

VOLUME 1

DESCRIPTION AND JUSTIFICATION

I. Introduction

A. Background

Puerto Rico Telephone Co. Tariff FCC No. 1 hereby submits this filing in support of the upcoming 2008 Annual Access Charge Tariff Filing. This information is being filed in accordance with the Commission's 2008 TRP Notice, DA 08-759, released March 28, 2008. This filing includes price cap adjustments consistent with the requirements of Sections 61.41 through 61.49 of the Federal Communications Commission's Rules and pursuant to DA 08-1026, released May 6, 2008.

B. Waivers

Puerto Rico Telephone Company, Inc. (PRTC) lists below all currently applicable waivers that permit rate elements different than those specified in 47 C.F.R., Part 69.

The Commission in Order, *In the Matter of Petition of Puerto Rico Telephone Company, Inc., for Election of Price Cap Regulation and Limited Waiver of Pricing and Universal Service Rules*, DA 08-1026, Released May 6, 2008, provided PRTC with the needed relief to allow PRTC to convert its rate-of-return regulation to price cap regulation and establish initial price cap indexes (PCIs) for price cap baskets.

C. New Services

PRTC has no new services to report for the 2008 Annual Access Tariff Filing.

II. Index and Rate Development

A. PCI Development

In accordance with the Commission's Rules, the PCIs for each service basket were calculated as shown in Exhibit RDEV. A GDP-PI factor of 2.6383% was used in calculating the PCIs and is based on the percentage change in the Gross Domestic Product Price Index GDP-PI between the quarter ending December 31, 2007 and the corresponding quarter of the 2006 GDP-PI.

Due to this being the initial filing to convert PRTC from rate-of-return to price cap regulation, the existing PCIs have been set at 100. The proposed PCIs are then calculated pursuant to Commission Order DA 08-1026 released May 6, 2008 and applicable Commission's Rules.

B. Exogenous Costs

PRTC developed exogenous cost changes according to the Price Cap Rules. These dollar effects were measured at 2007 base period level of operations and apportioned on a cost-causative basis between the price cap baskets. Exogenous cost changes and allocations are shown in Exhibit EXG.

1) Regulatory Fees

Local Exchange Companies are allowed to recover the impact of regulatory fees as an exogenous cost. The impact of regulatory fees is shown in Exhibit RDEV.

2) Telecommunications Relay Service

All common carriers providing interstate telecommunications services are required to contribute to a fund designated to support telecommunications relay services. The impact of the TRS exogenous cost for this filing is calculated using the .00819 contribution factor prescribed in the DA 08-303 released February 6, 2008 (contribution year July 1, 2007 to June 30, 2008) and .01012 contribution factor prescribed in the DA 08-1055 released May 2, 2008 (contribution year July 1, 2008 to June 30, 2009).

3) North American Numbering Plan

In the North American Numbering Plan (NANP) Order, the Commission required all telecommunications carriers to contribute to the cost recovery for numbering administration. To remain consistent in the price cap treatment of such fees, i.e. Regulatory Fees and Telecommunications Relay Services Fees, PRTC is treating the NANP fee as an exogenous change. The impact for NANP fees for PRTC can be found in Exhibit RDEV.

C. CMT Per Line Revenue

Part 61.3(d) of the Commission's Rules discuss the calculation of the maximum SLC for the residential and single-line business, non-primary residential, and multi-line business service categories based on the average common line, marketing and transport interconnection charge revenue (CMT revenue) per line. In accordance with Commission Order DA 08-1026 released May 6, 2008, the initial CMT per line for the Puerto Rico Telephone Company, Inc. filing is calculated base on SLC revenues

and marketing expense for calendar year 2007. The 2007 SLC revenues used in the calculation of the initial CMT were adjusted to include the marketing expenses removed from the switched access basket. These SLC revenues were then divided by 2007 access lines to determine the initial CMT per line. Exhibit CMT depicts the initial CMT per line calculation for PRTC.

D. Excluded Services

Exhibit OUTPC-1 provides a detailed listing of those services which are not included under price cap regulation.