GENERAL INSTRUCTIONS

EARNINGS REPORT

FOR

TELEPHONE UTILITIES

Effective March 2008

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GENERAL INSTRUCTIONS

1. This report form is prescribed for the use of telephone utilities regulated by the Public Utility Commission of Texas. The objective of this report is to provide information needed to monitor the earnings and financial condition of telephone utilities on a Texas-jurisdictional basis. Each company subject hereto will submit its Earnings Report to the Commission in the form and manner herein prescribed.

The reported information should be for the 12-month period ending December 31st. The Earnings Report shall be filed no later than May 15th of the following year, as specified in Substantive Rule §26.71(f)(3). Utilities who cannot meet this filing deadline should contact the PUC’s Director of Rate Regulation with as much advance notice as possible. The law allows penalties to be imposed in the event that the rules supported by PURA are not followed.

2. Each utility shall file with the Filing Clerk of Central Records at the Commission offices in Austin, Texas, three copies of the printed Earnings Report (excluding instructions) and any attachments. Additionally, all utilities shall file an electronic version of the information contained in the required schedules and general questions. For specific instructions regarding the electronic filing of the report, please visit the Commission’s website at http://www.puc.texas.gov/industry/filings/FilingProceed.aspx.

3. A utility with a rate proceeding pending before the Commission on the due date of the annual Earnings Report or who had a final order issued in such a proceeding within the previous 12 months is exempt from filing the report.

4. Unless otherwise indicated, the information required in this report form will be taken from the accounts and other records prescribed in Part 32 of the Federal Communications Commission Rules as stated in the Code of Federal Regulations. The definitions and instructions contained therein will also apply to this report wherever applicable. However, a query or response in this report regarding a practice or transaction is not to be construed as necessarily indicating conformity to accounting or other pertinent regulations.

5. If relevant audited financial statements are available for the reporting period, they shall be relied upon for purposes of preparing this report.

6. Part 64 cost allocation standards should be followed in apportioning costs between regulated and nonregulated activities.

7. The Part 36 Separations Manual should be followed to jurisdictionally allocate costs between the intrastate and interstate jurisdictions for "cost" companies.

8. In preparing the report, all instructions should be followed and each question should be answered fully and accurately. The expression "none" or "not applicable" will be given as the answer to any particular inquiry only where the expression truly and completely states the fact. Where a numeric response is required, insert the numeric value "0" as appropriate. All dollar amounts provided in response to questions or schedules should be rounded to the nearest dollar.

9. References to reports of previous periods or to other reports will not be accepted in lieu of information requested in this report. This report does not replace any other report required by the Commission unless substitution is specifically allowed by the Substantive Rules.

10. In accordance with Substantive Rule §26.71(d), all reports submitted to the Commission shall be attested to by an officer or manager of the utility under whose direction the report is prepared, or if under trust or receivership, by the receiver or a duly authorized person, or if not incorporated, by the proprietor, manager, superintendent, or other official in responsible charge of the utility's operation.

11. Any utility filing supplemental attachments to its Earnings Report shall place those items after the schedules and attestation page. Neither the General Instructions nor the Schedule Instructions contained in this packet are to be submitted for filing. Each copy of the Earnings Report should be organized in the following order: (1) cover sheet; (2) general questions; (3) required schedules (including required supplemental schedules); (4) signature page; and (5) supplemental attachments (if any). When retrieving
the blank Earnings Report files from the PUC’s web site, please note that the cover sheet and signature page are included in the downloadable Microsoft Excel file.

12. If it is necessary to revise any schedule after the initial filing of the report, a new filing should be submitted that contains all schedules and three printed copies of the report. The new filing should be labeled "Revised" and include the date of revision. General Question No. 11 shall be completed for all revised reports.

**INSTRUCTIONS FOR GENERAL QUESTIONS AND SCHEDULES**

**Please note:** Only investor-owned utilities should complete Schedules V.

**General Questions**

Provide the requested information.

**Schedule I: Summary of Revenues and Expenses**

Revenues and expenses should be segregated according to Part 64 cost allocation standards. Revenues and expenses should be aggregated in accordance with Part 32 USOA. (Note that Network Access Revenue (Line 3) is further detailed on Schedule IV.)

The net contribution (revenues less operating expenses) from Yellow Pages services, if provided by a separate affiliate, must be included in Miscellaneous Revenues.

Line 22 column "g" should equal the amount of Interstate USF Revenues recorded on the books for the monitoring period.

**Schedule II: Invested Capital**

Invested capital should be reported on an end-of-period basis. Invested capital should be segregated according to Part 64 cost allocation standards. A calculation of working cash is not needed for purposes of this report.

The rate of return measure (line 32) expresses the return from Schedule I as a percentage of total ending invested capital (excluding telephone plant under construction, plant held for future use, and telephone plant acquisition adjustments) from Schedule II.

The Earned Return on Equity measure (line 33) calculates automatically using data from Schedules I, II, and V.

**Schedule III: Federal Income Taxes**

Note that Federal income taxes are calculated on an intrastate basis. Line 1 and lines 3 through 12 (with the exception of line 10) should correspond to the same categories on Schedule I.

On line 10, the cell for interest expense (cell J20) contains a formula that calculates the amount of interest expense as the weighted cost of debt (from Schedule V) multiplied by invested capital (from Schedule II). For investor-owned utilities, which complete Schedule IX, this formula is appropriate and the cell should be allowed to automatically calculate the amount of interest expense. For cooperatives, however, the formula in cell J20 is not applicable because cooperatives are not required to complete Schedule V. Therefore, in order for cooperatives to be able to enter the correct amount of interest expense, the formula in cell J20 is unprotected. Cooperatives should override the formula by manually entering the correct amount of interest expense directly into the cell.
Additional Depreciation (Line 15) refers to those differences between book and tax that were not normalized (no deferred taxes were recorded) and were, instead, flowed-through to the ratepayers previously. These flow-through items have created a type of permanent difference that must be added back to the tax calculation. If an amount is included in the Federal income tax calculation, supporting calculations should also be included.

The amortization of investment tax credits (ITCs) should occur ratably (over the life of the associated assets).

Reflect the amortization of excess deferred taxes using the amount booked during the period. (This instruction assumes books will reflect the method ordered by the Commission.) If a utility has not received an order from the Commission concerning the amount of excess deferred taxes, it will reflect the amortization using the average rate assumption method.

Insert the company's applicable tax rate on line 19.

Schedule IV: Network Access Service Revenue

Intrastate access services revenue should be reported for each of the categories listed on this schedule. The booked subtotal for Network Access Service Revenue will equal the amount on Schedule I, Line 3, column (g). Schedule I, Line 3, column (g) is a cell reference from Schedule IV. Do not include interstate USF or interstate high cost assistance on Schedule IV as these amounts are reported on Schedule I. Do report state high cost assistance on Schedule IV. Network access services revenue received from other local exchange carriers for access service must be included either in the access rate element categories on Schedule IV or in the "Other" category on Schedule IV.

The "Billed Intrastate" column should include revenue that is billed by or on behalf of the reporting local exchange carrier. Billed revenue does not include, for example, toll pool transition payments, Feature Group A revenue sharing or distributions from the ICAC pool.

Schedule V: Weighted Average Cost of Capital (Investor-Owned Utilities)

Please provide the capital structure of the utility as of the end of the monitoring period. It is not necessary to estimate the current cost of equity. Instead, use the allowed return from your last Texas rate case. If your utility has never had a rate case in Texas, or has elected to be regulated under PURA Chapter 58 or 59, leave the line blank or insert your own estimate.

Schedule VI: Historical Financial Statistics

Please provide the requested financial data for the monitoring period and the four preceding fiscal years. If audited financial statements are available for the periods requested, the financial data provided should be based thereon.

Reporting companies with intrastate operating revenues (Schedule I, line 13) exceeding $100 million are not required to complete this schedule.

Schedule VII: Proposed Company Adjustments

Please provide this schedule even if there are no proposed adjustments. (Please mark n/a if not completing.) If the utility believes that material adjustments to any of the information provided in the report would be appropriate, please provide a full description of each adjustment and provide supporting workpapers (if any) as a supplemental attachment to the Earnings Report. (The schedules included in the report should not reflect the proposed adjustments.) Printed schedules reflecting additional explanatory information related to the proposed adjustments may be included as a supplemental attachment to the Earnings Report.
Supplemental Schedule 1: Comments/Footnotes

This schedule is to be used for providing comments or footnotes pertaining to other schedules in the report. Please provide the first page of this schedule even if there are no comments or footnotes. (Mark n/a if not completing this schedule).