

Cincinnati Bell Telephone Company

2004 PRICE CAP REVISIONS

July 1, 2004 Annual Access Filing

June 16, 2004

Description & Justification

Introduction

A. Background

This filing represents Cincinnati Bell Telephone Company's (CBT's) 2004 Annual Access Filing. CBT submits its revised FCC No. 35 tariff with the Federal Communications Commission.

This filing is being made in compliance with the following:

- * Second Report and Order, *In the Matter of Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, released October 4, 1990 (LEC Price Cap Order);
- * Order on Reconsideration, *In the Matter of Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, released April 17, 1991 (Recon. Order);
- * Report and Order, *In the Matter Of Amendment of Part 36 of The Commission's Rules and The Establishment of a Joint Board*, FCC 97-30, released February 3, 1997;
- * First Report and Order, *In the Matter of Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94- 1, Released April 7, 1995;

- * Report and Order, *In the Matter of Price Cap Regulation of Local Exchange Carriers, Rate-of-Return Sharing and Lower Formula Adjustment*, CC Docket No. 93-179, released April 14, 1995;
- * Third Report and Order, *In the Matter of Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, FCC 96-488, released December 24, 1996;
- * Report and Order, *In the Matter of Implementation of Section 402(b)(1) (A) of the Telecommunications Act of 1996*, CC Docket No. 96-187, FCC 97-23, released January 31, 1997;
- * First Report and Order, *In the Matter of Access Charge Reform*, CC Docket No. 96-262, FCC 97-158, released May 16, 1997;
- * Fourth Report and Order, *In the Matter of Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, FCC 97-159, released May 21, 1997;
- * Memorandum Order and Opinion, *In the Matter of Access Charge Reform*, CC Docket No. 97-250, FCC 98-106, released June 1, 1998;
- * 47 C.F.R. § 61.38 and § 61.41 through § 61.49; and 47 C.F.R., Part 61, generally.

Herein referred to collectively as the "Price Cap Rules".

- * Sixth Report And Order in CC Docket 96-262 And 94-1, Report and Order in CC Docket 99-249, Eleventh Report And Order in CC Docket 96-45.

Herein referred to as the "CALLS Order"

- * Order *In the Matter of July 1, 2004 Annual Access Charge Tariff Filings* DA 04-1049, released April 19, 2004.

B. Waivers

CBT lists below all currently applicable Part 69 waivers that permit rate elements different than those specified in Part 69 of the Commission's Rules.

- * The Commission extended indefinitely the waiver allowing carriers to bill \$25.00 for a special access surcharge. This element is included in CBT's Common Line Basket. See, *In the Matter of Annual 1989 Access Tariff Filings*, Memorandum Opinion and Order, DA 88-1872, released December 2, 1988;

- * The Commission granted CBT a waiver allowing it to offer a new Switched Access rate subelement for a proposed Electronic White Pages services, called "ELI". See *In the Matter of Cincinnati Bell Telephone Company Petition for Waiver of Part 69*

of the Commission's Rules for Electronic Directory Assistance Service, Order, DA 91-170, released February 19, 1991;

* The Commission waived the requirement that LECs offer both direct-trunked and tandem-switched transport between a specific serving wire center and an access tandem. See, *In the Matter of Local Exchange Carrier Switched Local Transport Restructure Tariffs, Order*, DA 94-693, released June 23, 1994;

* The Commission, in its Order, waived Part 69 rules in order to establish a separate nonrecurring rate element to recover the costs of providing 900 access service. See, *In the Matter of the Bell South Telephone Companies Tariff FCC No. 1; Cincinnati Bell Telephone Company Tariff FCC No. 35; Centel Corporation Tariff FCC No. 1; Rochester Telephone Corporation Tariff FCC No. 1; Petitions for Waiver of Section 69.4 (b) and subparts B and C of Part 69 of the Commission's Rules* released November 18, 1988;

In this filing, CBT submits its 2004 Annual Access Filing. The Commission, in its Order (DA 04-1049) established a filing date of July 1, 2004 for the Annual Access Filings.

PCI Development

CBT calculated its Price Cap Indices ("PCI") for the Common Line, Traffic Sensitive, Trunking, and Special Access baskets in accordance with the CALLS Price Cap Rules. See TRP Form PCI-1.

1. GDP-PI

In accordance with paragraph 183 of the CALLS Order, the Bureau of Economic Analysis' (BEA's) chain-weighted GDP-PI is being used in this filing. CBT uses a GDP-PI of 1.6252 percent in this filing.

2. Productivity Factor

The Commission's CALLS Order changes the Productivity Factor, or X-factor to a transitional mechanism to target certain rates for switched access and to lower rates for a specified period for special access. The CALLS Order applies the 6.5% X-factor first to residual per-minute TIC until that charge is eliminated, then to the information surcharge until that charge is eliminated, finally to local switching and switched transport charges until the carrier's average traffic sensitive interstate access charges reach a specified target. The Average Traffic Sensitive (ATS) targeted rate for CBT is \$0.0065. This is the rate for "other" price cap LECs specified in paragraph 162 of the CALLS Order. CBT achieved this traffic sensitive average targeted rate in its July 2000 annual access filing. Per the CALLS Order, after a Price Cap LEC reaches the targeted rate, the ATS rate will be recalculated each subsequent Annual Filing. Due to changes in demand,

CBT's ATS for the July 2004, annual access filing is \$0.00724149. Per the CALLS Order, and as noted in the Commission's *Tariff Review Plans*, DA 04-1048 Released April 19, 2004, the X-factor is set to the inflation rate for the Special Access basket. See Forms TGT1 and TGT3.

3. Index Changes

As directed by the Commission, a workpaper identifying the transmittal or letter filing date where the last index changes were implemented for the price cap categories has been included. See Exhibit IND-TM.

Payphone Line Counts

The Commission exempted payphone lines from Presubscribed Interexchange Carrier Charges (PICC) in its Order On Reconsideration, FCC 03-139, released June 25, 2003. Accordingly, CBT has removed its payphone lines from the PICC Multi-line Business line counts. CBT no longer has a PICC charge therefore there is no revenue impact of the payphone line removal.

Exogenous Costs

1. Excess Deferred Taxes

CBT calculated the revenue impact of excess deferred taxes as shown on exhibit EXG-EDT. CBT spread the excess deferred tax revenue impact over the Common Line Basket and the Special Access Basket. See

Exhibit EXG-EDT.

2. Development of Regulatory Fees

The Commission released its Notice of Proposed Rulemaking (NPRM) in the Matter of *Assessment and Collection of Regulatory Fees for Fiscal Year 2004* on March 29, 2004. This NPRM specified a Regulatory Fee factor of 0.00218. This factor was multiplied by CBT's end-user interstate revenue from FCC Form 499 to yield CBT's 2004 Regulatory Fee adjustment of \$161,581. CBT filed Transmittal No. 785, effective October 1, 2003, which adjusted the basket allocation of its 2003 Regulatory Fees pursuant to industry discussions with FCC staff. CBT's 2003 Regulatory Fees reflected in Transmittal No. 785 were \$149,545. CBT's 2004 Regulatory Fee of \$161,581 was subtracted from CBT's 2003 Regulatory Fee of \$149,545 to yield an increase in CBT's Regulatory Fee of \$12,035. CBT adjusted its Common Line Basket and Special Access Basket to reflect the Regulatory Fee adjustment. This adjustment was made based on end-user interstate revenues shown on CBT's FCC 499 Form. See Exhibit EXG-ALLOCATE.

3. Development of Telecom Relay Support (TRS)

The Commission released its Order in the matter of *Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities* on June 30, 2003. The Commission

proposed a revised TRS factor of 0.00149 to be applied to the tariff year July 2003 to June 2004. CBT used this factor to develop its TRS exogenous adjustments for its Mid-year TRP filing, Transmittal No. 785, effective October 1, 2003. The Commission released its *Order* DA 04-465, on February 24, 2004, which retroactively changed the July 2003 to June 2004 TRS factor to 0.00220. The Commission released its Public Notice DA 04-1258 on May 4, 2004, which proposes a factor of 0.00356 to be applied to the tariff year July 2004 to June 2005. For this filing, CBT computed the incremental difference for the July 2003 to June 2004 period using the Commission's revised factor, as well as computed the incremental TRS exogenous cost for the July 2004 to June 2005 period. CBT allocated the sum of the July 2003 to June 2004 period and the July 2004 to June 2005 period incremental differences over Common Line and Special Access baskets based on end-user interstate revenues shown on CBT's FCC 499 Form. These calculations are shown on attachment EXG-ALLOCATE.

4. Development of North American Numbering Plan (NANP) Contribution

The Commission released Public Notice CC Docket 92-237, DA 04-1582 on May 28, 2004. This Public Notice specified a NANP factor of 0.000021 for the period from July 2004 through June 2005. This factor was multiplied by CBT's end-user revenue from FCC Form 499A

to yield CBT's 2004 NANP exogenous adjustment. CBT's 2004 NANP contribution of \$11,622 was subtracted from CBT's 2003 NANP contribution of \$19,933 to yield a decrease in CBT's NANP support of \$8,311. CBT adjusted its Common Line Basket and Special Access Basket to reflect the NANP exogenous decrease. This adjustment was made based on end-user interstate revenues shown on CBT's FCC 499 Form. See Exhibit EXG-ALLOCATE.

5. Development of Investment Tax Credit

CBT calculated the revenue impact of its Investment Tax Credit as shown on exhibit EXG-ITC. CBT spread the Investment Tax Credit revenue impact over the Common Line Basket and the Special Access Basket. See Exhibit EXG-ITC.

Pricing Bands

CBT calculated its applicable upper pricing bands in accordance with the Price Cap Rules. See TRP Form IND-1.

API and SBI Development

CBT calculated the applicable APIs and SBIs in accordance with the Price Cap Rules. CBT's APIs do not exceed the applicable PCIs and its SBIs are within the applicable upper pricing bands. See TRP Form IND-1.

Common Line

1. CALLS Impact on Common Line Charges

The CALLS Order combines the Carrier Common Line (CCL), End-user Common Line (EUCL - also known as the SLC), and PICC charges into a single charge for residence and single-line business customers.

A. End-User Common Line Development

The CALLS Order increases the EUCL ceiling for residence and single-line business lines to \$6.50 beginning in July, 2003. However, Price Cap companies are limited to a residence and single-line business EUCL equal to the Common Line, Marketing, and Transport revenue per line, if that revenue per line is less than the \$6.50 ceiling. To compute the EUCL rates, CBT developed line demand and MOU demand quantities based on the year 2003 demand levels. Following the CALLS Order, CBT then calculated its proposed Common Line Marketing and Transport (CMT) revenue per line. The CMT revenue per line of \$5.39 is less than the \$6.50 residence and single-line business EUCL ceiling.

Therefore, in accordance with Part 69.152(e)(1) and Part 69.152(k)(1) of the Commission's Rules, as well as the change in

CBT's USF support, CBT's calculated EUCL rates are \$5.37 for Residence and Single-line business, \$5.37 for Non-primary Residence and ISDN-BRI, and \$5.37 for Multi-line Business, ISDN-PRI and Centrex. See TRP Form CAP-1.

Average Traffic Sensitive

1. Average Traffic Sensitive Calculation

CBT achieved the targeted Average Traffic Sensitive (ATS) rate of \$0.0065 specified in Paragraph 162 of the CALLS Order in its 2000 Annual Access filing (Transmittal No. 749). Per the CALLS Order, after a Price Cap LEC reaches the targeted rate, the ATS rate will be recalculated each subsequent Annual Filing. Due to changes in demand and the inclusion of new services, CBT's ATS for the July 2004 Annual Access filing is \$0.00724149. CBT has not changed any rates comprising its ATS in this filing. TRP Form TGT-1 shows the methodology used to achieve the targeted rate. Also see TRP Form SUM-1.

2. Base Period Demand

CBT's Traffic Sensitive minutes are obtained at an end-office level from CBT's Carrier Access Billing System (CABS). Minute-miles are computed by multiplying minutes by the known mileage applicable to the end office.

CBT's Trunking recurring demand is obtained from CBT's Carrier Access Billing System (CABS). Recurring demand is obtained as a count of in-service quantities.

3. SBI Limits

As illustrated on TRP Form IND-1, CBT is in compliance with all SBI requirements.

4. API and SBI Calculations

The Traffic Sensitive API is calculated as proposed revenue (base period demand times proposed rates) divided by current revenue (base period demand times current rates), multiplied by the existing API per Part 61.46 of the Commission's Rules. The Traffic Sensitive API is displayed in TRP Form IND-1. Base period demand, current rates, and proposed rates are displayed for the Traffic Sensitive Basket in Exhibit TS-RATE and in the Trunking Basket in Exhibit TR-Rate. SBIs for each Traffic Sensitive service category are calculated as proposed revenue of each category, divided by current revenue of each category, multiplied by the existing SBI of each service category.

Special Access Basket

The CALLS Order created a Special Access Basket containing Voice Grade, WATS, Metallic, Telegraph, Audio, Video, High Cap, DDS and Wideband services. Per the CALLS Order, and as noted in the Commission's *Tariff Review Plans*, DA 04-1048 Released April 19, 2004, the X-factor is set to the inflation rate for the Special Access basket

1. Base Period Demand

CBT's Special Access recurring demand is obtained from CBT's Carrier Access Billing System (CABS). Recurring demand is obtained as a count of in-service quantities.

2. SBI Limits

As illustrated on TRP Form IND-1, CBT is in compliance with all SBI requirements.

3. API and SBI Calculations

The Special Access API is calculated as proposed revenue (base period demand times proposed rates), divided by current revenue (base period demand times current rates), times the existing API per Part 61.46 of the Commission's Rules. See TRP Form IND-1.

SBI for each Special Access service category are calculated as proposed revenue of each category, divided by current revenue of each category, multiplied by the existing SBI of each service category. Base Period Demand, current rates and proposed rates are displayed on Exhibit SP-Rate.

492A Forms

Pursuant to the Commission's *Tariff Review Plans* Order, CBT has included its Form 492A for the calendar years 2002 and 2003.

New Services

CBT did not introduce any new services in 2003. CBT did, however, introduce new rate elements in 1Q2004. See Exhibit CBT-NEW.

Universal Service Fund

Cincinnati Bell Telephone proposes to revise the Universal Service Fund (USF) factor per Commission Order. The Commission released its *Proposed Third Quarter 2004 Contribution Factor*, DA 04-1613 on June 7, 2004. The Commission proposed a USF factor of 8.9 % an increase from the previous factor of 8.7%. CBT recovers its USF contribution, pursuant to the Commission's Contribution Methodology Order¹ by applying the relevant USF Contribution factor to the following

¹ Report and Order and Second Further Notice of Proposed Rulemaking in CC Docket No. 96-45, CC Docket No. 98-171, CC Docket No. 90-571, CC Docket No. 92-237, CC Docket No. 99-200, CC Docket No. 95-116, and CC Docket No. 98-179, FCC 02-329, Released December 13, 2002.

charges:

- * EUCL
- * Presubscribed Interexchange Carrier (PIC) change charge
- * LNP
- * Interstate IntraLATA Toll usage

The USF surcharge for these services is reflected as a separate line item, clearly identified on the customer's bill.