

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SEPARATION OF COSTS OF REGULATED)
TELEPHONE SERVICE FROM COSTS OF) ADMINISTRATIVE
NONREGULATED ACTIVITIES) CASE NO. 362

ORDER

Subsequent to the Federal Communications Commission ("FCC") order in Case No. 96-490, the Commission initiated this case by Order dated March 19, 1997 ("the March Order"). The purpose of the proceeding was to investigate the need for modifications to the cost allocation manuals ("CAMs") of the incumbent local exchange carriers ("ILECs") as a result of the FCC's actions. The March Order required BellSouth Telecommunications, Inc. ("BellSouth"), GTE South Incorporated ("GTE"), and Cincinnati Bell Telephone Company ("CBT") to file changes to their current CAMs concurrently with filing such changes with the FCC. The Order also required Telephone and Data Systems, Inc. ("TDS") and ALLTEL Kentucky, Inc. to file internal CAMs and the Independent Telephone Group¹ ("ITG") to file a proposed revised CAM. On April 23, 1997, the Commission ordered all ILECs to file revised tariffs removing telemessaging and alarm monitoring services as regulated services. The ITG's position on a revised CAM, as filed

¹ Ballard Rural Telephone Cooperative Corporation, Inc.; Brandenburg Telephone Company, Inc.; Duo County Telephone Cooperative Corporation, Inc.; Foothills Rural Telephone Cooperative Corporation, Inc.; Harold Telephone Company, Inc.; Highland Telephone Cooperative, Inc.; Logan Telephone Cooperative, Inc.; Mountain Rural Telephone Cooperative Corporation; North Central Telephone Cooperative, Inc.; Peoples Rural Telephone Cooperative Corporation, Inc.; South Central Rural Telephone Cooperative Corporation, Inc.; Thacker-Grigsby Telephone Company, Inc.; and West Kentucky Rural Telephone Cooperative Corporation, Inc.

on May 17, 1997, was that the existing CAM adequately met the requirements for proper cost allocations. Finally, on July 1, 1997, the Commission ordered those ILECs not filing revised tariffs to advise the Commission as to why revised tariffs were not required and compelled CBT and TDS to file their CAMs immediately. The Commission also ordered the ITG to file responses to a proposed CAM included as Appendix 1. All companies have filed tariffs or letters as to why tariffs are not required, and CBT and TDS have filed their respective CAMs.

On July 31, 1997, the ITG filed its response to the proposed CAM. The ITG stated its position on each of the nine proposed changes to its existing CAM, disagreeing with the proposals in four instances as discussed below.

Account 6512.000, Provisioning Expense

The ITG proposed to spread this account based on labor hours rather than the general allocator. The ITG's rationale was that using the general allocator would neglect to spread any amounts to plant under construction and using labor hours would be a more representative measure of cost causation. The Commission agrees with the ITG position and will change the CAM accordingly.

Accidents and Damages - Account 6728.200

The ITG's position was that these charges occur infrequently and direct assignment, not the general allocator, is the most accurate method to allocate these costs. Past CAM reviews support the ITG's position that these charges occur infrequently and that, in general, the charges are de minimis in nature. Therefore, the Commission accepts the ITG's position that Accidents and Damages remain a directly assigned expense based upon account analysis.

Other Operating Taxes - Account 7240

As described in Part 32 of the Uniform System of Accounts for Telecommunications Companies, this account shall include all taxes other than federal, state, and local income taxes and payroll-related taxes. Among the items includable in this account are state and local property taxes and the PSC assessment. The existing CAM requires that these taxes be allocated to regulated and nonregulated activities based on gross plant. However, they are also included in the general allocator calculation as directly assigned to regulated and nonregulated activities.

The ITG's position is that the account should be directly assigned using net plant as the allocator, but remain a part of the general allocator calculation. The Commission agrees that the property taxes included in this account should be allocated to regulated and nonregulated activities based on net plant. The PSC assessment included in this account should be directly assigned to regulated activities. The Commission also finds that other Operating Taxes should remain a part of the general allocator calculation.

Interest on Funded Debt - Account 7510

The ITG's position is that the current CAM procedures for this account are correct since the loans associated with the interest in this account were approved and utilized exclusively for the construction of regulated plant. Currently the CAM directly assigns all interest in this account to regulated activities and the account is included in the general allocator calculation.

Loans were approved for construction of regulated plant. However, a portion of that plant such as buildings, motor vehicles and equipment is used by the ITG in providing nonregulated activities. Also, formerly regulated lines of business such as CPE, including

key systems and PBX's, payphones and voice mail, have now become nonregulated. Therefore, construction loans produce a benefit to both regulated and nonregulated activities and a portion of their costs should be allocated to each.

The Commission will therefore require interest on funded debt to be allocated to regulated and nonregulated activities based upon net plant. However, this account should remain in the general allocator calculation.

IT IS THEREFORE ORDERED that:

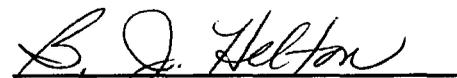
1. The proposed CAM shall be modified as directed in this Order. A modified copy is attached as Appendix A.
2. All other CAMs submitted by parties to this case are approved.

Done at Frankfort, Kentucky, this 3rd day of October, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN ADMINISTRATIVE CASE NO. 362 DATED OCTOBER 3, 1997

**COST ALLOCATION PROCEDURES
INDEPENDENT TELEPHONE GROUP
PSC ADMINISTRATIVE CASE NO. 362**

Introduction

Cost allocation procedures were developed for the ITG in Administrative Case No. 321 in the late 1980s. Since that time many new nonregulated services have been introduced and some previously regulated services have been deregulated. The modifications to the existing CAM include these recently deregulated items and new services and change the treatment of Interest on Funded Debt and certain other accounts to reduce the amount of analysis required for allocation of these accounts. Because investments in nonregulated ventures have grown over the years, it is appropriate to include a portion of the cost of debt in the nonregulated expenses. Preceding the CAM is a summary of the proposed changes to the cost allocation procedures. Additionally, to ensure that all LECs using the ITG CAM are applying a consistent methodology, the following procedures should be used when applying the ITG CAM.

Procedures

1. At month end after entries are made to book all expenses and payroll, perform all spreads to clearing accounts.
2. Calculate General Allocator based on 12 months to date expenses, including the current month.
3. Apply General Allocator percentage to the common accounts' balance for the current month.

4. Calculate the percentage of nonregulated revenues and regulated revenues to total revenues for allocation of uncollectible revenue to nonregulated.
5. Calculate the percentage of nonregulated net plant and regulated net plant to total net plant for allocation of Other Operating Taxes and Interest on Funded Debt.
6. Post entries from steps 3, 4, and 5.

Modifications

The following modifications to the existing ITG CAM are to simplify procedures and capture expenses that are attributable to nonregulated operations.

1. Account 6351.000, Paystation Expense

The apportionment basis should be changed to Directly Assignable to Nonregulated and the account should be removed from the Directly Assignable Regulated Expenses and entered into the Directly Assignable Nonregulated Expenses in the general allocator formula.

2. Account 6512.000, Provisioning Expense

This account should be spread based on labor hours.

3. Accounts 6611.000, Product Management Expense; 6612.000, Sales Expense; and 6613.000, Product Advertising Expense

The work performed by employees included in these accounts can be for both regulated and nonregulated products. However, since time is generally recorded to these accounts in half-hour increments, the time expended on nonregulated products and

services may not be properly captured. Therefore, to capture a portion of these expenses as nonregulated, the general allocator should be used.

Also it is possible to commingle products and services in advertisements. Direct assignment to regulated or nonregulated operations for mixed advertisements creates an unnecessary burden on a company's staff by requiring detailed examination of non-labor expenditures in these accounts; therefore, allocating all advertisement based on the general allocator will eliminate the necessity for such an examination. These accounts should also be removed from the general allocator formula because they will no longer be directly assigned.

4. Account 6623.400, Paystation Collection

The apportionment basis should be changed to Directly Assignable to Nonregulated and the account should be removed from the Directly Assignable Regulated Expenses and entered into the Directly Assignable Nonregulated Expenses in the general allocator formula.

5. Account 7220.000, Federal Income Taxes

The general allocator formula shown in Exhibit B should reflect those Federal Income Taxes directly assignable to nonregulated activities.

6. Account 7230.000, State and Local Income Taxes

This account should be added to the CAM and its treatment should be consistent with Account 7220.000, Federal Income Taxes.

7. Account 7240.000, Other Operating Taxes

Other Operating Taxes should be allocated based on net plant, and removed from the general allocator formula.

8. Account 7240.100, PSC Assessment

This account is added to segregate this charge from the Other Operating Taxes account. The PSC Assessment should be directly assigned to regulated operations.

9. Account 7510.000, Interest on Funded Debt

This account shall be allocated to regulated and nonregulated activities based on net plant and should be included in the general allocator formula.

CAM Description

Cost allocation procedures described herein are designed to allocate costs between the regulated and nonregulated activities of the company. Upon implementation, these procedures will ensure that the costs and risks associated with nonregulated activities will not be unduly imposed on the regulated ratepayer.

Costs will be directly assigned to either regulated or nonregulated accounts whenever possible. For example, direct labor will be assigned to either regulated or nonregulated accounts through time reporting procedures in 1/2 hour increments. Expenditures relating to nonregulated activities such as CPE, inside wiring, paging, paystation activities, telemessaging and alarm monitoring service, the provision of Internet service, and any other currently tariffed service which becomes nonregulated in the future will be directly assigned to the nonregulated expense accounts. Costs that cannot be directly assigned and are deemed to be common costs will be allocated to regulated and nonregulated activities based on direct and indirect measures of cost causation. These common costs will be apportioned to regulated and nonregulated accounts based on one of the following:

- Direct Plant Labor Hours
- Total Labor Dollars
- Revenues
- Net Plant
- General Allocator Based On Directly Assignable Expenses.

Whenever possible, the basis used in allocating common cost will have a direct relationship to the cost (e.g., direct labor hours in allocating nonproductive time such as vacation, sick leave, etc.).

The attached Exhibit A provides an analysis by USOA Part 32' accounts detailing the methodologies for distributing costs to regulated and nonregulated activities either by direct assignment or allocation basis. This list of accounts is not intended to be all-inclusive since each LEC company utilizes specific subaccounts. However, the distribution of cost for these subaccounts should be consistent with the accounts as shown. The attached Exhibit B also provides a detailed calculation for determining the general allocator.

| <u>ACCOUNT NUMBER</u> | <u>DESCRIPTION</u> | <u>REGULATED/NONREGULATED APPORTIONMENT BASIS</u> | <u>COMMENTS</u> |
|-----------------------|--|---|---|
| 5301.000 | UNCOLLECTIBLE REVENUE - TELECOMMUNICATIONS | REVENUES | DIRECT RELATIONSHIP TO PERCENTAGE OF REGULATED AND NONREGULATED REVENUES |
| 6112.000 | MOTOR VEHICLE EXPENSE - CLEARING | DIRECT (PLANT) LABOR HOURS | FOLLOWS DIRECT RELATIONSHIP OF DIRECT LABOR HOURS INCURRED FOR THE MONTH |
| 6112.050 | VEHICLE EXPENSE-NONSPECIFIC PLANT | DIRECTLY ASSIGNABLE TO REGULATED | AMOUNTS CHARGED FROM VEHICLE CLEARING ACCOUNT TO REGULATED PLANT NONSPECIFIC. EXPENSE BASED ON DIRECT LABOR HOURS |
| 6112.100 | VEHICLE EXPENSE-EXECUTIVE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6116.000 | OTHER WORK EQUIPMENT EXPENSE - CLEARING | DIRECT (PLANT) LABOR HOURS | DIRECT RELATIONSHIP TO PERCENTAGE OF DIRECT LABOR HOURS INCURRED FOR THE MONTH |
| 6116.050 | WORK EQUIPMENT EXPENSE - NON-SPECIFIC PLANT | DIRECTLY ASSIGNABLE TO REGULATED | AMOUNTS CHARGED FROM WORK EQUIPMENT CLEARING ACCOUNT TO REGULATED PLANT NONSPECIFIC. EXPENSE BASED ON DIRECT LABOR HOURS. |
| 6121.000 | LAND AND BUILDING EXPENSE (NON-HEADQUARTERS) | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT IN REGULATED ACCOUNTS. |
| 6121.100 | BUILDING EXPENSE-HEADQUARTERS | GENERAL ALLOCATOR | REPAIRS, JANITORIAL SUPPLIES, UTILITIES, ETC. FOR HEADQUARTERS BUILDING IS SUBACCOUNTED TO FACILITATE ALLOCATION. |
| 6122.000 | FURNITURE & ARTWORK EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6123.000 | OFFICE EQUIPMENT EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6124.000 | GENERAL PURPOSE COMPUTER EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6211.000 | ANALOG ELECTRONIC EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6212.000 | DIGITAL COE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6212.100 | REPAIR OF SPECIAL CIRCUIT | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6215.000 | ELECTRO-MECHANICAL EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |

COST ALLOCATION PROCEDURES - INDEPENDENT TELEPHONE GROUP
PSC CASE NO. 362

| <u>ACCOUNT NUMBER</u> | <u>DESCRIPTION</u> | <u>REGULATED/NONREGULATED APPORTIONMENT BASIS</u> | <u>COMMENTS</u> |
|-----------------------|------------------------------------|---|--------------------|
| 6220.000 | OPERATORS SYSTEM EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6231.000 | RADIO SYSTEMS EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6232.100 | DIGITAL CARRIER TOLL EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6232.110 | DIGITAL CARRIER EAS EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6232.120 | DIGITAL CARRIER SUBSCRIBER EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6232.200 | ANALOG CARRIER SUBSCRIBER EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6351.000 | PAYSTATION EXPENSE | DIRECTLY ASSIGNABLE TO NONREGULATED | DETARIFFED SERVICE |
| 6411.000 | POLE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6411.100 | POLE EXPENSE-JOINT USE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6411.200 | POLE EXPENSE-RIGHT OF WAY | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6421.000 | AERIAL CABLE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6421.100 | STATION CONNECTION - OUTSIDE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6422.000 | UNDERGROUND CABLE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6423.000 | BURIED CABLE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6424.000 | SUBMARINE CABLE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6431.000 | AERIAL WIRE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |

COST ALLOCATION PROCEDURES - INDEPENDENT TELEPHONE GROUP
PSC CASE NO. 362

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|-----------------------|---|--|---|
| 6441.000 | CONDUIT SYSTEM EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6512.000 | PROVISIONING EXPENSE | DIRECT (PLANT) LABOR HOURS | FOLLOWS DIRECT RELATIONSHIP OF DIRECT LABOR HOURS INCURRED FOR THE MONTH |
| 6531.000 | POWER EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | MAINTAINING TRANSMISSION POWER FOR TARIFF (REGULATED) SERVICES |
| 6532.000 | NETWORK ADMINISTRATION EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES FOR PROVIDING AND MAINTAINING TARIFFED (REGULATED) SERVICES |
| 6533.100 | TESTING EXPENSE - LOCAL | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES FOR PROVIDING AND MAINTAINING TARIFFED (REGULATED) SERVICES |
| 6533.200 | TESTING EXPENSE - TOLL | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES FOR PROVIDING AND MAINTAINING TARIFFED (REGULATED) SERVICES |
| 6533.300 | TESTING EXPENSE - EAS | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES FOR PROVIDING AND MAINTAINING TARIFFED (REGULATED) SERVICES |
| 6534.000 | PLANT ADMINISTRATION EXPENSE - CLEARING | DIRECT (PLANT) LABOR HOURS | DIRECT RELATIONSHIP TO PERCENTAGE OF DIRECT LABOR HOURS INCURRED FOR THE MONTH |
| 6534.100 | PLANT ADMINISTRATION EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | AMOUNTS CHARGED FROM CLEARING ACCOUNT TO REGULATED PLANT NONSPECIFIC EXPENSE ACCOUNTS BASED ON DIRECT LABOR HOURS |
| 6535.000 | ENGINEERING EXPENSE - CLEARING | DIRECTLY ASSIGNABLE TO REGULATED WITH CREDITS FOR AMOUNTS TRANSFERRED TO CONSTRUCTION ACCOUNTS BASED ON REGULATED DIRECT LABOR HOURS | EXPENSE FOR PROVIDING AND MAINTAINING TARIFFED (REGULATED) SERVICES |
| 6535.100 | ENGINEERING EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | AMOUNTS CHARGED FROM ENGINEERING CLEARING ACCOUNT TO REGULATED PLANT NONSPECIFIC EXPENSE ACCOUNTS BASED ON REGULATED DIRECT LABOR HOURS |
| 6540.000 | ACCESS EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES FOR PROVIDING AND MAINTAINING TARIFFED (REGULATED) SERVICES. |

COST ALLOCATION PROCEDURES - INDEPENDENT TELEPHONE GROUP
PSC CASE NO. 362

| <u>ACCOUNT NUMBER</u> | <u>DESCRIPTION</u> | <u>REGULATED/NONREGULATED APPORTIONMENT BASIS</u> | <u>COMMENTS</u> |
|-----------------------|--|---|--|
| 6561.000 | DEPRECIATION EXPENSE-REGULATED PLANT IN SERVICE | REGULATED PLANT DEPRECIATION EXPENSE DIRECTLY ASSIGNABLE TO REGULATED, NONREGULATED PLANT DEPRECIATION EXPENSE DIRECTLY ASSIGNED TO NONREGULATED | FOLLOWS INVESTMENT |
| | | COMMON DEPRECIATION EXPENSE ALLOCATED BY GENERAL ALLOCATOR AS FOLLOWS: FURNITURE DEP. EXPENSE - OTHER OFFICE EQ. DEP. EXP. - GENERAL PURPOSE COMPUTER DEPRECIATION EXPENSE - HEADQUARTERS (BUSINESS OFFICE) DEP. EXPENSE - | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6561.025 | DEPRECIATION EXPENSE-VEHICLE CLEARING | DIRECT (PLANT) LABOR HOURS | DIRECT RELATIONSHIP TO PERCENTAGE OF DIRECT LABOR HOURS INCURRED FOR THE MONTH |
| 6561.026 | DEPRECIATION EXPENSE-VEHICLE | DIRECTLY ASSIGNABLE TO REGULATED | AMOUNTS CHARGED FROM CLEARING ACCOUNT TO REGULATED PLANT NON-SPECIFIC EXPENSE ACCOUNTS BASED ON DIRECT LABOR HOURS |
| 6561.030 | DEPRECIATION EXPENSE - EXTRA-ORDINARY RETIREMENT | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6565.200 | AMORTIZATION EXPENSE - EMBEDDED INSIDE WIRING | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6565.300 | AMORTIZATION EXPENSE - 1ST YEAR INSIDE WIRING | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6565.400 | AMORTIZATION EXPENSE - 2ND YEAR INSIDE WIRING | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6565.500 | AMORTIZATION EXPENSE - 3RD YEAR INSIDE WIRING | DIRECTLY ASSIGNABLE TO REGULATED | FOLLOWS INVESTMENT |
| 6611.000 | PRODUCT MANAGEMENT EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6612.000 | SALES EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6613.000 | PRODUCT ADVERTISING EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |

COST ALLOCATION PROCEDURES - INDEPENDENT TELEPHONE GROUP
PSC CASE NO. 362

| <u>ACCOUNT NUMBER</u> | <u>DESCRIPTION</u> | <u>REGULATED/NONREGULATED APPORTIONMENT BASIS</u> | <u>COMMENTS</u> |
|-----------------------|-----------------------------|---|--|
| 6621.100 | OPERATOR SERVICES | DIRECTLY ASSIGNABLE TO REGULATED | TARIFFED SERVICE |
| 6622.100 | NUMBER SERVICES | DIRECTLY ASSIGNABLE TO REGULATED | TARIFFED SERVICE |
| 6623.000 | CUSTOMER SERVICES | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6623.100 | COLLECTION EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6623.200 | CUSTOMER SERVICES-SUPPLIES | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6623.300 | CABS BILLING EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | TARIFFED SERVICE |
| 6623.400 | PAYSTATION COLLECTION | DIRECTLY ASSIGNABLE TO NONREGULATED | DETARIFFED SERVICE |
| 6711.000 | EXECUTIVE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6711.500 | DIRECTOR EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6711.600 | MEETING EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6711.700 | ANNUAL MEETING EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6712.000 | PLANNING EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6721.000 | ACCOUNTING & FINANCIAL | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6721.100 | ANNUAL AUDIT EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6721.200 | NECA ADMINISTRATIVE EXPENSE | DIRECTLY ASSIGNABLE TO REGULATED | TARIFFED SERVICE |
| 6722.000 | EXTERNAL RELATIONS | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES INCURRED IN PROVIDING TARIFF SERVICES |

COST ALLOCATION PROCEDURES - INDEPENDENT TELEPHONE GROUP
PSC CASE NO. 362

| <u>ACCOUNT NUMBER</u> | <u>DESCRIPTION</u> | <u>REGULATED/NONREGULATED APPORTIONMENT BASIS</u> | <u>COMMENTS</u> |
|-----------------------|---|---|---|
| 6722.100 | REGULATORY AFFAIRS | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES INCURRED IN PROVIDING TARIFF SERVICES |
| 6723.000 | HUMAN RESOURCES | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6723.100 | INTERNAL MEETING EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6724.000 | INFORMATION MANAGEMENT | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6725.000 | LEGAL | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6726.000 | PROCUREMENT | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6728.000 | OTHER GENERAL & ADMINISTRATIVE EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6728.010 | GENERAL & ADMIN. EXPENSE-A/R ADJUSTMENT | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6728.100 | INSURANCE EXPENSE | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6728.200 | ACCIDENT & DAMAGES | DIRECTLY ASSIGNABLE TO REGULATED AND NONREGULATED | NATURE OF CHARGE WILL DETERMINE ASSIGNMENT |
| 6728.300 | ASSOCIATION DUES | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 6728.600 | GENERAL PUBLICATIONS | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 7220.000 | FEDERAL INCOME TAX | DIRECTLY ASSIGNABLE TO REGULATED AND NONREGULATED | CHARGE DIRECTLY AS IF SEPARATE RETURNS WERE FILED |
| 7230.000 | STATE AND LOCAL INCOME TAX | DIRECTLY ASSIGNABLE TO REGULATED AND NONREGULATED | CHARGE DIRECTLY AS IF SEPARATE RETURNS WERE FILED |
| 7240.000 | OPERATING OTHER TAXES | NET PLANT | PROPERTY TAXES ALLOCATED BASED ON PERCENTAGE OF REGULATED AND NONREGULATED NET PLANT TO TOTAL NET PLANT |
| 7240.100 | PSC ASSESSMENT | DIRECTLY ASSIGNABLE TO REGULATED | EXPENSES FOR PROVIDING AND MAINTAINING TARIFFED (REGULATED) SERVICES |

COST ALLOCATION PROCEDURES - INDEPENDENT TELEPHONE GROUP
PSC CASE NO. 362

EXHIBIT A
PAGE 7 OF 7

| <u>ACCOUNT NUMBER</u> | <u>DESCRIPTION</u> | <u>REGULATED/NONREGULATED APPORTIONMENT BASIS</u> | <u>COMMENTS</u> |
|-----------------------|-------------------------------|---|--|
| 7370.000 | SPECIAL CHARGES CONTRIBUTIONS | GENERAL ALLOCATOR | GENERAL ALLOCATION BASED ON DIRECTLY ASSIGNABLE EXPENSES |
| 7510.000 | INTEREST ON FUNDED DEBT | NET PLANT | REA INTEREST ON FUNDED DEBT FOR REGULATED AND NONREGULATED ACTIVITIES. |
| 7540.000 | OTHER INTEREST DEDUCTIONS | DIRECTLY ASSIGNABLE TO REGULATED | INTEREST ON SECURITY DEPOSIT FOR REGULATED SERVICES |
| 7620.000 | EXTRAORDINARY INCOME CHARGES | DIRECTLY ASSIGNABLE TO REGULATED OR NONREGULATED | NATURE OF EXTRAORDINARY CHARGE WILL DETERMINE HOW IT IS ASSIGNED |
| 7990.240- 7990.550 | NONREGULATED EXPENSE ACCOUNTS | DIRECTLY ASSIGNABLE TO NONREGULATED | EXPENSES ASSOCIATED WITH NONREGULATED ACTIVITIES |
| 9010.000 | PLANT CLEARING-NONPRODUCTIVE | DIRECT (PLANT) LABOR HOURS | DIRECT RELATIONSHIP TO PERCENTAGE OF DIRECT LABOR HOURS INCURRED FOR MONTH |
| 9020.000 | CLEARING - PAYROLL BENEFITS | TOTAL LABOR DOLLARS | ALLOCATED BASED ON RELATIONSHIP TO PAYROLL DOLLARS DIRECTLY ASSIGNED TO REGULATED AND NONREGULATED |

$$\text{General Allocator} = \frac{\text{Total Nonregulated Directly Assignable Expenses}}{\text{Total Regulated Directly Assignable Expenses} + \text{Total Nonregulated Directly Assignable Expenses}}$$

| <u>A/C #</u> | <u>Description</u> |
|--------------|--|
| 7990.240 | Nonreg. - Maintenance Expense |
| 7990.305 | Nonreg. - PBX Repair |
| 7990.380 | Nonreg. - Key System Repair |
| 7990.500 | Nonreg. - Pager Supply Expense |
| 7990.510 | Nonreg. - Inside Wire Repair |
| 7990.520 | Nonreg. - Single Line Station Installation & Removal |
| 7990.525 | Nonreg. - Key System Installation & Removal |
| 7990.530 | Nonreg. - Single Line Station Repair |
| 7990.535 | Nonreg. - Paging Equipment Expense |
| 7990.540 | Nonreg. - Depreciation Expense |
| 7990.545 | Nonreg. - Depreciation Expense - Vehicle |
| 6351.000 | Nonreg. - Paystation Expense |
| 6623.400 | Nonreg. - Paystation Collection |
| 6728.200 | Nonreg. - Accidents and Damages |
| 7220.100 | Nonreg. - Federal Income Taxes |
| 7230.100 | Nonreg. - State and Local Income Taxes |
| 7240.000 | Nonreg. - Other Operating Taxes |
| 7510.000 | Nonreg. - Interest on Funded Debt |
| | Nonreg. - *** ¹ |

Total Nonregulated Directly Assignable Expense

¹ ***Any other expense associated with service currently deregulated i.e. telemessaging of alarm monitoring service or services deregulated in the future.

| <u>A/C #</u> | <u>Description</u> |
|--------------|--|
| 6112.050 | Vehicle Expense-Nonspecific Plant |
| 6116.050 | Work Eq. Expense-Nonspecific Plant |
| 6121.000 | Land & Building Expense |
| 6211.000 | Analog Electronic Expense |
| 6212.000 | Digital COE Expense |
| 6212.100 | Repair of Special Circuit |
| 6215.000 | Electro-mechanical Expense |
| 6220.000 | Operators System Expense |
| 6231.000 | Radio Systems Expense |
| 6232.100 | Digital Carrier Toll Expense |
| 6232.110 | Digital Carrier EAS Expense |
| 6232.120 | Digital Carrier Subscriber Expense |
| 6232.200 | Analog Carrier Subscriber Expense |
| 6411.000 | Pole Expense |
| 6411.100 | Pole Expense-Joint Use |
| 6411.200 | Pole Expense-Right of Way |
| 6421.000 | Aerial Cable Expense |
| 6421.100 | Station Connection-Outside |
| 6422.000 | Underground Cable Expense |
| 6423.000 | Buried Cable Expense |
| 6424.000 | Submarine Cable Expense |
| 6431.000 | Aerial Wire Expense |
| 6441.000 | Conduit System Expense |
| 6531.000 | Power Expense |
| 6532.000 | Network Administration Expense |
| 6533.100 | Testing Expense - Local |
| 6533.200 | Testing Expense - Toll |
| 6533.300 | Testing Expense - EAS |
| 6534.100 | Plant Administration Expense |
| 6535.100 | Engineering Expense |
| 6540.000 | Access Expense |
| 6561.000 | Dep. Exp.-Reg. Plant In Service |
| 6561.026 | Dep. Exp.-Vehicle |
| 6561.030 | Dep. Exp.-Extraordinary Retirement |
| 6565.200 | Amortiz. Exp.-Emb. Inside Wiring |
| 6565.300 | Amortiz. Exp.-1st Year Inside |
| 6565.400 | Amortiz. Exp.-2nd Year Inside |
| 6565.500 | Amortiz. Exp.-3rd Year Inside |
| 6621.100 | Operator Services |
| 6622.100 | Number Services |
| 6623.300 | CABS Billing Expense |
| 6721.200 | NECA Administrative Expense |
| 6722.000 | External Relations |
| 6722.100 | Regulatory Affairs |
| 7220.000 | Federal Income Taxes |
| 7230.000 | State and Local Income Taxes |
| 7240.000 | Other Operating Taxes |
| 7240.100 | PSC Assessment |
| 7510.000 | Interest on Funded Debt |
| 7540.000 | Other Interest Deductions |
| 7620.000 | Extraordinary Income Charges |
| 7990.240 | Nonreg. - Maintenance Expense |
| 7990.305 | Nonreg. - PBX Repair |
| 7990.380 | Nonreg. - Key System Repair |
| 7990.500 | Nonreg. - Pager Supply Expense |
| 7990.510 | Nonreg. - Inside Wire Repair |
| 7990.520 | Nonreg. - Single Line Station Installation & Removal |
| 7990.525 | Nonreg. - Key System Installation & Removal |
| 7990.530 | Nonreg. - Single Line Station Repair |
| 7990.535 | Nonreg. - Paging Equipment Expense |
| 7990.540 | Nonreg. - Depreciation Expense |
| 7990.545 | Nonreg. - Dep. Expense - Vehicle |
| 6351.000 | Nonreg. - Paystation Expense |
| 6623.400 | Nonreg. - Paystation Collection Expense |
| 7240.000 | Nonreg. - Other Operating Taxes |
| 7510.000 | Nonreg. - Interest on Funded Debt |
| | Nonreg. - ***2 |
| <u>Total</u> | Regulated Directly Assignable Expenses + Nonregulated Directly Assignable Expenses |

² ***Any other expense associated with service currently deregulated i.e. telemessaging of alarm monitoring service or services deregulated in the future.