

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
REVISIONS TO ACCESS TARIFF F.C.C. NO. 5
LOCAL NUMBER PORTABILITY CHARGES
TRANSMITTAL NO. 1290
October 15, 2010

DESCRIPTION AND JUSTIFICATION

1. INTRODUCTION

The National Exchange Carrier Association, Inc. proposes to modify its Access Tariff F.C.C. No. 5 to reflect the addition of Local Number Portability (LNP) charges for Callaway Telephone Exchange (Callaway), which has received a bonafide request for number portability. The services provided by Callaway are consistent with Section 13.14, Local Number Portability Services, of NECA's Tariff F.C.C. No. 5.

2. LNP DEMAND, COST AND RATE DEVELOPMENT

The demand for LNP capable access lines including PBX trunks, and queried calls were projected over five years. Callaway currently does not have ISDN-PRI lines; however, an ISDN-PRI End User Charge was calculated at five times the End User Charge. The PBX End User Charge was calculated at nine times the End User Charge.

Costs provided by the company include switch upgrade investment required to support wireline and wireless LNP capability, and projected ongoing expenses over five years. LNP End User Charges were set to equate the present value of revenues to the present value of cost outlays. Present values of total costs were obtained using a discount factor of 15.21%, which is the after-tax cost of money (11.25%) grossed up for the tax rate (35%). This gross-up is only applied to the equity portion of the cost of money, because the debt portion is already tax-deductible, but the equity portion is taxable.

The circuit switching costs used in the development of the LNP End User Charges are only those direct costs required to implement LNP. In identifying which of these LNP costs could be included in the rate, the company used two criteria to isolate LNP costs, based on the FCC guidelines: (1) the costs would not have been incurred by the telephone company if number portability was not implemented, and (2) the costs were incurred "for the provision of" number portability. LNP upgrade implemented prior to acquisition. Callaway has no invoices and will forgo recovery of LNP switch upgrade costs.

Beginning year one, expenses recovered by the End User Charge range between \$145 and \$357 per year, and fall into the following categories: a) projected charges to be paid to the query provider for queries that the Telephone Company initiates in its

capacity as an N-1 carrier, b) operating support system expenses for service order administration, c) regional database administrator charges, and d) incremental labor expenses for LNP specific order processing charges. Query expenses are only for queries necessary to complete local and Extended Area Service (EAS) calls originated from the company's end users. End user query expenses were obtained by multiplying query projections by the per query rate, paid by the Telephone Company to its query provider.

The demand and costs used to develop LNP End User Charges for the company are detailed in Exhibit 1A. (See Exhibit 1A attached.)

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DESCRIPTION AND JUSTIFICATION

1. INTRODUCTION

The National Exchange Carrier Association, Inc. proposes to modify its Access Tariff F.C.C. No. 5 to reflect the addition of Local Number Portability (LNP) charges for East Otter Tail Telephone Company (East Otter Tail), which has received a bonafide request for number portability. The services provided by East Otter Tail are consistent with Section 13.14, Local Number Portability Services, of NECA's Tariff F.C.C. No. 5.

2. LNP DEMAND, COST AND RATE DEVELOPMENT

The demand for LNP capable access lines including PBX trunks, ISDN-PRI lines and queried calls were projected over five years. The PBX End User Charge and the ISDN-PRI End User Charge have been calculated at nine and five times the End User Charge, respectively.

Costs provided by the company include switch upgrade investment required to support wireline and wireless LNP capability, and projected ongoing expenses over five years. LNP End User Charges were set to equate the present value of revenues to the present value of cost outlays. Present values of total costs were obtained using a discount factor of 15.21%, which is the after-tax cost of money (11.25%) grossed up for the tax rate (35%). This gross-up is only applied to the equity portion of the cost of money, because the debt portion is already tax-deductible, but the equity portion is taxable.

The circuit switching costs used in the development of the LNP End User Charges are only those direct costs required to implement LNP. In identifying which of these LNP costs could be included in the rate, the company used two criteria to isolate LNP costs, based on the FCC guidelines: (1) the costs would not have been incurred by the telephone company if number portability was not implemented, and (2) the costs were incurred "for the provision of" number portability. Using these criteria yielded an investment amount of \$46,141. This amount includes switch manufacturer LNP switch upgrade and switch translation costs.

Beginning year one, expenses recovered by the End User Charge range between \$8,361 and \$20,247 per year, and fall into the following categories: a) projected

charges to be paid to the query provider for queries that the Telephone Company initiates in its capacity as an N-1 carrier, b) operating support system expenses for service order administration, c) regional database administrator charges, d) inter carrier testing, e) incremental labor expenses for LNP specific order processing, and f) training charges. Query expenses are only for queries necessary to complete local and Extended Area Service (EAS) calls originated from the company's end users. End user query expenses were obtained by multiplying query projections by the per query rate, paid by the Telephone Company to its query provider.

The demand and costs used to develop LNP End User Charges for the company are detailed in Exhibit 2A. (See Exhibit 2A attached.)

Local Number Portability - Callaway Telephone Exchange (361365)

EXHIBIT 1A

October 15, 2010

End User Charge Rate Development

LINE		0	1	Year 2	3	4	5
	<u>Investment</u>						
1	LNP End User Investment	\$0	\$0	\$0	\$0	\$0	\$0
2	Present Value Factors	1.0000	0.8680	0.7534	0.6539	0.5676	0.4927
3	Present Value of Investment	\$0	\$0	\$0	\$0	\$0	\$0
4	Sum of Present Value of Investment	\$0					
	<u>Expenses</u>						
5	LNP End User Expenses	\$198	\$340	\$346	\$352	\$357	\$145
6	Present Value of Expenses	\$198	\$295	\$261	\$230	\$203	\$71
7	Sum of Present Value of Expenses	\$1,258					
	<u>Access Lines</u>						
8	PBX		5	5	5	5	5
9	ISDN-PRI		0	0	0	0	0
10	Other		237	228	219	210	202
11	Total Chargeable Lines ¹		282	273	264	255	247
12	Present Value of Chargeable Lines		245	206	173	145	122
13	Sum of Present Value of Chargeable Lines	890					
14	LNP End User Basic Charge ²	\$0.12					
15	LNP End User ISDN-PRI Charge ³	\$0.60					
16	LNP End User PBX Charge ⁴	\$1.08					

NOTES

1. Line 11 = (Line 8 * 9) + (Line 9 * 5) + Line 10
2. Line 14 = ((Line 4 + Line 7) / Line 13)/12
3. Line 15 = 5 * Line 14
4. Line 16 = 9 * Line 14

Local Number Portability - East Otter Tail Telephone Company (361385)

EXHIBIT 2A

October 15, 2010

End User Charge Rate Development

LINE		0	1	Year 2	3	4	5
	<u>Investment</u>						
1	LNP End User Investment	\$46,141	\$0	\$0	\$0	\$0	\$0
2	Present Value Factors	1.0000	0.8680	0.7534	0.6539	0.5676	0.4927
3	Present Value of Investment	\$46,141	\$0	\$0	\$0	\$0	\$0
4	Sum of Present Value of Investment	\$46,141					
	<u>Expenses</u>						
5	LNP End User Expenses	\$10,673	\$19,362	\$19,630	\$19,926	\$20,247	\$8,361
6	Present Value of Expenses	\$10,673	\$16,806	\$14,789	\$13,030	\$11,492	\$4,119
7	Sum of Present Value of Expenses	\$70,909					
	<u>Access Lines</u>						
8	PBX		447	429	412	396	380
9	ISDN-PRI		173	166	159	153	147
10	Other		13,985	13,426	12,889	12,373	11,878
11	Total Chargeable Lines ¹		18,873	18,117	17,392	16,702	16,033
12	Present Value of Chargeable Lines		16,381	13,649	11,373	9,480	7,899
13	Sum of Present Value of Chargeable Lines	58,782					
14	LNP End User Basic Charge ²	\$0.17					
15	LNP End User ISDN-PRI Charge ³	\$0.85					
16	LNP End User PBX Charge ⁴	\$1.53					

NOTES

1. Line 11 = (Line 8 * 9) + (Line 9 * 5) + Line 10
2. Line 14 = ((Line 4 + Line 7) / Line 13)/12
3. Line 15 = 5 * Line 14
4. Line 16 = 9 * Line 14