|        | Other Deductions (Itemize):                    |                           |                     |
| 13     |                                                |                           |                     |
| 14     |                                                |                           |                     |
| 15     |                                                |                           |                     |
| 16     | <b>Total Deductions</b>                        | <b>\$6,304,083</b>        | <b>\$6,184,238</b>  |
| 17     | <b>Rate Base</b>                               | <b>\$8,358,783</b>        | <b>\$8,285,132</b>  |
| 18     | <b>Net Operating Income (NOI)</b>              | <b>\$823,120</b>          | <b>\$922,263</b>    |
|        | Adjustments to NOI (Itemize):                  |                           |                     |
| 19     | <b>Effects of Extraordinary Items Removed:</b> |                           |                     |
| 24     | <b>Adjusted Net Operating Income</b>           | <b>\$823,120</b>          | <b>\$922,263</b>    |
| 25     | <b>Rate Of Return (L24/L17)</b>                | <b>9.85%</b>              | <b>11.13%</b>       |

All amounts should be calculated in a manner consistent with the last Rate Order issued by the Commission for this company.

Pre-2001 Audit

Millington Telephone Co., Inc. Selected Balance Sheet Items 12 Month Moving Averages

| ITEM<br>(A)                  | January 2001 | February 2001 | March 2001 | April 2001 | May 2001  | June 2001 | July 2001 | August 2001 | September 2001 | October 2001 | November 2001 | December 2001 | 12-MONTH<br>TO-DATE |
|------------------------------|--------------|---------------|------------|------------|-----------|-----------|-----------|-------------|----------------|--------------|---------------|---------------|---------------------|
| <b>OPERATING REVENUES</b>    |              |               |            |            |           |           |           |             |                |              |               |               |                     |
| LOCAL REVENUES               | 720,159      | 699,228       | 710,602    | 690,373    | 707,720   | 712,692   | 706,784   | 713,470     | 716,242        | 713,993      | 701,462       | 708,356       | 8,501,081           |
| ACCESS REVENUES              | 565,173      | 936,299       | 592,245    | 502,084    | 634,114   | 348,839   | 813,703   | 815,788     | 646,101        | 705,193      | 485,697       | 101,046       | 7,146,282           |
| LONG DISTANCE REVENUES       | 2,040        | 2,271         | 2,209      | 2,134      | 1,869     | 1,918     | 1,915     | 1,916       | 1,976          | -24,303      | 1,911         | 1,911         | 23,627              |
| MISCELLANEOUS REVENUES       | 88,174       | 82,837        | 122,048    | 106,332    | 84,881    | 77,041    | 97,864    | 78,417      | 82,649         | 94,892       | 57,227        | 78,051        | 1,050,213           |
| UNCOLLECTABLE REVENUES       | 1,964        | 1,969         | 1,960      | 1,944      | 1,955     | 1,997     | 1,975     | 1,988       | 1,987          | 1,987        | 1,987         | 1,987         | 83,671              |
| TOTAL OPERATING REVENUES     | 1,373,592    | 1,718,666     | 1,425,124  | 1,293,979  | 1,428,429 | 1,138,493 | 1,618,291 | 1,633,665   | 1,444,981      | 1,487,785    | 1,244,335     | 827,392       | 16,637,732          |
| <b>OPERATING EXPENSES</b>    |              |               |            |            |           |           |           |             |                |              |               |               |                     |
| PLANT SPECIFIC EXPENSES      | 255,228      | 389,627       | 494,697    | 390,015    | 484,166   | 487,590   | 395,651   | 503,012     | 470,100        | 506,347      | 502,507       | 728,974       | 5,578,914           |
| PLANT NON-SPECIFIC EXPENSES  | 82,470       | 107,722       | 132,014    | 104,835    | 129,698   | 141,822   | 122,050   | 138,625     | 108,986        | 116,222      | 148,148       | 234,430       | 1,567,022           |
| DEPRECIATION & AMORTIZATION  | 261,930      | 268,825       | 263,746    | 267,655    | 268,121   | 266,894   | 275,676   | 269,177     | 267,865        | 271,606      | 268,036       | 268,984       | 3,208,494           |
| CUSTOMER OPERATIONS EXPENSE  | 110,974      | 123,414       | 141,980    | 115,371    | 107,287   | 157,395   | 117,388   | 166,898     | 117,001        | 121,713      | 148,962       | 304,684       | 1,732,875           |
| CORPORATE OPERATIONS EXPENSE | 141,404      | 129,383       | 156,071    | 112,852    | 115,238   | 152,114   | 120,913   | 151,128     | 137,738        | 113,803      | 147,822       | 48,610        | 1,528,072           |
| OTHER OPERATING TAXES        | 56,291       | 56,291        | 56,291     | 56,291     | 56,291    | 56,291    | 56,291    | 56,291      | 56,291         | 56,291       | 56,291        | 56,291        | 564,968             |
| FEDERAL INCOME TAXES         | 115,763      | 179,531       | 31,287     | 48,843     | 50,131    | -79,864   | 135,577   | 79,220      | 60,236         | 54,139       | -59,218       | 56,291        | 307,961             |
| TOTAL OPERATING EXPENSES     | 1,025,080    | 1,234,793     | 1,276,086  | 1,093,862  | 1,210,932 | 1,192,242 | 1,223,020 | 1,364,347   | 1,218,215      | 1,242,121    | 1,212,547     | 1,326,179     | 14,608,404          |
| NET OPERATING INCOME         | 348,512      | 483,873       | 149,038    | 205,117    | 215,497   | -43,749   | 395,271   | 269,318     | 226,766        | 245,674      | 31,788        | -498,787      | 2,028,328           |
| NON-OPERATING INCOME         | 54,413       | -12,362       | 3,779      | 19,122     | -5,598    | 8,430     | -20,663   | 2,548       | 819            | -1,977       | 6,284         | 9,154         | 1,355,140           |
| INTEREST EXPENSE             | 120,250      | 107,332       | 119,638    | 114,187    | 116,492   | 111,292   | 132,082   | 115,540     | 109,834        | 112,823      | 101,358       | 94,112        | 1,355,140           |
| EXTRAORDINARY ITEMS          | 0            | 0             | 0          | 0          | 0         | 0         | 0         | 0           | 0              | 0            | 0             | 0             | 4,000               |
| NONREGULATED INCOME ITEMS    | -8,383       | 8,740         | -25,014    | -524       | -703      | -970      | -452,335  | -18,233     | -16,323        | 3,183        | -18,185       | 4,000         | 4,000               |
| NET INCOME                   | 276,302      | 372,919       | 7,965      | 109,628    | 92,706    | -147,681  | -209,809  | 138,084     | 101,428        | 134,057      | -81,471       | -355,750      | -161,612            |

| Selected Balance Sheet Items | January 2001 | February 2001 | March 2001 | April 2001 | May 2001   | June 2001  | July 2001  | August 2001 | September 2001 | October 2001 | November 2001 | December 2001 | 12-MONTH<br>TO-DATE |
|------------------------------|--------------|---------------|------------|------------|------------|------------|------------|-------------|----------------|--------------|---------------|---------------|---------------------|
| PLANT IN SERVICE             | 51,827,976   | 52,031,327    | 52,354,843 | 52,341,299 | 52,419,154 | 52,681,110 | 52,747,063 | 52,894,215  | 52,956,052     | 53,015,683   | 53,117,888    | 50,069,792    | 52,363,017          |
| PROPERTY HELD/FUTURE USE     | 0            | 0             | 0          | 0          | 0          | 0          | 0          | 0           | 0              | 0            | 0             | 0             | 0                   |
| PLANT UNDER CONSTRUCTION     | 1,179,567    | 1,148,109     | 1,108,878  | 1,218,736  | 1,259,781  | 1,291,931  | 1,251,611  | 1,286,327   | 1,335,617      | 1,306,976    | 1,322,740     | 610,898       | 1,191,764           |
| PLANT ACQUISITION ADJUST     | 0            | 0             | 0          | 0          | 0          | 0          | 0          | 0           | 0              | 0            | 0             | 0             | 0                   |
| MATERIALS & SUPPLIES         | 564,288      | 583,422       | 596,821    | 612,561    | 605,257    | 597,262    | 585,431    | 603,796     | 647,002        | 783,582      | 782,514       | 648,792       | 633,394             |
| DEPRECIATION RESERVE         | 27,884,924   | 28,142,468    | 28,378,279 | 28,636,530 | 28,891,399 | 29,146,876 | 29,392,238 | 29,655,458  | 29,898,929     | 30,161,668   | 30,375,234    | 26,531,425    | 28,924,619          |
| UNAMORT INVESTMENT TAX CR    | -728         | -1,453        | 0          | 0          | 0          | 0          | 0          | 0           | 0              | 0            | 0             | 0             | 0                   |
| ACCUM DEFERRED INCOME TAX    | 1,061,538    | 1,061,538     | 1,061,538  | 955,949    | 1,453,932  | 1,435,439  | 1,142,788  | 1,142,658   | 1,485,667      | 1,485,692    | 1,339,486     | 1,384,851     | 1,249,271           |
| PREFERRED STOCK              | 10,000       | 10,000        | 10,000     | 10,000     | 10,000     | 10,000     | 10,000     | 10,000      | 10,000         | 10,000       | 10,000        | 10,000        | 10,000              |
| COMMON STOCK                 | 49,600       | 49,600        | 49,600     | 49,600     | 49,600     | 49,600     | 49,600     | 49,600      | 49,600         | 49,600       | 49,600        | 49,600        | 49,600              |
| ADDNL PAID IN CAPITAL        | 0            | 0             | 0          | 0          | 0          | 0          | 0          | 0           | 0              | 0            | 0             | 0             | 0                   |
| RETAINED EARNINGS            | 4,226,512    | 4,599,430     | 4,607,396  | 4,716,924  | 4,809,832  | 4,862,061  | 4,451,944  | 4,590,040   | 4,691,466      | 4,825,523    | 4,744,055     | 3,788,002     | 4,599,415           |
| LONG TERM DEBT               | 21,072,343   | 20,914,388    | 20,896,908 | 20,747,354 | 20,595,663 | 20,535,135 | 20,427,370 | 20,371,171  | 20,309,368     | 20,200,845   | 20,041,418    | 19,982,050    | 20,504,499          |

MILLINGTON TELEPHONE CO., INC.  
SUPPLEMENTAL FINANCIAL DATA TO PSC 3.01  
FOR MONTH ENDED  
DECEMBER 2001

|                                                                 | AVERAGE<br>MONTHLY<br>BALANCE | AVERAGE<br>YTD<br>BALANCE | AVERAGE<br>FOR 12MTD<br>BALANCE |
|-----------------------------------------------------------------|-------------------------------|---------------------------|---------------------------------|
| ADDITIONS                                                       |                               |                           |                                 |
| 1. PLANT IN SERVICE                                             | 51,593,840                    | 52,411,657                | 52,363,017                      |
| 2. PLANT UNDER CONSTRUCTION                                     | 966,819                       | 1,192,873                 | 1,191,764                       |
| 3. PROPERTY HELD FOR FUTURE USE                                 | 0                             | 0                         | 0                               |
| 4. MATERIALS & SUPPLIES                                         | 715,653                       | 640,585                   | 633,394                         |
| OTHER ADDITIONS (ITEMIZE):                                      |                               |                           |                                 |
| 5. AVERAGE CASH                                                 | 1,121,127                     | 884,692                   | 860,224                         |
| 6. RTB STOCK                                                    | 478,750                       | 478,750                   | 478,750                         |
| 7.                                                              | 0                             | 0                         | 0                               |
| 8. TOTAL ADDITIONS                                              | 54,876,189                    | 55,608,558                | 55,527,150                      |
| DEDUCTIONS:                                                     |                               |                           |                                 |
| 9. ACCUMULATED DEPRECIATION                                     | 28,453,330                    | 29,019,137                | 28,924,619                      |
| 10. ACCUMULATED DEFERRED INCOME TAXES                           | 1,352,169                     | 1,266,338                 | 1,249,271                       |
| 11. UNAMORTIZED INVESTMENT CREDIT -PRE 1971                     | 0                             | -132                      | -182                            |
| 12. CUSTOMER DEPOSITS                                           | 340,131                       | 365,675                   | 366,586                         |
| OTHER DEDUCTIONS (ITEMIZE):                                     |                               |                           |                                 |
| 13. ACCOUNTS PAYABLE APPLICABLE TO<br>MATERIALS & SUPPLIES      | 13,600                        | 13,600                    | 13,600                          |
| 14. DEFERRED REVENUE PER PSC ORDER 93-08614                     | 610,830                       | 607,306                   | 607,241                         |
| 15.                                                             | 0                             | 0                         | 0                               |
| 16. TOTAL DEDUCTIONS                                            | 30,770,059                    | 31,271,923                | 31,161,136                      |
| 17. RATE BASE                                                   | 24,106,131                    | 24,336,635                | 24,366,014                      |
| 18. NET OPERATING INCOME (NOI)<br>ADJUSTMENTS TO NOI (ITEMIZE): | -498,787                      | 2,028,333                 | 1,546,085                       |
| 19.                                                             |                               |                           |                                 |
| 20. INTEREST ON CUSTOMER DEPOSITS                               | 778                           | 14,944                    | 1,245                           |
| 21. INTEREST ON DEF REVENUE                                     | 2,789                         | 33,466                    | 33,466                          |
| 22.                                                             | 0                             | 0                         | 0                               |
| 23.                                                             | 0                             | 0                         | 0                               |
| 24. ADJUSTED NET OPERATING INCOME                               | -502,354                      | 1,979,923                 | 1,511,373                       |
| 25. RATE OF RETURN (L24/17)                                     | -25.01%                       | 8.14%                     | 6.20%                           |

ALL AMOUNTS SHOULD BE CALCULATED IN A MANNER CONSISTENT WITH THE  
LAST RATE ORDER ISSUED BY THE COMMISSION FOR THIS COMPANY.

\*Note. (Instructions per Paul Green, TRA, Feb. 1997)

Column (a), line 18, Use current month's net operating income from Form PSCMO, column (b), line 15

Column (b), line 18, Use Year-To-Date net operating income on Form PSCMO, column (e), line 15

Column (b), line 20, use sum of actual months, year-to-date

Column (b), line 25, Rate of Return, Line 24 divided by line 17 by months year-to-date times 12 to annualize

Column (c), line 18, use 12 months-to-date net operating income on Form PSCMO, column (h), line 15

Line 19 deleted per Roger Knight of TRA on 11/9/99.

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

| AND INVESTMENTS - TELEPHONE COMPANIES                   |                      |                   |                   |                 |                   |                   |                 |                   |                   |
|---------------------------------------------------------|----------------------|-------------------|-------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| Item<br>(a)                                             | Amount For The Month |                   |                   |                 | Year - To - Date  |                   |                 | 12 Months-To-Date |                   |
|                                                         | Combined<br>(b)      | Interstate<br>(c) | Intrastate<br>(d) | Combined<br>(e) | Interstate<br>(f) | Intrastate<br>(g) | Combined<br>(h) | Interstate<br>(i) | Intrastate<br>(j) |
| Operating Revenues                                      |                      |                   |                   |                 |                   |                   |                 |                   |                   |
| 1 Local Revenues (5000 to 5069) .....                   | 85,579               | 0                 | 85,579            | 891,307         | 0                 | 891,307           | 967,460         | 0                 | 967,460           |
| 2 Access Revenues (5080 to 5084) .....                  | 336,784              | 131,036           | 205,748           | *2,583,360      | 1,068,310         | 1,515,050         | 3,186,381       | 1,165,365         | 2,021,015         |
| 3 Long Distance Revenues (5100 to 5169) .....           | 30                   | 0                 | 30                | 3,941           | 0                 | 3,941             | 4,529           | 0                 | 4,529             |
| 4 Miscellaneous Revenues (5200 to 5270) .....           | 46,243               | 3,691             | 42,551            | 395,684         | 54,809            | 340,875           | 425,173         | 63,559            | 361,614           |
| 5 Uncollectible Revenues (5300 to 5302) .....           | 345                  | 0                 | 345               | 3,883           | 0                 | 3,883             | 4,226           | 0                 | 4,226             |
| 6 Total Operating Revenues (L1 to L4 less L5)           | 468,291              | 134,727           | 333,564           | 3,870,409       | 1,123,119         | 2,747,290         | 4,579,317       | 1,228,924         | 3,350,392         |
| Operating Expenses                                      |                      |                   |                   |                 |                   |                   |                 |                   |                   |
| 7 Plant Specific Expenses (6110 to 6441) .....          | 32,331               | 6,495             | 25,836            | 393,735         | 79,101            | 314,634           | 421,717         | 84,723            | 336,994           |
| 8 Plant Non-Specific Expenses (6510 to 6540) .....      | 65,540               | 13,259            | 52,281            | 736,405         | 148,977           | 587,428           | 790,160         | 159,852           | 630,308           |
| 9 Depreciation & Amortization (6560 to 6565) .....      | 61,563               | 12,454            | 49,109            | 668,219         | 135,179           | 533,040           | 722,575         | 146,175           | 576,400           |
| 10 Customer Operations Expenses (6610 to 6623) .....    | 59,824               | 15,040            | 44,784            | 715,816         | 179,956           | 535,860           | 777,386         | 195,435           | 581,951           |
| 11 Corporate Operations Expense (6710 to 6790) .....    | 75,818               | 19,652            | 56,166            | 626,166         | 162,303           | 463,863           | 670,446         | 173,780           | 496,666           |
| 12 Other Operating Taxes (7230 & 7240) .....            | 21,063               | 4,309             | 16,754            | 162,360         | 33,217            | 129,143           | 199,253         | 40,765            | 158,488           |
| 13 Federal Income Taxes (7210, 7220 and 7250) .....     | 56,368               | 13,517            | 42,851            | 218,336         | 52,357            | 165,979           | 376,586         | 90,305            | 286,281           |
| 14 Total Operating Expenses (L7 to L13)                 | 372,507              | 84,726            | 287,781           | 3,521,038       | 791,090           | 2,729,948         | 3,958,122       | 891,035           | 3,067,087         |
| 15 Net Operating Income (L6 minus L14)                  | 95,784               | 50,001            | 45,783            | 349,371         | 332,029           | 17,341            | 621,195         | 337,889           | 283,305           |
| 16 Nonoperating Inc (7310 to 7370)-(7410 to 7450) ..... | (9)                  | (2)               | (7)               | (3,781)         | (762)             | (3,019)           | (3,747)         | (755)             | (2,992)           |
| 17 Interest Expense (7510 to 7540) .....                | 76                   | 15                | 61                | 898             | 181               | 717               | 1,062           | 214               | 848               |
| 18 Extraordinary Items (7610 to 7640) .....             | 0                    | 0                 | 0                 | 0               | 0                 | 0                 | 0               | 0                 | 0                 |
| 19 Nonregulated Income Items .....                      | (332)                | (67)              | (265)             | (19,078)        | (3,843)           | (15,235)          | (15,789)        | (3,181)           | (12,608)          |
| 20 Net Income                                           | 95,367               | 49,917            | 45,450            | 325,614         | 327,243           | (1,630)           | 600,597         | 333,739           | 266,857           |

| Selected Balance Sheet Items                           | Balance End of Month |                   |                   | Average 12 M-T-D |                   |                   |
|--------------------------------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|
|                                                        | Combined<br>(k)      | Interstate<br>(l) | Intrastate<br>(m) | Combined<br>(n)  | Interstate<br>(o) | Intrastate<br>(p) |
| 21 Plant in Service (2110 to 2690) .....               | 10,560,166           | 2,131,569         | 8,428,597         | 10,249,127       | 2,068,786         | 8,180,341         |
| 22 Property Held For Future Use (2002) .....           | 0                    | 0                 | 0                 | 0                | 0                 | 0                 |
| 23 Plant Under Construction (2003 to 2004) .....       | 4,756,192            | 960,441           | 3,797,751         | 3,662,372        | 739,250           | 2,923,122         |
| 24 Plant Acquisition Adjustment (2005) .....           | 0                    | 0                 | 0                 | 0                | 0                 | 0                 |
| 25 Materials & Supplies (1220) .....                   | 328,126              | 68,530            | 259,596           | 218,441          | 46,288            | 172,153           |
| 26 Depreciation Reserve (3100 to 3600 less 3300) ..... | 4,532,511            | 917,380           | 3,615,131         | 4,248,816        | 859,960           | 3,388,856         |
| 27 Unamortized Investment Tax Credit (4320) .....      | 11,738               | 2,369             | 9,369             | 14,425           | 2,911             | 11,514            |
| 28 Accumulated Deferred Income Taxes (4340) .....      | 621,838              | 125,487           | 496,351           | 529,273          | 106,807           | 422,466           |
| 29 Preferred Stock (4510) .....                        | 0                    | XXXXXX            | XXXXXX            | 0                | XXXXXX            | XXXXXX            |
| 30 Common Stock (4510) .....                           | 127,600              | XXXXXX            | XXXXXX            | 127,600          | XXXXXX            | XXXXXX            |
| 31 Additional Paid in Capital (4520) .....             | 0                    | XXXXXX            | XXXXXX            | 0                | XXXXXX            | XXXXXX            |
| 32 Retained Earnings (4550) .....                      | 7,963,675            | XXXXXX            | XXXXXX            | 7,735,229        | XXXXXX            | XXXXXX            |
| 33 Long Term Debt (4210 to 4270) .....                 | 0                    | XXXXXX            | XXXXXX            | 0                | XXXXXX            | XXXXXX            |

**SUPPLEMENTAL FINANCIAL DATA TO PSC 3.01  
FOR THE MONTH ENDED November 30, 2001**

| Line # |                                          | Average Monthly Balance | Average Y-T-D Balance | Average for 12 M-T-D |
|--------|------------------------------------------|-------------------------|-----------------------|----------------------|
|        | <b>Additions:</b>                        |                         |                       |                      |
| 1      | Plant In Service                         | \$10,486,949            | \$10,323,415          | \$10,249,127         |
| 2      | Plant Under Construction                 | 4,632,025               | 3,687,137             | 3,662,372            |
| 3      | Property Held For Future Use             | 0                       | 0                     | 0                    |
| 4      | Materials & Supplies                     | 323,136                 | 232,269               | 218,441              |
| 5      | Other Additions (Itemize):               |                         |                       |                      |
| 6      | Working Capital                          | 233,513                 | 224,738               | 221,642              |
| 7      |                                          |                         |                       |                      |
| 8      | <b>Total Additions</b>                   | <b>\$15,675,623</b>     | <b>\$14,467,560</b>   | <b>\$14,351,582</b>  |
|        | <b>Deductions:</b>                       |                         |                       |                      |
| 9      | Accumulated Depreciation                 | 4,501,794               | 4,264,595             | 4,248,816            |
| 10     | Accumulated Deferred Income Taxes        | 604,350                 | 539,278               | 529,273              |
| 11     | Unamortized Investment Credit - Pre 1971 | 11,960                  | 14,185                | 14,425               |
| 12     | Customer Deposits                        | 13,725                  | 15,613                | 15,885               |
|        | Other Deductions (Itemize):              |                         |                       |                      |
| 13     | Deferred Revenue-TPSC ordered            | 0                       | 0                     | 0                    |
| 14     |                                          |                         |                       |                      |
| 15     |                                          |                         |                       |                      |
| 16     | <b>Total Deductions</b>                  | <b>\$5,131,829</b>      | <b>\$4,833,670</b>    | <b>\$4,808,398</b>   |
| 17     | <b>Rate Base</b>                         | <b>\$10,543,794</b>     | <b>\$9,633,890</b>    | <b>\$9,543,184</b>   |
| 18     | Net Operating Income (NOI)               | 95,784                  | 349,371               | 621,195              |
|        | Adjustments to NOI (Itemize):            |                         |                       |                      |
| 19     |                                          |                         |                       |                      |
| 20     | Less: Interest on Customer Deposits      | 76                      | 855                   | 1,001                |
| 21     | Add: Inside Wiring (NOI)                 | (1,261)                 | (10,607)              | (11,826)             |
| 22     | Add: Parent Tax Savings                  | 20,666                  | 207,707               | 224,456              |
| 23     | Less: Interstate B&C Net Income          | (6,906)                 | (50,033)              | (49,553)             |
| 24     | <b>Adjusted Net Operating Income</b>     | <b>\$122,018</b>        | <b>\$595,649</b>      | <b>\$882,376</b>     |
| 25     | <b>Rate Of Return (L24/L17)</b>          | <b>13.89%</b>           | <b>6.74%</b>          | <b>9.25%</b>         |

All amounts should be calculated in a manner consistent with the last Rate Order issued by the Commission for this company.

CONTINUING SURVEILLANCE CONSIDERATIONS. Estimate the effect on net operating income of very significant known changes occurring within the period covered by the report which are not fully reflected in the revenue and expense amounts shown in the report.

- 1.
- 2.

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES  
Tellico Telephone Company  
Month Ending December 31, 2001.

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| Ln<br>No.                           | Item                                                  | Total Company<br>12 Month | Interstate<br>12 Month | Intrastate<br>12 Month | Interstate % |
|-------------------------------------|-------------------------------------------------------|---------------------------|------------------------|------------------------|--------------|
|                                     | (a)                                                   | (b)                       | (c)                    | (d)                    | (e)          |
| <b>OPERATING REVENUES</b>           |                                                       |                           |                        |                        |              |
| 1                                   | Local Revenues (5000 - 5069)                          | \$ 2,383,838              | \$ -                   | \$ 2,383,838           |              |
| 2                                   | Interstate Access (5081-5083)                         | 2,014,581                 | 2,014,581              | -                      |              |
| 3                                   | Interstate USF (50821)                                | 568,149                   | -                      | 568,149                |              |
| 4                                   | Intrastate Access (508421-50847)                      | 502,635                   | -                      | 502,635                |              |
| 5                                   | Long Distance Revenues (5100 - 5169)                  | 1,722,034                 | -                      | 1,722,034              |              |
| 6                                   | Miscellaneous Revenues (523-5269)                     | 144,982                   | -                      | 144,982                |              |
| 7                                   | B&C (5270)                                            | 127,818                   | 78,823                 | 48,995                 |              |
| 8                                   | Uncollectible Revenues (5300)                         | (28,810)                  | -                      | (28,810)               |              |
| 9                                   | Total Operating Revenues (L1 to L8)                   | \$ 7,435,227              | \$ 2,093,405           | \$ 5,341,822           |              |
| <b>OPERATING EXPENSES</b>           |                                                       |                           |                        |                        |              |
| 10                                  | Plt Specific Expense (6110 to 6441) + 7130            | \$ 561,142                | \$ 161,479             | \$ 399,663             | 28.78%       |
| 11                                  | Plt Non Spec. Expense (6510 to 6540)                  | 557,085                   | 176,127                | 380,958                | 31.62%       |
| 12                                  | Depreciation & Amortization (6560)                    | 1,787,399                 | 519,161                | 1,268,238              | 29.05%       |
| 13                                  | Customer Operation Expense (6600)                     | 1,111,575                 | 380,666                | 730,908                | 34.25%       |
| 14                                  | Corporate Operation Expense (6700)                    | 983,416                   | 287,246                | 696,169                | 29.21%       |
| 15                                  | Other Operating Taxes (7240)                          | 157,464                   | 45,454                 | 112,009                | 28.87%       |
| 16                                  | Federal Income Taxes (7220 and 72501)                 | 632,954                   | 128,465                | 504,489                |              |
| 17                                  | State Income Taxes (7230 and 72502)                   | 130,975                   | 45,966                 | 85,009                 |              |
| 18                                  | Total Operating Expenses (L10 to L17)                 | \$ 5,922,010              | \$ 1,744,564           | \$ 4,177,445           |              |
| 19                                  | Net Operating Income (L9 less L18)                    | \$ 1,513,217              | \$ 348,840             | \$ 1,164,377           |              |
| 20                                  | Nonoperating Inc (7310 to 7370) and<br>(7410 to 7450) | 176,788                   | -                      | 176,788                |              |
| 21                                  | Interest Expense (7510 to 7540)                       | 494,865                   | -                      | 494,865                |              |
| 22                                  | Extraordinary Items (7610 to 7640)                    | -                         | -                      | -                      |              |
| 23                                  | Nonregulated Income Items (7990)                      | 105,395                   | -                      | 105,395                |              |
| 24                                  | Net Income.....                                       | \$ 1,300,535              | \$ 348,840             | \$ 951,694             |              |
| <b>Selected Balance Sheet Items</b> |                                                       |                           |                        |                        |              |
|                                     |                                                       | 12 Mth Average            | Interstate             | Intrastate             | Interstate % |
| 25                                  | Plant in Service (2100-2400)                          | \$ 23,686,755             | \$ 6,779,149           | \$ 16,907,606          | 28.62%       |
| 26                                  | Depreciation Reserve (3100-3120)                      | 13,092,021                | 3,821,561              | 9,270,460              | 29.19%       |
| 27                                  | Property Held for Future Use (2002)                   | -                         | -                      | -                      | 0.00%        |
| 28                                  | Plant Under Construction (2003)                       | 902,487                   | 258,292                | 644,195                | 28.62%       |
| 29                                  | Materials & Supplies (1220)                           | 51,861                    | 13,344                 | 38,517                 | 25.73%       |
| 30                                  | Unamortized ITC (4230)                                | -                         | -                      | -                      | 28.62%       |
| 31                                  | Customer Deposits (4040)                              | 1,062                     | 303                    | 759                    | 28.56%       |
| 32                                  | Leases and Leasehold Improvements (net) (2681)        | -                         | -                      | -                      | 28.62%       |
| 33                                  | RTB Stock (14021)                                     | 239,850                   | 68,637                 | 171,213                | 28.62%       |
| 34                                  | Accumulated Deferred Income Taxes (4340,436)          | 959,717                   | 274,671                | 685,046                | 28.62%       |
| 35                                  | Preferred & Common Stock (4510)                       | 27,800                    | *****                  | *****                  |              |
| 36                                  | Additional Paid In Capital (4520)                     | 73,726                    | *****                  | *****                  |              |
| 37                                  | Retained Earnings (4550)                              | 8,692,713                 | *****                  | *****                  |              |
| 38                                  | Long Term Debt (4210 to 4270) + 4050                  | 7,992,477                 | *****                  | *****                  |              |
| 39                                  | Short Term Debt (4020)                                | -                         | *****                  | *****                  |              |

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

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Tellico Telephone Company

Month Ending December 31, 2001.

TENNESSEE INTRASTATE SUPPLEMENTAL FINANCIAL  
DATA TO PSC-3.01 FOR

| Ln<br>No. | SELECTED BALANCE SHEET ITEMS                                              | Average<br>Monthly<br>Balance | Average<br>12 Months<br>To Date | Average<br>12 Months<br>To Date |
|-----------|---------------------------------------------------------------------------|-------------------------------|---------------------------------|---------------------------------|
|           | (a)                                                                       |                               |                                 |                                 |
| 1         | Plant In Service                                                          | \$ 17,737,607                 | \$ 16,907,606                   | \$ 16,907,606                   |
| 2         | Plant Under Construction                                                  | 1,015,935                     | 644,195                         | 644,195                         |
| 3         | Plant Held for Future Use (Net)                                           | -                             | -                               | -                               |
| 4         | Materials & Supplies                                                      | 34,540                        | 38,517                          | 38,517                          |
| 5         | Capital Leases (Net)                                                      | -                             | -                               | -                               |
| 6         | Working Capital (45 Days)                                                 | 289,571                       | 289,964                         | 289,964                         |
| 7         | RTB Stock                                                                 | 171,213                       | 171,213                         | 171,213                         |
| 8         | Total Additions                                                           | \$ 19,248,866                 | \$ 18,051,495                   | \$ 18,051,495                   |
|           | LESS:                                                                     |                               |                                 |                                 |
| 9         | Accumulated Depreciation                                                  | 9,554,134                     | 9,270,460                       | 9,270,460                       |
| 10        | Accumulated Deferred Taxes- Accelerated<br>Depreciation & Cost of Removal | 693,616                       | 685,046                         | 685,046                         |
| 11        | Unamortized ITC                                                           | -                             | -                               | -                               |
| 12        | Customer Deposits                                                         | 1,000                         | 1,062                           | 1,062                           |
| 13        | Total Reductions                                                          | \$ 10,248,750                 | \$ 9,956,568                    | \$ 9,956,568                    |
| 14        | Rate Base                                                                 | \$ 9,000,116                  | \$ 8,094,926                    | \$ 8,094,926                    |
| 15        | Alternative Net Operating Income                                          | \$ 117,893                    | \$ 1,164,463                    | \$ 1,164,463                    |
| 16        |                                                                           |                               |                                 |                                 |
| 17        |                                                                           |                               |                                 |                                 |
| 18        |                                                                           |                               |                                 |                                 |
| 19        |                                                                           |                               |                                 |                                 |
| 20        |                                                                           |                               |                                 |                                 |
| 21        |                                                                           |                               |                                 |                                 |
| 22        |                                                                           |                               |                                 |                                 |
| 23        |                                                                           |                               |                                 |                                 |
| 24        |                                                                           |                               |                                 |                                 |
| 25        | Alternative Net Operating Income                                          | \$ 117,893                    | \$ 1,164,463                    | \$ 1,164,463                    |
| 26        | Return on Rate Base                                                       | 15.72%                        | 14.39%                          | 14.39%                          |

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES  
Tennessee Telephone Company  
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| Ln<br>No.                           | Item<br>(a)                                           | Total Company<br>12 Month<br>(b) | Interstate<br>12 Month<br>(c) | Intrastate<br>12 Month<br>(d) | Interstate %<br>(e) |
|-------------------------------------|-------------------------------------------------------|----------------------------------|-------------------------------|-------------------------------|---------------------|
| <b>OPERATING REVENUES</b>           |                                                       |                                  |                               |                               |                     |
| 1                                   | Local Revenues (5000 - 5069)                          | \$ 21,795,679                    | \$ -                          | \$ 21,795,679                 |                     |
| 2                                   | Interstate Access (5081-5083)                         | 10,498,059                       | 10,498,059                    | -                             |                     |
| 3                                   | Interstate USF (50821)                                | 1,811,955                        | -                             | 1,811,955                     |                     |
| 4                                   | Intrastate Access (508421-50847)                      | 2,855,497                        | -                             | 2,855,497                     |                     |
| 5                                   | Long Distance Revenues (5100 - 5169)                  | 7,977,787                        | -                             | 7,977,787                     |                     |
| 6                                   | Miscellaneous Revenues (523-5269)                     | 899,994                          | -                             | 899,994                       |                     |
| 7                                   | B&C (5270)                                            | 840,266                          | 579,270                       | 260,996                       |                     |
| 8                                   | Uncollectible Revenues (5300)                         | (187,592)                        | -                             | (187,592)                     |                     |
| 9                                   | Total Operating Revenues (L1 to L8)                   | \$ 46,491,646                    | \$ 11,077,329                 | \$ 35,414,317                 |                     |
| <b>OPERATING EXPENSES</b>           |                                                       |                                  |                               |                               |                     |
| 10                                  | Plt Specific Expense (6110 to 6441) + 7130            | \$ 3,360,067                     | \$ 972,740                    | \$ 2,387,328                  | 28.95%              |
| 11                                  | Plt Non Spec. Expense (6510 to 6540)                  | 3,552,698                        | 1,023,888                     | 2,528,810                     | 28.82%              |
| 12                                  | Depreciation & Amortization (6560)                    | 10,424,108                       | 3,078,864                     | 7,345,243                     | 29.54%              |
| 13                                  | Customer Operation Expense (6600)                     | 7,207,439                        | 1,943,126                     | 5,264,314                     | 26.96%              |
| 14                                  | Corporate Operation Expense (6700)                    | 7,145,440                        | 2,041,809                     | 5,103,630                     | 28.58%              |
| 15                                  | Other Operating Taxes (7240)                          | 987,697                          | 290,086                       | 697,610                       | 29.37%              |
| 16                                  | Federal Income Taxes (7220 and 72501)                 | 4,360,522                        | 608,204                       | 3,752,318                     |                     |
| 17                                  | State Income Taxes (7230 and 72502)                   | 858,939                          | (72,858)                      | 931,797                       |                     |
| 18                                  | Total Operating Expenses (L10 to L17)                 | \$ 37,896,910                    | \$ 9,885,859                  | \$ 28,011,050                 |                     |
| 19                                  | Net Operating Income (L9 less L18)                    | \$ 8,594,736                     | \$ 1,191,469                  | \$ 7,403,267                  |                     |
| 20                                  | Nonoperating Inc (7310 to 7370) and<br>(7410 to 7450) | 348,318                          | -                             | 348,318                       |                     |
| 21                                  | Interest Expense (7510 to 7540)                       | 815,818                          | -                             | 815,818                       |                     |
| 22                                  | Extraordinary Items (7610 to 7640)                    | -                                | -                             | -                             |                     |
| 23                                  | Nonregulated Income Items (7990)                      | 1,062,871                        | -                             | 1,062,871                     |                     |
| 24                                  | Net Income.....                                       | \$ 9,190,108                     | \$ 1,191,469                  | \$ 7,998,638                  |                     |
| <b>Selected Balance Sheet Items</b> |                                                       |                                  |                               |                               |                     |
|                                     |                                                       | 12 Mth Average                   | Interstate                    | Intrastate                    | Interstate %        |
| 25                                  | Plant in Service (2100-2400)                          | \$ 133,477,823                   | \$33,703,150                  | \$ 99,774,673                 | 25.25%              |
| 26                                  | Depreciation Reserve (3100-3120)                      | 72,443,057                       | 18,596,133                    | 53,846,924                    | 25.67%              |
| 27                                  | Property Held for Future Use (2002)                   | -                                | -                             | -                             | 0.00%               |
| 28                                  | Plant Under Construction (2003)                       | 4,245,646                        | 1,072,026                     | 3,173,621                     | 25.25%              |
| 29                                  | Materials & Supplies (1220)                           | 606,875                          | 158,576                       | 448,299                       | 26.13%              |
| 30                                  | Unamortized ITC (4230)                                | -                                | -                             | -                             | 25.26%              |
| 31                                  | Customer Deposits (4040)                              | 5,632                            | 1,457                         | 4,175                         | 25.87%              |
| 32                                  | Leases and Leasehold Improvements (net) (2681, 2682)  | 64,432                           | 16,275                        | 48,156                        | 25.26%              |
| 33                                  | RTB Stock (14021)                                     | -                                | -                             | -                             | 0.00%               |
| 34                                  | Accumulated Deferred Income Taxes (4340,4361,1437)    | 5,397,495                        | 1,363,407                     | 4,034,088                     | 25.26%              |
| 35                                  | Preferred & Common Stock (4510)                       | 2,953,800                        | *****                         | *****                         |                     |
| 36                                  | Additional Paid In Capital (4520)                     | 3,278,054                        | *****                         | *****                         |                     |
| 37                                  | Retained Earnings (4550)                              | 63,000,990                       | *****                         | *****                         |                     |
| 38                                  | Long Term Debt (4210 to 4270) + 4050                  | 15,807,800                       | *****                         | *****                         |                     |
| 39                                  | Short Term Debt (4020)                                | -                                | *****                         | *****                         |                     |

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

Tennessee Telephone Company  
Month Ending December 31, 2001.

TENNESSEE INTRASTATE SUPPLEMENTAL FINANCIAL  
DATA TO PSC-3.01 FOR

| Ln<br>No. | SELECTED BALANCE SHEET ITEMS                                              | Average<br>Monthly<br>Balance | Average<br>12 Months<br>To Date | Average<br>12 Months<br>To Date |
|-----------|---------------------------------------------------------------------------|-------------------------------|---------------------------------|---------------------------------|
| (a)       |                                                                           |                               |                                 |                                 |
| 1         | Plant In Service                                                          | \$ 102,781,071                | \$ 99,774,673                   | \$ 99,774,673                   |
| 2         | Plant Under Construction                                                  | 3,567,748                     | 3,173,621                       | 3,173,621                       |
| 3         | Plant Held for Future Use (Net)                                           | -                             | -                               | -                               |
| 4         | Materials & Supplies                                                      | 253,668                       | 448,299                         | 448,299                         |
| 5         | Capital Leases (Net)                                                      | 145,964                       | 48,156                          | 48,156                          |
| 6         | Working Capital (45 Days)                                                 | 1,675,599                     | 1,997,712                       | 1,997,712                       |
| 7         | RTB Stock                                                                 | -                             | -                               | -                               |
| 8         | Total Additions                                                           | \$ 108,424,050                | \$ 105,442,460                  | \$ 105,442,460                  |
|           | LESS:                                                                     |                               |                                 |                                 |
| 9         | Accumulated Depreciation                                                  | 56,795,835                    | 53,846,924                      | 53,846,924                      |
| 10        | Accumulated Deferred Taxes- Accelerated<br>Depreciation & Cost of Removal | 3,781,176                     | 4,034,088                       | 4,034,088                       |
| 11        | Unamortized ITC                                                           | -                             | -                               | -                               |
| 12        | Customer Deposits                                                         | 5,398                         | 5,632                           | 5,632                           |
| 13        | Total Reductions                                                          | \$ 60,582,409                 | \$ 57,886,644                   | \$ 57,886,644                   |
| 14        | Rate Base                                                                 | \$ 47,841,642                 | \$ 47,555,816                   | \$ 47,555,816                   |
| 15        | Alternative Net Operating Income                                          | \$ 1,038,193                  | \$ 7,385,411                    | \$ 7,385,411                    |
| 16        |                                                                           |                               |                                 |                                 |
| 17        |                                                                           |                               |                                 |                                 |
| 18        |                                                                           |                               |                                 |                                 |
| 19        |                                                                           |                               |                                 |                                 |
| 20        |                                                                           |                               |                                 |                                 |
| 21        |                                                                           |                               |                                 |                                 |
| 22        |                                                                           |                               |                                 |                                 |
| 23        |                                                                           |                               |                                 |                                 |
| 24        |                                                                           |                               |                                 |                                 |
| 25        |                                                                           |                               |                                 |                                 |
| 26        | Alternative Net Operating Income                                          | \$ 1,038,193                  | \$ 7,385,411                    | \$ 7,385,411                    |
| 27        | Return on Rate Base                                                       | 26.04%                        | 15.53%                          | 15.53%                          |

PSC - 3.01

## MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES

| Item<br>(a)                                             | Amount For The Month |                   |                   | Year - To - Date |                   |                   | 12 Months-To-Date |                   |                   |
|---------------------------------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                                         | Combined<br>(b)      | Interstate<br>(c) | Intrastate<br>(d) | Combined<br>(e)  | Interstate<br>(f) | Intrastate<br>(g) | Combined<br>(h)   | Interstate<br>(i) | Intrastate<br>(j) |
| <b>Operating Revenues</b>                               |                      |                   |                   |                  |                   |                   |                   |                   |                   |
| 1 Local Revenues (5000 to 5069) .....                   | 285,208              |                   | 285,208           | 2,761,188        |                   | 2,761,188         | 3,288,894         |                   | 3,288,894         |
| 2 Access Revenues (5080 to 5084) .....                  | 581,545              |                   | 581,545           | 5,476,302        |                   | 5,476,302         | 6,560,494         |                   | 6,560,494         |
| 3 Long Distance Revenues (5100 to 5169) .....           | (13,146)             |                   | (13,146)          | (60,384)         |                   | (60,384)          | (57,210)          |                   | (57,210)          |
| 4 Miscellaneous Revenues (5200 to 5270) .....           | 51,956               |                   | 51,956            | 558,181          |                   | 558,181           | 698,250           |                   | 698,250           |
| 5 Uncollectible Revenues (5300 to 5302) .....           |                      |                   | 0                 | 114,590          |                   | 114,590           | 119,210           |                   | 114,601           |
| 6 Total Operating Revenues (L1 to L4 less L5)           | 905,563              | 0                 | 905,563           | 8,620,697        | 0                 | 8,620,697         | 10,371,218        | 0                 | 10,375,827        |
| <b>Operating Expenses</b>                               |                      |                   |                   |                  |                   |                   |                   |                   |                   |
| 7 Plant Specific Expenses (6110 to 6441) .....          | 118,110              |                   | 118,110           | 1,107,809        |                   | 1,107,809         | 1,364,055         |                   | 1,364,055         |
| 8 Plant Non-Specific Expenses (6510 to 6540) .....      | 28,751               |                   | 28,751            | 271,788          |                   | 271,788           | 332,224           |                   | 332,224           |
| 9 Depreciation & Amortization (6560 to 6565) .....      | 167,250              |                   | 167,250           | 1,587,814        |                   | 1,587,814         | 1,930,228         |                   | 1,930,228         |
| 10 Customer Operations Expense (6610 to 6623) .....     | 100,711              |                   | 100,711           | 776,627          |                   | 776,627           | 946,524           |                   | 946,524           |
| 11 Corporate Operations Expense (6710 to 6790) .....    | 94,291               |                   | 94,291            | 823,333          |                   | 823,333           | 952,684           |                   | 952,684           |
| 12 Other Operating Taxes (7230 & 7240) .....            | 118,650              |                   | 118,650           | 1,159,758        |                   | 1,159,758         | 1,676,725         |                   | 1,676,725         |
| 13 Federal Income Taxes (7210, 7220 and 7250) .....     | 10,000               |                   | 10,000            | 100,000          |                   | 100,000           | (172,168)         |                   | (172,168)         |
| 14 Total Operating Expenses (L7 to L13) .....           | 637,762              | 0                 | 637,762           | 5,827,128        | 0                 | 5,827,128         | 7,030,272         | 0                 | 7,030,272         |
| 15 Net Operating Income (L6 minus L14) .....            | 267,801              |                   | 267,801           | 2,793,569        | 0                 | 2,793,569         | 3,340,945         | 0                 | 3,345,554         |
| 16 Nonoperating Inc (7310 to 7370)-(7410 to 7450) ..... | (563)                |                   | (563)             | 1,790            |                   | 1,790             | 30,941            |                   | 30,941            |
| 17 Interest Expense (7510 to 7540) .....                | 185,290              |                   | 185,290           | 1,777,887        |                   | 1,777,887         | 2,017,094         |                   | 2,017,094         |
| 18 Extraordinary Items (7610 to 7640) .....             | 5,052                |                   | 5,052             | (112,993)        |                   | (112,993)         | (239,487)         |                   | (239,487)         |
| 19 Net Income .....                                     | 87,000               | 0                 | 87,000            | 904,479          | 0                 | 904,479           | 1,115,305         | 0                 | 1,119,914         |

| Selected Balance Sheet Items                           | Balance End of Month |                   |                   | Average 12 M-T-D |                   |                   |
|--------------------------------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|
|                                                        | Combined<br>(k)      | Interstate<br>(l) | Intrastate<br>(m) | Combined<br>(n)  | Interstate<br>(o) | Intrastate<br>(p) |
| 20 Plant in Service (2110 to 2690) .....               | 48,504,493           |                   |                   | 45,885,658       |                   |                   |
| 21 Property Held For Future Use (2002) .....           |                      |                   |                   |                  |                   |                   |
| 22 Plant Under Construction (2003 to 2004) .....       | 5,576,558            |                   |                   | 6,324,974        |                   |                   |
| 23 Plant Acquisition Adjustment (2005) .....           |                      |                   |                   | 0                |                   |                   |
| 24 Materials & Supplies (1220) .....                   | 421,271              |                   |                   | 401,640          |                   |                   |
| 25 Depreciation Reserve (3100 to 3600 less 3300) ..... | 8,135,143            |                   |                   | 7,213,350        |                   |                   |
| 26 Unamortized Investment Tax Credit (4320) .....      | 127,182              |                   |                   | 132,617          |                   |                   |
| 27 Accumulated Deferred Income Taxes (4340) .....      | 4,110,967            |                   |                   | 3,754,533        |                   |                   |
| 28 Preferred Stock (4510) .....                        |                      | XXXXXX            |                   |                  | XXXXXX            | XXXXXX            |
| 29 Common Stock (4510) .....                           | 72,250               | XXXXXX            |                   | 72,250           | XXXXXX            | XXXXXX            |
| 30 Additional Paid in Capital (4520) .....             |                      | XXXXXX            |                   |                  | XXXXXX            | XXXXXX            |
| 31 Retained Earnings (4550) .....                      | 7,047,853            | XXXXXX            |                   | 7,583,845        | XXXXXX            | XXXXXX            |
| 32 Long Term Debt (4210 to 4270) .....                 | 37,206,222           | XXXXXX            |                   | 35,436,172       | XXXXXX            | XXXXXX            |

**SUPPLEMENTAL FINANCIAL DATA TO PSC 3.01  
FOR THE MONTH ENDED OCTOBER, 2001**

| Line # |                                          | Average Monthly Balance | Average for 13 MTD |
|--------|------------------------------------------|-------------------------|--------------------|
|        | <b>Additions:</b>                        |                         |                    |
| 1      | Plant In Service                         | 48,452,321              | 45,689,283         |
| 2      | Plant Under Construction                 | 5,428,634               | 6,110,839          |
| 3      | Property Held For Future Use             |                         |                    |
| 4      | Materials & Supplies                     | 414,782                 | 394,501            |
|        | Other Additions (Itemize):               |                         |                    |
| 5      | MONTH EXP LESS DEP, AMORT & TAXES        | 341,862                 | 299,624            |
| 6      |                                          |                         |                    |
| 7      |                                          |                         |                    |
| 8      | <b>Total Additions</b>                   | 54,637,599              | 52,494,247         |
|        | <b>Deductions:</b>                       |                         |                    |
| 9      | Accumulated Depreciation                 | 8,050,469               | 7,138,722          |
| 10     | Accumulated Deferred Income Taxes        | 127,682                 | 134,669            |
| 11     | Unamortized Investment Credit - Pre 1971 |                         |                    |
| 12     | Customer Deposits                        | 53,782                  | 53,640             |
|        | Other Deductions (Itemize):              |                         |                    |
| 13     |                                          |                         |                    |
| 14     |                                          |                         |                    |
| 15     |                                          |                         |                    |
| 16     | <b>Total Deductions</b>                  | 8,231,932               | 7,327,032          |
| 17     | <b>Rate Base</b>                         | 46,405,667              | 45,167,215         |
| 18     | Net Operating Income (NOI)               | 222,256                 | 2,891,058          |
|        | Adjustments to NOI (Itemize):            |                         |                    |
| 19     | INTEREST ON CUSTOMER DEPOSIT             | 403                     | 3,707              |
| 20     |                                          |                         |                    |
| 21     |                                          |                         |                    |
| 22     |                                          |                         |                    |
| 23     |                                          |                         |                    |
| 24     | <b>Adjusted Net Operating Income</b>     | 221,853                 | 2,887,351          |
| 25     | <b>Rate Of Return (L24/L17)</b>          | 5.74%                   | 6.39%              |

All amounts should be calculated in a manner consistent with the last Rate Order issued by the Commission for this company.

CONTINUING SURVEILLANCE CONSIDERATIONS. Estimate the effect on net operating income of very significant known changes occurring within the period covered by the report which are not fully reflected in the revenue and expense amounts shown in the report.

- 1.
- 2.

MONTHLY REPORT OF TENNESSEE REVENUES, EXPENSES  
AND INVESTMENTS - TELEPHONE COMPANIES

| Item<br>(a)                                             | Amount For The Month |                   |                   | Year - To - Date |                   |                   | 12 Months-To-Date |                   |                   |
|---------------------------------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                                         | Combined<br>(b)      | Interstate<br>(c) | Intrastate<br>(d) | Combined<br>(e)  | Interstate<br>(f) | Intrastate<br>(g) | Combined<br>(h)   | Interstate<br>(i) | Intrastate<br>(j) |
| <b>Operating Revenues</b>                               |                      |                   |                   |                  |                   |                   |                   |                   |                   |
| 1 Local Revenues (5000 to 5069) .....                   | 71,595               | 0                 | 71,595            | 745,867          | 0                 | 745,867           | 801,247           | 0                 | 801,247           |
| 2 Access Revenues (5080 to 5084) .....                  | 372,830              | 128,935           | 243,895           | 2,679,999        | 1,091,928         | 1,588,071         | 3,192,784         | 1,176,981         | 2,016,803         |
| 3 Long Distance Revenues (5100 to 5169) .....           | 83                   | 0                 | 83                | 2,299            | 0                 | 2,299             | 2,766             | 0                 | 2,766             |
| 4 Miscellaneous Revenues (5200 to 5270) .....           | 3,573                | 2,996             | 378               | (80,360)         | 44,711            | (125,071)         | (85,792)          | 50,747            | (136,539)         |
| 5 Uncollectible Revenues (5300 to 5302) .....           | 310                  | 0                 | 310               | 3,398            | 0                 | 3,398             | 3,698             | 0                 | 3,698             |
| 6 Total Operating Revenues (L1 to L4 less L5)           | 447,571              | 131,931           | 315,640           | 3,344,407        | 1,136,639         | 2,207,768         | 3,907,307         | 1,226,728         | 2,680,579         |
| <b>Operating Expenses</b>                               |                      |                   |                   |                  |                   |                   |                   |                   |                   |
| 7 Plant Specific Expenses (6110 to 6441) .....          | 37,278               | 6,669             | 30,609            | 337,337          | 60,348            | 276,989           | 360,706           | 64,529            | 296,177           |
| 8 Plant Non-Specific Expenses (6510 to 6540) .....      | 48,710               | 8,511             | 40,199            | 560,743          | 98,669            | 462,074           | 612,763           | 107,823           | 504,940           |
| 9 Depreciation & Amortization (6560 to 6565) .....      | 44,731               | 7,871             | 36,860            | 465,169          | 81,882            | 383,317           | 503,928           | 88,672            | 415,256           |
| 10 Customer Operations Expense (6610 to 6623) .....     | 58,079               | 10,460            | 47,619            | 718,859          | 129,466           | 589,393           | 791,984           | 142,636           | 649,348           |
| 11 Corporate Operations Expense (6710 to 6790) .....    | 66,253               | 13,979            | 52,274            | 545,597          | 115,120           | 430,477           | 584,931           | 123,419           | 461,512           |
| 12 Other Operating Taxes (7230 & 7240) .....            | 20,883               | 3,736             | 17,147            | 141,536          | 25,320            | 116,216           | 167,544           | 29,973            | 137,571           |
| 13 Federal Income Taxes (7210, 7220 and 7250) .....     | 60,516               | 14,778            | 45,738            | 202,986          | 49,569            | 153,419           | 314,036           | 76,667            | 237,369           |
| 14 Total Operating Expenses (L7 to L13)                 | 336,450              | 66,064            | 270,386           | 2,972,228        | 560,344           | 2,411,884         | 3,335,893         | 633,739           | 2,702,154         |
| 15 Net Operating Income (L6 minus L14)                  | 111,121              | 65,867            | 45,254            | 372,178          | 576,295           | (204,116)         | 571,414           | 592,989           | (21,575)          |
| 16 Nonoperating Inc (7310 to 7370)-(7410 to 7450) ..... | 515                  | 95                | 420               | 22,254           | 4,094             | 18,160            | 26,025            | 4,785             | 21,237            |
| 17 Interest Expense (7510 to 7540) .....                | 41                   | 7                 | 34                | 1,022            | 182               | 840               | 1,154             | 205               | 948               |
| 18 Extraordinary Items (7610 to 7640) .....             | 0                    | 0                 | 0                 | 0                | 0                 | 0                 | 0                 | 0                 | 0                 |
| 19 Nonregulated Income Items .....                      | (3,653)              | (672)             | (2,981)           | (47,094)         | (8,664)           | (38,430)          | (49,627)          | (9,130)           | (40,497)          |
| 20 Net Income                                           | 107,943              | 65,283            | 42,660            | 346,316          | 571,543           | (225,226)         | 546,658           | 588,441           | (41,733)          |
| <b>Selected Balance Sheet Items</b>                     |                      |                   |                   |                  |                   |                   |                   |                   |                   |
| Balance End of Month                                    |                      |                   |                   | Average 12 M-T-D |                   |                   |                   |                   |                   |
|                                                         | Combined<br>(k)      | Interstate<br>(l) | Intrastate<br>(m) | Combined<br>(n)  | Interstate<br>(o) | Intrastate<br>(p) |                   |                   |                   |
| 21 Plant in Service (2110 to 2690) .....                | 9,928,425            | 1,783,145         | 8,145,280         | 9,670,883        | 1,736,855         | 7,933,828         |                   |                   |                   |
| 22 Property Held For Future Use (2002) .....            | 0                    | 0                 | 0                 | 0                | 0                 | 0                 |                   |                   |                   |
| 23 Plant Under Construction (2003 to 2004) .....        | 1,400,641            | 251,565           | 1,149,086         | 884,802          | 158,911           | 725,892           |                   |                   |                   |
| 24 Plant Acquisition Adjustment (2005) .....            | 0                    | 0                 | 0                 | 0                | 0                 | 0                 |                   |                   |                   |
| 25 Materials & Supplies (1220) .....                    | 424,942              | 83,331            | 341,611           | 240,215          | 47,106            | 193,109           |                   |                   |                   |
| 26 Depreciation Reserve (3100 to 3600 less 3300) .....  | 4,220,583            | 758,861           | 3,461,722         | 4,010,148        | 666,861           | 3,042,045         |                   |                   |                   |
| 27 Unamortized Investment Tax Credit (4320) .....       | 2,558                | 460               | 2,098             | 3,240            | 583               | 2,658             |                   |                   |                   |
| 28 Accumulated Deferred Income Taxes (4340) .....       | 477,769              | 85,903            | 391,866           | 473,786          | 85,187            | 388,599           |                   |                   |                   |
| 29 Preferred Stock (4510) .....                         | 0                    | XXXXXX            | XXXXXX            | 0                | XXXXXX            | XXXXXX            |                   |                   |                   |
| 30 Common Stock (4510) .....                            | 135,000              | XXXXXX            | XXXXXX            | 135,000          | XXXXXX            | XXXXXX            |                   |                   |                   |
| 31 Additional Paid In Capital (4520) .....              | 0                    | XXXXXX            | XXXXXX            | 0                | XXXXXX            | XXXXXX            |                   |                   |                   |
| 32 Retained Earnings (4550) .....                       | 6,240,260            | XXXXXX            | XXXXXX            | 6,008,095        | XXXXXX            | XXXXXX            |                   |                   |                   |
| 33 Long Term Debt (4210 to 4270) .....                  | 9,797                | XXXXXX            | XXXXXX            | 12,977           | XXXXXX            | XXXXXX            |                   |                   |                   |

**SUPPLEMENTAL FINANCIAL DATA TO PSC 3.01**  
**FOR THE MONTH ENDED November 30, 2001**

| Line # |                                          | Average Monthly Balance | Average Y-T-D Balance | Average for 12 M-T-D |
|--------|------------------------------------------|-------------------------|-----------------------|----------------------|
|        | <b>Additions:</b>                        |                         |                       |                      |
| 1      | Plant In Service                         | \$9,921,236             | \$9,708,497           | \$9,670,683          |
| 2      | Plant Under Construction                 | 1,368,577               | 910,610               | 884,802              |
| 3      | Property Held For Future Use             | 0                       | 0                     | 0                    |
| 4      | Materials & Supplies                     | 430,023                 | 256,105               | 240,215              |
| 5      | Other Additions (Itemize):               |                         |                       |                      |
| 6      | Working Capital                          | 210,321                 | (73,608)              | 195,865              |
| 7      |                                          |                         |                       |                      |
| 8      | <b>Total Additions</b>                   | <b>\$11,930,157</b>     | <b>\$10,801,604</b>   | <b>\$10,991,566</b>  |
|        | <b>Deductions:</b>                       |                         |                       |                      |
| 9      | Accumulated Depreciation                 | 4,198,218               | 4,027,838             | 4,010,148            |
| 10     | Accumulated Deferred Income Taxes        | 476,999                 | 473,922               | 473,786              |
| 11     | Unamortized Investment Credit - Pre 1971 | 2,614                   | 3,176                 | 3,240                |
| 12     | Customer Deposits                        | 7,000                   | 7,742                 | 7,669                |
| 13     | Other Deductions (Itemize):              |                         |                       |                      |
| 14     | Deferred Revenue-TPSC ordered            | 0                       | 0                     | 0                    |
| 15     |                                          |                         |                       |                      |
| 16     | <b>Total Deductions</b>                  | <b>\$4,684,831</b>      | <b>\$4,512,678</b>    | <b>\$4,494,843</b>   |
| 17     | <b>Rate Base</b>                         | <b>\$7,245,326</b>      | <b>\$6,288,926</b>    | <b>\$6,496,723</b>   |
| 18     | <b>Net Operating Income (NOI)</b>        | <b>111,121</b>          | <b>372,178</b>        | <b>571,414</b>       |
|        | <b>Adjustments to NOI (Itemize):</b>     |                         |                       |                      |
| 19     |                                          |                         |                       |                      |
| 20     | Less: Interest on Customer Deposits      | 22                      | 388                   | 423                  |
| 21     | Add: Inside Wiring (NOI)                 | (72)                    | 3,406                 | 3,651                |
| 22     | Add: Parent Tax Savings                  | 12,916                  | 123,322               | 138,978              |
| 23     | Less: Interstate B&C Net Income          | (7,318)                 | (60,181)              | (63,474)             |
| 24     | <b>Adjusted Net Operating Income</b>     | <b>\$131,262</b>        | <b>\$558,699</b>      | <b>\$777,094</b>     |
| 25     | <b>Rate Of Return (L24/L17)</b>          | <b>21.74%</b>           | <b>9.69%</b>          | <b>11.96%</b>        |

All amounts should be calculated in a manner consistent with the last Rate Order issued by the Commission for this company.

CONTINUING SURVEILLANCE CONSIDERATIONS. Estimate the effect on net operating income of very significant known changes occurring within the period covered by the report which are not fully reflected in the revenue and expense amounts shown in the report.

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