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Section 1

INTRODUCTION AND SUMMARY

This Description and Justification (D&J) is designed to provide an overview of the Chillicothe tariff. The following will discuss, in general, a description of the company, tariff support material, and an overview of the cost and rate development methodology.

I. Description of The Chillicothe Telephone Company and the Serving Area

The issuing carrier of this interstate access tariff is The Chillicothe Telephone Company (hereinafter referred to as Chillicothe). Chillicothe was incorporated on December 14, 1927. Chillicothe is an Ohio corporation engaged in the business of transmitting telephone messages for approximately 38,000 customers in ten central offices located in Ross, Pike, Pickaway, Jackson, Hocking, and Vinton counties, Ohio. The ten central exchanges are known as, and are located at, Bainbridge, Bourneville, Chillicothe, Clarksburg, Frankfort, Hallsville, Kingston, Londonderry, Massieville and Richmondale. The ten central offices serve 800 square miles in the 614 LATA.

The largest of the ten central exchanges is Chillicothe, the headquarters location. The city of Chillicothe, Ohio, founded in 1796, is located in the Scioto River Valley in south central Ohio. Chillicothe is the county seat of Ross County, Ohio's third largest county in land area.

II. **Tariff Support Material**

The supporting material, which follows, is submitted pursuant to Part 61.38 of the Commission's Rules and Regulations. The scope of Part 61.38 "provides for an optional method of filing for any local exchange carrier that is described as a Subset 3 carrier in Section 69.602 which elects to issue its own Access Tariff for a period commencing on or after April 1, 1989, and which serves 50,000 or fewer access lines in a study area as determined under Section 36.611(a)(8) of the Commission's Rules." Baseline rate-of-return companies choosing the option of adopting the test period and past year cost of service (PYCOS) period study required of the larger telephone companies in this Order to accompany their annual access tariff filing with the following cost support data:

Revenue Requirement Development - A PYCOS study for the most recent 12-month period. The PYCOS period is January 1, 2003, through December 31, 2003. A study projecting costs for a representative 12-month period (test year) is for the period of July 1, 2004, through June 30, 2005 (hereinafter referred to as 2004-2005).

Demand Quantification - The description and development of the test year demand quantities for switched and special access. Demand quantities include access minutes, transport miles, and special access lines.

Rate Development - The description and development of access rate elements along with the various types of applicable rates.

III. **Summary of Cost and Rate Development**

Chillicothe has used a multi step process to determine its interstate revenue requirement and associated rates for the test year. In developing the Company's test year rates, the Company first prepared a test year budget (using FCC Part 32 rules). The budget was then input into cost study models in accordance with Parts 36 and 69 of the Commission Rules. Demand projections were also completed to accurately develop Chillicothe's cost-based rates. Detailed descriptions of each step are included in the remaining sections of this D&J.

IV. **Summary of Tariff Changes**

1. Per CC Docket No. 98-77, *Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation*, Adopted October 11, 2001, all rate-of-return ILEC's must adjust their access rates for the following:
 - Beginning January 1, 2002, line-side port costs shall be assigned to the Common line rate element. Non-price cap local exchange carriers may use thirty percent of the interstate Local Switching revenue requirement as a proxy for allocating line port costs to the Common Line Category. The Chillicothe Telephone Company elected to use thirty percent.

- Effective January 1, 2002, local exchange carriers may not assess an interconnection charge expressed in dollars and cents per access minute upon all interexchange carriers or upon all other persons using the telephone company switched access network¹.
 - In addition to the removal of the interconnection charge, revenues from the TIC will be reallocated to other access elements. The total revenues reallocated from the TIC to other access categories will be limited to the total revenues recovered through the TIC for the 12-month period ending June 30, 2001.
 - Any general-purpose computers used to provide non-regulated billing and collection services must have a portion of costs allocated to the billing and collection category. The Chillicothe Telephone Company does not use any general-purpose computers for billing.
2. Chillicothe is in compliance with FCC 01-162 / CC Docket No. 80-286, "In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board" released May 22, 2001 and adopted May 11, 2001. The order required certain jurisdictional allocation factors to be frozen at calendar year 2000 levels (see Appendix B of the order). The FCC also provided an option of freezing certain category relationships. Chillicothe decline to freeze category relationships.

¹ Ordering Clause 69.124

V. Summary of Accounting Changes

Cash Working Capital - In prior annual filings, Chillicothe calculated Cash Working Capital (CWC), the average amount of investor-supplied capital for a carrier's day-to-day interstate operations, by performing a lead-lag study or using a formula established by the Chief Common Carrier Bureau. Chillicothe has elected to use the 15-day cash working capital allowance method to calculate their cash working capital for the 2003 PYCOS and 2004-2005 Test Year cost studies.

Section 2

DESCRIPTION OF TARIFF

I. Filing Information

Under Special Permission No. 86-696, dated September 19, 1986 Chillicothe established and filed its own interstate access service tariff. This tariff, developed in accordance with selected sections of Part 61 of Chapter 1 of TITLE 47 of the Code of Federal Regulations, is entitled The Chillicothe Telephone Company Tariff F.C.C. No. 1 (hereinafter referred to as the Chillicothe tariff). The effective date of Chillicothe's tariff is January 1, 1987. It was established for the provision of interstate access services to customers within Chillicothe's operating territory. Revisions to tariff language and rates filed June 16, 2004, will be effective July 1, 2004.

The Chillicothe tariff establishes a comprehensive rate structure for the provision of access services to all Interexchange Carriers (ICs) and End Users. The Chillicothe tariff is designed to offer interstate access services to all ICs on a nondiscriminatory basis.

II. General Background

Through 1986, Chillicothe concurred in the National Exchange Carrier Association (NECA) access tariff F.C.C. No. 1 and participated in the NECA's mandatory Carrier Common Line pool and the voluntary Traffic Sensitive and Billing and Collection pools. Chillicothe was legally

constrained to offer the access services described in the NECA access tariff under the terms and conditions described in that tariff. In 1987, Chillicothe released themselves from these constraints by filing their own tariff covering these services on October 3, 1986.

With this June 16, 2004, filing, Chillicothe will be making revisions to their existing tariff to more accurately reflect tariff rates altered due to a combination of the changes in Chillicothe's test year budget and demand levels.

Section 3

TARIFF MATRIX

I. Overview

The following is a tariff matrix denoting any Chillicothe tariff text and rate changes effective July 1, 2004, and a brief description explaining such changes. The matrix is formatted by sequential Chillicothe tariff sections and has been developed to simplify the Commission's review efforts.

II. Tariff Matrix

The following pages contain analyses of Tariff Section 17. The analyses can be found on the following page:

Section 17

CURRENT VERSION			VERSION TO BE EFFECTIVE JULY 1, 2003			DESCRIPTION
Page	Section	Version	Page	Section	Version	
363	17.1.1 (A) and (B)	Original	363	17.1.1 (A) and (B)	1st Revised	Revised Rates
365	17.1.2 (A) and (B)	Original	365	17.1.2 (A) and (B)	1st Revised	Revised Rates
367	17.2.2 (A) and (B)	Original	367	17.2.2 (A) and (B)	1st Revised	Revised Rates
370	17.2.4 (A) and (B)	Original	370	17.2.4 (A) and (B)	1st Revised	Revised Rates
371	17.2.5 (A) and (B)	Original	371	17.2.5 (A) and (B)	1st Revised	Revised Rates

Section 4

REVENUE REQUIREMENT DEVELOPMENT

I. Jurisdictional Cost Allocations

A. Test Year Budget

Per Order DA 88-1554, "In the Matter of Commission Requirements for Cost Support Material to be Filed with 1989 Annual Access Tariffs," released October 3, 1988, Chillicothe is classified as a Tier 2B company. Tier 2B companies, which are small telephone companies, may develop rates based on historical or prospective cost support.

Per WCB/Pricing 04-18, "In the Matter of July 1, 2004 Annual Access Charge Tariff Filings," released April 19, 2004, Chillicothe chose to adopt the 2004-2005 prospective test year. Chillicothe also chose to adopt this Order's PYCOS period of January 1, 2003, through December 31, 2003.

Chillicothe complied with this Order in preparing their operating budget formatted in Part 32's account structure. The budget was developed by using year end, total company account balances and applying various trends in growth estimates between 2000 through 2003, based upon individual studies of particular asset, reserve and expense accounts.

B. Part 64

Concurrent with the development of the Part 32 budget was an analysis pertaining to regulated/non-regulated activities. CC Docket 86-111 (Part X) deals with the adoption of accounting and cost allocation rules for separating the costs of regulated telephone service from the costs of a telephone company's non-regulated lines of business.

Chillicothe analyzes quarterly what business activities are regulated and non-regulated. Activities that are not directly identifiable are termed as being "common" and appropriate allocation factors are developed. Part X factors were appropriately applied to the test year budget, per each Part 32 account. The regulated total company balances were used for cost study purposes.

C. Separations Cost Study

Having developed regulated test year balances under a Part 32 format; Chillicothe calculated its Part 36's rate base, expense summary, and resulting revenue requirement.

The model's output is organized by schedules as follows:

<u>Index to Separations Forms</u>	<u>Schedule</u>
Revenue Requirement/Income Tax Summary	S-1
Separated Telecommunications Plant Summary	S-2
Separated Expense Summary	S-3
General Support Facilities	S-4
Central Office Equipment	S-5
Information Origination/Termination Equipment	S-6
Cable and Wire Facilities	S-7
Amortizable Assets	S-8
Telecommunications Plant - Other Accounts	S-9
Certain Income Accounts and Adjustments	S-10
Plant Specific Expenses	S-11
Plant Nonspecific Expenses	S-12
Customer Operations Expenses	S-13
Corporate Operations, Taxes, and Equal Access Expenses	S-14
Reserves and Deferrals	S-15

II. **Access Charge Analysis**

A. Access Charges Cost Study

The cost allocation/projection process described in the preceding section produced projected test year interstate plant investment and expenses, per primary operating account. These results were then allocated to access charge rate elements to produce projected test year interstate revenue requirements by type of service. Chillicothe has adhered strictly to the FCC's Part 69, Access Charges.

For purposes of this filing, Chillicothe has used the following rate elements for the determination of its revenue requirement and rates per service offering:

Rate Element	Description
Switched Access:	
a. Local Transport	The Local Transport rate category provides the transmission facilities between the telephone company's serving wire center and the interexchange carrier.
b. End Office	The End Office rate category provides the local end office switching and user termination functions necessary to complete the transmission of switched access communications to and from the end users served by the local end office.
Special Access	Cost of private line services. Direct investments include Cable and Wire Facilities and Category 4 Central Office Equipment (Circuit).

The allocation procedures meet the requirements of the FCC's Part 69 Rules and Regulations by further dividing a particular jurisdictional revenue requirement into four major access components including common line, traffic sensitive, billing and collection, and the interexchange category. Each of these major access components is further subdivided into specific rate elements as mandated by the FCC in Docket 78-72.

The model output is organized by schedules as follows:

<u>Index to Access Charges Forms</u>	<u>Schedule</u>
Revenue Requirement Summary	A-1
Separated Telecommunications Plant Summary	A-2
Separated Expense Summary	A-3
General Support Facilities	A-4
Central Office Equipment	A-5
Information Origination/Termination Equipment	A-6
Cable and Wire Facilities	A-7
Amortizable Assets	A-8
Telecommunications Plant - Other Accounts	A-9
Certain Income Accounts and Adjustments	A-10
Plant Specific Expenses	A-11
Plant Nonspecific Expenses	A-12
Customer Operations Expenses	A-13
Corporate Operations, Taxes, and Equal Access Expense	A-14
Reserves and Deferrals	A-15

Section 5

DEMAND QUANTIFICATIONS

I. Overview

This volume sets forth the demand forecasting process used to establish the proposed rates for switched and special access services. The requirements for demand quantification are summarized. The methods used to meet these requirements are then described for the various services, features, and rate categories provided as a part of this tariff. These include Local Switching, Local Transport, Information Surcharge, and Special Access.

The forecasting process is explained, including the compilation of historical data and its use in forecasting. The resulting demand forecasts, shown in the exhibits, are used in the rate development process set forth in the Cost Support binder.

II. Switched Access Demand Forecasting

This section describes the methods used to develop forecasts of the switched access demand quantities. Demand quantities utilized in the development of rates include minutes-of-use. Chillicothe forecast demand for the time period from July 1, 2004, to June 30, 2005, based on historical demand quantities. Sources for the required historical demand data include carrier access billing records, access service requests, and other telephone company records.

A. Compilation of Historical Data

Company records of access service usage are maintained on a calendar month basis, so there was no need to annualize the access minutes-of-use derived from these sources. Any retroactive billing adjustments had already been made to the usage data in these records. Traffic sensitive minutes-of-use by month, by feature group, were compiled for the months January 1997 through April 2004 for premium minutes-of-use.

B. Switched Access Minutes of Use Forecasting Methodology

Historical traffic sensitive minutes-of-use were used to forecast traffic sensitive minutes-of-use for all rate elements. An econometric model of total access minutes-of-use was constructed using linear trending. The econometric model of the demand for traffic sensitive minutes-of-use was not statistically significant and all variables did not have the expected sign. Chillicothe's minutes have been declining for the past year and a half and forecasting significantly overstates projected minutes. Therefore, Chillicothe chose to use a simple average of the last 16 months' minutes-of-use for this 2004-2005 forecast period.

C. Local Switching

The Local Switching rate is charged to Feature Groups A, B, and D originating and terminating premium minutes-of-use. The total traffic sensitive minutes-of-use forecast was distributed to the Local Switching element based upon recent historical data.

D. Local Transport

Local Transport consists of Entrance Facilities and Direct-Trunked costs. Entrance Facility charges are applied on a per circuit basis and per circuit, per mile basis. Direct-Trunked Transport Facility charges are applied on a per circuit or channel and per-mile basis. The Direct-Trunked Transport Termination charges are applied on a per-circuit or channel basis and are flat-rated. The number of miles for the Local Transport Facility is the percentage of the facilities owned between Chillicothe and the interexchange carrier's point of presence.

E. Information Surcharge

The Information Surcharge is applied per access minute-of-use. Total traffic sensitive minutes-of-use forecast was developed using simple averaging as discussed in the previous "Switched Access Minutes of Use Forecasting Methodology" section.

III. Special Access Demand Forecasting

This section describes the methods used to develop forecasts of the special access demand quantities for rate elements Chillicothe plans to offer effective July 1, 2004. Forecasting demand for the time period from July 1, 2004, to June 30, 2005, based on historical demand quantities developed the required data. Sources for the required historical demand data include carrier access billing records, access service requests, and other Company records. Specific examples of the rate elements quantified are numbers of channel terminations and channel mileage for the various categories of special access.

A. Compilation of Historical Data

Historical inventories of interstate special access services provided to all interexchange carriers, and other customers were compiled. This compilation was organized by rate element and by service category. Chillicothe provides the following categories of interstate special access:

- Voice Grade
- Digital Data
- High Capacity
 - DS1
 - DS3

B. Special Access Demand Forecasting Methodology

To forecast demand for the tariff period by rate element, changes in demand during the period January 1987 through April 2004 were analyzed. Trends were identified and analyzed to estimate the future demand for specific rate elements in each service category. Monthly demand forecasts for the tariff period were summed to produce figures for the entire tariff period. These figures were then used in the rate making process.

Section 6

RATE DEVELOPMENT

This section describes in detail the development of the rates for the individual access service rate elements. Rate development is based upon amended Part 69 Rules; effective test year revenue requirements divided by the test year demand quantities described in preceding sections.

I. Switched Access

Switched access service provides for point-to-point communications paths between interexchange carrier terminal location and telephone exchange service locations. The costs and rates for switched access apply to the use of common terminating, switching and trunking facilities of the Telephone Company's network by interexchange carriers for their use in providing MTS/WATS and MTS/WATS-like services.

Switched access service is provided in various feature group arrangements that are differentiated by the type of connection (i.e., line-side or trunk-side connection) and the access-dialing pattern (e.g., 1XXXX, 0XXXX, etc.).

The two general rate categories, which apply to switched access service, are Local Transport and End Office.

A. Local Transport

Local Transport is a two-way voice frequency transmission path composed of facilities determined by the Telephone Company. The two-way voice frequency transmission path permits the transport of calls in the originating direction (from the end user end office switch to the customer-designated premises) and in the terminating direction (from the customer-designated premises to the end office switch), but not simultaneously. The voice frequency transmission path may be comprised of any form or configuration of plant capable of and typically used in the telecommunications industry for the transmission of voice and associated telephone signals within the frequency bandwidth of approximately 300 to 3000 Hz.

Local Transport rates are made up of Entrance Facility and Direct-Trunk Termination and Direct-Trunked Facility rates, which are assessed on a per circuit basis, and per-mile basis. The rates are flat-rated charges for dedicated switched facilities. This category and its associated rates are discussed in Section 6 of Chillicothe's tariff.

B. End Office

The End Office rate category provides the local end office switching and end user termination functions necessary to complete the transmission of switched access communications to and from the end users served by the local end office. The End Office rate

category includes Local Switching and the Information Surcharge rate elements.

- Local Switching

The Local Switching rate element establishes the charges related to the use of end office switching equipment, the terminations in the end office of end user lines, and the terminations of calls with the Telephone Company's intercept operators or recordings. The Local Switching charge is applicable to all feature groups when used to provide MTS/WATS service.

- Information Surcharge

The Information Surcharge rate is comprised of components dealing specifically with directory assistance and other local directory functions. Information Surcharge rates are assessed to a customer based on the total number of access minutes.

II. **Special Access Service**

Special access service includes all exchange access arrangements, which generally do not use local end office switching, and thus involves the most basic of transmission capabilities. Special access service also includes supplemental features to improve the quality and utility of the transmission between such points.

Special access service consists of two basic rate categories:
(1) Channel Termination and (2) Channel Mileage.

A. Channel Termination

The Channel Termination rate category provides for the communications path between a customer-designated premise and the serving wire center of that premise. One Channel Termination charge applies per customer-designated premises at which the channel is terminated. This charge will apply even if the customer-designated premise and the serving wire center are collocated in a Telephone Company building.

B. Channel Mileage

The Channel Mileage rate category provides for the end office equipment and the transmission facilities between the serving wire centers associated with two customer-designated premises and between a serving wire center associated with a customer-designated

premise and a Telephone Company hub. The Channel Mileage rate recovers the cost of the transmission path, which extends between the Telephone Company serving wire centers and/or hub and includes primarily outside plant and central office equipment used to provide the facility.

C. Special Access Surcharge

The Special Access Surcharge also applies to all jurisdictional interstate special access facilities, where through a function of the device, the special access service interconnects to the local exchange network. The \$25.00 surcharge is a monthly charge applied to each of these special access facilities on a per voice equivalent basis. (The Special Access Surcharge is a part of the Carrier Common Line element, not "Other Charges.")

The special access rate structure is expected to meet the demands of the market for services and to be simple and well understood. As such, each rate element appears separately and identically in the rate structure for each service offering. In addition, the provision for optional features and functions allows for the customizing of individual needs. This is consistent with the needs to meet market demand with the options accordingly priced.