

3. Reference Exhibit B of the Application (BTES 2011 Annual Report).
 - a) Provide an Excel spreadsheet of general ledger account detail supporting the business unit financials contained on pages 40 through 43.

RESPONSE: BTES response to each subpart of this Request is subject to and without waiver of BTES' General Objections. BTES has attached general ledger account detail supporting the business unit financials. BTES will circulate an Excel file containing this data to counsel for CenturyLink via email.

		FY10	FY 11	ADJ JE	FY 10 ADJ	EBU	CBU	TBU
Revenues								
Residential	440.00	37,816,334.40	44,501,742.69	169,312.00	44,671,054.69	-44,671,054.69		
Commercial	441.00	5,108,223.68	5,832,560.25	22,227.00	5,854,787.25	-5,854,787.25		
	441.10	13,248.00	9,977.33		9,977.33	-9,977.33		
Total Commercial		\$5,121,471.68	\$5,842,537.58		5,864,764.58	-\$5,864,764.58	\$0.00	\$0.00
Industrial	442.00	14,287,373.33	15,901,801.20	130,141.00	16,031,942.20	-16,031,942.20		
	442.01	19,617.78	25,067.34		25,067.34	-25,067.34		
	442.02	5,699,318.21	6,071,270.33		6,071,270.33	-6,071,270.33		
	442.03	0.00	-12,904.78		-12,904.78	12,904.78		
	442.04	4,350,887.17	4,917,836.69		4,917,836.69	-4,917,836.69		
	442.07	6,185,768.09	7,730,409.20		7,730,409.20	-7,730,409.20		
	442.10	-192,240.89	-145,990.20		-145,990.20	145,990.20		
	442.30	-313,533.18	-279,528.64		-279,528.64	279,528.64		
Total Industrial		\$30,037,190.51	\$34,207,961.14		34,338,102.14	-\$34,338,102.14	\$0.00	\$0.00
Street and outdoor lighting	444.00	502,928.23	557,363.31	4,867.00	562,230.31	-562,230.31		
	444.01	31,609.74	30,242.84		30,242.84	-30,242.84		
	444.03	546,995.46	576,123.08		576,123.08	-576,123.08		
	444.04	108,930.74	115,523.97		115,523.97	-115,523.97		
Total Street & ODL		\$1,190,464.17	\$1,279,253.20		1,284,120.20	-\$1,284,120.20	\$0.00	\$0.00
Cable revenues	440.65	5,332,784.10	6,128,169.11		6,128,169.11		-6,128,169.11	
	441.65	430,308.25	532,395.51		532,395.51		-532,395.51	
Total Cable		\$5,763,092.35	\$6,660,564.62		6,660,564.62	\$0.00	-\$6,660,564.62	\$0.00
Internet revenues	443.65	3,571,391.46	4,380,089.24		4,380,089.24		-4,380,089.24	
Telephone revenues	440.75	2,729,329.69	3,163,927.40		3,163,927.40			-3,163,927.40
	441.75	165,161.77	171,190.84		171,190.84			-171,190.84
Total Telephone		\$2,894,491.46	\$3,335,118.24		3,335,118.24	\$0.00	\$0.00	-\$3,335,118.24
Other revenues	444.65	166,986.49	85,121.46		85,121.46		-85,121.46	
	444.66	0.00	145,512.16		145,512.16		-145,512.16	
	444.75	174,013.81	91,491.65		91,491.65			-91,491.65
	445.75	86,206.70	100,901.27		100,901.27			-100,901.27
	450.00	446,044.53	519,916.11		519,916.11	-519,916.11		
	451.10	27,505.82	27,348.06		27,348.06	-27,348.06		
	451.20	-26,550.90	-19,707.50		-19,707.50	19,707.50		
	451.30	127,622.77	127,185.61		127,185.61	-127,185.61		
	451.40	31,060.78	24,751.48		24,751.48	-24,751.48		
	451.50	-327,016.13	-336,997.69		-336,997.69	336,997.69		
	451.55	36.00	2,526.00		2,526.00	-2,526.00		
	451.60	9,913.17	14,453.63		14,453.63	-14,453.63		
	451.90	22,443.98	26,605.00		26,605.00	-26,605.00		
	454.20	0.00	0.00		0.00			
	454.30	356,491.60	404,050.76		404,050.76	-404,050.76		
	454.50	1,685,040.83	1,555,221.49		1,555,221.49	-1,555,221.49		
	454.51	8,131.04	70.00		70.00	-70.00		
	454.52	511,146.26	537,445.95		537,445.95	-537,445.95		
	454.53	52,731.52	52,862.13		52,862.13	-52,862.13		
	454.60	0.00	839,113.11		839,113.11	-839,113.11		
	454.70	6,157.60	8,143.76		8,143.76	-8,143.76		
	454.80	33,328.87	33,017.24		33,017.24	-33,017.24		
	456.00	8,581.61	975.45		975.45	-975.45		
	456.10	2,632.59	2,498.89		2,498.89	-2,498.89		
	456.65	2,787,000.30	3,101,821.48		3,101,821.48	-3,101,821.48		
	456.75	1,043,807.58	1,198,438.29		1,198,438.29	-1,198,438.29		
	415.00	25.00	25.00		25.00	-25		
Total other		\$7,233,341.82	\$8,542,790.79		8,542,790.79	-8,119,764.25	-230,633.62	-192,392.92
Purchased power	555.00	67,673,738.89	75,426,055.40			75,426,055.40		
Cable programming expens	555.65	3,634,540.96	4,435,366.70		4,435,366.70		4,435,366.70	
	933.65	0.00	0.00		0.00			
	934.65	32,541.73	-28,723.33		-28,723.33		-28,723.23	
Total Cable programming								
	931.65	2,787,000.30	3,075,838.30		3,075,838.30		3,075,838.30	
Interunit Cost of Sales		\$3,667,082.69	\$7,482,481.67		7,482,481.67	0.00		
Internet	935.65	160,520.81	233,412.63		233,412.63			
Telephone	557.75	100,979.08	112,113.56		112,113.56			112,113.56
	555.75	386,848.21	449,044.90		449,044.90			449,044.90
	558.75	30,596.40	26,174.38		26,174.38			26,174.38

Total telephone	931.75	1,043,807.58	1,224,421.47	1,224,421.47		1,224,421.47
		\$1,562,231.27	\$1,811,754.31	1,811,754.31	\$0.00	\$0.00
Operations expense	415.00	0.00	0.00	0.00		
	440.40	-2,359.47	-2,289.00	-2,289.00	-2,289.00	
	580.10	-15.88	0.00	0.00		
	580.20	314,526.48	337,701.00	337,701.00	337,701.00	
	580.30	2,899.09	1,128.62	1,128.62	1,128.62	
	581.00	37,523.20	36,883.02	36,883.02	36,883.02	
	582.10	61,392.16	50,880.49	50,880.49	50,880.49	
	583.10	6,558.43	8,519.56	8,519.56	8,519.56	
	583.20	5,613.38	-366.67	-366.67	-366.67	
	584.10	105.35	0.00	0.00		
	584.20	-1,654.10	0.00	0.00		
	585.10	423.63	138.24	138.24	138.24	
	585.30	0.00	0.00	0.00		
	586.00	39,825.65	32,897.94	32,897.94	32,897.94	
	586.20	118.73	0.00	0.00		
	586.30	128.79	122.97	122.97	122.97	
	587.00	0.00	0.00	0.00		
	587.10	203,021.21	163,796.06	163,796.06	163,796.06	
	587.11	-203,021.21	-163,796.06	-163,796.06	-163,796.06	
	588.10	20,079.68	15,260.87	15,260.87	15,260.87	
	588.20	2,019.12	2,636.19	2,636.19	2,636.19	
	588.30	93,761.69	113,222.99	113,222.99	113,222.99	
	588.50	49,543.88	44,474.61	44,474.61	44,474.61	
	588.60	70,688.87	23,136.87	23,136.87	23,136.87	
	901.00	0.00	0.00	0.00		
	902.00	472,590.56	498,178.16	498,178.16	498,178.16	
	903.10	227,992.40	290,742.25	290,742.25	290,742.25	
	903.15	-3,021.42	3,390.53	3,390.53	3,390.53	
	903.20	161,731.85	179,540.26	179,540.26	179,540.26	
	903.30	64,376.83	36,170.92	36,170.92	36,170.92	
	903.40	80,629.12	70,372.95	70,372.95	70,372.95	
	903.50	14,481.79	16,676.91	16,676.91	16,676.91	
	903.60	-126,745.13	-103,363.50	-103,363.50	-103,363.50	
	904.00	55,330.24	62,691.74	62,691.74	62,691.74	
	904.75	5,000.00	9,790.99	9,790.99	9,790.99	9,790.99
	905.00	19,344.82	17,357.94	17,357.94	17,357.94	
	906.10	9,468.90	15,344.96	15,344.96	15,344.96	
	906.20	8,082.93	2,968.34	2,968.34	2,968.34	
	907.00	0.00	0.00	0.00		
	908.00	89,165.87	75,646.15	75,646.15	75,646.15	
	908.30	43,758.83	61,341.09	61,341.09	61,341.09	
	912.00	13,917.24	44,120.10	44,120.10	44,120.10	
	916.00	42,363.47	17,412.00	17,412.00	17,412.00	
	920.00	438,741.02	475,358.66	475,358.66	475,358.66	
	921.00	328,938.02	403,377.60	403,377.60	403,377.60	
	923.10	-8,865.01	14,583.61	14,583.61	14,583.61	
	923.20	44,329.12	56,052.70	56,052.70	56,052.70	
	924.00	55,142.19	53,004.02	53,004.02	53,004.02	
	925.00	80,253.31	62,947.22	62,947.22	62,947.22	
	926.10	0.00	0.00	0.00		
	926.15	0.00	0.00	0.00		
	926.21	55,457.88	55,457.88	55,457.88	55,457.88	
	926.30	4,742.50	3,392.50	3,392.50	3,392.50	
	926.40	13,823.80	11,025.85	11,025.85	11,025.85	
	926.50	11,279.91	6,397.54	6,397.54	6,397.54	
	926.60	3,899.02	3,908.96	3,908.96	3,908.96	
	926.70	-135,450.94	-323,786.33	-323,786.33	-323,786.33	
	926.75	15,625.48	17,765.94	17,765.94	17,765.94	
	926.80	7,200.00	7,200.00	7,200.00	7,200.00	
	930.30	10,728.31	9,568.56	9,568.56	9,568.56	
	930.40	36,344.28	64,312.62	64,312.62	64,312.62	
	930.60	39,772.02	41,754.19	41,754.19	41,754.19	
	903.65	262,180.07	347,513.32	347,513.32	347,513.32	
	903.75	136,760.99	188,854.45	188,854.45	188,854.45	188,854.45
	904.65	40,000.00	48,764.30	48,764.30	48,764.30	
	912.65	44,858.68	87,971.54	87,971.54	87,971.54	
	921.65	610,885.37	669,133.83	669,133.83	669,133.83	
	921.75	368,134.34	335,807.11	335,807.11	335,807.11	335,807.11
	926.65	0.00	0.00	0.00		
	912.75	70,852.26	56,669.12	56,669.12	56,669.12	56,669.12
Total operations		\$4,417,279.60	\$4,659,764.68		2,915,260.02	1,153,382.99
Maint expense	571.10	300.00	243.99	243.99	243.99	
	590.10	0.00	0.00	0.00		

	590.20	30,048.27	35,260.42	35,260.42	35,260.42		
	591.00	5,179.54	1,484.60	1,484.60	1,484.60		
	591.10	401,072.97	234,440.42	234,440.42	234,440.42		
	592.00	162,087.81	141,048.95	141,048.95	141,048.95		
	592.20	1,496.79	-1.00	-1.00	-1.00		
	593.00	97,806.67	94,171.46	94,171.46	94,171.46		
	593.10	55,712.60	18,829.71	18,829.71	18,829.71		
	593.20	708,547.68	762,259.76	762,259.76	762,259.76		
	593.30	450,972.48	371,062.41	-181,323.65 189,738.76	189,738.76		
	593.40	21,815.99	21,195.46	21,195.46	21,195.46		
	593.60	1,391,970.26	1,388,693.05	1,388,693.05	1,388,693.05		
	593.70	60,429.46	66,146.92	66,146.92	66,146.92		
	594.00	202,021.70	203,403.96	203,403.96	203,403.96		
	595.10	33,060.04	43,817.87	43,817.87	43,817.87		
	595.20	189.87	0.00	0.00			
	596.10	60,770.11	76,670.82	76,670.82	76,670.82		
	596.20	86,594.66	83,595.22	83,595.22	83,595.22		
	596.30	12,144.83	18,552.87	18,552.87	18,552.87		
	597.00	72,425.09	97,488.50	97,488.50	97,488.50		
	598.00	13,159.78	9,170.73	9,170.73	9,170.73		
	598.10	41,002.98	43,810.92	43,810.92	43,810.92		
	598.20	84,730.23	124,545.47	124,545.47	124,545.47		
	932.00	55,195.32	53,911.07	53,911.07	53,911.07		
	408.75	0.00	4,657.17	4,657.17			4,657.17
	932.65	55,059.92	78,091.43	78,091.43		78,091.43	
	932.75	0.00	11,460.36	11,460.36			11,460.36
	930.65	148,517.42	162,355.13	162,355.13		162,355.13	
	930.75	217,684.73	139,814.71	139,814.71			139,814.71
Total Maint		\$4,469,997.20	\$4,286,182.38		3,708,479.93	240,446.56	155,932.24
Depreciation	403.53	113,111.30	112,817.76	112,817.76	112,817.76		
	403.61	28,049.76	28,049.76	28,049.76	28,049.76		
	403.62	239,090.28	239,795.72	239,795.72	239,795.72		
	403.64	524,502.13	530,482.61	530,482.61	530,482.61		
	403.65	213,740.64	215,372.02	215,372.02	215,372.02		
	403.66	23,023.14	23,374.19	23,374.19	23,374.19		
	403.67	159,511.78	162,178.65	162,178.65	162,178.65		
	403.68	312,986.17	310,552.71	310,552.71	310,552.71		
	403.69	115,021.73	119,179.48	119,179.48	119,179.48		
	403.70	122,659.41	123,529.58	123,529.58	123,529.58		
	403.71	85,271.95	65.33	65.33	65.33		
	403.73	373.81	104,837.86	104,837.86	104,837.86		
	403.75	115,153.91	118,335.66	118,335.66			118,335.66
	403.90	4,835.58	2,867.88	2,867.88	2,867.88		
	403.91	20,607.12	20,607.12	20,607.12	20,607.12		
	403.93	105.77	0.00	0.00			
	403.97	1,166,845.11	1,373,573.25	1,373,573.25	1,373,573.25		
	404.65	299,897.60	470,882.77	470,882.77		470,882.77	
	404.66	0.00	470.90	470.90		470.90	
	404.67	0.00	97,757.63	97,757.63		97,757.63	
	404.75	856.80	856.80	856.80			856.80
	404.00	37,360.32	37,360.32	37,360.32	37,360.32		
	403.56	0.00	0.00	0.00			
Total Depreication		\$3,583,004.31	\$4,092,948.00		3,404,644.24	569,111.30	119,192.46
Tax equivalents	408.10	444,266.00	463,156.00	463,156.00	463,156.00		
	408.66	7,179.00	10,387.00	10,387.00		10,387.00	
	408.77	16,195.01	17,667.00	17,667.00			17,667.00
	408.70	21,888.08	15,589.27	15,589.27		15,589.27	
	408.67	66,351.78	121,840.80	121,840.80		121,840.80	
		555,879.87	628,640.07		463,156.00	25,976.27	17,667.00
Social Security Taxes	408.30	291,765.85	293,771.49		293,771.49		
Interest on customer depri	431.00	11,046.93	12,970.43		12,970.43		
Interest income	419.00	6,095.28	7,368.86	7,368.86	-7,368.86		
	419.10	473,093.34	417,803.46	-33,436.70 384,366.76	-417,803.46		
	419.15	0.00	0.00	0.00			
	419.20	160,377.50	110,530.11	110,530.11	-110,530.11		
	419.30	0.00	0.00	0.00			
	421.15	0.00	0.00	0.00			
	427.30	-994,163.70	-982,647.10	-982,647.10	982,647.10		
	431.65	-50,032.87	-33,436.70	33,436.70 0.00		33,436.70	
	431.75	0.00	0.00	0.00			
Total Interest income		-\$404,630.45	-\$480,381.37	-480,381.37	-535,702.43	33,436.70	0.00

bond issue cost	427.31	11,583.00	10,617.75	10,617.75	10,617.75		
	427.40	3,980.58	159.41	159.41	159.41		
Transfers out	408.11	1,477,907.96	1,549,794.00	1,549,794.00	1,549,794.00		
	408.65	24,727.00	35,779.00	35,779.00		35,779.00	
	408.76	55,783.00	60,853.00	60,853.00			60,853.00
Total transfers out		\$1,558,417.96	\$1,646,426.00	\$1,646,426.00	\$1,549,794.00	\$35,779.00	\$60,853.00

b) Provide BTES's Chart of Accounts with account titles and descriptions.

RESPONSE: A copy of BTES' Chart of Accounts is attached.

ACCOUNT	DESCRIPTION	CO CODE
101.00	ELECTRIC PLANT	0
107.00	CONSTRUCTION WORK IN PROGRESS	0
107.10	WORK IN PROGRESS	0
107.20	CONSTRUCTION WORK IN PROGRESS	0
107.21	CONSTRUCTION OVERHEAD	0
107.30	SPECIAL EQUIPMENT ACCOUNT	0
108.10	ACCUM PROV OF DEPR OF EPIS-DIST	0
108.20	ACCUM PROV FOR DEPR OF EPIS-GEN	0
108.30	ACCUM PROV FOR DEPR OF EPIS-TRAN	0
108.52	ACCUMULATED DEP. PLANT ACCT. 352	0
108.53	ACCUMULATED DEP. PLANT ACCT. 353	0
108.54	ACCUMULATED DEP. PLANT ACCT. 354	0
108.55	ACCUMULATED DEP. PLANT ACCT. 355	0
108.56	ACCUMULATED DEP. PLANT ACCT. 356	0
108.60	LOSS DUE TO RETIREMENT-DIST.	0
108.61	ACCUMULATED DEP. PLANT ACCT. 361	0
108.62	ACCUMULATED DEP. PLANT ACCT. 362	0
108.64	ACCUMULATED DEP. PLANT ACCT. 364	0
108.65	ACCUMULATED DEP. PLANT ACCT. 365	0
108.66	ACCUMULATED DEP. PLANT ACCT. 366	0
108.67	ACCUMULATED DEP. PLANT ACCT. 367	0
108.68	ACCUMULATED DEP. PLANT ACCT. 368	0
108.69	ACCUMULATED DEP. PLANT ACCT. 369	0
108.70	ACCUMULATED DEP. PLANT ACCT. 370	0
108.71	ACCUMULATED DEP. PLANT ACCT. 371	0
108.73	ACCUMULATED DEP. PLANT ACCT. 373	0
108.80	RETIREMENT WORK IN PROGRESS	0
108.90	LOSS DUE TO RETIRMENT-TRANS.	0
108.91	ACCUMULATED DEP. PLANT ACCT. 391	0
108.92	ACCUMULATED DEP. PLANT ACCT. 392	0
108.93	ACCUMULATED DEP. PLANT ACCT. 393	0
108.94	ACCUMULATED DEP. PLANT ACCT. 394	0
108.95	ACCUMULATED DEP. PLANT ACCT. 395	0
108.96	ACCUMULATED DEP. PLANT ACCT. 396	0
108.97	ACCUMULATED DEP. PLANT ACCT. 397	0
108.98	ACCUMULATED DEP. PLANT ACCT. 398	0
108.99	ACCUMULATED DEP. PLANT ACCT. 390	0
109.65	ACCUMULATED DEPRECIATION-397.65	65
109.67	ACCUMULATED DEPRECIATION 397.66	65
109.75	ACCUMULATED DEPRECIATION -397.75	75
121.00	NON-UTILITY PLANT	0
121.10	NON-UTILITY PLANT - RADER PROP	0
123.10	Investment in Broadband & Cable	0
123.11	INVESTMENT IN TELEPHONE	0
123.12	INVESTMENT IN ABS	0
123.15	INVESTMENTS IN SEDC	0
126.00	RENEWAL AND REPLACEMENT FUND	0
128.00	MEDICAL INSURANCE FUND	0
131.00	BANK OF TENNESSEE REVENUE ACCT.	0
131.10	AMSOUTH REVENUE ACCOUNT	0
131.15	PAYROLL ACCOUNT	0

listItem

131.21	TRISUMMIT A/P	0
131.22	TRISUMMIT REVENUE	0
131.25	DEPOSIT REFUND	0
131.26	BOTN DEPOSIT REFUND	0
131.35	CITIZENS BANK REVENUE	0
131.50	FIRST BRISTOL BANK	0
131.60	CONSTRUCTION FUND-BONDS	0
131.61	BANK OF TN MONEY MARKET	0
131.65	CASH CABLE/ISP	65
131.70	FTNB REVENUE ACCOUNT	0
131.71	BANK OF TENNESSEE	0
131.75	CASH TELEPHONE	75
135.00	CASHIERS' WORKING FUND	0
135.10	PETTY CASH FUND	0
135.15	PETTY CASH DRAWER	0
135.30	BANK OF AMERICA LIFE INS. ESCROW	0
135.60	ELECTRICAL INSPECTION ACCOUNT	0
136.00	TEMPORARY CASH INVESTMENTS	0
136.20	TEMPORARY CASH INVESTMENTS - TVA	0
142.00	ACCOUNTS RECEIVABLE	0
142.65	A/R CABLE /ISP	65
142.75	A/R TELEPHONE	75
142.76	LOAN TO ABS	75
143.00	A/R - WATER HEATER CONTRACTOR	0
143.10	ACCOUNTS RECEIVABLE - MISC.	0
143.11	UNIFORM DEDUCTIONS CLEARING	0
143.20	A/R OPEB Trust	0
143.30	A/R ENHANCED CONSULTING	0
143.40	A/R MISCELLANEOUS BILLING	0
143.42	CONTRACTS BILLS/MISC BILLING	0
143.50	A/R - TVA HP INCENTIVE PROGRAM	0
143.60	A/R CASH RECEIPTS SUSPENSE	0
143.65	MISC A/R CABLE/ISP	65
143.70	A/R - UETHDA FUEL PROGRAM	0
143.75	MTN VIEW APTS - CUSTOMER CREDIT	0
143.80	SALVATION ARMY/HYN VOUCHERS	0
143.85	HELP YOUR NEIGHBOR - VOUCHERS	0
143.90	A/R REC - RHIP REIMBURSEMENT	0
143.95	ASSISTANCE	0
143.97	BFIA	0
144.00	ALLOWANCE FOR DOUBTFUL ACCOUNTS	0
144.65	ALLOWANCE FOR DOUBTFUL ACCT CISP	65
144.75	ALLOWANCE FOR DOUBTFUL ACCT TELE	75
154.10	MATERIALS AND SUPPLIES - GARAGE	0
154.20	MATERIALS AND SUPPLIES - CONSTR.	0
154.30	MATERIALS AND SUPPLIES - COMM.	0
154.65	CABLE & INTERNET INVENTORY	65
154.80	MATERIALS BALANCING ACCOUNT	0
163.00	STORES EXPENSE - UNDISTRIBUTED	0
163.10	STORES EXPENSE DISTRIBUTION	0
165.10	PREPAID INSURANCE	0
165.20	PREPAID EXPENSE - MGMT AGREEMENT	0

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165.30	PREPAID IN LIEU OF TAX	0
165.40	PREPAID MAINTENANCE EXPENSE	0
165.65	PREPAID IN LIEU OF TAX CABLE	65
165.66	PREPAID MAINTENANCE EXPENSE	65
165.75	PREPAID IN LIEU OF TAX TELEPHONE	75
165.76	PREPAID MAINTENANCE EXPENSE	75
165.80	PREPAYMENTS - TVA	0
165.90	PREPAYMENT - CARINA	0
171.10	INTEREST RECEIVABLE	0
171.65	DUE FROM CABLE /ISP	0
184.00	CLEARING ACCOUNT - VEHICLES	0
184.01	VEHICLE OH-NO SPECIFIC VEHICLE	0
184.50	CLEARING ACCOUNT - SUPERVISION	0
184.60	CLEARING ACCOUNT - ADMIN. LABOR	0
184.70	CLEARING ACCOUNT - ENGINEERING	0
186.20	TCRS PENSION ASSET	0
186.25	OPEB Asset	0
186.30	EMPLOYEE LOAN	0
186.35	MISC A/R BILLED ON 142.00	0
186.40	WATER HEATER LOAN	0
186.50	MISC DEFERRED DEBITS - CDS	0
186.52	DEFERRED DEBIT - NEW BUSINESS	65
186.55	PREPAID POWER COST - DEU	0
186.60	DEFERRED DEBITS-TVA PRE-PAYMENT	0
186.61	CAPITALIZED INTEREST LTD BONDS	0
186.66	CAPITALIZED INTEREST CABLE/ISP	65
186.75	Deferred Debit - New Business P	75
186.76	UNAMORTIZED BOND ISSUE COSTS	0
186.77	CAPITALIZED INTEREST TELEPHONE	75
186.80	NON INTEREST BEARING LOAN	0
186.90	HEAT PUMP LOANS	0
186.95	ENERGY SAVINGS LOANS	0
186.96	American Phoenix Contract	0
216.00	ACCUM NET INCOME-BEG. OF PERIOD	0
216.65	ACCUM NET INCOME - CABLE/ISP	65
216.75	ACCUM NET INCOME - TELEPHONE	75
220.10	INTEREST ON HEAT PUMP LOANS	0
220.15	INTEREST ON ENERGY SAVINGS LOANS	0
220.16	Intrst-American Phoenix Contract	0
221.10	LONG TERM DEBT-BONDS 2005	0
221.11	UNAMORTIZED BOND PREMIUM	0
228.65	LIABILITY CABLE/ISP	65
228.66	LIABILITY - LOAN FROM TELEPHONE	65
228.75	LIABILITY TELEPHONE	75
232.00	ACC. PAYABLE-GIFT CERTIFICATES	0
232.10	ACCOUNTS PAYABLE - GENERAL	0
232.11	ACCOUNTS PAYABLE MISC CLEARING	0
232.12	ACCOUNTS PAYABLE-RETAINAGE AEG	0
232.15	ACCOUNTS PAYABLE-TVA POWER BILL	0
232.16	ACCOUNTS PAYABLE MISCELLANEOUS	0
232.60	A/P - EXIDE R & D	0
232.65	A/P CLEARING - CABLE/INTERNET	65

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232.66	A/P - CABLE FRANCHISE FEE	65
232.70	MISC PAYROLL DEDUCTIONS	0
232.75	A/P CLEARING- TELEPHONE	75
232.76	A/P - CABS	75
232.80	A/P - FLEX PLAN CON	0
232.90	ACCTS PAYABLE - HEAT PUMP CONTR.	0
234.00	A/P CITY OF BRISTOL TN-ECON DEV	0
234.10	A/P CITY OF BRISTOL TN- ECON DEV	0
234.20	ECONOMIC DEV LOAN PROGRAM	0
234.50	A/P - TN HIGH/VIKING HALL	0
234.65	ECONOMIC DEV LOAN PROGRAM	65
235.00	CUSTOMER DEPOSITS	0
235.01	INTEREST ON CUSTOMER DEPOSIT	0
236.10	ACCRUED TAXES PAYABLE	0
236.11	ACCRUED TAXES PAYABLE COB	0
236.20	EMPLOYER FICA TAX PAYABLE	0
236.65	ACCRUED TAXES PAYABLE COB CABLE	65
236.66	ACCRUED TAXES CABLE/ISP	65
236.67	ACCRUED STATE EXCISE TAX	65
236.75	ACCRUED TAXES TELEPHONE COB	75
236.76	ACCRUED TAXES TELEPHONE	75
237.30	INTEREST ACCRUED LTD-OTHER	0
241.10	A/P - FIT WITHHELD	0
241.20	A/P - FOAB WITHHELD	0
241.25	A/P 401K Employer Portion	0
241.30	SALES TAX NON-ELECTRIC SALES	0
241.40	SALES TAX ELECTRICITY	0
241.50	WASHINGTON CO, VA UTILITIES TAX	0
241.60	CITY OF BRISTOL - FRANCHISE FEE	65
241.61	FEDERAL EXCISE TAX	65
241.62	SULLIVAN COUNTY - FRANCHISE FEE	65
241.63	BLUFF CITY - FRANCHSIE FEE	65
241.65	TAXES PAYABLE CABLE/ISP	65
241.71	PHONE FED EXCISE TAX	75
241.72	OTHER TAXES & FEES PAYABLE	75
241.73	E911 FEES	75
241.75	TAXES PAYABLE TELEPHONE	75
242.30	HELP YOUR NEIGHBOR	0
242.50	A/P-UNITED WAY EMP. CONTRIBUTION	0
242.60	A/P-RETIRE PLAN - EMP CONTR.	0
242.70	TVA GROWTH CREDIT - DEFERRED	0
242.80	EMP 401K PLAN CONTRIBUTION	0
242.90	A/P-BTES CREDIT UNION-EMP WITH	0
243.00	MEDICAL INSURANCE LIABILITY	0
243.10	CUR & ACCRUED LIAB-SICK LEAVE	0
243.15	ACCRUED LABOR	0
243.20	CUR & ACCRUED LIAB - VACATION	0
243.30	CUR & ACCRUED LIAB - HOLIDAY	0
243.40	CUR & ACCRUED LIAB-INCL WEATHER	0
243.50	CUR & ACCRUED LIAB - JURY DUTY	0
243.60	MILITARY LEAVE	0
243.70	ON-CALL BONUS PAY	0

243.80	EMP LIFE INS PAYABLE	0
243.90	POWER LIABILITY - TVA	0
252.00	REFUNDABLE ADVS FOR CONSTRUCTION	0
253.10	DEFERRED CREDIT	0
253.11	DEFERRED CREDIT ACCT INVENTORY	0
253.12	DEF CREDIT VEHICLE PARTS INVENTO	0
253.30	DEFERRED CREDIT-EMP RETIREE INS	0
253.40	DEFERRED CREDIT-RETIREE LIFE INS	0
253.65	DEFERRED REVENUE	65
253.66	DEFERRED CREDIT ACCT INV CABLE	65
253.75	DEFERRED CREDIT PHONE INVENTORY	75
253.76	DEFERRED REVENUE	75
350.00	LAND AND LAND RIGHTS	0
350.10	LAND-TRANS-BLUFF CITY	0
350.30	LAND - TRANS - BRISTOL	0
350.50	LAND - TRANS - SULLIVAN COUNTY	0
350.70	LAND - TRANS - WASHINGTON CO.,VA	0
350.90	LAND - TRANS - KINGSFORT	0
352.00	STRUCTURES & IMPROVEMENTS-TRANS	0
352.10	STRUCTURES -TRANS- BLUFF CITY	0
352.30	STRUCTURES -TRANS- BRISTOL	0
352.50	STRUCTURES-TRANS- SULLIVAN CO.	0
352.70	STRUCTURES-TRANS-WASH. CO., VA	0
353.00	SUBSTATION EQUIPMENT-TRANS	0
353.10	STATION EQUIP.-TRANS-BLUFF CITY	0
353.30	STATION EQUIP.-TRANS-BRISTOL	0
353.50	STATION EQUIP-TRANS-SULL. CO.	0
353.70	STATION EQUIP-TRANS-WASH. CO.,VA	0
354.00	TOWERS AND FIXTURES-TRANS	0
354.10	TOWERS & FIXTURES-TRANS- B.C.	0
354.30	TOWERS & FIXTURES-TRANS-BRISTOL	0
354.50	TOWERS & FIXTURES-TRANS-SULL.CO.	0
354.70	TOWERS & FIXTURES-TRANS-WASH. VA	0
355.00	POLES AND FIXTURES- TRANS	0
355.10	POLES & FIXTURES-TRANS- B.C.	0
355.30	POLES & FIXTURES-TRANS- BRISTOL	0
355.50	POLES & FIXTURES-TRANS-SULL. CO.	0
355.70	POLES & FIXTURES-TRANS-WASH. VA	0
356.00	OH CONDUCTORS & DEVICES- TRANS	0
356.10	OH CONDUCTORS-DIST- BLUFF CITY	0
356.30	OH CONDUCTORS-TRANS- BRISTOL	0
356.50	OH CONDUCTORS-TRANS-SULLIVAN CO.	0
356.70	OH CONDUCTORS-TRANS-WASH. CO.,VA	0
360.00	LAND & LAND RIGHTS - DIST	0
360.10	LAND-DIST.-BLUFF CITY	0
360.30	LAND-DIST.-BRISTOL	0
360.50	LAND-DIST.-SULLIVAN CO.	0
360.70	LAND-DIST.-WASHINGTON CO.,VA	0
361.00	STRUCTURES & IMPROVEMENTS-DIST	0
361.10	STRUCTURES-DIST-BLUFF CITY	0
361.30	STRUCTURES-DIST-BRISTOL	0
361.50	STRUCTURES-DIST-SULLIVAN COUNTY	0

361.70	STRUCTURES-DIST-WASH. CO., VA	0
362.00	STATION EQUIPMENT - DISTRIBUTION	0
362.10	STATION EQUIP.-DIST.-BLUFF CITY	0
362.30	STATION EQUIP.-DIST-BRISTOL	0
362.50	STATION EQUIP.-DIST.-SULL. CO.	0
362.65	CABLE/INTERNET STATION EQUIPMENT	0
362.70	STATION EQUIP.-DIST-WASH.CO.,VA	0
364.00	POLES,TOWERS,& FIXTURES-DIST.	0
364.10	POLES & FIXTURES-DIST-BLUFF CITY	0
364.30	POLES & FIXTURES-DIST-BRISTOL	0
364.50	POLES & FIXTURES-DIST.-SULL. CO.	0
364.69	Poles,Multiple Use Powerlines	0
364.70	POLES & FIXTURE-DIST-WASH.CO.,VA	0
365.00	OVERHEAD CONDUCTORS/DEVICES-DIST	0
365.10	OVERHEAD CONDUCTORS-DIST- B.C.	0
365.30	OVERHEAD CONDUCTOR-DIST-BRISTOL	0
365.50	OVERHEAD CONDUCTOR-DIST-SULL.CO.	0
365.55	Distribution Overhead Multi-Use	0
365.70	OVERHEAD CONDUCTOR-DIST-WASH.,VA	0
366.00	UNDERGROUND CONDUCTORS - DIST.	0
366.10	UG CONDUCTORS-DIST.-BLUFF CITY	0
366.30	UG CONDUCTORS-DIST.-BRISTOL	0
366.50	UG CONDUCTORS-DIST.-SULL. CO.	0
366.70	UG CONDUCTORS-DIST.-WASH.CO.,VA	0
367.00	UG CONDUCTORS & DEVICES - DIST	0
367.10	UG CON.& DEVICES-DIST-BLUFF CITY	0
367.30	UG CON.& DEVICES-DIST-BRISTOL	0
367.50	UG CON.& DEVICES-DIST-SULL. CO.	0
367.70	UG CON.& DEVICES-DIST-WASH.CO.VA	0
368.00	TRANSFORMERS - DISTRIBUTION	0
368.10	TRANSFORMERS-DIST-BLUFF CITY	0
368.30	TRANSFORMERS-DIST-BRISTOL	0
368.50	TRANSFORMERS-DIST-SULLIVAN CO.	0
368.70	TRANSFORMERS-DIST-WASH CO., VA	0
369.00	SERVICES - DISTRIBUTION	0
369.10	SERVICE-DIST- BLUFF CITY	0
369.30	SERVICES-DIST.- BRISTOL	0
369.50	SERVICES-DIST.- SULLIVAN CO.	0
369.70	SERVICES-DIST.-WASH. CO., VA	0
370.00	METERS	0
370.10	METERS-DIST- BLUFF CITY	0
370.30	METERS-DIST- BRISTOL	0
370.50	METERS-DIST- SULLIVAN COUNTY	0
370.70	METERS-DIST.-WASH. CO., VA	0
371.00	SECURITY LIGHTS	0
371.10	SECURITY LIGHTS-DIST.-BLUFF CITY	0
371.30	SECURITY LIGHTS-DIST.-BLUFF CITY	0
371.50	SECURITY LIGHTS-DIST-SULL. CO.	0
371.70	SECURITY LIGHTS-DIST-WASH.CO.,VA	0
373.00	STREET & TRAFFIC LIGHTS - DIST	0
373.10	STREET/TRAFFIC LIGHTS-DIST.-B.C.	0
373.30	STREET/TRAFFIC LIGHTS-DIST-BRIS.	0

373.50	STREET/TRAFFIC LIGHTS-DIST-SULL.	0
373.70	STREET/TRAFFIC LIGHTS-DIST-WASH.	0
389.00	LAND & LAND RIGHTS	0
390.00	STRUCTURES & IMPROVEMENTS	0
391.00	OFFICE FURNITURE & EQUIPMENT	0
392.00	TRANSPORTATION EQUIPMENT	0
393.00	STORES & EQUIPMENT	0
394.00	TOOLS, SHOP & GARAGE	0
395.00	LABORATORY EQUIPMENT	0
396.00	POWER OPERATED EQUIPMENT	0
397.00	COMMUNICATION EQUIPMENT	0
397.01	COMMUNICATION EQUIPMENT	0
397.02	COMMUNICATION EQUIPMENT	0
397.15	ELECTRIC COMMUNICATIONS FIBER	0
397.55	COMMUNICATIONS MULI USE	0
397.65	COMMUNICATIONS CABLE/INTERNET	65
397.66	COMMUNICATIONS CABLE INTERNET 10	65
397.75	COMMUNICATIONS PLANT TELEPHONE	75
398.00	MISC. EQUIPMENT	0
403.00	DEPRECIATION EXPENSE	0
403.10	DEPR. DIST. PLANT ITEMS	0
403.20	DEPR. GENERAL PLANT ITEMS	0
403.30	DEPR. TRANSMISSION PLANT ITEMS	0
403.52	DEPRECIATION PLANT ACCOUNT 352	0
403.53	DEPRECIATION PLANT ACCOUNT 353	0
403.54	DEPRECIATION PLANT ACCOUNT 354	0
403.55	DEPRECIATION PLANT ACCOUNT 355	0
403.56	DEPRECIATION PLANT ACCOUNT 356	0
403.61	DEPRECIATION PLANT ACCOUNT 361	0
403.62	DEPRECIATION PLANT ACCOUNT 362	0
403.64	DEPRECIATION PLANT ACCOUNT 364	0
403.65	DEPRECIATION PLANT ACCOUNT 365	0
403.66	DEPRECIATION PLANT ACCOUNT 366	0
403.67	DEPRECIATION PLANT ACCOUNT 367	0
403.68	DEPRECIATION PLANT ACCOUNT 368	0
403.69	DEPRECIATION PLANT ACCOUNT 369	0
403.70	DEPRECIATION PLANT ACCOUNT 370	0
403.71	DEPRECIATION PLANT ACCOUNT 371	0
403.73	DEPRECIATION PLANT ACCOUNT 373	0
403.75	DEPRECIATION TELEPHONE	75
403.90	DEPRECIATION PLANT ACCOUNT 390	0
403.91	DEPRECIATION PLANT ACCOUNT 391	0
403.93	DEPRECIATION PLANT ACCOUNT 393	0
403.94	DEPRECIATION PLANT ACCOUNT 394	0
403.95	DEPRECIATION PLANT ACCOUNT 395	0
403.96	DEPRECIATION PLANT ACCOUNT 396	0
403.97	DEPRECIATION PLANT ACCOUNT 397	0
403.98	DEPRECIATION PLANT ACCOUNT 398	0
404.00	AMORTIZATION EXPENSE	0
404.65	DEPRECIATION - PLANT 397.65	65
404.66	AMORTIZATION-CAPITALIZED INT	65
404.67	DEPRECIATION-PLANT 397.66	65

404.75	AMORTIZATION-CAPITALIZED INT	75
408.10	PAYMENT IN LIEU OF TAXES	0
408.11	PAYMENT IN LIEU OF TAXES COB	0
408.30	FICA TAX EXPENSE	0
408.65	PAYMENT IN LIEU OF TAXES COB	65
408.66	PAYMENT IN LIEU OF TAXES CABLE	65
408.67	STATE EXCISE TAX	65
408.70	COPYRIGHT TAX	65
408.75	USF CHARGE EXPENSE	75
408.76	PYMT IN LIEU OF TAXES PHONE COB	75
408.77	PYMT IN LIEU OF TAXES PHONE	75
415.00	SURGE PROTECTION KIT SALES	0
416.00	SURGE PROTECTION - COST	0
419.00	INTEREST INCOME - BANK ACCOUNTS	0
419.10	INTEREST INCOME - INVESTMENTS	0
419.15	INTEREST INCOME - DIVIDENDS	0
419.20	INTEREST INCOME - DEU	0
419.30	INTEREST INCOME - OTHER	0
419.75	INTEREST INCOME	75
421.15	INCOME - SEDC	0
421.20	INCOME - GRANT	0
427.30	INTEREST ON LONG TERM DEBT-BONDS	0
427.31	INTEREST LONG TERM DEBT ISSUE CS	0
427.40	INTEREST EXPENSE	0
431.00	INTEREST ON CUSTOMER DEPOSITS	0
431.65	INTEREST EXPENSE CABLE/ISP	65
431.75	INTEREST EXPENSE TELEPHONE	75
440.00	RESIDENTIAL CLASS 22	0
440.20	RES. CLASS 22-RESIDNTL EFFIC. CR	0
440.40	RESIDENTIAL CLASS 22 GREEN POWER	0
440.60	RESIDENTIAL CLASS-GP SOLAR PREMI	0
440.65	CABLE REVENUE	65
440.75	TELEPHONE REVENUE	75
441.00	GENERAL POWER CLASS 40, 0-50KW	0
441.01	GEN POWER CLASS 49,0-50KW SEASON	0
441.10	GEN POWER CLASS 40,0-50KW GR PWR	0
441.40	GREEN POWER - SMALL COMMERCIAL	0
441.60	GEN PWR CLASS 40-GP SOLAR PREMI	0
441.65	SET-TOP BOX REVENUE	65
441.75	LONG DISTANCE REVENUE	75
442.00	GENERAL POWER CLASS 50,50-1000KW	0
442.01	GEN PWR CLASS 57,50-1000KW SEASO	0
442.02	GEN POWER CLASS 54,1001-2500KW	0
442.03	GEN PWR CLSS 59,1001-2500KW SEAS	0
442.04	GEN POWER CLASS 55,2500-5000KW	0
442.05	GEN POWER CLASS56,5001-15000KW	0
442.06	GEN POWER CLASS 58,15001-25000KW	0
442.07	INTR PWR CL 63,UPTO 15000ESP/VPI	0
442.08	INT PWR 64,15001-25000KW ESP/VPI	0
442.09	CIR C99 CONVTO C54-TVA STAT&WHSL	0
442.10	ENHANCED GROWTH CREDIT	0
442.20	LARGE MANUFACTURERS CREDIT	0

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442.30	EXPANDED MANUFACTURERS CREDIT	0
442.40	GREEN POWER - LARGE INDUSTRIAL	0
442.65	VOD REVENUE	65
442.75	TELEPHONE REV - ABS CUSTOMERS	75
444.00	STREET LIGHTING CLASS 72	0
444.01	ATHLETIC FIELD LIGHTING CLASS 73	0
444.02	TRAFFIC SIGNAL SYSTEMS CLASS 74	0
444.03	IND. OUTDOOR LGHT CLASS 77(+O/S)	0
444.04	IND OUTDOOR LGHT CL78(LGHT ONLY)	0
444.65	OTHER REVENUE	65
444.66	INSIDE WIRE MAINTENANCE	65
444.75	OTHER REVENUE-TELEPHONE	75
445.75	USF CHARGE	75
450.00	PENALTIES AKA LATE FEES	0
451.10	TEMPORARY SERVICE	0
451.20	COST OF TEMPORARY SERVICE	0
451.30	SERVICE FEE	0
451.40	NSF CHECK	0
451.50	TURNON/TURN OFF	0
451.55	CHECK FEES	0
451.60	METER TAMPERING FEE	0
451.70	PAYMENT EXTENSION FEES	0
451.90	RECONNECTION FEE	0
454.10	RENT - CDS/RMSA	0
454.20	RENT - BVU	0
454.30	JOINT POLE AGREEMENT - CHARTER	0
454.50	EXCESS CAPACITY	0
454.51	SPECIAL MINIMUMS	0
454.52	INVEST CHRGE O/THAN LGHT INV.CHR	0
454.53	MOBILE HOME PEDESTALS	0
454.60	JOINT POLE AGREEMENT - SPRINT	0
454.70	JOINT POLE AGREEMENT - OTHER	0
454.80	JOINT POLE AGREEMENT - KMC	0
454.90	POLE RENTAL - ADVANCED BROADBAND	0
456.00	OTHER REVENUE	0
456.10	SURGE PROTECTION MONTHLY RENTAL	0
456.65	PLANT ALLOCATION FACTOR CABLE/IS	0
456.75	PLANT ALLOCATIONFACTOR TELE	0
555.00	PURCHASED POWER	0
555.65	PROGRAMMING EXPENSE	65
555.75	COST OF GOODS SOLD	75
557.75	NETWORK TRUNK INTERCONNECTION	75
558.75	CABS EXPENSE	75
566.10	TRANSMISSION EXPENSE - OPERATION	0
568.10	MAINTENANCE SUPERVISION - OPER.	0
571.10	MAINT OH LINES - TRANS	0
573.10	MINOR MISC MAINT. - TRANSMISSION	0
580.10	OPERATION SUPERVISION - DIST	0
580.20	OPERATION ENGR - DIST	0
580.30	LOAD DEVELOPMENT	0
581.00	LOAD DISPATCHING - DIST	0
582.10	STATION OPERATION - DISTRIBUTION	0

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583.10	O.H. LINE EXP - DIST	0
583.20	LINE TRANS INST & REM EXP-DIST	0
584.10	U.G. LINE EXP - DIST	0
584.20	U.G. TRANS INST & REM EXP - DIST	0
585.10	STREET LIGHTING EXP - DIST	0
585.30	SIGNAL SYSTEM EXP - DIST	0
586.00	METER TEST FEES	0
586.20	METER TEST EXP	0
586.30	Meter Installation Exp	0
587.00	CUST INSTALLATIONS EXP	0
587.10	WATER HEATER PROGRAM EXPENSE	0
587.11	Water Heater - TVA credit	0
588.10	MAPS & RECORDS- EXP	0
588.20	MISC SERVICE CENTER EXP - DIST	0
588.30	MISC DIST EXP - DIST	0
588.50	SAFETY MTG EXP - DIST	0
588.60	MISC DAMAGE EXP - DIST (BILLED)	0
588.65	Jobs Purchased by customer	0
590.10	MAINT SUPERVISION - DIST	0
590.20	MAINT ENG - DIST	0
591.00	MAINT OF STRUCTURES - DIST	0
591.10	MAINT STRUCTURES-SERVICE CENTER	0
592.00	MAINT STATION EQUIP - DIST	0
592.20	MAINT STATION GROUNDS	0
593.00	ON CALL PAY	0
593.10	MAINT OH LINES - DIST	0
593.20	TREE TRIMMING EXP - DIST	0
593.30	MAINT OH LINES STORM DAMAGE	0
593.40	MISC DIST EXP	0
593.60	POLE MAINTENANCE	0
593.70	OVERHEAD LINES MAINT - DIST	0
594.00	MAINT U.G. LINES-DIST	0
595.10	MAINT LINE TRANSFORMERS - DIST	0
595.20	MAINT LINE TRANS - STORM	0
596.10	MAINT STREET LIGHTS	0
596.20	MAINT SECURITY LIGHTS	0
596.30	MAINT SIGNAL SYSTEM - DIST	0
597.00	MAINT OF METERS	0
598.00	MAINT EXP SERVICE CENTER - DIST	0
598.10	LOAD MANAGEMENT MAINT	0
598.20	MAINTENANCE - FIBER SYSTEM	0
599.99	ACCOUNT BALANCE FORWARD DUMMY	0
777.77	CATCH ALL-CASH REGISTER	0
901.00	SUPERVISION EXP - CUST ACCTG	0
902.00	METER READING	0
903.10	RECORD RETRIEVAL FEES	0
903.15	CASH SHORT/OVER	0
903.20	BILLING EXPENSE	0
903.30	MISC EDP EXP	0
903.40	OUTSIDE COLLECTION EXP	0
903.50	INSIDE COLLECTION EXPENSE	0
903.60	COLLECTION TRIP CHARGE	0

903.65	CUSTOMER SERVICE CABLE/ISP	65
903.75	CUSTOMER SERVICE EXPENSE TELE	75
904.00	UNCOLLECTIBLE ACCOUNTS	0
904.65	UNCOLLECTIBLE EXP CABLE/ISP	65
904.75	UNCOLLECTIBLE EXP TELEPHONE	75
905.00	MISC CUSTOMER SERVICE EXP	0
906.10	CUSTOMER SERVICE - INFORMATION	0
906.20	CUSTOMER NEWSLETTER EXP	0
907.00	CUST SERVICE INFO - SUPERVISION	0
908.00	CUSTOMER ASSISTANCE EXP	0
908.30	ADVERTISING	0
912.00	PROMOTION & SELLING EXP	0
912.65	MARKETING EXPENSE	65
912.75	MARKETING EXP TELEPHONE	75
916.00	IND DEVELOPMENT EXP	0
920.00	SALARIES	0
921.00	OFFICE SUPPLIES	0
921.65	ADMIN & GENERAL EXP CABLE/ISP	65
921.75	ADMIN AND GENERAL EXP TELEPHONE	75
923.10	LEGAL SERVICES	0
923.20	AUDITING SERVICES	0
923.40	DATA PROCESS SERVICE	0
923.75	OUTSIDE SERVICE EXP TELEPHONE	75
924.00	PROPERTY INSURANCE	0
925.00	INJURIES & DAMAGES INSURANCE	0
926.10	EMPLOYEE GROUP INSURANCE	0
926.15	VACATION ACCRUAL EXPENSE	0
926.16	SICK LEAVE EXPENSE	0
926.20	EMPLOYEE RETIREMENT PLAN	0
926.21	TCRS PENSION ASSET EXPENSE	0
926.25	401K EMPLOYER CLEARING ACCOUNT	0
926.30	TELOWATT EXPENSE	0
926.40	EMPLOYEE CHRISTMAS PARTY	0
926.50	EMPLOYEE AWARDS BANQUET	0
926.60	EMPLOYEE PICNIC	0
926.70	MISC EMPLOYEE EXP	0
926.75	SPECIAL PAY	0
926.80	EMPLOYEE RETIRE INSURANCE	0
926.90	EMPLOYEE DENTAL PLAN	0
930.30	GENERAL CORPORATE EXP	0
930.40	INDUSTRY ASSOCIATION DUES	0
930.60	MISC OTHER EXP	0
930.65	SYSTEM OPER & MAINT - CABLE/ISP	65
930.75	SYSTEM OPER & MAINT - TELEPHONE	75
931.65	PLANT ALLOCATION FACTOR	65
931.66	PLANT ALLOC FACTOR-TELE CUSTOMER	65
931.75	PLANT ALLOCATION FACTOR TELE	75
932.00	MAINTENANCE OF GENERAL PLANT	0
932.65	MAINTENANCE-CABLE/ISP	65
932.75	MAINTENANCE - TELEPHONE	75
935.65	INTERNET ACCESS	65
999.99	Fixed Journal Header	0

- c) Provide a general description of BTES's allocation methodology as contained in paragraph 19 on page 39. For each expense shown in the chart of accounts, provide an Excel spreadsheet detailing the total pool of cost, the method used to allocate the costs in 2011, and the total amounts allocated to each BTES business unit.

RESPONSE: BTES' Cost Allocation Manual and BTES' various amendatory memoranda are attached. These documents provide a general description of BTES allocation methodology. BTES does not have an Excel spreadsheet that is responsive to the second sentence of this Request. BTES' cost allocation calculations are the result of many monthly manual calculations. Those calculations result in individual journal entries to various general ledger accounts. Summary data cannot be readily extracted from BTES' general ledger accounts. Subject to and without waiver of the General Objections, BTES has prepared the attached summary of the quarterly updates to its primary allocation factors and a table summarizing the allocations of joint and commons costs for administrative and general expenses, costs of employee time and associated vehicle expense for fiscal years 2011. Additionally, total plant costs of the fiber optic network are directly recovered from the telephone, cable and internet business units and shown as inter-unit costs of sales in BTES' financial statements.

**BRISTOL TENNESSEE ESSENTIAL
SERVICES**

COST ALLOCATION MANUAL

2005 - 2006

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INTRODUCTION

Bristol Tennessee Essential Services ("BTES") is a governmental utility created in 1945. BTES provides electric distribution service to customers located in the City of Bristol, Tennessee, Sullivan County, Tennessee and a portion of Washington County, Virginia. This service is a regulated monopoly or non-competitive type service.

BTES plans to provide cable service directly to customers and Internet service directly to customers. BTES also plans to provide telephone service directly to customers as a Competitive Local Exchange Carrier ("CLEC"). To achieve organizational and accounting separation from its monopoly service, BTES has established three business units — one for electric service, one for cable television and Internet and the other for telephone services.

The cable and Internet services are competitive services. The telephone service is also a competitive service. However, the Tennessee Regulatory Authority ("TRA") regulates this service in the same manner as it regulates the service for other CLEC's. BTES will provide the cable and Internet services under Tennessee Code Annotated Title 7, Chapter 52, Part 6, and, it will provide the telephone service under Tennessee Code Annotated Title 7, Chapter 52, Part 4.

PURPOSE

BTES developed this Cost Allocation Manual ("CAM") due to its expansion into the competitive service market. The CAM describes the cost allocation concepts adopted by BTES as well as the methodology used to allocate costs. The CAM provides BTES management with an equitable process to reduce the potential for cross-subsidization of competitive and non-competitive services and to present a reasonable financial record of each utility service. BTES will review the methodology employed in this manual on at least an annual basis. Changes in this manual must receive prior approval from BTES management through written justification and documentation.

The goals of the allocation methodology included in this manual are to

1. Ensure just and reasonable rates for the ratepayers of the monopoly service.
2. Prevent or limit, to the extent possible, any cross-subsidization from the monopoly service to the other two business units.
3. Minimize the time and expense necessary to record and audit the transactions.

The cost allocation manual recognizes that BTES' business units may share use of certain employees and assets and recognizes that one BTES business unit may also enter into discrete service arrangements, leases or similar transactions for goods or services with another BTES business unit. In order to meet the previously stated conditions, this manual discusses the allocation of costs between business units to minimize any cross-subsidization from the Electric Business Unit to the other business units in those areas and other cases.

BTES maintains a system of accounts that allows the identification and recording of transactions related to each business unit. Using this information, BTES can prepare financial statements showing the financial position and results of operations for each business unit.

Costs assigned to and allocated to each business unit shall be at fully allocated costs. In the case of an annual charge for facilities or assets, the fully allocated costs will include in lieu of taxes,

depreciation expense, maintenance expense, insurance expense, and a return on the investment in the asset. In the case of personnel, the fully allocated cost will include salaries/wages, all employee benefits, payroll taxes, insurance, and pensions.

ALLOCATION OF COSTS

The general concepts followed in this manual are discussed below.

- BTES will directly assign costs to a specific business unit whenever possible.
- Costs that cannot be directly assigned to a specific business unit are described as common costs. BTES will allocate common costs in accordance with the following hierarchy
 - BTES will allocate, whenever possible, common cost categories based on direct analysis of the origin of the costs themselves
 - When direct analysis is not possible, BTES will allocate common cost categories based on an indirect, cost-causative linkage to another category (or group of cost categories) for which a direct assignment or allocation is available
 - When neither direct nor indirect measures of cost causation can be identified, BTES will allocate the cost category using a general allocator. The numerator of the general allocator is all operation and maintenance expenses directly assigned or attributed to each service, excluding cost of electricity and programming, and the denominator is the total operation and maintenance expense of BTES, excluding cost of electricity and programming.
- For loans made by one business unit to another, BTES will charge the highest rate of interest earned on invested funds
- The Telephone Business Unit will make in lieu of tax payments and will record state, local, and federal taxes in accordance with TCA section 7-52-404
- The Cable and Internet Business Unit will make tax payments in accordance with TCA section 7-52-606.

DEFINITIONS

Affiliates – a branch, division, or subsidiary of a company A company effectively controlled by another company.

Audit Engagement – an attestation engagement in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

Business Unit – divisions within BTES that provide differing services to customers.

Cost Allocation Manual ("CAM") – an indexed compilation and documentation of a company's cost allocation policies and related procedures.

Cost Allocations – the methods or ratios used to apportion costs A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as General Allocators)

Common Costs – costs associated with services or products that are of joint benefit between competitive and non-competitive business units

Cost Driver – a measurable event or quantity that influences the level of costs incurred and that can be directly traced to the origin of the costs themselves.

Direct Costs – costs that can be specifically identified with a particular service or product

Fully Allocated Costs – the sum of the direct costs plus an appropriate share of indirect costs.

Indirect Costs – costs that cannot be identified with a particular service or product This includes, but is not limited to, overhead costs, administrative and general costs, and taxes

Prevailing Market Price -- a generally accepted market value that can be substantiated by auction, appraisal, or clearly comparable transactions.

Subsidization -- the recovery of costs from one class of customers or business unit that are attributable to another class of customers or business unit.

TRANSACTIONS WITH BUSINESS UNITS

BTES will record goods or services provided pursuant to a tariff among business units in the appropriate revenue and expenses accounts at the tariffed rate. BTES will record the transfer or sale of non-tariffed goods or services that are provided among business units and provided to unaffiliated outside parties, at the market rate. BTES will record the transfer or sale of non-tariffed goods or services that are not provided to unaffiliated outside parties, among business units at fully distributed cost.

BTES will record assets sold or transferred among business units pursuant to a tariff in the appropriate accounts at the tariffed rate. BTES will record charges for assets purchased from or transferred among business units in the appropriate accounts at the invoice price if that price is determined by a prevailing price held out to the general public in the normal course of business. If a tariff or prevailing price is not available, BTES will record assets sold or transferred from a competitive business unit to a non-competitive business unit at the lower of net book value or estimated fair market value. If a tariff or prevailing price is not available, BTES will record assets sold or transferred from a non-competitive business unit to a competitive business unit at the higher of net book value or estimated fair market value of the asset.

BALANCE SHEET ACCOUNTING

Cash

BTES will maintain a cash account in its general ledger for each business unit. BTES will record all monies collected by a business unit to the appropriate general ledger account. BTES will record all payments applicable to a business unit in the appropriate general ledger account.

Accounts Receivable

Each business unit will maintain its own accounts receivable. BTES will record both billings and payments in the appropriate receivable account.

Accounts Payable

Each business unit will maintain its own accounts payable. BTES will record both invoices received and payments made in the appropriate payable account.

Materials

Each business unit will maintain its own inventory accounts. BTES will record assets subject to inventory in the appropriate accounts as received.

Plant Assets

Each business unit will maintain its own plant accounting system. BTES will record utility plant in the appropriate plant account when it places plant in service.

Plant Leased to Competitive Business Units

When applicable, BTES will lease poles for pole attachments to the Cable and Internet Business Unit and the Telephone Business Unit at the highest rate paid by an outside party for comparable

pole attachments. BTES will lease any other items currently leased to other entities to these business units at the highest rate paid by an outside party for the comparable leased item. BTES will develop a rate for other leased plant that fully recovers the depreciation, maintenance, and other loaded costs of the asset used.

Construction Work in Progress

BTES uses a comprehensive work order system that captures the cost of materials, labor, vehicles, heavy equipment, benefits, and other items related to construction activities. BTES will identify construction activity by business unit and will record the activity to the appropriate account.

Depreciation

BTES will record depreciation by business unit. Depreciation rates will reflect industry normal life spans.

Amortization

BTES will amortize non-tangible assets and assets such as capitalized software over industry normal life spans.

ACCOUNTING FOR REVENUES AND EXPENSES

Revenues

BTES will record revenues for each business unit to the appropriate revenue accounts using the accrual basis of accounting

Expenses

BTES uses the Federal Energy Regulatory Commission ("FERC") system of accounts to assign costs. Employee time, services and other expenses will be assigned to these accounts either directly or using an allocator.

BTES will employ approximately 70 people when the additional business units are added. Of this amount, approximately 40 of the employees will directly assign their time as worked to a business unit using daily time sheets. Of the remaining employees, two will be assigned directly to a business unit. The remaining number work with more than one business unit on a daily basis. Using time sheets for these employees is impracticable. BTES will develop percentages to use to allocate the time of these employees. It will develop these percentages by time studies or other appropriate indicators. BTES will update the percentages no less frequently than annually. It will revise the labor allocations whenever work assignments or other pertinent circumstances change.

BTES will allocate training hours and time spent away from work due to sick leave, holidays, vacations, weather related unassigned time, etc. to business units using the same percentages as the straight-time payroll hours of the affected employees.

BTES will allocate payroll tax expense using the same percentages as straight-time payroll hours. BTES will allocate employee insurance expense based on straight-time payroll hours for eligible employees.

BTES will allocate property and liability insurance expense on the same basis as the insured item. BTES will allocate insurance on vehicles based on vehicle usage. Some insurance premiums will have no directly assignable basis. BTES will use the General Allocator for these items.

Administrative Department

BTES will allocate the common costs in the Administration Department using the General Allocator

Management Services Department

The Management Services Department is responsible for human resources, benefits/employee relations, customer/public relations, and secretary to the Power Board. The Management Services Department consists of customer services representatives, a project coordinator, an administrative secretary, and a director.

BTES will directly assign the time and expense of the customer service representatives using an allocation factor based on customer activity captured by the BTES customer information system.

BTES will allocate the common costs associated with the project coordinator and the administrative secretary using the General Allocator.

BTES will allocate the common costs associated with the director using a composite allocation of the employees supervised.

Engineering Department

The Engineering Cost Center is responsible for all phases of engineering, planning, construction, and maintenance of facilities required for present and future electrical loads and fiber communications. The Engineering Department is composed of engineers, student night dispatchers, a draftsman, a network supervisor, and an energy advisor.

BTES will directly assign the time and expense of engineers and draftsmen based on timesheets or direct assignment to specific jobs. BTES will allocate time charged to the fiber infrastructure to the business units using the Total Fiber Infrastructure allocation factor.

BTES will directly assign the time and expense of the Energy Advisor to the Electric Business Unit

- BTES will directly assign the time and expense of the student night dispatchers using the Total Services allocation factor.

BTES will directly assign the time and expense of the Network Supervisor based on timesheets
BTES will allocate time charge to the local area network using the General Allocator

BTES will allocate the time and common costs of the director based on the composite allocation of the groups supervised.

Operations and Safety Department

The Operations and Safety Department is responsible for construction, transportation, meters and substations, construction contractors, and the safety program. This department is composed of a construction group, a meters and substations group, and a garage mechanics group.

- BTES will directly assign the time and expense of the construction and meters and substations groups using timesheets. BTES will allocate time charged by the construction group to the fiber infrastructure using the Total Fiber Infrastructure allocation factor. BTES will allocate time charged by the meters and substations group to substations using the Substations allocation factor

- BTES will directly assign the time and expense of the garage mechanics group using the Vehicles allocation factor

BTES will allocate the common costs of the secretary and the director of this department based on the composite allocation of the groups supervised.

Accounting and Finance Department

The Accounting and Finance Department is responsible for the development of accounting and financial control policies, preparation of financial statements and budgets, general, payroll, and plant accounting, as well as other accounting related matters.

BTES will allocate this department using the General Allocator.

Purchases and Stores Department

This department is responsible for storekeeping, building maintenance, tree and grounds contractors, meter readers, and water heater contractors.

BTES will assign the time and expense tree and grounds contractors and water heater contractors directly to the Electric Business Unit

BTES will assign the time and expense related to meter reading based on timesheets

✓ BTES will allocate the time and expense related to storekeeping based on materials issued

BTES will allocate the time and expense related to maintenance personnel using the General Allocator

✓ BTES will allocate the time and expense related to the Supervisor of this Department based on the composite allocation of the groups supervised

Business Development Manager

This person is responsible for working with industry to help coordinate services of the engineering and operations and safety areas of BTES and the Existing Industries Program of the Tennessee

Valley Authority ("TVA"). This person is also responsible for detecting any problems that BTES or TVA might assist in solving, and to identify and contact new and existing industry prospects. This person will also manage cable programming and will be the point of contact for contracts related to cable programming.

BTES will allocate the time and expense related to this employee using average commercial and industrial customers adjusted for an assumed four hours per week dedicated to the cable business unit.

CODE OF CONDUCT

Regulatory Compliance

The Telephone Business Unit of BTES will be subject to all rules and regulations of the TRA in the same manner and to the same extent as other similar telecommunications providers, including without limitation, rules and orders governing anti-competitive practices

Treatment of Similarly Situated Parties

BTES will process all similar requests for the retail services of its non-competitive business unit in the same manner and within the same time-period whether requested on behalf of a business unit of BTES or a third party

Anti-Competitive Inducements

BTES shall not state in any advertising, promotional materials, or sales efforts, that consumers who purchase products or services from its competitive business units will receive preferential treatment in the provision of services from its non-competitive business unit or that any benefits will inure to customers receiving services from its non-competitive business unit resulting from their dealings with its competitive business units.

Loans and Credit Guarantees

The Telephone Business Unit may not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of BTES's non-competitive business unit.

General Code of Conduct Provisions

BTES may not discriminate between the Telephone Business Unit and any other entity in the provision or procurement of information and retail goods and services from its non-competitive business unit, or in the establishment of standards

BTES shall account for all transactions with the Telephone Business Unit in accordance with generally accepted accounting principles or accounting principles established and/or adopted by the TRA

REPORTING REQUIREMENTS

The Telephone Business Unit of BTES shall report to the TRA on an annual basis:

- 1 the name and address of all business units or other affiliated entities,
- 2 all contracts entered into with business units or other affiliated entities, and all transactions undertaken with any business units or other affiliates without a written contract, excluding allocation of costs;
- 3 the amount of business unit affiliate transactions by business unit by account charged,
- 4 the basis used to record business unit affiliate transactions (i.e. book value, fair market value, tariff, fully distributed cost);
- 5 total costs allocated or charged back to each business unit or other affiliate;
- 6 updates of the allocation factors used to allocate costs among the business units;
- 7 the financial statement data, as recorded for each BTES business unit, in whatever format the TRA requires, including a copy of BTES's audited financial statements,
8. a computation of all tax allocations for regulatory purposes as follows.
 - a Property Taxes. Computation will be in accordance with TCA section 7-52-404.
 - b State and Local Taxes. Computation will be based on applicable tax code.
 - c Federal Income Tax. Calculations will involve using the current federal corporate income tax rate multiplied by the net taxable income of the telephone business unit. BTES may make adjustments and deferments to taxes as appropriate and as used by other entities. For example, taxes may be calculated using allowable tax depreciation rather than book depreciation.

BTES shall maintain books of account and supporting documentation in sufficient detail to permit verification of compliance with the cost assignment and allocation principles and the Code of Conduct approved by the TRA.

The TRA may order an audit performed no more frequently than on an annual basis of all matters deemed relevant by the selected auditor. BTES and its affiliated business units will cooperate fully with all requests necessary to perform the audit. The selected auditor will provide the audit report to the TRA on or before six (6) months after the onset of the audit. The selected auditor will provide the audit report to BTES on or before sixty-days (60 days) thereafter.

The TRA shall have access to personnel of the Telephone Business Unit who will be capable of responding to TRA inquiries with respect to, but not limited to, affiliate transactions and the nature of direct and indirect charges and billings between affiliates.

Bristol Tennessee Essential Services

Definition of Allocation Factors

Fiscal Year Ending June 30, 2006

Appendix A

Appendix A

Cable/Internet and Telephone Services – percentage derived from a fraction with the numerator being the number of services for the Cable/Internet business unit and the Telephone business unit and the denominator being the total services for the Cable/Internet and Telephone business units.

Composite Weighted Average of Department – percentage derived from a fraction with the numerator being the combined payroll hours of each employee in the department directly assigned, indirectly assigned or attributed to each business unit and the denominator being the total payroll hours of the employees in the department.

Customer Activity – percentage derived from a fraction with the numerator being the total customer transactions for each business unit and the denominator being the total number of customer transactions for BTES.

Customer Calls – percentage derived from a fraction with the numerator being the total number of customer calls for each business unit coming into the work group and the denominator being the total number of call for BTES coming into the work group

Total Fiber Infrastructure – percentage derived from a fraction with the numerator being the fiber infrastructure allocated to each business unit and the denominator being the total fiber infrastructure of BTES.

General Allocator – percentage derived from a fraction with the numerator being all operation and maintenance expense directly assigned, indirectly assigned or attributed to each business unit, excluding the cost of goods sold for electricity, cable television and telephone, and the denominator being the total operation and maintenance expense of BTES, excluding the cost of goods sold for electricity, cable television and telephone.

Homes Passed Services – percentage derived from a fraction the numerator being the homes passed of each business unit related to the joint fiber infrastructure and the denominator being the total homes passed of BTES related to the joint fiber infrastructure of BTES.

Material Issued – percentage derived from a fraction with the numerator being the total number of transactions for materials issued and the denominator being the total number of transactions for materials issued for BTES

Plant in Service – percentage derived from a fraction with the numerator being the plant in service of each business unit and the denominator being the plant in service of BTES.

Substations – percentage derived from a fraction with the numerator being the substation equipment related to the joint fiber infrastructure for each business unit and the denominator being the total substation equipment related to the joint fiber infrastructure for BTES

Total Services – percentage derived from a fraction with the numerator being the total services of each business unit and the denominator being the total services of BTES

Vehicles – percentage derived from a fraction with the numerator being the straight-time payroll hours, of employees assigned vehicles, directly assigned, indirectly assigned, or attributed to each business unit and the denominator being the total straight-time payroll hours of employees assigned vehicles

Appendix A

Weighted Average of Commercial and Industrial Customers – first calculated by computing the percentage of commercial and industrial customers for each business unit to the total commercial and industrial customers of BTES. Multiply each percentage by thirty-six hours to obtain the estimated hours spent on each business unit. Add four hours to the Cable/Internet business unit. Divide the hours of each business unit by forty hours to obtain the allocation factors.

Bristol Tennessee Essential Services

Cost Allocation Factors Summary

Fiscal Year Ending June 30, 2006

Appendix B

Appendix B

Cost Allocation Factors Summary Fiscal Year 2006

Job Title	Allocation Method	Electric	Cable and Internet	Telephone
Administration:				
General Manager	General Allocator	✓ 81.98%	9.13%	8.89%
Board of Directors	General Allocator	✓ 81.98%	9.13%	8.89%
Management Services:				
Director	Composite weighted average of department	✓ 80.36%	9.84%	9.80%
Project Coordinator	General Allocator	✓ 81.98%	9.13%	8.89%
Secretary	General Allocator	✓ 81.98%	9.13%	8.89%
Customer Service Representatives	Customer activity	✓ 80.00%	10.00%	10.00%
Engineering:				
Engineers and Draftsmen	Timesheets A/			
Night Dispatchers	Total Services	65.34%	22.15%	12.51%
Network Supervisor	Timesheets B/			
Director	Composite weighted average of department	79.30%	15.64%	5.06%
Operations and Safety:				
Director	Composite weighted average of department	96.32% 95.82%	2.20% 2.5%	1.48% 1.68%
Secretary	Composite weighted average of department	96.32% 95.82%	2.20% 2.5%	1.48% 1.68%
Construction	Timesheets A/			
Meters and Substations	Timesheets C/			
Garage Mechanics	Vehicles	✓ 87.71%	8.48%	3.81%
Accounting and Finance:	General Allocator	✓ 81.98%	9.13%	8.89%
Purchases and Stores:				
Supervisor	Composite weighted average of department	92.00%	6.00%	2.00%
Storekeeping	Material issued	97.50%	1.25%	1.25%
Building Maintenance	General Allocator	✓ 81.98%	9.13%	8.89%
Business Development:	Weighted Average C&I Customers	82.29% 78.77%	12.57%	5.14%
New Employees:				
Help Desk Personnel	Customer Calls	10.00%	70.00%	20.00%

A/ Time charged to the fiber infrastructure is allocated using the Total Fiber Infrastructure allocation factor
 B/ Time charged to the local area network is allocated using the General Allocator.
 C/ Time charged to substations is allocated using the Substations allocation factor.

Bristol Tennessee Essential Services

Allocators

Fiscal Year Ending June 30, 2006

Appendix C

Appendix C

General Allocator Fiscal Year Ending June 30, 2006

Description	Electric	Cable Internet	Telephone	Total
Operation and maintenance expense	\$ 4,439,354	\$ 494,165	\$ 481,305	\$ 5,414,824
Allocation per business unit	81.98%	9.13%	8.89%	100.00%

Applies to the following expenses in addition to salaries/wages in Appendix B:

Audit expense
General liability insurance
Crime insurance
Umbrella insurance policy
Directors' and Officers' liability insurance
General office building rent

Appendix C

Services Allocator Fiscal Year Ending June 30, 2006

Description		Electric	Cable Internet	Telephone	Total
Total services		32,000	10,850	6,125	48,975
Allocation per business unit	A/	65.34%	22.15%	12.51%	100.00%
Cable/Internet and Telephone services		0	10,850	6,125	16,975
Allocation per business unit		0.00%	63.92%	36.08%	100.00%
Homes Passed services		20,000	10,850	6,125	36,975
Allocation per business unit		54.09%	29.34%	16.57%	100.00%

A/ Total Services allocation factor applies to the following expenses in addition to salaries/wages in Appendix B

- Postage for billing
- Bills for billing
- Delinquents
- Billing support
- Credit agency
- Legal
- Billing system support
- Money courier
- Postage equipment
- Postmaster
- Answering service

Appendix C

Vehicle Allocator Fiscal Year Ending June 30, 2006

Vehicle Number	Electric	Cable Internet	Telephone	Total
16	81.98%	9.13%	8.89%	100.00%
30	81.98%	9.13%	8.89%	100.00%
31	80.36%	9.84%	9.80%	100.00%
32	82.91 78.77%	17.32%	3.91%	100.00%
34	20.00%	70.00%	10.00%	100.00%
35	96.00%	2.00%	2.00%	100.00%
36	96.00%	2.00%	2.00%	100.00%
37	96.00%	2.00%	2.00%	100.00%
38	65.00%	25.00%	10.00%	100.00%
40	95.87%	2.50%	1.63%	100.00%
41	98.00%	1.00%	1.00%	100.00%
43	98.50%	1.00%	0.50%	100.00%
44	92.00%	6.00%	2.00%	100.00%
48	96.00%	2.00%	2.00%	100.00%
59	98.50%	1.00%	0.50%	100.00%
60	98.00%	1.00%	1.00%	100.00%
61	98.00%	1.00%	1.00%	100.00%
63	98.50%	1.00%	0.50%	100.00%
70	81.98%	9.13%	8.89%	100.00%
73	98.50%	1.00%	0.50%	100.00%
79	92.00%	5.00%	3.00%	100.00%
Average	<u>87.71%</u>	<u>8.48%</u>	<u>3.81%</u>	<u>100.00%</u>

Applies to the following expenses in addition to salaries/wages in Appendix B
Auto insurance

Appendix C

Employee Hours Allocator Fiscal Year Ending June 30, 2006

<u>Description</u>	<u>Electric</u>	<u>Cable Internet</u>	<u>Telephone</u>	<u>Total</u>
Employee hours	114,617	18,833	10,070	143,520
Allocation per business unit	79.86%	13.12%	7.02%	100.00%

Applies to the following expenses in addition to salaries/wages in Appendix B:

Cell phone service

Data service

Computer networking

Employee events

Office supplies

Employment practices liability insurance

Employee benefits

Workers compensation insurance

Appendix C

Plant In Service Allocator Fiscal Year Ending June 30, 2006

Description	Electric	Cable Internet	Telephone	Total
Directly assigned plant in service	\$ 66,193,627	\$ 8,370,001	\$ 1,536,155	\$ 76,099,783
Allocation per business unit	86.98%	11.00%	2.02%	100.00%
Joint plant in service	\$ 6,823,256	\$ 3,701,616	\$ 2,089,622	\$ 12,614,494
Allocation per business unit	54.09%	29.34%	16.57%	100.00%
Existing fiber optic infrastructure	\$ 2,356,498	\$ 799,000	\$ 451,048	\$ 3,606,546
Allocation per business unit	65.34%	22.15%	12.51%	100.00%
Total plant in service	<u>\$ 75,373,381</u>	<u>\$ 12,870,617</u>	<u>\$ 4,076,825</u>	<u>\$ 92,320,823</u>
Allocation per business unit	A/ 81.64%	13.94%	4.42%	100.00%
Total fiber infrastructure	\$ 9,179,754	\$ 4,500,616	\$ 2,540,670	\$ 16,221,040
Allocation per business unit	56.59%	27.75%	15.66%	100.00%

A/

Total Plant In Service allocation factor applies to the following expenses in addition to salaries/wages in Appendix B

Property insurance

Construction equipment insurance

Boiler/Machine insurance

Appendix C

Substation Allocator Fiscal Year Ending June 30, 2006

Description	Electric	Cable Internet	Telephone	Total
Directly assigned substation equipment	\$ -	\$ 46,529	\$ -	\$ 46,529
Joint substation equipment	\$ 155,864	\$ 38,694	\$ 14,335	\$ 208,893
Allocation per business unit	74.61%	18.52%	6.86%	100.00%
Total substation equipment	<u>\$ 155,864</u>	<u>\$ 85,223</u>	<u>\$ 14,335</u>	<u>\$ 255,422</u>
Allocation per business unit	61.02%	33.37%	5.61%	100.00%

Substation allocation factor applies to the following expenses in addition to salaries/wages in Appendix B.
Substation rent



Bristol Tennessee Essential Services

Electric • Internet • Telephone • Cable

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

MEMORANDUM

TO: BTES Cost Allocation Manual
Beth Ringley

FROM: Accounting Department

DATE: December 1, 2007

SUBJECT: Arrangements Change

We have always listed the arrangements as part of the calculation for the Customer Service allocator. Since we have changed to one bill in the billing system, we no longer feel it necessary to include the arrangements as part of the calculation.

Beth Ringley



Bristol Tennessee Essential Services

Electric • Internet • Telephone • Cable

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423/968-1526 • Fax 423/793-5545

MEMORANDUM

TO: BTES Cost Allocation Manual
Lola McVey

FROM: Accounting Department

DATE: November 19, 2009

SUBJECT: ROI Calculation

The ROI calculation used for the building rent portion of the allocations is calculated on an annual basis. The ROI is currently 6.56% and has changed for the FY10 to 8.63%.



Lola McVey



Bristol Tennessee Essential Services

Electric • Internet • Telephone • Cable

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MEMORANDUM

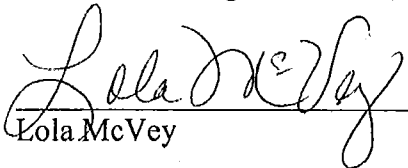
TO: BTES Cost Allocation Manual
Lola McVey

FROM: Accounting Department

DATE: July 1, 2009

SUBJECT: Plant Allocation Factor

For the general allocator calculation, the Plant Allocation Factor paid by the Cable, Internet and Telephone business units to the Electric business unit should be considered as Cost of Goods Sold. This change is effective as of July 1, 2009.



Lola McVey



Bristol Tennessee Essential Services

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MEMORANDUM

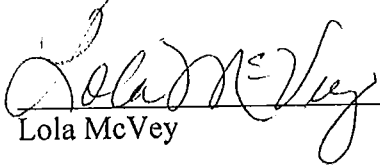
TO: BTES Cost Allocation Manual
Lola McVey

FROM: Accounting Department

DATE: July 1, 2009

SUBJECT: Customer Service Orders Allocator

For the Customer Service Orders Allocator calculation, the new Service Orders will be allocated based on the increase in customers for each business unit for that quarter. The other service orders will be actual orders from the BTES Orders by Month Report. This change is effective as of July 1, 2009.


Lola McVey



Bristol Tennessee Essential Services

Electric • Internet • Telephone • Cable

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

MEMORANDUM

TO: BTES Cost Allocation Manual
Lola McVey

FROM: Accounting Department

DATE: November 19, 2009

SUBJECT: Benefits for Employee Time Calculation

For the employee time calculation, we use the employee's pay rate, benefits, and number of hours to determine how many dollars need to be allocated to each appropriate business unit. As part of the benefits, we calculate this on a monthly basis, but choose to change this percent only if there is a large variance. If there are no large variances throughout the year, then the benefit percent will be changed on a FY annual basis.


Lola McVey



Bristol Tennessee Essential Services

Television • Internet • Telephone • Cable

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

MEMORANDUM

TO: BTES Cost Allocation Manual
Lola McVey

FROM: Accounting Department

DATE: December 20, 2010

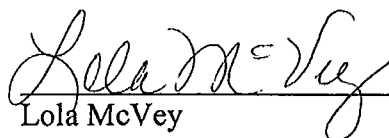
SUBJECT: Property Tax Rate

The property tax rate used in the building rent section will be updated annually in accordance with the rate available. The property taxes are as follows:

Equalization ratio both county and city are 1.00

Tax rate for City of Bristol is 2.19

Tax rate for County is 2.1307



Lola McVey

FY 2011 Calculations Factors		Percentage			Benefits Factor
		Electric	Cable/Int	Telephone	
Apr-June 2010	Services allocator	56.590%	31.560%	11.850%	86.19%
	Customer Service Allocator	56.960%	31.290%	11.750%	
	General Allocator	88.480%	6.610%	4.910%	
	Business Dev Allocator	72.590%	21.490%	5.920%	
	Hours Allocator	69.270%	20.150%	10.580%	
	Plant in Services Allocator	93.650%	5.430%	0.920%	
	Vehicle Allocator	82.870%	9.850%	7.280%	
	Benefit Analysis				
July-Sept 2010	Services allocator	55.680%	32.220%	12.100%	79.78%
	Customer Service Allocator	55.980%	32.020%	12.000%	
	General Allocator	81.280%	12.530%	6.190%	
	Business Dev Allocator	72.380%	21.580%	6.040%	
	Hours Allocator	74.430%	17.020%	8.550%	
	Plant in Services Allocator	92.970%	6.100%	0.930%	
	Vehicle Allocator	82.850%	9.870%	7.290%	
	Benefit Analysis				
Oct-Dec 2010	Services allocator	54.910%	32.810%	12.280%	101.67%
	Customer Service Allocator	55.230%	32.630%	12.140%	
	General Allocator	80.950%	12.930%	6.120%	
	Business Dev Allocator	72.070%	21.710%	6.220%	
	Hours Allocator	70.410%	20.380%	9.200%	
	Plant in Services Allocator	93.310%	5.810%	0.880%	
	Vehicle Allocator	78.510%	13.430%	8.070%	
	Benefit Analysis				
Jan-Mar 2011	Services allocator	54.220%	33.400%	12.380%	70.41%
	Customer Service Allocator	54.540%	33.230%	12.240%	
	General Allocator	78.440%	16.240%	5.310%	
	Business Dev Allocator	71.640%	21.990%	6.370%	
	Hours Allocator	69.510%	21.040%	9.450%	
	Plant in Services Allocator	92.960%	6.120%	0.920%	
	Vehicle Allocator	78.280%	13.680%	8.040%	
	Benefit Analysis				

FY 2011 Calculations

Amount

		Electric	Cable/Int	Telephone	Total
July 2010	Monthly A & G	91,530.40	25,109.68	11,424.91	128,064.99
	Employee Time	200,392.23	31,619.80	18,862.22	250,874.25
	Vehicle	4,273.56	479.78	367.15	5,120.49
	Total	296,196.19	57,209.26	30,654.28	384,059.73
August 2010	Monthly A & G	92,184.87	26,939.02	12,300.19	131,424.08
	Employee Time	197,937.07	31,104.77	18,486.92	247,528.76
	Vehicle	4,501.85	520.64	371.00	5,393.49
	Total	294,623.79	58,564.43	31,158.11	384,346.33
September 2010	Monthly A & G	89,292.71	24,277.60	11,337.24	124,907.55
	Employee Time	195,299.19	30,451.89	18,015.79	243,766.87
	Vehicle	4,824.51	544.53	396.24	5,765.28
	Total	289,416.41	55,274.02	29,749.27	374,439.70
October 2010	Monthly A & G	107,750.61	27,848.68	12,269.53	147,868.82
	Employee Time	184,256.81	39,708.26	20,070.78	244,035.85
	Vehicle	3,915.49	683.83	386.24	4,985.56
	Total	295,922.91	68,240.77	32,726.55	396,890.23
November 2010	Monthly A & G	87,466.28	25,093.00	10,719.00	123,278.28
	Employee Time	181,932.61	39,073.01	19,857.10	240,862.72
	Vehicle	4,247.88	728.43	410.71	5,387.02
	Total	273,646.77	64,894.44	30,986.81	369,528.02
December 2010	Monthly A & G	90,308.85	25,527.33	11,050.64	126,886.82
	Employee Time	198,307.40	42,428.83	21,451.64	262,187.87
	Vehicle	5,449.41	919.96	512.98	6,882.35
	Total	294,065.66	68,876.12	33,015.26	395,957.04
January 2011	Monthly A & G	99,831.31	33,513.09	13,801.70	147,146.10
	Employee Time	219,320.30	48,458.18	24,553.02	292,331.50
	Vehicle	7,229.93	1,245.04	650.64	9,125.61
	Total	326,381.54	83,216.31	39,005.36	448,603.21
February 2011	Monthly A & G	93,883.00	31,931.67	13,098.72	138,913.39
	Employee Time	218,203.69	48,172.10	24,376.40	290,752.19
	Vehicle	5,354.75	937.13	525.72	6,817.60
	Total	317,441.44	81,040.90	38,000.84	436,483.18

March 2011	Monthly A & G	100,287.88	31,165.41	13,159.70	144,612.99
	Employee Time	219,195.24	48,616.04	24,547.24	292,358.52
	Vehicle	5,911.08	1,029.52	546.42	7,487.02
	Total	325,394.20	80,810.97	38,253.36	444,458.53
April 2011	Monthly A & G	68,956.62	24,394.24	9,590.58	102,941.44
	Employee Time	183,363.92	47,506.88	20,138.85	251,009.65
	Vehicle	5,379.10	1,117.63	494.38	6,991.11
	Total	257,699.64	73,018.75	30,223.81	360,942.20
May 2011	Monthly A & G	97,027.74	36,217.82	14,308.39	147,553.95
	Employee Time	190,642.84	49,399.40	21,136.58	261,178.82
	Vehicle	5,294.26	1,098.82	496.10	6,889.18
	Total	292,964.84	86,716.04	35,941.07	415,621.95
June 2011	Monthly A & G	121,296.17	40,898.21	16,440.25	178,634.63
	Employee Time	192,171.15	49,762.35	21,411.08	263,344.58
	Vehicle	5,527.76	1,154.23	514.33	7,196.32
	Total	318,995.08	91,814.79	38,365.66	449,175.53
Accuforce labor		147,960.15	45,921.21	22,960.65	216,842.01
Total for FY2011		3,730,708.62	915,598.01	431,041.03	5,077,347.66

- d) Provide a copy of BTES's cost allocation manual (CAM) that was the basis of any cost allocations undertaken in this document.

RESPONSE: Please see response to subpart c (immediately above).

- e) Provide the results of any audit performed on the 2011 allocations that tested BTES's compliance with its CAM. Include any and all documents and correspondence between BTES and the auditor(s), documents regarding procedures, and all supporting workpapers.

RESPONSE: BTES did not obtain its own separate compliance audit of the 2011 allocations. However, the Tennessee Valley Authority performed a distributor compliance audit on BTES' 2011 allocations in 2012 during which reasonableness testing was conducted on the allocations between BTES' electric and other business units. A copy of TVA's Distributor Compliance Report is attached, and TVA's assessment of BTES' use of electric system resources is addressed on pages 15-18 of that report.

Bristol Tennessee Essential Services

To: Dr. Michael Browder, General Manager, Bristol Tennessee Essential Services
Cindy Herron, Director, Retail Regulatory Affairs

Report Issue Date: May 31, 2012

DC 12-12

Table of Contents

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Bristol Tennessee Essential Services Assessment Scorecard

Status		Area Tested	Reportable Results	Highlights
<div><div></div><div>+</div></div>	Residential Customer Classification	Full compliance, no issues noted.		1) Full compliance in 8 of 13 areas tested.
	Wholesale Credits			2) Exhibited culture which promotes compliance with TVA contracts as well as internal policies.
	Disconnections and Reconnections			3) Proactively adjusted customer accounts and modified policies and processes immediately after the identification of issues and process enhancements.
	Bad Debt / Write-Off Testing			4) Provided valuable feedback to improve the assessment process.
	Use of Revenue – Non-Electric Businesses			
	Use of Revenue – Approved Purposes			
	Electric General Ledger Account Structure			
<div><div></div><div>✓</div></div>	Electric System Accounting			
	Wholesale Billing Customer Classification	1 Issue – no further actions recommended.		BTES revised facility charges for Outdoor Lighting Part B without TVA approval and omitted facility charges for flood lighting from the April 2011, TVA-approved rate schedule.
	Retail Customer Contracts	2 Issues – no further actions recommended.		TVA did not formally approve the Cost Allocation Manual (CAM), BTES' systematic methodology for allocating joint expenses.
	Billing Adjustment Testing	2 Issues – no further actions recommended.		
<div><div></div><div>!</div></div>	Approved TVA Retail Rate and Billing Testing	4 Issues – 2 complete, 2 with agreed-upon actions planned.		
<div><div></div><div>J</div></div>	Joint Cost Allocation	2 Issues – 1 agreed-upon action planned.		

Status Icon Legend	
<div><div></div><div>+</div></div>	Full compliance, no issues noted.
<div><div></div><div>✓</div></div>	Issue identified and corrected or Issue with minor action pending.
<div><div></div><div>!</div></div>	Issue with a formalized, agreed-upon action plan.
<div><div></div><div>X</div></div>	Issue without an agreed-upon action plan (not noted during this assessment).
<div><div></div><div>J</div></div>	Issue associated with a joint cost study and / or allocated costs.

Background

The City of Bristol (hereinafter referred to as "Bristol Tennessee Essential Services," an enterprise fund of the City of Bristol, or "BTES") is a distributor of TVA power based in Bristol, TN. For fiscal year (FY) 2011 ending June 30, 2011, BTES reported approximately \$86 million in electric sales revenues from service provided to over 32,000 customers. BTES also provides non-electric services for cable programming, internet and telecommunications.


We designed this pilot assessment of BTES to develop and test assessment methodology and to tailor, as needed, the formal assessment program. BTES volunteered to be one of the pilot assessments.

Conclusion

BTES exhibited a culture which promotes compliance not only with TVA contracts but also with their own internal policies and procedures. For example, BTES implemented a robust training program to ensure compliance with policies and procedures. Additionally, BTES proactively adjusted customer accounts and modified policies and processes immediately after the identification of issues and process enhancements. We appreciate the courtesy of the BTES staff and the invaluable feedback they provided. We look forward to working with them in the future.

Summary of Testing Results

Full Compliance (No Exceptions)

BTES demonstrated 100% compliance in 8 of the 13 specific areas ():

Use of Revenue Testing

- ✓ Use of Revenue - Non-Electric Businesses
- ✓ Use of Revenue - Approved Purposes
- ✓ Electric General Ledger Account Structure
- ✓ Electric System Accounting


Classification Testing

- ✓ Residential Customer Classification
- ✓ Wholesale Credits

Non-Discrimination Testing

- ✓ Disconnections and Reconnections
- ✓ Bad Debt / Write-Off Testing

Reportable Issues

There were seven specific issues which have already been corrected ():

1. Wholesale Billing Customer Classification: Of the five customer classifications tested, two were in compliance with the rate schedules and three required adjustments. There was no effect on reporting to TVA or retail billing for the customers. BTES immediately reclassified the customers (page 6).

2. Retail Customer Contracts: BTES had contracts for the ten customers tested but Manufacturing Rate certifications or Large Manufacturing Bill Credit forms for four of four customers tested were not on file. BTES obtained certifications for all customers during the assessment (page 8).
3. Retail Customer Contracts: BTES appropriately classified nine of the ten customers tested, while one customer was misclassified. Subsequent to identification, BTES immediately reclassified the customer and issued a credit to the customer in the amount of \$2,610 (page 8).
4. Billing Adjustment Testing: BTES correctly calculated 15 of 20 adjustments tested. Three adjustments were calculated using an SEDC software application that was not functioning properly. BTES subsequently discontinued the use of the application to calculate adjustments (page 10).
5. Billing Adjustment Testing: Additionally, BTES calculated one adjustment associated with three prior periods using June 2011 rates instead of using the correct treatment, which requires the application of the rates in effect at the time power was used, while one adjustment used the appropriate prior-period rate but was not classified as a prior-period adjustment when posted in June 2011 (page 10).
6. Approved TVA Retail Rate and Billing Testing: Contract demand associated with three retail customers tested was not increased in accordance with retail customer contract terms, which could affect customer charges for excess takings, excess capacity and / or minimum bills. BTES engineers reviewed the circumstances surrounding each increased and elected not to adjust demand (page 13).
7. Approved TVA Retail Rate and Billing Testing: Power charges calculated for one SMSC retail bill differed from the amount billed by BTES by approximately \$20,000. The system used by TVA to read the billing meter was not operating properly. BTES and TVA management are aware of the variance and are working together to determine if an adjustment is necessary (page 13).

Lighting Rates

Differences noted in the lighting rate schedules resulted in recommended, agreed-upon action plans ((!)):

1. BTES revised facility charges for Outdoor Lighting Part B without TVA approval (page 13).
2. BTES omitted facility charges for flood lighting from the April 2011, TVA-approved rate schedule (page 13).


BTES will submit their revised rates and rate schedule for TVA approval.

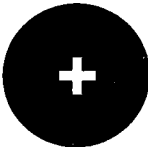
Joint Cost Study


One joint cost-related issue resulted in a recommended, agreed-upon action plan with follow-up ((J)):

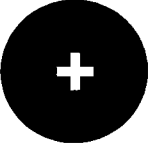
1. BTES correctly calculated and accounted for all tested disbursements requiring allocations in accordance with the Cost Allocation Manual (CAM), BTES' systematic methodology for allocating joint expenses. TVA did not formally approve the CAM, although the CAM was audited by an external accounting firm in 2010 (page 18).


Detailed Assessment Results

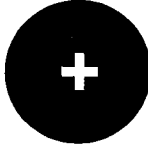
Classification – Is the distributor in compliance with the power contract relating to classifications of customers to facilitate proper wholesale and retail billing?				
Criteria	Testing Performed	Results	Action Items	Status
Wholesale Billing Customer Classification Testing				
<p>1985 Wholesale Power Contract, Section 4: “...Municipality shall pay for the power and energy supplied by TVA in accordance with the provisions of Wholesale Power Rate--Schedule WP.”</p> <p>1985 Wholesale Power Contract, Section 5(b): “...Municipality agrees to serve consumers,...at and in accordance with the rates, charges, and provisions set forth for the several classes thereof in...said Schedule of Rates and Charges...”</p>	<p>BTES reported five large customers individually on the June 2011 wholesale invoice for billing energy and demand. We compared the wholesale classifications for these five customers to end-use customer classifications in the BTES billing system data.</p>	<p>Of the five customer classifications tested, two were in compliance with the rate schedule and three required adjustments as follows: A. Two TDMSA customers were inappropriately classified as GSB but were billed correctly. B. One TDGSA customer was inappropriately classified as TDMSA but was billed correctly. There was no effect on reporting to TVA or retail billing for the customers. BTES immediately reclassified the customers.</p>	<p>BTES completed all recommended actions during the assessment.</p>	

Criteria	Testing Performed	Results	Action Items	Status
Wholesale Credits Testing <p>April 2011 Power Contract Amendment, Section 5: Distributor will report monthly the billing data used to calculate the Hydro Allocation Adjustment, Small Manufacturing Credit, Enhanced Growth Credit, and Generation Partners Credits.</p> <p>Eligibility requirements and testing criteria are contained in each credit program's participation agreement.</p>	<p>BTES qualified to receive seven types of credits associated with the June 2011 time period as follows:</p> <ol style="list-style-type: none"> 1. Hydro Preference Adjustment 2. Small Manufacturing Credit 3. Enhanced Growth Credit 4. Valley Investment Initiative Credit 5. Load Control Credit 6. Competitive Index Rate Credit 7. Purchased Power Credit (Generation Partner) <p>As applicable for the credits and programs listed above, we verified the following:</p> <ol style="list-style-type: none"> 1. Eligibility of end-use customers receiving the credits under the credit program provisions. 2. Accuracy of credit-related billing data reported to TVA. 3. Accurate and complete reporting on the June 2011 wholesale power invoice. 	<ol style="list-style-type: none"> 1. BTES credit customers met all eligibility requirements to receive applicable credits in accordance with the wholesale power contract and other applicable agreements. 2. Reported credit amounts appeared accurate and in compliance with the power contract and other applicable agreements. 3. BTES' third-party billing provider, SEDC, did not appropriately capture data associated with the Purchased Power Credit (Generation Partner) and Small Manufacturing Credits in the respective amounts of \$190 and \$24,853. Therefore, these credits were omitted from the June 2011 Wholesale Power Invoice. BTES identified the omissions and reported them correctly on the October 2011 and July 2011 Wholesale Power Invoices. 	<p>No action recommended.</p>	

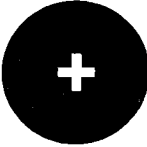
Criteria	Testing Performed	Results	Action Items	Status
Retail Customer Contract Testing				
<p>April 2011 General Power Rate Schedules and Manufacturing Service Schedules. Contract Requirement:</p> <p>"Customers whose demand requirements exceed 1,000 kW shall be required to execute contracts..."</p> <p>April 2011 Manufacturing Service Schedules. Availability:</p> <p>Each manufacturing customer shall certify to the distributor and TVA the SIC code requirement for service is met.</p>	<p>We tested a sample of ten active customer accounts with demand requirements exceeding 1,000 kW during June 2011. For each customer account, we performed the following:</p> <ol style="list-style-type: none"> 1. Reviewed distributor documentation to ensure that current contracts exist. 2. Reviewed distributor documentation to ensure that manufacturing certifications required by the April Manufacturing Service Schedules exist. 3. Compared contract demand noted in the billing system to contract demand included in the contracts. 	<ol style="list-style-type: none"> 1. BTES had contracts for the ten customers we tested. 2. Manufacturing Rate certifications or Large Manufacturing Bill Credit forms (recommended by TVA's Distributor Analysis Group as suitable alternatives) for four of four customers tested were not on file. BTES obtained certifications for all customers during the assessment. 3. Contract demand listed in the billing data for each customer matched contractual demand for all customers tested. <p>While performing this step, we evaluated customer classifications as well. BTES appropriately classified nine of ten customers we tested. One customer tested was misclassified as a GSA-3 customer and should have been classified as a GSA-2 customer based on contract demand and actual energy and demand.</p> <p>BTES immediately reclassified the customer to GSA-2 and issued a credit to the customer in the amount of \$2,610.</p>	<p>BTES completed all recommended actions during the assessment.</p>	

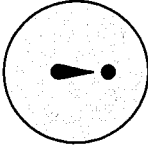
Criteria	Testing Performed	Results	Action Items	Status
Residential Customer Classification Testing				
<p>1985 Wholesale Power Contract, Section 5(b): "...Municipality agrees to serve consumers,... at and in accordance with the rates, charges, and provisions set forth for the several classes thereof in... said Schedule of Rates and Charges..."</p> <p><u>April 2011 Residential Rate Schedule, Availability:</u> "This rate shall apply only to electric service to a single-family dwelling... where the major use of electricity is for domestic purposes..."</p>	<p>We tested a random sample of 20 of the over 28,000 active residential customer accounts during June 2011. We documented the distributor's process for classifying customer accounts and then reviewed available supporting documentation for each account.</p>	<p>We did not identify any instances of non-compliance for the 20 residential accounts tested. The power contract requires neither the retention of customer applications nor documentation supporting customer classification. BTES' process for determining an account's classification relies on information provided by the customer on the application for new service and historic classification in the billing system for transfers of existing service.</p>	<p>No action recommended.</p>	

Non-discrimination – Is the distributor in compliance with the power contract related to non-discrimination in providing electric service to members of the same rate class?				
Criteria	Testing Performed	Results	Action Items	Status
Billing Adjustment Testing 1985 Wholesale Power Contract, Section 5(a): "...power purchased... shall be sold and distributed to the ultimate consumer without discrimination among consumers of the same class, and that no discriminatory rate, rebate, or other special concession will be made or given to any consumer, directly or indirectly."	We tested 20 of 75 billing adjustments to customer accounts that occurred in June 2011. For each adjustment, we obtained an explanation and reviewed supporting documentation with BTES personnel.	BTES correctly calculated 15 of 20 tested adjustments. Our calculations for five adjustments differed from those calculated by BTES based on the following: a. Three adjustments were calculated using an SEDC software application that was not functioning properly. BTES subsequently discontinued the use of the application to calculate adjustments. b. BTES calculated one adjustment associated with three prior periods using June 2011 rates instead of using the correct treatment, which requires the application of the rates in effect at the time power was used, while one adjustment used the appropriate prior-period rate but was not classified as a prior-period adjustment when posted in June 2011.	No action recommended. See page 20 for Management's Response.	
1985 Wholesale Power Contract, Section 5(b): "...Municipality agrees to serve consumers,... at and in accordance with the rates, charges, and provisions set forth for the several classes thereof in ... said Schedule of Rates and Charges..."				

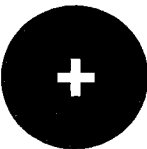
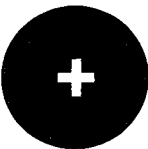
Criteria	Testing Performed	Results	Action Items	Status
Bad Debt / Write-Off Testing 1985 Wholesale Power Contract, Section 5(a): “...power purchased... shall be sold and distributed to the ultimate consumer without discrimination among consumers of the same class, and that no discriminatory rate, rebate, or other special concession will be made or given to any consumer, directly or indirectly.”	We tested a sample of 25 of 309 customer accounts charged to bad debt in FY 2011. We reviewed the billing system to identify any customers that still had active accounts with the distributor. For any active accounts that were found, we reviewed documentation to verify the re-establishment of electric service did not indirectly provide a preferential rate or special concession to the customer.	BTES appropriately processed all accounts tested in accordance with their policy. We identified one customer account listed as active even though an outstanding balance in the amount of \$50 was written off in a prior period. This occurred because the customer re-applied for service using a different name. BTES consolidated the accounts to include the outstanding balance during the assessment.	No action recommended.	


Disconnection / Reconnection Testing

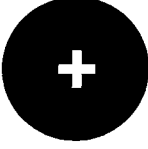
<p>1985 Wholesale Power Contract, Section 5(a): "...power purchased... shall be sold and distributed to the ultimate consumer without discrimination among consumers of the same class, and that no discriminatory rate, rebate, or other special concession will be made or given to any consumer, directly or indirectly."</p> <p><u>BTES Service Practice Standards, Section 10:</u> "...BTES may discontinue any service for the violation of any of the Schedule of Rules and Regulations or of the Schedule of Rates and Charges. Any and / or all services will be discontinued to Customers with past due accounts. (Payment in full will be required and an additional deposit may be required before service will be restored)."</p>	<p>We reviewed the BTES Nonpayment and Cut-Off Policy and selected a sample of 25 of 552 disconnections. For any active accounts that were found, we reviewed documentation to verify the re-establishment of electric service did not indirectly provide a preferential rate or special concession to the customer.</p>	<p>BTES disconnected and reconnected all tested accounts in accordance with their policy.</p>	<p>No action recommended.</p>	
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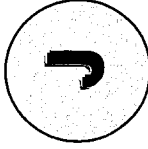
Criteria	Testing Performed	Results	Action Items	Status
Approved TVA Retail Rate and Billing Testing				
<p><u>1985 Wholesale Power Contract, Section 5(a):</u> “... power purchased... shall be sold and distributed to the ultimate consumer without discrimination among consumers of the same class, and that no discriminatory rate, rebate, or other special concession will be made or given to any consumer, directly or indirectly.”</p>	<p>As applicable, we verified the accuracy and validity of applied retail rates, including customer, energy, demand and facility charges, by:</p> <ol style="list-style-type: none"> 1. Obtaining TVA-approved rates from retail rate schedules, Adjustment Addenda and Statements of Amounts. 2. Comparing expected rates to rates applied to June 2011 retail bills. 3. Comparing the total amounts to the rates applied in BTES' billing system. 	<p>BTES correctly applied retail residential, GSA1, GSA2, GSA3, TDGSA, SMSB, SMSC and Outdoor Lighting Parts A & B rates to customer billing.</p> <p>The following issues were noted:</p> <ol style="list-style-type: none"> 1. Contract demand associated with three retail customers tested was not increased in accordance with retail customer contract terms, which could affect charges for excess takings and / or minimum bills. BTES engineers reviewed the circumstances surrounding each increase and elected not to adjust demand. 2. Lighting-related facility charges applied by BTES to five of five retail bills differed from the rates TVA approved. BTES revised facility charges for Outdoor Lighting Part B without TVA approval. Additionally, BTES omitted facility charges for flood lighting from the April 2011, TVA-approved rate schedule. 	<p>Actions Recommended:</p> <ol style="list-style-type: none"> 1. BTES should consider revising customer contracts to align with their current business practices. <p>See page 20 for Management's Response.</p> <ol style="list-style-type: none"> 2. BTES will submit their revised rates and rate schedule for TVA approval. <p>See page 20 for Management's Response.</p>	
<p><u>1985 Wholesale Power Contract, Section 5(b):</u> “... Municipality agrees to serve consumers,...at and in accordance with the rates, charges, and provisions set forth for the several classes thereof in ... said Schedule of Rates and Charges...”</p>				

Criteria	Testing Performed	Results	Action Items	Status
Approved TVA Retail Rate and Billing Testing (continued)				
		<p>3. Power charges calculated for one SMSC retail bill differed from the amount billed by BTES by approximately \$20,000. The system used by TVA to read the billing meter was not operating properly. BTES reading values for kW, kWh and kVAR were used to calculate the bill.</p>	<p>3. BTES and TVA management are aware of the power charge variance associated with the SMSC customer and are working together to determine if an adjustment is necessary.</p> <p>See page 20 for Management's Response.</p>	

Use of Revenue – Is the distributor in compliance with power contract related to use of electric system revenues for approved electric system purposes?				
Criteria	Testing Performed	Results	Action Items	Status
Uses of Electric Revenues for Non-Electric Businesses Testing				
<p><u>1985 Wholesale Power Contract, Schedule of Terms and Conditions, Section 1(a):</u> "... Municipality shall administer, operate, and maintain the electric system as a separate department in all respects... and shall not directly or indirectly mingle electric system funds or accounts, or otherwise consolidate or combine the financing of the electric system, with those of any of its operations."</p>	<p>We reviewed FY 2011 board meeting minutes and capital spending plans for potential uses of electric revenues for non-electric purposes.</p>	<p>BTES' documented uses of electric revenues in the board meeting minutes and capital spending plans complied with the power contract.</p>	<p>No action recommended.</p>	
Uses of Electric Revenues for Approved Purposes Testing				
<p><u>1985 Wholesale Power Contract, Section 6:</u> "Municipality agrees to use the gross revenues from electric operations for... (1) current electric system operating expenses,... (2) current payments... on System Indebtedness,... (3)... reasonable reserves,... (4)... tax equivalent payments...."</p>	<p>Since the electric business makes payments for expenditures associated with all three businesses, we tested 30 of the 5,388 FY 2011 disbursements made and reviewed sufficient documentation to support the nature of each disbursement.</p>	<p>BTES disbursed all tested electric system funds for approved purposes in compliance with the power contract and all tested non-electric funds were appropriately accounted for in non-electric accounts.</p>	<p>No action recommended.</p>	

Criteria	Testing Performed	Results	Action Items	Status
Uses of Electric Revenues for Approved Purposes Testing (continued)				
....All revenues remaining.... may be used for new electric system construction or the retirement of System Indebtedness prior to maturity..."	Disbursements posted to electric business accounts were evaluated to ensure they were made for approved purposes in accordance with the Wholesale Power Contract. Disbursements posted to non-electric business accounts were also evaluated to ensure appropriate accounting in non-electric accounts.			
Electric General Ledger Account Structure Testing				
<u>1985 Wholesale Power Contract, Schedule of Terms and Conditions, Section 1(b):</u> "Municipality shall keep the general books of accounts of the electric system according to the Federal Energy Regulatory Commission Uniform System of Accounts."	We compared the June 2011 electric system trial balance account structure to the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts structure.	BTES structured their general ledger accounts according to the FERC Uniform System of Accounts.	No action recommended.	
<u>1985 Wholesale Power Contract, Schedule of Terms and Conditions, Section 1(c):</u> "Municipality shall supply TVA... with an annual financial report... of electric system transactions... and of electric system assets and liabilities..."				

Criteria	Testing Performed	Results	Action Items	Status
Electric System Accounting Testing				
<p>1985 Wholesale Power Contract, Schedule of Terms and Conditions, Section 1(a): "...Municipality shall administer, operate, and maintain the electric system as a separate department in all respects...and shall not directly or indirectly mingle electric system funds or accounts, or otherwise consolidate or combine the financing of the electric system, with those of any of its operations."</p> <p>1985 Wholesale Power Contract, Schedule of Terms and Conditions, Section 1(c): "Municipality shall supply TVA... with an annual financial report... of electric system transactions... and of electric system assets and liabilities..."</p>	<p>We reviewed the June 2011 electric system trial balance and BTES consolidated trial balance, which includes specific accounts set up for the cable and internet and telephone businesses. We also reviewed BTES' accounting process to determine if BTES maintains the electric system as a separate entity and that it is not directly or indirectly combining electric system funds and accounts with those of any of its other operations.</p>	<p>As noted previously, BTES has two non-electric businesses (cable and internet and telephone). We noted the following:</p> <ol style="list-style-type: none"> 1. BTES has set up completely separate and distinct sets of general ledger accounts to account for the activities of its electric and non-electric businesses. 2. The electric business makes all disbursements on behalf of the non-electric businesses. These expenditures are transferred as necessary to the appropriate non-electric accounts on a monthly basis as part of their established closing process. 3. We found that the electric business on its general ledger clearly and distinctly accounts for its activities on behalf of the non-electric businesses through the use of intercompany accounts. 	<p>No action recommended.</p>	

Criteria	Testing Performed	Results	Action Items	Status
Joint Cost Allocation Testing 1985 Wholesale Power Contract, Schedule of Terms and Conditions, Section 1(a): "...Municipality may use property and personnel jointly for the electric system and other operations, subject to agreement between Municipality and TVA as to the appropriate allocations..."	In 2005, BTES implemented a formal methodology (the Cost Allocation Manual, or CAM) to effectively allocate certain expenditures between its electric, cable & internet and telephone businesses. We performed the following procedures associated with the CAM: 1. Verified evidence to substantiate agreement between BTES and TVA related to the CAM exists. 2. Allocations made during FY2011 were done so accurately and in accordance with CAM requirements. 3. Current status of the joint costs was reported in Section 6 of the Distributor Annual Report (DAR).	1. TVA did not formally approve the CAM, although the CAM was audited by an external accounting firm in 2010. 2. BTES correctly calculated and accounted for all tested disbursements requiring allocations in accordance with the CAM. 3. Some, but not all, required information related to non-electric businesses and joint expenses was not populated in General Information Section 6 of the 2011 BTES Distributor Annual Report. Omitted fields include joint operations with the Electric Utility and current status of the latest joint expense study.	We recommend the following actions: 1. Work with TVA personnel to obtain formal agreement for the allocated expenditures covered by the CAM. 2. TVA's Distributor Analysis Group updated Section 6 of the BTES 2011 DAR to reflect joint operations after receiving this information from BTES during the assessment.	

Report Issuance Information

Patrick Y
Buchanan

Digitally signed by Patrick Y Buchanan
DN: cn=Patrick Y Buchanan,
o=Stakeholders Compliance Advisory,
ou=Compliance Office,
email=pybuchanan@tva.gov, c=US
Date: 2012.05.30 13:56:48 -04'00'



Report Issued By:

Rick Buchanan, Director, Distributor Compliance

Assessment Team: Cindy Kington, Eastern Region Manager
Bryan Sambat, Assessment Team Lead
Monica Treece, Assessment Team Analyst
Cindy Bell, Assessment Team Analyst
Mark Spence, Assessment Team Analyst
Andrea Williams, Assessment Team Analyst

cc:

Barry Barnett, Senior Manager, Distributor Analysis
John Kernodle, Associate General Counsel, Office of General Counsel
Michael Leffel, Customer Service Manager, Customer Relations
Kendra Mansur, Attorney I, Office of General Counsel
Bob Wells, Vice President, Compliance

Privileged and Confidential – Pre-decisional Deliberative Document

This report is a pre-decisional deliberative document and its contents may include assessments, observations, and conclusions which are otherwise confidential.

Bristol Tennessee Essential Services Management Response

BTES provided the following responses on May 29, 2012. See Appendix B for Management Response Letter.

Classification

BTES agrees with all items. No response.

Non-Discrimination

1. **Billing Adjustment Testing** – If a determination cannot be made about when the KWH were used, the adjustment is based on rate in effect at the time of the adjustment. That is consistent with the way we bill customers for usage. For example, when we bill a customer on May 15 for the past 30 days, we bill on the rate in effect for May even though some of the power was consumed in April.
2. Bad Debt/Write-Off Testing – no response.
3. Disconnection/Reconnection Testing – no response.
4. Approved TVA Retail Rate and Billing Testing

Action Item 1 - "BTES should consider revising customer contracts to align with their current business practices."

Response - BTES has devised a policy to comply with contracts as stated. Exceptions could be made if it is determined that the demand reading was an erroneous because of power outages, etc. The reason will be noted in the customer record.

Action Item 2 - "BTES will submit their revised rates and rate schedule for TVA approval."

Response - BTES changed lighting rates as the FCA changed monthly. That was consistent with the way other rates were changed, but we did not file those with TVA. We are in the process of changing our rate structure for outdoor lighting to a fixed charge. We plan to forecast the FCA amount and periodically adjust the rate. We will be filing those changes with TVA.

Action Item 3 - "BTES and TVA management are aware of the power charge variance associated with the SMSC customer and are working together to determine if an adjustment is necessary."

Response - BTES and TVA have been researching the June issue as well as an issue in May 2011. There was problems with a dead meter and communication with the meters. The usage has now been determined for May 2011 and June 2011 and we will be revising both of those customer bills.

Use of Revenue

BTES agrees with all items. No response.

Appendix A - Objective, Scope, and Methodology

Objective

The objective was to determine compliance with key contract provisions, including (1) classification of customers to facilitate proper wholesale and retail billing, (2) non-discrimination in rates for providing electricity to members of the same rate class, and (3) use of revenues, including any reserves and/or surplus, for approved purposes.

Scope

The scope of this assessment was detailed wholesale and retail data and documentation for FY 2011. The scope of this assessment is limited to the specific items tested and, in any event, it should not be considered an exclusive and final determination by TVA of the contract and regulatory compliance of the City of Bristol.

Methodology

We planned, conducted, and reported the results of this assessment in conformity with COMP-SPP-3.1 *Compliance Office Professional Standards*. Our work on internal control was limited to those control deficiencies identified as contributing to noted instances of non-compliance with the TVA contract.

The detailed methodology for all testing is included in the section *Detailed Assessment Results*.

The entrance conference for this assessment was conducted on December 14, 2011. BTES waived the exit conference and provided report comments via email. Refer to page 20 for Management's Response.

Appendix B - Management Response Letter



Bristol Tennessee Essential Services

Electric • Internet • Telephone • Cable

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

May 29, 2012

Mr. Rick Buchanan
Director, Distributor Compliance
Tennessee Valley Authority
400 West Summit Hill Drive, WT 9B-K
Knoxville, TN 37902

Dear Rick:

This is the Management Response to the Tennessee Valley Authority Distributor Compliance Report for Bristol Tennessee Essential Services.

Classification

BTES agrees with all items. No response.

Non-Discrimination

1. **Billing Adjustment Testing** – If a determination cannot be made about when the KWH were used, the adjustment is based on rate in effect at the time of the adjustment. That is consistent with the way we bill customers for usage. For example, when we bill a customer on May 15 for the past 30 days, we bill on the rate in effect for May even though some of the power was consumed in April.
2. **Bad Debt/Write-Off Testing** – no response.
3. **Disconnection/Reconnection Testing** – no response.
4. **Approved TVA Retail Rate and Billing Testing**

Action Item 1 – “BTES should consider revising customer contracts to align with their current business practices.”

Response – BTES has devised a policy to comply with contracts as stated. Exceptions could be made if it is determined that the demand reading was an erroneous because of power outages, etc. The reason will be noted in the customer record.

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Response – BTES changed lighting rates as the FCA changed monthly. That was consistent with the way other rates were changed, but we did not file those with TVA. We are in the process of changing our rate structure for outdoor lighting to a fixed charge. We plan to forecast the FCA amount and periodically adjust the rate. We will be filing those changes with TVA.

Action Item 3 – “BTES and TVA management are aware of the power charge variance associated with the SMSC customer and are working together to determine if an adjustment is necessary.”

Response – BTES and TVA have been researching the June issue as well as an issue in May 2011. There was problems with a dead meter and communication with the meters. The usage has now been determined for May 2011 and June 2011 and we will be revising both of those customer bills.

Use of Revenue

BTES agrees with all items. No response.

Sincerely,

A handwritten signature in cursive script that reads "Mike Browder".

R. Michael Browder
Chief Executive Officer

4. Reference BTES's Financial Reports and 2007, 2008, 2009 and 2010 as filed at TRA Docket No. 05-00251. Provide a copy of BTES's cost allocation manual (CAM) that was the basis of any cost allocations undertaken for these financial reports and highlight any changes in the allocation methodology between the years. Provide an explanation for any changes in the allocation methodology between years.

RESPONSE: BTES objects to this request based upon the General Objections. Subject to and without waiver of the General Objections, please see documents provided in response to Request 3.c., above.

5. Reference BTES's Financial Reports for years 2007, 2008, 2009 and 2010 as filed at TRA Docket No. 05-00251. Provide the results of any audit performed on the allocations that tested BTES's compliance with its CAM for these years. Include any and all documents and correspondence between BTES and the auditor(s), documents regarding procedures, and all supporting workpapers.

RESPONSE: BTES objects to this request based upon the General Objections. Subject to and without waiver of the General Objections, BTES has attached the results of its 2007 – 2010 CAM compliance audits. Expanding upon the General Objections, in light of the limited recommendations and favorable conclusions of the audit reports, the requests for all documents and correspondence relating to these compliance audits is overly broad, unduly burdensome and not calculated to lead to the discovery of admissible evidence.

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

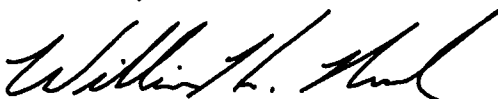
RE: *Application of Bristol Tennessee Essential Services for a Certificate of Public Convenience & Necessity to provide Telecommunications Services.*
Docket Number 05-00251

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:

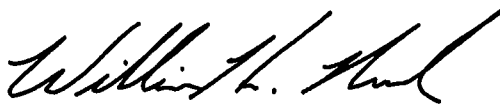
We have examined the common cost business unit allocation procedures of Bristol Tennessee Essential Services ("BTES" or the "Company") for the twelve months ended June 30, 2007. The purpose of this examination was to determine if the methods used by the Company to allocate costs to the appropriate business 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:

	3 rd Quarter 2006	4 th Quarter 2006	1 st Quarter 2007	2 nd 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

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

December 30, 2008

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, 2008

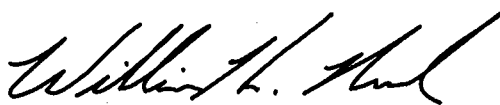
Dear Dr. Browder:

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, 2008. 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, 2008.

Sincerely,



William H. Novak

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2008**

**PRPARED BY WHN CONSULTING
DECEMBER 31, 2008**

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2008**

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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 12, 2008, 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, 2008.

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. ALLOCATOR CALCULATIONS

The Company utilizes ten different allocation factors to segregate common costs between its electric, cable & internet and telephone business units. These allocation factors are recalculated on a quarterly basis. We examined each of the Company's allocation factor calculations during the audit period as described below.

3a. General Allocator

The General Allocator is typically used 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 for the previous quarter, and dividing it by the previous quarter's total O&M expense for all business units.

We verified the Company's methodology for calculating 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. Presented below in Table 3-1 is a comparison of the Company's quarterly General Allocator calculations to the audit calculations.

Comparison of General Allocation Factor Calculations

	Electric	C&I	Telephone	Total
Company Calculations:				
3rd Qtr 2007 Factors	84.59%	11.56%	3.85%	100.00%
4th Qtr 2007 Factors	81.27%	13.80%	4.93%	100.00%
1st Qtr 2008 Factors	81.21%	13.85%	4.95%	100.00%
2nd Qtr 2008 Factor	78.96%	15.14%	5.90%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	85.95%	10.65%	3.40%	100.00%
4th Qtr 2007 Factors	80.80%	14.25%	4.95%	100.00%
1st Qtr 2008 Factors	81.36%	13.73%	4.91%	100.00%
2nd Qtr 2008 Factor	78.91%	15.17%	5.92%	100.00%

Table 3-1 from Audit Workpaper A-1-1.00.

Findings:

In calculating the General Allocator, the Company first reduces O&M expenses for the previous quarter by those expenses that were allocated with the General Allocator. The differences noted between the Company and audit calculations of the General Allocator result from the correction of errors in the application of the General Allocation Factor to the quarterly expenses. These errors are discussed in more detail in Part 4 of this report.

Recommendations:

The Company should employ a calculation schedule for the General Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

3b. 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. The resulting allocation factor is then applied for the next calendar quarter.

We verified the Company's methodology for calculating the Service Allocator. The number of customers used in the calculation was traced to the Company's 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. Below is a comparison of the Company's quarterly General Allocator calculation to the audit calculation. Presented below in Table 3-2 is a comparison of the Company's quarterly Services Allocator calculations to the audit calculations.

Comparison of Services Allocation Factor Calculations

	<u>Electric</u>	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations:				
3rd Qtr 2007 Factors	81.20%	14.81%	3.99%	100.00%
4th Qtr 2007 Factors	78.29%	16.65%	5.06%	100.00%
1st Qtr 2008 Factors	75.41%	18.45%	6.14%	100.00%
2nd Qtr 2008 Factor	72.72%	20.22%	7.06%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	81.20%	14.81%	3.99%	100.00%
4th Qtr 2007 Factors	78.29%	16.65%	5.06%	100.00%
1st Qtr 2008 Factors	75.29%	18.58%	6.13%	100.00%
2nd Qtr 2008 Factor	72.61%	20.34%	7.05%	100.00%

Table 3-2 from Audit Workpaper B-1-1.00

Findings:

The Services Allocator is one of the more straight forward calculations in the Company's CAM. However, beginning with the first quarter of 2008, the Company inadvertently failed to properly consider cable customers in bulk apartment units in the total customer count. This error accounts for all of the differences between the Company and the audit calculation of the Services Allocator.

Recommendations:

The Company should employ a calculation schedule for the Services Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

3c. 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. 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. Likewise, the hours worked by Customer Service Representatives are first allocated to the different business units based on the Customer Service Orders Allocation Factor. These hours are then aggregated to form the basis for next quarters' Employee Hours Allocation Factor.

We verified the Company's methodology for calculating 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. Presented below in Table 3-3 is a comparison of the Company's quarterly Services Allocator calculations to the audit calculations.

Comparison of Employee Hours Allocation Factor Calculations

	Electric	C&I	Telephone	Total
Company Calculations:				
3rd Qtr 2007 Factors	90.89%	7.22%	1.89%	100.00%
4th Qtr 2007 Factors	88.98%	8.06%	2.96%	100.00%
1st Qtr 2008 Factors	88.94%	7.87%	3.19%	100.00%
2nd Qtr 2008 Factor	86.80%	9.38%	3.83%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	90.82%	7.29%	1.89%	100.00%
4th Qtr 2007 Factors	87.56%	9.26%	3.18%	100.00%
1st Qtr 2008 Factors	83.98%	11.67%	4.36%	100.00%
2nd Qtr 2008 Factor	83.12%	12.31%	4.57%	100.00%

Table 3-3 from Audit Workpaper C-1-1.00.

Findings:

The differences between the audit and Company's calculations are due to changes in other allocation factors discussed elsewhere in this report that flow into this calculation.

Recommendations:

The Company should employ a calculation schedule for the Supervisory Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

3d. Plant in Service Allocator

The Company uses the Plant in Service Allocator to allocate common costs 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 non-utility plant, and then dividing it by the total Plant in Service for all business units of BTES.

We verified the Company's methodology for calculating 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. Presented below in Table 3-4 is a comparison of the Company's quarterly Plant in Service Allocator calculations to the audit calculations.

Comparison of Plant in Services Allocation Factor Calculations

	<u>Electric</u>	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations:				
3rd Qtr 2007 Factors	94.20%	4.48%	1.33%	100.00%
4th Qtr 2007 Factors	94.12%	4.52%	1.35%	100.00%
1st Qtr 2008 Factors	94.07%	4.54%	1.39%	100.00%
2nd Qtr 2008 Factor	95.31%	3.58%	1.11%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	94.27%	4.43%	1.30%	100.00%
4th Qtr 2007 Factors	94.24%	4.43%	1.33%	100.00%
1st Qtr 2008 Factors	94.07%	4.54%	1.39%	100.00%
2nd Qtr 2008 Factor	95.31%	3.58%	1.11%	100.00%

Table 3-4 from Audit Workpaper E-1-1.00.

Findings:

It appears that the Company incorrectly recorded the data used to calculate the Plant in Service Allocator for some quarters during the audit period. The Company was unable to substantiate the discrepancies between the recorded data and the source documents.

Recommendations:

The Company should employ a calculation schedule for the Plant in Service Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type

of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

3e. Business Development Manager Allocator

The Company uses the Business Development Manager Allocator to allocate the salary and other common costs associated with the Business Development Manager. The Business Development Manager Allocator is calculated by taking the count of commercial customers from each business unit, and then dividing it by the total commercial customer count for all business units of BTES. After this, an additional allocation of hours is made to the Cable & Internet unit to reflect the additional time that is estimated to be needed.

We verified the Company's methodology for calculating the Business Development Manager Allocator. The business customers 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. Presented below in Table 3-5 is a comparison of the Company's quarterly Plant in Service Allocator calculations to the audit calculations.

Comparison of Business Development Manager Allocation Factor Calculations

	Electric	C&I	Telephone	Total
Company Calculations:				
3rd Qtr 2007 Factors	84.92%	14.05%	1.03%	100.00%
4th Qtr 2007 Factors	84.86%	14.21%	1.04%	100.11%
1st Qtr 2008 Factors	84.81%	14.31%	1.05%	100.17%
2nd Qtr 2008 Factor	84.77%	14.47%	1.06%	100.30%
Audit Calculations:				
3rd Qtr 2007 Factors	84.20%	14.78%	1.02%	100.00%
4th Qtr 2007 Factors	82.57%	15.82%	1.60%	100.00%
1st Qtr 2008 Factors	81.22%	16.89%	1.90%	100.00%
2nd Qtr 2008 Factor	79.43%	17.49%	3.08%	100.00%

Table 3-5 from Audit Workpaper F-1-1.00

Findings:

It appears that the Company has misinterpreted the procedure for calculating the Business Development Manager Allocator since its inception. Because of the repetitive nature of the calculation, this error has been carried forward to all quarters in the current audit period resulting in total allocation factors greater than 100% as shown in

Table 3.-5. This error has been discussed with Company personnel and properly corrected in the audit calculations.

Recommendations:

The Company should employ a calculation schedule for the Business Development Manager Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

3f. Porting Allocator

The Porting Allocator is a subset of the Time Estimate Allocator discussed in Section 3i. The Company uses the Porting Allocator to allocate the salaries and other common costs associated with the technicians that transfer customer telephone numbers to and from other carriers for the telephone business unit. The Porting Allocator is calculated by taking the increase in customers and multiplying by a fixed time of 5 minutes to transfer or “port” the customer’s telephone number. After this calculation is made for the telephone business unit, the remaining time for the technicians is allocated to the electric business unit.

We verified the Company’s methodology for calculating the Porting Allocator. The increase in customers 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. Presented below in Table 3-6 is a comparison of the Company’s quarterly Porting Allocator calculations to the audit calculations.

Comparison of Porting Allocation Factor Calculations²

	Electric	C&I	Telephone	Total
Company Calculations:				
3rd Qtr 2007 Factors	98.46%	0.00%	1.54%	100.00%
4th Qtr 2007 Factors	98.73%	0.00%	1.27%	100.00%
1st Qtr 2008 Factors	98.33%	0.00%	1.67%	100.00%
2nd Qtr 2008 Factor	98.69%	0.00%	1.31%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	92.52%	0.00%	7.48%	100.00%
4th Qtr 2007 Factors	90.13%	0.00%	9.87%	100.00%
1st Qtr 2008 Factors	93.09%	0.00%	6.91%	100.00%
2nd Qtr 2008 Factor	91.22%	0.00%	8.78%	100.00%

Table 3-6 from Audit Workpaper G-1-1.00.

Findings:

It appears that the Company has misinterpreted the procedure for calculating the Porting Allocator since its inception. Because of the repetitive nature of the calculation, this error has been carried forward to all quarters in the current audit period. This error has been discussed with Company personnel and corrected in the audit calculations.

² A second technician utilizes this same calculation with 50% of the telephone allocation stated in Table 10-6, a flat 1.12% allocated to C&I, and the balance to electric.

Recommendations:

The Company should employ a calculation schedule for the Porting Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

In addition, the Company should update its C&I estimate for Technician #2 in the Porting Allocator. This estimated amount has remained at 1.12% since the inception of the CAM. We recommend that this estimate be revisited on an annual basis.

3g. Supervisory Allocator

The Company uses the Supervisory Allocator to allocate the salaries and other common costs associated with the office supervisor. The Supervisory Allocator is calculated by taking the average of the allocation factors used for those employees under the supervisor's direct control. The time for all of the employees under the supervisor's direct control is allocated to the different operating units through either the General Allocator or the Employee Hours Allocator discussed elsewhere in this report. Therefore the Supervisory Allocator will always be a weighted average of the General and Employee Hours Allocators.

We verified the Company's methodology for calculating the Supervisory Allocator. The employee factors used in the calculation were traced to the appropriate allocator. 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. Presented below in Table 3-7 is a comparison of the Company's quarterly Supervisory Allocator calculations to the audit calculations.

Comparison of Supervisory Allocation Factor Calculations

	Electric	C&I	Telephone	Total
Company Calculations:				
3rd Qtr 2007 Factors	89.85%	8.14%	2.01%	100.00%
4th Qtr 2007 Factors	85.62%	10.21%	4.17%	100.00%
1st Qtr 2008 Factors	83.17%	11.51%	5.31%	99.99%
2nd Qtr 2008 Factor	83.17%	11.51%	5.31%	99.99%
Audit Calculations:				
3rd Qtr 2007 Factors	89.07%	8.73%	2.20%	100.00%
4th Qtr 2007 Factors	83.14%	13.12%	3.74%	100.00%
1st Qtr 2008 Factors	79.26%	15.73%	5.00%	100.00%
2nd Qtr 2008 Factor	77.99%	16.42%	5.59%	100.00%

Table 3-7 from Audit Workpaper J-1-1.00.

Findings:

Through oversight, the Company failed to update the Supervisory Allocator in the 2nd Quarter of 2008. The remaining differences are due to changes in the General and Employee Hours allocation factors that flow into this calculation.

Recommendations:

The Company should employ a calculation schedule for the Supervisory Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

3h. Vehicle Allocator

The Company uses the Vehicle Allocator to allocate the salaries associated with those employees performing maintenance on the Company's vehicle fleet. The Vehicle Allocator is calculated by taking the average of the allocation factors used to allocate the cost of each vehicle to the different business units.

We verified the Company's methodology for calculating the Vehicle Allocator. The individual allocations used for each vehicle in the calculation were traced to the appropriate allocation factor. 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. Presented below in Table 3-8 is a comparison of the Company's quarterly Vehicle Allocator calculations to the audit calculations.

Comparison of Vehicle Allocation Factor Calculations

	<u>Electric</u>	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations:				
3rd Qtr 2007 Factors	89.69%	7.87%	2.44%	100.00%
4th Qtr 2007 Factors	77.53%	7.12%	2.86%	100.00%
1st Qtr 2008 Factors	77.53%	7.12%	2.86%	100.00%
2nd Qtr 2008 Factor	77.53%	7.12%	2.86%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	91.37%	6.43%	2.21%	100.00%
4th Qtr 2007 Factors	88.05%	8.57%	3.38%	100.00%
1st Qtr 2008 Factors	87.19%	9.38%	3.44%	100.00%
2nd Qtr 2008 Factor	86.00%	9.96%	4.03%	100.00%

Table 3-8 from Audit Workpaper K-1-1.00.

Findings:

Through oversight, the Company failed to update the Vehicle Allocator for most of the audit period. The remaining differences are due to other allocation factors that flow into this calculation.

Recommendations:

The Company should employ a calculation schedule for the Vehicle Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

3i. Time Estimate Allocator

The Company uses the Time Estimate Allocator to allocate the salaries and other common costs associated with those employees whose time cannot be satisfactorily assigned to the different business units with any other allocation method. The Time Estimate Allocator is based upon an estimate from the individual employee, and remains fixed throughout the audit period.

We verified the Company's methodology for calculating the Time Estimate Allocator. 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. Presented below in Table 3-9 is a comparison of the Company's quarterly Time Estimate Allocator calculations to the audit calculations.

Comparison of Time Estimate Allocation Factor Calculations³

	Electric	C&I	Telephone	Total
Company Calculations:				
3rd Qtr 2007 Factors	95.50%	2.50%	2.00%	100.00%
4th Qtr 2007 Factors	95.50%	2.50%	2.00%	100.00%
1st Qtr 2008 Factors	95.50%	2.50%	2.00%	100.00%
2nd Qtr 2008 Factor	95.50%	2.50%	2.00%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	95.50%	2.50%	2.00%	100.00%
4th Qtr 2007 Factors	95.50%	2.50%	2.00%	100.00%
1st Qtr 2008 Factors	95.50%	2.50%	2.00%	100.00%
2nd Qtr 2008 Factor	95.50%	2.50%	2.00%	100.00%

Table 3-9 from Audit Workpaper L-1-1.00.

Findings:

There were no findings on the calculation of the Time Estimate Allocator.

Recommendations:

The factors used in the Time Estimate Allocator have been in place since the inception of allocation study in 2006. The Company should consider at least annually whether these factors need to be revised.

³ These estimated allocation factors apply to two employees. A third employee's estimated allocation is 99.61%, 0.39% and 0.00% respectively for electric, cable & internet and telephone. In addition, two other employees allocate their time through the use of a porting estimate discussed in Section 3f.

3j. Customer Service Orders Allocator

The Company uses the Customer Service Orders Allocator to allocate the common costs of the Customer Service Representatives to the different business units. The Customer Service Orders Allocator is calculated by taking the existing customer counts plus the service orders taken during the previous quarter for each business unit, and dividing it by the total customer counts plus service orders taken for all business units of BTES.

We verified the Company's methodology for calculating the Customer Service Orders Allocator. The customer counts and service orders 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. Presented below in Table 3-10 is a comparison of the Company's quarterly Services Allocator calculations to the audit calculations.

Comparison of Customer Service Orders Allocation Factor Calculations

	Electric	C&I	Telephone	Total
Company Calculations:				
3rd Qtr 2007 Factors	85.80%	9.99%	4.21%	100.00%
4th Qtr 2007 Factors	83.36%	11.28%	5.35%	100.00%
1st Qtr 2008 Factors	80.63%	12.77%	6.59%	100.00%
2nd Qtr 2008 Factor	78.52%	13.92%	7.56%	100.00%
Audit Calculations:				
3rd Qtr 2007 Factors	81.44%	14.62%	3.94%	100.00%
4th Qtr 2007 Factors	78.44%	16.53%	5.03%	100.00%
1st Qtr 2008 Factors	75.22%	18.64%	6.15%	100.00%
2nd Qtr 2008 Factor	72.59%	20.36%	7.05%	100.00%

Table 3-10, from Audit Workpaper D-1-1.00.

Findings:

The audit unveiled several issues related to the Company's calculation of the Customer Service Orders Allocation Factor. The existing customer count used by the Company was calculated in error through a bad formula that had been carried over from previous quarters. In addition, the Company had made a continual adjustment in its calculations that could not be substantiated and had been carried forward inadvertently from quarter to quarter. Finally, the allocation of new service orders between the Cable & Internet division and the Telephone division had been based on allocation data that had never been updated. All of these issues combined to produce the differences in allocation factors shown in Table 10.

Recommendations:

The Company should employ a calculation schedule for the Customer Service Orders Allocator similar to that provided by the auditor. Such a schedule would not only highlight the type of errors discovered here, but would also provide a clear audit trail to the source data used for the calculation.

4. APPLICATION OF ALLOCATOR CALCULATIONS TO COMMON COSTS

The Company applies the different allocation factor calculations to its common costs consisting of Salary & Wages, Vehicles and Administrative & General expenses. All of these costs are initially assigned to the Electric business unit. The Company then makes adjusting entries on a monthly basis to transfer the appropriate amounts from the Electric division to the Cable & Internet and Telephone divisions. We examined the Company's calculation for the allocation of its common costs to the different business units as described below.

4a. Salary & Wage Expense

Common Salary and Wage Expense represents the labor costs of those employees performing services for more than one operating unit of the Company. The Company applies the allocators described in Section 3 to the each individual employee's salary or wage including benefits.

We verified the Company's methodology for calculating and applying the various allocators to Employee Salary & Wages and Benefits. 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. Presented below in Table 4-1 is a comparison of the Company's allocated Salary and Wages Expense for fiscal year 2008 along with the audit calculations.

**Comparison of Allocated Salary & Wages Expense
For the 12 Months Ended June 30, 2008**

	<u>Electric</u>	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$1,706,280	\$176,456	\$66,745	\$1,948,481
Audit Calculations	<u>\$1,563,503</u>	<u>\$194,029</u>	<u>\$73,747</u>	<u>\$1,831,279</u>
Difference	\$142,777	-\$18,539	-\$6,975	\$117,212

Table 4-1, from Audit Workpaper S-1-1.00.

Findings:

The audit revealed that the Company had inadvertently double counted many employee benefits during the entire audit period, including employee vacation, sick leave, holiday, and jury duty pay. At the same time, the Company had also omitted other employee benefits such as Social Security and Medicare costs from the salary and wage calculation. These changes, when combined with the implementation effect of the

different allocation factors described in Section 3 of this report, produced the total difference between the Company and Audit calculations of \$117,212.

Recommendations:

The Company needs to increase, or charge from the electric operating unit, \$18,539 and \$6,975 respectively to the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual.

4b. Vehicle Expense

Common Vehicle Expense represents the vehicle costs assigned to those employees or cost centers performing services for more than one operating unit of the Company. The Company applies the same allocation factor for the vehicle that is assigned to a particular employee as that employee's labor allocator for salary & wages expense. In addition, the Company assigns the General Allocator for those vehicles that are available for general use by no particular employee.

We verified the Company's methodology for calculating and applying the various allocators to Vehicles Expense. 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. Presented below in Table 4-2 is a comparison of the Company's allocated Vehicle Expense for fiscal year 2008 along with the audit calculations.

**Comparison of Allocated Vehicle Expense
For the 12 Months Ended June 30, 2008**

	<u>Electric</u>	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$35,160	\$3,236	\$1,195	\$39,591
Audit Calculations	<u>\$35,295</u>	<u>\$3,579</u>	<u>\$1,346</u>	<u>\$40,220</u>
Difference	-\$135	-\$343	-\$151	\$629

Table 4-2, from Audit Workpaper K-1-1.05.

Findings:

The difference between the Company and Audit calculations of \$629 results from the implementation effect of the different allocation factors described in Section 3 of this report.

Recommendations:

The Company needs to increase, or charge from the electric operating unit, \$343 and \$151 respectively to the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual.

4c. Administrative & General Expense

Administrative & General Expense consists of common expenses that are attributable to all business units. A few examples of common costs that are allocated to all business units are building rent, insurance expense, billing expense, and audit expense. represents the vehicle costs assigned to those employees or cost centers performing services for more than one operating unit of the Company.

The Company applies one of the allocation factors discussed in Section 3 to each Administrative & General Expense to be allocated. The particular allocation factor to be applied to each expense is prescribed by the Company's Cost Allocation Manual.

We verified the Company's methodology for calculating and applying the various allocators to A&G Expense from the Cost Allocation Manual. 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. Presented below in Table 4-3 is a comparison of the Company's allocated Administrative & General Expense for fiscal year 2008 along with the audit calculations.

**Comparison of Allocated Administrative & General Expense
For the 12 Months Ended June 30, 2008**

	<u>Electric</u>	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$1,408,610	\$208,333	\$71,510	\$1,688,452
Audit Calculations	<u>\$1,370,379</u>	<u>\$220,849</u>	<u>\$75,434</u>	<u>\$1,666,662</u>
Difference	\$38,230	-\$12,517	-\$3,924	\$21,790

Table 4-3, from Audit Workpaper R-1-1.00.

Findings:

The audit revealed that the Company had failed to include local property taxes in the allocation of Building Rent throughout the audit period. In addition, the Company had included a prior addition to plant in service of approximately \$14,000 during the audit period that could not be substantiated. Finally, the Company had not adjusted its rate of return on plant in service during the audit period, and could not substantiate the rate being used.

The remaining difference between the Company and Audit calculations of \$21,790 results from the implementation effect of the different allocation factors described in Section 3 of this report.

Recommendations:

The Company needs to increase, or charge from the electric operating unit, \$12,517 and \$3,924 respectively to the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual.

On a prospective basis, the Company needs to include charges for local property taxes in its allocation of Building Rent. In addition, the Company needs to adjust its rate of return on the Building Rent allocation to actual achieved results on an annual basis.

5. SUMMARY & CONCLUSION

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

	Electric	Cable & Internet	Telephone	Total
Salary & Wage Expense	\$1,563,503	\$194,029	\$73,747	\$1,831,279
Vehicle Expense	35,295	3,579	1,346	40,220
A&G Expense	1,370,379	220,849	75,434	1,666,662
Total	\$2,969,177	\$418,457	\$150,527	\$3,538,161

The \$42,449 in recommended adjusting entries are insignificant (approximately 1.2%) in comparison to the total expenses allocated. In our opinion, the Company is in material compliance with the allocation methodology described in the CAM for the twelve months ended June 30, 2008.

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

December 31, 2009

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, 2009

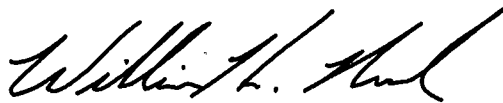
Dear Dr. Browder:

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, 2009. 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, 2009.

Sincerely,



William H. Novak

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2009**

**PRPARED BY WHN CONSULTING
DECEMBER 31, 2009**

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2009**

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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 April 7, 2009, 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, 2009.

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 are presented herein.

3. ALLOCATOR CALCULATIONS

The Company utilizes nine² different allocation factors to segregate common costs between its electric, cable & internet and telephone business units. These allocation factors are recalculated on a quarterly basis. We examined each of the Company's allocation factor calculations during the audit period and noted no discrepancies. Company personnel appear to have developed a good understanding of how the allocation factors are calculated and can readily obtain the data needed to make these calculations.

² Allocation factors include General Allocator, Services Allocator, Employee Hours Allocator, Customer Services Allocator, Plant in Service Allocator, Business Development Manager Allocator, Supervisory Allocator, Vehicles Allocator and Employee Estimate Allocator.

4. APPLICATION OF ALLOCATOR CALCULATIONS TO COMMON COSTS

The Company next applies the different allocation factor calculations to its common costs consisting of Salary & Wages, Vehicles and Administrative & General expenses. All of these costs are initially assigned to the Electric business unit. The Company then makes adjusting entries on a monthly basis to transfer the appropriate amounts from the Electric division to the Cable & Internet and Telephone divisions. We examined the Company's calculation for the allocation of its common costs to the different business units as described below.

4a. Salary & Wage Expense

Common Salary and Wage Expense represents the labor costs of those employees performing services for more than one operating unit of the Company. The Company applies the allocators described in Section 3 to the each individual employee's salary or wage including benefits.

We verified the Company's methodology for calculating and applying the various allocators to Employee Salary & Wages and Benefits. 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. Presented below in Table 4-1 is a comparison of the Company's allocated Salary and Wages Expense for fiscal year 2009 along with the audit calculations.

**Comparison of Allocated Salary & Wages Expense
For the 12 Months Ended June 30, 2009**

	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$322,040	\$147,698	\$469,738
Audit Calculations	<u>\$405,981</u>	<u>\$203,665</u>	<u>\$609,646</u>
Difference	\$-83,941	\$-55,967	\$-139,908

Table 4-1, from Audit Workpaper S-1-1.00.

Findings & Recommendations:

The audit revealed that the Company had omitted certain employee benefits such as Social Security and Medicare costs from the salary and wage calculation. These changes produced the total difference between the Company and Audit calculations of \$139,908.

The Company needs to increase, or charge from the electric operating unit, \$83,941 and \$55,967 respectively to the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual.

On a prospective basis, the Company needs to include the employer share of payroll taxes (FICA & Medicare) in its calculation of employee benefits.

4b. Vehicle Expense

Common Vehicle Expense represents the vehicle costs assigned to those employees or cost centers performing services for more than one operating unit of the Company. The Company applies the same allocation factor for the vehicle that is assigned to a particular employee as that employee's labor allocator for salary & wages expense. In addition, the Company assigns the General Allocator for those vehicles that are available for general use by no particular employee.

We verified the Company's methodology for calculating and applying the various allocators to Vehicles Expense. 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. Presented below in Table 4-2 is a comparison of the Company's allocated Vehicle Expense for fiscal year 2009 along with the audit calculations.

**Comparison of Allocated Vehicle Expense
For the 12 Months Ended June 30, 2009**

	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$3,870	\$1,682	\$5,552
Audit Calculations	<u>\$4,692</u>	<u>\$2,152</u>	<u>\$6,844</u>
Difference	\$ -822	\$ -470	\$-1,292

Table 4-2, from Audit Workpaper K-1-1.05.

Findings & Recommendations:

The Company needs to increase, or charge from to the electric operating unit, \$343 and \$151 respectively to the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual.

4c. Administrative & General Expense

Administrative & General Expense consists of common expenses that are attributable to all business units. A few examples of common costs that are allocated to all business units are building rent, insurance expense, billing expense, and audit expense.

The Company applies one of the allocation factors discussed in Section 3 to each Administrative & General Expense to be allocated. The particular allocation factor to be applied to each expense is prescribed by the Company's Cost Allocation Manual.

We verified the Company's methodology for calculating and applying the various allocators to A&G Expense from the Cost Allocation Manual. 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. Presented below in Table 4-3 is a comparison of the Company's allocated Administrative & General Expense for fiscal year 2009 along with the audit calculations.

**Comparison of Allocated Administrative & General Expense
For the 12 Months Ended June 30, 2009**

	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$281,383	\$125,964	\$407,347
Audit Calculations	<u>\$325,675</u>	<u>\$133,000</u>	<u>\$458,675</u>
Difference	-\$44,292	-\$7,036	-\$51,328

Table 4-3, from Audit Workpaper R-1-1.00.

Findings & Recommendations:

The audit revealed that the Company had failed to include local property taxes in the allocation of Building Rent throughout the audit period. In addition, the Company had applied its rate of return on gross plant in service instead of net plant in service during the audit period.

Recommendations:

The Company needs to increase, or charge from the electric operating unit, \$44,292 and \$7,036 respectively to the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual.

On a prospective basis, the Company needs to include charges for local property taxes in its allocation of Building Rent. In addition, the Company needs to apply its rate of return on the Building Rent allocation to net plant in service.

5. SUMMARY & CONCLUSION

The audit allocation of the common costs to the non-power business units of BTES are summarized in the following table:

	Cable & Internet	Telephone	Total
Salary & Wage Expense	\$405,981	\$203,665	\$609,646
Vehicle Expense	4,692	2,152	6,844
A&G Expense	325,675	133,000	458,675
Total	\$736,348	\$338,817	\$1,075,165

The \$192,528 in recommended adjusting entries is immaterial in comparison to the total expenses allocated. In our opinion, the Company is in material compliance with the allocation methodology described in the CAM for the twelve months ended June 30, 2009.

WHN CONSULTING

19 Morning Arbor Place
The Woodlands, TX 77381

December 28, 2010

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, 2010

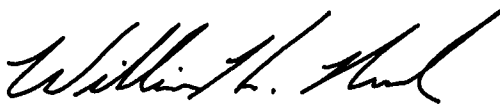
Dear Dr. Browder:

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, 2010. 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, 2010.

Sincerely,



William H. Novak, CPA

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
FOR THE TWELVE MONTHS ENDED JUNE 30, 2010**

**PRPARED BY WHN CONSULTING
DECEMBER 31, 2010**

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPLIANCE AUDIT OF COST ALLOCATION MANUAL IMPLEMENTATION
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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 9, 2010, 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, 2010. This report represents the results of our examination.

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 initial data requests. Finally, we followed-up our initial data requests with requests for further supporting information which we felt was necessary to complete the audit.

3. ALLOCATOR CALCULATIONS

The Company utilizes nine² different allocation factors to segregate their common costs between the Electric, Cable & Internet and Telephone business units. These allocation factors are recalculated on a quarterly basis. We examined each of the Company's allocation factor calculations during the audit period and noted no discrepancies. Company personnel appear to have developed a good understanding of how the allocation factors are calculated and can readily obtain the data needed to make these calculations.

3a. Implementation of the Plant Allocation Factor

One of the nine different allocation factors used by the Company is the General Allocator. The General Allocator is typically used to allocate the common operations & maintenance ("O&M") expenses related to supporting all of the business units. The Company begins the computation of the General Allocator by taking total O&M expense for each business unit and then deducting the cost of goods sold.

During the audit period, the Company implemented a Plant Allocation Factor ("PAF") charge for the Cable & Internet and telephone business units. The PAF represents the cost that the Cable & Internet and Telephone business units pay to the Electric business unit for the use of the fiber system that is necessary to support their operations. The Company considers the PAF as part of its cost of goods sold and therefore began deducting it as part of the General Allocator during the audit period. WHN reviewed the Company's calculation of the PAF as part of our examination and we agree with its implementation into the General Allocator calculation.

² Allocation factors include General Allocator, Services Allocator, Employee Hours Allocator, Customer Services Allocator, Plant in Service Allocator, Business Development Manager Allocator, Supervisory Allocator, Vehicles Allocator and Employee Estimate Allocator.

4. APPLICATION OF ALLOCATOR CALCULATIONS TO COMMON COSTS

The Company next applies the different allocation factor calculations to its common costs consisting of Salary & Wages, Vehicles and Administrative & General expenses. All of these costs are initially assigned to the Electric business unit. The Company then makes adjusting entries on a monthly basis to transfer the appropriate amounts from the Electric division to the Cable & Internet and Telephone divisions. We examined the Company's calculation for the allocation of its common costs to the different business units as described below.

4a. Salary & Wage Expense

Common Salary and Wage Expense represents the labor costs of those employees performing services for more than one operating unit of the Company. The Company applies one of the appropriate allocation factors described above in Section 3 to the each individual employee's salary or wage including benefits.

We verified the Company's methodology for calculating and applying the various allocators to Employee Salary & Wages and Benefits. 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. Presented below in Table 4-1 is a comparison of the Company's allocated Salary and Wages Expense for fiscal year 2010 along with the audit calculations.

**Comparison of Allocated Salary & Wages Expense
For the 12 Months Ended June 30, 2010**

	Cable & Internet	Telephone	Total
Company Calculations	\$384,685	\$228,601	\$613,286
Audit Calculations	<u>\$394,481</u>	<u>\$226,020</u>	<u>\$620,501</u>
Difference	\$9,796	\$-2,581	\$7,215

Table 4-1, from Audit Workpaper Z-3-1.00.

Findings & Recommendations:

The Company needs to charge an additional \$9,796 to the Cable & Internet business unit and reduce the charges to the Telephone business unit by \$2,581 in order to be in compliance with its Cost Allocation Manual.

On a prospective basis, the Company needs to include the employer's share of payroll taxes (FICA & Medicare) in its calculation of employee benefits for part-time employees.

4b. Vehicle Expense

Common Vehicle Expense represents the vehicle costs assigned to those employees or cost centers performing services for more than one operating unit of the Company. The Company applies the same allocation factor for the vehicle that is assigned to a particular employee as that employee's labor allocator for salary & wages expense. In addition, the Company assigns the General Allocator for those vehicles that are available for general use by no particular employee.

We verified the Company's methodology for calculating and applying the various allocators to Vehicles Expense. 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. Presented below in Table 4-2 is a comparison of the Company's allocated Vehicle Expense for fiscal year 2010 along with the audit calculations.

**Comparison of Allocated Vehicle Expense
For the 12 Months Ended June 30, 2010**

	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$8,472	\$4,435	\$12,907
Audit Calculations	<u>\$5,683</u>	<u>\$3,550</u>	<u>\$9,233</u>
Difference	\$ -2,789	\$ -885	\$ -3,674

Table 4-2, from Audit Workpaper Z-4-1.00.

Findings & Recommendations:

The Company needs to charge back to the electric operating unit, \$2,789 and \$885 respectively to the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual.

4c. Administrative & General Expense

Administrative & General Expense consists of common expenses that are attributable to all business units. A few examples of common costs are building rent, insurance expense, billing expense, and audit expense.

The Company applies one of the allocation factors discussed in Section 3 to each Administrative & General Expense to be allocated. The particular allocation factor to be applied to each expense is prescribed by the Company's Cost Allocation Manual.

We verified the Company's methodology for calculating and applying the various allocators to A&G Expense from the Cost Allocation Manual. 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. Presented below in Table 4-3 is a comparison of the Company's allocated Administrative & General Expense for fiscal year 2010 along with the audit calculations.

**Comparison of Allocated Administrative & General Expense
For the 12 Months Ended June 30, 2010**

	<u>C&I</u>	<u>Telephone</u>	<u>Total</u>
Company Calculations	\$351,912	\$156,928	\$508,840
Audit Calculations	<u>\$323,554</u>	<u>\$146,762</u>	<u>\$470,316</u>
Difference	-\$28,358	-\$10,166	-\$38,524

Table 4-3, from Audit Workpaper Z-2-1.00.

Findings & Recommendations:

The audit revealed that the Company had failed to include local property taxes in the allocation of Building Rent throughout the audit period. In addition, the Company incorrectly applied its accumulated depreciation calculation to property taxes and return on investment.

Recommendations:

The Company needs to charge back to the electric operating unit, \$28,358 and \$10,166 respectively from the Cable & Internet and Telephone units in order to be in compliance with its Cost Allocation Manual for Administrative & General Expenses.

On a prospective basis, the Company needs to include charges for local property taxes in its allocation of Building Rent. In addition, the Company needs to apply the correct accumulated depreciation amounts for its rate of return and property tax calculations.

5. SUMMARY & CONCLUSION

The audit allocation of the common costs to the non-power business units of BTES are summarized in the following table:

	Cable & Internet	Telephone	Total
Salary & Wage Expense	\$394,481	\$226,020	\$620,501
Vehicle Expense	5,683	3,550	9,233
A&G Expense	323,554	146,762	470,316
Total	\$723,718	\$376,332	\$1,100,050

The \$34,983 in recommended net adjusting entries is immaterial in comparison to the total expenses allocated. In our opinion, the Company is in material compliance with the allocation methodology described in the CAM for the twelve months ended June 30, 2010.

6. Reference BTES's Financial Reports for years 2007, 2008, 2009 and 2010 as filed at TRA Docket No. 05-00251.

a) Was 2010 the last report filed by BTES with the TRA?

RESPONSE: Yes.

b) If not, provide the last report(s) filed by BTES with the TRA.

RESPONSE: Not applicable.

c) Provide the bases and rationale relied upon by BTES when it decided to stop filing Financial Reports with the TRA and include all documents relied upon by BTES when making the determination to stop submitting Financial Reports to the TRA.

RESPONSE: As is discussed in greater detail in the "Introduction" above, upon BTES' notice of election of intent to operate pursuant to market-based regulation, any obligation to file financial reports with the TRA ended.

7. Reference the BTES Application at page 4, paragraph 1 under Proposed Services. BTES states that it utilizes capacity "on its own Passive Optical network (PON)."

a) List all services provided by BTES utilizing the PON.

RESPONSE: BTES uses the PON in connection with its electric system operations to provide advanced metering infrastructure services, voltage monitoring including outage reporting, capacitor control, remote communication including all breaker outages, and voltage and current monitoring on each breaker by the Supervisory Control and Data Acquisition System from BTES substations.

BTES also utilizes the PON to provide cable, broadband, internet, and telephone services, and to provide VLAN services to schools, businesses and government agencies.

b) Identify each BTES-affiliated entity and any other entity that also utilizes the PON.

RESPONSE: BTES has no affiliates. BTES objects to the remainder of this request to the extent that it request that BTES to identify its various customers that utilize the PON.

- c) Provide all documents and agreements that address arrangements within BTES or between BTES and any other entity regarding how capacity is utilized on PON.

RESPONSE: There are no documents or agreements within BTES that address how BTES utilizes capacity on its PON. Cost allocation matters are addressed within the Cost Allocation Manual. BTES objects to the remainder of this request to the extent that it requests copies of documents or agreements between BTES and its customers.

- 8. Explain in detail how BTES assigns the costs of its fiber optic facilities and infrastructure between and among its business units. Explain in detail how BTES plans to allocate the costs of its proposed network expansion statewide. Provide a copy of all documents and agreements addressing how BTES plans to assign costs, including all assumptions used in the allocation process, if statewide certification is granted.

RESPONSE: BTES objects to this request based upon the General Objections to the extent that the first sentence requests information about how BTES allocates costs of fiber optic facilities and infrastructure in its electric system footprint, as that area, by definition, is beyond the scope of this proceeding. BTES refers CenturyLink to the BTES Cost Allocation Manual for an explanation of how BTES assigns cost of facilities that are shared among business units. BTES further asserts the General Objections to the remaining portions of this Request but, subject to and without waiver of these objections, BTES avers that its switch will be the only capital asset that BTES will utilize in its current model to provide services outside the BTES electric system footprint. BTES plans to allocate these costs within its telephone business unit between customers inside the electric system footprint and customers outside the electric system footprint based upon the number of customers served.

9. Describe in detail, and provide account descriptions of how BTES allocates expenses between and among BTES and its business segments. Does BTES plan to change how it allocates expenses if statewide certification is granted? If so, explain how.

RESPONSE: BTES objects to this Request based upon the General Objections but, subject to and without waiver of these objections, BTES avers that its Cost Allocation Manual will govern how BTES allocates expenses between and among BTES and its business segments. Please see BTES' responses to Request 3.c. BTES further avers that its does not anticipate modifying the provisions of the Cost Allocation Manual upon receipt of statewide certification.

10. Provide a copy of all documents and agreements addressing how BTES books revenues and expenses associated with providing telephone service versus any and all other services or products provided by BTES in Tennessee.

RESPONSE: BTES objects to this request based upon the General Objections but, subject to and without waiver of these objections, BTES avers that the booking of revenues and expenses is governed by generally accepted and governmental accounting principles and provisions of the BTES Cost Allocation Manual. Please see BTES' response to Request 3.c.

11. Provide a copy of any and all documents addressing how BTES, and any parent, affiliate or subsidiary of BTES, will ensure that the revenues and expenses earned in conjunction with the non-telephone operations of by BTES do not subsidize or provide support to the telephone operations of BTES.

RESPONSE: BTES does not have any parents, affiliates or subsidiaries. BTES objects to the remainder of this Request based upon the General Objections. Subject to and without waiver of these objections, please see BTES' responses to Request 3.c.

12. Identify all BTES personnel whose job responsibilities relate solely to the provisioning of telecommunications, cable, or internet services. Confirm that, for these BTES employees, 100% of the employee's wages and benefits are allocated to the telephone or cable business segment. If for any reason 100% of the employee's wages and benefits are not allocated to the telephone or cable business segment, explain in detail why and provide supporting documents relied upon.

RESPONSE: BTES does not have any personnel whose job responsibilities relate solely to the provisioning of telecommunications, cable or internet services.

13. Regarding the Organizational Chart at page xiv of the 2011 Fiscal Report attached to the Application. Explain in detail how the wages and benefits for the persons listed therein are allocated or assigned to the telephone and cable business units of BTES. Identify all portions of the CAM or other documents relied upon by BTES to allocate or assign costs for job functions related to the provisioning of telecommunications and cable services.

RESPONSE: Subject to and without waiver of the General Objections, BTES allocates these costs according to its Cost Allocation Manual. Please see BTES' response to Request 3.c.

14. Regarding the Organizational Chart at page xiv of the 2011 Fiscal Report attached to the Application. Provide a current organizational chart of all affiliates and subsidiaries of BTES.

RESPONSE: BTES has no affiliates or subsidiaries.

15. Reference Exhibit A of the Application (list of Applicant's principal company officers). Identify the employer (include subsidiary or management company, if applicable) for each individual listed therein. Do any of these listed individuals allocate time or undertake work: (a) for any entity or affiliate of BTES? (b) for functions unrelated to the provisioning of telephone service by BTES? If answering yes to either (a) or (b) immediately above, explain in detail and provide any agreements or documents addressing the allocation of work performed by these BTES employee time.

RESPONSE: BTES has no affiliates or subsidiaries. Subject to and without waiver of the General Objections, responding to subsection (b), the provisions of the Cost Allocation Manual address how costs are allocated to the telephone business unit with respect to these employees. There are no agreements addressing the allocation of costs relating to BTES employee time.

16. Reference the Application at page 2 wherein BTES states that it now "seeks expanded authority to provide telecommunications services on a statewide basis." List and explain the specific telecommunications services to be provided on a statewide basis.

RESPONSE: BTES currently plans to offer local exchange telephone service, including vertical calling features, intralata call services, interlata and interstate toll services, primary rate ISDN, digital PBX trunks, and centrix business services as business conditions warrant.

17. Reference the Application at page 2 wherein BTES states that it now “seeks expanded authority to provide telecommunications services on a statewide basis.” Explain in detail how BTES proposes to finance the expansion of its telecommunications services on a statewide basis. Provide the business case supporting BTES’s plans to provide telecommunications services on a statewide basis.

RESPONSE: BTES’ current model envisions exploring business arrangements with third party service providers outside of BTES’ electric system footprint by which BTES could increase the utilization of its existing telephone switch. BTES does not currently anticipate needing additional financing to participate in these business relationships. BTES does not have a written business plan for these services at this time.

18. Reference the Application at page 2 wherein BTES states that it now “seeks expanded authority to provide telecommunications services on a statewide basis.” Provide a copy of any and all board presentations and other documents addressing the financing of BTES’ business plans to implement any statewide authority potentially granted as a result of the instant BTES Application.

RESPONSE: There are no documents responsive to this Request. Please see the response to Request 17 for a discussion of BTES’ current expansion plan.

19. Reference the Application at page 2 wherein BTES states that it now “seeks expanded authority to provide telecommunications services on a statewide basis.” Explain in detail if BTES has funding from the Tennessee Valley Authority (“TVA”) or plans to obtain funding from the TVA regarding BTES’s financing of the expansion of its telecommunications services on a statewide basis. Provide all documents relied upon by BTES regarding any TVA-related financing of its proposed statewide certification.

RESPONSE: BTES has received no funding from TVA for the financing of its telecommunications expansion and has no plans to obtain any such funding from TVA.

20. Will BTES rely upon other entities, both affiliated and unaffiliated with BTES, to provision services or products if statewide certification is granted? Explain in detail any plans or possible plans BTES may have regarding these other entities and possible BTES statewide certification.

RESPONSE: BTES' need to utilize services of facilities based providers and outside consultants will depend upon the business arrangements that BTES negotiates for the utilization of its switch to provide services outside the BTES electric system footprint. BTES does not have any current plans that address how third parties will be utilized to provision services outside BTES' electric system footprint.

21. Reference the Application at page 2 wherein BTES states that it now "seeks expanded authority to provide telecommunications services on a statewide basis." Provide all documents, including presentations and reports, which the BTES board or its officers relied on in making a decision to seek statewide certification.

RESPONSE: There are no documents responsive to this Request.

22. Identify and explain the benefits which BTES has identified from statewide certification. Provide any and all documents quantifying any of the benefits deemed by BTES to exist from statewide certification.

RESPONSE: BTES believes that statewide certification will create opportunities that may enable it to better utilize capacity on its switch and to assist other parties in the provisioning of competitive services outside of the BTES footprint. BTES has not attempted to quantify these benefits.

23. Identify and explain the risks which BTES has identified from statewide certification. Provide any and all documents quantifying any of the risks deemed by BTES to exist from statewide certification.

RESPONSE: Because BTES' current model envisions utilizing statewide certification to increase utilization of its existing switch, BTES does not contemplate assuming additional risk as a result of statewide certification. No additional material risks are deemed to exist.

24. Was there a decision, an approval (or approvals) or a vote (or votes) undertaken to seek expansion of BTES's certificate? If not, why not? If yes, explain in detail the process and identify the people involved in the decision, approval or vote to seek statewide certification. Did any person object or dissent? If yes, identify who and the reasons for objecting/dissenting. Finally, provide all documents of any decision, approval or vote, including board meeting presentations and minutes, regarding BTES's statewide certification request.

RESPONSE: The decision to seek statewide certification was made by BTES Chief Executive Officer Dr. R. Michael Browder and is within the scope of his authority as CEO. There are no documents responsive to this Request.

25. Was the decision to expand BTES service area and to seek statewide certification approved in a referendum or vote by the citizens of Bristol, Tennessee? If not, why not.

RESPONSE: No. No referendum is required under Tennessee law.

26. Reference Exhibit A, Principal Company Officers. Provide all documents provided to or from Mr. R. Michael Browder regarding any existing or potential services or products (regulated by the TRA or unregulated by the TRA) if BTES is awarded a statewide certificate.

RESPONSE: There are no documents responsive to this Request.

27. Reference Exhibit A, Principal Company Officers. Provide all documents provided to or from Mr. Clayton Dowell regarding any existing or potential services or products (regulated by the TRA or unregulated by the TRA) if BTES is awarded a statewide certificate.

RESPONSE: There are no documents responsive to this Request.

28. Reference the Application at page 4, paragraph 3 under Proposed Services. Has BTES contacted any municipality or local government to date? If yes, which municipalities or local governments. Provide all documents provided to, or from, any such municipality or local government.

RESPONSE: BTES has not yet contacted any municipal or local government to obtain consent to provide service outside the BTES electric system footprint.

29. Provide all documents (other than financial statements) provided by BTES to the State of Tennessee Comptroller in years 2007, 2008, 2009, 2010, 2011, and 2012 to present.

RESPONSE: Subject to and without waiver of the General Objections, BTES has attached a copy of documents responsive to this Request relating to BTES' telephone business unit.



Bristol Tennessee Essential Services

Electric • Internet • Telephone • Cable

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

June 15, 2012

The Honorable Mary-Margaret Collier
Director – Local Finance
Office of State and Local Finance
State of Tennessee
505 Deaderick Street, Suite 1600
James K. Polk Building
Nashville, Tennessee 37243-1402

Re: Bristol Tennessee Essential Services Loan Approval Request

Dear Ms. Collier:

We are enclosing materials for your review regarding Bristol Tennessee Essential Services' ("BTES") application for approval of an inter-division loan from the Telephone Business Unit to the Advanced Broadband Services Business Unit.

On May 25, 2011, the Board of Directors of BTES adopted a Resolution authorizing a Two Million Dollar \$2,000,000 inter-division loan from the Telephone Business Unit to the Advanced Broadband Services Business Unit. The funds made available by this inter-division loan are to provide funding for working capital and capital expenditures for the Advanced Broadband Services Business Unit's operations. The Advanced Broadband Services Business Unit is the largest customer of the Telephone Business Unit generating around \$1,000,000 in annual revenue for that Business Unit.

On behalf of BTES, we request your approval of this inter-division loan. In support of this request, we have enclosed for your review:

1. Resolution of the BTES Board of Directors authorizing the inter-division loan;
2. BTES 2011 Annual Report;

Should you have any further questions or require further information, please feel free to contact me, and we will make available any supplemental information you may require.

Sincerely yours,

R. Michael Browder
Chief Executive Officer

**A RESOLUTION AUTHORIZING A LOAN OF CERTAIN FUNDS FROM
THE TELEPHONE BUSINESS UNIT TO THE CABLE AND INTERNET BUSINESS
UNIT**

WHEREAS, the Board of Directors ("Board") of Bristol Tennessee Essential Services ("BTES"), has provided for the creation of a Cable and Internet Business Unit of BTES ("Cable and Internet Business Unit") to provide the services authorized in Tennessee Code Annotated § 7-52-601, et seq.; and

WHEREAS, certain short-term expenditures have been made and certain long-term capital investments and expenditures will be required by the Cable and Internet Business Unit.

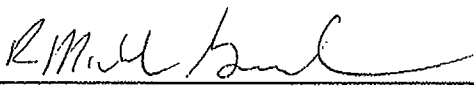
NOW, THEREFORE, BE IT RESOLVED, by the Board of BTES that:

1. The Chief Executive Officer is authorized, but not required, to execute such documents and to take such further action as may be necessary to consummate a loan in an amount not to exceed Two Million Dollars (\$2,000,000) from BTES Telephone Business Unit funds to the Cable and Internet Business Unit to provide for reimbursement of certain expenses and to provide the capital necessary for working capital requirements and capital expenditures of the Cable and Internet Business Unit.

2. The loan authorized under Section 1 of this Resolution shall be for a term of ten years at an annual interest rate of 1%.

Resolution ADOPTED this 25 day of May, 2011

ATTEST:


Secretary to the Board

REPORT ON DEBT OBLIGATION
(Pursuant to Tennessee Code Annotated Section 9-21-151)

1. Public Entity:

Name Bristol Tennessee Essential Services
Address P. O. Box 549
2470 Volunteer Parkway
Bristol, TN 37621

2. Debt Obligation:

- | | |
|-------------------------------------|-------------------|
| <input type="checkbox"/> | a. Bond |
| <input type="checkbox"/> | b. CON |
| <input type="checkbox"/> | c. BAN |
| <input type="checkbox"/> | d. GAN |
| <input type="checkbox"/> | e. TRAN |
| <input type="checkbox"/> | f. CRAN |
| <input type="checkbox"/> | g. Capital Lease |
| <input checked="" type="checkbox"/> | h. Loan Agreement |

Note: Enclose a copy of the executed NOTE FORM if applicable.

5. Face Amount of Debt Obligation: \$1,800,000.00

Premium/Discount: \$0.00

6. Type of Sale:

- | | |
|-------------------------------------|----------------------------|
| <input type="checkbox"/> | a. Competitive Public Sale |
| <input type="checkbox"/> | b. Informal Bid |
| <input type="checkbox"/> | c. Negotiated Sale |
| <input checked="" type="checkbox"/> | d. Loan Program |

3. Security For Debt Obligation:

- | | |
|-------------------------------------|-----------------------------------|
| <input type="checkbox"/> | a. General Obligation |
| <input type="checkbox"/> | b. General Obligation+Revenue+Tax |
| <input checked="" type="checkbox"/> | c. Revenue |
| <input type="checkbox"/> | d. TIF |
| <input type="checkbox"/> | e. Annual Appropriations |

7. Tax Status:

- | | |
|-------------------------------------|--------------------------------|
| <input checked="" type="checkbox"/> | a. Tax Exempt |
| <input type="checkbox"/> | b. Tax Exempt - Bank Qualified |
| <input type="checkbox"/> | c. Taxable |

8. Dated Date: 06/26/2012

9. Issue Date (Closing Date): 06/26/2012

4. Purpose of Issue:

- | | | |
|-------------------------------------|-----------------------------|-----------------|
| <input type="checkbox"/> | a. General Government | _____ % |
| <input type="checkbox"/> | b. Education | _____ % |
| <input type="checkbox"/> | c. Highways and Streets | _____ % |
| <input type="checkbox"/> | d. Public Safety | _____ % |
| <input type="checkbox"/> | e. Solid Waste Disposal | _____ % |
| <input type="checkbox"/> | f. Industrial Park | _____ % |
| <input type="checkbox"/> | g. Manufacturing Facilities | _____ % |
| <input type="checkbox"/> | h. Health Facilities | _____ % |
| <input type="checkbox"/> | i. Airports | _____ % |
| <input type="checkbox"/> | j. Utilities | _____ % |
| <input type="checkbox"/> | i. Water | _____ % |
| <input type="checkbox"/> | ii. Sewer | _____ % |
| <input type="checkbox"/> | iii. Electric | _____ % |
| <input type="checkbox"/> | iv. Gas | _____ % |
| <input type="checkbox"/> | k. Refunding or Renewal | _____ % |
| <input checked="" type="checkbox"/> | l. Other <u>Broadband</u> | <u>100.00</u> % |

specify

10. Ratings:

- | | |
|----------------------|----------|
| a. Moody's | _____ |
| b. Standard & Poor's | _____ |
| c. Fitch | _____ |
| d. Unrated | <u>X</u> |

11. Interest Cost:

1.000000 %

- | | |
|--------------------------|---|
| <input type="checkbox"/> | a. TIC |
| <input type="checkbox"/> | b. NIC |
| <input type="checkbox"/> | c. Variable: Index _____ plus _____ bps |
| <input type="checkbox"/> | d. Other _____ |

12. Recurring Costs:

- | | |
|------------------------------|----------|
| a. Remarketing Agent (bps) | <u>0</u> |
| b. Liquidity (bps) | <u>0</u> |
| c. Credit Enhancements (bps) | <u>0</u> |

13. Maturity Dates, Amounts and Interest Rates

Year	Amount	Interest Rate		Year	Amount	Interest Rate
2013	\$180,000	1.00 %				%
2014	\$180,000	1.00 %				%
2015	\$180,000	1.00 %				%
2016	\$180,000	1.00 %				%
2017	\$180,000	1.00 %				%
2018	\$180,000	1.00 %				%
2019	\$180,000	1.00 %				%
2020	\$180,000	1.00 %				%
2021	\$180,000	1.00 %				%
2022	\$180,000	1.00 %				%
		%				%

If additional space is needed, attach additional sheet.

14. Repayment Schedule

This Issue			Total Debt Outstanding		
Year	Cum. Principal Redeemed	% Total	Year	Cum. Principal Redeemed	% Total
1	\$180,000	10.00	1		
5	\$720,000	50.00	5		
10	\$900,000	100.00	10		
15			15		
20			20		
25			25		
30			30		

15. Itemized Description of the Cost of Issuance

(Round to Nearest Dollar)

		Name of Firm
a. Financial Advisor Fees*	\$0.00	
b. Legal Fees:		
i. Bond Counsel	\$0.00	
ii. Issuer's Counsel	\$0.00	
iii. Trustee's Counsel	\$0.00	
c. Paying Agent Fees and Registration Fees	\$0.00	
d. Trustee Fees	\$0.00	
e. Remarketing Agent Fees	\$0.00	
f. Liquidity Fees	\$0.00	
g. Rating Agency Fees	\$0.00	
h. Credit Enhancement Fees	\$0.00	
i. Underwriter's Discount <u>0.00</u> %	\$0.00	
i. Take Down	\$0.00	
ii. Management Fee	\$0.00	
iii. Risk Premium	\$0.00	
iv. Underwriter's Counsel	\$0.00	
v. Other Expenses	\$0.00	
j. Printing and Advertising Fees	\$0.00	
k. Issuer Fees	\$0.00	
l. Real Estate Fees	\$0.00	
m. Bank Closing Costs	\$0.00	
n. Other Costs	\$0.00	
Total Costs	\$0.00	

*If other costs are included, please itemize

Note: Enclose a copy of the DISCLOSURE DOCUMENT/ OFFICIAL STATEMENT if applicable.

16. Description of Continuing Disclosure Obligations

(Use additional pages if necessary)

Individual Responsible for Completion:

N/A

Date Annual Disclosure is due:

17. Description of Compliance with Written Debt Management Policy:

(Use additional pages if necessary)

Interdivision loans are permitted by the Bristol Tennessee Essential Services Debt Management Policy subject to the approval of the Board of Directors and provisions of the TVA Contract. Loans are reviewed monthly by the Board of Directors. A copy of the Bristol Tennessee Essential Services Debt Management Policy is attached.

18. (If any) Description of Derivative and Compliance with Written Derivative Management Policy:

(Use additional pages if necessary)

N/A

19.



Authorized Representative

CEO

Title

07/09/2012

Date

mbrowder@btes.net

Email

Preparer

Title

Firm

Date

Email

20.

Submitted to Governing Body on 05/25/2011 and presented at its public meeting held on 05/25/2011

COPY TO: Director - Office of State and Local Finance, 505 Deaderick Street, Suite 1600,
James K. Polk State Office Building, Nashville TN 37243-1402

Bristol Tennessee Essential Services Debt Management Policy

The purpose of this Debt Management Policy is to establish a set of parameters by which debt obligations will be undertaken by Bristol Tennessee Essential Services ("BTES"). This policy reinforces the commitment of BTES to manage its financial affairs so as to minimize risk, avoid conflicts of interest and ensure transparency while still meeting the capital needs of the organization. A Debt Management Policy signals to the public and the rating agencies that BTES is using a disciplined and defined approach to financing capital needs and fulfills the requirements of the State of Tennessee regarding the adoption of a Debt Management Policy.

The goal of this policy is to assist decision makers in planning, issuing and managing debt obligations by providing clear direction as to the steps, substance and outcomes desired. In addition, greater stability over the long-term will be generated by the use of consistent guidelines in issuing debt.

Definition of Debt:

As used herein, the term "debt obligations" shall mean all obligations of BTES to repay, with or without interest, in installments and/or later date, money which is borrowed or credit which is extended for the purchase, construction, or operation of BTES resources. This includes but is not limited to notes, loans, capital leases, operating leases, letters of credit, and of any type of financial obligation, whether provided by an outside source such as a bank or provided by other sources, internal or external; provided, however, the foregoing shall not apply to office leases, goods and supplies purchased on account, and other routine purchases of goods and supplies necessary for BTES' day-to-day internal business operations.

Approval of Debt Obligations:

Revenue bonds, revenue anticipation notes, bond anticipation notes and capital leases in excess of \$50,000 will be submitted to the BTES Board of Directors and the State of Tennessee Comptroller's Office prior to issuance or entering into the obligation. A plan for refunding said debt issues will also be submitted to the Comptroller's Office prior to issuance. Details on the said capital lease agreements will be forwarded to the Comptroller's Office on the specified form within 45 days.

Transparency:

BTES shall comply with legal requirements for notice and for public meetings related to debt issuance. All notices shall be posted in the customary and required posting locations, including as required local newspapers, bulletin boards, and websites.

All costs (including principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the BTES Board of Directors, and other stakeholders in a timely manner.

The terms and life of each debt issue shall be clearly presented and disclosed to the BTES Board of Directors, and other stakeholders in a timely manner.

A debt service schedule outlining the rate of retirement for the principal amount shall be clearly presented and disclosed to the BTES Board of Directors, and other stakeholders in a timely manner.

Limitations on the Use of Debt Obligations:

Long-term debt shall not be used to finance current operations. Long-term debt may be used for capital purchases or construction identified through the BTES capital improvement plan. Short-term debt may be used for certain projects and equipment financing as well as for operational borrowing; however, BTES will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and close budget management.

In accordance with Generally Accepted Accounting Principles and state law,

1. The maturity of any BTES debt will not be more than the useful life of the assets purchased or built with the debt, not to exceed 30 years; however, an exception may be made with respect to federally sponsored loans, provided such an exception is consistent with law and accepted practices.
2. Debt issued for operating expenses must be repaid within the same fiscal year of issuance or incurrence.

Types and Limits of Debt:

BTES' total outstanding debt obligation will be monitored and reported to the Board of Directors by the CEO and Director of Accounting and Finance. The CEO and Director of Accounting and Finance shall monitor the maturities and terms and conditions of all obligations to ensure compliance. The CEO and Director of Accounting and Finance shall also report to the BTES Board of Directors any matter that adversely affects the credit or financial integrity of BTES.

Revenue Bonds

Revenue bonds are longer-term bonds that are secured solely by the revenues of the issuing division. In accordance with state law, BTES is not permitted to pledge capital assets as a form of security for the repayment of debt. Revenue bonds will be issued for the purpose of funding BTES' long-term capital needs.

Revenue Anticipation Notes

Revenue anticipation notes may be issued for the purpose of funding capital improvements or for the purpose of funding wholesale electric power purchases. These notes typically have maturities of one to five years and will be secured solely by the revenue of the issuing division.

Bond Anticipation Notes

Bond anticipation notes may be issued for the purpose of funding capital improvement in the short-term in anticipation of a future longer-term revenue bond issue, which would be used, in part, to retire the bond anticipation note. Bond anticipation notes will be secured by the proceeds of the bonds to be issued to refinance such notes and the revenues of the issuing division.

Capital Leases

Capital leases may be used as deemed appropriate for the purpose of financing shorter-term capital assets (i.e. copiers, computers, etc.). Prior to the execution of any capital lease, BTES will evaluate the economics of the capital lease compared to the purchase of the asset.

Interdivision Loans

BTES may loan funds from division to division subject to the provisions of TVA Power Contract TV-67518A, Supp. No. 65. These loans will be made subject to BTES Board of Directors approval and reviewed at monthly meetings as part of the financial report.

Other Types of Debt

Other types of debt instruments may be utilized, provided the use of any such instrument is in compliance with all applicable laws and provided the debt instrument is approved by the BTES Board of Directors. In the event an alternate form of debt financing is used, this Debt Management Policy shall be modified to reflect the appropriate policies and procedures for the use of the debt instrument.

Debt Service Structure:

The debt service payment structure for an individual debt issue will typically have a level structure although alternative debt service structures (i.e. front-loaded, balloon, or bullet maturities) may be utilized to achieve a more level repayment structure for the issuing division's overall debt portfolio or a lower borrowing cost for the issuing division.

In the case of a non-level debt service payment service, the CEO shall provide an appropriate justification to the BTES Board of Directors of the need and prudence of the

proposed debt service structure prior to the consideration by the Board of a resolution authorizing the issuance of the debt.

Costs of Debt:

All costs associated with the initial issuance or incurrence of debt, management and repayment of debt (including interest, principal, and fees or charges) shall be disclosed prior to action by the BTES Board of Directors in accordance with the notice requirements stated above.

In cases of variable interest or non-specified costs, detailed explanation of the assumptions shall be provided along with the complete estimate of total costs anticipated to be incurred as part of the debt issue.

Costs related to the repayment of debt, including liabilities for future years, shall be provided in context of the annual budgets from which such payments will be funded.

Refinancing Outstanding Debt:

BTES will refund debt when it is in the best financial interest of BTES to do so, and the Director of Accounting and Finance shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The decision to refinance must be explicitly approved by the BTES Board of Directors, and all plans for current or advance refunding of debt must be in compliance with state laws and regulations.

Professional Services:

BTES shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both BTES and the lender or conduit issuer, if any. This includes "soft" costs or compensations in lieu of direct payments.

Counsel

BTES shall enter into an engagement letter agreement with each lawyer or law firm representing BTES in a debt transaction. No engagement letter is required for any lawyer who is under a general appointment or contract to serve as counsel to BTES. BTES does not need an engagement letter with counsel not representing BTES, such as underwriters' counsel.

Financial Advisor

If BTES chooses to hire financial advisors, BTES shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions. Whether in a competitive sale or negotiated sale, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which they are or

have been providing advisory services for the issuance or broker any other debt transactions for BTES.

Underwriter

If there is an Underwriter, BTES shall require the Underwriter to clearly identify itself in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an Underwriter and not as a financial advisor from the earliest stages of its relationship with BTES with respect to that issue. The Underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction and that it has financial and other interests that differ from those of BTES. The Underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the BTES Board of Directors in advance of the pricing of the debt.

Conflicts:

Professionals involved in a debt transaction hired or compensated by BTES shall be required to disclose to BTES existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, liquidity or credit enhancement provider, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow BTES to appreciate the significance of the relationships.

Review of Policy:

The guidelines outlined herein are intended to provide general direction regarding the future issuance of debt. BTES maintains the right to modify this Debt Management Policy and may make exceptions to any of its guidelines at any time to the extent that the execution of such debt achieves the goals of BTES, as long as such exceptions or changes are consistent with Tennessee Code Annotated and any rules and regulations promulgated by the State.

This Debt Management Policy shall be reviewed from time to time as circumstances and regulations warrant. BTES may, from time to time, review this Debt Management Policy and make revisions and updates, if warranted.

Compliance:

The CEO and Director of Accounting and Finance are responsible for ensuring compliance with this policy.

30. Provide all documents sent or provided to BTES by the State of Tennessee Comptroller in years 2007, 2008, 2009, 2010, 2011, and 2012 to present.

RESPONSE: Subject to and without waiver of the General Objections, BTES has attached a copy of documents responsive to this Request relating to BTES' telephone business unit.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
FAX (615) 741-5986**

June 22, 2012

Mr. R. Michael Browder
Bristol Tennessee Essential Services
P.O. Box 549
Bristol, TN 37621-0549

Dear Mr. Browder:

Thank you for requesting approval of an interdivisional loan from the City's municipal electric system's Telephone Business Unit to the Advance Broadband Services Business Unit.

Section 7-52-603(a)(1)(B) Tennessee Code Annotated (the "Statute") authorizes a municipal electric system to lend funds, at a rate of interest not less than the highest rate then earned by the municipal electric system on invested electric plant funds, to a separate division within the system that provides broadband service to acquire, construct, and provide working capital for the broadband service, plant, and equipment. The Statute requires related interest costs to be allocated to the cost of the broadband service.

The Statute does not authorize the Office of the Comptroller to approve such a loan.

The municipal electric system is required to comply with the terms of Section 7-52-603(a)(1)(A) Tennessee Code Annotated (the "Subsidy Statute") to prevent subsidizing the Advance Broadband Services Business Unit with revenues from the municipal electric system. The loan document between the Advance Broadband Services Business Unit and Bristol Tennessee Essential Services should include terms such as a final maturity date and principal payment structure.

The Subsidy Statute requires the Advance Broadband Services Business Unit to maintain a separate accounting and record-keeping system from the other divisions in the municipal electric system. We ask that you properly disclose this interdivisional loan so that it may be properly identified.

Public Debt Entity Report

Enclosed is a revised Form CT-0253 - Report on Debt Obligation. The Form CT-0253 must be filed with the governing body of the public entity issuing the debt not later than forty-five (45) days following the issuance or execution of a debt obligation by or on behalf of any public entity, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance by email to the

Letter to Bristol Tennessee Essential Services

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address below or mailed to the address on the letter. No public entity may enter into additional debt if it has failed to file the Report on Debt Obligation.

StateandLocalFinance.PublicDebtForm@cot.tn.gov

Sincerely,

A handwritten signature in cursive script that reads "Mary-Margaret Collier".

Mary-Margaret Collier
Director of State & Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT

Enclosure
Form CT-0253

31. Please reference BTES's June 23, 2006 letter to the TRA filed in response to Embargo's June 9, 2006 letter (*see attached*). In this letter, BTES states that "additional fiber optic plant installed by BTES was purchased for the benefit and use of the electric business unit and its customers." BTES goes on to state that it "recognized that the fiber-optic network could also be used to provide high quality telephone, cable television, and Internet access services and that revenues from those services could substantially offset the costs of installing and maintaining the fiber optic system."
- a) Explain in detail how BTES allocated the initial investment in fiber optic between the electric, telephone, and cable business segments. Provide all workpapers and other documents that show how the allocation was made.
 - b) Did the decision to provide telephone, cable television, and Internet services require a change or upgrade in the fiber facilities initially purchased? If yes, please explain.
 - c) Has BTES purchased additional fiber facilities, over and above what was needed for the benefit and use of the electric business unit, to accommodate the needs of the telephone and cable business units? If yes, please explain. Also explain how BTES allocated the cost of the investment of the additional fiber facilities between the electric, telephone, and cable business segments.
 - d) How much was the "sufficient revenue" that BTES estimated the telephone and cable units would contribute to pay for the cost of installing and maintaining the fiber optic system? Provide all documents that support this response.

RESPONSE: BTES objects based upon the General Objections and avers that facilities within BTES' electric system footprint are, by definition, outside the scope of this proceeding.

32. Through June 30, 2012, identify by year the amount of financing that the electric business unit lent to the telephone unit of BTES and as to the cable business unit of BTES.

RESPONSE: BTES objects to the relevance of the inter-division loan between its electric business unit and its cable business unit. Subject to and without waiver of the foregoing objection, the following table provides the requested information:

Fiscal Year	Loan from Electric Business Unit to Telephone Business Unit	Loan from Electric Business Unit to Cable/Internet Business Unit
2006	629,007.91	3,459,711.00
2007	1,019,960.68	2,873,275.73
2008	547,806.65	2,805,558.06
2009	0.00	2,865,157.91
2010	0.00	2,188,594.26
2011	0.00	2,194,132.42
2012	0.00	1,511,397.00

33. Has the electric business unit of BTES implemented any rate increases for its electric customers since January 1, 2005? If yes, explain the reasons for the rate increase and to the extent applicable provide docket number(s) and identify the total amount of each rate Increase.

RESPONSE: BTES' electric rates fund BTES' operations and pay TVA's wholesale power costs. The TVA wholesale power costs includes TVA's basic wholesale power charges plus additional charges for certain TVA fuel costs and certain TVA environmental costs. Outside of rate changes that have passed through increases and decreases in TVA's power costs and charges, BTES has had one increase in the portion of its electric rates that fund BTES' operations. In 2008, BTES raised its electric system rates by 1.82% to cover increases in general and administrative expenses.

34. Please provide copies of all responses to data requests served on BTES by any other parties in this proceeding.

RESPONSE: Copies will be filed in this Docket and transmitted electronically to counsel for CenturyLink.

Respectfully submitted,

C. THOMAS DAVENPORT, JR.
General Counsel, BTES
640 State Street
Bristol, Tennessee 37620
(423) 989-6500



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

Attorneys for: Bristol Tennessee Essential Services

CERTIFICATE OF SERVICE

I hereby certify that a true and correct electronic copy has been forwarded via e-mail to the following on this the 5th day of October, 2012.

Charles B. Welch, Jr., Esq.
Farris Mathews Bobango, PLC
300 Historic Castner-Knott Building
618 Church Street
Nashville, Tennessee 37219

Zsuzsanna E. Benedek, Esq.
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Misty Smith Kelley, Esq.
Baker, Donelson, Bearman, Caldwell &
Berkowitz, PC
1800 Republic Centre
633 Chestnut Street
Chattanooga, Tennessee 37450

A handwritten signature in black ink, appearing to be "M. S. Kelley", is written above a horizontal line.