Illinois Consolidated Telephone Company
Tariff Commission No. 2 Streamlined Tariff Filing
Transmittal No. 122 **F**CC Registration No. 0004-3337-12
Description and Justification
For Annual Tariff Filing Dated June 24, 2004
To be effective July 1, 2004

Illinois Consolidated Telephone Company (ICTC) hereby provides a Description and Justification for its individual rates proposed under Transmittal No. 122 of the Illinois Consolidated Telephone Company Tariff F.C.C. No. 2. The Description and Justification provides a review of the methods, procedures and assumptions used to produce the Traffic Sensitive rates for ICTC.

Description and Justification

This Streamlined Tariff Filing represents the Annual Tariff Filing as required for rate of return carriers filing under Federal Communications Commission (Commission) Section 61.38 for Illinois Consolidated Telephone Company's (ICTC's). This tariff filing is based on prospective costs and demand utilizing a 2004-2005 test year.

The enclosed 2004 Annual filing is based on ICTC's best knowledge of its costs and demand. It is based on reasonable projections, which have been documented in the attached worksheets. It is based on ICTC's accounting system, which conforms to accounting rules in Parts 32 and 64 of the Commission's rules**.** In accordance with Commission rules, ICTC's access costs have been projected based on the authorized exchange carrier rate of return of 11.25%. This volume contains historical and projected summaries of demand, access rate development worksheets and historical and projected access cost summaries. This filing is based on Part 61.38 of the Commission rules and is for Traffic Sensitive and End User access tariff rates only, as ICTC participates in the NECA Common Line Pool.

In addition, ICTC implements the section of the Commission's *Rate-of-Return Access Charge Reform Order* (MAG Order)[1] that became effective July 1, 2002 requiring rate of return carriers to make modifications to their local switching and transport rate structures and the calculation of common line access rates. Specifically, as it pertains to the MAG Order, this filing integrates the line port transfer, per Commission CFR 69.306, from local switching revenue requirement to the common line revenue requirement; the elimination and reallocation of the transport interconnection charge, per Commission

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

CFR69.415; and reapportioned general support facilities in consideration of Commission CFR 69.307. Supporting schedules computing the amounts reallocated and the adjusted revenue requirements, by element, are included with this volume. Lastly, as depicted in this volume, the End User Access tariff calculates the end user subscriber line rates as ordered per the MAG Order. Although this volume depicts the transfer of revenue requirement from the traffic sensitive pool to the common line pool in accordance with the MAG Order, as a NECA Common Line Pool participant, NECA performs the tariff changes and access rate development on behalf of ICTC for common line access rates which per the MAG Order, CL access rates are set to zero for ICTC.

Access Allocation

2004-2005 Budget Overview

The rate base study balances for this filing are based on Commission rules and guidelines. Per the guidelines, a historical cost study is attached to this filing representing the most current period of 2003, hereinafter referred to as "historical study". Per the Commissions rules, rate-of-return companies must develop rates based on prospective cost data (test year). A single study was developed for this tariff period, based on midpoint rate base and an average of the expense forecasts for the test year July 1, 2004 – June 30, 2005, hereinafter referred to as "prospective study." The prospective study is based on the projected 2004 cost study, adjusted for projected 2005 rate base additions, retirements, and accumulated depreciation. Budgeted expenses are premised on four months of actual 2004 financial data annualized.

Part 64 Adjustments

ICTC is a Tier II company and is not required to file a Part 64 allocation manual with the Commission for review and approval. However, like all other incumbent Local Exchange Carriers, ICTC is required to develop and use a Part 64 Costs Allocation Manual to eliminate the appropriate return on non-regulated investments and expenses from the forecast data prior to the application of separations procedures in Part 36. ICTC identifies each account number as being totally regulated, non-regulated, or common. Account numbers that accumulate costs that are not directly identifiable and which are labeled as common, have appropriate allocation factors developed and applied. Allocation factors were applied to the 2004 and 2005 total company plant and expense budget balances for each "common" Part 32 account. The plant investment and expense amounts used in this filing and associated projected cost separations study are net of the Part 64 allocations.

Part 36 Jurisdictional Allocation

The company performs jurisdictional separations through the use of an internal mechanized system that incorporates the Commission's Part 36 Rules and Regulations. The mechanized cost separation program splits property costs, revenues, expenses, taxes and reserves between the state and interstate jurisdictions. This system is the basis for the development of the July 1, 2004 – through June 30, 2005 access costs. It identifies the interstate property costs, revenues, expenses, taxes and reserves that are to be transferred to the Part 69 cost allocation system.

Part 69 Access Charges

ICTC allocates its regulated interstate costs in compliance with the Commission's Part 69 Rules. The total interstate allocation includes the prospective period projection of regulated interstate property costs, revenues, expenses, taxes and reserves derived from the company's July 1, 2004 – June 30, 2005

prospective study and application of Part 36 of the Commission's Rules. This interstate amount from the Part 36 is transferred to the Part 69 allocation program and assigns costs to the following cost elements and is performed prior to MAG Order adjustments and development of final revenue requirement:

Carrier Common Line

This element is assigned the regulated costs associated with the jointly used cable & wire facilities subscriber line plant and the central office subscriber line circuit equipment. As previously noted, ICTC participates in the NECA Common Line Settlement Pool and therefore this annual filing does not cover any common line access rate development, rather this filing reflects the End User Subscriber Line Charges and the shift of revenue requirement from the traffic sensitive elements to the common line element, per the MAG Order.

Local Switching

This element is assigned the regulated costs associated with central office category 3 local switching equipment.

Information

This element is assigned the costs associated with providing directory assistance service.

Local Transport

This element is assigned the costs associated with all trunks to the tandem or class 5 end office that handles tandem or direct service for one or more carriers.

Tandem Switch

This element is assigned the costs associated with central office category 2 – tandem switching equipment.

Special Access

This element is assigned the costs associated with private line services used exclusively for a particular dedicated interstate service. Direct investment includes cable and wire facilities and central office circuit equipment. The costs associated with DSL are directly assigned to interstate private line.

Demand Quantification

Explained in this section is the demand forecasting process used to develop proposed rates for switched and special access services for the prospective period. The prospective period for this filing is July 1, 2004 – June 30, 2005. The methods used for demand quantification for the various services, features and rate categories provided in this tariff are discussed herein. These include local switching, local transport, information surcharge, and special access. Forecast demand quantities may have been adjusted to reflect expected changes in the prospective period.

Switched Access Demand Forecasting

Demand quantities utilized in the development of switched access rates for the prospective period include such rate elements as access minutes of use, minute miles, access service orders and provisioning. Historical observations of all rate elements provide the basis for calculating the prospective period demand. Sources for the historical demand data include the company Carrier Access Billing System (CABS). Historical data for switched access usage was collected for the period January 2000 – December 2003. In the forecasting process, consideration was given to such things as special and access services bypass, interexchange carrier service retraction, wireless local number portability, and depressed economy.

Local Switching

All ICTC offices are equal access and therefore premium rates are applied to all feature groups B and D. The access minute demand is the basis for developing the local switching rates. The historical local switching minutes from 2001 to 2003 were used to forecast the prospective demand for the 2004 tariff filing.

Local Transport

The transport rate structure consists of entrance facilities, direct trunk transport and tandem-switched transport.

The entrance facility (EF) is a channel provided from the IXC point of presence (POP) to the serving wire center (SWC). It is dedicated to the use of a single IXC. The historical EF demand from 2001 to 2003 and four month's of 2004 actual was used to forecast the prospective demand for the 2004 tariff filing.

Direct trunk transport is a channel(s) that is provided from the SWC directly to the EO, to a tandem switch or to the host in a host/remote configuration. Direct trunk transport is dedicated to the use of a single IXC. Airline mileage for the facility route is measured between the SWC and EO, SWC and tandem or SWC and host. Prospective demand for the 2004 tariff filing is based on the historical demand experienced from 2001 to 2003 and four month's of 2004 year to date actual demand.

Tandem-switched transport is a channel(s) that is provided from the tandem to the EO. It is not dedicated to the use of a single IXC and is common to all IXC's. Airline mileage is measured between the tandem and the EO. Prospective demand for the 2004 tariff filing is based on the historical demand experienced from 2001 to 2003 and four month's of 2004 year to date actual demand.

Tandem switching (TS) is the MOU routed through the tandem switch and only includes the traffic associated with trunks ordered to the tandem by the IXC. Prospective demand for the 2004 tariff filing is based on the historical demand experienced from 2001 to 2003 and four month's of 2004 year to date actual demand.

Information Surcharge

Information surcharge rate is developed based on chargeable-switched access minutes and is applied per 100 access minutes of use as depicted under local switching.

Special Access Demand Forecasting

Demand quantities utilized in the development of special access rates for the prospective period include recurring charges and non-recurring charges. The recurring charges include channel termination (CT), channel mileage facility (CMF), channel mileage termination (CMT), optional features and functions (OFF), and Digital Subscriber Line (DSL). The non-recurring charges include service order charges and provisioning charges. Historical observations of these special access elements provide the basis for calculating the prospective special access demand utilizing CABS as the source for the historical demand.

The special access service rate elements make up several special access service categories offered by ICTC, i.e. voice grade, program audio, digital data, high capacity and digital subscriber line. Monthly demand forecasts have been totaled and then averaged for the average monthly demand forecast.

Rate Development

The revenue requirement for the rate elements as allocated by the FCC Part 69 Rules is transferred into a mechanized rate development system. The following discussion will address the steps taken in the disaggregation of the Part 69 elements.

Local Switching

The local switching revenue requirement as computed per the Part 36 and Part 69 rules, premised on the category 3 switching investment and discussed previously, is divided by the local switching demand to produce the local switching rate.

Local Transport

Historically, local transport rate elements were premised on the special access rates according to Commission CFR 69.110 & 69.112. In this filing and as previously filed and implemented with the ICTC Transmittal No. 117 March 2003 Midcourse correction, an adjustment column has been included in the transport support schedules and associated rate development to factor in the anomaly that is derived when premising rates on the special access rate development and reduce transport revenues to coincide with the transport revenue requirement. An explanation pertaining to this adjustment follows:

When the MAG Order was implemented, it required that the lower of the TIC revenue requirement or the TIC revenues for the twelve month period ended June 30, 2001 be used as the basis for allocating costs to the remaining cost elements. At the time of the MAG Order implementation, ICTC's TIC revenues were the qualifying figure and amounted to over $1.8 million. Over the past few years, exclusive of the MAG Order, transport revenue requirement has declined and today, if a TIC rate were computed, this amount would be approximately $300,000, or a decline of $1.5 million since the implementation of the MAG Order. However, as required per the MAG Order, the full $1.8 million of TIC revenues continue to be removed from the Part 36 and Part 69 transport revenue requirement and apportioned to the common line, local switching, transport and special access elements, in accordance with the MAG Order, of which a substantial portion of this TIC restructure has fallen to the special access category and resulting special access rates.

Essentially, by applying historical methodology under Commission Rules 69.110 and 69.112 and utilizing the calculated special access rates to derive the local transport rates, transport revenues computed using the special access rates exceed the MAG Adjusted transport revenue requirement. It is this anomaly that necessitates the adjustment (reduction to transport revenues) column depicted on the transport rate development schedules.

The historical rate methodology under Rules 69.110 and 69.112 are used as the starting point and applied to derive the transport revenues per element. Each transport rate element is then reduced proportionally to derive transport rates based on the adjusted MAG revenue requirement for the local transport element. This methodology, again formerly explained and implemented under Transmittal No. 117 filed April 16, 2003 and effective May 1, 2003, serves to cap transport rates based on the historical and resulting prospective demand at the MAG adjusted revenue requirement as opposed to an overage that would result, if this adjustment were not implemented, and transport rates were derived solely based on special access rates.

As with under Transmittal No. 117, this tariff filing applies the rate reduction to all transport elements and not strictly to direct trunked facilities. To not do so would cause tandem rates to increase disproportionately and only serve to create an inappropriate demand migration from tandem facilities to direct trunked facilities, ultimately creating future and unnecessary rate imbalances. Instead, by applying this overage pro-rata among all transport elements, the result is to average the reduction in rates across all transport elements, resulting in all transport rate elements experiencing rate reductions. As depicted on the transport support schedules included with this volume, after applying this revenue adjustment (reduction), the projected transport demand times the MAG adjusted rates equate to the MAG adjusted transport revenue requirement.

Information Surcharge

The local switching equivalent minutes were divided by 100 to derive the information surcharge equivalent minutes. The information surcharge revenue requirement was then divided by the product, which produced a premium rate per 100 minutes.

Special Access

The special access revenue requirement as produced in the Part 69 allocation system was first disaggregated between the recurring and non-recurring charges. The recurring special access revenue requirement was then disaggregated into the channel termination (CT), channel mileage termination (CMT), channel mileage facility (CMF), optional features and functions (OFF) and digital subscriber line services (DSL) based on the annual cost, i.e. investment for each group and associated annual carrying charges. Lastly, the products of all the special access annual costs are ratioed to the special access revenue requirement.

NECA annually develops a loop equivalency factor that is utilized for each cost element to derive the 4-wire voice grade equivalency to provision a circuit. Utilizing this cost analysis, the corresponding ratios of special access services and associated costs to provision in relation to a 4-wire voice grade equivalent circuit, the individual services were weighted based on the number of services provided to apportion the

associated CT, CMT and CMF revenue requirement among the individual service elements. From this study, the annual unit cost, based on weighted equivalency for each service was computed and divided by the individual service demand to determine the associated rates. The individual rates, times the projected demand for the CT, CMT and CMF sum to the total special access requirement, less OFF, nonrecurring services and DSL revenue requirement, discussed later.

Optional Features & Functions (OFF)

Optional Features and Functions are premised on a cost analysis to provision each service based on investment, time incurred and associated loaded labor rates. This total is multiplied by the annual carrying charge to derive the annual unit cost, divided by the projected demand, divided by twelve to compute the individual rates.

Nonrecurring Services

Nonrecurring revenues are premised on a time and motion study performed for each service order and provisioning of each type of service utilizing company loaded rates by work category times the projected demand for each service.

Digital Subscriber Line Service

Rate Elements

DSL offerings consist of three rate elements, which are premised on downstream and upstream synchronization and separately, a wholesale option.

ADSL

Asynchronous Digital Subscriber service offers variable upstream and downstream speeds and can be purchased on a retail (end user) or wholesale (data provider) arrangement.

SDSL

Synchronous Digital Subscriber Line service offers symmetrical upstream and downstream services.

Non-Recurring Rate

The nonrecurring service order and provisioning rates are developed based on time and motion studies and current labor rates for the appropriate job categories. The time required to perform the service order and the provisioning function, times the appropriate labor rates produces the cost of providing each function. The nonrecurring revenues are calculated by multiplying the average monthly demand times the service order and provisioning rate times 12 to equal annual nonrecurring revenue.

Recurring Rate

Due to the recent offering of SDSL service, the SDSL recurring rate is premised on a specific cost of service analysis developed to determine the cost to provision the service, times the company annual carrying charge factor. This cost-based rate is then multiplied by the projected demand to derive the SDSL revenues. The recurring rates for ADSL services are developed by taking the total DSL revenue requirement, subtracting the nonrecurring revenues and SDSL revenues and then apportioning the residual DSL revenue requirement to wholesale and retail based on a weighting factor derived from projected demand for each service times the applicable annual carrying charge for each service. The projected demand times the associated rates equal the revenue for this service which equals the apportioned DSL revenue requirement.

MAG Order Allocation

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

Line Port Costs shift from Local Switching to Common Line

In lieu of conducting a specific line port cost study for this filing, ICTC utilized the default 30% option permitted in the MAG Order. ICTC reduced its 2004 Annual Access Tariff filing Local Switching revenue requirement by 30% and assigned $790,909 to its Common Line revenue requirement.

Distribution of Transport Interconnection Charge Revenues across the Access Categories

ICTC identified $1,857,733 in TIC revenues for the 12-month period ended June 30, 2001 which was lower than the revenue requirement and therefore used this amount to deduct from transport and distribute it to all access categories – common line, local switching , information, transport and special access in accordance with the MAG Order. The allocation factors used for reassigning the TIC revenues to the access categories were developed based on the adjusted access category revenue requirements. The adjusted access category revenue requirements are calculated by the reallocation of the 30% of Local Switching to Common Line, the reduction of Transport by the total TIC revenues and the reduction of Common Line by the amount of the Universal Service Fund contribution paid by ICTC.

General Support Facilities assignment to Billing and Collection

ICTC identified and allocated general support facilities that are used for interexchange carrier billing and collection. The allocator was derived based on a time study analysis and the resulting interexchange carrier billing and collection functions that customer service personnel perform in relation to total customer service time. This ratio of interexchange carrier billing and collection time to total was applied to the general support investment, associated reserves and depreciation expense and the general support facilities expense categories and removed from the projected 2004-2005 cost study regulated balances via a Part 64 non-regulated adjustment.

The associated amounts removed from the projected regulated 2004 – 2005 test year cost study that pertain to general support facility interexchange carrier billing and collection were $141,560 for general support facility investment, $96,533 of accumulated depreciation, $16,212 of depreciation expense and $57,397 of general support facilities expense.

This volume includes supporting work schedules depicting the MAG adjustments referenced above and details the steps taken to transfer the line port allocation and TIC reallocation from the unadjusted revenue requirements as derived via the Part 36 and Part 69 separation rules to produce the MAG adjusted revenue requirements which are used for rate development purposes for this 2004 Annual Tariff Filing.