DESCRIPTION AND JUSTIFICATION - REVISED
John Staurulakis, Inc. Tariff F.C.C. No. 1
Transmittal No. 85
Hargray Telephone Company, Inc. (SC)
FRN #0001-8867-04

Hargray Telephone Company, Inc. (Hargray) hereby provides a Description and Justification for its proposed revisions to individual rates to become effective June 1, 2003 originally proposed in Hargray's mid-course adjustment filing under Transmittal No. 84 of the John Staurulakis, Inc. Tariff F.C.C. No. 1 (JSI Tariff). Hargray is an Issuing Carrier of the JSI Tariff.

Description of Filing

The accompanying revised tariff material is being filed by John Staurulakis, Inc. (JSI) on behalf of Hargray Telephone Company (Hargray), operating in the state of South Carolina. The JSI Tariff F.C.C. No. 1 governs the provision by Hargray of Switched Access, Special Access and Miscellaneous Services. The instant filing further revises, prior to becoming effective, revised rates for Switched Access Local Transport and Special Access filed by JSI on behalf of Hargray on June 16, 2003. The June 16th filing under Transmittal 84, as revised by this filing under Transmittal 85, represents a mid-course filing to reflect revised projections for demand and cost in order to retarget total interstate access earnings from the 6.74% projected for the 2002 calendar year to the authorized 11.25% for the twelve months ended June 30, 2004 as shown on Tariff Review Plan (TRP) Sheet ERN-1, Rate-of-Return Summary.

Justification for Cost Support and Rate Development

The entire cost support data associated with this filing is contained in one volume including the D&J and Attachments #1-11. The Certification of the cost support data for this filing is shown in Attachment #10. Revised TRP Schedules are included with the cost support material in accordance with the Commission's Tariff Review Plans released June 3, 2002, <u>July 2, 2002 Annual Access Charge Tariff Filings,</u> Tariff Review Plans for Carriers Subject to Rate-of-Return Regulation, DA 00-1269 (*2002 TRP Order*) as directed by the *2003 TRP Order*, <u>In the Matter of Material to be Filed in Support of 2003 Annual Access Charge Tariff Filings, Tariff Review Plans</u>, DA 03-1176 (2003 TRP Order).

In accordance with Section 61.38(b)(1)(ii) of the Commission's rules and regulations, a projection of Hargray's costs has been made for the fiscal year ending June 30, 2004. The costs for the twelve (12) month period ending June 30, 2004 have been based on financial estimates and projections of Hargray, and are summarized as follows:

Summary Development of Traffic Sensitive Revenue
Requirement ....Attachment #1

Part 69 - Access Charge Development ....Attachment #2

Part 36 – Separations of Costs ....Attachment #3

Unseparated Cost Information ....Attachment #4

In accordance with Section 61.38(b)(1)(i) of the Commission's rules and regulations, attached is a cost of service study for the most recent twelve (12) month period ending December 31, 2002, identified as follow:

Summary Development of Traffic Sensitive Revenue
Requirement ....Attachment #5

Part 69 - Access Charge Development..Attachment #6

Part 36 – Separations of Costs..Attachment #7

Unseparated Cost Information...Attachment #8

The above Attachments have not changed from the original June 16th filing under JSI Transmittal No. 84.

The total annual Traffic Sensitive Service revenues generated under this tariff are projected to be $6,973,672, a decrease of $250,259 from the projected amount in the June 16, 2003 filing. See Revised Attachment #9. The result of this revised tariff material will be an annual decrease to the interexchange carriers for switched access of $291,715, $396 more in decreases from the projected amount in the June 16, 2003 filing and an annual increase to special access customers of $391,399, a decrease of $249,863 from the increase projected in the June 16, 2003 filing. See Attachment #9. The projected decrease in switched access revenue (for the combined effect of the June 16, 2003 filing and the instant filing) reflects a small increase in the local switching rate offset by a reduction in switched access transport rates as shown in Attachment 9.

June 30, 2003 Revisions to Annual Filing

On June 23, 2003 AT&T Corp. (AT&T) filed a petition in which it, *inter alia*, requested that the Commission suspend for five months the rate revisions filed by JSI on behalf of Hargray in Transmittal No. 84 on June 16, 2003.[1] AT&T's request was based on its concerns regarding the increase in Account 6720 General and Administrative Expense reflected in the projected 2003/2004 annual interstate costs. JSI addresses the change in Account 6720 below. During the course of reviewing the results of the projected 2003/2004 interstate revenue requirement attendant to responding to the *AT&T Petition*, it came to the attention of JSI and Hargray that the Special Access Revenue requirement applicable to interexchange carriers was overstated due to understatement of the offset for Special Access revenue requirement that will be recovered from the billing of High Speed Internet Access (Hargray's xDSL access service).

The revision to Hargray's Special Access and Switched Access-Local Transport rates for July 1, 2003 effected in the instant filing reflect reduction of the projected annual Special Access revenue requirement by $250,000 (eight percent) from the June 16th filing. Switched Access-Local Transport rates are affected to the extent a particular Local Transport service may be based on the same facilities and technology of a corresponding Special Access service.

Revised Attachment 9 summarizes the changes in revenue requirement and rates reflected in this proposed filing in comparison with those for the June 16, 2003 filing.

General and Administrative Expense Account 6720 Analysis

Hargray's cost support indicates a $7,216,107 Total Company increase in historical costs for Account 6720 General and Administrative Expense (from $4,733,720 for 2001 to $11,147,037 for 2002). The corresponding interstate expense for this account increased from $1,378,495 for the 2002/2003 prospective period to $3,587,594 for the 2003/2004 prospective period - an increase of 160%. Attachment 11, Page 1 summarizes both the discrete Account 6720 General and Administrative Expense amounts and the corresponding Total Company Operating Expense amounts into which the Account 6720 amounts roll up. The underlying audited Hargray book balances for Account 6720 General and Administrative Expense are more stable than the amounts included in the Hargray cost study forms referenced by AT&T. Attachment 11, Page 2 analyzes the impact on Account 6720 for 2001 of a cost study adjustment to assign a portion of General and Administrative Expense to other expense accounts. When accounting for the 2001 study adjustment, Account 6720 General and Administrative Expense for 2002 only increased by 9.9% as indicated on Attachment 2, Line 25.

[1] See Petition of AT&T Corp. Addressing July 1, 2003 Annual Access Charge Tariff Filings, WCB 03-15, (June 23, 2003) (*AT&T Petition*).

To ensure such compliance with Commission rules, audited book balances are adjusted at times to more accurately reflect the nature of the transaction consistent with the Commission's Part 32 Uniform System of Accounts (USOA)[2] account descriptions. These adjustments are made by all of the large consulting firms with respect to preparation of interstate access cost studies for small incumbent local exchange carriers (ILECs). This is due to the much greater knowledge respecting compliance with the Part 32 USOA possessed by JSI than that possessed by most small independent telephone company internal and external accountants. For example, JSI regularly presents a Part 32-Part 64 accounting seminar and is acknowledged for its expertise in Part 32. Moreover, although JSI does not practice public accounting, JSI has several Certified Public Accountants (CPAs) with active licenses who possess significant knowledge and experience respecting the Part 32 USOA.

Several of these study adjustments are performed for Hargray each year. As mentioned in the reply filed by JSI on behalf of Hargray to the *AT&T Petition*, attendant to a recent National Exchange Carrier Association (NECA) review of the Hargray interstate cost study for 2001 it was found that the study adjustment respecting reclassification of a portion of Account 6720 was unnecessary and that the recording of expenses in Account 6720 as accounted for by Hargray appropriately reflected the nature of the expenses incurred.[3] Beginning with the 2002 cost study, JSI, with the concurrence of Hargray, will no longer make the cost study adjustment for reclassification of Account 6720. The 2002 cost study will form the basis of the earnings monitoring period and filing of FCC Form 492. In order to facilitate comparison of Total Company Account 6720 balances for 2001 and 2002, Attachment 11, Page 2 compares operating expense accounts for these years reflective of the reversal for 2001 of the Account 6720 reclassification study adjustment.

Attachment 11, Page 3 compares interstate amounts for Account 6720, Total Operating Expenses and Net Investment for the 2003/2004 projected period included in the June 16, 2003 filing to the 2002/2003 projected period included in the June 17, 2002 filing. The increase in Hargray's Account 6720 General and Administrative Expenses for the 2002 cost study over 2001 does not translate to an increase in 2003/2004 projected Hargray Total Company Operating Expenses, due to the concomitant decreases in other expense accounts.

[2] 47 C.F.R. §§ 32.1 – 32.9000.
[3] Hargray is a member of the NECA Common Line Pool and provides its annual cost study to NECA as part of the Common Line Pool settlement process. Hargray's Common Line rate sections in JSI Tariff FCC No. 1 reference NECA Tariff FCC No. 5.

Attachment 11, Page 3 also serves to show that the change in treatment of amounts recorded in Account 6720 does not serve to increase interstate revenue requirements. As can be seen on Line 9 of Attachment 11, Page 3, the most significant impact of the increase in Account 6720 is a large increase in the allocation of operating expenses to the Billing and Collection (B&C) category. The other significant increase in revenue requirement shown on Attachment 11, Page 3 is for Special Access and is due to the corresponding significant increase in Special Access Net Investment. Because the Account 6720 amounts previously reclassified to plant specific accounts other than Account 6120, General Support, did not get allocated to B&C under Part 69, keeping such amounts in Account 6720 increases the allocation to B&C and reduces the allocation to access elements.

Hargray Revised TRP Schedules

Hargray's revised TRP schedules associated with its Traffic Sensitive Access Service filing are included with its cost support material as required by the Commission's *2003 TRP Order* (as based on the Commission's *2002 TRP Order* for Rate-of-Return carriers).

Bad Debt Expense or Allowance

Hargray has not made any provision for projected bad debt expense or allowance in the cost and rate development for this filing.

Rate-of-Return Access Charge Reform Order

Hargray is a participant in the National Exchange Carrier Association (NECA) Common Line Pool and references the rates in NECA Tariff F.C.C. No. 5 with respect to Carrier Common Line (CCL) and End User Common Line (EUCL). Accordingly, Hargray's elimination of the CCL charge in compliance with the *Rate-of-Return Access Charge Reform Order* is based on NECA's elimination of the CCL rate in NECA Tariff F.C.C. No. 5 effective July 1, 2003 and elimination of the reference to NECA Tariff F.C.C. No. 5 for CCL rates by Hargray in this filing. *See* Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Second Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 19613 (2001) (*Rate-of-Return Access Charge Reform Order*). With respect to the increase in the cap for the single line EUCL mandated by the *Rate-of-Return Access Charge Reform Order,* Hargray references the EUCL rates in NECA Tariff F.C.C. No. 5 and thus will become compliant through the NECA annual filing.