

**NEVADA BELL TELEPHONE COMPANY (NBTC)
EXOGENOUS COST ADJUSTMENT FILING – PAYPHONE SETTLEMENTS
And FEDERAL UNIVERSAL SERVICE FUND ADJUSTMENT
DESCRIPTION AND JUSTIFICATION**

Transmittal No. 151

March 19, 2007

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1. INTRODUCTION

Nevada Bell Telephone Company (NBTC) is proposing the following with this filing:

- Assess an exogenous cost change adjustment to the End User Common Line (EUCL) rates,
- Revise the Universal Service Fund (USF) recovery charges billed to residential and business customers to reflect the increase in EUCL rates,
- Update the line counts used in the calculation of the Federal Universal Service Fund (FUSF) recovery charges billed to residential and business customers, and
- Apply the new USF contribution factor to calculate the 2nd Quarter 2007 USF obligations.

2. PURPOSE

With this filing, NBTC proposes to make an exogenous cost adjustment filing pursuant to and consistent with the *Memorandum Opinion and Order (MO&O)*¹ issued by the Federal Communications Commission (Commission), released December 1, 2006, that granted NBTC's waiver request to waive Section 61.45(d) to permit NBTC to treat settlement payments made to independent payphone service providers (PSPs) as an exogenous cost adjustment, and to recover such costs from end users via the EUCL charge. NBTC will make a one time exogenous cost adjustment that will be recovered over the remaining three months of the 2006-2007 tariff period. The effect of this exogenous cost will increase the EUCL rates by \$0.01 in NBTC to \$5.20. Revenue impact is shown on *Exhibit 4*. Charges assessed to carriers are not impacted by this filing.

¹ *In the Matter of Petition for Waiver of Section 61.45(d), or in the Alternative, a Declaratory Ruling (MO&M)*, FCC 06-175 released December 1, 2006.

3. BACKGROUND

On November 29, 2002, in Order FCC 02-314,² the Commission stated that the PSPs were entitled to recover damages for being assessed the EUCL charge incorrectly. This entitlement was limited to the period beginning two years prior to the filing of informal complaints by the PSPs. Pursuant to this Order, NBTC began the process of negotiating settlement amounts to those PSPs who had filed eligible verifiable claims.

In a *Joint Petition*³ filed by BellSouth Corporation, on behalf of itself and its wholly owned subsidiaries, Cincinnati Bell Telephone Company, AT&T, Inc (formally SBC Services, Inc.) on behalf of Pacific Bell Telephone Company, Southwestern Bell Telephone Company, L.P., Nevada Bell Telephone Company and the Ameritech Operating Companies, Qwest Services Corporation, Embarq, formerly known as Sprint and Verizon,⁴ asked the Commission to waive Section 61.45(d) of the Commission's rules and to treat these settlement payments made to the PSPs as an exogenous cost adjustment to the EUCL. The previously mentioned *MO&O*⁵ granted the ability to recover the settlements through an exogenous cost adjustment.

² *Communications Vending Corporation of Arizona, Inc., et al., Complainants, v. Citizens Communications Company f/k/a Citizens Utilities Company.*

³ *Petition for Waiver of Section 61.45(d), or in the Alternative Declaratory Ruling, to Treat End User Common Line Settlement Payments as Exogenous Costs Expedited Treatment Requested (Joint Petition)*, filed April 13, 2005.

⁴ *The Verizon telephone companies participating in this filing are Contel of the South, Inc. d/b/a Verizon Mid-States; GTE Southwest Incorporated d/b/a Verizon Southwest; The Micronesian Telecommunications Corporation; Verizon California Inc.; Verizon Delaware Inc.; Verizon Florida Inc.; Verizon Hawaii Inc.; Verizon Maryland Inc.; Verizon New England Inc.; Verizon New Jersey Inc.; Verizon New York Inc.; Verizon North Inc.; Verizon Northwest Inc.; Verizon Pennsylvania Inc.; Verizon South Inc.; Verizon Virginia Inc.; Verizon Washington, DC Inc.; Verizon West Coast Inc.; and Verizon West Virginia Inc.*

⁵ *In the Matter of Petition for Waiver of Section 61.45(d), or in the Alternative, a Declaratory Ruling (MO&M)*, FCC 06-175 released December 1, 2006.

4. METHODOLOGY FOR CALCULATING PAYPHONE SETTLEMENTS

PRINCIPLE

All payphone settlement amounts were based upon negotiations that took place between complainants and NBTC. The complainants (individually or via counsel) submitted a settlement proposal to NBTC. The proposal typically identified the billing name, including d/b/a, of the PSPs, the number of ANIs claimed and/or the principal amount claimed. NBTC then evaluated the claim, focusing on the principal amounts. NBTC negotiated a mutually agreed upon amount. Once an agreement was reached, the parties executed a settlement agreement that included a confidentiality agreement.

INTEREST

The interest rates used in this exogenous cost adjustment calculation are pursuant to the *MO&O*.⁶ The interest rates used were the Corporate Overpayment rates for claims under \$10,000, and the Corporate Overpayment Exceeding \$10,000 for claims over \$10,000, which are published by the IRS.⁷ The interest periods were based upon the two-year period prior to the filing of each complaint through the date of payment, and compounded daily.

The exogenous cost adjustment amounts are the summed amounts of the principle and interest and are demonstrated on *Exhibit 1*. Due to confidentiality agreements between NBTC and the complainants, their individual names are not listed on these exhibits;

⁶ *In the Matter of Petition for Waiver of Section 61.45(d), or in the Alternative, a Declaratory Ruling (MO&M)*, FCC 06-175 released December 1, 2006.

⁷ *IRS determination of interest rates*, <http://www.irs.gov/pub/irs-drop/rr-06-63.pdf>

however, pseudonyms are used. The correlation between the pseudonyms and the actual complainants' names are filed under protective order.

5. PRICE CAP COMPLIANCE

This proposed filing results in revenue changes that increase the EUCL rate, but still remain under the Average Price Cap CMT revenue per line cap and EUCL cap, mentioned in Part 69.152 (d)(1)(ii) and Part 69.152(d)(2), respectively, as indicated in the Tariff Review Plan (TRP). Current and Proposed EUCL rates and their revenues are demonstrated in *Exhibit 1*.

6. 2nd Quarter Federal Universal Service Fund (FUSF)

Additionally, with this filing, NBTC is proposing to revise NBTC's USF obligation based on updated line counts. The 2nd Quarter 2007 contribution factor, 11.7%, was provided in the Commission's Public Notice, DA 07-1330, released March 15, 2007. 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 charges.⁸ The charges are assessed with respect to the interstate end user service that generates the USF obligation. NBTC assesses two 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 2* and *Exhibit 3*.

Basic USF Recovery Charge

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

1. Residential/Single Line Business (SLB)

NBTC develops the Basic USF charge for residential and single line business customers by multiplying EUCL charges assessed to these customers by the relevant contribution factor released by the Commission. The calculation for the Basic FUSF

Residential/Single Line Business rate is demonstrated on *Exhibit 2*.

⁸ 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, *Report and Order and Second Further Notice of Proposed Rule Making*, 17 FCC RCD 24952 (2002) (*Interim Contribution Methodology Order*).

2. BRI ISDN

NBTC develops the Basic USF charge for BRI ISDN and BRI ISDN Port customers by adding together EUCL and BRI ISDN / Centrex Port charges assessed to these customers to obtain the total 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 BRI ISDN rate is demonstrated on *Exhibit 2*.

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 customers*.⁹ A portion of the unrecovered 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.

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

⁹ 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).

Establish the Basic Multi-Line Business Rate

Step 1 – Determine total revenue using access lines as of December 2006 for these customers generated from EUCL assessments by multiplying the EUCL rate by the number of lines.

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 December 2006). 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 – To the Basic MLB rate, add all other USF recovery associated with the customer type. Step 4 is calculated by customer type for Multi-line business, PRI ISDN, and Centrex customers as shown in *Exhibit 3*. The final rates per customer type are detailed on both *Exhibit 2* and *Exhibit 3*. These final rates preclude any 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 surcharges 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. 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 Carrier (PIC) USF Charge when the IC is assessed the PIC change charge.

Other Recurring Federal Universal Fund Surcharges

NBTC will continue to recover its Other Recurring (i.e. Special Access and True Internet Protocol to Public Switched Telephone Network (TIPToP) Service) USF obligations through a percentage-based USF recovery charge applied to interstate end user billed revenues. This percentage-based USF recovery charge is set equal to the Commission's contribution factor released via Public Notice.

NEVADA BELL TELEPHONE COMPANY PAYPHONE EXOGENOUS COST

ICC	PRINCIPLE	FCC CALCULATED INTEREST ¹ (C) = Corporate Overpayment	FCC CALCULATED CLAIM (D) = B+C	SETTLEMENT AMOUNT (E)	FCC EXOGENOUS AMOUNT (F) = MIN (D,E)
(A)	(B)				
Claimant H *	\$ 1,511	\$ 1,303	\$ 2,814	\$ 2,886	2,814
Claimant U *	\$ 96	\$ 76	\$ 172	\$ 176	172
TOTAL NEVADA EXOGENOUS				\$	2,986

1. <http://www.irs.gov/pub/irs-drop/rr-06-49.pdf>

*Corporate Overpayment Interest Rate

**Corporate Overpayment Exceeding \$10K Interest Rates

**Nevada Bell Telephone Company (NBTC)
Nevada Universal Service Fee (USF) Rate Development**

2nd Quarter 2007 Contribution Factor	Source	(A)	(B)	(C=A*B)
	<i>DA 07-1330</i>		0.117	
Basic USF Recovery Charge				
<i>Residential / Single-Line Business</i>				
End User Common Line Rate		5.20		USF Charge 0.60
<i>BRI ISDN</i>				
End User Common Line Rate		5.20		USF Charge
BRI ISDN Port		3.90		
Total Basic Interstate End User Revenue		<u>9.10</u>		1.06
<i>Multi-line Business</i>				
	Exhibit 3			1.25
<i>PBX</i>	Exhibit 3			1.25
<i>PRI ISDN</i>	Exhibit 3			10.49
<i>CENTREX</i>	Exhibit 3			0.13
Other USF Recovery Charges				
PIC Manual Change Charge		3.89		0.45
PIC Mechanized Change Charge		1.60		0.18

**Nevada Bell Telephone Company (NBTC)
Nevada Universal Service Fee (USF) Rate Development**

2nd Quarter 2007 Contribution Factor		Source DA 07-1330	(A)	(B) 0.117	(C=A*B) USF Charge
Basic USF Recovery Charge for MLB, PRI, & Centrex					
<i>Multi-line Business, PRI ISDN, CENTREX Lines as of December 2006</i>					
L1	MLB Lines		43,916		
L2	Centrex lines with less than 9 lines		11,451		
L3	Centrex Systems with less than 9 lines		1,272		
L4	Centrex lines with greater than 9 lines		52,846		
L5	PRI ISDN		553		
	Total (1)		110,038		
L6	End User Common Line Rate		5.20		
L7	MLB	L6*L1	228,363		
L8	PRI ISDN	L6*L5*5	14,378		
L9	Centrex	(L6)*(L2+L4)	334,344		
L10	MLB, PRI ISDN, Centrex Revenue	L7:L9	577,086		
L11	MLB, PRI ISDN, Centrex Obligation	L10*10.9%	67,519		
L12	2006 Billable Lines (Centrex > 9 lines @ 1/9, Centrex Systems <9 lines, &PRI ISDN @5)	L1+L3+(L4/9)+(L5*5)	53,825		
L13	Basic MLB Rate (excluding LNP recovery)	(L11/L12)			1.25
L14	Basic Centrex Rate (excluding LNP recovery)	L13/9			0.13
L15	Basic PRI ISDN Rate (excluding LNP and Port recovery)	L13*5			6.25
L16	Basic MLB USF Recovery	L1*L13	54,895		
L17	Basic Centrex USF Recovery	(L3*L13)+(L4*L14)	8,460		
L18	Basic PRI ISDN USF Recovery	(L5*L15)	3,456		
L19	Total MLB, PRI ISDN, Centrex Basic USF Recovery		66,811		
PRI ISDN					
L23	PRI ISDN Port Charge		36.29		
L24	PRI ISDN LNP and Port Recovery	L22+L23	36.29		4.24
Final Basic MLB, PRI ISDN, & Centrex USF Rates					
L25	MLB	L13+L20			1.25
L26	PBX	L13+L21			1.25
L27	PRI ISDN	L15+L24			10.49
L28	Centrex	L14+L20			0.13

NEVADA BELL PAYPHONE REVENUE IMPACT

STATE	RATE ELEMENT	2005 BASE PERIOD DEMAND	CURRENT RATE	PROPOSED RATE	CURRENT REVENUE	PROPOSED REVENUE
NV	PRIMARY RES EUCL	2,125,553	5.19	5.20	\$11,039,858	\$11,045,937
NV	SINGLE LINE BUS EUCL	42,996	5.19	5.20	\$223,316	\$223,439
NV	LIFELINE EUCL	170,932	5.19	5.20	\$887,800	\$888,288
NV	NONPRIMARY RES EUCL	393,979	5.19	5.20	\$2,046,278	\$2,047,405
NV	BRI ISDN EUCL	1,882	5.19	5.20	\$9,772	\$9,778
NV	MULTILINE BUS EUCL	620,163	5.19	5.20	\$3,221,049	\$3,222,823
NV	PRI ISDN EUCL	5,359	5.19	5.20	\$27,831	\$27,847
NV	CENTREX EUCL	815,734	5.19	5.20	\$4,236,820	\$4,239,153
		4,176,597			\$21,692,724	\$21,704,669