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October 6, 2006

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HAND DELIVERED

Ms. Beth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

**RE: *P.S.C. Case No. 2006-00407 -- Application of Gearheart Communications, Inc.
Coalfields Telephone Company***

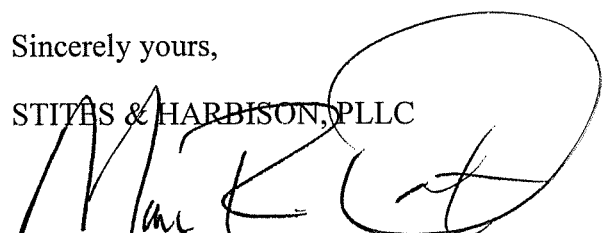
Dear Ms. O'Donnell

Please find an original and five of the Responses of Gearheart Communications, Inc. d/b/a Coalfields Telephone Company to the Staff's September 29, 2006 Data Requests.

If you have any questions, please do not hesitate to contact me.

Sincerely yours,

STITES & HARBISON, PLLC


Mark R. Overstreet

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

**The Application of Gearheart Communications,)
Inc. D/B/A Coalfields Telephone Company for)
an Order and Certificate of Public Convenience) Case No. 2006-00407
and Necessity Authorizing Applicant to Borrow)
\$4,000,000 to Refinance Existing Indebtedness)**

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**Gearheart Communications, Inc. d/b/a
Coalfields Telephone Company**

**Response to Commission Staff's
First Set of Data Requests**

**Gearheart Communications, Inc. d/b/a
 Coalfields Telephone Company**

REQUEST:

Provide an amortization schedule for each loan listed on Exhibit B of the application.

RESPONSE: See the tables below, which provide the amortization of principal payments by year. The amounts at the top (and bottom) of each column represent the principal amount outstanding by issue date as shown on Exhibit B to Coalfields application.

RTB loans

	<u>10,618</u>	<u>17,197</u>	<u>313,379</u>	<u>65,754</u>	<u>467,671</u>
2006	7,887	13,024	63,955	13,366	55,168
2007	2,731	4,173	68,432	14,302	59,030
2008			73,222	15,303	63,162
2009			78,348	16,374	67,583
2010			29,422	6,410	72,314
2011					77,376
2012					73,038
2013					
2014					
2015					
	10,618	17,197	313,379	65,754	467,671

RTFC loans

	<u>380,243</u>	<u>493,630</u>	<u>280,730</u>	<u>941,332</u>
2006	86,657	141,102	80,436	57,955
2007	91,856	149,568	85,262	61,432
2008	97,368	158,542	91,231	65,733
2009	103,210	44,418	23,801	70,334
2010	1,152			75,257
2011				80,525
2012				86,162
2013				92,193
2014				98,647
2015				105,552
2016				112,941
2017				34,601
	380,243	493,630	280,730	941,332

REQUEST:

Provide a detailed schedule of closing costs and fees that will be payable and due at closing, including any interest payments.

RESPONSE:

Coalfields estimates that closing costs, including any legal fees, will be approximately \$60,000 and will consist of legal fees (\$30,000); underwriters' discount (\$25,000); Trustee origination fees (\$2,500); and miscellaneous costs (\$2,500).

Two commitment fees also will be paid at the time of closing. A \$5,000 commitment fee will be due and payable for the Revolving Line of Credit. An additional commitment fee of \$40,000 will be due and payable with respect to the Adjustable Rate Security.

REQUEST:

Provide a calculation of the Annual Percentage Rate for the proposed loan.

RESPONSE: 6.79%.

<u>Principal Balance</u>	<u>Interest</u>	<u>Expenses</u>	<u>Letter of Credit Fec</u>	<u>Total</u>	<u>Annual Rate</u>
4,000,000	224,000	6,556	42,002	272,558	6.81%
3,710,000	207,950	6,272	38,387	252,609	6.81%
3,400,000	190,226	5,947	34,605	230,778	6.79%
3,065,000	171,640	5,608	30,597	207,845	6.78%
2,710,000	151,760	5,248	26,378	183,386	6.77%
2,330,000	130,599	4,869	21,734	157,202	6.75%
1,925,000	107,702	4,452	16,823	128,977	6.70%
1,490,000	83,440	4,011	11,573	99,024	6.65%
1,025,000	57,400	3,539	6,000	66,939	6.53%
530,000	29,707	3,039	-	32,746	6.18%

$(6.81+6.81+6.79+6.78+6.77 = 33.96)/5 = 6.79.$

Witness: James Campbell

REQUEST:

How is the remaining balance of the loan going to be paid at the end of the five year period?

RESPONSE: Coalfields will refinance the loan at the end of five years. It expects Fifth Third Bank will extend or renew the loan when it expires but the bank is not contractually obligated to do so. All required authorizations under Chapter 278 of the Kentucky Revised Statutes and other applicable law will be obtained in connection with such refinancing.

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REQUEST:

Provide any additional information, calculations, or justification to support the proposed refinancing and demonstrate the savings to Coalfields.

RESPONSE:

The composite rate for the RTB loans is 6.87%. Including the RTFC line of credit, which carries a 8.85% interest rate and which will be retired through the proposed refinancing, the composite rate for the amounts borrowed from the RTFC is 7.36%. As demonstrated in Coalfields response to Staff Data Request No. 3, the composite rate for the proposed financing is 6.79%.

The refinancing also will provide for a levelized debt service schedule as demonstrated by comparing the debt service schedule for the existing debt below with the debt service schedule for the proposed financing in Exhibit A-1 to the Application.

	<u>Existing Debt</u>		
	Principal	Interest	Debt Service
2006	1,519,550	287,337	1,806,887
2007	536,786	164,060	700,846
2008	564,560	128,153	692,712
2009	404,067	90,400	494,467
2010	184,555	63,244	247,800
2011	157,901	50,757	208,658
2012	159,200	40,110	199,310
2013	92,193	29,388	121,582
2014	98,647	23,285	121,932
2015	105,552	16,755	122,307
2016	112,941	9,767	122,708
2017	34,601	2,291	36,892
Total	3,970,554	905,546	4,876,100

Witness: James Campbell



RECYCLED

ALL STATE LEGAL 800-322-0510 ED11

REQUEST:

Provide an analysis of the legal issues regarding the applicability of KRS 278.544(4) to this application.

RESPONSE:

KRS 278.544(4) provides that nonbasic services are exempt from Commission regulation, including review and authorization of proposed financing pursuant to KRS 278.300. Coalfields offers both basic local exchange service and nonbasic services as those terms are defined at KRS 278.541(1) and KRS 278.541(5). Because KRS 278.300 is still applicable to basic local exchange service, because the debt being refinanced was used at least in part to provide such service and because the proposed refinancing is unitary, Coalfields believed that Commission review of the proposed refinancing was required by KRS 278.300. If such review is not required, Coalfields requests an order from the Commission declaring that no Commission authorization is required for the refinancing.



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800-222-0310

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REQUEST:

Has Coalfields determined an allocation of the financing between “basic local exchange service” and “non-basic service” as defined by KRS 278.541(1) and (5)? If so, what is it? If not, why not?

RESPONSE:

No. Coalfields does not expect to file for a rate adjustment as a result of this financing and thus an allocation would not appear to be required at this time.