

DESCRIPTION AND JUSTIFICATION
John Staurulakis, Inc. Tariff F.C.C. No. 1
Transmittal No. 96
Hargray Telephone Company, Inc. (Hargray) (SC)
FRN #0001-8867-04

Hargray Telephone Company, Inc. (Hargray), through its consultant John Staurulakis, Inc. (JSI) hereby provides a Description and Justification for its individual rates proposed under Transmittal No. 96 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 has been filed by JSI in order to comply with the rules and regulations of the Federal Communications Commission (Commission) with respect to annual access charge filings.

The JSI Tariff F.C.C. No. 1 governs the provision by Hargray of interstate Switched Access, Special Access and Miscellaneous Services. The instant filing revises Hargray's rates for those services.

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 #1-9 included comprising this D&J document (Adobe Acrobat PDF). The Certification of the cost support data for this filing is shown in Attachment #10 included separately. All required Tariff Review Plan Schedules (TRP Schedules) are included with the cost support material in accordance with the Commission's April 19, 2004 release entitled In the Matter of Material to be Filed in Support of 2004 Annual Access Charge Tariff Filings, Tariff Review Plans, DA 04-1048 (2004 TRP Order), together with the June 10, 2004 release entitled In the Matter of Material to be Filed in Support of 2004 Annual Access Charge Tariff Filings, Tariff Review Plans, Errata, DA 04-1700 (2004 TRP Errata).

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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, 2005. The costs for the twelve (12) month period ending June 30, 2005 (2005) 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, 2003, identified as follows:

| | |
|--|---------------|
| 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 |

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The total Traffic Sensitive Service revenues generated under this tariff are projected to be \$6,969,957, See Attachment #9. This amount represents a decrease of \$253,975 from the projected annual Traffic Sensitive Service revenues for the 2004 annual filing, \$7,223,932. (Hargray made a midcourse filing for July 1, 2003 under JSI Transmittal No. 84 filed on June 16, 2003.)

Following is a comparison of the projected interstate revenue requirements for the FY 6/2005 compared with those included in the 2004 annual filing for the projected FY 6/2004.

Comparison of Projected FY 6/2005 Revenue to Projected FY 6/2003 Revenue

| Element | 2004 | 2005 | Change | % Change |
|---|-------------|-------------|------------|----------|
| Local Switching per Attachment 9 | \$2,010,674 | \$1,865,303 | -\$145,371 | -7.23% |
| Information per Attachment 9 | 2,887 | 1,225 | (1,662) | -57.57% |
| Transport per Attachment 9 | 2,128,093 | 1,984,942 | (143,151) | -6.73% |
| Subtotal Switched Access | 4,141,654 | 3,851,470 | (290,184) | -7.01% |
| Special Access Revenue Requirement | 3,956,776 | 4,201,016 | 244,240 | 6.17% |
| Special Access DSL | 1,124,758 | 1,082,529 | (42,229) | -3.75% |
| Special Access per Attachment 9 | 2,832,018 | 3,118,487 | 286,469 | 10.12% |
| Total Interstate Revenue Per Attachment 9 | 6,973,672 | 6,969,957 | (3,715) | -0.05% |
| Rounding | 388 | (196) | | |
| Revenue Requirement per Attachment 9 | 6,974,060 | 6,969,761 | (4,299) | -0.06% |
| Projected DSL Revenue (no rate change) | 1,124,758 | 1,082,529 | (42,229) | -3.75% |
| Total Revenue Requirement | \$7,705,785 | \$8,052,290 | \$346,505 | 4.50% |

Based on application of the revised rates to projected demand, the impact of the filing is a decrease in direct charges to access customers of \$133,307 as indicated in Attachment 9 at Page 1. This decrease is the net effect of a \$266,683 decrease in charges for Switched Access Services and an increase of \$133,376 for Special Access Services as indicated in Attachment 9 at Page 1.

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Hargray total company net investment reflected in this filing has decreased as indicated below. Projected total company operating expenses are projected to increase by 5 percent over the 2003 actual, although only by 1 percent in comparison to the projected FY 6/2004 used for the 2003 filing.

| | Actual for Calendar Year 2001 | Actual for Calendar Year 2003 | % Change | Projected FY 6/2004 | Projected FY 6/30/2005 | % Change |
|---------------------------------------|-------------------------------------|-------------------------------------|----------|------------------------|---------------------------|----------|
| Net Investment | \$53,474,957 | \$49,675,972 | -7.1% | \$46,727,693 | \$44,582,440 | -4.6% |
| Total Operating Expenses and Taxes | \$41,545,031 | \$38,053,803 | -8.4% | \$39,522,600 | \$39,940,686 | 1.1% |
| Access Expense | \$664,836 | \$189,624 | -71.5% | \$189,624 | \$1,355,914 | 615.1% |
| Net of Access Expense | \$40,880,195 | \$37,864,179 | -7.4% | \$39,332,976 | \$38,584,772 | -1.9% |
| Ad Valorem Taxes | \$1,420,068 | \$1,694,780 | 19.3% | \$1,408,203 | \$1,760,114 | 25.0% |
| Net of Ad Valorem Taxes | \$39,460,127 | \$36,169,399 | -8.3% | \$37,924,773 | \$36,824,658 | -2.9% |

Adjusted for the removal of access expenses, none of which is allocated to interstate, total operating expenses and taxes decreased by 1.9 percent when comparing the projected FY 6/2005 expenses to those for projected FY 6/2004 as used in the 2003 filing. The adjusted change resulting from removal of Ad Valorem taxes, over which Hargray has no control, is a decrease in operating expenses of 2.9 percent.

Local Switching Rate Decrease

The proposed Local Switching rate represents a decrease of 4 percent from \$0.00881 to \$0.00848. Forecasted demand for the June 30, 2005 projected year is 219,964,998 minutes representing a 3.5 percent decrease from the forecasted minutes of 228,226,357 for the forecasted year ending June 30, 2004 as used in the 2004 annual filing.

Direct-Trunked Transport Rate Increase

Direct-Trunked Transport rates reflect an increase of approximately 4.5 percent on average due to the effect of increases in Special Access High Capacity rates on the Direct Transport Trunk rates. Revenues from Direct-Trunked Transport are projected for the FY 6/2005 projected year to be \$192,834 (based on aggregation of the proposed billing amounts per Attachment 9, Page 3) compared with a projection of \$175,677 for FY 6/2004 as included in the 2004 filing. Pursuant to Section 69.112(b)(2), HTC's Direct-Trunked Transport rates are determined based on rates for equivalent voice grade, DS1, and DS3 Special Access services. Accordingly, increases in Special Access High Capacity rates of approximately 4.5 percent effect parallel reductions in Switched Access Direct-Trunked Transport rates of approximately 4.5 percent.