STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on October 15, 2008

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
Robert E. Curry, Jr.

CASE 08-C-0017 – Minor Rate Filing of Nicholville Telephone Company to Increase its Annual Revenues by About $204,906 in its PSC No. 7 Telephone Tariff.

ORDER AUTHORIZING RATE INCREASE

(Issued and Effective October 28, 2008)

BY THE COMMISSION:

INTRODUCTION

On January 10, 2008, Nicholville Telephone Company, Inc. (Nicholville or Company) filed a petition requesting a rate increase, due to a claimed revenue deficiency of approximately $782,574. As the primary causes for the revenue shortfall, the Company notes the phase-out of the New York State Access Settlement Pool, decline in Federal Universal Service Fund (USF) support, and loss of local service revenue as customers migrate to competitive service providers. To fund its claimed $782,574 overall revenue deficiency, Nicholville proposes to increase local rates in the amount of $294,839 or 68.5%, amortize deferred credits amounting to $59,463, and withdraw $428,272 from the Transition Fund established after the Access Pool Proceeding.[1] The

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[1] Case 02-C-0595, Intrastate Access Settlement Pool, Inc. - Traffic Sensitive Access Rates, Order Adopting Comprehensive Plan (issued December 23, 2003).

Company recognizes that the requested local rate increase is significant as it would increase basic local service rates for residential customers by approximately $11.40 per month or about double the current rates. Nicholville, therefore, proposes to work with Department of Public Service Staff (Staff) to develop an appropriate recovery mechanism to phase-in the rate increase.

Staff's review of the proposal resulted in the recommendation of numerous adjustments. The adjustments result in a Staff recommendation for approval of an overall intrastate revenue requirement of $286,303 and a local rate increase of $178,837 or 41.5%, after amortization of deferred credits amounting to $107,465. After adjustments, Nicholville's basic residential and business rates would increase by $7.00 per month. Because basic residential rates will remain below the $23.00 benchmark rate established in the Commission's Statement of Policy on Competition in the Telecommunications Market,[2] the Company is not eligible to withdraw funds from the Transition Fund at this time. The calculation of the company's revenue requirement is shown in Appendix A to this Order.

BACKGROUND

Nicholville Telephone Company, Inc., independently owned and operated by its employees, provides local exchange and toll access service to approximately 2,000 customers in a 200 square mile area in northern St. Lawrence County. The Company's headquarters is located in Nicholville, New York, twenty–three miles southeast of Massena. The Company provides service in two wire centers, Nicholville and Winthrop; about 86% of its customers are residential. Like many other telephone companies in New York, Nicholville is experiencing competition from non-wire line providers; and, the

[2] Case 05-C-0616, Transition to Intermodal Competition - Telecommunications Services, Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings (issued April 11, 2006). The Statement of Policy provides that a former toll pool member, such as Nicholville, is eligible for assistance from the Transition Fund if its basic rate for residential customers would exceed the $23 statewide benchmark rate cap, or the appropriate rate as each rate cap is increased.

Company lost 23.5% of its access lines from January 2005 to June 2008. Its last general rate increase was authorized by the Commission over 18 years ago.

In addition to regulated telephone services, Nicholville provides Internet service (DSL and broadband), long distance, and competitive local services through its non-regulated, wholly owned subsidiary, SLIC, Inc. The Company operated a technical support call center, Fused Solutions, Inc., until December 31, 2007, when it was sold.[3]

The Staff reviewed the company's petition, based on the historic year ending December 31, 2006, issued interrogatories, and conducted field examinations of Nicholville's books and records. Upon completion of Staff's review and on-site audit, Staff held a conference with the Company to discuss the Staff's findings and the Company's response to its proposed adjustments.

DISCUSSION

We adopt all of Staff's adjustments to the Company's rate increase request. The most substantial adjustments are in the areas of executive compensation, expense allocations to non-regulated activities, depreciation expenses, and federal income taxes. The major adjustments are discussed below; all of the adjustments are listed in Appendix B.

Economic conditions, reductions in state and federal funding to rural telephone companies, and competitive pressures are causing financial pressure on Nicholville and upward pressure on its rates. The development of a multi-year rate plan would assist the Company in planning for its future and promote greater stability and certainty in its rate structure and revenue stream. Accordingly, we encourage the Company to develop a multi-year rate plan, through a collaborative process involving Staff and other interested parties.

[3] The sale of this subsidiary resulted in the forgiveness of substantial amounts of debt owed to Nicholville. The Staff plans to investigate the circumstances and implications of the debt forgiveness.

OPERATING REVENUES

Local Service Revenues

Nicholville points to losses in local service revenues as customers migrate to competitive service providers to justify its rate increase request. To adjust the 2006 historic test year Total Local Network Services Revenues by $68,503, the Company forecast calendar year 2008 revenues, based upon actual 2007 access line losses and projected 2008 access line losses.[4]

In examining non-major rate requests for telecommunications companies, we do not, as a general practice, consider adjustments to test year revenues, because the support for the request is based upon historical data. In this case, however, we find that a limited exception to the test year rule is warranted to take into account the initial competition from alternative facilities-based wire line providers. Specifically, Time Warner began competing in Nicholville's territory with its digital voice service in July 2007, after the historic test year. The negative impact on Nicholville of this competitive entry is clearly supported by the fact that, in the one year since Time Warner began offering service, Nicholville lost 295, or 12.4%, of its access lines.[5] Based upon the accelerated rate of access line losses, we conclude that adjustment to test year revenues is warranted in this particular situation. Rather than relying on projections, however, we will calculate the difference between actual 2007 Total Local Network Services Revenues and the 2006 historic test year figure, recognize the actual $11,986 revenue losses for the 2006 and 2007 historic test years, and make an adjustment for the remaining $56,517 as a reduction to the Company's revenue requirement.

Universal Service Fund

Nicholville receives funds from the Federal Universal Service Fund (USF) to offset costs that it incurs in order to provide telephone service in its rural service territory.

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[4] The Company's $68,503 adjustment was estimated by projecting annual local access revenue losses in direct proportion to access line losses.

[5] Prior to 2007, the Company's access line count remained relatively stable. The number of lost access lines significantly increased in 2007. For example, from 2004 to 2005 it lost 56 (2.2%) access lines; from 2005 to 2006 it lost 92 lines (3.7%); and, from 2006 to 2007 it lost 220 lines (9.2%).

Based on the Company's calculation, the annual loss of USF support at the beginning of the rate year will be $225,692. As in other telephone non-major rate cases, we will use the most recent known data to more accurately represent losses in USF support. Use of the most recent data to establish the amount of USF revenues is justified because it is a regulatory change outside the Company's control. The Company provided the first six months of actual USF payments for 2008; and, we will use these actual payments to determine a projected loss of USF funds for the rate year. As a result, we adjust revenues upward by $3,891, resulting in a decrease in the Company's revenue requirement by that amount.

Uncollectible Revenues

During the historic test year ending December 31, 2006, the Company recorded $8,041 of local uncollectible revenues. The Staff reviewed uncollectible revenues for the previous three years and the year following the historic test year. It found that the uncollectible amount booked in 2006 was approximately double what was charged in 2005 and 2007. Using the four-year average uncollectible amount from 2004-2007, $5,496, as a more representative figure, the Staff adjusted uncollectible revenues downward by $2,545. We will reduce the projected uncollectible revenues by that amount.

Deferral Amortization

In previous Orders, the Commission directed Nicholville to defer the gain from Rural Telephone Bank (RTB) proceeds,[6] ice storm over-recoveries from the USF, and federal lifeline support revenues not previously reflected in rates. In general, these funds are considered liabilities owed to customers, and accrue carrying charges until they are refunded to customers or an alternate disposition is approved.

[6] The Commission authorized Nicholville to spend $565,300 of its intrastate RTB proceeds on various infrastructure upgrades. The remainder of the RTB funds, $199,027, was booked to a deferral account pending an appropriate decision on the disposition of the funds (Case 06-C-0314, Dissolution of the Rural Telephone Bank, Order Granting in Part and Denying in Part Requests for the Use of the Rural Telephone Bank Proceeds (issued February 8, 1990)).

Nicholville proposes to amortize these deferrals over a ten-year period, which would result in a reduction to the Company's revenue requirement of approximately $60,000. We determine that a more rapid return of these ratepayer funds is justified, in order to mitigate the upward pressure on rates caused by other intrastate revenue losses. Accordingly, we will use an amortization period of five years. The decrease in the amortization period will reduce the Company's revenue requirement by an additional $48,003.

OPERATING EXPENSES

Since its last rate order 18 years ago, the Company's corporate structure changed significantly. The Company was sold to its employees; and it established subsidiaries offering cell phone, Internet, and Internet support services. The cell phone subsidiary is no longer operating; and, the Internet support service subsidiary was sold. The Staff carefully examined the Company's assignment of expenses and cost allocations between regulated and non-regulated operations.

Allocation of Expenses to Non-Regulated Operations

When a regulated company elects to enter into non-regulated businesses or establish non-regulated affiliates, the Commission requires the company to develop written guidelines regarding the basis of cost allocations, including preparation of a cost allocation manual (CAM) and establishment of affiliate transaction rules.[7] These guidelines are designed to eliminate cross-subsidies from regulated to non-regulated operations that could occur through the misallocation of costs. It is standard practice for us to review a company's CAM or affiliate transaction rules when a rate case is filed to verify that these Commission requirements are being followed.

The Staff review of the Company's filing identified numerous deficiencies in Nicholville's CAM and found that the Company incorrectly allocated certain direct and joint costs between its regulated and non-regulated operations (including the non-

[7] Case 88-C-136, Standards and Reporting Requirements – Assigning and Allocating Costs to Regulated and Nonregulated Activities, Order Adopting Permanent Standards and Reporting Requirements for Assigning and Allocating Telephone Companies' Cost to Regulated and Non-regulated Activities (issued February 8, 1990).

regulated affiliates). In general, as discussed below, Staff concluded that the Company did not allocate enough payroll, benefits, and other expenses to its non-regulated operations. Accordingly, we will require that the Company revise its CAM so that it is consistent with our adjustments, which will ensure that the Company's expenses are reported more accurately, consistent with Commission requirements.

Allocation of Executive Compensation

Nicholville's three executives - its President, Vice President, and Chief Financial Officer - earned approximately $367,081 in the test year. The Company allocated less than 1% of that amount to a non-regulated subsidiary, Nicholville Telephone Long Distance. The Company did not allocate any payroll for these executives to any other non-regulated affiliates, even though they are board members of these affiliates and exercise responsibilities for the success of the affiliates; and, employees from the affiliates report to these executives. As a result, Nicholville did not comply with standard requirements for assigning and allocating costs between regulated and non-regulated affiliates.

To provide a more reasonable allocation of executive payroll to non-regulated operations, the Staff used a Global Allocation Factor (GAF). The GAF is based upon average percentages of each affiliates' net plant, revenues, and payroll as compared to the total Company net plant, revenues, and payroll. [8] Use of a GAF to allocate executive payroll is appropriate because it is representative of the overall nature of an executive's involvement in managing the total business. The GAF for the Company for the historic test year is 75.22%, and the Staff applied this allocation percentage to the three executive salaries to determine the regulated portion of such salaries. This resulted in a net downward revenue requirement adjustment of $85,557 for payroll attributable to non-

[8] The Global Allocation Factor formula is determined based on the average of gross plant (original plant in service), gross payroll charges (salaries and wages, including overtime, shift premium and lost time, but excluding pension, payroll taxes and other employee benefits), and gross revenues during a calendar year. It may be adjusted for any known and reasonable quantifiable events or as required due to significant changes. This formula is commonly referred to as the Massachusetts Formula.

regulated activities, after removing the amount already allocated to the long distance subsidiary. We will make this adjustment to the revenue requirement.

Allocation of Accounting Manager Payroll

All of Nicholville Telephone's Accounting Manager's time was charged to regulated activities. Based on the Accounting Manager's responsibilities for the total Company's accounts payables, revenue allocations for DSL and long distance subsidiaries, invoicing, collections and billing, deposits, and employees' time sheets, an allocation of a portion of the Accounting Manager's time to non-regulated operations is justified. To further support this allocation, the Staff found that the Accounting Manager's subordinate allocated approximately 50% of her time to non-regulated accounting activities in 2006 and 2007. We conclude that a very conservative 10% allocation of the Accounting Manager's salary to non-regulated operations is justified, resulting in an adjustment of ($5,643).

Allocation of Chief Technical Officer Payroll

Nicholville originally allocated 100% of its Chief Technical Officer's (CTO) time to regulated activities. The Company subsequently stated that, effective January 1, 2008, the CTO manages various aspects of non-regulated DSL operations and that 40% of the employee's time should be charged to non-regulated activities. Accordingly, the Company agreed that 40% of the CTO's payroll, or ($34,881), should be removed from regulated expenses.

Allocation of Customer Service Payroll

During the historic test year, various Nicholville Telephone employees charged time to indirect (i.e., common regulated and non-regulated) Customer Services accounts. Yet, the Staff notes that the Company's cost allocation manual states that these employees should charge all identifiable time directly to regulated telephone operations, non-regulated telephone operations, and non-regulated affiliate operations, as appropriate.

The Company explained that customer service representatives handle customer calls related to its regulated operations as well as its non-regulated DSL, internet, and long distance affiliates. Yet, the Staff review of time charges by customer service employees for the historic test year revealed that Nicholville did not directly assign any time charges for customer service calls or customer billing and collection to non-regulated affiliates. Furthermore, it identified allocation of only 2% of customer service billing and collections time charges to non–regulated operations even though, the Company's CAM required allocation by relative revenues. The Staff calculates the relative non-regulated revenue to total Company revenues to be 25.6%. Accordingly, the Staff recommends allocation of 26.5% of the expenses associated with customer service billing and collection common costs to non-regulated operations, which resulted in an adjustment of ($20,924).

Employee Benefits Costs

The Company calculates employee benefits costs by applying a 0.33 benefit load factor to payroll. The Staff applied the load factor to reflect the impact on employee benefits costs of the payroll expense adjustments discussed above. This resulted in an adjustment of ($48,512).

Other Misclassifications of Regulated Expenses

The Company recognized that it had incorrectly classified certain corporate common expenses as regulated costs. The Company attempted to correct the misclassification of common expenses by reducing regulated expenses by $149,995. The Staff's review of the Company's documentation of expenses revealed that Nicholville's regulated operations were overcharged for Internet access charges, and that various other expense items were either inadequately supported or not expected to recur after the historic test year. The result was a recommendation to remove $37,061 of additional expenses from regulated operations.

Additionally, the Company did not properly allocate common corporate expenses that are not directly assignable to either regulated or non-regulated operations. The Staff performed an independent, study similar to the one approved by the Commission in other telephone rate cases.[9] The study reviewed the Company's accounts, and, wherever possible, assigned expenses to regulated or non-regulated activities. The

[9] E.g., Case 04-C-1518, Newport Telephone Company – Rate Increase, Order Approving Rate Increase (issued May 27, 2005).

remaining expenses were then allocated to regulated operations based on our adjusted payroll allocation ratio for each category. Staff's use of the study resulted in a recommendation for an additional adjustment of ($72,291).

Contract Labor

The Company's filing made a normalizing adjustment to Outside Plant contract labor expenses for the historic test year. Contract labor expense resulted from a contract employee, who left the Company after the rate case was filed. The Company provided information that estimated the reduced cost of contract labor due to the departure of this contract employee and his replacement with an employee who is shared between regulated and non-regulated operations. We will accept the Company's calculation, which represents an expense adjustment of ($44,900).

Employee Stock Ownership Plan (ESOP) and Related ESOP Expenses

When Nicholville Telephone Company, Inc. was sold to its employees in 1986, the Company established an Employee Stock Ownership Plan (ESOP). An ESOP is a tax qualified defined contribution benefit plan, similar to a pension, where, upon retirement, an employee sells his or her stock to the ESOP for a cash benefit.

For regulatory purposes, ESOP expenses can be quite large compared to more common employee pension plans. Nicholville's ESOP contributions have averaged 21.30% of payroll since the time of its inception, while other independent telephone companies in Nicholville's peer group contributed an average of 7.62% of payroll on pension related expenses between 2005 and 2007. The Staff recommends that an 8% ESOP contribution amount is a reasonable level for rate payers to support, resulting in a recommendation to reduce expenses in the amount $70,245.

The Company is required by the ESOP provider to conduct a yearly valuation of the Company's net worth. Expenses for determining the valuation of the Company is a shareholder, rather than a ratepayer responsibility, because it directly benefits the owners/stockholders of the Company. Accordingly, Staff recommends removal of the $10,824 amount for this valuation from the Company's expenses.

Board of Directors Fees

The Company incurred $25,000 in expenses related to its Board of Directors expenses during the historic test year. Four out of the five directors were either Company or Company-affiliated executives (inside directors). Staff advises that inside directors' responsibilities are not substantially different from their duties as top executives; and, the regular salaries they receive include compensation for performance of their responsibilities as directors. Staff review of the practices of other independent telephone companies in Nicholville's peer group reveals that, some inside directors, when compensated, receive negligible amounts. Accordingly, we conclude that the $5,000 per Inside director fees are not supportable and remove $20,000 from the Company's expenses.

Depreciation Expense

The Staff recommends reduction of the annual depreciation expense by $138,935 (total Company), or $94,003 (intrastate), to reflect the annual depreciation accrual rates determined by a depreciation reserve requirement study as of December 31, 2007. It further recommends reduction of depreciation expense by $10,060 (total Company), or $6,807 (intrastate), to reflect the amortization of the excess growth in the depreciation reserve excess, since the last depreciation reserve requirement study. To determine the amortization period, Staff conducted a study using the lesser of the composite remaining life of all depreciable plant or a ten-year amortization. The study indicates a composite remaining life of 13.0 years; consequently, use of a 10-year amortization is recommended.

Operating Taxes-Income Taxes

The Staff recommends adjustment of Nicholville's expenses relating to current income taxes to take account of the removal of deductions for compensated absences and life line credits, which were deferred, and the effects of the various adjustments made to operating revenues, expenses, and depreciation. The Staff's adjustments to deferred income taxes include a tracking adjustment for the depreciation adjustment and an adjustment for non-current deferred taxes related to telephone plant. The adjustments to operating taxes amount to ($229,570).

RATE BASE

Earnings Base over Capitalization Adjustment

In rate filings, an Earnings Base over Capitalization (EB Cap) adjustment is typically made to a company's rate base to ensure that a company's earnings base devoted to public service does not exceed its capitalization. In other words, the EB Cap adjustment is made to the Company's earnings base to make it equal to its investor-provided capital. In its calculation of the EB Cap, the Staff concluded that Nicholville properly reduced its capitalization for non-regulated plant, investments and advances to affiliated companies, accounts receivables from affiliates, and temporary cash investments. However, Staff established that the Company omitted excessive amounts of temporary cash investments from its EB Cap calculation. We adopt the Staff’s recommendation for an EB Cap adjustment, including two cash accounts (and associated deferred taxes) as adjustments to capitalization, which decreases the Company's total rate base by $103,937.

Other Rate Base Adjustments

The Staff recommends adjustment of the Company's rate base to reflect the cash working capital effect of various expense adjustments, reflect the excess depreciation reserve adjustment, and remove non-interest bearing amounts associated with the RTB deferral.[10] The impact of these adjustments is a net $59,300 reduction to total rate base, which we adopt.

RATE OF RETURN

Nicholville provided an average historic test year capitalization for the historic test year ending December 31, 2006, which reflected the regulated portion of the Company and was used as a basis to arrive at the Company's rate of return calculation. The Company’s common equity constituted 46.6% of its capitalization. In its filing, Nicholville used a 7.48% overall rate of return based in part on an estimated 8.97% return on equity (ROE) figure provided by Staff. The Staff updated this allowed ROE figure to 9.26 % to account for current market conditions, which results in an adjusted

[10] See footnote 5.

overall 7.62% rate of return for Nicholville. The Company's complete capital structure and cost rates are as follows:

Capitalization Component	Amount	Ratio	Cost Rate	Weighted Cost
Common Equity	$ 2,242,708	46.63%	9.26%	4.32%
Preferred Stock	100,000	2.08%	6.00%	0.12%
Notes Payable	12,065	0.25%	7.46%	0.02%
Long Term Debt	2,454,460	51.04%	6.18%	3.16%
Total	$ 4,809,233	100.00%		7.62%

CUSTOMER COMMENTS

Nicholville informed its customers, in a September 15, 2008 letter, of its proposed rate increases. In the letter, Nicholville gave customers information on various ways to obtain a copy of the rate proposal. Customers were also invited to comment on the proposal directly to the Company, either in person or by phone; or to the Commission through either the toll free Opinion Line or at the Department of Public Service Web site.

As of the end of September 2008, Nicholville received approximately 50 customer calls in response to the notice. Staff reports that, while the customers stated that they generally understood the reasons in support of the Company's proposals, many customers expressed surprise and unhappiness about the proposed rate increases. Staff further reports that the Company received 20 customer requests to cancel their Nicholville service and obtain service from a competing service provider (Time Warner) during the first two weeks following the notice. In contrast to the strong customer response to the Company, the Department's Office of Consumer Services' Opinion Line did not receive any customer comments in response to the Company's notice. Nicholville will inform all of its customers of the rate increases approved in this Order.

RATE DESIGN

As shown in Attachment A, Nicholville's overall intrastate revenue requirement is $286,303. After amortization of deferred ratepayer credits, the Company requires a local revenue increase of $178,837. To achieve this result: $1,698 will be obtained by increasing non-recurring charges; an additional $9,532 will be obtained through an increase in the rates of non-basic services, such as, mileage charges, directory assistance, and directory listing services; and the remaining $167,607 will be obtained by increasing basic local service rates. Residence and business individual line rates and residence four-party rates will be increased by $7.00. Lifeline rates will remain frozen as the Commission ordered in the Competition III proceeding.[11] The Company may recover revenue shortfalls resulting from additional discounts implemented to keep Lifeline rates unchanged through funding from both the Targeted Accessibility Fund (TAF) and the Federal Lifeline Support Program. Attachment C provides the rate increases and resultant revenue impacts for each class and category of service, effective November 1, 2008.

CONCLUSION AND RECOMMENDATION

The analysis of the Company's rate increase petition justifies the determination that Nicholville requires an overall intrastate revenue requirement of $286,303 and that a local rate increase of $178,837 is warranted, after deferral of amortized credits. After adjustments, Nicholville's basic residential and business rates will increase by $7.00 per month. Because basic residential rates will remain below the $23.00 benchmark rate established in the Commission's Statement of Policy in Case 05-C-0616, the Company will not be authorized to withdraw funds from the Transition Fund at this time. The Company is directed to cancel its proposed tariff leaves and file revised tariff leaves, based on the revised rates listed in Appendix C.

The Commission orders:

1. Nicholville Telephone Company, Inc. is directed to file cancellation supplements, effective on not less than one day's notice on or before October 31, 2008, canceling the tariff amendments and supplements listed in Appendix 1 to this Order.

[11] Case 05-C-0616, supra.

2. On or before October 31, 2008, Nicholville Telephone Company, Inc. shall file tariff amendments consistent with this Order. The tariff amendments are allowed to go into effect on one day's notice.

3. The requirement of newspaper publication of the tariff amendments authorized in this Order, as required by Public Service Law Section 92(2)(a), is waived; provided that the Company notifies its customers in writing of the changes in the tariff, and sends a copy of the notice to the Secretary to the Commission.

4. This proceeding is closed.

By the Commission,

(SIGNED) JACLYN A. BRILLING
Secretary

ADMINISTRATIVE DETAILS

Filing by: Nicholville Telephone Company

Revisions to: P.S.C. NY No. 7 – Telephone
- Section 3
  - Sixth Revised Pages 2, 6, 9, 17
  - Fifth Revised Page 18
  - Fourth Revised Page 22
- Section 4
  - Third Revised Page 4
- Attachment A
  - Ninth Revised Page 1
  - Sixth Revised Page 3
  - Fifth Revised Page 4
  - Seventh Revised Page 5

Issued: August 4, 2008 Effective: November 1, 2008

Nicholville Telephone Company, Inc.
Revenue Requirement Calculation
Year Ending December 31, 2006

Description	Intrastate 12/31/06	Staff Adjustments	As adjusted by staff
Adjusted Rate Base (Appendix A, page 2)	$2,108,470	-$107,286	$2,001,183
Required Rate Of Return (Appendix A, page3)	7.48%	0.14%	7.62%
Required Net Operating Income	157,725	(5,319)	$152,406
Adjusted Net Operating Income (Appendix B, page 1)	($330,522)	$301,522	($29,001)
Operating Income Deficiency	$488,247	($306,840)	$181,407
Retention Factor	62.39%	0.97%	63.36%
Revenue Deficiency	**$782,573**	**($496,269)**	**$286,303**
Proposed Recovery for Rate Increase			
Revenue Deficiency	$782,573	($496,269)	$286,303
Deferral Amortization Offsets (Incl.Gross Up)	(56,943)	(48,003)	(104,946)
Cease Annual Life Line Deferrals	(2,520)	-	(2,520)
Transition Fund	(428,272)	428,272	0
Proposed Local Rate Increase	$294,838	($116,000)	$178,837
Percentage increase of current local Revenues	59.1%	-23.2%	35.8%

Nicholville Telephone Company, Inc.
Rate Base
Year Ending December 31, 2006

	Per Company			Staff Adjustments		As Adjusted By staff	
	Interstate	**Intrastate**		**Interstate**	**Intrastate**	**Interstate**	**Intrastate**
Telephone Plant in service	$ 10,179,693	$ 7,001,593	1)	$ (12,390)	$ (8,522)	$ 10,167,303	$ 6,993,071
Non- Interest Bearing Telephone Plant Under Construction	67,334	46,312		-	-	67,334	46,312
Materials and Supplies	85,210	61,803		-	-	85,210	61,803
Prepayments	140,940	96,938		-	-	140,940	96,938
Cash Working Capital	230,034	133,208	3)	(51,056)	(30,109)	178,978	103,099
Depreciation & Amortization Reserve	(7,328,483)	(5,012,682)	4)	4,145	2,835	(7,324,338)	(5,009,847)
Accumulated Deferred Taxes	(182,704)	(132,533)		-	-	(182,704)	(132,533)
Accumulated Deferred ITC	-	-			-	-	-
Un-amortized Deferrals	(29,075)	(29,075)		-	-	(29,075)	(29,075)
Life Line Deferral Adjustment	1,706	1,706		-	-	1,706	1,706
Earnings Base Over Capitalization	(85,495)	(58,800)	5)	(103,937)	(71,488)	(189,432)	(130,291)
Total Rate Base	$ 3,079,161	$ 2,108,470		$ (163,237)	$ (107,283)	$ 2,915,923	$ 2,001,183

Nicholville Telephone Company Inc.
Rate of Return -Company
Year Ending 2008

Description	13-Month Average	Percentages	Cost	Weighted Cost
Common Equity	$2,242,708	46.63%	8.97%	4.18%
Preferred Stock	100,000	2.08%	6.00%	0.12%
Customer Deposits	0	0.00%	0.00%	0.00%
Notes Payable	12,065	0.25%	7.46%	0.02%
Current Maturities	185,579	3.86%	6.18%	0.24%
Long Term Debt	2,268,881	47.18%	6.18%	2.92%
Total Capitalization	$4,809,233	100.00%		7.48%

Nicholville Telephone Company, Inc.
Net Operating Income Statement
Year Ending December 31, 2006

	As Adjusted Per Company			Staff Adjustments		As Adjusted Per Staff		Revenue Requirement	After Revenue Requirement
	Interstate	Intrastate		Interstate	Intrastate	Interstate	Intrastate	Intrastate	Intrastate
Operating Revenues									
Local Network	$ 430,658	$ 430,658	1)	$ 56,517	$ 56,517	$ 487,175	$ 487,175	$ 286,303	$ 773,478
Network Access	1,816,771	713,871	2)	3,891	3,891	1,820,662	717,762		717,762
Long Distance Network	0	0		0	0	0	0		0
Miscellaneous	190,094	186,604		0	0	190,094	186,604		186,604
Settlements	0	0		0	0	0	0		0
Uncollectible	(12,115)	(8,041)	3)	0	2,545	(12,115)	(5,496)	(2,969)	(8,465)
Total Operating Revenues	2,425,408	1,323,092		60,408	62,953	2,485,816	1,386,045	283,334	1,669,379
Operating Expenses									
Plant Specific	820,993	539,474	4)	(154,618)	(101,600)	666,375	437,875		437,875
Plant Non-Specific	267,206	183,785	5)	(3,972)	(2,732)	263,234	181,053		181,053
Access	27,862	0		0	0	27,862	0		0
Depreciation	458,616	310,300	6)	(148,995)	(100,810)	309,621	209,490		209,490
Customer Operations	317,153	242,907	7)	(41,617)	(31,874)	275,536	211,033		211,033
Corporate Operations	707,100	455,868	8)	(251,511)	(162,149)	455,589	293,719		293,719
Total Expenses	2,598,930	1,732,334		(600,712)	(399,165)	1,998,218	1,333,169	0	1,333,169
Operating Taxes									
Other Operating Taxes	182,757	125,899		-	0	182,757	125,899	8,475	134,373
Operating FIT	(157,532)	(206,881)	9)	171,214	120,223	13,682	(86,657)	93,452	6,795
Operating ITC	0	0		0	0	0	0		0
Deferred Operating FIT	3,271	2,263	10)	58,356	40,373	61,627	42,636		42,636
Total Operating Taxes	28,496	(78,719)		229,570	160,596	258,066	81,877	101,927	183,804
Net Operating Income	($202,018)	($330,522)		$431,550	$301,522	$229,532	($29,001)	$181,407	$152,406
Rate Base	$ 3,079,161	$ 2,108,470		$ (163,237)	$ (107,283)	$ 2,915,923	$ 2,001,183		$ 2,001,183
Rate Of Return	-6.56%	-15.68%				7.87%	-1.45%		7.62%
Required Revenue To Achieve Target ROR									$286,303
Return on Equity									9.26%

Nicholville Telephone
Rate Case Adjustments
For the Historic Test year Ended December 31, 2006

Summary of Staff's Adjustments

Adj. No.	Explanation			Interstate Amount
Income Statement				
	Operating Revenues			
1)	Local Network			
	Remove adjustment for projection of loss access lines		$	56,517
2)	Net Work Access			
	To increase estimated USF Funding base on calendar year 2007			3,891
3)	Uncollectible			
	To normalize uncollectible expense based on 4 year average (intra)			2,545
			$	62,953
	Operating Expenses			
4)	Plant Specific			
	a. Per email on 4/10/08 contract labor should be reduced by $44,900		$	(44,900)
	b. Company's allocation calculation was revised for the effect regulated expenses that were reclassified to non-regulated as an adjustment in the filing. IR Response RAL-42			(881)
	c. Payroll adjustments			
	Global Allocation Factor- Vice President			(20,631)
	Re Allocation of Chief Technical Officier 40% of time to non-regulated per IR-RAL 5			(34,881)
		(55,512)		
	Benefits load adjustment	0.33		(18,319)
	d. Removal of Expense invoices			
	Expense determined to be outside Historic Test Year			(4,013)
	e. Expense Allocation Adjustment			
	To re-allocate expenses based on Staff payroll allocation amounts			(30,994)
		Total Plant Specific	$	(154,618)
5)	Plant Non Specific			
	a. Expense Allocation Adjustment			
	To re-allocate expenses based on Staff payroll allocation amounts		$	(3,972)
6)	Depreciation Expense			
	a. To reflect the annual depreciation accrual rates determined by Staff		$	(138,935)
	b. To reflect the amoritzation of growth in depreciation reserve since last requirement study			(10,060)
		Total Depreciation Expense	$	(148,995)
7)	Customer Operations			
	a. Removal of Expense invoices			
	Expense determined to be outside of Historic test year		$	(97)
	b. Expense Allocation Adjustment			
	To re-allocate expenses based on Staff payroll allocation amounts			(13,691)
	c. Payroll adjustments			
	To allocate percentage of customer service payroll to affiliates			(20,924)
	d. Benefits load adjustment	0.33		(6,905)
		Total Customer Operations	$	(41,617)

Nicholville Telephone
Rate Case Adjustments
For the Historic Test year Ended December 31, 2006

Adj. No.	Explanation			Interstate Amount
8)	Corporate Operations			
	a. To reflect the removal of Inside Directors Fees		$	(20,000)
	b. Removal of Expense invoices Expense determined to be outside the Historic test year			(32,951)
	c. Expense Allocation Adjustment To re-allocate expenses based on Staff payroll allocation amounts			(23,634)
	d. Payroll Adjustments			
	Global Allocation Factor- President			(35,722)
	Global Allocation Factor- Chief Financial Officer			(29,204)
	Adjustment to Accounting Manager 10% of oayroll to non-regulated			(5,643)
		(70,569)		
	Benefits load adjustment	0.33		(23,288)
	e. ESOP Adjustment To reflect a normalizing amount of company contributions for retirement plans			(70,245)
	f. ESOP Matters To reduce ESOP expenses to reflect allocation of 8e.			(10,824)
		Total Corporate Operations	$	(251,511)
	Operating Taxes			
9)	Federal Income Taxes To reflect Federal Income Tax effect of various adjustments		$	171,214
10)	Deferred Operating Federal Income Taxes			
	a. To Increase deferred FIT for Staff's Depreciation adjustments		$	50,658
	b. To include non current Deferred operating taxes -Telephone plant Sch. 28 PSC annual report 2006			7,698
			$	58,356
Rate Base				
1)	Telephone Plant in Service To remove Non Interest Bearing RTB Deferral Amount		$	(12,390)
2)	Cash Working Capital To reflect cash working capital effect of various adjustments			(51,056)
3)	Depreciation Reserve Adjustment Excess Depreciation Reserve Adjustment			4,145
4)	Earnings Base Over Capitalization To reflect EB/Cap effect of various adjustments			(103,937)
		Total Rate Base Adjustment	$	(163,237)

Nicholville Telephone Company, Inc.
Rate Design

Rate Element	Annual Units	Current Rate	Current Annual Revenue	Revised Rate	Revised Annual Revenue	Annual Revenue Increase	% Rate Change
NONRECURRING CHARGES							
Business							
Service Order (Installation)	21	$ 38.32	$ 804.72	$ 40.00	$ 840.00	$ 35.28	4.4%
Record Order	0	$ 10.00	$ -	$ 15.00	$ -	$ -	50.0%
Restoral Charge (Reconnection)	0	$ 10.00	$ -	$ 15.00	$ -	$ -	50.0%
Move Charge	0	$ 30.00	$ -	$ 35.00	$ -	$ -	16.7%
Residence							
Service Order (Installation)	228	$ 28.00	$ 6,384.00	$ 30.00	$ 6,840.00	$ 456.00	7.1%
Record Order	0	$ 10.00	$ -	$ 15.00	$ -	$ -	50.0%
Installation - Link Up America	57	$ 14.00	$ 798.00	$ 15.00	$ 855.00	$ 57.00	7.1%
Restoral Charge (Reconnection)	230	$ 10.00	$ 2,300.00	$ 15.00	$ 3,450.00	$ 1,150.00	50.0%
Move Charge	0	$ 25.00	$ -	$ 30.00	$ -	$ -	20.0%
Return Check	22	$ 10.00	$ 220.00	$ 10.00	$ 220.00	$ -	0.0%
Return Payment	0	$ 10.00	$ -	$ 20.00	$ -	$ -	100.0%
Maintenance Service	0	$ 27.44	$ -	$ 40.00	$ -	$ -	45.8%
Total Annual Nonrecurring Revenue			$ 10,506.72		$ 12,205.00	**$ 1,698.28**	16.2%

Nicholville Telephone Company, Inc.
Rate Design

Rate Element	Monthly Units	Current Rate	Current Annual Revenue	Revised Rate	Revised Annual Revenue	Annual Revenue Increase	% Rate Change
NON-BASIC RECURRING CHARGES							
Business Custom Calling/CLASS Features							
Supplemental Feature Package 1	0	$ 9.95	$ -	$ 9.95	$ -	$ -	0.0%
Supplemental Feature Package 2	1	$ 11.45	$ 137.40	$ 14.50	$ 174.00	$ 36.60	26.6%
Supplemental Feature Package 3	3	$ 12.95	$ 466.20	$ 15.70	$ 565.20	$ 99.00	21.2%
Supplemental Feature Package 4	9	$ 10.00	$ 1,080.00	$ 10.00	$ 1,080.00	$ -	0.0%
Supplemental Feature Package 5	4	$ 9.60	$ 460.80	$ 12.35	$ 592.80	$ 132.00	28.6%
Remote Call Forwarding	1	$ 10.54	$ 126.48	$ 14.00	$ 168.00	$ 41.52	32.8%
Champion Feature Package (bundled w/ SLIC LD)	24	$ 6.95	$ 2,001.60	$ 8.30	$ 2,390.40	$ 388.80	19.4%
						$ 697.92	
Residence Custom Calling/CLASS Features							
Supplemental Feature Package 1	6	$ 7.95	$ 572.40	$ 10.45	$ 752.40	$ 180.00	31.4%
Supplemental Feature Package 2	4	$ 8.95	$ 429.60	$ 10.95	$ 525.60	$ 96.00	22.3%
Supplemental Feature Package 3	28	$ 9.95	$ 3,343.20	$ 11.95	$ 4,015.20	$ 672.00	20.1%
Supplemental Feature Package 4	213	$ 7.00	$ 17,892.00	$ 7.00	$ 17,892.00	$ -	0.0%
Supplemental Feature Package 5	16	$ 6.80	$ 1,305.60	$ 8.80	$ 1,689.60	$ 384.00	29.4%
Champion Feature Package (bundled w/ SLIC LD)	406	$ 4.95	$ 24,116.40	$ 5.95	$ 28,988.40	$ 4,872.00	20.2%
Listing Services							
Additional Listing	24	$ 1.00	$ 288.00	$ 1.30	$ 374.40	$ 86.40	30.0%
Indented Listing	0	$ 1.00	$ -	$ 1.30	$ -		30.0%
Reference Listing	0	$ 1.00	$ -	$ 1.30	$ -		30.0%
Alternative Telephone Number	0	$ 1.00	$ -	$ 1.30	$ -		30.0%
Night Listing	0	$ 1.00	$ -	$ 1.30	$ -		30.0%
Foreign Listing	0	$ 1.00	$ -	$ 1.30	$ -	$ -	30.0%
Non-Published Listing	233	$ 1.38	$ 3,858.48	$ 1.75	$ 4,893.00	$ 1,034.52	26.8%
Customized Number Listing Monthly No. Charge - R	0	$ 2.90	$ -	$ 3.75	$ -		29.3%
Customized Number Listing Monthly No. Charge - B	0	$ 5.80	$ -	$ 7.25	$ -		25.0%
Customized Number Listing Add'l Search Charge - R	0	$ 19.34	$ -	$ 22.50	$ -		16.3%
Customized Number Listing Add'l Search Charge - B	0	$ 19.34	$ -	$ 22.50	$ -		16.3%
Other Non-Basic Services							
Directory Assistance (Need Units)	78	$ 0.45		$ 0.95	$ 889.20	$ 889.20	111.1%
DID Trunk - Nicholville	0	$ 22.50	$ -	$ 33.00	$ -	$ -	46.7%
DID Trunk - Winthrop	0	$ 22.50	$ -	$ 33.00	$ -	$ -	46.7%
DID 10 Nos. - Nicholville	0	$ 4.00	$ -	$ 5.00	$ -	$ -	25.0%
DID 10 Nos. - Winthrop	0	$ 4.00	$ -	$ 5.00	$ -	$ -	25.0%
PAL - Nicholville	0	$ 18.29	$ -	$ 25.29	$ -	$ -	38.3%
PAL - Winthrop	3	$ 19.28	$ 694.08	$ 26.28	$ 946.08	$ 252.00	36.3%
Coin Supervision - Nicholville	0	$ 6.00	$ -	$ 8.00	$ -	$ -	33.3%
Coin Supervision - Winthrop	0	$ 6.00	$ -	$ 8.00	$ -	$ -	33.3%
Off Premisies Extension Service Mileage per 1/4 mile							
General Distribution	0	$ 1.98	$ -	$ 2.95	$ -	$ -	49.0%
Non-General Distribution	71	$ 0.60	$ 511.20	$ 1.00	$ 852.00	$ 340.80	66.7%
Interexchange	0	$ 1.98	$ -	$ 2.95	$ -	$ -	49.0%
Foreign Exchange Service Mileage Rates							
Intracompany Circuits (3 Flavors)	0	$ 1.25	$ -	$ 1.50	$ -		20.0%
Intercompany Circuits (adjacent w/Toll)	0	$ 2.25	$ -	$ 3.50	$ -	$ -	55.6%
Intercompany Circuits (adjacent wo/Toll)	9	$ 1.25	$ 135.00	$ 1.50	$ 162.00	$ 27.00	20.0%
Toll Substitiute Administrative Charge	0	$ 1.00	$ -	$ 2.50	$ -	$ -	150.0%
Total Non-Basic Recurring Revenue			$ 57,418.44		$ 66,950.28	**$ 9,531.84**	16.6%

Nicholville Telephone Company, Inc.
Rate Design

BUSINESS BASIC RECURRING CHARGES												
B1 - Nicholville	69	$	18.29	$	15,144.12	$	25.29	$	20,940.12	$	5,796.00	38.3%
B1 - Winthrop	186	$	19.28	$	43,032.96	$	26.28	$	58,656.96	$	15,624.00	36.3%
Bus. FX - Nicholville	0	$	10.64	$	-	$	12.65	$	-	$	-	18.8%
Bus. FX - Winthrop	1	$	10.64	$	127.68	$	13.14	$	157.68	$	30.00	23.5%
Multi-Premises - Nicholville	0	$	18.29	$	-	$	25.29	$	-	$	-	38.3%
Multi-Premises - Winthrop	0	$	19.28	$	-	$	26.28	$	-	$	-	36.3%
PRI-B Channels	46	$	17.50	$	9,660.00	$	19.38	$	10,697.76	$	1,037.76	10.7%
PRI-D Channels	2	$	335.00	$	8,040.00	$	371.04	$	8,904.96	$	864.96	10.8%
Total Business Access Line Recurring Revenue				$	76,004.76			$	99,357.48	**$**	**23,352.72**	30.7%
RESIDENCE BASIC RECURRING CHARGES												
R1 - Nicholville	594	$	11.67	$	83,183.76	$	18.67	$	133,079.76	$	49,896.00	60.0%
R1 - Winthrop	946	$	12.81	$	145,419.12	$	19.81	$	224,883.12	$	79,464.00	54.6%
R4 - Nicholville (R4 Access Line Foreign Exchange?)	0	$	5.67	$	-	$	7.54	$	-	$	-	32.9%
R4 - Winthrop (R1 Access Line?)	0	$	5.67	$	-	$	7.65	$	-	$	-	34.9%
Lifeline R1- Nicholville (Any Lifeline?)	40	$	11.67	$	5,601.60	$	18.67	$	8,961.60	$	3,360.00	60.0%
Lifeline R1- Winthrop (Any Lifeline?)	98	$	12.81	$	15,064.56	$	19.81	$	23,296.56	$	8,232.00	54.6%
R1 Seasonal - Nicholville	67	$	5.84	$	4,691.34	$	9.34	$	7,505.34	$	2,814.00	60.0%
R1Seasonal - Winthrop	10	$	6.41	$	768.60	$	9.91	$	1,188.60	$	420.00	54.6%
Res. FX - Nicholville	0	$	4.24	$	-	$	9.34	$	-	$	-	120.2%
Res. FX - Winthrop	1	$	4.24	$	50.88	$	9.91	$	118.86	$	67.98	133.6%
	1											
Total Residence Access Line Recurring Revenue				$	254,779.86			$	399,033.84	**$**	**144,253.98**	56.6%
GRAND TOTAL										**$**	**178,836.82**	