

Citizens Telecommunications Companies  
Tariff F.C.C. No. 1  
Description and Justification  
Transmittal No. 179  
June 16, 2008

1. Introduction

Citizens Telecommunications Companies ("Citizens") submits herewith its Description and Justification ("D&J") in support of its Annual 2008 Access Tariff Filing, made under Transmittal No. 179, pursuant to sections 61.41 through 61.49 of the Commission's Rules and relevant Commission orders.<sup>1</sup> This filing is made on behalf of the exchange carriers issuing Citizens Tariff F.C.C. No. 1. In this tariff, four separate rate schedules are maintained. These rate schedules are referred to as Rate Group 1 through Rate Group 4, and correspond to the COSA codes CTC1 through CTC4.

Effective July 1, 2008, Citizens introduces Rate Group 5, consisting 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, 2007.

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<sup>1</sup> 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

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 PCIs for all its price cap baskets."<sup>2</sup> 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."<sup>3</sup>

GVN's 2007 Revenue Requirement is shown on Exhibit GVN-1,

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("Price Cap Waiver Order").

<sup>2</sup> *Price Cap Waiver Order* at ¶ 14.

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*.

GVN's switched access cost characteristics are similar to CTC Rate Group 1. Accordingly, most of GVN's initial switched access rates are set at the level of the corresponding CTC Rate Group 1 rates. To ensure that the switched access rates as a whole are initialized at GVN's authorized rate of return, the Local Switching and Tandem Transport Termination rates are set to recover the portion of GVN's switched access revenue requirement that is not recovered by the other switched access rates. Development of initial switched access rates is shown on Exhibit GVN-4. The resulting initial Traffic Sensitive and Trunking basket revenue is shown on Exhibit GVN-5.

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<sup>3</sup> *Price Cap Waiver Order* at ¶17.

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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. GVN's 2007 Special Access demand is rated out at CTC Rate Group 1 rate level. The total revenue at these rates is compared to the Special Access Revenue Requirement (excluding DSL costs) on Exhibit GVN-6. This comparison produces a Rate Adjustment Factor (RAF) that is applied to the CTC Rate Group 1 Special Access rates to produce GVN's initial Special Access rates for price caps. The CTC Rate Group 1 Rates, RAF, resulting initial GVN rates, and revenue at the initial rates are shown on Exhibit GVN-7.

Copies of GVN's 2007 Part 36 and Part 69 cost studies are included with this filing. As a new entrant to price caps, GVN initializes its PCI, API, and SBI values at 100.

The initialized rates, CMT per line, and indices for GVN become the

existing rates, CMT per line, and indices for purposes of applying price cap rules and populating the Tariff Review Plan (TRP) for Global Valley in the 2008 Annual Access Tariff Filing.

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

Citizens develops the proposed CMT revenue per line values by applying exogenous cost changes to the current 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 Exhibits 2.1-1, 2.2-1, 2.3-1, 2.4-1, and 2.5-1 for the five Rate Groups.

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. Because the four existing Citizens rate groups achieved their ATS target rates in prior filings and GVN's initial switched access rates are below its ATS target, the Traffic Sensitive and Trunking PCI values reflect no ATS targeting. 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 Exhibits 2.1-2, 2.2-2, 2.3-2, 2.4-2, and 2.5-2, for the five Rate Groups.

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 Exhibits 2.1-3, 2.2-3, 2.3-3, 2.4-3 and 2.5-3 for the five Rate Groups. Because Citizens achieved its ATS target rates in prior filings, there will be

no ATS targeting. For purposes of populating the TRP, a zero g factor is used.

### 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) 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 1.1-1 to 1.1-2, 1.2-1 to 1.2-2, 1.3-1 to 1.3-2, 1.4-1 to 1.4-2, and 1.5-1 to 1.5-2 for the five Rate Groups.

As permitted by the Commission<sup>4</sup>, 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

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<sup>4</sup> Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act, *Order*, DA 94-1119 (October 7, 1994).

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\$0.00317 per interstate end user revenue dollar.<sup>5</sup>

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 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 the existing four Citizens rate groups is calculated by adjusting the amount from the previous exogenous cost filing by the percentage change in access lines

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<sup>5</sup> See, *Notice of Proposed Rulemaking*, released 5/8/08, "Assessment and Collection of Regulatory Fees for Fiscal Year 2008", FCC 08-126.



between the prior base period and the current base period. This adjustment is necessary to accurately capture the amount of Federal Regulatory Fee cost per access line embedded in the current rates. For Rate Group 5, the amount of Federal Regulatory Fees embedded in the initial revenue requirement based rates 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 Exhibits 1.1-4, 1.2-4, 1.3-4, 1.4-4, and 1.5-4 for the five Rate Groups.

On May 2, 2008, the Commission released a *Public Notice* in CG docket 03-123, National Exchange Carrier Association (NECA) Submits the Payment Formula and Fund Size Estimate for the Interstate Telecommunications Relay Services (TRS) fund for the July 2008 through June 2009 Fund Year, DA 08-1055 ("*2008 TRS Public Notice*"). In the *2008 TRS Public Notice*, the Commission notes that NECA proposes a Telecommunications Relay Services

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("TRS") contribution factor at 0.01012 for the July 2008 to June 2009 funding period.

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.

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 the existing four Citizens rate groups is calculated by adjusting the amount from the previous exogenous cost filing by the percentage change in access lines between the prior base period and the current base period. This adjustment is necessary to accurately capture the amount of TRS

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cost per access line embedded in the current rates. For Rate Group 5, the amount of TRS embedded in the initial revenue requirement based rates is estimated by multiplying the TRS Contribution Factor that was actually used in 2007<sup>6</sup> by the price cap portion of the funding base. Calculation of exogenous change for TRS costs is shown on Exhibits 1.1-5, 1.2-5, 1.3-5, 1.4-5, and 1.5-5 for the five Rate Groups.

On May 22, 2008, the Commission released a *Public Notice*, DA 08-1201, setting a contribution factor of \$0.0000165 per interstate end user revenue dollar to support the North American Numbering Plan Administration (NANPA) for the July 2008 to June 2009 funding period.

The funding base to which this factor is applied is the interstate end

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<sup>6</sup> 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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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 the existing four Citizens rate groups is calculated by adjusting the amount from the previous exogenous cost filing by the percentage change in access lines between the prior base period and the current base period. This adjustment is necessary to accurately capture the amount of NANPA cost per access line embedded in the current rates. For Rate Group 5, the amount of Federal Regulatory Fees embedded in the initial revenue requirement based rates is estimated by

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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 Exhibits 1.1-6, 1.2-6, 1.3-6, 1.4-6, and 1.5-6 for the five Rate Groups.

#### 4. ATS Rate and ATS Targeting

Citizens computes its current ATS rates as the sum of the Switching Component and the Transport Component, which are each computed by dividing the appropriate revenues by their respective minutes. Because the four existing Citizens rate groups achieved the target rates in prior filings and GVN's initial rates are lower than the ATS target, no targeted reductions are made to the ATS rates.

Citizens supplies the calculation of Transport Minutes used for the calculation of the Average Traffic Sensitive (ATS) rate on Exhibits 2.1-4, 2.2-4, 2.3-4, 2.4-4, and 2.5-4 for the five Rate Groups. Exhibits 2.1-5, 2.2-5, 2.3-5, 2.4-5, and 2.5-5 display the calculation

of the current ATS rate and the aggregate target for the five Rate Groups. Exhibits 2.1-6, 2.2-6, 2.3-6, 2.4-6, and 2.5-6 display the calculation of the initial targeting amount for the five Rate Groups. Exhibits 2.1-7, 2.2-7, 2.3-7, 2.4-7, and 2.5-7 display the actual targeting amount selected for the four Rate Groups.

#### 5. Development of Proposed EUCL, PICC, and CCL Rates

Initial EUCL, PICC, and CCL rates are computed on Exhibits 2.1-8, 2.2-8, 2.3-8, 2.4-8, and 2.5-8 for the five Rate Groups. In the case of Rate Group Five (GVN), a voluntary reduction is made in order ensure that no PICC or CCL rates are created.<sup>7</sup> Any adjustments to EUCL rates needed to avoid over-recovery of the allowed CMT per line are made on Exhibits 2.1-9, 2.2-9, 2.3-9, 2.4-9, and 2.5-9 for the five Rate Groups.

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<sup>7</sup> This is in keeping with the conditions of the waivers granted by the Price Cap Waiver Order that GVN will forego the recovery of any PICC or CCL charge. See, Price Cap Waiver Order at ¶18.

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As allowed by §61.48(m)(1)(ii) of the Commission's rules, Citizens pools a portion of the July, 2001 reductions to Local Switching revenues in its multi line business EUCL and PICC rates. The calculation of the maximum allowable multi line business EUCL and PICC rates including pooled revenues is shown on Exhibits 2.1-10, 2.2-10, 2.3-10, 2.4-10, and 2.5-10 for the five Rate Groups. The calculation of pooled revenue for use in this computation is shown on Exhibits 2.1-11, 2.2-11, 2.3-11, 2.4-11, and 2.5-11 for the five Rate Groups. A holding company level computation of the amount of available pooling revenue, how much may be recovered at each tariff unit, and how much is unrecoverable is shown on Exhibit H-1.

6. Other Rates and Exhibits

Exhibits 3.1-1 through 3.1-19, 3.2-1 through 3.2-19, 3.3-1 through 3.3-19, 3.4-1 through 3.4-19, and 3.5-1 through 3.5-19 display demand quantities, rates at last PCI update, current rates, and proposed rates, and the associated revenue quantities for the five Rate Groups. In the case of the CMT Basket, maximum allowed

rates and the corresponding revenues are also shown. For the non-CMT baskets, PCI, SBI, and sub-index calculations are shown.

Citizens identifies the transmittals in which the current index levels became effective on Exhibits 4.1-1, 4.2-1, 4.3-1, 4.4-1, and 4.5-1 for the five Rate Groups, as required by ¶10 of the *2008 TRP Order*. Exhibits 5-1 and 5-2 show services excluded from Price Caps, as required by ¶20 of the *2008 TRP Order*. Calculation of the Pooling Reversal quantities needed for Row 540 of Form TGT-2 of the TRP are developed on Exhibit H-1 for all tariff units commonly owned with Citizens.

The *2008 TRP Order*, at ¶ 22, requires price cap ILECs to include a list of currently applicable Part 69 waivers. For GVN, Citizens relies on waivers granted in the *Order* in WC Dockets No. 07-292, 07-291, and 08-18, released May 6, 2008, DA 08-1026 ("*Price Cap Waiver Order*"). These waivers include a waiver of §69.3(qq)(2) permitting GVN to use an ATS target of \$0.0095. Waiver of other



sections of the Commission's rules granted in, and conditions imposed by, the *Price Cap Waiver Order* allow GVN to receive ICLS after conversion to price caps; preclude GVN from charging more than \$6.50 for non-primary residential SLCs; preclude GVN from billing any PICC or CCL charges; and allow GVN to initialize its rates for its first price cap filing at the level of its authorized rate of return.

As required by ¶19 of the *2008 TRP Order*, Citizens supplies rate detail files for the five Rate Groups in similar format to that provided in previous years. Citizens submits TRPs in the format specified by the *2008 TRP 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.

#### 7. USF Recovery Charge

On June 11, 2008, the Commission released a *Public Notice*,

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Proposed Third Quarter 200 Universal Service Contribution Factor,  
DA 08-1393 ("*3Q08 USF Notice*"). The *3Q08 USF Notice* proposes  
a universal service contribution factor of 11.4% for the third quarter  
of 2008. In this filing, Citizens changes its USF Recovery Charge  
rate element to 11.4% in keeping with the change in the underlying  
contribution factor.