

NEVADA BELL TELEPHONE COMPANY (NBTC)
2007 ANNUAL FILING
3rd Quarter Federal Universal Service Fund (FUSF) Adjustments
DESCRIPTION AND JUSTIFICATION
FCC No. 1, Transmittal No. 160
June 15, 2007

2007 ANNUAL FILING

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1. OVERVIEW

In Transmittal 159, the Description and Justification described calculations that result in a decreased Universal Service Fund Contribution factor; however, the tariff page reflecting the decreased factor was inadvertently omitted from Transmittal No. 159. The purpose of this transmittal is to submit the tariff page with the revised factor. The following Description and Justification is the same as submitted in Transmittal No. 159. This transmittal is scheduled to become effective on June 30, 2007.

1A. INTRODUCTION

This filing is being made in compliance with the following:

- ❑ *In the Matter of Material to be Filed in Support of 2007 Annual Access Tariff Filings*, DA 07-1484 (*Tariff Review Plan*), released March 29, 2007;
- ❑ *In the Matter of July Annual Access Charge Tariff Filings*, DA 07-1483 (*2007 TRP Order*), released March 29, 2007;
- ❑ *In the Matter of Assessment and Collection of Regulatory Fees for the Fiscal Year 2007*, MD Docket 07-81 (FCC07-55), released April 18, 2007;
- ❑ *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*), *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*, released May 31, 2000;
- ❑ *In the Matter of Thousand-Block Number Pooling, (Report and Order and Second Order on Reconsideration)*, CC Docket No. 96-98 and CC Docket No. 99-200, released December 28, 2001;
- ❑ Public Notice, *Common Carrier Bureau Provides the Format for Access Tariff Review Plans of April 2, 1999 CCB/CPD 99-10*, DA 99-584, released March 25, 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)*, 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, released June 4, 1997;
- ❑ *In the Matter of Federal-State Joint Board on Universal Service, (Report and Order)*, CC Docket No. 96-45, released May 8, 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, released May 16, 1997;
- ❑ *In the Matter of Price Cap Regulation of Local Exchange Carriers Rate-of-Return Sharing and Lower Formula Adjustment, (Report and Order)*, CC Docket No. 93-179, released April 14, 1995;
- ❑ *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 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 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 Responsible Accounting Office Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, (Memorandum Opinion and Order and Notice of Proposed Rulemaking), (RAO 20 Order)*, CC Docket No. 96-22, released March 7, 1996;
- ❑ *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, released April 17, 1991 (*LEC Price Cap Reconsideration Order*);
- ❑ The Commission's *Second Report and Order, In the Matter of Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket 87-313, released October 4, 1990 (*LEC Price Cap Order*); 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 indices (PCIs) for each basket of services, based on the change in the Gross Domestic Product Price Index (GDP-PI), a transitional mechanism (x-factor) and exogenous cost changes. NBTC incorporated the demand and revenue/cost of those new services introduced during the 2006 base period, and 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 (ΔZ). According to Part 61.45(b), this dollar effect must be measured at the base period level of operations.

In the 2007 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
- Payphone Settlement Removal

Part 61.45(d)(3) requires that exogenous cost changes be apportioned between price cap services and excluded services. NBTC 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 total identifiable interstate access, 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 will be allocated to Average Traffic Sensitive (ATS) revenue.

2.A EXCESS DEFERRED TAX

In paragraph 72 of the *LEC Price Cap Reconsideration Order*, the FCC allowed exogenous treatment of the flow-through of Excess Deferred Income Tax (EDT). In this filing, NBTC reflects the estimated exogenous cost changes associated with this item for the 2007-2008 tariff period. **Exhibit 2** provides the development of the EDT impacts for the NBTC study area. **Exhibit 2.1** provides additional historical information for EDT and the remaining EDT available for future annual filings.

2.B INVESTMENT TAX CREDIT AMORTIZATION

In paragraph 72 of the *LEC Price Cap Reconsideration Order*, the FCC allowed exogenous treatment of the flow-through of the repeal of the Invest Tax Credit (ITC). In this filing, NBTC reflects the estimated exogenous cost changes associated with this item in **Exhibit 2.2** for the 2007-2008 tariff period. **Exhibit 2.3** provides additional historical information for ITC and the remaining ITC available for future annual filings.

2.C COMBINED EFFECT

The combined effect of EDT and ITC is developed to determine the impact of all exogenous cost changes on the interstate revenue requirements. *Exhibit 2.4* summarizes this impact. Details pertaining to this calculation are shown in *Exhibit 2.5*.

2.D TELECOMMUNICATIONS RELAY SERVICES (TRS) FUND

The Commission has also ruled Telecommunications Relay Service (TRS) fund payments¹ may be treated as exogenous. On June 29, 2006, the Federal Communications Commission released FCC 06-1345 (CC Docket No. 03-123), revising the TRS factor from .00494 to .00535, which is being employed as the basis of this exogenous change as no revised factor has yet been released. Therefore, NBTC is estimating the total TRS contribution amount for the ensuing tariff period based on the revised factor and revenue. The development of the TRS exogenous cost for this filing is provided in *Exhibit 2.6*.

2.E 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 Order.² On April 18, 2007, the Commission released its Order, *In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2007*, MD Docket 07-81 (FCC 07-55) detailing the proposed factor for the Fiscal Year 2007. NBTC is estimating regulatory fee

¹ *In the Matter of Telecommunications Relay Service, and the Americans with Disabilities Act of 1990*, CC Docket No. 90-571, *Second Order on Reconsideration and Fourth Report and Order*, released September 29, 1993, paragraph 18.

² *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.

payments and the corresponding exogenous adjustment based on the proposed factor and revenue. The exogenous adjustment is detailed in *Exhibit 2.6*.

2.F PAYPHONE

In March 2007, NBTC filed for Payphone Settlement relief according to the *Memorandum Opinion and Order (MO&O)*³ issued by the Federal Communications Commission (Commission), released December 1, 2006, which 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 over a 3-month period. In this filing, NBTC will be reversing this exogenous cost adjustment. The exogenous cost removal is detailed on *Exhibit 2.9 and Exhibit 3.1*.

2.G 2005-2006 FORM FCC 492A

Earnings during the 2006 base period are provided in *Exhibit 2.7*. The final Form 492, detailing 2005 base period earnings, is provided in *Exhibit 2.8*.

2.H 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

³ *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.

the costs for these services are equivalent to the revenue from these services. A percentage of exogenous costs equivalent to the percentage of total identifiable interstate access and Interexchange services revenue representing non-price cap service revenue. Totals of all exogenous costs applied in this filing are summarized on *Exhibit 2.9*.

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 factors⁴ 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 of the price cap baskets. 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, which are used to demonstrate that the proposed service category rates are in-band for the Traffic Sensitive, Trunking, and Special Access baskets. The 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.

⁴ The required factors are PCI_{t-1} , GDP-PI, X, R, g, w, and ΔZ .

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(b)(1)(i) as "the immediately preceding PCI value." For purposes of the 2007 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 2004, NBTC completed all of the requirements stated above.

SPECIAL ACCESS AND INTEREXCHANGE REDUCTIONS

No reductions are required in the Special Access Service for the 2007 Annual Filing pursuant to Part 61.45(b)(iv).

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 2007 Annual Filing is 2.5439 percent.

TRANSITIONAL MECHANISM (x-Factor)

Part 61.45(b)(1) specifies price cap LECs shall apply a transitional mechanism of 6.5 percent 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 2007 Annual Filing is 2.5439 percent 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 2006.

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 2006 BASE PERIOD DEMAND

Historical base period demand is required for the Common Line, Traffic Sensitive, Trunking, 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.⁵

5. COMMON LINE BASKET RATE DEVELOPMENT

The Common Line Basket rates were developed in accordance with Part 69.152 and 69.153 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*.

⁵ MO&O, CCB/CPD No. 00-26, DA 01-XX0, 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. MO&O, CCB/CPD No. 00-25, DA 01-XX0, released March 14, 2001; 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 are 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, High Cap and Other and Signaling Interconnection associated with the 2007 Annual Filing are developed using 2006 Base Period demand. The 2007 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 and Video, and High Cap and DDS associated with the 2007 Annual Filing are developed using 2006 base period demand.

The 2007 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

The following is a list of Part 69 waivers involving Southwestern Bell Telephone Company (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 AT&T Companies, including a citation to the Order granting the waiver and the basket and service category, if applicable, and the treatment of rate elements created by the waiver:

- SBC Companies – Order (DA 07-2043), released May 10, 2007, granting permission to waive True IP to PSTN (TIPTop) services from price caps for the 2007 Annual access tariff filing requirements.
- SBC Companies – Order (DA 05-1607), released June 6, 2005, granting permission to waive True IP to PSTN (TIPTop) services from price caps for the 2005 Annual access tariff filing requirements.
- SNET 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 Service Category of the Trunking 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.
- 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.
- 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.
- 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.
- 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 Service Category of the Trunking 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) bureau and associated tandem switches, until October 31, 1995, when the interim local transport structure was scheduled to be replaced. These rate elements are included in the HiCap Service Category of the Trunking 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.
- 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 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 Service Category of the Traffic Sensitive Basket

- SBC Companies - Commission Order, released October 9, 1991, granting establishment of an Information Surcharge rate element within the Information Service Category. This rate element is included in the Traffic Sensitive Basket.
- SNET 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.
- 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.
- 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.
- 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.
- SBC Companies - Order, released September 3, 1987, granting permission to determine the Message Unit Credit (MUC) 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 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.
- 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 - 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.

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 2007 Annual Filing:

New Service	Basket	Category
Optical Carrier Network Point-to-Point (OCN PTP) 1+1 Protection (OC-3/OC-3c, OC-12/OC-12c, OC-48/OC-48c, and OC-192/OC-192c)	Special Access	High Cap & DDS - Special
DSRS (Dedicated SONET Ring Service) OC3, OC12, OC48, and OC192 Interface Ports – Re-Map	Special Access	High Cap & DDS – Special
Multi-Service Optical Network Ring Service (MON) Ports (ISC-1, ISC-3, SONET OC-192/OC-192c, DVB-ASI, ESCON, Fast Ethernet, D1 Video SONET OC-3/OC-3c Sub-Rate, OC-48/OC-48c Sub-Rate	Special Access	High Cap & DDS – Special

Pricing Flexibility

In the *Pricing Flexibility Order*,⁶ the Commission determined in paragraph 173 that whenever a price cap LEC can demonstrate in an annual access tariff filing that a new service would be properly incorporated into a basket or service band for which it has been granted Phase I or Phase II regulatory relief in any MSA or MSAs, it will be granted the same relief in the same MSAs for that new service.

⁶ **Fifth Report** and Order and Further Notice of Proposed Rulemaking, *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*, CC Docket Nos. 96-262, and 94-1, CCB/CPD File No. 98-63, and CC Docket No. 98-157 ,released August 27, 1999. (*Pricing Flexibility Order*).

NBTC has received either Phase I or Phase II pricing flexibility for services contained in the Special Access Basket, High Cap and DDS Service Category in multiple qualifying areas.⁷ As NBTC demonstrates below, the new services at issue here are similar to those services and, thus, should be incorporated in the Special Access Basket, High Cap and DDS Special Service Category. Further, they are entitled to the same pricing flexibility in the same qualifying areas.

GigaMAN[®] Ethernet Protection Options are additional options to GigaMAN,[®] which is already incorporated into the Special Access Price Cap Basket, High Cap and DDS Special Service Category, and has been granted pricing flexibility in multiple qualifying areas. These protection options should also be incorporated into the Special Access Price Cap Basket.

Optical Carrier Network Point-to-Point (OCN PTP) 192c added the non-channelized OC192c service to the OCN PTP product line, which is already incorporated into the Special Access Price Cap Basket, High Cap and DDS Special Service Category, and has been granted pricing flexibility in multiple qualifying areas.

DecaMANSM, WaveMANSM, and DSRS are variations of GigaMAN[®], OCN PTP and SONET services, which have been incorporated into the Special Access Price Cap Basket, High Cap and DDS Special Service Category, and have been granted pricing flexibility in multiple qualifying areas. Specifically, DecaMANSM is a fiber-based, point-to-point, 10 Gigabit Ethernet service that allows customers to transport data signals between local area networks (LANs).

DecaMANSM is functionally equivalent to GigaMAN,[®] but transports data signals at the rate of 10 Gigabits per second (Gbps), a speed ten times faster than that of GigaMAN.[®] WaveMANSM

⁷ *Memorandum Opinion and Order* (MO&O), WCB/Pricing No. 03-08, DA 03-1721, released May 15, 2003; and *Memorandum Opinion and Order* (MO&O), WCB/Pricing No. 04-10, DA 04-1643, released June 8, 2004.

is similar to NBTC's existing OCN PTP services. Like those services, WaveMANSM is a fiber-based, point-to-point, Wavelength service. It allows customers to transport Synchronous Optical Network (SONET) Optical Carrier (OC) 48 or SONET OC192 data signals between networks at approximately 2.5 Gbps for an OC48 interface, and approximately 10Gbps for an OC192 interface. DSRS is based on Synchronous Optical Network (SONET) Uni-Directional Path Switched Ring (UPSR) technology, and is similar to existing OCN PTP services. The network is in a ring architecture, including sub-rings, designed to provide increased reliability and functionality connecting multiple customer designated locations and specified Telephone Company Central Offices (COs) via self-healing network designs.

Given the foregoing, GigaMAN[®] Ethernet Protection Options, OCN PTP 192c, DecaMAN,SM WaveMANSM and DSRS should be properly incorporated into the Special Access Price Cap Basket, High Cap and DDS Special Service Category. Further, these services should be afforded the same pricing flexibility granted to NBTC's existing Special Access Basket, High Cap and DDS Special Service Category services in all areas previously granted Phase I and Phase II pricing flexibility.

In addition, NBTC introduced DSRS Flex-Ring, DSRS DS3 Transmux, EC1 and EC1 remap ports, OC-192 DSRS Remap Service, OC-192 DSRS DS1, EC1, 100 MBPS Ethernet (STS-1), 100 MBPS Ethernet (STS-3c), 1 GBPS Ethernet (STS-1) ports, WaveMANSM Collocation Cross Connects, and OCN PTP 1+1 Protection Diversity as new services in 2006. Pursuant to Section 61.42(g), these services are not yet eligible for inclusion under price cap regulation. However, these new services offer additional features to the DSRS OC3, 12, 48, & 192 services and WaveMANSM discussed above, and OCN PTP which have been included in the Special Access

Basket, High Cap and DDS Special Service Category. NBTC currently is seeking Phase I or Phase II pricing flexibility for DSRS OC3, 12, 48, & 192 and WaveMANSM services in multiple areas. Given that NBTC would include DSRS Flex-Ring, DSRS DS3 Transmux, EC1 and EC1 remap ports, OC-192 DSRS Remap Service, OC-192 DSRS DS1, EC1, 100 MBPS Ethernet (STS-1), 100 MBPS Ethernet (STS-3c), 1 GBPS Ethernet (STS-1) ports, and WaveMANSM Collocation Cross Connects, in the same basket and service category (in the 2007 Annual Filing) as those services, in accordance with paragraph 173 of the *Pricing Flexibility Order*,⁸ these services should receive the same pricing flexibility granted to DSRS OC3, 12, 48, and 192, WaveMANSM and OCN PTP services in the same qualifying areas

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 which has been revised to reflect activity subsequent to the 2006 Annual Filing in accordance with the *2007 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***.

⁸ *Pricing Flexibility Order*.

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 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 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 2.1 – Historical EDT Schedule
- Exhibit 2.2 – Investment Tax Credit (ITC)
- Exhibit 2.3 – Historical ITC Schedule
- Exhibit 2.4 – Combined Effect
- Exhibit 2.5 – EDT/ITC Adjusted for Non-Price Cap Services
- Exhibit 2.6 – Telecommunications Relay Service and Regulatory Fee
- Exhibit 2.7 – 2005 Form FCC 492A
- Exhibit 2.8 – 2006 Form FCC 492A
- Exhibit 2.9 – Summary of Exogenous Costs & Distributions
- Exhibit 3.1 – Exogenous Cost Revenue Impact to EUCL
- Exhibit 5 – Common Line Basket Price Cap Model
- Exhibit 5.1 – USAC Receipts
- 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 3rd Quarter 2007 contribution factor. The 3rd Quarter contribution factor, 11.3 percent, was provided in the Commission's Public Notice, DA 07-2639, released June 14, 2007. 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.⁹ The charges are assessed with respect to the interstate end user service that generates the USF obligation.

⁹See *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*).

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 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) 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 the 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 16*.

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 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 customers*.¹⁰ 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.

Establish the Basic Multi-line Business Rate

Step 1 – Determine total revenue using access lines as of March 2007 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 March 2007). 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.

Step 4 is calculated by customer type for Multi-line business, PRI ISDN, and Centrex customers

¹⁰ 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).

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 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 Carrier (PIC) USF Charge when the IC is assessed the PIC change charge.

Other Recurring Federal Universe 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.