

**BEFORE THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

---

<b>IN THE MATTER OF THE REQUEST OF</b>	)	
<b>KNOLOGY COMMUNITY TELEPHONE,</b>	)	<b>TC08-084</b>
<b>INC. FOR CERTIFICATION</b>	)	<b>RESPONSE TO INQUIRIES</b>
<b>REGARDING ITS USE OF FEDERAL</b>	)	
<b>UNIVERSAL SERVICE SUPPORT.</b>	)	

---

Knology Community Telephone, Inc. (the "Company"), by and through the undersigned, files the following responses to the South Dakota Public Utilities Commission inquiries received July 11, 2008, regarding the above reference docket.

1. Please provide operating expense numbers broken out by account for 2007 Actuals and 2008/2009 estimated.

**RESPONSE:**

Please see the attached confidential Exhibit A for 2007 Actual Operating Expenses by account and attached confidential Exhibit B for projected 2008 Operating Expense. Knology has not yet prepared, by account, 2009 projections, but generally would assume an increase in plant specific operating expenses of roughly two to three percent over the previous year.

2. Please explain in further detail the reason for the difference between the estimated 2007 capital expenditure (from last year's filing) and the actual 2007 capital expenditure number reported on this year's filing.

**RESPONSE:**

The difference between the estimated 2007 capital expenditure and the actual 2007 capital expenditure can best be characterized by the fact that 2007 was a year of

transition for Knology. The merger between Knology and PrairieWave was completed in April, 2007. Despite the compatibility that drew the two companies together, it was incumbent upon Knology, following the closing of the merger, to reevaluate the estimated capital expenditures inherited from PrairieWave and make actual capital expenditures in the context of the company's capital budget as a whole. Those decisions, unfortunately, are never black and white, especially when trying to maximize synergies between the two companies in the face of an economic downturn that continues today.

While the difference between the 2007 estimate and the 2007 actual capital expenditure may seem significant, in reality it is merely a reflection of Knology wanting to get it right in the long term. Rather than plowing money into our South Dakota ILEC territory on the basis of a prior estimate, Knology made a conscious decision to take the time necessary to get a full understanding of which capital expenditures would provide the greatest benefit to SD customers and our shareholders. Knology was and is determined to properly evaluate all expenditures in order to spend its capital wisely.

The Commission can be assured that Knology's 2007 actual capital expenditure number in South Dakota is not a portent of things to come. In fact, following submission of its current certification report, Knology's capital expenditure numbers were updated and reflect actual capital expenditure attributable to the ILEC of over \$260,000 year to date. Although it is only July, this number is already significantly higher than the previously provided estimated capital expenditures for 2008.

3. Please explain in further detail the reason for the difference between the Estimated 2007 Plant Specific Operating Expense (from last year's filing) and the Actual 2007 Plant Specific Operating Expense number reported on this year's filing.

**RESPONSE:**

Upon further examination of the filing made by PrairieWave Community Telephone, Inc. (n/k/a Knology Community Telephone, Inc.) in 2007, the Actual 2006 and Estimated 2007, 2008, and 2009 Plant Specific Operating Expense numbers were not accurately reported. It appears that last year's Certification filing was made using Total Operating Expense numbers (less depreciation), rather than solely on Plant Specific Operating Expense numbers. In contrast, the Actual 2006 Plant Specific Operating Expense, as reported to NECA and the USAC, and upon which our Federal Universal Service Receipts were actually calculated, was significantly less. Attached as confidential Exhibit C is the cost study for the year ended December 31, 2006, showing the Actual 2006 Operating Expenses by Account – as reported to NECA and the USAC. Although the filing with the South Dakota PUC was incorrect because it was based on Total Operating Expense, the error did not impact the amounts Knology received in Universal Service Support because the correct amounts were used in Knology's filings with both NECA and the USAC.

In the current docket, Knology reported 2007 Actuals correctly – broken out by Plant Specific Operating Expense. Had Knology based its current report on Total Operating Expenses less Depreciation (as it did when it filed its report last year), the resulting number would have been very close to the Estimated 2007 number from last year's report. The actual Plant Specific Operating Expense numbers reported in this

docket for 2007 are, in fact, the correct numbers and are supported by confidential Exhibit A.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008.

Respectfully submitted,

---

Kathryn E. Ford  
Director of Legal Affairs