

THE CHILLICOTHE TELEPHONE COMPANY
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Section 1

INTRODUCTION AND SUMMARY

This Description and Justification (D&J) is designed to provide an overview of the Chillicothe tariff. The following will discuss, in general, tariff support material, and an overview of the cost and rate development methodology.

I. Tariff Support Material

The supporting material, which follows, is submitted pursuant to Part 61.38 of the Commission's Rules and Regulations. The scope of Part 61.38 "provides for an optional method of filing for any local exchange carrier that is described as a Subset 3 carrier in Section 69.602 which elects to issue its own Access Tariff for a period commencing on or after April 1, 1989, and which serves 50,000 or fewer access lines in a study area as determined under Section 36.611(a) (8) of the Commission's Rules." Baseline rate-of-return companies choosing the option of adopting the test period and past year cost of service (PYCOS) period study required of the larger telephone companies in this Order to accompany their annual access tariff filing with the following cost support data:

Revenue Requirement Development - A PYCOS study for the most recent 12-month period. The PYCOS period is January 1, 2015, through December 31, 2015. A study projecting costs for a representative 12-month period (Test Year) is for the period of July 1, 2016, through June 30, 2017 (hereinafter referred to as 2016-2017).

Demand Quantification - The description and development of the test year demand quantities for switched and special access. Demand quantities include access minutes, transport miles, and special access lines.

Rate Development - The description and development of access rate elements along with the various types of applicable rates.

II. Summary of Cost and Rate Development

Chillicothe has used a multi-step process to determine its interstate revenue requirement and associated rates for the test year. In developing the Company's test year rates, the Company first prepared a test year budget (using FCC Part 32 rules). The budget was then input into cost study models in accordance with Parts 36 and 69 of the Commission Rules. Chillicothe followed Commission Rules for plant and expense categorization, and starting in 2016-2017, Chillicothe performed special studies to identify cost characteristics of wideband and special access services and used these studies to 'weight' the costs of these services accordingly.

Demand projections were also completed to accurately develop Chillicothe's cost-based rates. Detailed descriptions of each step are included in the remaining sections of this D&J.

III. Summary of Accounting Changes

There are no accounting changes to report.

Section 2 DESCRIPTION OF TARIFF

I. Filing Information

Under Special Permission No. 86-696, dated September 19, 1986; Chillicothe established and filed its own interstate access service tariff. This tariff, developed in accordance with selected sections of Part 61 of Chapter 1 of TITLE 47 of the Code of Federal Regulations, is entitled The Chillicothe Telephone Company Tariff F.C.C. No. 1 (hereinafter referred to as the Chillicothe tariff). The effective date of Chillicothe's tariff is January 1, 1987. It was established for the provision of interstate access services to customers within Chillicothe's operating territory. Revisions to tariff language and rates filed June 16, 2016 will be effective July 1, 2016.

The Chillicothe tariff establishes a comprehensive rate structure for the provision of access services to all Interexchange Carriers (ICs) and End Users. The Chillicothe tariff is designed to offer interstate access services to all ICs on a nondiscriminatory basis.

II. Intercarrier Compensation Reform

On November 18, 2011, the FCC comprehensively reformed the Intercarrier compensation system. The FCC adopted bill-and-keep as the default methodology for all Intercarrier compensation traffic. Rate-of-return carriers have nine years to transition to bill-and-keep.

Per paragraph 778 of the Order, the FCC adopted transition rules only with respect to terminating access. Meanwhile, there is a cap on interstate originating and terminating access rates at their current level, pending a FNPRM. The following Intercarrier Compensation Reform Timeline identifies adopted rules affecting the June 16, 2016 interstate access tariff filing.

Effective Date	For Rate-of-Return Carriers and CLECs that benchmark access rates to rate-of-return carriers
Effective Date of the rules	All interstate switched access rate elements, including all originating and terminating rates and reciprocal compensation rates are capped. Intrastate terminating rates are also capped.
July 1, 2016	Terminating switched end office and reciprocal compensation rates are reduced to \$.005.

III. Developing a Unified Intercarrier Compensation Regime

In WC Docket No. 01-92, "Developing a Unified Intercarrier Compensation Regime", released March 31, 2014 the FCC discusses Section 51.907(d) and 51.909(d) of the Commission's rules specifying the access charge rate reductions that price cap and rate-of-return carriers, respectively, must make to terminating end office access rates in 2015. The process is for carriers to calculate the "2011 Baseline Composite Terminating End Office Access Rate," which is calculated in using Fiscal Year 2011 demand and the End Office Access Service rates at the levels in effect on December 29, 2011. Chillicothe has complied with this requirement. The calculation is identified in the CAF ICC TRP Named "2016 Eligible Recovery Summary" Excel file. The CAF ICC charts are filed concurrently with the interstate access tariff filing.

Furthermore, per paragraph 17, *Single Per-Minute Rate Element for Terminating End Office Access Service*, the FCC clarifies that rate-of-return carriers may tariff the single composite rate as a terminating local switching access rate, consistent with the ICC transition, as long as all other rate elements associated with terminating end office access service are reduced to zero. Chillicothe has elected a single terminating end office rate and it is identified as local switching –

per terminating access minute in the tariff sheet Page 365. The information surcharge – per terminating access minute rate is zero.

IV. **Connect America Fund**

WC Docket No. 10-90, Connect America Fund, released November 18, 2011 the FCC adopted a transitional recovery mechanism to facilitate incumbent LECs' gradual transition away from ICC revenues reduced as part of this Order. This mechanism allows LECs to recover ICC revenues reduced as part of Intercarrier compensation reforms, up to a defined baseline, from alternate revenue sources: incremental, and limited increases in end user rates and, where appropriate, universal service support through the Connect America Fund (CAF). The recovery mechanism is limited in time and carefully balances the benefits of certainty and a gradual transition with the goal of keeping the federal universal service fund on a budget and minimizing the overall burden on end users.

The recovery mechanism has two basic components. First the revenue incumbent LECs are eligible to recover, which is referred to as "Eligible Recovery." Second, the FCC specifies how incumbent LECs may recover Eligible Recovery through limited end-user charges and, where eligible and if a carrier elects to receive it, CAF support.

The Chillicothe Telephone Company is eligible for CAF support and in this tariff filing, hereby elects to continue receiving CAF support. The 2016-2017 Eligible Recovery revenue includes a true-up for 2014-2015 maximum intrastate revenues (excluding disputed revenues) and proposed 2016-2017 intrastate units excluding forecast demand identified as intraMTA traffic. In addition Tariffed Access Recovery Charge (ARC) revenue and Expected CAF ICC support have been provided with this filing. The data is provided using the following TRP files:

- 2016 Eligible Recovery Summary
- 2016 Rate Ceiling CAF Final Support (ARC-CAF 1, ARC-CAF-2, and ARC-CAF-3)
- 2016 Tariff Rate Comp CAF Final (ARCRCTRP-CAF-1 and ARCRCTRP-CAF-2)
- 2016 True-up Final BRI-SLB (ARC-TUP)

In addition, the appropriate certifications have been provided.

V. **Access Charge Recovery**

As discussed above, incumbent LECs may recover Eligible Recovery through limited end-user charges. Consistent with past ICC reforms, the FCC permits carriers to recover a limited portion of their Eligible Recovery from their end users through a monthly fixed charge called an ARC.

1. Limit the annual increase in consumer ARCs to \$0.50. Carriers may not charge an ARC on any Lifeline customers. This charge is calculated independently from, and has no bearing on, existing SLCs, although for administrative and billing efficiencies carriers are permitted to combine the charges as a single line item on a bill.
2. There is a Residential Rate Ceiling that prohibits imposing an ARC on any consumer paying an inclusive local monthly phone rate of \$30 or more.
3. Although the FCC does not adopt a business rate ceiling, the FCC does take measures to ensure that multi-line businesses' total SLC plus ARC line items are just and reasonable. The current multi-line business SLC is capped at \$9.20. To minimize the burden on multi-line businesses, the FCC will not permit LECs to charge a multi-line business ARC where the SLC plus ARC would exceed \$12.20 per line. This limits the ARC for multi-line businesses for entities at the current \$9.20 cap to \$3.00.

In summary, to recover Eligible Recovery, rate-of-return incumbent LECs are permitted to implement monthly end user ARCs with six annual increases of no more than \$0.50 (per month) for residential/single-line business consumers, for a total ARC of no more than \$3.00 in the sixth

year; and \$1.00 (per month) per line for multi-line business customers for a total of \$6.00 per line in the sixth year, provided that: (1) such increases would not result in regulated residential end-user rates that exceed the \$30 Residential Rate Ceiling; and (2) any multi-line business customer's total SLC plus ARC does not exceed \$12.20.

The Chillicothe Telephone Company has increased the single line business ARC rate in Section 17.3.2 (A), tariff page 374. The residential and multi-line business ARC rates are no longer eligible for increases.

IV. Rate-of-Return Reform Order

On March 30, 2016, the Commission released the *Rate-of-Return Reform Order*, which, among other things, re-prescribed the authorized rate of return from 11.25 percent to 9.75 percent. The rate of return is a key input in the rate-of-return revenue requirement calculation. Beginning July 1, 2016, the current 11.25 percent rate of return will be reduced by 25 basis points per year until July 1, 2021, when it arrives at the 9.75 percent rate of return. Chillicothe used 11.00 percent rate of return for the 2016-2017 test year cost studies.

Section 3 TARIFF MATRIX

I. **Overview**

The following is a tariff matrix denoting any Chillicothe tariff text and rate changes effective July 1, 2016, and a brief description explaining such changes. The matrix is formatted by sequential Chillicothe tariff sections and has been developed to simplify the Commission's review efforts. The following table contains analyses of Tariff Section 17.

Table 1

Current Version			Version to be Effective July 1, 2015			Description
Page	Section	Version	Page	Section	Version	
365	17.1.2(A)and(B)	13th Revised	365	17.1.2(A)and(B)	14th Revised	Revised Rates
367	17.2.2(A)and(B)	13th Revised	367	17.2.2(A)and(B)	14th Revised	Revised Rates
370	17.2.4(A)and(B)	13th Revised	370	17.2.4(A)and(B)	14th Revised	Revised Rates
371	17.2.5(A)and(B)	14th Revised	371	17.2.5(A)and(B)	15th Revised	Revised Rates
374	17.3.2(A)	10th Revised	374	17.3.2(A)	11th Revised	Revised Rates

Section 4

REVENUE REQUIREMENT DEVELOPMENT

I. Jurisdictional Cost Allocations

A. Uniform System of Accounts (FCC Part 32)

Chillicothe's interstate access tariff reflects the implementation of the current Uniform System of Accounts ("USOA") rules and the associated separations procedures and cost allocations that are used in conjunction with the USOA.

B. Test Year Budget

Per Order DA 88-1554, "In the Matter of Commission Requirements for Cost Support Material to be filed with 1989 Annual Access Tariffs," released October 3, 1988, Chillicothe is classified as a Tier 2B company. Tier 2B companies, which are small telephone companies, may develop rates based on historical or prospective cost support.

Per WC Docket No. 16-71, "In the Matter of July 1, 2016 Annual Access Charge Tariff Filings," released March 16, 2016, Chillicothe adopts the 2016-2017 prospective test year upon which to base rates. Chillicothe also adopts this Order's PYCOS period of January 1, 2015 through December 31, 2015.

Chillicothe complied with this Order in preparing their operating budget formatted in Part 32's account structure. The budget was developed by using 2015 year-end, total company account balances and applying various trends in growth estimates between 2013 through 2015, based upon individual studies of particular asset, reserve and expense accounts.

C. Regulated / Non-Regulated Cost Allocations (FCC Part 64)

Concurrent with the development of the Part 32 budget was an analysis pertaining to regulated/non-regulated activities. CC Docket 86-111 (Part X) deals with the adoption of accounting and cost allocation rules for separating the costs of regulated telephone service from the costs of a telephone company's non-regulated lines of business.

Chillicothe analyzes quarterly what business activities are regulated and non-regulated. Activities that are not directly identifiable are termed as being "common" and appropriate allocation factors are developed. Part X factors were appropriately applied to the test year budget, per each Part 32 account. The regulated total company balances were used for cost study purposes.

D. Separations Cost Study (FCC Part 36)

Having developed regulated test year balances under a Part 32 format; Chillicothe calculated its interstate Part 36's rate base, expense summary, and resulting revenue requirement. To calculate the interstate revenue requirement, Chillicothe uses an industry software package. This computer model quantitatively incorporates all of the Commission's current separations procedures prescribed by Part 36 Rules. The software package includes both Part 36 and Part 69 elements. In compliance with the FCC's May 22, 2001 Report and Order in CC Docket No. 80-286, and the most recent Report and Order "In the Matter of Jurisdictional Separations and Referral to the Federal State Joint Board", CC Docket No. 80-286, Released June 13, 2014, extending, through June 30, 2017, the existing freeze of the rules regarding jurisdictional separations, Chillicothe has frozen the allocation factors at the calendar year 2000 level. Chillicothe did not elect to adopt the optional freeze of categories and continues to review and update, as needed, the categorization on an annual basis.

The model's output is organized by schedules as follows:

Index to Separations Forms	Schedule
Revenue Requirement/Income Tax Summary	S-1
Separated Telecommunications Plant Summary	S-2
Separated Expense Summary	S-3
General Support Facilities	S-4
Central Office Equipment	S-5
Information Origination/Termination Equipment	S-6
Cable and Wire Facilities	S-7
Amortizable Assets	S-8
Telecommunications Plant - Other Accounts	S-9
Certain Income Accounts and Adjustments	S-10
Plant Specific Expenses	S-11
Plant Nonspecific Expenses	S-12
Customer Operations Expenses	S-13
Corporate Operations, Taxes, and Equal Access Expenses	S-14
Reserves and Deferrals	S-15

In general, each schedule shows the Part 32 account number, account title, category number and name (if applicable), total company balance and the apportionment of the total company balance to each jurisdiction.

II. Access Charge Analysis

A. Access Charges Cost Study (FCC Part 69)

The cost allocation/projection process described in the preceding section produced projected test year interstate plant investment and expenses, per primary operating account. These results were then allocated to access charge rate elements to produce projected test year interstate revenue requirements by type of service. Chillicothe has adhered strictly to the FCC's Part 69, Access Charges. The corresponding revenue requirements, adjusted for the MAG Plan, were then divided by projected demand quantities to produce access service rates per element.

For purposes of this filing, Chillicothe has used the following rate elements for the determination of its revenue requirement and rates, if applicable, per service offering:

Rate Element	Description
Switched Access	
a. Local Transport	The Local Transport rate category provides the transmission facilities between the telephone company's serving wire center and the interexchange carrier.
b. End Office	The End Office rate category provides the local end office switching and user termination functions necessary to complete the transmission of switched access communications to and from the end users served by the local end office.
Special Access	Cost of private line services. Direct investments include Cable and Wire Facilities and Category 4 Central Office Equipment (Circuit).

The allocation procedures meet the requirements of the FCC's Part 69 Rules and Regulations by further dividing a particular jurisdictional revenue requirement into four major access components including common line, traffic sensitive, billing and collection, and the interexchange category. Each of these major access components is further subdivided into specific rate elements as mandated by the FCC in Docket 78-72.

The model output is organized by schedules as follows:

<u>Index to Access Charges Forms</u>	<u>Schedule</u>
Revenue Requirement Summary	A-1
Separated Telecommunications Plant Summary	A-2
Separated Expense Summary	A-3
General Support Facilities	A-4
Central Office Equipment	A-5
Information Origination/Termination Equipment	A-6
Cable and Wire Facilities	A-7
Amortizable Assets	A-8
Telecommunications Plant - Other Accounts	A-9
Certain Income Accounts and Adjustments	A-10
Plant Specific Expenses	A-11
Plant Nonspecific Expenses	A-12
Customer Operations Expenses	A-13
Corporate Operations, Taxes, and Equal Access Expense	A-14
Reserves and Deferrals	A-15

Section 5

DEMAND QUANTIFICATIONS

I. Overview

This volume sets forth the demand forecasting process used to establish prospective switched revenue for Connect America Fund and the proposed rates for special access services. The requirements for demand quantification are summarized. The methods used to meet these requirements are then described for the various services, features, and rate categories provided as a part of this tariff. These include Local Switching, Local Transport including Tandem Switching, Information Surcharge, and Special Access.

The forecasting process is explained, including the compilation of historical data and its use in forecasting.

II. Switched Access Demand Forecasting

This section describes the methods used to develop forecasts of the switched access demand quantities. Demand quantities are used in the development of 2016-2017 Eligible Recovery calculations for Connect America Fund. Demand quantities are no longer used in the development of rates since switched access (end office and transport elements) rates are frozen and capped, with some of the end office rates subject to ICC phase down. Chillicothe forecast demand for the time period from July 1, 2016 to June 30, 2017 based on historical demand quantities. Sources for the required historical demand data include carrier access billing records, access service requests, and other telephone company records.

A. Compilation of Historical Data

Company records of access service usage are maintained on a calendar month basis, so there was no need to annualize the access minutes-of-use derived from these sources. Any retroactive billing adjustments had already been made to the usage data in these records. Traffic sensitive minutes-of-use by month, by feature group, were compiled for the past 27 months.

B. Switched Access Minutes of Use Forecasting Methodology

Historical traffic sensitive minutes-of-use were used to forecast traffic sensitive minutes-of-use. An econometric model of interstate access minutes was constructed using a software application called Forecast by Intex Solutions, Inc. A time series analysis, with linear trending, was used for January 2014 to March 2016. The evaluative statistics included P-Value, SE(Y), R^2 , mean squared error (MSE), mean absolute percentage error (MAPE), and Durbin-Watson statistic. The final results from the Forecast application are statistically significant; however the results were not reasonable and under-estimated demand. Chillicothe chose to use annualized 2015-2016 data for minutes-of-use for all rate elements.

C. Local Switching

The Local Switching rate for originating and for terminating is charged to all feature groups minutes-of-use, respectively. Analysis was performed to forecast terminating local switching minutes-of-use for Interstate and Intrastate.

D. Local Transport

Local Transport demand quantities include: inventories of facilities for the flat-rated elements (i.e., entrance facilities and direct-trunk transport charges) and tandem-switched minutes of use.

Flat-Rated Facilities – The current and historical inventory was analyzed as of March 30, 2016 for the purpose of determining demand quantities for prospective flat-rate charges.

Tandem-Switched Minutes of Use – Analysis was performed to forecast terminating Tandem-switched minutes of use for Interstate and only terminating Tandem-switched minutes of use for Intrastate.

E. Information Surcharge

The Information Surcharge is applied per access minute-of-use for originating. The terminating rate has been added to the local switching terminating rate and the tariffed Information Surcharge rate has been reduced to zero. Total traffic sensitive minutes-of-use forecast was developed using trending as discussed in the previous “Switched Access Minutes of Use Forecasting Methodology” section.

III. **Special Access Demand Forecasting**

This section describes the methods used to develop forecasts of the special access demand quantities for rate elements Chillicothe plans to offer effective July 1, 2016. Forecasting demand for the period 2016-2017 based on historical demand quantities developed the required data. Sources for the required historical demand data include carrier access billing records. Specific examples of the rate elements quantified are numbers of channel terminations and channel mileage for the various categories of special access.

A. Compilation of Historical Data

Historical inventories of interstate special access services provided to all interexchange carriers, and other customers were compiled. This compilation was organized by rate element and by service category. Chillicothe provides the following categories of interstate special access: Voice Grade (DS0), Digital Data (DS0), and High Capacity (DS1 and DS3).

B. Special Access Demand Forecasting Methodology

To forecast demand for the tariff period by rate element, changes in demand during the period January 2015 through March 2016 were analyzed. Trends were identified and simple regression analyses conducted to estimate the future demand for specific rate elements in each service category for the period 2016-2017.

Chillicothe has removed 15 DS1 special access channel termination circuits from the rate development process in this filing. The circuits represent facilities that have been identified as disconnecting service in this tariff period and paying a contractual fee to another party for fiber to tower transport. Consequently, channel termination and channel mileage rates associated with these circuit types have increased.

IV. Non-recurring Access Charge Demand Forecasting

Non-recurring charges apply for the installation of various switched and special access services and for moves and changes to service.

A. Switched Access Non-recurring Demand

The historical billed revenues generated from installations and other chargeable items were compiled from Company records on a monthly basis for the January 2015 through December 2015 period. Estimates of the potential revenue earned from these types of charges in the test year were based on trends in the historical period.

B. Special Access Non-recurring Demand

The historical revenues generated from installations and other chargeable items were compiled from Company records on a monthly basis for the January 2015 through December 2015 period. Estimates of the potential revenue earned from these types of charges occurring in the test year were based on trends in the historical period.

Section 6 RATE DEVELOPMENT

This section describes in detail the development of the rates for the individual access service rate elements. Rate development is based upon amended Part 69 Rules; effective test year revenue requirements divided by the test year demand quantities described in preceding sections.

I. Switched Access

Switched access service provides for a point-to-point communications path between the Interexchange carrier terminal location and telephone exchange service location. The costs and rates for switched access apply to the use of common terminating, switching and trunk facilities of the Telephone Company's network by interexchange carriers for their use in providing Toll and Toll-like services.

While the elements of Chillicothe's switched access services are described below, no rate changes for Local Transport and End Office - originating services are proposed in this filing, as all interstate switched access rate elements have been capped as of December 29, 2011, pursuant to paragraph 801 of the Commission's *USF/ICC Transformation Order*. However, the terminating switched end office rates are \$.005. Chillicothe calculated the "2011 Baseline Composite Terminating End Office Access Rate," which is calculated in using Fiscal Year 2011 demand and the End Office Access Service rates at the levels in effect on December 29, 2011. The calculation is identified in the CAF-ICC TRP "Eligible Recovery" Excel file.

Furthermore, rate-of-return carriers may tariff the single composite rate as a terminating local switching access rate, consistent with the ICC transition, as long as all other rate elements associated with terminating end office access service are reduced to zero. Chillicothe has elected a single terminating end office rate and it is identified as local switching – per terminating access minute in the tariff sheet Page 365. The information surcharge – per terminating access minute rate has been reduced to zero.

The two general rate categories, which apply to switched access service, are Local Transport and End Office.

A. Local Transport

Local Transport is a two-way voice frequency transmission path composed of facilities determined by the Telephone Company. The two-way voice frequency transmission path permits the transport of calls in the originating direction (from the end user end office switch to the customer-designated premises) and in the terminating direction (from the customer-designated premises to the end office switch), but not simultaneously. The voice frequency transmission path may be comprised of any form or configuration of plant capable of and typically used in the telecommunications industry for the transmission of voice and associated telephone signals within the frequency bandwidth of approximately 300 to 3000 Hz.

Local Transport rates are made up of Entrance Facility and Direct-Trunk Termination and Direct-Trunked Facility rates, which are assessed on a per circuit basis, and per-mile basis. The rates are flat-rated charges for dedicated switched facilities. Chillicothe also has Tandem Switching charge for terminating interexchange carrier wireless traffic.

B. End Office

The End Office rate category provides the local end office switching and end user termination functions necessary to complete the transmission of switched access communications to and from the end users served by the local end office. The End Office rate category includes Local Switching and the Information Surcharge rate elements.

- Local Switching

The Local Switching rate element establishes the charges related to the use of end office switching equipment, the terminations in the end office of end user lines, and the terminations of calls with the Telephone Company's intercept operators or recordings. The Local Switching charge is applicable to all feature groups when used to provide MTS/WATS service.

New in 2014, the end office access service elements are separated between originating and terminating. The terminating Local Switching and terminating Information Surcharge elements have been combined into a terminating Local Switching composite rate. The Information Surcharge – terminating per access minute rate is zero rated. The composite rate has been reduced to \$.005.

- Information Surcharge

The Information Surcharge rate is comprised of components dealing specifically with directory assistance and other local directory functions. The Information Surcharge rate is assessed to a customer based on the total number of access minutes. The Information Surcharge rate is applied as discussed above under Local Switching.

II. **Special Access Service**

Special access service includes all exchange access arrangements, which generally do not use local end office switching, and thus involves the most basic of transmission capabilities. Special access service also includes supplemental features to improve the quality and utility of the transmission between two or more points. Special access service consists of two basic rate categories: (1) Channel Termination and (2) Channel Mileage.

A. Channel Termination

The Channel Termination rate category provides for the communications path between a customer-designated premise and the serving wire center of that premise. One Channel Termination charge applies per customer-designated premises at which the channel is terminated. This charge will apply even if the customer-designated premise and the serving wire center are collocated in a Telephone Company building.

B. Channel Mileage

The Channel Mileage rate category provides for the end office terminating equipment and the transmission facilities between the serving wire-centers associated with two customer-designated premises and between a serving wire center associated with a customer-designated premise and a Telephone Company hub. The Channel Mileage rate recovers the cost of the transmission path, which extends between the Telephone Company serving wire centers and/or hub and includes primarily outside plant and central office equipment used to provide the facility.

C. Rate Calculation

Chillicothe uses a unit investment study to develop special access rates. A unit investment study identifies the average equipment needed to provide each special access service type including voice grade, digital data, high capacity DS1, and high capacity DS3. Each piece of equipment cost is multiplied by a factor of 1.00 if the circuit uses 100% of the equipment, or a factor less than 1.00 if the equipment can be used for multiple circuits. This results in a "typical unloaded investment" value for each piece of equipment.

The unloaded investment is totaled for each service type. The unloaded investment by service type is multiplied by the service demand to calculate a weighted investment. Each service type's weighted investment is divided by the total special access weighted investment to calculate a factor which is multiplied by the annual special access revenue requirement (the revenue requirement is the total cost study revenue requirement reduced

for nonrecurring charges, optional features and functions, and a fully distributed revenue requirement of DSL).

The base equipment cost and demand for each service type is used to allocate the interstate special access revenue requirement to the individual special accesses services. The special access service type revenue requirement is divided by the service demand to calculate monthly rates. This type of analysis is performed separately for the channel termination, channel mileage termination, and channel mileage facility revenue requirements (channel mileage termination and facility are combined for carrier access billing).