

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

December 28, 2007

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

filed electronically in docket office 12/28/2007

RE: *Application of Bristol Tennessee Essential Services for a Certificate of Public Convenience & Necessity to provide Telecommunications Services.*
Docket Number 05-00251

Dear Chairman Roberson:

Please find attached our compliance audit report of the Bristol Tennessee Essential Service's Cost Allocation Manual as described on page 2 in the Company's Settlement Agreement and referenced in the TRA Order of March 21, 2006.

If you have any questions or need additional information relating to this audit, please call me at 713-298-1760.

Sincerely,



William H. Novak

Attachment

cc: Edward Phillips
Guy Hicks
Charles B. Welch, Jr.

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

December 28, 2007

Dr. R. Michael Browder
General Manager
Bristol Tennessee Essential Services
PO Box 549
Bristol, TN 37621-0549

RE: Compliance Audit of BTES Cost Allocation Manual for the twelve months ended June 30, 2007

Dear Dr. Browder:

We have examined the common cost business unit allocation procedures of Bristol Tennessee Essential Services ("BTES" or the "Company") for the twelve months ended June 30, 2007. The purpose of this examination was to determine if the methods used by the Company to allocate costs to the appropriate business units are in compliance with the procedures prescribed by the Company's Cost Allocation Manual ("CAM").

This examination does not provide an opinion on whether the financial statements of BTES taken as a whole are fairly presented in all material respects, but whether the Company is in material compliance with its CAM for allocating common costs to the individual business units of BTES.

In our opinion, subject to the limitations detailed above, the Company is in material compliance with the allocation methodology described in the CAM for the twelve months ended June 30, 2007.

Our complete audit report is attached. If you have any questions, please let me know.

Sincerely,



William H. Novak

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2007**

**PRPARED BY WHN CONSULTING
DECEMBER 31, 2007**

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2007**

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1. BACKGROUND

On March 21, 2006, the Tennessee Regulatory Authority (“TRA”) issued its order approving the application of Bristol Tennessee Essential Services (“BTES” or the “Company”) for a Certificate of Convenience and Necessity (“CCN”) to provide competing local telecommunication services.¹ Final approval of the CCN by the TRA was conditioned on a Settlement Agreement (the “Agreement”) dated February 10, 2006, between BTES and the other parties in this docket.

One component of the Agreement requires BTES to submit to an annual independent compliance audit of its cost allocation procedures. With these requirements in mind, this audit does not provide an opinion on whether the financial statements taken as a whole are fairly presented in all material respects, but whether the cost allocation procedures utilized by the Company were in compliance with the Company’s Cost Allocation Manual (CAM).

On March 15, 2007, BTES executed a contract with WHN Consulting (“WHN”) for an independent compliance audit of its cost allocation procedures for the twelve months ended June 30, 2007.

¹ TRA Docket No. 05-00251.

2. PROCEDURES

We began our examination with a review of the existing legal statutes, rules and regulations for the allocation of costs by BTES. The existing requirements for allocations are as follows:

1. Loans made by one business unit to another must be at the highest rate of interest on earned or invested funds in accordance with TCA § 7-52-402 and § 7-52-603.
2. The Telephone business unit must make in lieu of tax payments and record state, local and federal taxes in accordance with TCA § 7-52-404.
3. The Telephone business unit must pay an amount for attachments to poles owned by other business units at the highest rate charged to any other entity in accordance with TCA § 7-52-405 and § 7-52-603.
4. The Cable & Internet business unit must make tax payments in accordance with TCA § 7-52-606.
5. The Company must comply with the Code of Federal Regulations, Title 47, Section 64.901 through 64.905 regarding allocation of costs by the Federal Communications Commission.
6. The Company must comply with the Code of Federal Regulations, Title 47, Section 32.27 regarding affiliate transactions by the Federal Communications Commission.

In addition to these requirements, the Company must also comply with the terms and conditions of the Agreement with the other parties in TRA Docket 05-00251.

We next asked the Company to provide us with their workpapers and supporting calculations for the CAM through a series of data requests. In addition, we conducted an on-site inspection and review of the cost allocation procedures at the Company's offices in Bristol, Tennessee.

The results of our examination of each individual allocation method are presented herein.

3. SERVICES ALLOCATOR

The Company uses the Services Allocator to allocate a number of common administrative expenses related to supporting all of the business units.

The Services Allocator is calculated by taking the number of services (active customers) for each business unit from the preceding calendar quarter, and then dividing it by the total customers from all business units of BTES.² The resulting allocation factor is then applied for the next calendar quarter.

The Quarterly Service Allocation Factors were calculated during the audit period as summarized in the following table:³

	Electric	C&I	Telephone	Total
3rd Quarter 2006 Services	32,285	1,810	0	34,095
Allocation Percentage	94.69%	5.31%	0.00%	100.00%
4th Quarter 2006 Services	32,343	2,976	0	35,319
Allocation Percentage	91.57%	8.43%	0.00%	100.00%
1st Quarter 2007 Services	32,425	3,935	451	36,810
Allocation Percentage	88.09%	10.69%	1.22%	100.00%
2nd Quarter 2007 Services	32,548	4,987	1,076	38,610
Allocation Percentage	84.30%	12.92%	2.79%	100.00%

² There were no Telephone customers until January 2007.

³ See Table 1 in the Appendix for a more comprehensive calculation of the Services Allocation Factors.

The Company next applies the Service Allocation Factors based on the previous calendar quarter to a number of common administrative expenses during the current calendar quarter. These common administrative expenses include administrative and insurance expenses. The application of the Quarterly Service Allocation Factors were calculated during the audit period as summarized in the following table:⁴

	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	
	2006	2006	2007	2007	Total
Administrative Expenses	\$38,592.30	\$46,897.00	\$37,879.88	\$42,676.83	\$166,046.01
Insurance Expenses	10,737.36	7,364.84	11,357.16	11,357.16	40,816.52
Total	\$49,329.66	\$54,261.84	\$49,237.04	\$54,033.99	\$206,862.53
Services – Electric Factor	94.69%	91.57%	88.09%	84.30%	
Electric Allocation	\$46,710.87	\$49,689.71	\$43,371.22	\$45,549.47	\$185,321.27
Services - C&I Factor	5.31%	8.43%	10.69%	12.92%	
C&I Allocation	\$2,618.79	\$4,572.13	\$5,263.01	\$6,979.16	\$19,433.09
Services – Telephone Factor	0.00%	0.00%	1.22%	2.79%	
Telephone Allocation	\$0.00	\$0.00	\$602.81	\$1,505.36	\$2,108.17

After the appropriate allocation amounts are calculated, the Company prepares the necessary journal entries to remove the service company expenses from the books of the Electric Business Unit and transfer them to the books of the Cable & Internet and Telephone Business Units.

We verified the Company's methodology for calculating and applying the Service Allocator. The number of customers used in the calculation was traced to the Company's financial statements. In addition, the gross expenses to be allocated were also traced to the financial statements. We also tested the allocation calculations for mathematical accuracy. Finally, we verified the journal entries to transfer the allocated expenses to the appropriate company books. No exceptions were noted in our testing of this allocation factor.

⁴ See Table 2 in the Appendix for a more comprehensive calculation of the application of the Service Allocators.

4. GENERAL ALLOCATOR

The Company uses the General Allocator to allocate the common operations & maintenance (“O&M”) expenses related to supporting all of the business units. The General Allocator is calculated by taking the O&M expense for each business unit, and dividing it by the total O&M expense for all business units of BTES.

The Quarterly General Allocation Factors were calculated during the audit period as summarized in the following table:⁵

	Electric	C&I	Telephone	Total
Previous Quarter O&M Expense	1,210,642	17,529	0	1,228,170
3rd Qtr General Allocation Factor	98.57%	1.43%	0.00%	100.00%
Previous Quarter O&M Expense	1,915,271	304,341	0	2,219,612
4th Qtr General Allocation Factor	86.29%	13.71%	0.00%	100.00%
Previous Quarter O&M Expense	1,880,546	229,183	26,200	2,135,929
1st Qtr General Allocation Factor	88.04%	10.73%	1.23%	100.00%
Previous Quarter O&M Expense	2,117,052	257,608	71,116	2,445,776
2nd Qtr General Allocation Factor	86.56%	10.53%	2.91%	100.00%

⁵ See Table 3 in the Appendix for a more comprehensive calculation of the General Allocation Factor.

The Company next applies the General Allocation Factors based on the previous calendar quarter to a number of expenses during the current calendar quarter. These expenses include general office expense, substation expense, insurance expense, and other administrative expenses. The application of the Quarterly Service Allocation Factors were calculated during the audit period as summarized in the following table:⁶

	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
General Office Expenses	\$43,123.24	\$40,356.31	\$56,411.54	\$58,707.85	\$198,598.94
Substation Expenses	2,358.96	2,358.96	2,358.96	4,862.04	11,938.92
Insurance Expenses	33,994.86	19,419.29	24,263.01	31,983.17	109,660.33
Administrative Expenses	2,823.00	7,500.00	10,423.00	6,061.00	26,807.00
Total	\$82,300.06	\$69,634.56	\$93,456.51	\$101,614.06	\$347,005.19
Gen Allo. Factor - Electric	98.57%	86.29%	88.04%	86.56%	
Electric Allocation	\$81,123.17	\$60,087.66	\$82,279.11	\$87,957.13	\$311,447.07
Gen Allo. Factor - C&I	1.43%	13.71%	10.73%	10.53%	
Cable & Internet Allocation	\$1,176.89	\$9,546.90	\$10,027.88	\$10,699.96	\$31,451.63
Gen Allo. Factor - Telephone	0.00%	0.00%	1.23%	2.91%	
Telephone Allocation	\$0.00	\$0.00	\$1,149.52	\$2,956.97	\$4,106.49

We verified the Company's methodology for calculating and applying the General Allocator. The operations and maintenance expenses used in the calculation were traced to the Company's financial statements. In addition, the gross expenses to be allocated were also traced to the financial statements. We also tested the allocation calculations for mathematical accuracy. Finally, we verified the journal entries to transfer the allocated expenses to the appropriate company books. No exceptions were noted in our testing of this allocation factor.

⁶ See Table 4 for a more comprehensive calculation of the application of the General Allocators.

5. EMPLOYEE HOURS ALLOCATOR

The Company uses the Employee Hours Allocator to allocate the common ancillary employee expenses related to supporting all of the business units.⁷

The Employee Hours Allocator is calculated by taking the previous quarters' work hours for each business unit, and dividing it by the total employee hours for all business units of BTES. Of particular note in the calculation of this allocation factor is the fact that the time for certain employees is first allocated to the different business units based on other allocation factors. For example, the hours worked by the General Manager are first allocated to the different business units based on the General Allocation Factor. These hours are then aggregated to form the basis for next quarters' Employee Hours Allocation Factor.⁸

The Quarterly Employee Hours Allocation Factors were calculated during the audit period as summarized in the following table:

	Electric	C&I	Telephone	Total
Previous Quarter Hours	9,729	731	0	10,460
3 rd Quarter Hours Allocation Factor	93.02%	6.98%	0.00%	100.00%
Previous Quarter Hours	9,011	1,137	0	10,148
4th Quarter Hours Allocation Factor	88.80%	11.20%	0.00%	100.00%
Previous Quarter Hours	9,133	1,215	51	10,400
1st Quarter Hours Allocation Factor	87.82%	11.69%	0.49%	100.00%
Previous Quarter Hours	8,903	917	516	10,336
2nd Quarter Hours Allocation Factor	86.14%	8.88%	4.99%	100.00%

⁷ The Company also uses Employee Hours to allocate Salaries & Wages, Benefits and Vehicles which discussed in Section 6.

⁸ See Table 5 in the Appendix for a more comprehensive calculation of the Employee Hours Allocation Factor.

The Company next applies the Employee Hours Allocation Factors based on the previous calendar quarter to a number of expenses during the current calendar quarter. These expenses include administrative and insurance expense. The application of the Quarterly Employee Hours Allocation Factors were calculated during the audit period as summarized in the following table:⁹

	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
Administrative Expenses	\$90,534.76	\$119,281.90	\$124,486.79	\$79,191.28	\$413,494.73
Insurance Expenses	16,399.74	11,197.64	17,193.18	9,391.26	54,181.82
Total	\$106,934.50	\$130,479.54	\$141,679.97	\$88,582.54	\$467,676.55
Hours Allo. Factor - Electric	93.02%	88.80%	87.82%	86.14%	
Electric Allocation	\$99,465.54	\$115,864.73	\$124,426.29	\$76,300.64	\$416,057.20
Hours Allo. - C&I	6.98%	11.20%	11.69%	8.88%	
C&I Allocation	\$7,468.96	\$14,614.81	\$16,555.62	\$7,862.82	\$46,502.21
Hours Allo. Factor - Telephone	0.00%	0.00%	0.49%	4.99%	
Telephone Allocation	\$0.00	\$0.00	\$698.06	\$4,419.08	\$5,117.14

We verified the Company's methodology for calculating and applying the Employee Hours Allocator. The employee hours used in the calculation were traced to the source records. In addition, the gross expenses to be allocated were also traced to the financial statements. We also tested the allocation calculations for mathematical accuracy. Finally, we verified the journal entries to transfer the allocated expenses to the appropriate company books. No exceptions were noted in our testing of this allocation factor.

⁹ See Table 6 for a more comprehensive calculation of the application of the Employee Hours Allocators.

6. SALARY & WAGES, BENEFITS AND VEHICLES

The Company has 69 employees whose time is allocated in accordance with the functions that they provide. The individual allocation methods utilized by the Company in allocating payroll to the different business units are described below.

Timesheets:

The employees that directly assign their time to the different business units through timesheets include the Company's Foremen, Linemen, Groundmen, Apprentices, System Engineers, Meter Readers, Engineering Assistants, Network Supervisor, Technicians and Managers. Since these employees can track their time to a particular project or job within each business unit, the direct assignment of their time through timesheets is the most appropriate allocation method.

General Allocator:

This group of employees includes the General Manager, Accounting & Finance Director, General Accountants, Accounting Secretaries, Administrative Secretaries, Project Coordinator, and Maintenance employees. These employees perform multiple services for the different business units without any precise means of allocation. Therefore the General Allocator appears to be the most appropriate allocator of their time.

Department Average:

This group of employees includes the Director of Management Services, the Director of Operations & Safety, and the Director of Engineering. The time for these employees is allocated to the different business units based on the department average of the employees that they supervise. The Engineering Secretary's time follows the Director of Operations & Safety. This method appears to be the most reasonable since the result of their time should most closely track the employees below them.

Estimated:

This group only includes the Supervisor of Purchasing and Stores. Since the addition of two new business units will make a material change on how this employee's time will be spent, an estimate was necessary for the time allocation to the different business units.

Commercial/Industrial Customers:

This group only includes the Business Development Manager. Because her time is spent supporting the needs of the existing commercial and industrial customers, this allocator is the most appropriate.

Materials Issued:

This group only includes the Company's storekeeper. Because the cost for this employee most closely tracks the material issued to each business unit, it is the most reasonable allocator.

Customer Activity:

This group includes the Company's Customer Service Representatives. Because their cost is most closely tied to taking orders for new service for each business unit, the customer activity of BTES is the most reasonable method to allocate their time.

Total Services:

This group includes the Company's Night Dispatchers. Because their time cannot be clearly tied to any specific activity, it is allocated to each business unit based on the total number of services or customers in each business unit.

Customer Calls:

This group includes the Company's Help Desk Personnel. Their cost is most directly tied to the number of calls from customers that they receive for each business unit.

Vehicles:

This group includes the Company's Garage Mechanics. Because their time cannot be clearly tied to any specific activity, it is allocated to the average number of vehicles within each business unit.

The Company applies the allocators described above to the each individual employee's salary or wage including benefits. In addition, the vehicle cost is included for those employees who are assigned a vehicle so that the cost of vehicles is allocated based upon that employee's time allocation. The application of the various payroll allocation factors are summarized in the following table:

	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
General Allocation Payroll:					
Electric	\$165,565	\$151,794	\$144,114	\$171,974	\$633,447
Cable & Internet	2,402	24,117	17,564	20,921	65,004
Telephone	0	0	2,013	5,781	7,795
Total	\$167,966	\$175,912	\$163,691	\$198,676	\$706,246
Hours Allocation Payroll:					
Electric	\$58,730	\$56,657	\$50,633	\$57,231	\$223,251
Cable & Internet	9,323	9,200	11,311	8,705	38,539
Telephone	0	0	0	7,804	7,804
Total	\$68,054	\$65,857	\$61,943	\$73,740	\$269,593
Other Allocation Payroll:					
Electric	\$156,983	\$174,757	\$166,685	\$179,402	\$677,826
Cable & Internet	8,940	11,266	11,840	8,854	40,901
Telephone	0	0	748	1,874	2,622
Total	\$165,922	\$186,023	\$179,274	\$190,130	\$721,349
Vehicles Allocation Payroll:					
Electric	\$39,609	\$39,270	\$36,733	\$35,570	\$151,183
Cable & Internet	1,663	3,955	3,645	3,637	12,900
Telephone	0	0	305	890	1,195
Total	\$41,273	\$43,225	\$40,684	\$40,097	\$165,279
Total Audit Period Payroll:					
Electric	\$420,887	\$422,477	\$398,165	\$444,177	\$1,685,706
Cable & Internet	22,328	48,539	44,361	42,116	157,344
Telephone	0	0	3,067	16,349	19,416
Total	\$443,215	\$471,016	\$445,592	\$502,643	\$1,862,467

We verified the Company's methodology for calculating and applying the various allocators to Employee Salary & Wages, Benefits, and Vehicles. In addition, the gross expenses to be allocated were also traced to the financial statements. We also tested the allocation calculations for mathematical accuracy. Finally, we verified the journal entries to transfer the allocated expenses to the appropriate company books. No exceptions were noted in our testing of this allocation factor.

7. PLANT IN SERVICE ALLOCATORS

The Company uses the Plant in Service Allocator to allocate select insurance expenses that are based on the value of plant in service.

The Plant in Service Allocator is calculated by taking the previous quarters' plant in service for each business unit, exclusive of construction work in process, and dividing it by the total Plant in Service for all business units of BTES.

The Quarterly Plant in Service Allocation Factors were calculated during the audit period as summarized in the following table:

	Electric	C&I	Telephone	Total
3rd Quarter 2006				
Preceding Quarter Average Plant	\$63,479,199	\$0	\$0	\$63,479,199
Allocation Percentage	100.00%	0.00%	0.00%	100.00%
4th Quarter 2006				
Preceding Quarter Average Plant	\$63,947,051	\$2,745,133	\$0	\$66,692,184
Allocation Percentage	95.88%	4.12%	0.00%	100.00%
1st Quarter 2007				
Preceding Quarter Average Plant	\$65,676,596	\$2,758,433	\$577,367	\$69,012,396
Allocation Percentage	95.17%	4.00%	0.84%	100.00%
2nd Quarter 2007				
Preceding Quarter Average Plant	\$65,500,334	\$3,125,267	\$841,100	\$69,466,701
Allocation Percentage	94.29%	4.50%	1.21%	100.00%

The Company next applies the Plant in Service Allocation Factors based on the previous calendar quarter to a select group of expenses during the current calendar quarter. The application of the Quarterly Plant in Service Allocation Factors were calculated during the audit period as summarized in the following table:¹⁰

	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
Insurance Expenses	\$17,020.77	\$11,583.29	\$17,729.10	\$17,729.10	\$64,062.26
Total	\$17,020.77	\$11,583.29	\$17,729.10	\$17,729.10	\$64,062.26
Plant Allo. Factor - Electric	100.00%	95.88%	95.17%	94.29%	
Electric Allocation	\$17,020.77	\$11,106.51	\$16,872.14	\$16,716.81	\$61,716.23
Plant Allo. Factor - C&I	0.00%	4.12%	4.00%	4.50%	
Cable & Internet Allocation	\$0.00	\$476.78	\$708.63	\$797.62	\$1,983.03
Plant Allo. Factor - Telephone	0.00%	0.00%	0.84%	1.21%	
Telephone Allocation	\$0.00	\$0.00	\$148.32	\$214.66	\$362.98

We verified the Company's methodology for calculating and applying the Plant in Service Allocator. The Plant in Service used in the allocation calculation was traced to the Company's financial statements. In addition, the gross expenses to be allocated were also traced to the financial statements. We also tested the allocation calculations for mathematical accuracy. Finally, we verified the journal entries to transfer the allocated expenses to the appropriate company books. No exceptions were noted in our testing of this allocation factor.

¹⁰ See Table 7 for a more comprehensive calculation of the application of the Plant in Service Allocators.

8. RECOMMENDATIONS

Recommendation #1 - The Company should preserve a “hard copy” of its allocation factor calculations and their associated application.

Although not required by the CAM, it is good practice to preserve a printed copy of the calculation of the quarterly allocation factors. Although the Company currently maintains an electronic version of its allocation factor calculations, a printed copy would insure that the final version has not been inadvertently changed. In addition, the printed copy should be properly footnoted with a clear audit trail of the calculations involved. Likewise, the application of the allocation factors to the monthly expenses should also be preserved on a printed copy with an adequate audit trail.

Recommendation #2 – Any changes to the CAM should be approved by an appropriate officer of BTES with written documentation.

Any good Cost Allocation Manual will likely need to be amended from time to time as events warrant. In fact, it is not unusual for a Cost Allocation Manual to undergo several changes during the course of any single year. In order to insure that any changes to the Company’s present Cost Allocation Manual are appropriately justified, written approval by a senior officer of BTES should be obtained. This documentation should be preserved in both the Company’s official CAM as well as the workpapers for the first year that the change was implemented.

9. SUMMARY & CONCLUSION

The allocation of the common costs to the individual business units of BTES are summarized in the following table:

	Electric	Cable & Internet	Telephone	Total
Services Allocator	\$185,321	\$19,433	\$2,108	\$206,863
General Allocator	311,447	31,452	4,106	347,005
Hours Allocator	416,057	46,502	5,117	467,677
Payroll, Benefits & Vehicles	1,685,706	157,344	19,416	1,862,467
Plant in Service Allocator	61,716	1,983	363	64,062
Total	\$2,660,248	\$256,714	\$31,111	\$2,948,073

No findings were noted in our examination. In our opinion, the Company is in material compliance with the allocation methodology described in the CAM for the twelve months ended June 30, 2007.

APPENDIX

TABLE 1 – DETAIL OF SERVICES ALLOCATION FACTORS CALCULATION**3rd Quarter 2006**

	Electric	C&I	Telephone	Total
April 2006	32,283	1,421	0	33,704
May 2006	32,280	1,801	0	34,081
June 2006	32,291	2,208	0	34,499
Average	32,285	1,810	0	34,095
Percentage	94.69%	5.31%	0.00%	100.00%

4th Quarter 2006

	Electric	C&I	Telephone	Total
July 2006	32,309	2,588	0	34,897
August 2006	32,306	3,008	0	35,314
September 2006	32,414	3,332	0	35,746
Average	32,343	2,976	0	35,319
Percentage	91.57%	8.43%	0.00%	100.00%

1st Quarter 2007

	Electric	C&I	Telephone	Total
October 2006	32,453	3,643	277	36,373
November 2006	32,390	3,935	463	36,788
December 2006	32,431	4,226	612	37,269
Average	32,425	3,935	451	36,810
Percentage	88.09%	10.69%	1.22%	100.00%

2nd Quarter 2007

	Electric	C&I	Telephone	Total
January 2007	32,505	4,637	874	38,016
February 2007	32,512	4,964	1,067	38,543
March 2007	32,626	5,360	1,286	39,272
Average	32,548	4,987	1,076	38,610
Percentage	84.30%	12.92%	2.79%	100.00%

**TABLE 2 – DETAIL OF APPLICATION OF
SERVICES ALLOCATION FACTORS**

	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
Administrative:					
Telephone Service	\$8,587.46	\$19,063.73	\$8,102.65	\$10,736.08	\$46,489.92
Bristol Telephone	303.00	303.00	101.00	1,317.53	2,024.53
Online	2,104.25	2,726.36	2,930.49	8,450.85	16,211.95
Legal	15,579.00	15,579.00	15,579.00	11,053.00	57,790.00
HP Support	2,043.00	2,043.00	1,983.10	1,910.62	7,979.72
Loomis Fargo	1,701.60	1,691.91	1,722.68	1,350.44	6,466.63
Pitney Bowes	7,273.99	50.00	7,460.96	2,858.31	17,643.26
Postmaster	1,000.00	5,440.00	0.00	5,000.00	11,440.00
Total	\$38,592.30	\$46,897.00	\$37,879.88	\$42,676.83	\$166,046.01
Insurance:					
Automobile	\$10,737.36	\$7,364.84	\$11,357.16	\$11,357.16	\$40,816.52
Total	\$10,737.36	\$7,364.84	\$11,357.16	\$11,357.16	\$40,816.52
Audit Period Total	\$49,329.66	\$54,261.84	\$49,237.04	\$54,033.99	\$206,862.53

TABLE 3 – DETAIL OF GENERAL ALLOCATION FACTORS CALCULATION**3rd Quarter 2006**

	Electric	C&I	Telephone	Total
April 2006				
May 2006				
June 2006				
Total	1,210,642	17,529	0	1,228,170
Percentage	98.57%	1.43%	0.00%	100.00%

4th Quarter 2006

	Electric	C&I	Telephone	Total
July 2006	576,431	86,413	0	662,845
August 2006	712,696	107,263	0	819,959
September 2006	626,144	110,665	0	736,809
Total	1,915,271	304,341	0	2,219,612
Percentage	86.29%	13.71%	0.00%	100.00%

1st Quarter 2007

	Electric	C&I	Telephone	Total
October 2006	662,758	75,455	6,500	744,713
November 2006	653,639	75,995	8,900	738,534
December 2006	564,149	77,733	10,800	652,683
Total	1,880,546	229,183	26,200	2,135,929
Percentage	88.04%	10.73%	1.23%	100.00%

2nd Quarter 2007

	Electric	C&I	Telephone	Total
January 2007	732,686	76,093	16,567	825,346
February 2007	606,224	82,289	25,038	713,551
March 2007	778,142	99,226	29,510	906,879
Total	2,117,052	257,608	71,116	2,445,776
Percentage	86.56%	10.53%	2.91%	100.00%

**TABLE 4 – DETAIL OF APPLICATION OF
GENERAL ALLOCATION FACTORS**

Summary:	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
General Office:					
Water and Sewer	\$806.67	\$511.55	\$1,124.42	\$635.27	\$3,077.91
Trash Collection	393.30	589.95	724.45	580.39	2,288.09
Extermination	93.00	62.00	156.40	93.00	404.40
Elevator Maintenance	0.00	926.32	2,745.32	3,807.14	7,478.78
Maintenance	10,068.94	13,582.32	13,241.06	16,453.42	53,345.74
Depreciation	11,088.96	3,799.27	11,639.41	11,760.21	38,287.85
Taxes	3,379.68	3,414.04	2,746.54	2,896.50	12,436.76
Return on Investment	17,292.69	17,470.86	24,033.94	22,481.92	81,279.41
Total	\$43,123.24	\$40,356.31	\$56,411.54	\$58,707.85	\$198,598.94
Substation Equipment:					
Depreciation	\$480.96	\$480.96	\$480.96	\$1,737.59	\$3,180.47
Taxes	303.60	303.60	303.60	530.28	1,441.08
Return on Investment	1,574.40	1,574.40	1,574.40	2,594.17	7,317.37
Total	\$2,358.96	\$2,358.96	\$2,358.96	\$4,862.04	\$11,938.92
Insurance:					
General Liability	\$6,834.96	\$4,687.41	\$7,227.27	\$7,227.27	\$25,976.91
Crime	3.24	173.16	516.24	516.24	1,208.88
Umbrella	15,637.65	10,719.05	16,519.50	16,519.50	59,395.70
D&O Liability	11,519.01	3,839.67	0.00	7,720.16	23,078.84
Total	\$33,994.86	\$19,419.29	\$24,263.01	\$31,983.17	\$109,660.33
Administrative Expenses:					
Audit Expense	\$2,823.00	\$7,500.00	\$10,423.00	\$6,061.00	\$26,807.00
Total	\$2,823.00	\$7,500.00	\$10,423.00	\$6,061.00	\$26,807.00
Audit Period Total	\$82,300.06	\$69,634.56	\$93,456.51	\$101,614.06	\$347,005.19

**TABLE 5 – DETAIL OF EMPLOYEE HOURS
ALLOCATION FACTORS CALCULATION**

3rd Quarter 2006

	Electric	C&I	Telephone	Total
April 2006				0
May 2006				0
June 2006				0
Total	9,729	731	0	10,460
Percentage	93.02%	6.98%	0.00%	100.00%

4th Quarter 2006

	Electric	C&I	Telephone	Total
July 2006	3,095	394	0	3,489
August 2006	2,989	376	0	3,365
September 2006	2,927	366	0	3,293
Total	9,011	1,137	0	10,148
Percentage	88.80%	11.20%	0.00%	100.00%

1st Quarter 2007

	Electric	C&I	Telephone	Total
October 2006	3,044	405	17	3,467
November 2006	3,044	405	17	3,467
December 2006	3,044	405	17	3,467
Total	9,133	1,215	51	10,400
Percentage	87.82%	11.69%	0.49%	100.00%

2nd Quarter 2007

	Electric	C&I	Telephone	Total
January 2007	2,705	269	146	3,120
February 2007	3,032	314	175	3,521
March 2007	3,166	335	194	3,695
Total	8,903	917	516	10,336
Percentage	86.14%	8.88%	4.99%	100.00%

**TABLE 6 – DETAIL OF APPLICATION OF
EMPLOYEE HOURS ALLOCATION FACTORS**

	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
Administrative:					
Verizon	\$6,012.90	\$3,293.40	\$7,006.67	\$7,531.87	\$23,844.84
Telcove	14,004.38	47,048.81	4,351.31	4,365.29	69,769.79
Desktop Coop	20,100.00	13,400.00	20,100.00	23,786.00	77,386.00
Misc Emp Benefits	3,083.95	6,745.55	4,478.62	7,907.47	22,215.59
Office Supplies	47,333.53	48,794.14	88,550.19	35,600.65	220,278.51
Total	\$90,534.76	\$119,281.90	\$124,486.79	\$79,191.28	\$413,494.73
Insurance:					
Emp Prac Liability	\$1,952.82	\$1,339.25	\$2,064.93	\$2,064.93	\$7,421.93
Employee Benefits	325.47	280.57	516.24	516.24	1,638.52
Workman's comp	14,121.45	9,577.82	14,612.01	6,810.09	45,121.37
Total	\$16,399.74	\$11,197.64	\$17,193.18	\$9,391.26	\$54,181.82
Audit Period Total	\$106,934.50	\$130,479.54	\$141,679.97	\$88,582.54	\$467,676.55

**TABLE 7 – DETAIL OF APPLICATION OF
PLANT IN SERVICE ALLOCATION FACTORS**

	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	Total
Insurance:					
Property	\$9,764.22	\$6,696.30	\$10,324.68	\$10,324.68	\$37,109.88
Cont. Equipment	\$2,278.29	\$1,619.82	\$2,581.17	\$2,581.17	9,060.45
EDP	\$650.94	\$389.06	\$516.24	\$516.24	2,072.48
Boiler/Mach.	\$4,327.32	\$2,878.11	\$4,307.01	\$4,307.01	15,819.45
Total	\$17,020.77	\$11,583.29	\$17,729.10	\$17,729.10	\$64,062.26