**DESCRIPTION AND JUSTIFICATION**
**John Staurulakis, Inc. Tariff F.C.C. No. 1**
**Transmittal No. 120**
**Lancaster Telephone Company**

Lancaster Telephone Company (alternatively "Lancaster" or "Company"), through its consultant John Staurulakis, Inc. (JSI) hereby provides a Description and Justification for its individual rates proposed under Transmittal No. 120 of the John Staurulakis, Inc. Tariff F.C.C. No. 1 (JSI Tariff). Lancaster is an Issuing Carrier of the JSI Tariff. Lancaster files interstate access rates on a prospective basis pursuant to Section 61.38 of the Commission's rules.

## Description of Filing

This summary together with 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.

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

The filing is made in accordance with the Commission's March 24, 2006 releases entitled In the Matter of July, 2006 Annual Access Charge Tariff Filings, WCB/Pricing File No. 06-15, Order, DA 06-649, and In the Matter of Material to be Filed in Support of 2006 Annual Access Tariff Filings, WCB/Pricing File No. 06-15, Tariff Review Plans, DA 06-650.

## Justification for Cost Support and Rate Development

In addition to the summary information provided herein, the cost support data associated with this filing comprising, in addition to the Tariff Review Plan (TRP) schedules, Attachments #1-7. The Certification of the cost support data for this filing is shown in Attachment #8 included separately.

**Description and Justification**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 120**
**2006 Annual Access Filing**
**Lancaster Telephone Company**

In accordance with Section 61.38(b)(1)(ii) of the Commission's rules and regulations, a projection of the Company's costs has been made for the fiscal year ending June 30, 2007 (also referred to herein as the July 1, 2006-June 30, 2007 Test Year Cost of Service or "TYCOS" or "2007 TYCOS"). The costs for the twelve (12) month period ending June 30, 2007 have been based on financial estimates and projections of Lancaster, and are summarized as follows:
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

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, 2005, identified as follows (also referred to herein as the 2005 Prior Year Cost of Service or "PYCOS"):

Summary Development of Traffic Sensitive Revenue
Requirement ..................................................................................Attachment #4

Part 69 - Access Charge Development.............................................Attachment #5

Part 36 – Separations of Costs..........................................................Attachment #6

Additionally, the Company has included as Attachment 7 schedules analyzing revenue impacts of the filing.

**Description and Justification**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 120**
**2006 Annual Access Filing**
**Lancaster Telephone Company**

## Interstate Rate Development Process

The Company follows the Commission's multi-step process to identify the cost of providing interstate access service by an incumbent local exchange carrier (ILEC). First, the rules require an ILEC to record all of its expenses, investments, and revenues in accordance with accounting rules set forth in our regulations [Uniform System of Accounts, Part 32 of the FCC's rules, 47 CFR §§ 32.1-.9000]. Second, the rules divide these costs between those associated with regulated telecommunications services and those associated with nonregulated activities [The Part 64 Cost Allocation Rules, 47 CFR §§ 64.901-.904]. Third, the rules determine the fraction of the incumbent LEC's regulated expenses and investment that should be allocated to the interstate jurisdiction [Part 36 of the FCC's rules, 47 CFR §§ 36.1-.641]. After the total amount of interstate cost is identified, the access charge rules translate these interstate costs into charges for the specific interstate access services and rate elements. Part 69 specifies in detail the rate structure for recovering those costs [47 CFR §§ 69.1-.612]. That is, the rules tell ILECs the precise manner in which they may assess charges on interexchange carriers and end users. The Company refers to the Part 36 and Part 69 cost studies collectively as the "cost study."

In addition to following the Commission's prescribed rules, carriers reflect various Commission orders in development of interstate access revenue requirements. Further, certain options, elections or interpretations may apply. Following is a summary of major prescriptions, elections or interpretations reflected in development of the interstate access revenue requirement and, in turn, interstate access rates for the Company.

**Common Line** This filing does not include rates for Common Line rate elements such as End User Common Line charges. The Company is a member of the National Exchange Carrier Association (NECA) Common Line Pool. The Company's rate pages in JSI Tariff FCC No. 1 reference NECA Tariff FCC No. 5 for Common Line Rates including End User Common Line rates.

**Traffic Sensitive** The Company is not a member of the NECA Traffic Sensitive Pool and thus files rates for Traffic Sensitive, Special Access and Miscellaneous Charges as an issuing carrier for JSI Tariff FCC No. 1.

**Wireline Broadband Internet Access Service**

Effective February 10, 2006, the Company elected to provide Wireline Broadband Internet Access Service (“WBIAS’) on a permissively detariffed, common-carriage basis under Title II of the Communications Act, as Amended. 47 U.S.C § 151-161. The Company made the election pursuant to *Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, Universal Service Obligations of Broadband Providers*, CC Docket No. 02-33, WC Docket No. 05-271, Report and Order and Notice of Proposed Rulemaking, 20 FCC Rcd 14853 (2005), FCC 05-150 (Rel. Sep 23, 2005), (*Wireline Broadband Order*). Because WBIAS is a common-carriage service, apportionment of costs to WBIAS are based on Part 36 and Part 69. For Part 36, WBIAS plant investment is assigned to interstate. For Part 69, WBIAS plant investment is assigned to a new element in the access cost study, “WBI,” along with expenses identified as WBIAS-specific and apportioned expenses. Supporting cost study and TRP materials indicate the new category WBI.

The Company’s rate development for this filing excludes the WBIAS revenue requirement otherwise identified in the cost support. The WBIAS revenue requirement is recovered through charges to users of the WBIAS services pursuant to generally available rates, terms and conditions offered on a common-carriage basis.

**Rate Development and Cost Support**

The Company is a mandatory Section 61.38 filer, 47 C.F.R. § 38, and thus makes mandatory annual filings in even-numbered years with provision to the Commission of the cost support described in Section 61.38. Section 61.38 prescribes development of rates based on TYCOS and Test Year demand. The test year is prospective, comprising the twelve months beginning July 1, 2006 and ending June 30, 2007.

**Part 36 Traffic Factors Freeze – Section 36.3(a)**

The Company’s Part 36 allocations reflect use of the Company’s frozen traffic factors based on the 2000 separations study pursuant to Section 36.3(a) of the Commission’s rules. 47 C.F.R. § 36.3(a). The Commission adopted Section 36.3(a) in the *2001 Separations Freeze Order*. See *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Report and Order, 16 FCC Rcd 11382, FCC 01-162 (rel. May 22, 2001). On May 16, 2006, the Commission released an Order in which it extended, on an interim basis, the freeze of Part 36 category relationships. See *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Order and Further Notice of Proposed Rulemaking, FCC 06-70 (rel. May 16, 2006).

| | |
|---|---|
| **Part 36 Category Relationships-Section 36.3(b)** | The Company has not elected to be subject to the provisions of Section 36.3(b) which allows for assignment of costs from the Part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated Part 32 accounts for the twelve month period ending December 31, 2000. |
| ***MAG Order* – Port Costs** | The Company uses a 30 percent factor for allocation of switching costs to the common line category pursuant to paragraph 95 of the MAG Order. See as part of the Company's original "MAG Filing" under Transmittal No. 63 effective January 1, 2002. See *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, 16 FCC Rcd 19613, FCC 01-304 (rel. Nov. 8, 2001) (*MAG Order*). |
| ***MAG Order*-Transport Inter-connection Charge (TIC)** | Reallocation of the TIC has been made pursuant to Section 69.415, 47 C.F.R. § 415, in accordance with the Commission's Declaratory Ruling in DA 01-2871, released December 11, 2001. See MAG Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Declaratory Ruling, DA 01-2871 (rel. Dec. 11, 2001). |
| **Cash Working Capital** | For cash working capital (CWC) included in net investment, the company has not changed its election under Section 65.820(d) and continues to use the full lead-lag study method with a lead/lag of 21.6503 days as compared to the currently prescribed Wireline Competition Bureau B Company standard allowance of 15 days.<br><br>The Company develops "total-company" CWC and apportions it among interstate and intrastate operations based on the basis of total expenses less non-cash expense items consistent with Section 36.182(a) of the Commissions rules. 47 CFR § 36.182(a). In response to the AT&T petition respecting the 2004 annual filing, the Company defended the reasonableness of the "total company" approach in its response to AT&T. See Petition of AT&T Corp. Addressing July 1, 2004 Annual Access Charge Tariff Filings, WCB 04-18, (June 28, 2004) (AT&T Petition or Petition) and John Staurulakis, Inc. Reply, July 1, 2004 Annual Access Charge Tariff Filings, WCB 04-18, (June 29, 2004). The Pricing Policy Division did not address the "total company approach" in any of its post-filing orders respecting the 2004 annual access filing. |

**Description and Justification**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 120**
**2006 Annual Access Filing**
**Lancaster Telephone Company**

## Recap of Test Year Cost of Service (TYCOS) Compared with Prior Year Cost of Service (PYCOS) by Major Access Element

Following is a summary of the2007 TYCOS compared with the 2005 and 2003 PYCOS.

| | 2003 PYCOS Trans 97 Attach. 5 | 2005 PYCOS Trans 120 Attach. 4 | Change | % Change | 2007 TYCOS Trans 120 Attach. 1 | TYCOS (Under) 2005 PYCOS | % - Dif-ference |
|---|---|---|---|---|---|---|---|
| Common Line | $3,969,525 | $4,164,445 | $194,920 | 4.9% | $4,425,864 | $261,419 | 6.3% |
| Traffic Sensitive (TS): | | | | | | | |
| Local Switching | 814,166 | 753,297 | (60,869) | -7.5% | 568,183 | (185,114) | -24.6% |
| Information | 5,747 | 5,873 | 126 | 2.2% | 5,966 | 93 | 1.6% |
| Transport | 307,586 | 428,375 | 120,789 | 39.3% | 669,194 | 240,819 | 56.2% |
| Total TS | 1,127,499 | 1,187,545 | 60,046 | 5.3% | 1,243,343 | 55,798 | 4.7% |
| Special Access | 945,352 | 995,441 | 50,089 | 5.3% | 844,852 | (150,589) | -15.1% |
| Total Access | $6,042,376 | $6,347,431 | $305,055 | 5.0% | $6,514,059 | $166,628 | 2.6% |
| Adjusted Special Access: | | | | | | | |
| Per Above | $945,352 | $995,441 | $50,089 | | $844,852 | ($150,589) | |
| PYCOS WBIAS | | | | | 174,854 | 174,854 | |
| Adjusted | $945,352 | $995,441 | $50,089 | | $1,019,706 | $24,265 | 2.4% |
| Adjusted Total Access | $6,042,376 | $6,347,431 | $305,055 | | $6,688,913 | $341,482 | 5.4% |

As can be seen above, on an overall basis, adjusted to include the WBIAS revenue requirement for the TYCOS for purposes of comparability, the Company's projected total access revenue for the 2007 TYCOS will be 5.4% over that for the 2005 PYCOS. Increases are present in the Transport and Special Access areas due to expanded interexchange transmission and cable facilities; however there is a decrease in the local switching revenue requirement. This decrease reflects planned network configuration.

**Description and Justification**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 120**
**2006 Annual Access Filing**
**Lancaster Telephone Company**

## Recap of 2007 TYCOS Total Company Net Investment and Total Operating Expenses and Taxes Compared with 2005 and 2003 PYCOS Unseparated Totals

| | 2003 PYCOS Trans 97 Attach. 5 | 2005 PYCOS Trans 120 Attach. 4 | Change | % Change | 2006 TYCOS Trans 120 Attach. 1 | TYCOS (Under) 05 PYCOS | % Difference |
|---|---|---|---|---|---|---|---|
| Total Company: | | | | | | | |
| Net Investment - Line 3 | 21,887,341 | 19,018,519 | (2,868,822) | -15.1% | 18,799,569 | (218,950) | -1.2% |
| Exp/Taxes - Line 17 | 16,745,702 | 17,507,782 | 762,080 | 4.4% | 17,981,689 | 473,907 | 2.7% |
| Interstate: | | | | | | | |
| Net Investment - Line 3 | 6,263,425 | 5,568,342 | (695,083) | -12.5% | 5,566,402 | (1,940) | 0.0% |
| Exp/Taxes - Line 17 | 4,882,281 | 5,312,617 | 430,336 | 8.1% | 5,653,388 | 340,771 | 6.4% |
| Interstate to Total Ratios: | | | | | | | |
| Net Investment | 28.6% | 29.3% | | | 29.6% | | |
| Expenses and Taxes | 29.2% | 30.3% | | | 31.4% | | |

## Review of Earnings Rates

Following is the TRP Earnings data comparing rates-of-return for the Company.

| Access Category | 2003/2004 Monitoring Period | 2005 Calendar Year | 2006-2007 TYCOS |
|---|---|---|---|
| Interstate Access, Total | 11.58% | 10.77% | 11.25% |
| Carrier Common Line | 11.25% | 11.25% | 11.25% |
| Special Access | 8.71% | 17.88% | 11.25% |
| Local Switching | 19.65% | 13.41% | 11.25% |
| Information | 0.00% | 0.00% | 0.00% |
| Local Transport | 0.00% | -24.56% | 11.25% |
| Traffic Sensitive Switched, Total | 15.32% | 1.99% | 11.25% |

The Company's earnings levels for the past three years reflect over-earnings for Local Switching and under-earning for Local Transport for the same period. Special access is over-earning for the calendar year 2005.

Over-earning for Local Switching is attributable to a local switching rate having been developed on a 2005 TYCOS revenue requirement projection that exceeded the actual 2005 PYCOS revenue requirement by 14.3%.

Local Transport under-earnings are attributable to a 2005 PYCOS projected demand being higher than that realized, especially Tandem Switched Transport demand. Between the 2005 PYCOS filing and the year ending December 2005 the company experienced a migration of tandem switched traffic to direct facilities which caused the 2005 PYCOS rates to be understated. In addition, the transport revenue requirement has experienced an increase over the 2005 PYCOS period further causing an erosion of the rate of return. As for the special access rate of return the over-earnings are attributable mainly to increased demand for services that was not reflected in the 2005 TYCOS filing.

**Description and Justification**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 120**
**2006 Annual Access Filing**
**Lancaster Telephone Company**

## Recap of Revenue Impact for Proposed Traffic Sensitive Rate Revisions

| Element | Projected TYCOS Demand | Current Rate | Proposed Rate | Incr/-(Decr) in Rate | Revenue at Current Rate | Revenue at Proposed Rate | Projected Revenue Impact |
|---|---|---|---|---|---|---|---|
| Local Switching per minute | 67,660,143 | $0.005400 | $0.005830 | 8.00% | $365,365 | $394,459 | $29,094 |
| Infor Surcharge ( Per 100 Mins ) | 67,660,143 | $0.006860 | $0.008818 | 28.50% | 4,641 | 5,966 | 1,325 |
| Transport ( per Attachment 7, Page 3 ) | | | | | 241,856 | 669,372 | 427,517 |
| **Total Revenue Impact** | | | | | $611,862 | $1,069,797 | $457,935 |
| TYCOS Projected Traffic Sensitive Revenue | | | | | | | $1,069,797 |
| Revenue Impact as Percentage of Projected TYCOS Traffic Sensitive Revenue | | | | | | | 42.81% |
| **Key Transport Rate Changes** | | | | | | | |
| Tandem Switched Facility | 606,414,987 | $0.000140 | $0.000757 | 440.70% | $84,898 | $459,056 | $374,158 |
| Tandem Switched Termination | 20,904,732 | $0.000724 | $0.003925 | 442.10% | 15,135 | 82,051 | 66,916 |
| Tandem Switching | 0 | $0.001361 | $0.002001 | 47.00% | 0 | 0 | - |
| 800 Database Query | 7,353,607 | $0.004100 | $0.004000 | -2.40% | 30,150 | 29,414 | (735) |
| Subtotal | | | | | 130,183 | 570,522 | 440,339 |
| All Other | | | | | 111,673 | 98,851 | -12,822 |
| Total Transport | | | | | 241,856 | 669,372 | 427,517 |

**Description and Justification**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 120**
**2006 Annual Access Filing**
**Lancaster Telephone Company**

## Review of Local Switching and Tandem Switched Transport Demand

Following is a summary comparison of key Local Switching (LS) and Local Transport demand data.

| | LS Premium | Tandem Sw Termination | 800 DB Query g |
|---|---|---|---|
| 2007 TYCOS Tans 120 | 67,660,143 | 20,904,732 | 7,353,607 |
| 2005 TYCOS Trans 97 | 88,796,808 | 54,757,180 | 9,673,475 |
| Change | -21,136,665 | -33,852,448 | -2,319,868 |
| % Change | -23.80% | -61.82% | -23.98% |

| | LS Premium | Tandem Sw Termination | 800 DB Query |
|---|---|---|---|
| 2007 TYCOS Tans 120 | 67,660,143 | 20,904,732 | 7,353,607 |
| 2005 Actual | 74,695,548 | 28,388,230 | 8,031,055 |
| Change | -7,035,405 | -7,483,498 | -677,448 |
| % Change | -9.42% | -26.36% | -8.44% |

In part, demand decreases are attributable to the loss of end user customers as analyzed below based on loops reported to the Universal Service Administrative Corporation (USAC).

## Access Line Loss

| | 31-Dec-03 | 31-Dec-04 | 30-Sep-05 |
|---|---|---|---|
| Total Loops | 27,469 | 26,829 | 26,341 |
| Increase Over Prior Year | | (640) | (488) |
| Percentage Change | | -2.3% | -1.8% |
| Cumulative Change | | | (1,128) |
| Percentage Change | | | -4.1% |

**Description and Justification**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 120**
**2006 Annual Access Filing**
**Lancaster Telephone Company**

## Impact of Special Access Rate Changes

The Company proposes decreasing Special Access rates by11.48 percent overall in order to realize revenues equal to the 2007 TYCOS Special Access revenue requirement. WBIAS costs and revenues have been excluded from the analysis below.

| | Revenue at Current Rates | Revenue at Proposed Rate | Projected Revenue Impact | Percentage Impact |
|---|---|---|---|---|
| Total Special Access | $954,282 | $844,779 | -$109,504.0 | -11.48% |