

Citizens Telecommunications Companies
Tariff F.C.C. No. 1
Description and Justification
Tariff Review Plan Letter Filing
May 20, 2008

1. Introduction

Citizens Telecommunications Companies ("Citizens") submits herewith its Description and Justification ("D&J") in support of its Annual 2008 Price Cap Tariff Review Plan ("TRP") Filing, made under letter dated May 20, 2008, pursuant to sections 61.41 through 61.49 of the Commission's Rules and relevant Commission orders.¹ This filing is made on behalf of Global Valley Networks, Inc., pursuant to the *Price Cap Waiver Order*. The *Price Cap Waiver Order* granted waivers to Puerto Rico Telephone Company, Inc., Consolidated Communications, and Frontier (on behalf of Citizens and GVN) related to converting study areas from rate of return to price cap regulation. The *Price Cap Waiver Order* requires these companies ("the carriers") to file short-form TRPs for the affected study areas no later than May 20, 2008.²

¹ See, *Order*, July 2008 Annual Access Charge Tariff Filings, released March 28, 2008, DA 08-758 ("2008 Filing Order"); *Tariff Review Plans*, Material to be Filed in Support of 2008 Annual Tariff Filings, DA 08-759, released March 28, 2008 ("2008 TRP Order"); and *Order* in WC Dockets No. 07-292, 07-291, and 08-18, released May 6, 2008, DA 08-1026 ("Price Cap Waiver Order").

² See *Price Cap Waiver Order* at ¶128.

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Effective July 1, 2008, Citizens plans to introduce Rate Group 5, which will consist of Global Valley Networks, Inc. ("GVN"), a company acquired by Citizens Communication Company, the parent of the Frontier and Citizens local exchange carriers ("Frontier"), on October 31, 2007³. GVN is converting to price cap regulation effective 7/1/2008, coincident with exiting the NECA pools. This conversion relies upon waivers granted in the *Price Cap Waiver Order*.

Under the terms of the *Price Cap Waiver Order*, Citizen will "initialize [GVN's] rates to meet its authorized rate-of-return and then adapt those rates to the price cap structure . . . The rates so determined shall be the January 1 rates used in establishing its

³ Frontier has an outstanding Petition for Limited Waiver in WC Docket No. 08-382 with respect to receipt of ICLS in lieu of IAS and the treatment of GVN upon entry to price caps. Because the outstanding Petition has not yet been acted on, this filing assumes that the current rules apply to GVN. If the requested waivers are granted in whole or in part, the treatment of GVN will be different for the 2008 Annual Filing that will be made in June.

PCIs for all its price cap baskets."⁴ The *Price Cap Waiver Order* further directs that "each carrier's CMT revenues will include its 2007 SLC revenues plus the marketing expenses shifted to the CMT basket from the traffic-sensitive and trunking baskets pursuant to section 69.156 of the Commission's rules."⁵

GVN's 2007 Revenue Requirement is shown on Exhibit GVN-1, and development of GVN's initial CMT per line is shown on Exhibit GVN-2. Exhibit GVN-3 shows the development of 2007 SLC Revenue under the terms of the *Price Cap Waiver Order*. Because GVN will not be providing DSL service under tariff, it is necessary to allocate GVN's Special Access Revenue Requirement between traditional Special Access and DSL. This allocation is shown on Exhibit GVN-DSL. Copies of GVN's 2007 Part 36 and Part 69 cost studies are included with this filing. As a new entrant to price caps,

⁴ *Price Cap Waiver Order* at ¶ 14.

⁵ *Price Cap Waiver Order* at ¶17.

GVN initializes its PCI, API, and SBI values at 100.

2. Development of Proposed CMT Revenue per Line and PCI Values

Citizens develops the proposed CMT revenue per line for GVN value by applying exogenous cost changes to the initial CMT per line values. The exogenous cost changes allocated to the CMT basket are divided by total EUCL lines to yield an exogenous change per line. The exogenous change per line is then divided by the existing CMT per line to yield an exogenous cost change factor. This factor is multiplied by the existing CMT revenue per line to get the proposed CMT revenue per line. These calculations are shown on Exhibit 2.5-1 for GVN.

Because the effects of GDP-PI – X and g are targeted to the Average Traffic Sensitive Rate, the prospective PCI values for the Traffic Sensitive and Trunking Baskets are calculated by adjusting the existing PCI values for the effects of exogenous cost changes allocated to those baskets plus the amount of ATS targeting

allocated to those baskets. Initial data shows that Rate Group 5's initial revenue requirement based rates will result in an ATS rate at a level below target rate, making ATS targeting unnecessary. The prospective PCI values for the Special Access Basket are calculated using formula found in §61.45(b) of the Commission's rules. Calculation of PCI values is shown on Exhibit 2.5-2 for the GVN.

Calculation of a "g" factor has in the past been associated with the development of PCIs. The g factor is now used only in ATS targeting, because the CMT basket is measured on the basis of revenues per line. Citizens calculates g factors on Exhibit 2.5-3 for the GVN.

3. Exogenous Cost Changes

Citizens has identified exogenous cost changes for changes in Federal Regulatory Fees, Telecommunications Relay Service (TRS) costs, and North American Numbering Plan (NANPA)

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funding. The amounts that Citizens pays for these obligations are based on percentages of interstate end user revenues. The exogenous cost changes by basket are summarized on Exhibits 1.5-1 to 1.5-2 for GVN.

As permitted by the Commission⁶, Citizens is including the impact of changes in Federal Regulatory Fees as an exogenous cost with this annual filing. The fee for Fiscal Year 2008 is proposed to be \$0.00317 per interstate end user revenue dollar.⁷

The funding base to which this factor is applied is the interstate end user revenues for 2007 as reported on Form 499-A. Citizens reduces the funding base by its percentage of non-price cap end user revenues to get the price cap portion of the funding base. The annualized amount of current Federal Regulatory obligation

⁶ Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act, *Order*, DA 94-1119 (October 7, 1994).

⁷ See, *Notice of Proposed Rulemaking and Order*, released 5/8/08, "Assessment and

attributable to price caps is computed by multiplying the price cap portion of the funding base by the contribution factor.

Citizens makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates. The amount embedded in current rates for GVN is estimated by multiplying the Regulatory Fee rate for Fiscal 2007 by the price cap portion of the funding base. The calculation of the exogenous cost change for Federal Regulatory Fees is shown on Exhibit 1.5-4 for GVN.

On February 6, 2008, the Commission released an *Order* in CG Docket 03-123, Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities, DA 08-303 ("*2007 TRS Retro Order*"). In the *2007 TRS Retro Order*, the Commission retroactively set the

Collection of Regulatory Fees for Fiscal Year 2008", FCC 08-126.

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Telecommunications Relay Services ("TRS") contribution factor at 0.00819 for the July 2007 to June 2008 funding period. The TRS contribution factor for the July 2008 to June 2009 funding period is not yet available. For purposes of this filing, Citizens assumes that the actual factor to be used for the July 2008 to June 2009 period will be the same as the factor from the *2007 TRS Retro Order*. Citizens anticipates that the actual factor to be used for the July 2008 to June 2009 rate period will be available in time for the Annual Interstate Access Tariff Filings that must be made in June 2008.

The funding base to which the this factor is applied is the interstate end user revenues for 2007 as reported on Form 499-A. Citizens reduces the funding base by its percentage of non-price cap end user revenues to get the price cap portion of the funding base. The annualized amount of current TRS obligation attributable to price caps is computed by multiplying the price cap portion of the funding base by the contribution factor.

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Citizens makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates. The amount embedded in current rates for GVN is estimated by multiplying the TRS Contribution Factor that was actually used in 2007⁸ by the price cap portion of the funding base. Calculation of exogenous change for TRS costs is shown on Exhibit 1.5-5 for GVN.

On May 15, 2007, the Commission released a *Public Notice*, DA 07-2078, setting a contribution factor of 0.0000193 times interstate end user revenues to support the North American Numbering Plan Administration (NANPA) for the July 2007 to June 2008 funding period. The prospective contribution factor for the July 2008 to June 2009 rate period is not yet available. For purposes of this

⁸ This factor, 0.007200, was published in an *Order* in CG docket 03-123, Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities, released June 29, 2007, DA 07-2904 ("*2007 TRS Order*").

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filing, Citizens assumes that the actual factor to be used for the July 2008 to June 2009 rate period will be the same as the factor applied to the July 2007 to June 2008 rate period. Citizens anticipates that the actual factor to be used for the July 2008 to June 2009 rate period will be available in time for the Annual Interstate Access Tariff Filings that must be made in June 2008.

The funding base to which this factor is applied is the interstate end user revenues for 2007 as reported on Form 499-A. Citizens reduces the funding base by its percentage of non-price cap end user revenues to get the price cap portion of the funding base. The annualized amount of current NANPA obligation attributable to price caps is computed by multiplying the price cap portion of the funding base by the contribution factor.

Citizens makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates.

The amount embedded in current rates for GVN is estimated by multiplying the NANPA contribution factor for Fiscal 2007 by the price cap portion of the funding base. Calculation of the exogenous cost change for NANPA payments is shown on Exhibit 1.5-6 for GVN.

4. Other Exhibits

Citizens supplies the calculation of Transport Minutes used for the calculation of the Average Traffic Sensitive (ATS) rate on Exhibit 2.5-4 for GVN. Exhibits 2.5-5 to 2.5-6 display the calculations needed to populate the TGT series forms of the May 20, 2008 TRP for GVN. Citizens identifies the transmittals in which the current index levels became effective on Exhibit 3.5-1 for GVN, as required by ¶10 of the *2008 TRP Order*. Exhibits 4-1 and 4-2 display the services that have been removed from price caps, as required by ¶20 of the *2008 TRP Order*.

Citizens submits TRPs in the format specified by the *2008 TRP*

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Order for the five Rate Groups. As with all filings, electronic copies of TRPs are uploaded to the Commission's electronic filing system, which allows any interested person to obtain a copy of the original file submitted.