DESCRIPTION & JUSTIFICATION

Ethernet Service Two (2) Year Rate Stability Plan, and Fiber Facilities Special Construction Language Transmittal No. 11 September 30, 2004

SureWest Telephone ("SureWest") currently offers Ethernet Service (marketed as EtherMAN - Ethernet Metro Area Network) through its Tariff FCC No. 1 on a month-to-month subscription basis or by a one-, three- or five-year Rate Stability Plan. With this filing SureWest proposes a two-year Ethernet Service Plan. The proposed two-year Plan recurring rates match the one-year Plan rates, however Non-recurring Charges of two-year Plans are proposed to be 50% of the corresponding Ethernet Service speed's one-year Plans.

Ethernet Service is billed according to Ethernet speed; 5 Mbps, 10 Mbps, 20 Mbps, 30 Mbps, 40 Mbps, 100 Mbps, or 1 Gbps. The rate elements for Ethernet Service include a port rate and an Ethernet usage rate. The port rate includes the platform base that includes central office usage of the Ethernet service. The Ethernet usage rate includes the fiber facility based upon the speed configured for the Ethernet access. Both elements are required at each customer premises and there must be a minimum of two customer premises for a complete service.

Additionally, with this Transmittal, SureWest proposes to add language to Tariff F.C.C. No. 1, Section 9.5, Ethernet Service, to allow SureWest to charge for Special Construction where facilities and operating conditions do not permit its provision.

Ethernet Service is provided over fiber facilities. The average costs for the facilities are based on the fiber being in place. On occasion, a customer may request Ethernet Service where fiber is not available. In those cases, the facilities do not permit the offering of the service. However, if the customer was willing to pay the extra costs that would be incurred to place fiber to their facility, then SureWest, at the customer's request, would offer the service to the customer.

Cost Methodology

The forecast for the proposed two-year Plan speeds is based on Marketing analysis.

Non-recurring Costs

The term "Non-recurring" refers to the expensed labor efforts required to provide service to the customer, and includes both installation and disconnection activity. Labor expenses such as service order preparation, design, assignment of plant/central office facilities, testing and order completion are included. These costs are reflected in the overall revenue requirement under the "Plant Nonspecific" and "Customer Operations" expense categories of the Annual Expenses.

Recurring Costs

The process outlined below identifies recurring fully allocated costs for Ethernet Service.

Investment

Investment is identified for Central Office Equipment (COE) and Outside Plant (OSP) investments for plant and equipment required to provide Ethernet Service. Ethernet Service is comprised of plant and equipment classified to the following accounts:

Fiber and Conduit	Account 2410
Central Office Transmission	Account 2230

Cost Components

Ethernet Service recurring costs were identified by the investments and associated account codes. These investments' recurring costs were then identified by applying standard factors. This is completed as follows:

The Return and Income Tax Requirement factor is based on the FCC authorized 11.25% rate of return, and federal and state tax rates, of 35% and 8.84%, respectively. This factor is applied to net investment and identifies the combined costs for the Return component and Tax Requirements. Other identifiable Taxes are included through a separate tax factor.

The depreciation rates are applied to gross investment based on the estimated life for the equipment used to provide the service. This identifies the annual Depreciation Expense.

Costs for the expense categories of Plant Specific, Plant Nonspecific, Customer Operations, Corporate Operations and Other Taxes were computed using annual carrying charge factors.

The total annual revenue requirement is derived by the sum of the Annual Expenses and the Return on Investment requirement, and is shown on Schedule D.

This approach is the methodology used in the Company's Ethernet Service, two-year rate stability plan tariff filing.