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June 9, 2006

Chairman Ron Jones
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Filed Electronically in Docket Office on 06/09/06

In Re: Application of Bristol Tennessee Essential Services for a Certificate of Convenience and Necessity to Provide Competing Telecommunications Services, --
Docket No. 05-00251.

Dear Chairman Jones:

On March 6, 2006 the Tennessee Regulatory Authority ("Authority") granted Bristol Tennessee Essential Services' ("BTES") application for a certificate to provide competitive telecommunications services. In approving BTES' application, the TRA incorporated the terms of the Settlement Agreement reached between BTES and United Telephone-Southeast, Inc. ("UTSE") as filed with the Authority on February 10, 2006.

Requirement 2(a) of the Settlement Agreement requires that BTES submit its Cost Allocation Manual ("CAM") to an audit by an independent auditor within ninety (90) days of the Authority's issuance of an order approving BTES' application. The stated ninety (90) period ends June 19, 2006. Before the audit begins, the independent auditor was required to publicly file a scope of the audit with the Authority. An audit scope was filed May 19, 2006 by WHN Consulting.

The stated purpose of the CAM audit is to:

- Determine if the methods used to allocate costs to the appropriate business units are sufficient so that the operating results of each business unit present fairly, in all material respects, the financial position and results of operations of each business unit;
- Determine if the CAM produces fair and reasonable results; and
- To minimize the time and expense necessary to record and audit the transactions.

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UTSE believes the upfront independent audit of BTES' CAM is required to assure that costs are properly allocated between BTES' electric, telephone and cable television/internet business units. UTSE is concerned that BTES is unfairly allocating the cost of its fiber-optic system to its electric business unit. For example, during the discovery phase of the proceeding it was learned that BTES considered its entire fiber-optic plant deployment to be an improvement and extension of its electric system. Yet, when asked in discovery to explain the incremental revenues produced and/or efficiencies gained by the electric business unit's joint use of the fiber-optic system to be deployed, BTES stated that no quantification analysis had been done and went further to imply that such an analysis was perhaps not possible. (See Q17, 2nd Set UTSE).

The BTES CAM allocated over 56% of the joint use of the fiber-optic system to BTES' electric business unit. (See CAM, Appendix C, pages C2 & C5). The proposed treatment of the fiber-optic system expenses by BTES raises concerns as to whether illegal cross-subsidies exist. Tenn. Code Ann. § 7-52-402, which prohibits cross-subsidization of the telephone business unit by BTES' electric business unit, does permit BTES under subsection (1) to "[d]edicate a reasonable portion of the electric plant to the provision of such services [telephone] the costs of which shall be allocated to such services . . ." Under this section, there has to be an appropriate cost allocation of those expenses associated with the fiber-optic deployment which support the telephone business unit. In addition, the costs of the plant that benefit the electric business unit must also be properly allocated. Which is to say that BTES' CAM must show that the 56% cost allocation of the fiber-optic system provides a corresponding benefit to its electric customers.

Under Tennessee law, an electric customer should enjoy the benefits of the efficiency alleged by BTES of the fiber-optic deployment, and yet a CAM manual allocation which creates a cost increase resulting from the 56% cost allocation cannot be credibly argued to be an electric customer benefit. Thus the previously suggested result from the CAM manual of the 56% cost allocation does not adhere to the purpose of the CAM which is to produce a fair and reasonable result. See the Settlement Agreement filed on Feb. 10, 2006 at p. 2, paragraph 2(a) which describes the purpose of the CAM audit.

Finally, while UTSE has no objection to the language of the audit scope submitted by WHN Consulting, it does expect the resulting allocation of the fiber-optic plant to BTES' electric

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business unit should result in a dramatic decrease in the 56% cost allocation. However, if there is to be no reduction in the cost allocation, then the allocation must be supported by documented, quantified electric system revenue increases and/or operating cost decreases that result from the electric business unit's use of the fiber-optic system.

Sincerely,

A handwritten signature in cursive script that reads "Edward Phillips". The signature is written in dark ink and has a long, horizontal flourish extending to the right.

Edward Phillips

Cc: Henry Walker, Esq.