

(8Stanley K. Stoll (A3960)
BLACKBURN & STOLL, L.C.
Attorneys for Carbon/Emery Telcom, Inc.
257 East 200 South, Suite 800
Salt Lake City, Utah 84111
Telephone: (801) 521-7900

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE INCREASE OF RATES AND CHARGES AND USF ELIGIBILITY BY
CARBON/EMERY TELCOM, INC.

SUPPLEMENT TO APPLICATION FOR RATE INCREASE AND USF ELIGIBILITY

DOCKET NO. 05-2302-01

SUPPLEMENT TO APPLICATION

Carbon/Emery Telcom, Inc. ("Carbon/Emery") hereby files this Supplement to Application for Rate Increase and USF Eligibility (the "Supplement") and represents the following:

1. On June 17, 2005 Carbon/Emery Telecom, Inc. (Carbon/Emery), filed with the Utah Public Service Commission (the "Commission") an Application for Rate Increase and USF Eligibility (the "Application"). The Application proposed an increase in basic local service and business rates to \$13.50 and \$23.00 respectively (consistent with the Commission's previously established Base Affordable Rate). In addition, the Application requested an annual intrastate USF distribution of \$1,584,519 required for Carbon/Emery to recover its cost of service and a reasonable return on the value of its property devoted to public use. The test period proposed by Carbon/Emery in the Application is 2004 with Known and Measurable Adjustments. Due to four factors Carbon/Emery is filing this Supplement:

i. The first change reflected in the Supplement is Carbon/Emery's use of newly finalized 2004 cost study factors. Previously, Carbon/Emery used 2003 allocation factors for the 2004 test period because the 2004 cost study was not finalized. Subsequently, Carbon/Emery has responded to discovery requests regarding the 2004 cost study since it was finalized after the Application was filed. Since the 2004 cost study is completed, the Supplement

contains updated exhibits which reflect calculations based these 2004 factors.

ii. Second, additions have been made to known and measurable adjustments. Subsequent to its filing in June, Carbon/Emery's Board approved additions to and modifications and changes to plant investments and expenditures that were not reflected in the initial application. These revisions are now detailed in the exhibits attached to the application. In addition to plant investment and expense entries, Carbon/Emery is adding its consulting fee estimate for the preparation and support of the rate case.

iii. Third, the treatment for all known and measurable investment has changed. Initially a mid-year convention was used to determine the depreciation expense, investments, and reserves. Carbon/Emery changes this convention to reflect a full year of expenses attributable to this investment. This change also allows the application to reflect the planned plant in service and reserve balances as of January 1, 2006.

iv. The fourth change is a correction to the use of excess depreciation expense in the Application. (*See* Exhibit S-7) In calculating excess depreciation expense, a negative number was used when the positive value of the number should have been used to calculate the annual revenue requirement. In the preparation of testimony used to support the Supplement this calculation error was identified and corrected.

2. Combined, these revisions cause the intrastate revenue requirement shortfall to increase from the \$2,235,441 reflected in the Application to \$2,599,846 -- an increase of \$364,405. Because the initial rates were at the Commission's Base Affordable Rates, this Supplement increases the request for annual intrastate USF distribution to \$1,770,212. Compared to the initial annual intrastate USF distribution requested in the Application, this Supplement increases the intrastate USF distribution by \$185,693.

3. This Supplement is supported by the following attached exhibits and schedules:

See, the following attached exhibits: Exhibit S-1, Revenue Requirement Calculation (Intrastate) and Notes to Exhibit S-1; Exhibit S-2, Summary of Intrastate Regulated Revenues; Exhibit S-2.1 Local Services Rate Development; Exhibit S-2.2 Switched Access Rate Development; Exhibit S-3 Capital Structure Analysis; Exhibit S-4, Income Tax Calculation (Intrastate Only); Exhibit S-5, Adjustment for Plant Additions; Exhibit S-

5.1, Adjustment for Full Year of 2004 Net Additions; Exhibit S-5.2, Plant Adjustment for Known and Measurable Changes: Investment; Exhibit S-5.3, Plant Adjustment for Known and Measurable Changes: Expenses; Exhibit S-6, Depreciation Adjustment, Exhibit S-7, Effect of Unauthorized Depreciation Expense; Exhibit S-8, Jurisdictional Apportionment of Investment and Expenses; Exhibit S-9, Revenue Requirement Calculation (Total Company) and Notes to Exhibit S-9; Exhibit S-10, Summary of Total Company Regulated Revenue Sources; Exhibit S-11, Analysis of 2004 Interstate Access Revenue; Exhibit S-12, Income Tax Calculation (Total Company); Exhibit S-13, Cash Working Capital.

Also, see, as **CONFIDENTIAL -- SUBJECT TO PROTECTIVE ORDER IN DOCKET NO. 05-2302-01**, the following attached Exhibit S-14, 2004 Test Year Revenue Requirement Summary; Exhibit S-14.1 Test Year Part 36 Jurisdictional Revenue Requirement; Exhibit S-14.2, Part 36 Jurisdictional Separations Factors; Exhibit S-14.3, Trial Balance and Other Cost Study Input; Exhibit S-15, Switched Access Revenue Requirement Summary; Exhibit S-15.1 Revenue Requirement Summary Intrastate Intralata RA 1-3 and Intrastate Interlata ER 1-3; Exhibit S15.2 Intrastate Part 69 Access Factors Intrastate Intralata 1a & 2a and Intrastate Interlata 1b & 2b; Supplement A, Trial balance After Audit.

4. The following rate increases are necessary, fair and reasonable:

(a) Residential local exchange rates increased by \$2.47, from \$11.03 to Commission's previously established Base Affordable Rate of \$13.50 per month for residential customers in the Carbon/Emery exchanges.

(b) Business local exchange rates increased by \$3.63, from \$19.37 to the Commission's previously established Base Affordable Rate of \$23.00 per month for business customers of the Carbon/Emery exchanges.

(d) Various miscellaneous local rate elements are increased or decreased as outlined in the attached exhibits.

(e) The local switching rate (access) is increased from \$0.010800 to \$0.03690 in the Carbon/Emery exchanges.

(f) The local transport charge (access) is increased from \$0.001061 to \$0.00560 in the Carbon/Emery exchanges.

(g) The Carrier Common Line originating and terminating charges are eliminated.

(h) Certain other recurring and nonrecurring charges are increased as described in Exhibit 2.1.

5. Carbon/Emery requests that the Commission, in accordance with Utah Code Anno. 54-8b-15 and R746-306 of the Commission's Rules of Practice and Procedure, in addition to the increase in rates described in the Application, approve the annual intrastate USF distribution of \$1,770,212 to Carbon/Emery as described in paragraph 5 of this Supplement.

WHEREFORE, Carbon/Emery Telcom, Inc. respectfully submits this Supplement for Proposed Rate Increase and USF Eligibility.

DATED this 1st day of September, 2005.

BLACKBURN & STOLL, L.C.

By _____

Stanley K. Stoll

Attorneys for Carbon/Emery

Telcom, Inc.

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the Application for Rate Increase, Docket No. 05-2302-01 was sent to the following individuals by mailing a copy thereof via first-class mail, postage prepaid, this 1st day of September, 2005:

Michael Ginsberg
Assistant Attorney General
Division of Public Utilities

Paul Proctor
Assistant Attorney General
Committee of Consumer Services

Stanley K. Stoll