

1. Introduction

Frontier Telephone of Rochester, Inc. ("FTR") submits herewith its Description and Justification ("D&J") in support of its Annual 2004 Price Cap Tariff Review Plan Filing, made under letter dated April 30, 2004, pursuant to sections 61.41 through 61.49 of the Commission's Rules and relevant Commission orders.¹ This filing is made on behalf of FTR and the exchange carriers that concur in FTR's Tariff F.C.C. No. 1 ("Frontier Tier 2's") (collectively, "Frontier"). As in prior filings, two separate rate schedules are maintained. One is applicable to FTR, and the other is applicable to the Frontier Tier 2's. Separate Price Cap Indices are maintained for FTR and the Frontier Tier 2's.

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

¹ See, *Order*, July 1, 2004 Annual Access Charge Tariff Filings, released April 19, 2004, DA 04-1049 ("*2004 Filing Order*"); and *Tariff Review Plans*, Material to be Filed in Support of 2004 Annual Tariff Filings, DA 04-1048, released April 19, 2004 ("*2004 TRP Order*").

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Frontier 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 Exhibit 2.1-1 and 2.2-1 for FTR and the Frontier Tier 2's, respectively.

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 amount of ATS targeting that will be allocated to each of these baskets is not known at this

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point, the displayed PCIs reflect no ATS targeting. The PCIs which will be filed in June will incorporate the actual level of ATS targeting allocated to each basket. 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 and 2.2-2 for FTR and the Frontier Tier 2's, respectively.

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. Frontier calculates g factors on Exhibits 2.1-3 and 2.2-3 for FTR and the Frontier Tier 2's, respectively. Because both FTR and the Frontier Tier 2's anticipate a zero CCL rate as a result of the annual filing, a g value of zero is used for ATS targeting purposes. For purposes of populating the TRP, a zero g factor is used for FTR and the Frontier Tier 2's.

3. Exogenous Cost Changes

Frontier 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 Frontier 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 and 1.2-1 to 1.2-2 for FTR and the Frontier Tier 2's, respectively.

As permitted by the Commission², Frontier is including the impact of changes in Federal Regulatory Fees as an exogenous cost with this annual filing. The fee for Fiscal Year 2004 is proposed to be \$0.00218 per interstate end user revenue dollar.³ The annualized amount of current Federal Regulatory Fees obligation is computed

² Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act, *Order*, DA 94-1119 (October 7, 1994).

³ See, *Notice of Proposed Rulemaking*, released 3/29/03, "Assessment and Collection of

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by multiplying this factor times the interstate end user revenues for 2003 as reported on Form 499-A. This obligation is reduced by the percentage of interstate end user revenues outside of price caps to get the amount which is recoverable through price cap rates.

Frontier makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates.

The calculation of the exogenous cost change for Federal Regulatory Fees is shown on Exhibits 1.1-4 and 1.2-4 for FTR and the Frontier Tier 2's, respectively.

On February 24, 2004, the Commission released an *Order*⁴ retroactively setting the Telecommunications Relay Services ("TRS") contribution factor at 0.00220 for the July 2003 to June 2004 funding period. This contribution factor replaced the 0.00149 contribution factor which was used to set rates for the July 2003 to

Regulatory Fees for Fiscal Year 2004", FCC 04-66.

⁴ See, *Order*, release February 24, 2004, "Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities", DA 04-

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June 2004 rate period. The prospective contribution factor for the July 2004 to June 2005 rate period is not yet available. For purposes of this filing, Frontier assumes that the contribution factor for the July 2004 to June 2005 rate period will be the same as the factor retroactively applied to the July 2003 to June 2004 rate period. Frontier anticipates that the actual factor to be used for the July 2004 to June 2005 rate period will be available in time for the Annual Interstate Access Tariff Filings that must be made in June 2004.

Frontier computes the amount of its TRS obligation to recover in rates in two parts. The portion attributable to the retroactive factor for the July 2003 to June 2004 rate period is computed as the difference in contribution ratios times the interstate end user revenues for 2002 as reported on Form 499-A. This obligation is reduced by the percentage of 2002 interstate end user revenues

465 ("*2003 Retroactive TRS Order*")

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outside of price caps to get the amount which is recoverable through price cap rates. The portion attributable to the July 2004 to June 2005 period is computed as the contribution factor from the *2003 Retroactive TRS Order* times the interstate end user revenues for 2003 as reported on Form 499-A. This obligation is reduced by the percentage of 2003 interstate end user revenues outside of price caps to get the amount which is recoverable through price cap rates.

The sum of the retroactive TRS obligation and the forward looking TRS obligation is the amount Frontier must recover in its rates. Frontier makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates. Calculation of exogenous change for TRS costs is shown on Exhibits 1.1-5 and 1.2-5 for FTR and the Frontier Tier 2's, respectively.

On June 24, 2003, the Commission released an *Order*, DA 03-

2062, setting a contribution factor of 0.000036 times interstate end user revenues to support the North American Numbering Plan Administration (NANPA). The proposed 2004 contribution factor is not yet known. Frontier computes the amount of its NANPA obligation as the contribution ratio times the interstate end user revenues for 2003 as reported on Form 499-A. This obligation is reduced by the percentage of interstate end user revenues outside of price caps to get the amount which is recoverable through price cap rates. Frontier makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates. Calculation of the exogenous cost change for NANPA payments is shown on Exhibits 1.1-6 and 1.2-6 for FTR and the Frontier Tier 2's, respectively.

4. Other Exhibits

Frontier supplies the calculation of Transport Minutes used for the calculation of the Average Traffic Sensitive (ATS) rate on Exhibits 2.1-4 and 2.2-4 for FTR and the Frontier Tier 2's, respectively.

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Exhibits 2.1-5 to 2.1-6 and 2.2-5 to 2.2-6 display the calculations needed to populate the TGT series forms of the April 30, 2004 TRP for FTR and the Frontier Tier 2's, respectively. Frontier identifies the transmittals in which the current index levels became effective on Exhibits 3.1-1 and 3.2-1 for FTR and the Frontier Tier 2's, respectively, as required by ¶10 of the *2004 TRP Order*. Exhibits 4-1 and 4-2 display the services that have been removed from price caps, as required by ¶9 of the *2004 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 Frontier.

As required by ¶21 of the *2004 TRP Order*, Frontier submits copies of its initial Forms 492A for 2003 and its final Forms 492A for 2002. Frontier submits TRPs in the format specified by the *2004 TRP Order* for FTR and the Frontier Tier 2's. As with all filings, electronic copies of TRPs are uploaded to the Commission's electronic filing system, which allows any interested person to

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obtain a copy of the original file submitted.