

Citizens Telecommunications Companies
Tariff F.C.C. No. 1
Description and Justification
Transmittal No. 140
September 16, 2003

1. Introduction

Citizens Telecommunications Companies ("Citizens") submits herewith its Description and Justification ("D&J") in support of changes to its Tariff F.C.C. No. 1 filed under Transmittal No. 140, pursuant to sections 61.41 through 61.49 of the Commission's Rules and relevant Commission orders.¹ This filing seeks to implement the requirements of the orders cited; to make administrative changes to tariff terms and conditions; and to add an additional exchange where Local Number Portability (LNP) is now available so that Citizens may recover the LNP investment and expenses.

This filing is made on behalf of the exchange carriers issuing Citizens Tariff F.C.C. No. 1. In this tariff, four separate rate

¹ See, *Order on Reconsideration* in CC Dockets 96-262 and 94-1 released June 25, 2003, FCC 03-139 ("*Payphone PICC Order*"); *Order* in CC Docket 92-237 released June 24, 2003, DA 03-2062 ("*2003 NANPA Contribution Order*"); *Order* in CC Docket 9 released June, 2003, DA 03-2111 ("*2003 TRS Contribution Order*"); *Report and Order* in MD Docket 03-83 released July 25, 2003, FCC 03-184 ("*2003 Regulatory Fees Order*"); and Public Notice, Proposed Fourth Quarter 2003 Universal Service Contribution Factor, released September 5, 2003, DA 03-2833 ("*4Q03 USF Public Notice*").

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.

2. The *Payphone PICC Order*

In the *Payphone PICC Order*, the Commission concluded that payphone lines should be exempt from the PICC on a going forward basis. "Therefore, price cap LECs that still assess the PICC on multi-line business lines must adjust their rates in their October 1, 2003 tariff filings to reflect that the PICC no longer applies to payphone lines."² Citizens implements the provisions of the Payphone PICC Order by filing tariff language indicating that PICC charges do not apply to payphone lines effective October 1, 2003 and flowing the resulting revenue reduction through the CMT ratemaking process so that other rates may be adjusted as appropriate.

² *Payphone PICC Order* at ¶9.

This filing implements true-ups in exogenous cost changes reflected in the 2003 Annual Access Tariff Filings in addition to the implementation of the *Payphone PICC Order*. In discussions with the industry, the Commission's staff has indicated a desire to track the impact of the *Payphone PICC Order* separately from the impact of the exogenous true-ups. To meet Staff's concerns for separate tracking, Citizens makes the price cap calculations necessary for this filing in two stages. First, exhibits and Tariff Review Plans (TRPs) reflecting only the *Payphone PICC Order* are developed. These exhibits and TRPs show the impact of Payphone PICC Order only. The results of this stage of calculations is the starting point for a second set of exhibits and TRPs reflecting the exogenous true-ups.

The first set of exhibits, showing only the impact of the Payphone PICC Order, reflect zero exogenous changes and ATS targeting on Exhibits 1.1-1 through 1.1-3, 1.2-1 through 1.2-3, 1.3-1 through 1.3-

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3, and 1.4-1 through 1.4-3 for the four Rate Groups. Because there is zero exogenous change and a non-annual filing reflects no adjustments for GDPPI – X, the g factor, or ATS targeting, there is no change to the CMT per line value, PCI values, or ATS targeting. This lack of change is reflected on Exhibits 2.1-1 through 2.1-7, 2.2-1 through 2.2-7, 2.3-1 through 2.3-7, and 2.4-1 through 2.4-7 for the four Rate Groups.

Computation of EUCL, PICC, and CCL rates reflecting the Payphone PICC Order reflects the removal of payphone lines from Multi-Line Business PICC demand. Initial EUCL, PICC, and CCL rates are computed on Exhibits 2.1-8, 2.2-8, 2.3-8, and 2.4-8 for the four Rate Groups. 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, and 2.4-9 for the four Rate Groups.

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, and 2.4-10 for the four 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, and 2.4-11 for the four 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.

Exhibits 3.1-1 through 3.1-19, 3.2-1 through 3.2-19, 3.3-1 through 3.3-19, and 3.4-1 through 3.4-19 display demand quantities, rates at last PCI update, current rates, and proposed rates, and the associated revenue quantities for the four 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. Because this stage of the filing reflects only the impact of the Payphone

PICC Order, no changes to rates outside the CMT Basket are reflected on these exhibits.

The TRPs associated with the first stage of this filing have been given a descriptive label of "Payphone PICC filing part 1 of 2" and filenames of the form COSA916a.wk4, where "COSA" represents the 4-letter company and study area code indicating which tariff unit the data represents.

3. Exogenous Cost True-Ups

Subsequent to the filing of the 2003 Annual Access Tariff Filings, final contribution factors became available for 2003 Regulatory Fees³, TRS Contributions⁴, and NANPA contributions⁵. The Regulatory Fees and TRS factors changed from those used in the annual filing. In addition, concerns have been raised about the correct methodology for distribution of these exogenous costs

³ See, *2003 Regulatory Fees Order*.

⁴ See, *2003 TRS Contribution Order*.

among the various price cap baskets and bands.

The Commission's rules state that "[e]xogenous costs shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Total exogenous costs thus attributed to price caps shall be recovered from services other than those used to calculate the ATS charge."⁶ Regulatory fees, TRS costs, and NANPA contributions are assessed on companies on the basis of end user revenues. Cost causative principles dictate that these costs should be apportioned between price caps and excluded services on the basis of end user revenues. Citizens correctly apportioned these costs in its annual filing, and distributed the price cap exogenous changes among the exogenous-eligible services on the basis of price cap R values.

A concern has been raised that the distribution of these exogenous

⁵ See, *2003 NANPA Contribution Order*.

⁶ 47 CFR §61.45(d)(3).

costs among the price cap baskets should be done on the basis of end user revenues, as well. Citizens does not believe that the rules require these costs to be distributed within price caps on the basis of end user revenues. However, there appears to be a developing industry consensus that such allocation is reasonable. To avoid the possibility of dispute over relatively small amounts of cost, Citizens reallocates these costs among the price cap baskets on the basis of end user revenues in this filing.

To accomplish the true-up of exogenous costs and reallocation among the price cap baskets on the basis of end user revenues, Citizens first identifies the amount of these costs which are embedded in rates by basket. The current level of cost is determined by multiplying the appropriate contribution factor by the funding base from Form 499-A. This amount is reduced by the percentage of the funding base representing non-price cap services. The remaining amount is allocated to the price cap

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baskets and bands on the basis of end user revenues within price caps. The amount currently in rates is subtracted from this allocation to determine the difference between the amount that should be in rates for the July 1, 2003 through June 30, 2004 period and the amount that is currently in rates.

This difference must be adjusted to reflect the fact that the current amount of costs have been in Citizens' rates for the first quarter of the tariff year. To make this adjustment, an additional 25% of the exogenous amount must be applied to rates. This amount is grossed up to reflect the fact that there are only three quarters of a year in which to recover the difference. The adjustment is added to the distribution of current costs to determine the amount of costs that should be recovered in rates for the remaining nine months of the tariff year. The amount currently in rates is subtracted from this quantity to yield the amount of exogenous cost change that must be reflected in this filing.

The calculation of the exogenous cost change in this manner is show on Exhibits 4.1-4, 4.2-4, 4.3-4, and 4.4-4 for Federal Regulatory Fees; on Exhibits 4.1-5, 4.2-5, 4.3-5, and 4.4-5 for Telecommunications Relay Service; and on Exhibits 4.1-6, 4.2-6, 4.3-6, and 4.4-6 for NANPA payments. The exogenous cost changes and ATS Targeting (which is zero because this is not an annual filing) are summarized on Exhibits 4.1-1 through 4.1-3, 4.2-1 through 4.2-3, 4.3-1 through 4.3-3, and 4.4-1 through 4.4-3 for the four Rate Groups.

Because this is not an annual filing, the g factor does not apply and there is no ATS targeting. Computation of revised CMT per line and PCI values reflecting the exogenous cost changes, the zero g factor, and the lack of change in ATS targeting is shown on Exhibits 5.1-1 through 5.1-7, 5.2-1 through 5.2-7, 5.3-1 through 5.3-7, and 5.4-1 through 5.4-7 for the four Rate Groups. Computation of EUCL, PICC, and CCL rates is done to reflect the exogenous cost changes. Initial EUCL, PICC, and CCL rates are computed on

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Exhibits 5.1-8, 5.2-8, 5.3-8, and 5.4-8 for the four Rate Groups.

Any adjustments to EUCL rates needed to avoid over-recovery of the allowed CMT per line are made on Exhibits 5.1-9, 5.2-9, 5.3-9, and 5.4-9 for the four Rate Groups.

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 5.1-10, 5.2-10, 5.3-10, and 5.4-10 for the four Rate Groups. The calculation of pooled revenue for use in this computation is shown on Exhibits 5.1-11, 5.2-11, 5.3-11, and 5.4-11 for the four 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-2.

Exhibits 6.1-1 through 6.1-19, 6.2-1 through 6.2-19, 6.3-1 through

6.3-19, and 6.4-1 through 6.4-19 display demand quantities, rates at last PCI update, current rates, and proposed rates, and the associated revenue quantities for the four 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.

The TRPs associated with the second stage of this filing have been given a descriptive label of "Payphone PICC filing part 2 of 2" and filenames of the form COSA916b.wk4, where "COSA" represents the 4-letter company and study area code indicating which tariff unit the data represents.

4. USF Recovery Charge

On September 5, 2003, the Commission released the *4Q03 USF Public Notice*. In the 4Q03 USF Public Notice, the proposed contribution factor for the Universal Service Fund is set at 9.2% for the fourth quarter of 2003. In this filing, Citizens changes its USF

Recovery Charge rate element to 9.2% in keeping with the change in the underlying contribution factor.

5. Local Number Portability

In this filing, Citizens is changing its rate schedules to add an additional exchange where Local Number Portability (LNP) is available so that Citizens may recover the LNP investment and expenses. The recovery of these costs was provided for in the FCC's Third Report and Order in Docket CC No. 95-116, "In the Matter of Telephone Number Portability," released May 12, 1998.

Citizens recovers the allowable costs of implementing Local Number Portability through its LNP Surcharge rate element. This rate element was developed in accordance with the Commission's Rules and Orders, using cost data for the total company. However, Citizens was only allowed to recover of these costs in exchanges that had received bona fide requests for LNP from competitors and where Citizens had implemented LNP in response to these

requests.

Citizens has received a bona fide request for Local Number Portability in the Sanborn, New York switch. In this filing, Citizens extends the existing LNP Surcharge rates to the exchange served by this switch. The rates for LNP Surcharge are set at the level originally developed for recovery, and the five year cost recovery period is set to start on November 1, 2003. Citizens expects to be providing LNP to competitors from this switch on that date.

6. Miscellaneous

Citizens makes administrative changes to tariff material and corrects clerical errors discovered since the last tariff filing Citizens made.