

NEVADA BELL TELEPHONE COMPANY (NBTC)
2004 ANNUAL FILING
3rd Quarter Federal Universal Service Fund (FUSF) Adjustments
DESCRIPTION AND JUSTIFICATION
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2004 ANNUAL FILING

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2004 ANNUAL FILING

1. INTRODUCTION

This filing is being made in compliance with the following:

- In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities, DA-04-1258, released May 4, 2004.
- In the Matter of Material to be Filed in Support of 2004 Annual Access Tariff Filings, DA 04-1048 (*2004 TRP Order*), released April 19, 2004;
- In the Matter of Material to be Filed in Support of 2004 Annual Access Tariff Filings, DA 04-584 (*2004 TRP Order*), released March 5, 2004;
- In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities, DA-04-465, released February 24, 2004.
- In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users and Federal-State Joint Board on Universal Service, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249 and Eleventh Report and Order in CC Docket No. 96-45, (*CALLS Order*), released May 31, 2000;
- In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Interexchange Carrier Purchases of Switched Access Services Offered by Competitive Local Exchange Carriers, and Petition of U S West Communications, Inc. for Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA, Fifth Report and Order and Further Notice of Proposed Rulemaking (*Pricing Flexibility Order*), CC Docket Nos. 96-262, and 94-1, CCB/CPD File No. 98-63, and CC Docket No. 98-157, released August 27, 1999;
- In the Matter of Defining Primary Lines, Report and Order & Further Notice of Proposed Rulemaking, CC Docket No. 97-181, released March 10, 1999;
- In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure, Second Order on Reconsideration and Memorandum Opinion and Order (MO&O), CC Docket Nos. 96-262, 94-1, and 91-213, released October 9, 1997;

- In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, and End User Common Line Charges, Order on Reconsideration, CC Docket Nos. 96-262, 94-1, 91-213 and 95-72, released July 10, 1997;
- In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, and End User Common Line Charges, Errata, CC Docket Nos. 96-262, 94-1, 91-213 and 95-72, released June 4, 1997;
- In the Matter of Federal-State Joint Board on Universal Service, Errata, CC Docket No. 96-45 (*USF Order Errata*), released June 4, 1997;
- In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, and End User Common Line Charges, First Report and Order, CC Docket Nos. 96-262, 94-1, 91-213 and 95-72 (*Access Reform Order*), released May 16, 1997;
- In the Matter of Federal-State Joint Board on Universal Service, Report and Order, CC Docket No. 96-45 (*USF Order*), released May 8, 1997;
- In the Matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Report and Order, CC Docket No. 80-286, released February 3, 1997;
- In the Matter of Access Charge Reform, Notice of Proposed Rulemaking, Third Report and Order, and Notice of Inquiry CC Docket No. 96-262, released December 24, 1996, paragraph 305 (removing lower service band limits);
- In the Matter of Price Cap Performance Review for Local Exchange Carriers, First Report and Order, (*Price Cap Review Order*), CC Docket No. 94-1, released April 7, 1995;
- In the Matter of Transport Rate Structure and Pricing, Second Report and Order, CC Docket No. 91-213, released January 31, 1994;
- In the Matter of Amendments of Part 69 of the Commission's Rules Relating to Creation of Access Charge Subelements for Open Network Architecture, Report and Order & Order on Further Reconsideration, CC Docket 89-79, released July 11, 1991;
- In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, Order on Reconsideration, CC Docket 87-313 (*LEC Price Cap Reconsideration Order*), released April 17, 1991;

- In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, CC Docket 87-313 (*LEC Price Cap Order*), released October 4, 1990; and
- Parts 61 and 69 of the Commission's Rules as stated herein.

The *LEC Price Cap Order* requires an annual access tariff filing in which Nevada Bell Telephone Company (NBTC) is required to adjust the price cap indexes (PCIs) for each service basket, based on the change in the Gross Domestic Product Price Index (GDP-PI), a transitional mechanism (X-Factor) and exogenous cost changes. NBTC has incorporated the demand and revenue/cost of those new services introduced during the 2003 base period and has calculated the PCI for each affected basket and service category, including the new services, in accordance with the Commission's Rules and the *LEC Price Cap Order*.

2. EXOGENOUS COST DEVELOPMENT - (ΔZ)

Part 61.45(a), requires that local exchange carriers (LECs) adjust their PCIs to reflect the dollar effect of the exogenous cost changes described in Part 61.45(d). According to Part 61.45(b), this dollar effect must be measured at the base period level of operations.

In the 2004 Annual Filing, NBTC will make the following exogenous adjustments, which are allowable in accordance with the Code of Federal Regulations (CFR) or were designated in Commission Orders:

- Excess Deferred Tax (EDT)
- Investment Tax Credit (ITC)
- Telecommunications Relay Service (TRS)
- Regulatory Fee Payment Exogenous

Part 61.45(d)(3) requires that exogenous cost changes be apportioned between price cap services and excluded services. NBTC has adjusted the exogenous cost changes to remove impacts associated with services that are excluded from price cap regulation, to the extent that revenues for these services existed and were identifiable. The costs associated with non-price cap services, included in Parts 36 and 69 costs, are not identifiable. Consequently, NBTC assumes that the costs for these services are equivalent to the revenue from these services. NBTC excluded a percentage of exogenous costs equivalent to the percentage of non-price cap access revenues, including revenue associated with approved pricing flexibility petitions, and Interexchange services revenue that represents non-price cap service revenue. In accordance with Part 61.45(d)(3), no exogenous adjustment is allocated to Average Traffic Sensitive (ATS) revenue.

2.A BASE YEAR DATA

The Price Cap Rules require that exogenous cost changes be measured at base period level of operations. For development of exogenous cost changes, revenue requirements were developed based on an 11.25 percent authorized Rate of Return (ROR). The federal and state tax rates used in the computations were the applicable statutory rates. The SBC Companies utilized the most recent ARMIS reported amounts to determine Part 36 jurisdictional cost allocations and Part 69 access cost amounts.

2.B EXCESS DEFERRED TAX

The FCC in its *LEC Price Cap Reconsideration Order*, paragraph 72, allowed exogenous treatment of the flow-through of Excess Deferred Income Tax (EDT). In this filing, NBTC has reflected the estimated exogenous cost changes associated with this item for the 2004-2005 tariff period. *Exhibit 2* provides the development of the EDT impacts for the NBTC study area.

Exhibit 2.A provides additional historical information for EDT and the remaining EDT available for future annual filings.

2.C INVESTMENT TAX CREDIT AMORTIZATION

The FCC in its *LEC Price Cap Reconsideration*, paragraph 72, allowed exogenous treatment of the flow-through of the repeal of the Invest Tax Credit (ITC). In this filing, NBTC has reflected the estimated exogenous cost changes associated with this item in *Exhibit 2.1* for the 2004-2005 tariff period. *Exhibit 2.B* provides additional historical information for ITC and the remaining ITC available for future annual filings.

2.D COMBINED EFFECT

NBTC combined the effect of EDT and ITC to determine the impact of both exogenous cost changes on NBTC's interstate revenue requirements. *Exhibit 2.2* summarizes this impact. Details pertaining to this calculation are shown in *Exhibit 2.3*.

2.E TELECOMMUNICATIONS RELAY SERVICES (TRS) FUND

The Commission has also ruled Telecommunications Relay Service (TRS) fund payments may be treated as exogenous. On May 4, 2004, the Commission issued order, DA 04-1258 revising the TRS factor from .00220 to .00356, which is being employed as the basis of this exogenous change. The development of the TRS exogenous cost for this filing is provided on *Exhibit 2.4*. Also with the filing, NBTC is processing a One-Time TRS True-Up, due to a shortfall in funds. The methodology used for this One-Time TRS True-Up and how it is allocated is detailed in *Exhibit 2.4A*.

2.F REGULATORY FEE PAYMENTS EXOGENOUS ADJUSTMENTS

The filing for exogenous treatment of Regulatory Fees is consistent with Parts 61.45(a) and 61.45(d)(1)(vi) of the Commission's Rules and Regulations and the Common Carrier Bureau's October 7, 1994 Order¹. On March 29, 2004, the Commission released its Order, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2004, (MD Docket 04-73 FCC 04-66) detailing the proposed factor for the Fiscal Year 2004. NBTC is estimating regulatory fee payments and the corresponding exogenous adjustment based on the proposed factor and the preliminary change in revenue. The exogenous adjustment is detailed in *Exhibit 2.4*.

2.G THOUSAND BLOCK NUMBER POOLING REVERSAL

In the 2002 Annual Filing, NBTC filed for Thousand Block Number Pooling relief according to Paragraph 39 of the Third Report and Order (CC Docket No. 96-98 and Docket No. 99-200), which allowed for a 24 month recovery. NBTC's thousand-block adjustment was applied to common line rates as an exogenous adjustment pursuant to the Commission's rules. In this Annual filing, NBTC will be reversing the Thousand Block Number Pooling recovery since the ordered recovery period has expired. This is detailed in *Exhibit 2.4.B*.

2.H INTERSTATE RATE OF RETURN

Earnings during the 2003 base period are provided in *Exhibit 2.5*. The final Form 492 detailing 2002 base period earnings is provided in *Exhibit 2.6*.

¹ [Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act Order](#), (DA 94-1119) (Common Carrier Bureau, released October 7, 1994), (Erratum released November 2, 1994) paragraph 6 granting a waiver to permit exogenous cost treatment of regulatory fees.

2.I SUMMARY OF EXOGENOUS COSTS & DISTRIBUTIONS

Part 61.45(d) (4) of the Rules requires that exogenous cost changes be apportioned between price cap services and excluded services. The combined exogenous cost changes have been adjusted to remove impacts associated with services that are excluded from price cap regulation, to the extent that revenues for these services existed and were identifiable. The costs associated with non-price cap services, included in Parts 36 and 69 costs, are not identifiable. It is assumed that the costs for these services are equivalent to the revenue from these services. A percentage of exogenous costs equivalent to the percentage of non-price cap revenues, including pricing flexibility revenues and Interexchange services revenue represents non-price cap service revenue. Totals of all exogenous costs applied in this filing are summarized on *Exhibit 2.7*

3. OTHER PRICE CAP INDEX FACTORS/VARIABLES DEVELOPMENT

The annual filing adjustments to the PCI, detailed in Part 61.45(a), require the identification or development of the factors² contained in the PCI formulas. The development of these factors, except for ΔZ , is described in this section. The development of the ΔZ factor is described in Section 2.

These factors are used to calculate a new PCI for each price cap basket. The new PCIs are the benchmark against which the price cap basket Actual Price Indices (APIs) associated with the proposed prices are measured. The change in the PCI also affects the calculation of the allowable Service Band Index (SBI) upper limits, used to demonstrate that the proposed service category rates are in-band for the Traffic Sensitive, Trunking, and Special Access baskets. The

² The required factors are PCI_{t-1} , GDP-PI, X, R, g, w, and ΔZ .

change in the PCI also affects the allowable Sub-Index upper limits for 800 Database Vertical Services, Trunking and Special Access DS1, DS3 and Zone Density Pricing (ZDP) categories.

The calculations of the PCIs are detailed on form PCI-1 of the Tariff Review Plan (TRP).

EXISTING PCI

The PCI_{t-1} is described in Part 61.45(c) as "the immediately preceding PCI value." For purposes of the 2004 Annual Filing, the immediately preceding PCIs are identified in the existing PCI column of the TRP. The reference document, which is required to identify the transmittal associated with each of the existing PCIs, is provided as *Exhibit 13*.

CALLS ORDER REQUIREMENTS

The CALLS Order, released May 31, 2000, altered the method used to apply productivity factors used to reduce interstate access rates.

ATS - Switched and Switched Transport Reductions

CALLS created the Average Traffic Sensitive (ATS) target rate and the targeted differential calculation used to achieve the target rate and meet other requirements. Details regarding NBTC's ATS calculation are included in Section 14. Part 61.45 of the Commission's Rules discusses the targeted revenue differential calculation and its application. LECs must continue to apply reductions until the following have occurred:

- TIC revenue is eliminated
- Information Surcharge revenue is eliminated
- ATS Services have reached the target rate for the first time, and
- Local Switching pooled dollars recovered as an additive through the multi-line business end user common line charge are eliminated.

Prior to 2003, NTBC zero rated TIC and Information Surcharge and applied reductions to ATS Services. NBTC will continue to apply reductions necessary to reach the ATS target rate of .0055 during CALLS but will not meet the ATS target rate with this filing.

SPECIAL ACCESS AND INTEREXCHANGE REDUCTIONS

No reductions are required in the Special Access Service for the 2004 Annual Filing pursuant to Part 61.45(b)(iv).

GROSS DOMESTIC PRODUCT-PRICE INDEX (GDP-PI)

The GDP-PI factor is described in Part 61.45(c) as "the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year."

The change in the GDP-PI for the 2004 Annual Filing is 1.6252 percent.

TRANSITIONAL MECHANISM / PRODUCTIVITY (X-Factor)

Part 61.45(b)(1) specifies price cap LECs shall apply a transitional mechanism of 6.5% to the Common Line, Traffic Sensitive, and Trunking basket revenues to lower switched and switched transport access charges until the specified target is met. The X-factor for the Special Access basket for the 2004 Annual Filing is 1.6252% pursuant to 61.45(b)(1)(iv).

'R' VARIABLE

The 'R' variable as described in Part 61.45 (b)(1)(i) is calculated by multiplying base period quantities by the rates that were in effect at the time of the last PCI update.

The base period is defined in Part 61.3 (g) as "the 12-month period ending six months prior to the effective date of annual price cap tariffs." For purposes of this filing, the base period is the calendar year 2003.

The calculation of the 'R' variable for the Common Line, Traffic Sensitive, Trunking and Special Access baskets are detailed *Exhibits 5,6,,8, and 9* respectively.

COMMON LINE USAGE GROWTH (g)

NBTC is no longer required to develop a 'g' factor since it no longer assesses Minutes of Use (MOU) Carrier Common Line (CCL) charges.

4. DEVELOPMENT OF 2003 BASE PERIOD DEMAND

Historical base period demand is required for the Common Line, Traffic Sensitive, Trunking, Interexchange and Special Access baskets. Demand information for these baskets is detailed on exhibits provided with this filing. Historical base period demand for the Trunking and Special Access basket reflects the removal of demand in MSAs that have been granted Phase II regulatory relief.³

5. COMMON LINE BASKET RATE DEVELOPMENT

The Common Line basket rates were developed in accordance with Part 69.152 of the Rules. *Exhibit 5* lists the rates and demand used to calculate the Common Line 'R' value. Universal Service Fund (USF) Support per line received pursuant to Part 54.807 was used in the rate development process and is detailed on *Exhibit 5.1*.

³ MO&O, CCB/CPD No. 00-26, DA 01-670, released March 14, 2001; MO&O, CCB/CPD No. 01-32, DA 02-823, released April 11, 2002; and MO&O, WCB/Pricing No. 03-8, DA 03-1721, released May 15, 2003. Memorandum Opinion and Order (MO&O), CCB/CPD No. 00-25, DA 01-670, released March 14, 2001; Memorandum Opinion and Order (MO&O), CCB/CPD No. 01-35, DA 02-823, released April 11, 2002.

6. TRAFFIC SENSITIVE BASKET PCI, API, SBI AND RATE DEVELOPMENT

In accordance with Part 61.45, the existing and proposed PCIs for the Traffic Sensitive basket are detailed on the PCI-1 form of the TRP. The associated API and the SBI for each of the service categories and sub categories is provided on the IND-1 and RTE-1 forms of the TRP.

Weights used in calculating the API and SBI for each service category were adjusted pursuant to 61.46(a) and 61.47(a) respectively. *Exhibit 6* details the rates and demand used to calculate the Traffic Sensitive 'R' value. *Exhibit 6.1* details the development of the proposed Directory Assistance Credit Rate.

7. INTEREXCHANGE BASKET PCI, API AND RATE DEVELOPMENT

NBTC does not have revenues associated with the Interexchange Basket therefore no update is being made to the basket's PCI.

8. TRUNKING BASKET PCI, API, SBI AND RATE DEVELOPMENT

In accordance with Parts 61.45(a), 61.46(a), 61.47(a), 61.47(b) and 61.47(e), the determination of the proposed Trunking basket rates, PCI, API, SBI, and SBI upper limits for each of the service categories or sub categories of Tandem Switching, Voice Grade, and High Cap & Other associated with the 2004 Annual Filing are developed using 2003 base period demand. The 2004 Annual Filing PCI calculation is detailed on the PCI-1, and RTE-1 forms of the TRP.

In addition, exhibits detailing compliance with the Commission's Rules are as follows:

Exhibit 8 – Calculation of 'R' Value

Exhibit 8.1 – Calculation of API and SBI

Exhibit 8.2 – Calculation of DS1 & DS3 Sub-Indices

9. SPECIAL ACCESS BASKET PCI, API, SBI AND RATE DEVELOPMENT

In accordance with Parts 61.45(a), 61.46(a), 61.47(a), 61.47(b) and 61.47(e), the determination of the proposed Special Access basket rates, PCI, API, SBI and SBI upper limits for each of the service categories or sub categories of Voice Grade, Audio & Video, and High Cap & DDS associated with the 2004 Annual Filing are developed using 2003 base period demand. The 2004 Annual Filing PCI calculation is detailed on IND-1, PCI-1, and RTE-1 forms of the TRP.

In addition, exhibits detailing compliance with the Commission's Rules are as follows:

Exhibit 9 – Calculation of 'R' Value

Exhibit 9.1 – Calculation of API and SBI

Exhibit 9.2 - Calculation of DS1 & DS3 Sub-Indices

10. PART 69 WAIVERS

Following is a list of Part 69 waivers involving Southwestern Bell Telephone (SWBT), Pacific Bell Telephone Company (PBTC), Nevada Bell Telephone Company (NBTC), Ameritech Operating Companies (Ameritech) and The Southern New England Telephone Company (SNET), collectively the SBC companies, including a citation to the Order granting the waiver and the basket and service category, if applicable, treatment of rate elements created by the waiver:

- SBC Companies - Commission MO&O released August 22, 1983, established the \$25.00 Special Access Surcharge (waiving Part 69.115 (c)) for private line subscribers who actually leak traffic into the local network. This grant was extended in the 1985 Waiver Order released June 7, 1985; and again addressed in the 1989 Waiver Order, released December 2, 1988, granting waiver in force pending resolution of the Special Access Surcharge issues. This rate element is included in the Common Line basket.
- NBTC - Commission Order, released June 7, 1985, granting permission to disaggregate the Directory Assistance Charge into a charge "per call" and a charge "per minute of use (MOU)". This waiver was extended indefinitely "pending further order" in the Commission's 1989 Waiver Order, paragraph 6, released December 2, 1988. This charge is included in the Information service category of the Traffic Sensitive basket.

- SBC Companies - Bureau MO&O, released June 12, 1987, granting an additional routing option for interexchange carriers of having their Nonpremium 800 service traffic routed over existing access tandem network Feature Group D trunk groups at premium rates. This affects the rate elements included in the Local Switching and Interconnection service categories of the Traffic Sensitive and Trunking baskets, respectively.
- SBC Companies - Order, released September 3, 1987, granting permission to determine the Message Unit Credit (MUC) credit on a statewide basis instead of an exchange basis as stated in Part 69.106(c). The waiver was extended via the 1989 and 1990 Waiver Orders. This charge is included in the Local Switching Service category of the Traffic Sensitive basket.
- SBC Companies - Bureau MO&O, released September 28, 1988, granting establishment of a rate element for the recovery of costs incurred in the provision of 900 Access Service. This rate element is included in the Local Switching service category of the Traffic Sensitive basket.
- SWBT and PBTC - Bureau MO&O, releases May 31, 1990, granting the establishment of rate elements for Operator Call Processing Service. These rate elements are included in the Interexchange basket.
- SWBT - Bureau MO&O, released June 15, 1990, granting establishment of new switched access rate elements to recover the cost incurred in the provision of DirectLine Custom Service. These rate elements are included in the Information service category of the Traffic Sensitive basket.
- NBTC and Ameritech - Commission Order, released March 5, 1991, In the Matter of Ameritech's Petition for Waiver of Section 69.4(b) of the Commission's Rules. The Commission established a blanket waiver for all carriers who provide operator services to include Line Status Verification, Call Interruption and Operator Transfer. The Commission did not specify applicable price cap baskets or service categories in the waiver.
- SBC Companies - Commission Order, released October 9, 1991, granting establishment of an Information Surcharge rate element within the Information category. This rate element is included in the Traffic Sensitive basket.
- SBC Companies - Bureau MO&O, released January 30, 1992, granting establishment of sub-elements in the Switched Access transport rate element to recover the costs associated with a Dedicated Network Access Line (DNAL) Basic Service Arrangement (BSA). This rate element is included in the Local Switching category of the Traffic Sensitive basket.
- Ameritech - Order, released February 12, 1992, granting permission to access the Ameritech Directory Search (ADS) rates, formerly Electronic Directory Search. These rate elements are included in the Information service category of Traffic Sensitive basket.
- SBC Companies - Bureau Order released February 26, 1993, granting an additional routing option for interexchange carriers (IXCs). It allows IXCs to terminate FGB traffic to nonconverted end offices over the IXC's access tandem network FGD trunk groups at rates equal to the FGD (premium rate). Implementation of this provision affects Local Switching

demand in the Traffic Sensitive basket, Interconnection demand in the Trunking basket and the Carrier Common Line demand in the Common Line basket.

- SBC Companies - Bureau Order, released July 23, 1993, granting a blanket waiver of Part 69 of the Commission Rules to enable all Local Exchange Carriers to tariff interstate access elements that reasonably, reflect facility arrangements for transport between Telecommunications Relay Service (TRS) service bureau and associated tandem switches, until October 31, 1995, when the interim local transport structure is scheduled to be replaced. These rate elements are included in the HiCap service category of the Trunking basket.
- SBC Companies - Bureau Order, released December 17, 1993, granting a waiver of Part 69.113, for all LECs to allow tariffing of a Nonpremium charge for the interconnection charge. This resolved a conflict between the Transport Order and the Rules. This rate element is included in the Interconnection category of the Trunking basket.
- SBC Companies - Bureau Order released November 30, 1994, granting establishment of a new rate element for 500 Access Service. SWBT, Ameritech and PBTC include this rate element in the Local Switching service category of the Traffic Sensitive basket. SNET includes this rate element in the Database service category of the Traffic Sensitive basket. NBTC does not offer the service.
- SWBT - Bureau MO & O released December 6, 1994, granting the establishment of five new rate elements for Designated Operator Services (DOS). These rate elements are included in the Interexchange basket.
- SWBT - Bureau Order released January 26, 1996, granting the establishment of a new switched access rate element to recover the costs incurred in provisioning of file transfer in conjunction with DirectLine Custom Service. This rate element is in the Information Service Category of the Traffic Sensitive basket.
- Ameritech - Order, released March 27, 1996, to establish unbundled rate elements for SS7 service. These rate elements are included in the Traffic Sensitive and Trunking baskets.
- NBTC and Ameritech - Order, released December 2, 1996, granting waiver of Parts 69.110, 69.111 and 69.112 to establish new rate elements associated with a new SONET-based switched transport service. These charges are included in the HiCap Category of the Trunking basket.

11. NEW SERVICES INCLUDED IN THE PRICE CAP INDICES

In accordance with 61.42(g), the following new services are being added to NBTC's price cap indices in the 2004 Annual Filing:

New Service	Basket	Category
Gigabit Ethernet Metropolitan Area Network (GigaMAN) Diversity	Special Access	Digital
Multi-service Optical Network (MON) Ring Service	Special Access	Digital
Optical Carrier Network (OCN) Point to Point Service 192	Special Access	Digital
Optical Carrier Network (OCN) Point to Point Service 192 Protection Network Survivability	Special Access	Digital
DS1 Term Payment Plan	Special Access	Digital
DS3 Term Plan	Special Access	Digital
Long Distance Trouble Management Service (LDTMS)	Traffic Sensitive	Switched Traffic

12. SERVICES EXCLUDED FROM PRICE CAPS

The Commission's Order, In the Matter of Material to be Filed in Support of 2001 Annual Access Tariff Filings (2001 TRP Order), released April 30, 2001; required LECs, for the first time, to provide support documentation detailing services excluded from price cap regulation.

NBTC has included in *Exhibit 12* a list of all services excluded from price cap regulation revised to reflect activity subsequent to the 2004 Annual Filing in accordance with the *2004 TRP Order*.

13. IND-1 REFERENCE

The reference document, which is required to identify the transmittal associated with each of the existing PCIs, is provided as *Exhibit 13*.

14. AVERAGE TRAFFIC SENSITIVE (ATS) RATE

Pursuant to 61.45(i)(3), NBTC has recalculated the Average Traffic Sensitive (ATS) rate to reflect the new base period level. The rate is detailed on TRP form TGT-1. The ATS rate is developed in accordance with Part 61.3 (e) by dividing the Switched Traffic Sensitive Revenue by the Local Switching MOUs and adding to that, the result of dividing Switched Transport Revenue by the LEC Transport MOUs.

LEC Transport MOUs consist of the Transport Interconnection Charge (TIC) MOUs, Meetpoint Tandem Switched MOUs in which NBTC does not bill TIC, and Meetpoint Direct Routed MOUs in which NBTC does not bill TIC.

The Meetpoint Tandem Switched MOUs are the total interstate MOUs carried between a NBTC tandem and an independent company-owned end office (EO). In this situation, the initial billing company is the independent company that owns the EO, who in turn bills the TIC. As NBTC does not bill the TIC, these MOUs are not in the TIC MOU quantities.

The Meetpoint Direct Routed MOUs are the total interstate MOUs carried on direct routed circuits from a NBTC serving wire center (SWC) to an independent company owned. In this situation, the initial billing company is the independent company that owns the EO, who in turn bills the TIC. As NBTC does not bill the TIC, these MOUs are not in the TIC MOU quantities.

The development of the total LEC Transport MOUs is shown on *Exhibit 14*. The total LEC Transport MOUs are input on the TRP form TGT-1, line 430.

15. RATE COMPARISON

Exhibit 15 identifies current and proposed rates for elements with changing rates. In addition to this exhibit, NBTC has included with this filing a Rate Detail file (Lotus wk4), which lists all price cap services demand and revenues by service basket.

16. EXHIBITS

This section provides the exhibits and other support documents referenced in prior sections of the D&J.

- Exhibit 2 – Excess Deferred Tax (EDT)
- Exhibit 2.A – Historical EDT Schedule
- Exhibit 2.1 – Investment Tax Credit (ITC)
- Exhibit 2.B – Historical ITC Schedule
- Exhibit 2.2 – Combined Effect
- Exhibit 2.3 – EDT/ITC Adjusted for Non-Price Cap Services
- Exhibit 2.4 – Telecommunications Relay Service
- Exhibit 2.4A – TRS One Time Adjustment
- Exhibit 2.4B – Thousand Block Number Pooling
- Exhibit 2.5 – Interstate Rate of Return 492 – 2003
- Exhibit 2.6 – Interstate Rate of Return 492 – 2002
- Exhibit 2.7 – Summary of Exogenous Costs & Distributions
- Exhibit 3 – Application of Transitional Mechanism
- Exhibit 5 – Common Line basket Price Cap Model
- Exhibit 5.1 – USAC Receipts
- Exhibit 5.2 – Pooled Local Switching Adjustment
- Exhibit 6 – Traffic Sensitive basket Price Cap Model
- Exhibit 6.1 – Development of DA Credit
- Exhibit 8 – Calculation of ‘R’ Value – (Trunking)
- Exhibit 8.1 – Calculation of Price Cap Indices (Trunking)

- Exhibit 8.2 – Calculation of DS1 & DS3 Sub-Indices (Trunking)
- Exhibit 9 – Calculation of ‘R’ Value – (Special)
- Exhibit 9.1 – Calculation of Price Cap Indices (Special)
- Exhibit 9.2 – Calculation of DS1 & DS3 Sub-Indices (Special)
- Exhibit 12 – Excluded Services List
- Exhibit 13 – IND-1 Reference
- Exhibit 14 – Development of LEC Transport MOUs
- Exhibit 15 – Rate Comparison
- Exhibit 16 – Universal Service Fee Rate Development 1
- Exhibit 17 – Universal Service Fee Rate Development 2
- Tariff Review Plan (TRP)
- Rate Detail File (Lotus Format)

FEDERAL UNIVERSAL SERVICE FUND (FUSF) ADJUSTMENTS

17. 3RD QUARTER FEDERAL UNIVERSAL SERVICE FUND ADJUSTMENTS

This portion of the filing is to revise NBTC’s USF obligation based on the 1st quarter 2004 contribution factor. The 3rd quarter 2004 contribution factor, 8.9%, was provided in the Commission’s recent Public Notice, DA 04-1613, released June 7, 2004. Recovery of this contribution is allowable pursuant to C.F.R. 69.158. The methodology used to calculate end user charges assessed to recover this liability is detailed below.

Calculation of the Federal Universal Service Fund Flat Rate End User Charge

To ensure compliance with the Commission’s *Interim Contribution Methodology Order*, NBTC recovers its USF obligation associated with switched access services through various flat-rate end user charges⁴. The charges will be assessed with respect to the interstate end user service

⁴See *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor*

that generates the USF obligation. NBTC assesses three general types of USF charges (Basic and Non-recurring) for switched access customers. These charges are calculated using the following methodology as shown on Exhibit 16 and Exhibit 17.

BASIC USF RECOVERY CHARGES

These charges are assessed to switched access lines, to recover the USF obligation associated with the assessment of End User Common Line (EUCL), End User Port charges, and Service Provider Number Portability (SPNP) charges.

1. Residential/Single Line Business (SLB)

NBTC develops the Basic USF charge for residential and single line business customers by adding together EUCL and SPNP charges assessed to these customers to obtain the basic interstate end user charges. The total basic interstate end user charges are multiplied by the relevant contribution factor released by the Commission. The calculation for the Basic FUSF Residential/Single Line Business rate is demonstrated on Exhibit 16.

2. BRI ISDN

develops the Basic USF charge for BRI ISDN and BRI ISDN Port customers by adding together EUCL, BRI ISDN / Centrex Port charges and SPNP charges assessed to these customers to obtain the basic interstate end user charges. The total basic interstate end user charges are

Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116., 98-170, Report and Order and Second Further Notice of Proposed Rule Making, 17FCC RCD 24952 (2202) (Interim Contribution Methodology Order).

multiplied by the relevant contribution factor released by the Commission. The calculation for the Basic FUSF BRI ISDN rate is demonstrated on Exhibit 16.

3. MULTI-LINE BUSINESS, PRI ISDN, and CENTREX

NBTC elected to utilize the provisions granted in the Commission's Order and Second Order on Reconsideration regarding Centrex customers⁵. A portion of the un-recovered obligation created from using the PICC equivalency ratios for Centrex customers is applied to Multi-line business customers. However, due to the constraints included in the Commission's Order, NBTC averages the obligation associated with End User Common Line (EUCL) charges for Centrex customers. Centrex customers are assessed the full amount of the obligation associated with their SPNP end user surcharges.

NBTC determines the basic USF recovery rate for business customers using the method detailed below.

ESTABLISH THE BASIC MULTI-LINE BUSINESS RATE

Step 1 – Determine total revenue using access lines as of March 2004 for these customers generated from EUCL assessments by multiplying the EUCL rate by the number of lines.

⁵ See *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability*, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116., 98-170, Order and Second Order on Reconsideration, FCC 03-58, para. 3(rel.March 14, 2003).

Step 2 – Multiply the result from Step 1 by the contribution factor to obtain the obligation associated with the customer base.

Step 3 – Divide the obligation developed in Step 2 by the number of billable lines (using lines as of March 2004). The line base is adjusted using PICC equivalency ratios as defined in Part 69.153. The result is the Basic MLB rate per line.

Step 4 – Add to the Basic MLB rate, all other USF recovery associated with the customer type. For example, an additive is included to the basic MLB rate to recover the obligation associated with the SPNP surcharge. Step 4 is calculated by customer type for Multi-line business, PRI ISDN, and Centrex customers as shown in Exhibit 17. The final rates per customer type are detailed on both Exhibit 16 and Exhibit 17. These final rates preclude any USF recovery necessary from non-recurring interstate end user charges.

OTHER NON-RECURRING USF SURCHARGES

Non-recurring USF surcharges are assessed to interstate end user non-recurring charges, which generate a USF obligation. NBTC calculates Other Non-recurring USF charges by multiplying the non-recurring charge by the contribution factor. These USF recovery charges will only be assessed per occurrence of the interstate end user non-recurring charge. The calculations for these charges are detailed in Exhibit 16. For billing purposes, the USF recovery charge may be added to the existing interstate end user charge, which generates the obligation.

NBTC assesses Lifeline customers the Non-recurring USF charges when they are assessed the non-recurring charge that generates the obligation. NBTC also assesses Interexchange Carriers

(ICs) the Presubscribed Interexchange Change (PIC) USF Charge when the IC is assessed the PIC change charge.

SPECIAL ACCESS FEDERAL UNIVERSAL FUND SURCHARGE

NBTC will continue to recover its special access end user USF obligation through a percentage-based USF recovery charge applied to interstate end user billed special access revenue. This percentage-based USF recovery charge is set equal to the Commission's contribution factor released via Public Notice.

18. BASIC RATE INTERFACE INTEGRATED SERVICES DIGITAL NETWORK (BRI-ISDN) LANGUAGE MODIFICATION

NBTC is proposing to modify tariff language found in the End User Access Service section, Section 4, of F.C.C. Tariff No. 1. This language modification is an effort to clarify how BRI ISDN and BRI ISDN Port customers are now billed USF charges. When a customer is assessed a BRI ISDN charge as discussed in Section 4.6.1(B), or a BRI ISDN Port Charge, as discussed in Section 4.6.1(F)(1), a BRI ISDN FUSF recovery charge, as now discussed in Section 4.6.1(G) (1), will now be assessed to recover the USF obligation associated with each interstate end user charge as set forth in Section 4.7. (H) (1).