Madison River Telephone Company (MRTC)

FRN is 0004-3340-82

Tariff F.C.C. No. 1 (Access Service)

Cost Support

Transmittal No. 17

Issued: April 26, 2004

Effective: May 11, 2004

Introduction

This Cost Support provides a review of the methods, procedures and assumptions used to produce the proposed interstate Digital Subscriber Line ("DSL") Access Services and Synchronous Optical Channel Service ("OC12") rates included in the April 26, 2004 tariff filing by Madison River Telephone Company ("MRTC"). This tariff filing is made on behalf of MRTC's affiliated local exchange carriers ("LECs") Gallatin River Communications, LLC ("Gallatin River") and Gulf Telephone Company ("Gulftel") (collectively the "Companies" or individually a "Company").

Digital Subscriber Line (DSL) Access Services

MRTC proposes to modify its interstate tariff to reduce monthly rates as well as introduce a new discount level for Digital Subscriber Line ("DSL") Access Services purchased under the Discount Pricing Arrangement ("DPA"). DSL access service is widely deployed by the Companies with over 15,000 DSL access lines currently in service, representing approximately 12% of switched access lines. This strong demand is resulting in lower than anticipated unit costs due to improved utilization of network equipment. The Companies are making use of a wide variety of shared high-speed packet transport equipment to route broadband traffic on its network. MRTC is modifying the existing DSL Discount Pricing Arrangement to add a new higher volume discount step for voice-data services. A new level of discount will provide a more attractive pricing option to DPA customers.

1. Cost Projection Methodology

The unit costs for ADSL voice-data services are from MRTC's Annual Filing, Transmittal No. 9.

As the basis for the rate development, MRTC used the historically calculated revenue requirement and applied the same rate structure filed by NECA that went into effect on April 1, 2004. Other charges, including nonrecurring charges for all services, remain unchanged.

The following chart displays Gallatin River's proposed reduced rates and proposed rates for the new DSL Pricing Option 3 compared to current NECA rates and current Gallatin River's rates.

Gallatin River	NECA 4/1/2004	Gallatin Proposed	Gallatin Current
Non-DPA Base Rate	32.95	28.34	28.34
DPA Base Rate	30.95	27.52	27.52
1 Year Option 1	27.95	24.85	25.11
3 Year Option 1	24.95	22.18	22.69
1 Year Option 2	24.95	22.18	22.69
3 Year Option 2	20.95	18.63	20.23
1 Year Option 3	20.95	18.63	NA
3 Year Option 3	18.95	16.85	NA

The following chart displays Gulf's proposed reduced rates and proposed rates for the new DSL Pricing Option 3 compared to current NECA rates and current Gulf's rates.

Gulftel	NECA 4/1/2004	Gulftel Proposed	Gulftel Current
Non-DPA Base Rate	32.95	34.59	34.59
DPA Base Rate	30.95	33.58	33.58
1 Year Option 1	27.95	30.33	30.65
3 Year Option 1	24.95	27.07	27.66
1 Year Option 2	24.95	27.07	27.66
3 Year Option 2	20.95	22.73	24.68
1 Year Option 3	20.95	22.73	NA
3 Year Option 3	18.95	20.56	NA

The following chart displays the current and proposed rates for both Gallatin River and Gulftel for the Per Wire Center charges.

	Gallatin Proposed	Gallatin Current	Gulftel Proposed	Gulftel Current
Option 1 Per Wire Center	$150.00	$150.00	$150.00	$150.00
Option 2 Per Wire Center	350.00	350.00	350.00	350.00
Option 3 Per Wire Center	450.00	NA	450.00	NA

2. Total Revenue Impact

For the previous 12 month period, the annualized revenue for Gallatin River and Gulftel combined was $4,165,193. The combination of reduced rates and continued growth in the number of DSL access lines will generate an estimated $4,274,905 over the next 12 months, or an increase of $109,712 in annual revenues.

As shown below, the annual revenue impact of the proposed rates will be de minimis. The impact for the remaining two months of the test period will be even less significant.

1.	MRTC Annual Revenue for Previous 12 Months	$4,165,193
2.	Estimated 12-Month Revenue at Proposed Rates	$4,274,905
3.	Rate Change Ratio (= (Line 2 / Line 1) – 1)	.02634

OC12 Synchronous Optical Channel Service

1. Cost Projection Methodology

The Channel Termination Rate element applies to the connection between the ILEC Serving Wire Center ("SWC") and the customer premises. This recovers the cost of terminating a circuit at customer facilities anywhere within a local exchange area.

A stand alone OC12 system, including installation and minimal power equipment at the customer premises is over $60,000 for the customer end and over $150,000 for the central office end. Adding OC12 cards to existing OC48 systems will vary.

The provision of an OC12 to the customer premise requires six strands of fiber. Two transmit, two receive and two standby. The use of fiber in the subscriber network will likely be a combination of existing fiber and new construction. The cost recovery addresses existing fiber investment. The charges will cover the cost of the OC12 fiber terminals, due to the likelihood that only one OC12 will go to a customer premise.

2. Rate Development

The basis of the rate development is intended to recover the costs of providing OC12 services.

Currently, no OC12 services are being provided by the Companies. Recent inquiries for OC12 services indicate that these services will be taken to the customer premises some distance from the central office. OC12 Channel Termination charges are designed to recover the additional costs associated with providing OC12 termination within the central office at one rate, in the local serving area within 3 miles of the central office at another rate, and beyond 3 miles at a higher rate.

The rate structure and costs for OC12 Service is comparable to OC3 Services because the similar equipment is used to provide both services.

Since OC12 service is provided using similar equipment as used for OC3 service, a Customer Node charge applies when the Company provides terminal equipment at the customer designated premises for termination. Each Customer Node must be configured with one or more Customer Premises Ports. A Customer Premises Port charge applies in conjunction with the Customer Node charge. Each Customer Premises Port provides the interface to derive a lower capacity service at the customer premises. The type and quantity of ports is determined by the customer and is based on the type of Customer Node selected and the number of channels ordered. An Add/Drop Multiplexing Central Office Port charge applies to the interface provided at a Company wire center for the purpose of adding or dropping lower capacity services.

The rates for Channel Termination for OC12 Service are developed assuming the use of existing facilities. If the customer location is beyond current fiber optic facilities, then a special construction tariff will apply to recover the coast of facilities dedicated to the customer.

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Analysis of OC12 Costs and Pricing
Annual Charge Analysis
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5		Expense	Investment		Fiber Terms	CWF
6	Plant Specific COE Transmision	682,191	28,049,856		0.024321	
7	Plant Specific CWF	3,577,123	79,441,406			0.045028
8	Other Plant Specific	1,908,597	179,118,300		0.010656	0.010656
9	Plant Non-Specific	3,707,816	179,118,300		0.020700	0.020700
10	Depreciation					
11	COE Transmission	2,011,020	28,049,856		0.071694	
12	CWF	3,675,634	79,441,406			0.046268
13	General Support Facilities	1,223,309	179,118,300		0.006830	0.006830
14	Customer Operations	4,393,697	179,118,300		0.024530	0.024530
15	Corporate Operations	6,755,918	179,118,300		0.037718	0.037718
16	Operating Taxes	204,144	179,118,300		0.001140	0.001140
17	Return			0.1125	0.056250	0.056250
18	Income Taxes	6,072,458	9,206,554	0.074203	0.037102	0.037102
19	Total Annual Charges	34,211,907			0.290941	0.286222

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Analysis of OC12 Costs and Pricing
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Network Elements	Asset Cost	Required Quantity	Network Component Capacity	Fill Ratio	Equivalent Service Asset Cost	Annual Charges Ratio	Annual Charges	In CO	< 3 miles Per Service	> 3 miles Per DS-3	NRC
CO end of OC-12 Fiber Optic Terminal	154,788	1	3	0.3333	154,803	0.290941	45,039	45,039	45,038.54	45,038.54	
Fiber Optic Cable 24 fiber cable, buried											
Average 10,000 feet	34,487	6	24	0.75	11,496	0.286222	3,290		3,290.41		
Average 25,000 feet	85,487	6	24	0.75	28,496	0.286222	8,156			8,156.18	
								45,039	48,328.95	53,194.72	
								3,753.21	**4,027.41**	**4,432.89**	
Customer Node	61,914	1	1	1	61,914	0.290941	18,013	18,013.32	18,013.32	18,013.32	13,250.00
Monthly Costs								**1,501.11**	**1,501.11**	**1,501.11**	**13,250.00**
Channel Mileage Termination	96,193	1	3	0.3333	96,202	0.290941	27,989	27,989.11	27,989.11	27,989.11	
Monthly Costs								**2,332.43**	**2,332.43**	**2,332.43**	
Channel Mileage Facility	29,135	1	5	0.3333	17,483	0.290941	5,087	5,086.52	5,086.52	5,086.52	
Monthly								423.88	423.88	423.88	
NRC for One year term											**13,250.00**
Discounted NRC for 3 year term											**6,625.00**
Discounted NRC for 5 year term											**-**

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OC12 12-Month Revenue Projections
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	May-2004		Jun-2004		Jul-2004		Aug-2004		Sep-2004		Oct-2004	
OC12 Service	Qty	Revenue	Qty	Revenue	Qty	Revenue	Qty	Revenue	Qty	Revenue	Qty	Revenue
Nonrecurring												
Channel Termination 0-3 Miles from CO	1	1,501.11	-	-	-	-	-	-	-	-	-	-
Customer Node	1	13,250.00	-	-	-	-	-	-	-	-	-	-
Total Nonrecurring Charges		**14,751.11**		**-**		**-**		**-**		**-**		**-**
Recurring												
Channel Termination w/in CO	1	3,753.21	1	3,753.21	1	3,753.21	1	3,753.21	1	3,753.21	1	3,753.21
Channel Termination 0-3 Miles from CO	-	-	-	-	-	-	-	-	-	-	-	-
Channel Termination More Than 3 Miles from CO	-	-	-	-	-	-	-	-	-	-	-	-
Customer Node	1	1,501.11	1	1,501.11	1	1,501.11	1	1,501.11	1	1,501.11	1	1,501.11
Customer Premises Port	3	525.00	3	525.00	3	525.00	3	525.00	3	525.00	3	525.00
Channel Mileage Facility	3	1,271.64	3	1,271.64	3	1,271.64	3	1,271.64	3	1,271.64	3	1,271.64
Channel Mileage Termination	1	2,332.43	1	2,332.43	1	2,332.43	1	2,332.43	1	2,332.43	1	2,332.43
Total Recurring Charges		**9,383.39**		**9,383.39**		**9,383.39**		**9,383.39**		**9,383.39**		**9,383.39**

	Nov-2004		Dec-2004		Jan-2005		Feb-2005		Mar-2005		Apr-2005	
OC12 Service	Qty	Revenue	Qty	Revenue	Qty	Revenue	Qty	Revenue	Qty	Revenue	Qty	Revenue
Nonrecurring												
Channel Termination 0-3 Miles from CO	-	-	-	-	-	-	-	-	-	-	-	-
Customer Node	-	-	-	-	-	-	-	-	-	-	-	-
Total Nonrecurring Charges		**-**		**-**		**-**		**-**		**-**		**-**
Recurring												
Channel Termination w/in CO	1	3,753.21	1	3,753.21	1	3,753.21	1	3,753.21	1	3,753.21	1	3,753.21
Channel Termination 0-3 Miles from CO	-	-	-	-	-	-	-	-	-	-	-	-
Channel Termination More Than 3 Miles from CO	-	-	-	-	-	-	-	-	-	-	-	-
Customer Node	1	1,501.11	1	1,501.11	1	1,501.11	1	1,501.11	1	1,501.11	1	1,501.11
Customer Premises Port	3	525.00	3	525.00	3	525.00	3	525.00	3	525.00	3	525.00
Channel Mileage Facility	3	1,271.64	3	1,271.64	3	1,271.64	3	1,271.64	3	1,271.64	3	1,271.64
Channel Mileage Termination	1	2,332.43	1	2,332.43	1	2,332.43	1	2,332.43	1	2,332.43	1	2,332.43
Total Recurring Charges		**9,383.39**		**9,383.39**		**9,383.39**		**9,383.39**		**9,383.39**		**9,383.39**

Diagram of OC12 Service and Applicable Tariff Elements
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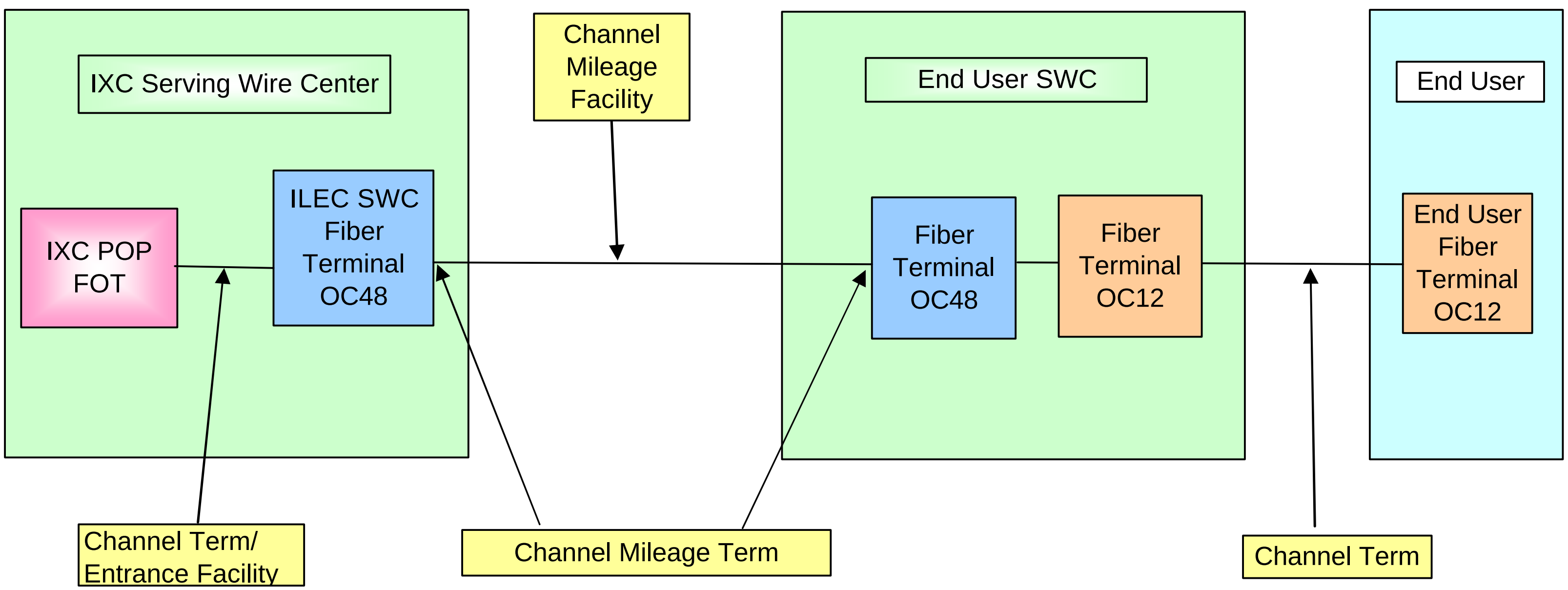

Madison River Telephone Company **Certification**

I am Michael T. Skrivan, Vice President of Revenues for Madison River Telephone Company, LLC. I hereby certify that I have overall responsibility for the preparation of all data supporting the Madison River Telephone Company's April 26, 2004 Access Tariff Filings and that I am authorized to execute this certification. Based upon information provided to me by employees responsible for the preparation of, or for supervision of the preparation of the data submitted in support of the rates contained in the proposed tariff, I hereby certify that the data have been examined and reviewed by me and are true, correct, and complete.

Michael T. Skrivan
Vice President – Revenues
Madison River Telephone Company

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