

Carbon/Emery Telecom, Inc.
Description and Justification
Rate Case
Test Period: 2004 with Known and Measurable Adjustments

This exhibit provides a brief narrative description and justification for Carbon/Emery Telecom, Inc.'s (Carbon/Emery's) Application for Rate Increase and USF Eligibility filed before the Public Service Commission of Utah. Douglas Meredith of John Staurulakis, Inc. (JSI) prepared this exhibit. JSI has been retained by Carbon/Emery to prepare and support its application for rate increases and USF eligibility.

Carbon/Emery is a new entity established in 2001 when it acquired the Price, Helper and East Carbon exchanges from Qwest Corporation. This rate case is Carbon/Emery's first rate case and is therefore a baseline rate case intended to establish the rates necessary for Carbon/Emery to provide telecommunications service in these exchanges. The proposed rate increases and application for Utah universal service fund support is necessitated by a variety of factors. Foremost is the initial adjustment from prior Qwest rates to rates that reflect the cost of service in these exchanges. Increases in investment for the purpose to improve telephone plant in service and increased costs in the industry generally necessitate this application.

Carbon/Emery had discussions with the Division of Public Utilities (DPU) in 2003 to initiate a baseline rate case inasmuch as it was apparent after the acquisition that Qwest rates were too low to support the new investment and ongoing operations required

for the newly formed company. Due to unforeseen circumstances, it is only now that Carbon/Emery is able to prepare and file this application.

Test Period

Carbon/Emery is proposing to use the most recent 12-month annual period as the most appropriate test period for this proceeding. While the Utah statute provides for public utilities to project up to 20 months into the future for a test period, Carbon/Emery declines to add additional expense and time to the process in selecting a forecasted test period. (See Utah Code Anno. § 54-4-4(3)) Instead, Carbon/Emery proposes a historic 12-month annual period as the period to best reflect the rate period. This test period selection is consistent with the Commission's historic treatment of rural telephone companies in Utah.

Carbon/Emery is aware of an ongoing Test Period Task Force conducted by the Division of Public Utilities to examine the test period selection of public utilities. It is also aware that the DPU's position in that task force was that an historic test period was its preferred test period for public utilities. This preference by the DPU is a motivating factor for Carbon/Emery to use an historic test period. Further motivation is the avoidance of the expense and time required to prepare a forecasted test period – especially when the DPU's task force recommendations have not been finalized. It has been common practice for the Commission to permit rural telephone companies to make known and measurable adjustments to historic test period calculations. Carbon/Emery proposes to use 2004 as the appropriate test period for its application and makes limited

known and measurable adjustments to its application. Carbon/Emery has limited these adjustments to ongoing and planned plant investments for 2005, and a known change of operations involving the carriage of traffic for Frontier a.k.a. Citizens. (See Note (a) on Exhibit 2.2) Adjustments to test year expenses are limited to plant related items, including depreciation associated with the known and measurable plant additions and known and measurable plant expense related to cable maintenance. This means that increases in labor costs attributable to wage and benefit increases, for example, are not included in this baseline rate case application.

Results of Operations

The various exhibits attached to this application show the operational activities of Carbon/Emery for the test period and the known and measurable adjustments proposed by Carbon/Emery. These exhibits show the proposed rate changes and request for Utah universal service support Carbon/Emery requires in order to have the opportunity to earn a rate of return of 10.05 percent. The prior Qwest rates and Carbon/Emery's proposed rates are reflected in Exhibit 2.1 and 2.2.

This application uses the intrastate calculation inasmuch as this calculation results in a slightly lower Utah USF request. A comparison of the intrastate and the total company computations is in Exhibit 2 and 10 respectively.