

**CARBON / EMERY TELCOM**  
**Notes to Exhibit S-1**

**(e) Adjustment for Rate Case Expense Adjustment**

Consultant Fees	\$160,000
Intrastate Factor	<u>62.83%</u>
	<u>\$100,528</u>

**(f) Capital Structure and Rate of Return**

The Company proposes a 10.05% return on rate base. The 10.05% return is based on the assumption that capital is split equally between debt and equity for which the maximum allowable after-tax cost of equity is 12.5%, and the maximum allowable cost of debt is 7.6%. The calculation of the 10.05 rate of return is shown at **EXHIBIT 3**.

Also shown at **EXHIBIT 3** is the calculation of the required return on net-investment at the proposed rate of return. The return is grossed up for income taxes reflective of nontaxable interest.

**(g) Income Taxes**

The calculation of income taxes is shown at **EXHIBIT 4**.

**(h) Intrastate Revenue Changes**

**EXHIBIT 2** summarizes changes in intrastate revenues that the company proposes in this rate case.

**EXHIBIT 2.1** summarizes the impact of proposed changes in local rates.

**EXHIBIT 2.2** summarizes the impact of proposed changes in intrastate switched access and transport rates.

Carbon/Emery's current basic local service rates are below the Affordable Base Rates established by the Commission. At **EXHIBIT 2.1**, the increase in revenue at current levels of customers is calculated. Additionally, the company is proposing increases in nonrecurring charges related to service orders.

	Per Exhibit 2.1		
	Current	Proposed	Proposed Increase
RESIDENCE ONE-PARTY SERVICE	\$11.03	\$13.50	\$2.47
BUSINESS ONE-PARTY SERVICE	\$19.37	\$23.00	\$3.63

**(i) Intrastate Expense and Investment Apportionment**

**EXHIBIT 8 - Apportionment of total company expense and investment to intrastate.** Intrastate unadjusted expenses are calculated based on the total company balances multiplied by the applicable intrastate factor for the account reflected in Exhibit 14.2.