

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
July 1, 2006	)	WCB/Pricing File No. 06-15
Annual Access Charge Filings	)	
	)	
John Staurulakis, Inc.,	)	
Tariff FCC No. 1	)	Transmittal No. 120
	)	
Fort Mill Telephone Company	)	
	)	

**REPLY**

John Staurulakis, Inc. (“JSI”), pursuant to section 1.773 of the Commission’s rules,<sup>1</sup> submits this Reply to a petition (“Petition”) from AT&T Inc. (“AT&T”)<sup>2</sup> requesting suspension of revisions filed by JSI on behalf of Fort Mill Telephone Company (alternatively “Fort Mill” or “Company”) for the 2006 annual access charge filing made by JSI on behalf of the Company pursuant to Section 61.38 of the Commission’s rules.<sup>3</sup>

The filing made by JSI on behalf of Fort Mill under JSI Transmittal No. 120 was for the purpose of meeting the mandatory even-numbered year annual access charge filing under Section 61.38 of the Commission’s rules and in accordance with the Commission’s *2006 Annual Access Filing Order*<sup>4</sup> together with the *Commission’s 2006*

---

<sup>1</sup> 47 C.F.R. § 1.773

<sup>2</sup> See Amended Petition of AT&T Inc. Addressing July 1, 2006 Annual Access Charge Tariff Filings, WCB 06-15, (June 26, 2006) (*AT&T Petition or Petition*).

<sup>3</sup> 47 C.F.R. § 61.38.

<sup>4</sup> In the Matter of July 1, 2006 Annual Access Charge Tariff Filings, WCB/Pricing 06-15, Order, DA 06-649 (Rel. Mar 24, 2006) (*2006 Access Filing Order*).

*TRP Order*.<sup>5</sup> Fort Mill represents one of the eight continuing issuing carriers for JSI Tariff FCC No. 1 who file pursuant to Section 61.38.<sup>6</sup>

## **I. AT&T ALLEGES SYSTEMATIC UPWARD BIAS IN FORECASTS**

In its Petition, AT&T alleges that for Fort Mill, along with the other carriers named in AT&T's Petition, its "analysis of these carriers' support for the proposed rates demonstrates that these charges have been improperly developed, and that as a direct result the charges are materially overstated."<sup>7</sup> The specific charge by AT&T concerning Fort Mill is limited to "historic overearnings."<sup>8</sup> More specifically, AT&T alleges that based on statistical analysis that "these ILECs have a systematic upward bias in their rate development process." Given that there are currently eight Section 61.38 filers that are continuing issuing carriers for JSI Tariff FCC No. 1, it appears that alleged "systematic" involvement in overearnings is limited and isolated with respect to JSI Tariff FCC No. 1.<sup>9</sup>

## **II. CURRENT FORT MILL RATES REFLECT SIGNIFICANT REDUCTIONS MADE IN 2004 TO ADDRESS PAST OVEREARNINGS**

In order to address similar concerns of both AT&T and the Commission with respect to the Fort Mill 2004 annual filing, Fort Mill filed revised rates on July 29, 2004, which became effective on 7 days notice on August 5, 2004 for the purpose of addressing

---

<sup>5</sup> In the Matter of Material to be Filed in Support of 2006 Annual Access Charge Tariff Filings, WCB/Pricing, DA 06-650 (Rel. Mar. 24, 2006) (*2006 TRP Order*).

<sup>6</sup> Seven of the eight Section 61.38 continuing issuing carriers participated in the 15-day filing, including Fort Mill. The eighth Section 61.38 continuing issuing carrier, Horry Telephone Cooperative, Inc., filed on 7-days notice under JSI Transmittal No. 121. Additionally, through June 30, 2006 there is a ninth Section 61.38 issuing carrier, Warwick Valley Telephone Company ("Warwick"). With Transmittal No. 120, Warwick cancelled its rate pages in JSI Tariff FCC No. 1 and reentered the NECA Common Line and Traffic Sensitive Pools.

<sup>7</sup> AT&T Petition at 1.

<sup>8</sup> Id. at 7 *et. seq.*

<sup>9</sup> In addition to participating as continuing issuing carriers in JSI Tariff F.C.C. No. 1, all of these issuing carriers engage JSI for preparation of cost studies and assistance in development of rates.

The filing served to reduce all rates in relation to the pre-2004 annual filing rates on an overall basis of 13 percent for Switched Access and 31 percent for Special Access.<sup>10</sup> The Company, through JSI, worked closely with the Pricing Policy Division revising the rates for submission in the July 29, 2004 filing. As it has turned out, the filing resulted ultimately in a significant level of underearning by the Company for 2005. The rate of return for Special Access was 5.17 percent. The rate of return for Switched Access for 2005 was a negative 21.36 percent.

### **III. THERE ARE FLAWS IN AT&T'S STATISTICAL ANALYSES CONCERNING FORT MILL**

JSI points out the following with respect to the statistical analyses included as exhibits to AT&T's Petition.

- A. AT&T uses 0 percent for the 2005 Traffic Sensitive rate of return in lieu of the actual negative 21.36 percent rate of return.<sup>11</sup> JSI knows of no valid statistical basis for ignoring the negative earnings. Even were it valid, the lack of any mention, even as a footnote, of the significant negative earnings for 2005 is a major lacuna. JSI has performed corrected statistical analyses and attached them as part of the exhibits.<sup>12</sup> With inclusion of the negative earnings for 2005, Fort Mill is not a significant outlier and should not have been included in AT&T's list of carriers with an upward projection bias at any confidence level.

---

<sup>10</sup> JSI Transmittal No. 120 at Fort Mill Telephone Company Cost Support Exhibit I, Page 1.

<sup>11</sup> AT&T Petition, Exhibit 3, Page 1 of 7.

<sup>12</sup> See Exhibit 1, Schedule B.

- B.** For Special Access, AT&T's statistical analysis uses an incorrect 14.5 percent rate of return for 2005 in lieu of the correct 5.17 percent.<sup>13</sup> JSI has performed corrected statistical analyses and attached them as part of the exhibits.<sup>14</sup> In the corrected statistical analyses, significance is lessened in comparison to that calculated by AT&T.
- C.** AT&T inappropriately relies on a 90 percent confidence interval when economic analysis conventionally uses a 95 percent confidence interval. Using the generally accepted 95 percent confidence interval, even with 0 percent as the return rate for 2005, AT&T would not have included Fort Mill among the carriers named in its Petition with Switched Access projection bias. With respect to AT&T's analysis, after correcting the 2005 return rate, even at the 90 percent confidence level AT&T would not have included Fort Mill among the carriers named in its Petition with Special Access projection bias. According to statistical analysis, there is no support for the alternative hypothesis that there is systematic upward bias to Fort Mill's rate of return.
- D.** Finally, JSI points out that the Critical-t values reported by AT&T are not correct: they are marginally lower from those used if AT&T referenced critical values in standard statistical tables. JSI reproduced AT&T's Critical-t values utilizing Microsoft Excel and discovered that AT&T apparently overlooked resetting the default threshold "maximum change" iteration value. This change is necessary when using "Goal Seek" because

---

<sup>13</sup> Id., Exhibit 3, Page 5 of 7.

<sup>14</sup> See Exhibit 2, Schedule B.

this Excel process is iterative in nature. To achieve a greater level of precision this default value needs to be reduced. When this threshold is changed to achieve added precision, the critical values from Excel match those reported in statistical tables. We use the correct critical values in our corrected analysis.

#### **IV. FORT MILL'S PROPOSED RATE INCREASES WILL PRODUCE LESS REVENUE THAN THE AMOUNT OF REVENUE THAT WOULD HAVE BEEN REQUIRED IN 2005 TO EARN AT THE AUTHORIZED RATE OF RETURN**

In its July 29, 2004 filing <sup>3</sup> Fort Mill, in order to settle AT&T and Commission concerns about past overearnings, agreed to ignore its TYCOS-based rate changes and instead reduced rates because pre-2004 overearnings were arguably a predictor of future overearnings. The inverse of the same coin would indicate that 2005 underearnings are a predictor of potential future underearnings. JSI has compared the impact of rate increases proposed in the 2006 filing to the amount of additional revenue the Company would have had to realize in 2005 to earn at the authorized rate of return for 2005. This comparison is in no way meant to suggest that the proposed rates were developed based on 2005 underearnings. Fort Mill had originally, in the 2004 annual filing effective July 1, 2004 proposed rates developed consistent with the Commissions rules, regulations and policies in all respects and reflect a TYCOS projection process by the Company that is well informed with respect to financial skills and tools and economic factors affecting the Fort Mill area.

Notwithstanding informed adherence to the prescribed rate development process, the comparison of proposed rate change impacts with 2005 underearnings indicates that the rate change impact is less than the incremental revenues that would have been

required for 2005 to earn at the authorized rate of return in 2005. In other words, had the Company not made the July 29, 2004 filing to reduce rates across the board, it would have filed for 2006 rates reflective either of decreases or minor levels of increase. JSI believes that the comparison makes inapposite, for purposes of Commission evaluation of Fort Mill's 2006 filing, the statistical analyses of AT&T.

The comparisons mentioned above are presented for Switched Access and Special Access, respectively, at Exhibit 1, Schedule 3 and Exhibit 2, Schedule 3.

AT&T notes that the overall level of increases in Fort Mill rates for Switched Access is 70 percent.<sup>15</sup> At an overall Switched Access level of rate increases of 70 percent, the combined impact is \$318,000 in rate increases.<sup>16</sup> Taking into consideration the \$218,000 that would have been required for Fort Mill to earn at the authorized rate of return for 2005, the portion that represents an increase due to a revenue requirement for the TYCOS is approximately \$100,000.

The approximate \$100,000 increase in revenue requirements for Switched Access results from the increase in the relative allocation of Central Office Switching Expense to interstate in relation to intrastate.<sup>17</sup> The shift in Central Office Switching Expense from intrastate to interstate results from the commitment the Company has for additions to Central Office Transmission equipment, including wideband equipment that is predominantly interstate. Because the Commission's Part 36 Jurisdictional Separations rules apportion combined Central Office Switching Expense based on combined Central

---

<sup>15</sup> AT&T Petition at Exhibit 4.

<sup>16</sup> See Exhibit 1, Schedule C.

<sup>17</sup> See Exhibit 3.

Office Plant,<sup>18</sup> the level of increase in combined Central Office expense impacts Central Office expenses for all Part 69 elements, notwithstanding that it was transmission plant that increased significantly and not switching plant. Once allocated to interstate, the Central Office expenses are then apportioned based on relative plant.<sup>19</sup> In a nutshell, because of Part 36 and Part 69 rules, increases in interstate wideband transmission equipment caused the interstate allocation of Central Office expense relative to intrastate to increase which, in turn, caused projected interstate Local Switching expense to increase significantly notwithstanding the lack of a significant increase in total company switching expense.

For Special Access, AT&T notes that Fort Mill has proposed increases in rates at an overall level of 19 percent. The \$188,000 impact of these increases is much less than the \$292,000 in rate increases the Company would have required for 2005 in order to earn at the authorized rate of return.<sup>20</sup> The \$292,000 2005 revenue shortfall reflects removal of DSL from the 2005 FCC Form 492 amounts for Special Access. Because the Company's DSL rates were at a level above that required for cost recovery, removal of DSL lowers the 2005 Special Access rate of return from 5.17 percent to 2.10 percent.<sup>21</sup> Because the nonregulated operations of the Company are the customer for DSL, the overearnings did not impact third parties beyond the subsidy of Special Access rates that occurred in the last half of 2004 and all of 2005.

---

<sup>18</sup> Section 36.321(b) The expenses in these accounts are apportioned among the operations on the basis of the separation of the investments in central office equipment, Accounts 2210, 2220 and 2230, combined. See 47 C.F.R. § 36.321(b). The current Traffic Factor freeze does not mitigate the impact because the rules require direct assignment for the transmission equipment.

<sup>19</sup> 69.401(b) Plant Specific Operations Expenses in Accounts 6210, 6220, and 6230, shall be apportioned among the interexchange category and access elements on the basis of the apportionment of the investment in Accounts 2210, 2220, and 2230, \*\*\*. See 47 C.F.R. § 69.401(b).

<sup>20</sup> See Exhibit 2, Schedule C

<sup>21</sup> Id.

**V. CONCLUSION: THERE IS NO BASIS FOR AT&T'S REQUEST FOR THE COMMISSION TO SUSPEND AND INVESTIGATE THE TARIFF OF FORT MILL BECAUSE OF A "HISTORY OF OVEREARNINGS"**

In its Petition, AT&T requests that the Commission suspend and investigate the tariff filing of certain carriers, including Fort Mill, merely because they have a "history of overearnings." AT&T's request for a suspension of a tariff filing based solely on historical earnings is unsupported by Commission precedent, ignores the recent underearnings realized by Fort Mill and is not otherwise justified by the circumstances. To support its filing for Fort Mill, JSI presented as part of JSI Transmittal No. 120 detailed supporting documentation that demonstrates with reasonable certainty that the proposed switched access rates for Fort Mill will produce an approximate 11.25 percent return on Fort Mill's Switched Access and Special Access revenue requirements. AT&T has presented nothing more than a lesson on history.

AT&T's request to suspend the proposed rates is based entirely on its allegation that the rates will produce a return in excess of the allowed rate because rates in some, but not all, prior years have produced overearnings. Fort Mill developed and implemented its past rate revisions under different market circumstances than those extant today and are therefore not a valid basis for prediction of future earnings patterns including those that will arise out of the rates proposed to become effective July 1, 2006 for Fort Mill as filed under JSI Transmittal No. 120.

Contrary to AT&T's suggestion, this Commission has not suspended a tariff merely due to historical rates of return. The Commission precedent cited by AT&T consists of instances where specific identifiable projections in the subject companies'



tariff filing were viewed as flawed by the Commission.<sup>22</sup> Unlike the proceedings cited in its Petition, AT&T's elementary "statistical analyses" do not show the projections in Fort Mill's 2004 annual filing result in "systematic errors in rates."<sup>23</sup> Fort Mill's 2006 annual filing does not present the same projections utilized in past years, and AT&T is unable to mount any sustainable substantive challenges to the cost and demand data reflected in Fort Mill's 2006 annual filing.

Based on the foregoing, AT&T's call for suspension of Fort Mill's 2006 annual filing is without merit. JSI and Fort Mill are confident that the projected costs and demand meet the requirements of, and are consistent with, Section 61.38 and Section 204(a)(3) of the Act. AT&T has failed to raise any sustainable substantive issues involving these projections or any other data submitted in Fort Mill's 2006 annual filing.

---

<sup>22</sup> See *1997 Annual Access Tariff Filings*, CC Docket No. 97-149, Memorandum Opinion and Order, FCC 97-403 ("1997 Tariff Order"). In this docket the Commission did use a previously adopted statistical analysis that relied on historical data to aid it in evaluating the reasonableness of the carriers' base factor portion of their revenue requirement. See *1997 Annual Access Tariff Filings*, CC Docket No. 97-149, Memorandum Opinion and Order, DA 97-1609, ¶¶ 7-34 (Com. Car. Bur., released July 28, 1997). The FCC's rationale for this approach was the inconsistent methods used by carriers to develop their demand projections, the lack of supporting analysis for such projections and the deviation of the projections from the current trend. *Id.* The demand projections at issue resulted in a substantial impact on the CCL and EUCL rates charged by the carriers. *Id.* As discussed in this Response, AT&T has not identified any errors or suspect projections (in demand or otherwise) in Fort Mill's filing that, if changed even to the level proposed by AT&T, would result in a material change to the rates proposed by Fort Mill in its filing.

<sup>23</sup> 1997 Tariff Order, at ¶¶ 19-21.

Respectfully submitted,

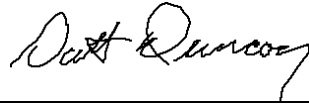
John Staurulakis, Inc.

On behalf of:

Fort Mill Telephone Company

June 29, 2006

By



---

Scott Duncan  
Staff Director-Regulatory Affairs

7852 Walker Drive, Suite 200  
Greenbelt, Maryland 20770  
(301) 459-7590  
FAX 301-577-5575  
sduncan@jsitel.com

**CERTIFICATE OF SERVICE**

I, Scott Duncan, do hereby certify that on this 29th Day of June, 2006, true and correct copies of the foregoing Reply to Petition of AT&T Inc. were served via facsimile and mailed, first class postage prepaid, to the persons listed below:



---

Scott Duncan

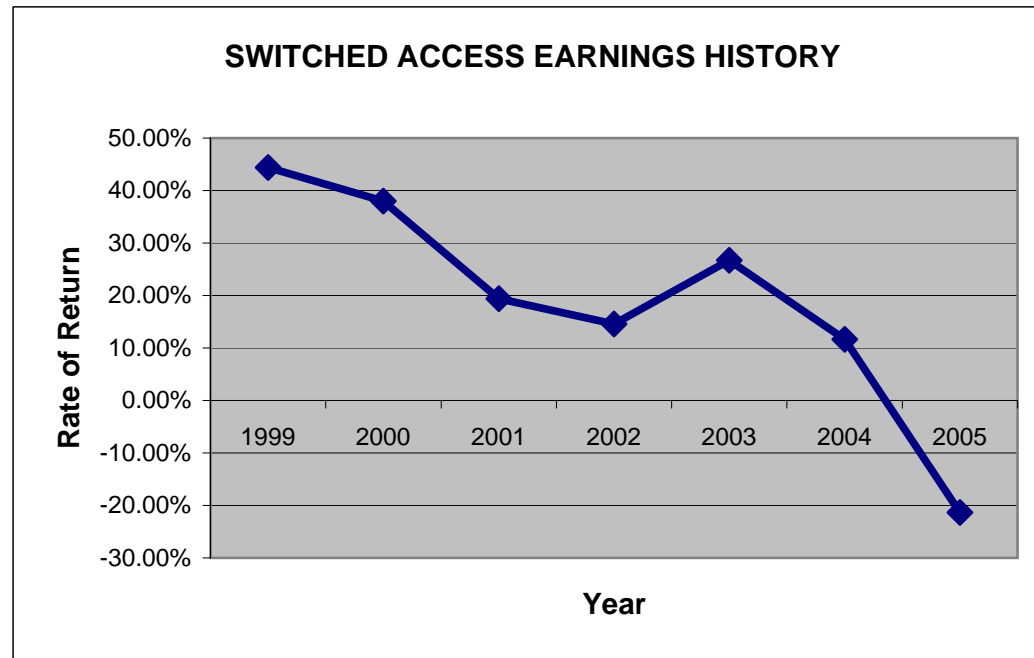
Peter H. Jacoby  
Gary L. Phillips  
Paul K. Mancini  
Attorneys for AT&T Inc.  
AT&T Inc.  
1401 I Street, N.W.  
Suite 400  
Washington, D.C. 20005  
Facsimile (202) 408-8763

# FORT MILL TELPEHONE COMPANY ANALYSIS OF SWITCHED ACCESS EARNINGS

## EXHBIT 1 Schedule A

Period	Per Actual FCC Form 492
1999	44.42%
2000	37.96%
2001	19.39%
2002	14.57%
2003	26.72%
2004	11.66%
2005	-21.36%

Note: value for 2005 is correctly stated.



**FORT MILL TELEPHONE COMPANY**  
**MODIFICATION OF AT&T SWITCHED ACCESS STATISTICAL ANALYSIS**

**EXHIBIT 1 - Schedule B**  
**Page 1 of 2**

PER AT&T EXHIBIT 3 - Page 1 of 7

A	B	C	D	E	F
Period	Per Actual FCC Form 492	Target	Differences	Diff-Avg	Diff-Avg^2
1999	44.42%	11.25%	33.17%	0.223171	0.049805487
2000	37.96%	11.25%	26.71%	0.158571	0.025144898
2001	19.39%	11.25%	8.14%	-0.027129	0.000735959
2002	14.57%	11.25%	3.32%	-0.075329	0.005674394
2003	26.72%	11.25%	15.47%	0.046171	0.002131801
2004	11.66%	11.25%	0.41%	-0.104429	0.010905327
2005#	0.00%	11.25%	-11.25%	-0.221029	0.048853629
		Count	7		0.143251494
	To Sch B, Page 2	# < 0	1		
		Ave. Dif	10.85%		

# AT&T uses, without explanation, 0 for negative realized rates of return.

Standard Deviations	
of the differences	0.154516177
of the average differences	0.058401626

To Sch B, Page 2

t - stat	1.858314224	Pr(T>=t)
		5.62%

To Sch B, Page 2

		Level of Significance
t critical	1.943	5%
t critical	1.440	10%

**CORRECTED for ACTUAL 2005 REALIZED EARNINGS LEVEL**

Period	Per Actual FCC Form 492	Target	Differences	Diff-Avg	Diff-Avg^2
1999	44.42%	11.25%	<b>Not needed when using Excel statistical functions</b>		
2000	37.96%	11.25%			
2001	19.39%	11.25%			
2002	14.57%	11.25%			
2003	26.72%	11.25%			
2004	11.66%	11.25%			
2005 - Actual	-21.36%	11.25%			
<b>Simple Average</b>	<b>19.05%</b>	Count	7		-
		# < 0	1		
		Ave. Dif			

Standard Deviations

of the differences	0.214779735	EXCEL Function STDEV
of the average differences		<b>Not needed when using Excel statistical functions</b>

H<sub>0</sub>: μ = 11.25%

H<sub>1</sub>: μ > 11.25%

t - stat	0.9610	Pr(T>=t)
		18.68%

		Level of Significance	Conf, Level 1 - LoS
t critical	2.447	0.025	97.5%
t critical	1.943	0.050	95.0%
t critical	1.440	0.100	90.0%

cannot reject H<sub>0</sub>... systematic upward bias is not supported

cannot reject H<sub>0</sub>... systematic upward bias is not supported

cannot reject H<sub>0</sub>... systematic upward bias is not supported

AT&T DEMONSTRATION OF PROJECTION BIAS - WITH CORRECTION and CONFIDENCE LEVELS RECOGNIZED FOR ECONOMETRICS

A	B	C	D	E.1	E.2	F
Iteration	Average Rate of Return	Standard Deviation of the Average Rate of Return	Calculated Statistic	Confidence Level	Critical t-Statistic at Confidence Level	Significant Outlier
AT&T - as Filed <i>Source</i>	0.00% <i>Page 1, Line 8</i>	0.058401626 <i>Page 1, Line 12</i>	1.8583 <i>Page 1, Line 13</i>	90% <i>Input</i>	1.439 <i>Input</i>	YES <i>If D &gt; E.2, "YES", else "NO"</i>
AT&T - as Filed at Econometric Convention Confidence Level <i>Source</i>	0.00% <i>Page 1, Line 8</i>	0.058401626 <i>Page 1, Line 12</i>	1.8583 <i>Page 1, Line 13</i>	95% <i>Input</i>	1.943 <i>Input</i>	NO <i>If D &gt; E.2, "YES", else "NO"</i>
AT&T - JSI Corrected <i>Source</i>	19.05% <i>Page 1, Line 24</i>	N/A	0.9610 <i>Page 1, Line 29</i>	90% <i>Input</i>	1.439 <i>Input</i>	NO <i>If D &gt; E.2, "YES", else "NO"</i>
AT&T - JSI Corrected <i>Source</i>	19.05% <i>Page 1, Line 24</i>	N/A	0.9610 <i>Page 1, Line 29</i>	95% <i>Input</i>	1.943 <i>Input</i>	NO <i>If D &gt; E.2, "YES", else "NO"</i>

**FORT MILL TELEPHONE COMPANY  
COMBINED SWITCHED ACCESS 2005 EARNINGS ANALYSIS**

**EXHIBIT 1 - Schedule C**

**ANALYSIS OF PROJECTED IMPACT OF PROPOSED RATE CHANGES**

<i>Element</i>	<i>Source</i>	Revenue at Current Rate	Revenue at 7/1/2006 Rates	Change in Revenue	Percentage Impact
		TRP TRE Col (B)	TRP TRE Col (D)	TRP TRE Col (E)	(E) / (B)
1 Local Switching	TRP TRE Line 140	348,024	454,329	106,305	30.55%
2 Information	TRP TRE Line 160	8,302	9,003	701	8.44%
3 Local Transport	TRP TRE Line 170	97,371	308,271	210,900	216.60%
4 Combined Switched Access	Sum Lines 2 thru 4	453,697	771,603	317,906	70.07%

	Change in Revenue Per Above	2005 Revenue Shortfall	Source	Change in Revenue Less 2005 Shortfall
	(A)	(B)		(C)
5 Local Switching	106	(\$20)	Schedule D, Table 1	\$126 (b)
6 Information	1	0	n/a - No Investment	\$1
7 Local Transport	211	\$238	Schedule D, Table 2	(\$27) (a)
8 Combined Switched Access	318	\$218	Schedule C	\$100

(a) The impact of rate increases for Special Access and Local Transport are less than the revenues it would have taken in 2005 ("Revenue Shortfall") to earn at the authorized rate of return of 11.25%.

(b) The projected Local Switching Revenue Requirement has increased in comparison to that for the 2005 cost study. See discussion in body of reply together with analysis at Exhibit 2.

**FORT MILL TELEPHONE COMPANY  
COMBINED SWITCHED ACCESS 2005 EARNINGS ANALYSIS**

**EXHIBIT 1 - Schedule D**

	<i>Actual 2005 Total Traffic Sensitive</i>				<i>2005 Revenue Shortfall</i>	<i>Col (D) Source</i>	<i>Combined Revenue at Auth. ROR</i>	<i>COL (E) Source</i>
	<i>End Office</i>	<i>Information</i>	<i>Transport</i>	<i>Combined</i>				
	(A)	(B)	(C)	(D) = (A) + (B) + (C)				
1. Total Revenues	\$466	\$8	\$76	\$550	<b>\$218</b>	<i>Amount Required to Increase Earnings to Authorized Rate</i>	\$768	(C) + (D)
1a. Composite Federal/State Income Tax Rate					0.5385	<b>EXHIBIT 4</b>		
2. Total Expenses and Taxes	\$445	\$8	\$163	\$616	\$117	<i>Ln 1 * Ln 1a</i>	\$733	(C) + (D)
3. Oper. Inc. (Net Return) (1-2)	\$21	\$0	(\$87)	(\$66)	\$101	<i>Ln 1 - Ln 2</i>	\$35	<i>Ln 1 - Ln 2</i>
4. Rate Base-(Avg. Net Invest.)	\$106	\$0	\$203	\$309	\$309	<i>Column (C)</i>	\$309	<i>Column C</i>
5. Rate of Return (3/4) Annualized	19.81%	0.00%	-42.86%	-21.36%	32.56%	<i>Ln 3 / Ln 4</i>	11.20%	<i>Ln 3 / Ln 4</i>
6. FCC Ordered Refund- Amortized for Current Period.	\$0	\$0	\$0	\$0	\$0	<i>n/a</i>	\$0	(C) + (D)
7. Net Return (incl. Effect of FCC Ordered Refund) (3+6)	\$21	\$0	(\$87)	(\$66)	(\$66)	<i>Ln 3 + Ln 6</i>	\$35	<i>Ln 3 + Ln 6</i>
8. Rate of Return (incl. Effect of FCC Ordered Refund) (7/4) Annualized	19.81%	0.00%	-42.86%	-21.36%	-21.36%	<i>Ln 7 / Ln 4</i>	11.20%	<i>Ln 7 / Ln 4</i>



**FORT MILL TELEPHONE COMPANY**  
**TRAFFIC SENSITIVE ANALYSIS by ELEMENT**

**EXHIBIT 1 - Schedule E**

<b>TABLE 1 - END OFFICE</b>					
	<b>Per 2005 492</b>	<b>2005 Revenue Shortfall (Excess)</b>	<b>Source</b>	<b>Combined Revenue at Auth. ROR</b>	<b>Source</b>
	<b>End Office</b>	<b>(D)</b>	<b>Col (D) Source</b>	<b>(E) = (C) + (D)</b>	<b>Col (E) Source</b>
1. Total Revenues	\$466	<b>(\$20)</b>	<i>Amount Required to Increase Earnings to Authorized Rate</i>	\$446	(C) + (D)
1a. Composite Federal/State Income Tax Rate		0.5385	<b>EXHIBIT 4</b>		
2. Total Expenses and Taxes	\$445	(\$11)	<i>Ln 1 * Ln 1a</i>	\$434	(C) + (D)
3. Oper. Inc. (Net Return) (1-2)	\$21	(\$9)	<i>Ln 1 - Ln 2</i>	\$12	<i>Ln 1 - Ln 2</i>
4. Rate Base-(Avg. Net Invest.)	\$106	\$106	<i>Column (C)</i>	\$106	<i>Column C</i>
5. Rate of Return (3/4) Annualized	19.81%	-8.71%	<i>Ln 3 / Ln 4</i>	11.10%	<i>Ln 3 / Ln 4</i>
6. FCC Ordered Refund- Amortized for Current Period.	\$0	\$0	<i>n/a</i>	\$0	(C) + (D)
7. Net Return (incl. Effect of FCC Ordered Refund) (3+6)	\$21	(\$9)	<i>Ln 3 + Ln 6</i>	\$12	<i>Ln 3 + Ln 6</i>
8. Rate of Return (incl. Effect of FCC Ordered Refund) (7/4) Annualized	19.81%	-8.71%	<i>Ln 7 / Ln 4</i>	11.10%	<i>Ln 7 / Ln 4</i>

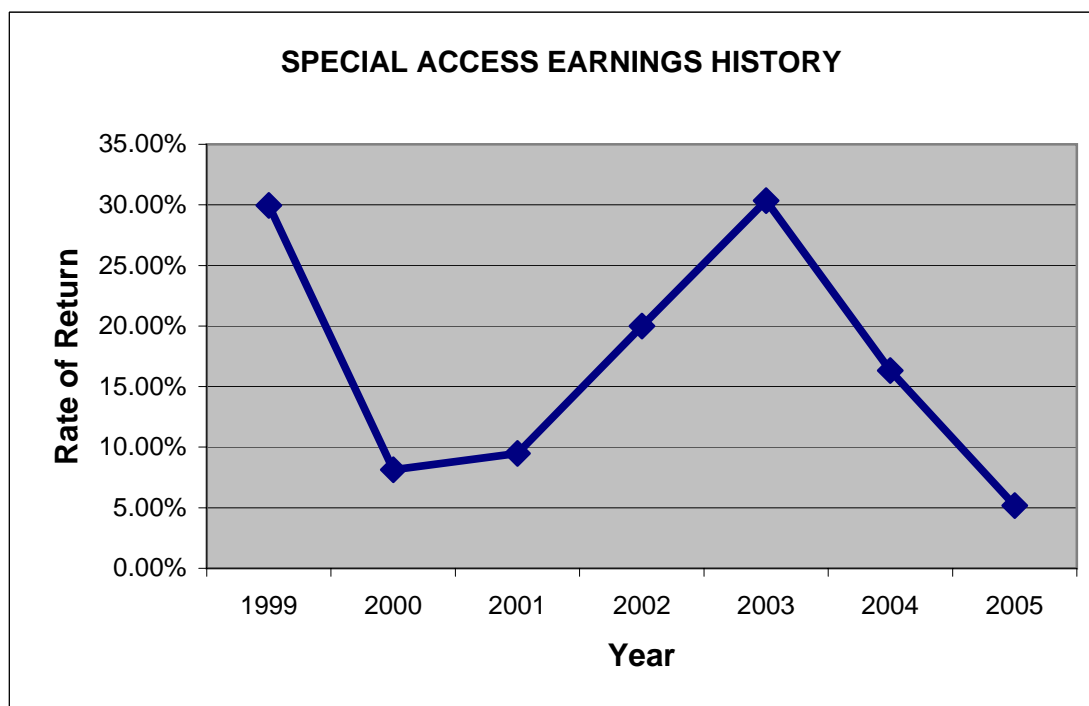
<b>TABLE 2 - END OFFICE</b>					
	<b>Per 2005 492</b>	<b>2005 Revenue Shortfall</b>	<b>Source</b>	<b>Combined Revenue at Auth. ROR</b>	<b>Source</b>
	<b>(D) = (A) + (B) + (C)</b>	<b>(D)</b>	<b>Col (D) Source</b>	<b>(E) = (C) + (D)</b>	<b>Col (E) Source</b>
1. Total Revenues	\$76	<b>\$238</b>	<i>Amount Required to Increase Earnings to Authorized Rate</i>	\$314	(C) + (D)
1a. Composite Federal/State Income Tax Rate		0.5385	<i>Input</i>		
2. Total Expenses and Taxes	\$163	\$128	<i>Ln 1 * Ln 1a</i>	\$291	(C) + (D)
3. Oper. Inc. (Net Return) (1-2)	(\$87)	\$110	<i>Ln 1 - Ln 2</i>	\$23	<i>Ln 1 - Ln 2</i>
4. Rate Base-(Avg. Net Invest.)	\$203	\$203	<i>Column (C)</i>	\$203	<i>Column C</i>
5. Rate of Return (3/4) Annualized	-42.86%	54.11%	<i>Ln 3 / Ln 4</i>	11.25%	<i>Ln 3 / Ln 4</i>
6. FCC Ordered Refund- Amortized for Current Period.	\$0	\$0	<i>n/a</i>	\$0	(C) + (D)
7. Net Return (incl. Effect of FCC Ordered Refund) (3+6)	(\$87)	\$110	<i>Ln 3 + Ln 6</i>	\$23	<i>Ln 3 + Ln 6</i>
8. Rate of Return (incl. Effect of FCC Ordered Refund) (7/4) Annualized	-42.86%	54.11%	<i>Ln 7 / Ln 4</i>	11.25%	<i>Ln 7 / Ln 4</i>

# FORT MILL TELPEHONE COMPANY ANALYSIS OF SPECIAL ACCESS EARNINGS

## EXHBIT 2 Schedule A

Period	Per Actual FCC Form 492
1999	29.95%
2000	8.14%
2001	9.47%
2002	20.00%
2003	30.36%
2004	16.33%
2005	5.17%

Note: AT&T indicates a 2005 Rate of Return of 14.5% at its Exhibit 3, Page 5 of 7. The corred 2005 Rate of Return is 5.17%.



**FORT MILL TELEPHONE COMPANY  
MODIFICATION OF AT&T SPECIAL ACCESS STATISTICAL ANALYSIS**

**EXHIBIT 2 - Schedule B  
Page 1 of 2**

PER AT&T EXHIBIT 3 - Page 5 of 7

A	B	C	D	E	F
Period	Per Actual FCC Form 492	Target	Differences	Diff-Avg	Diff-Avg^2
1 1999	29.95%	11.25%	18.70%	0.115574	0.013357456
2 2000	8.14%	11.25%	-3.11%	-0.102526	0.010511486
3 2001	9.47%	11.25%	-1.78%	-0.089226	0.007961197
4 2002	20.00%	11.25%	8.75%	0.016074	0.000258388
5 2003	30.36%	11.25%	19.11%	0.119674	0.014321976
6 2004	16.33%	11.25%	5.08%	-0.020626	0.000425413
7 2005 <sup>(1)</sup>	14.50%	11.25%	3.25%	-0.038947	0.00151685
8		Count	7		0.048352767
9	To Sch B, Page 2	# < 0	2		
10		Ave. Dif	7.14%		

(1) AT&T uses, without explanation, 0 for negative realized rates of return.

Standard Deviations	
11 of the differences	0.089770788
12 of the average differences	0.033930169
To Sch B, Page 2	
13 t - stat	2.105074726
	Pr(T>=t) 4.00%
To Sch B, Page 2	
14 t critical	1.939
15 t critical	1.439
16	

CORRECTED for ACTUAL 2005 REALIZED EARNINGS LEVEL

Period	Per Actual FCC Form 492	Target	Differences	Diff-Avg	Diff-Avg^2
17 1999	29.95%	11.25%	Not needed when using Excel statistical functions		
18 2000	8.14%	11.25%			
19 2001	9.47%	11.25%			
20 2002	20.00%	11.25%			
21 2003	30.36%	11.25%			
22 2004	16.33%	11.25%			
23 2005 - Actual	5.17%	11.25%			
24 Simple Average	17.06%	Count	7		-
25		# < 0	1		
26		Ave. Dif	0.0000000%		
Standard Deviations					
27 of the differences	0.102531719	EXCEL Function STDEV			
28 of the average differences		Not needed when using Excel statistical functions			

H<sub>0</sub>: μ = 11.25%      H<sub>1</sub>: μ > 11.25%

29 t - stat	1.499	Pr(T>=t)	9.22%
		Level of Significance	Conf, Level 1 - LoS
30 t critical	2.447	0.025	98%
31 t critical	1.943	0.050	95%
32 t critical	1.440	0.100	90%

cannot reject H<sub>0</sub> ... systematic upward bias is not supported

cannot reject H<sub>0</sub> ... systematic upward bias is not supported

reject H<sub>0</sub> ... systematic upward bias is supported at this level of significance

AT&T DEMONSTRATION OF PROJECTION BIAS - WITH CORRECTION and CONFIDENCE LEVELS RECOGNIZED FOR ECONOMETRICS

A	B	C	D	E.1	E.2	F
Iteration	Average Rate of Return	Standard Deviation of the Average Rate of Return	Calculated Statistic	Confidence Level	Critical t-Statistic at Confidence Level	Significant Outlier
AT&T - as Filed <i>Source</i>	18.39% <i>Page 1, Line 8</i>	0.05841626 <i>Page 1, Line 12</i>	2.1052 <i>Page 1, Line 13</i>	90% <i>Input</i>	1.439 <i>Input</i>	YES <i>If D &gt; E.2, "YES", else "NO"</i>
AT&T - as Filed at Econometric Convention Confidence Level <i>Source</i>	18.39% <i>Page 1, Line 8</i>	0.05841626 <i>Page 1, Line 12</i>	2.1052 <i>Page 1, Line 13</i>	95% <i>Input</i>	1.943 <i>Input</i>	YES <i>If D &gt; E.2, "YES", else "NO"</i>
AT&T - JSI Corrected <i>Source</i>	17.06% <i>Page 1, Line 24</i>	N/A	1.4992 <i>Page 1, Line 29</i>	90% <i>Input</i>	1.439 <i>Input</i>	YES <i>If D &gt; E.2, "YES", else "NO"</i>
AT&T - JSI Corrected <i>Source</i>	17.06% <i>Page 1, Line 24</i>	N/A	1.4992 <i>Page 1, Line 29</i>	95% <i>Input</i>	1.943 <i>Input</i>	NO <i>If D &gt; E.2, "YES", else "NO"</i>

**FORT MILL TELEPHONE COMPANY**  
**SPECIAL ACCESS COMPARISON of PROPOSED REVENUE INCREASE to 2005 REVENUE SHORTFALL**

**EXHIBIT 2 - Schedule C**

**ANALYSIS OF PROJECTED IMPACT OF PROPOSED RATE CHANGES**

<i>Element</i>	<i>Source</i>	Revenue at Current Rate	Revenue at 7/1/2006 Rates	Change in Revenue	Percentage Impact
		TRP TRE Col (B)	TRP TRE Col (D)	TRP TRE Col (E)	(E) / (B)
2005 - Excluding DSL	TRP TRE Line 130	976,884	1,164,809	187,925	19.24%

	Change in Revenue Per Above	2005 Revenue Shortfall	Source	Change in Revenue Less 2005 Shortfall
	(A)	(B)		(C)
2005 Revenue Shortfall	188	\$292	Schedule D	(\$104) (a)

(a) The impact of rate increases for Special Access is less than the revenues it would have taken in 2005 ("Revenue Shortfall") to earn at the authorized rate of return of 11.25%.

**FORT MILL TELEPHONE COMPANY  
SPECIAL ACCESS 2005 EARNINGS ANALYSIS**

**EXHIBIT 2 - Schedule D**

**Table 1 - Analysis of 2005 Special Access Revenue Shortfall**

	<b>2005 Special Access Excluding DSL- Table 2, Col A</b>	<b>2005 Revenue Shortfall</b>	<b>Col (D) Source</b>	<b>Combined Revenue at Auth. ROR</b>	<b>COL (E) Source</b>
	<b>(A)</b>	<b>(B)</b>		<b>(C) = (A) + (B)</b>	<b>Col (E) Source</b>
1. Total Revenues	\$764	<b>\$292</b>	Amount Required to Increase Earnings to Authorized Rate	\$1,056	(A) + (B)
1a. Composite Federal/State Income Tax Rate		0.5385	<b>EXHIBIT 4</b>		
2. Total Expenses and Taxes	\$733	\$157	Ln 1 * Ln 1a	\$890	(A) + (B)
3. Oper. Inc. (Net Return) (1-2)	\$31	\$135	Ln 1 - Ln 2	\$166	Ln 1 - Ln 2
4. Rate Base-(Avg. Net Invest.)	\$1,475	\$1,475	Column (C)	\$1,475	Column C
5. Rate of Return (3/4) Annualized	2.10%	9.14%	Ln 3 / Ln 4	11.24%	Ln 3 / Ln 4
6. FCC Ordered Refund- Amortized for Current Period.	\$0	\$0	n/a	\$0	(C) + (D)
7. Net Return (incl. Effect of FCC Ordered Refund) (3+6)	\$31	\$135	Ln 3 + Ln 6	\$166	Ln 3 + Ln 6
8. Rate of Return (incl. Effect of FCC Ordered Refund) (7/4) Annualized	2.10%	9.14%	Ln 7 / Ln 4	11.24%	Ln 7 / Ln 4

**Table 2 - Removal of DSL Revenue and Costs from 2005 Special Access Earnings**

		<b>Special Access Excluding DSL</b>	<b>Col (A) Source</b>	<b>DSL</b>	<b>Col (A) Source</b>	<b>TOTAL 2005 Per 492 - All Amounts Agree to 492</b>	<b>Col (A) Source</b>
		<b>(A)</b>		<b>(B)</b>		<b>(C)</b>	
1. Total Revenues		<b>\$ 764</b>	Company Records	<b>\$ 291</b>	Company Records	<b>\$ 1,055</b>	Col (A) + (Col) B
2. Total Expenses and Taxes Excluding Income Tax		<b>710</b>	2005 Cost Study	<b>186</b>	2005 Cost Study	<b>896</b>	Col (A) + (Col) B
3. Oper. Inc. (Net Return) (1-2)		<b>54</b>	Ln 1 - Ln 2	<b>105</b>	Ln 1 - Ln 2	<b>159</b>	Ln 1 - Ln 2
3b. Effective Federal/State Income Tax Rate		<b>0.4200</b>	Effective Rate	0.4200	Effective Rate		
3c. Income Taxes Included in Expenses		<b>23</b>		44		67	Col (A) + (Col) B
3d. Expenses Including Income Taxes		<b>733</b>	Line 2 + Line 3c	230	Line 2 + Line 3c	963	Col (A) + (Col) B
3e. Adjusted Operating Income		<b>31</b>	Line 1 - Line 3d	61	Line 1 - Line 3d	92	Line 1 - Line 3d
4. Rate Base-(Avg. Net Invest.)		<b>1,475</b>	2005 Cost Study	<b>304</b>	2005 Cost Study	<b>1,779</b>	Col (A) + (Col) B
5. Rate of Return 3e / 4Annualized		<b>2.10%</b>	Line 3e / Line 4	20.07%	Line 3e / Line 4	5.17%	Line 3e / Line 4

**FORT MILL TELEPHONE COMPANY  
END OFFICE ANALYSIS**

**EXHIBIT 3 Schedule A**

		SOURCE	12/31/2005 PYCOS	7/1/2006 - 6/30/2007 TYCOS	TYCOS over 05 PYCOS	% DIFFERENCE		
1	Total Revenue Requirement	Submitted Cost Study	607,071	746,115	139,044	22.90%		
2	Revenue attributable to Local Switching Support	LSS FORMS	(81,086)	(88,319)	(7,233)	8.92%		
3	Total Revenue Requirement Subject to MAG Adjustments	Ln 1 + Ln 2	525,985	657,796	131,811	25.06%		
4	Adjustment Factor: >>>	30.0000%	157,796	197,339	39,543	25.06%		
5	Subtotal for Re-Allocation of TIC Revenue	Ln 3 + Ln 4	683,781	460,457	(223,324)	-32.66%		
6	TIC Revenue Re-Allocation	Submitted Cost Study	2,057	2,310	253	12.30%		
7	Total Revised Revenue Requirement With MAG Adjustmen	Ln 1 + Ln 4 + Ln 6	766,924	945,764	178,840	23.32%		
			<table><tr><th>TRP COS -I (H)</th><th>TRP COS -I (P)</th></tr></table>		TRP COS -I (H)	TRP COS -I (P)		
TRP COS -I (H)	TRP COS -I (P)							
8	Local Switching Expenses	TRP 175	413,488	524,468	110,980	26.84%		
9	Local Switching Investment	TRP 323	400,596	413,488	12,892	3.22%		
10	Total Switching Expenses Subject to Separations	TRP 175	1,238,335	1,318,880	80,545	6.50%		

The increase in expenses allocated to interstate end office switching:

11	2005 TYCOS Switching Expense	Line 8	413,488			
12	Rate of Increase of Switching Expenses	Line 10	6.5%			
13	Approximate Impact of Increases Expenses on Local Sw	Line 11 * Line 12	26,894		26,894	24.2%
14	Adjusted Switching Expense	Line 11 + Line 13	440,382			
15	Intrastate to Interstate Shift Factor for Switching	Sched B	10.1%			
16	Approximate Impact of Intrastate to Interstate Shift	Line 14 * Line 15	44,350		44,350	40.0%
17	Adjusted Switching Expense	Line 14 + Line 16	484,733			
18	Other Shifts Within Interstate - Net	Line 19 - Line 17	39,735		39,735	35.8%
19	Total TYCOS Local Switching Expense		524,468			
20	Total Change	Line 13 + Line 16 + Line 18	110,980		110,980	100.0%

**FORT MILL TELEPHONE COMPANY**  
**ANALYSIS OF INVESTMENT SHIFT FROM INTRASTATE TO INTERSTATE**

**EXHIBIT 3 Schedule B**

**PART 36**

			7/1/2006 - 6/30/2007 TYCOS				2005 PYCOS			INCREASE (DECREASE)										
Ln	Acct	Description	Total Company		Total Intrastate	Total Interstate	Total Company	Total Intrastate	Total Interstate	Total Company	Total Intrastate	Total Interstate								
			From	Sched	From	From	From	From	From											
			C		Sched	C	Sched	C	Sched											
			C		C		C		C											
Central Office Switching - Total			\$	997,266	\$	476,740	\$	520,526	\$	767,495	\$	366,899	\$	400,596	\$	229,771	\$	109,841	\$	119,930
Central Office Transmission - Acct 2230																				
51	2230	Cat 4.11 - Wdbd Exch Ln xDSL Cir		742,626		0		742,626		544,078		0		544,078		198,548		0		198,548
52	2230	Cat 4.121 - Exch Trunk EAS		18,493		18,493		0		14,309		14,309		0		4,184		4,184		0
53	2230	Cat 4.122 - Exch Trunk Toll		0		0		0		0		0		0		0		0		0
54	2230	Cat 4.123 - Exch Trunk Spl		0		0		0		0		0		0		0		0		0
55	2230	Cat 4.13 - Exch Ln Circuit		9,465,694		7,067,007		2,398,687		8,581,185		6,405,356		2,175,829		884,509		661,651		222,858
56	2230	Cat 4.21 - IX Cct - Other Co		0		0		0		0		0		0		0		0		0
57	2230	Cat 4.22 - IX Cct - Wdbd		1,340,075		26,801		1,313,274		805,078		16,101		788,977		534,997		10,700		524,297
58	2230	Cat 4.23 - IX Cct - Other		1,039,822		159,016		880,806		616,586		95,870		520,716		423,236		63,146		360,090
59	2230	Cat 4.3 - Host Remote		5,447		3,929		1,518		4,205		3,033		1,172		1,242		896		346
												0		0						
60		Total 2230	\$	12,612,157	\$	7,275,246	\$	5,336,911	\$	10,565,441	\$	6,534,669	\$	4,030,772	\$	2,046,716	\$	740,577	\$	1,306,139
		Total Central Office Investment	\$	13,609,423	\$	7,751,986	\$	5,857,437	\$	11,332,936	\$	6,901,568	\$	4,431,368	\$	2,276,487	\$	850,418	\$	1,426,069
RELATIVE INTRASTATE/INTERSTATE				100.0%		57.0%		43.0%		100.0%		60.9%		39.1%						
INTERSTATE RATIO RATE OF INCREASE																				
JULY 1 2006 - JUNE 30 2007 TYCOS									43.0%											
2005 PYCOS									39.1%											
Change in Points									3.9%											
Rate of Change									10.1%											



**FORT MILL TELEPHONE COMPANY  
ANALYSIS OF INVESTMENT SHIFT FROM INTRASTATE TO INTERSTATE**

**EXHIBIT 3 Schedule C**

**PART 36 - From Cost Study Reports Filed With Transmittal 120 (Attachments 1 and 4)**

Ln	Acct	Description	Total Company	Interstate InterLATA Message	Interstate InterLATA P/L	Interstate IntraLATA Message	Interstate IntraLATA P/L	Intrastate InterLATA Message	Intrastate InterLATA P/L	Intrastate IntraLATA Message	Intrastate IntraLATA P/L	EAS	Local	Total Intrastate	Total Interstate
<b>Central Office Transmission - Acct 2230</b>															
<b>7/1/2006 - 6/30/2007 - TYCOS</b>															
51	2230	Cat 4.11 - Wdbd Exch Ln xDSL C	742,626		742,626		0		0		0	0	0	0	742,626
52	2230	Cat 4.121 - Exch Trunk EAS	18,493									18,493	0	18,493	0
53	2230	Cat 4.122 - Exch Trunk Toll	0	0		0		0		0		0	0	0	0
54	2230	Cat 4.123 - Exch Trunk Spl	0		0		0		0		0		0	0	0
55	2230	Cat 4.13 - Exch Ln Circuit	9,465,694	2,341,066	37,493	0	20,128	889,652	9,077	188,063	11,051	0	5,969,164	7,067,007	2,398,687
56	2230	Cat 4.21 - IX Cct - Other Co	0	0	0	0	0						0	0	0
57	2230	Cat 4.22 - IX Cct - Wdbd	1,340,075	0	1,299,873	0	13,401	0	0	0	13,401	0	13,400	26,801	1,313,274
58	2230	Cat 4.23 - IX Cct - Other	1,039,822	864,556	6,463	0	9,787	100,253	8,864	30,879	19,020	0	0	159,016	880,806
59	2230	Cat 4.3 - Host Remote	5,447	1,518		0		176		57		0	3,696	3,929	1,518
														0	0
60		Total 2230	#####	3,207,140	2,086,455	0	43,316	990,081	17,941	218,999	43,472	18,493	5,986,260	7,275,246	5,336,911
<b>2005 - PYCOS</b>															
51	2230	Cat 4.11 - Wdbd Exch Ln xDSL C	544,078		544,078		0		0		0	0	0	0	544,078
52	2230	Cat 4.121 - Exch Trunk EAS	14,309									14,309	0	14,309	0
53	2230	Cat 4.122 - Exch Trunk Toll	0	0		0		0		0		0	0	0	0
54	2230	Cat 4.123 - Exch Trunk Spl	0		0		0		0		0		0	0	0
55	2230	Cat 4.13 - Exch Ln Circuit	8,581,185	2,123,700	33,139	0	18,990	807,048	6,330	170,601	4,468	0	5,416,909	6,405,356	2,175,829
56	2230	Cat 4.21 - IX Cct - Other Co	0	0	0	0	0						0	0	0
57	2230	Cat 4.22 - IX Cct - Wdbd	805,078	0	780,926	0	8,051	0	0	0	8,051	0	8,050	16,101	788,977
58	2230	Cat 4.23 - IX Cct - Other	616,586	509,699	4,311	0	6,706	59,104	5,508	18,205	13,053	0	0	95,870	520,716
59	2230	Cat 4.3 - Host Remote	4,205	1,172		0		135		44		0	2,854	3,033	1,172
														0	0
60		Total 2230	#####	2,634,571	1,362,454	0	33,747	866,287	11,838	188,850	25,572	14,309	5,427,813	6,534,669	4,030,772
<b>TYCOS INCREASE (DECREASE) FROM PYCOS</b>															
51	2230	Cat 4.11 - Wdbd Exch Ln xDSL C	198,548	0	198,548	0	0	0	0	0	0	0	0	0	198,548
52	2230	Cat 4.121 - Exch Trunk EAS	4,184	0	0	0	0	0	0	0	0	4,184	0	4,184	0
53	2230	Cat 4.122 - Exch Trunk Toll	0	0	0	0	0	0	0	0	0	0	0	0	0
54	2230	Cat 4.123 - Exch Trunk Spl	0	0	0	0	0	0	0	0	0	0	0	0	0
55	2230	Cat 4.13 - Exch Ln Circuit	884,509	217,366	4,354	0	1,138	82,604	2,747	17,462	6,583	0	552,255	661,651	222,858
56	2230	Cat 4.21 - IX Cct - Other Co	0	0	0	0	0	0	0	0	0	0	0	0	0
57	2230	Cat 4.22 - IX Cct - Wdbd	534,997	0	518,947	0	5,350	0	0	0	5,350	0	5,350	10,700	524,297
58	2230	Cat 4.23 - IX Cct - Other	423,236	354,857	2,152	0	3,081	41,149	3,356	12,674	5,967	0	0	63,146	360,090
59	2230	Cat 4.3 - Host Remote	1,242	346	0	0	0	41	0	13	0	0	842	896	346
60		Total 2230	2,046,716	572,569	724,001	0	9,569	123,794	6,103	30,149	17,900	4,184	191,699	373,829	623,864
														5.7%	15.5%
<b>Central Office Local Switching*</b>															
43	2210	Cat 3 - Local Switching - 06/07 TY	997,266	520,526		0		21,332		7,250		0	448,158	476,740	520,526
43	2210	Cat 3 - Local Switching - 2005 PYC	767,495	400,596		0		16,417		5,580		0	344,902	366,899	400,596
		TYCOS over PYCOS	229,771	119,930	0	0	0	4,915	0	1,670	0	0	103,256	109,841	119,930

FORT MILL TELEPHONE COMPANY  
REPLY TO AT&T PETITION AGAINST 2006 ANNUAL ACCESS FILING  
DEVELOPMENT OF INCOME TAX GROSS UP FACTOR

EXHIBIT 4

**CURRENT FCC PRESCRIBED RATE OF RETURN and RELATED CAPITAL STRUCTURE**

			A	B	C
			Debt	Equity	Combined
1	Cost	FCC Prescription	8.8000%	13.1900%	
2	D/E Ratio	FCC Prescription	44.2000%	55.8000%	100.0000%
3	Return	Line 1 * Line 2	3.8896%	7.3600%	11.2500%
4	Weighting	A = 3A/3C B = 3B/ 3C	34.5800%	65.4200%	100.0000%
5	Tax Gross Up Rate	Line 24		53.8500%	
6	Tax Increment for Equity	Line 3 * Line 5		3.9634%	
7	Grossed Up Return Rate	Line 3 + Line 6	3.8896%	11.3234%	15.2130%
8	Rounded Return Rate				15.2100%

GROSS UP FACTOR CALCULATION			Debt	Equity	Combined
11	D/E Ratio	Per FCC ROR Per Line 2	44.20%	55.80%	100.00%
12	Net Investment - for Factor	Input or Default Line 11	\$0.4420	\$0.5580	\$1.000
13	Return Rate	Per FCC ROR (Line 1)	8.80%	13.19%	
14	Return	Ln 12 * Ln 13	\$0.0389	\$0.0736	\$0.1125
15	Tax Gross Up Rate	Ln 24		53.85%	
16	Income Tax Additive	Ln 14 * Ln 15		\$0.0396	\$0.0396
17	Return and Income Taxes	Ln 14 + Ln 16	\$0.0389	\$0.1132	\$0.1521
18	Federal Income Tax Rate	Input	----->	34.00%	
19	State	Input		South Carolina	
20	State Income Tax Rate	Input	----->	5.00%	
21	Federal Tax Effect on State Tax	Ln 18 * Ln 19		0.00%	
22	Adjusted State Rate	Ln 19 - Ln 21		0.00%	
23	Combined Federal & State Rate	Ln 18 + Ln 22		35.00%	
24	Gross-Up Rate	Ln 23 / (1 - Ln 23)		53.85%	

PROOF OF TAX GROSS UP CALCULATION			A	B	C
					Combined
31	Return and Income Taxes Per Above	Line 17 Column C			\$0.152100
32	Interest Expense Per Above	Line 14 Column A			\$0.038900
33	Return Subject to State Income Tax	Line 31 - Line 32			\$0.113200
34	State Income Tax Rate	Line 20			\$0.050000
35	State Income Tax	Line 33 * Line 34			\$0.005660
36	Income Subject to Federal Income Tax	Line 33 - line 35			\$0.113200
37	Federal Income Tax Rate	Line 18			\$0.340000
38	Federal Income Tax	Line 36 * Line 37			\$0.039620
39	Combined State and Federal Income Tax	Line 35 + Line 38			\$0.039620
40	Net Income After Taxes	Line 31 - Line 39			\$0.112480
41	Return Per Dollar at Unitary Rate of Return	Line 14 Column C			\$0.112500
42	Difference - Rounding	Line 40 - Line 41			-\$0.000020