DESCRIPTION AND JUSTIFICATION

CONSOLIDATED COMMUNICATIONS COMPANIES

CONSISTING OF

CONSOLIDATED COMMUNICATIONS OF TEXAS COMPANY
(CCTX) d/b/a CONSOLIDATED COMMUNICATIONS

AND

CONSOLIDATED COMMUNICATIONS OF FORT BEND COMPANY
(CCFB) d/b/a CONSOLIDATED COMMUNICATIONS

INTERSTATE ACCESS SERVICES

CONSOLIDATED COMMUNICATIONS COMPANIES
TARIFF FCC No. 1

ANNUAL 2006 ACCESS CHARGE TARIFF FILING

TRANSMITTAL No. 12

JUNE 16, 2006

TABLE OF CONTENTS

SECTION 1
INTRODUCTION AND SUMMARY

Introduction

The Consolidated Communications Companies, consisting of Consolidated Communications of Texas Company d/b/a Consolidated Communications and Consolidated Communications of Fort Bend Company d/b/a Consolidated Communications, hereby provide a Description and Justification for its consolidated tariff, with individual company rates (Section 17 and Section 18, respectively), proposed under Transmittal No. 12 of the Consolidated Communications Companies Tariff FCC No. 1.

Description of the Consolidated Communications Companies Operations

The Consolidated Communications Companies (CCC) consists of two separate legal entities: Consolidated Communications of Texas Company (CCTX) d/b/a Consolidated Communications and Consolidated Communications of Fort Bend Company (CCFB) d/b/a Consolidated Communications. Both of these are rural rate-of-return companies that fall under Section 61.38 of the Commission's Rules and, therefore, file biennially in even-numbered years, including 2006. They provide local service, toll, private line services, access services, DSL, CLASS services, and other modern telecommunications services to their customers.

CCTX originated with three separate telephone companies that merged over the years. Lufkin Telephone Exchange officially began business in 1898 and was incorporated in the state of Texas in 1910. Conroe Communications Company began providing service in the Conroe area in 1899 and was purchased by the owners of Lufkin Telephone Exchange and incorporated as the Conroe Telephone Company in 1929. The Alto Telephone Company was purchased in 1963. Ownership of the 3 entities was consolidated in 1969 to form Lufkin-Conroe Communications Company. In 1997, Lufkin-Conroe Communications Company and its subsidiaries were purchased by Texas Utilities Company and became TXU Communications Telephone Company. In April 2004, Consolidated Communications, Inc. purchased the company, changing the name to Consolidated Communications of Texas Company (CCTX).

CCTX is a rural East Texas telecommunications carrier providing service to approximately 115,000 customers in two distinct market areas: Conroe and Lufkin. The 16 communities served include: Alto, Apple Springs, Central, Conroe, Cut-N-Shoot, Diboll, Etoile, Fuller Springs, Grangerland, Hudson, Lake Conroe, Lufkin, Montgomery, Riverbrook, Walden, and Wells. The 7 exchanges of the Conroe market area contain approximately 71,000 customers, primarily in Montgomery County.

The Lufkin market area serves 9 exchanges and 44,000 access lines in a separate area 85 miles north of the Conroe area, centered on the city of Lufkin. The area economy is supported primarily through manufacturing of paper and metal products, retail sales, service companies, government entities, and farming.

CCFB began business in 1898 as Fort Bend Telephone Company and was incorporated in Texas in 1910. In May 2000, Fort Bend Telephone Company and its affiliates were purchased by Texas Utilities Company and became Fort Bend Telephone Company d/b/a TXU Communications. In April 2004, TXU Communications, including Fort Bend Telephone Company, was purchased by

Consolidated Communications, Inc., which changed the name to Consolidated Communications of Fort Bend Company (CCFB).

CCFB is also a rural carrier with approximately 43,000 access lines in 5 East Texas exchanges: Beasley, Brookshire, Damon, Katy, and Needville. CCFB possesses the same rural characteristics as CCTX, providing service in Brazoria, Harris, Fort Bend and Waller counties.

Summary of Major Capital Projects

Consolidated Communications Companies' have continued to deploy new equipment as replacements to manufactured discontinued equipment and additions to sites with the intention of improving services for our customers. Approximately 42,000 POTS lines were replaced with Next Generation Peripherals on the Lufkin and Conroe DMS 100/200. These changes were made to accommodate a path for upgrading the switch software release to SN09. The old peripherals were not supported on the new DMS software loads. An extensive capital investment program was made in upgrading first generation DSLAMs to ADSL2+ to support higher bandwidth requirements of our customers and provide a competitive edge in our markets. CCC also deployed new CSA sites such as Needham Road North, Ballpark, Grand Parkway, Wilson Road, and Westheimer Lakes as customers moved into these new sub-divisions. Overall, Consolidated Communications has responded to the services for POTS, DATA, VOIP and DSL in the Conroe, Katy, and Lufkin markets.

SECTION 2
OVERVIEW OF FILING PACKAGE

Tariff Support Material

This support material is submitted pursuant to Part 61.38 of the Federal Communications Commission (Commission) Rules and Regulations and the Order issued in WCB/Pricing 06-15, July, 2006 Annual Access Charge Tariff Filings, and Tariff Review Plans issued in WCB/Pricing 06-15, Material to be Filed in Support of 2006 Annual Access Tariff Filings, both adopted and released March 24, 2006. Additionally, CCC has implemented the section of the Commission's *Rate-of-Return Access Charge Reform Order* (MAG Order)[1] requiring rate of return carriers to make modifications to their local switching and transport rate structures.

---

[1] Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, *Second Report and Order and Further notice of Proposed Rulemaking*, FCC 01-304 (rel. Nov 8, 2001) (*"Rate-of-Return Access Charge Reform Order").*

Overview of Cost and Rate Development

The cost support data contain the separations and access allocation studies to support a test year of July 1, 2006 through June 30, 2007, which is an average of 2006 and 2007 data, and an historical year of January 1, 2005 through December 31, 2005.

CCC used a multi-step process to develop its interstate traffic sensitive rates for the 2006-2007 test year. It started with projecting investments, reserves, expenses and taxes at a Part 32 financial level. All non-regulated costs were removed using the most current Cost Allocation Manual data (Part 64). The regulated costs were then separated to the state and interstate jurisdictions based on the Commission's Part 36 Jurisdictional Separations Rules and Regulations. CCC's traffic factors were frozen beginning with the 2001 cost studies per the FCC's freeze order. CCC elected to continue doing category studies. The interstate costs were apportioned to cost elements based on the Commission's Part 69 rules. A revenue requirement for each of the prescribed elements was developed based on the Commission's Part 65 rules for rate-of-return companies. Finally, CCC incorporated the section of the MAG Order requiring rate of return carriers' revenue requirement to be adjusted. In particular, it shifted the non-traffic sensitive costs of local switch line ports to the common line category and reallocated the Transport Interconnection Charge (TIC) revenues across all access elements. Additionally, CCC found that there is no general-purpose computer investment used for non-regulated billing and collection services.

Plant adjustments were made as a result of an overall review of the COE basic study. These adjustment were made to the studies and subsequently used to update the CCC preliminary 492s previously filed in March of 2006.

Additionally, LNP revenues which were initially calculated using FCC mandated cost recovery guidelines were adjusted out of the Local Switching revenue requirement.

Demand and financial projections were made for the test year to provide the basis for the Company's proposed rates. The projections are based on historical linear trending. This methodology fits a straight line (using the method of least squares) to the array's known demand.

Finally, adjustments to demand were made based on expected variables. First, CCC plans to continue its high level of capital investment, both to expand into new services for its customers and to improve and upgrade current service offerings. As stated above, CCC has significantly upgraded its interoffice trunks, central office switches, and outside plant, bringing new and improved services to its rural customer base. The increased investment will increase the rate base over the time period of the investment. Additionally, the economic conditions of the last 2-3 years have impacted the customers in the Companies' serving areas which, in turn, reduced CCC's revenues and returns. Finally, CCC has experienced, and is projecting further, line and MOU attrition due to competition from other local providers, wireless, VoIP, etc.

SECTION 3
DEVELOPMENT OF DEMAND UNITS

Demand Forecasting

To calculate test period rates, it was necessary to forecast demand for three (3) categories of services: Switched Access, Special Access, and Non-Recurring Charges (NRCs).

Switched Access Demand Forecasting

Forecast demand quantities have been adjusted to reflect expected changes in the prospective period. Switched Access minutes continue to decline year over year at an increasing rate. In evaluating local switching minutes from the 2003 to 2005 timeframe, an overall 9% decrease in switched minutes. Moreover, the year to year increased MOU losses are depicted in the historical trend of minutes. Demand quantities utilized in the development of Switched Access rates for the prospective period include such rate elements as access minutes of use, minute miles, 800 messages, access service orders, access service provisioning, and Billing Name and Number (BNA) requests. Historical observations of all rate elements provide the basis for calculating the prospective period demand. Sources for the historical demand data include the company Carrier Access Billing System (CABS) and Access Service Requests (ASR) systems and processes. Any applicable external adjustments to the forecast usage are reflected in one of the adjustment columns of the Test Period Demand sheets. Switched Access includes the following subcategories:

- Local switching which is divided into three rate elements: local switching premium, local switching non-premium, and 800 data base query.
- Local Transport which consists of entrance facilities (EF), direct trunk transport, and tandem-switched transport.
- The Information Surcharge rate was developed based on chargeable switched access minutes and is applied per 100 access minutes of use.

Special Access Demand Forecasting

Demand quantities utilized in the development of special access rates for the prospective period include recurring charges and non-recurring charges. The recurring charges include channel termination (CT), channel mileage facility (CMF), channel mileage termination (CMT), optional features and functions (OFF), and frame relay service (FRS). Relationships between the growth of certain products (Business DSL services), and higher capacity circuit growth (i.e., growth of DS-3s impact on DS-1 trends) were considered for the forecast period. The non-recurring charges include service order charges and provisioning charges. Historical observations of these special access elements provide the basis for calculating the prospective special access demand. Sources for the required historical demand data include CABS and ASR.

Non-Recurring Charges (NRCs)

A regression analysis model was used to derive a forecast of the service orders and installations based on the historical demand of all service orders and installations. The period from January 2003 through March 2006 was used in the regression analysis.

Calculation of Demand

The supporting documentation provides the historical and test year projected demand for both CCTX and CCFB. The support includes two (2) worksheets – Traffic Sensitive Rate Development, Switched Access Demand and Traffic Sensitive Rate Development, Special Access Demand for both CCTX and CCFB. The demand for NRCs is included within the switched and special access worksheets found in Section 5. The demand data from these worksheets feeds TRP worksheets DMD-1, DMD-2, DMD-3, DMD-4, and DMD-5, to provide the projected demand for this annual filing.

SECTION 4
RATE DEVELOPMENT

Budget Overview -- 2006 - 2007

The Commission issued Order DA 06-649, In the Matter of July 2006 Annual Access Charge Tariff Filings, and Order (Tariff Review Plans) DA 06-650, In the Matter of Material to be Filed in Support of 2006 Annual Access Tariff Filing, mandating that rate-of-return companies develop rates based on prospective cost data. The prospective test year is July 1, 2006 through June 30, 2007. CCC used the average of 2006 and 2007 budget data to achieve test year projections.

Cost of Service

The revenue requirement was used to determine the test period rates. Using the historical data found in the supporting worksheets, along with the investment and expense assumptions highlighted above, the cost of service was determined. The cost of service is based on the plant balances summarized and the expenses projected in the supporting documents. Under Part 65 rules, CCC is authorized the opportunity to earn the prescribed rate of return on its rate base balance. The authorized rate of return is currently 11.25%, as fixed by the Commission in the MAG Order, FCC 01-304. Additionally, recovery of expenses is authorized. The return on rate base plus the recovery of expenses equals the cost of service. The cost of service determines the revenue requirement which determines the rates which can be charged.

The determination of the projected plant balances and the budgeted expenses is found in the supporting documents in Section 6. These schedules flow through to the Cost of Service worksheets (COS – 1 & 2) in the TRP.

Part 64 Adjustments

CCC identifies each account as being totally regulated, totally non-regulated or common. Accounts that accumulate costs that are not directly identifiable and which are labeled as common, had appropriate allocation factors developed and applied. Allocation factors were applied to the 2006 and 2007 plant and expense budget balances for each “common” Part 32 account for each company (CCTX and CCFB). Only the regulated account balances were used for cost study purposes.

Part 64 adjustments are found in Column (B) of TRP Schedules COS-1(P) and COS-1(H)

Part 36 Jurisdictional Allocation

The regulated costs from the Part 64 Adjustments were separated to the state and interstate jurisdictions based on the Commission’s Part 36 Jurisdictional Separations Rules and Regulations. CCC’s traffic factors were frozen beginning with the 2001 cost studies per the FCC’s freeze order. CCC elected to continue doing category studies.

The end results are the interstate property costs, revenues, expenses, taxes and reserves that were then transferred to the Part 69 allocation process. The results of the Part 36 separations are found in the supporting data in Section 6, which flows through to the TRP, Schedules COS-1(P) and COS-1(H), Columns (D) and (E). These schedules feed COS –2, which compares actual (historical) to test year revenue requirement.

Part 69 Access Charges

FCC Part 69.4(b) apportions the interstate costs from the Part 36 analysis to the following elements: local switching, information, tandem-switched transport, direct-trunked transport, special access, line information database, and entrance facilities (the Carrier Common Line Charge is no longer permitted). In addition, Part 69.4(j) permits charges for the following elements: dedicated local switching trunk port, shared local switching trunk port, dedicated tandem switching trunk port, multiplexers associated with tandem switching, DSL/voice grade multiplexers associated with analog switches, and per-message call setup.

CCC determined the Part 69 disaggregation in the supporting data in Section 6 for the test period (July 1, 2006 – June 30, 2007). These calculations flowed into the rate determination calculations.

Rate Determination

The results of the Part 69 disaggregation was utilized to determine the rates which, when combined with the demand units, yielded the test period revenues, by rate element and in total. The test period rates were determined with the following criteria:

(1) Ensure that the rates were above the cost
(2) Minimize the impact on customers
(3) Maintain reasonable crossover relationships between services

CCC provided extensive rate determination supporting data in Section 6. The analysis was divided into

(1) Traffic Sensitive Rate Development,
(2) Special Access Rate Development,
(3) Nonrecurring Charge (NRC) Rate Development,
(4) Frame Relay Rate Development
(5) Crossover Tests

The traffic sensitive and special rates were determined and flowed through to TRP Schedules RTE-1 and RTE-2. These rates were then transferred to the tariff pages in Section 3 which contain the individual company rates. The rates also flow through to the TRP REV-1 worksheet, which calculates the revenues, aggregates them to the element level (information, switching, etc.) and compares the revenues to the revenue requirement. REV–2 in the TRP summarizes at a higher level the results in REV-1.

SECTION 5
MAG ORDER ALLOCATION

A revenue requirement is developed for each of the above access cost elements in compliance with the FCC's Part 65 Rules applicable to rate of return companies. Additionally, the revenue requirements are adjusted to be in compliance with the FCC's MAG Order.

Common Line

The Subscriber Line Charge (SLC)/End User Common Line (EUCL) Charge for residential and single-line businesses was increased to the Price Cap SLC cap levels. CCC is a member of the NECA CCL/End User Pool and, thus, charges NECA's pooled rates. As a result, the Subscriber Line Charge (SLC)/End User Common Line (EUCL) Charge provisions of the MAG Order are incorporated through the NECA rates. CCC has not chosen to de-average its SLC/EUCL.

The Carrier Common Line (CCL) charge was eliminated as of July 1, 2003. The revenue requirement for non-traffic sensitive (NTS) interstate loop costs has been recovered through the SLC/EUCL (above) and Long Term Support (LTS). With the elimination of the CCL charge, the remaining revenue requirement will be recovered from the new universal service support mechanism, the Interstate Common Line Support (ICLS). CCC complied with the MAG Order by decreasing the CCL rate to $0.00.

Line Port Costs

The MAG Order mandates that the Local Switching Line Port Costs, which are non-traffic sensitive, be reallocated from the local switching category to the common line category. Carriers have a choice of conducting a line port cost study or using the FCC's 30% default option (30% of the Local Switching costs). In lieu of conducting a specific line port cost study for this filing, CCC is utilizing the 30% default option. It calculated the Line Port Costs, after removal of the LSS (Local Switching Support) amount, for both CCTX and CCFB, and assigned the result to the common line revenue requirement. Additionally, since CCTX and CCFB are also in the National Exchange Carrier Association (NECA) Common Line Pool, this data has been provided to the pool in order to revise the Common Line cost support for pooling.

Transport Interconnection Charge (TIC)

In the MAG Order, the FCC eliminated the TIC (Transport Interconnection Charge) as a separate rate element. The costs previously recovered through the TIC are to be reallocated to all of the access categories. CCTX and CCFB deducted the TIC cost from transport and distributed it to all access categories – common line, local switch, information, transport and special access. The allocation factors used for reassigning the TIC revenues to the access categories were developed based on the adjusted access category revenue requirements. The adjusted access category revenue requirements are calculated by the reallocation of 30% of Local Switch to Common Line, the reduction of Transport by the total TIC revenues and the reduction of Common Line by the amount of Universal Service Fund contribution paid by CCC.

General Support Facilities (GSF) Allocation to Billing & Collection (B&C)

Also in the MAG Order, the FCC decreed that the portion of the General Support Facilities (GSF) consisting of general purpose computer equipment used to provide non-regulated billing and collection services (B&C) to interexchange carriers must be allocated to the B&C category. CCC will not need to revise its GSF allocation so that general purpose computer equipment for B&C is allocated to the B&C category. Since we do not have any general-purpose computer investment related to the billing and collection activity, CCC will continue allocating the GSF based on the current Part 69 rules, section 307(c).

Adjustments for the MAG Order are found in Section 6. The detailed support information in found in the schedules flows through to the ACR-1 worksheets in the TRP.

SECTION 6
COMPANY EARNINGS

Prescribed rate of return

Earnings are measured for each access category specified in Section 65.702 and on an overall interstate earnings basis. In the MAG Order (referenced above), the Commission left the authorized (prescribed) rate of return at 11.25%, where it was set in 1990 in Docket CC No. 89-624.

Earnings Reported on FCC Form 492

The Companies reported preliminary earnings on their FCC Form 492s in March of 2006. These estimates are revised concurrent with this filing reflective of the changes made to basic study data and LNP revenue updates previously referenced in Section 2. This reflects unadjusted and unaudited data, which include out of period revenues, expenses and investment. CCC will file a final Form 492 report in September that will reflect lower overall interstate access earnings as well as revised earnings in the various access categories.