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September 13, 2006

SEP 13 PM 12:12  
T.A. DOCKET ROOM

Chairman Sara Kyle  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: Re-initialization of Price Regulation Indices Filed By United Telephone-Southeast, Inc. - Docket 06-00207

Dear Chairman Kyle:

On August 11, 2006 United Telephone-Southeast, Inc. d/b/a Embarq (Embarq) filed to re-initialize its Price Regulation Indices. Attached are revisions to this filing that make it more complete and that replace the August 11, 2006 filing in its entirety.

Documents attached are:

1. Summary Sheet (Revised)
2. Supporting Workpapers (Proprietary)
3. Price Cap Annual Filing Methodology dated January 23, 1997, adopted in Docket 96-01423

Should you have questions concerning this information, please contact me at 919-554-7323.

Sincerely,

Laura A. Sykora

Attachments

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TENNESSEE  
PRICE RE-INITIALIZATION

SERVICE PRICE INDEX (SPI) CALCULATION BY CATEGORY	Dec 05 Rates as restructured Volumes	June Annualized	Current Rates June 2005 Volumes	June Annualized
<b><u>Basic Revenues</u></b>				
General Subscriber Service Tariff	\$ 3,484,395.21	\$41,812,742.56	\$ 3,484,395.21	\$ 41,812,742.56
Total Basic Services	\$ 3,484,395.21	\$41,812,742.56	\$ 3,484,395.21	\$ 41,812,742.56
<b><u>Non - Basic Revenues</u></b>				
General Subscriber Service Tariff	\$ 3,738,552.85	\$ 44,862,634.20	\$ 3,738,552.85	\$ 44,862,634.20
Access Services Tariff	\$ 515,544.92	\$ 6,186,539.06	\$ 515,544.92	\$ 6,186,539.06
Miscellaneous Revenues	\$ 661,663.02	\$ 7,939,956.24	\$ 661,663.02	\$ 7,939,956.24
Total Non-Basic Services	\$ 4,915,760.79	\$ 58,989,129.50	\$ 4,915,760.79	\$ 58,989,129.50
TOTAL BASIC & NON-BASIC	\$ 8,400,156.01	\$ 100,801,872.06	\$ 8,400,156.01	\$ 100,801,872.06

<b>PRI/SPI Comparison</b>	Basic SPI Calculation	Current	\$ 41,812,742.56
		Base	\$ 41,812,742.56
		Result	1.0000
		X 100	100.0000
		2005 PRI (restated)	102.5573
	Non-Basic SPI Calculation	Current	\$ 58,989,129.50
		Base	\$ 58,989,129.50
		Result	1.0000
		X 100	100.0000
		2005 PRI (restated)	101.2439

Basic PRI Calculation- Re-initialization

PRI - 2005 Index Filing	103.9502
SPI - 2005 Index Filing	101.3582
Relationship	1.025572672
New PRI	102.5572672
New SPI	100
Relationship	1.025572672

Non-Basic PRI Calculation - Re-initialization

PRI - 2005 Index Filing	103.8388
SPI - 2005 Index Filing	102.5630
Relationship	1.012439184
New PRI	101.2439184
New SPI	100
Relationship	1.012439184

**Price Cap  
Annual Filing  
Methodology**

**January 23, 1997**

**United Telephone-Southeast, Inc.  
Tennessee**

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## **I. Purpose**

On October 15, 1995, United Telephone-Southeast entered Price Regulation per Chapter 408 of the Public Acts of 1995 (the Act) for the state of Tennessee. In response to the Commission's order approving United's plan, the agreement below reflects the stipulated aspects of Price Cap methodology to be used by United in calculating indexes and any price adjustments to ensure compliance with the Act. Other filings implementing aspects of the stipulation may be made throughout the year in response to customer demand, changing market conditions, or to use any residual opportunity for price changes not incorporated into this filing.

## **II. Scope**

As defined by the Act, Basic and Non-Basic Services category revenues and pricing are governed by the Act. A comprehensive list of United's Basic and Non-Basic services, except as noted, is included as Attachment A.

## **III. Definitions**

Below are definitions of terms used throughout this document. A number of the definitions have been presented verbatim from TCA sections, as noted, to support a comprehensive explanation of the calculations.

A. Basic Local Exchange Telephone Services (Basic Services) - are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on the effective date of the price regulation act or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on the effective date of the price regulation act. Rates for these services shall include both recurring and nonrecurring charges. (Section 65-5-208)

B. Non-Basic Services - are telecommunications services which are not defined as Basic Local Exchange Telephone Services and are not exempted under section 65-5-208 (b). Rates for these services shall include both recurring and nonrecurring charges. (Section 65-5-208)

C. Price Regulation Index (PRI) - establishes a ceiling on price changes, in the aggregate, for the Basic and Non-Basic Services categories. The PRI, as of the effective date of Price Regulation, is one hundred (100). The PRI for subsequent years shall be calculated as described in IV.G. below.

D. Service Price Index (SPI) - indicates the cumulative annual percentage change in actual prices, by service category (Basic and Non-Basic), since the effective date of Price



Regulation, or since the last resetting of the Indexes by the Tennessee Regulatory Authority. The SPIs for the Basic and Non-Basic categories are calculated by category and compared to the PRI. The Service Price Index shall be calculated as described in IV.H. below.

E. Gross Domestic Product-Price Index (GDP-PI) - is the final estimate of the Chain-Weighted Gross Domestic Product-Price Index as prepared by the U.S. Department of Commerce and published in the Survey of Current Business, or its successor. (Section 65-4-101 (h)).

F. Revenues per Category - The revenues included in each category are determined as listed below:

Local (Basic and Non-Basic) - revenues are determined from the number of revenue-producing units multiplied by the corresponding per unit price.

Service Connection Charges/Nonrecurring Charges (NRC) - revenues are determined from the number of revenue-producing units multiplied by the corresponding per unit price. To the extent that detailed service volumes can not be specifically linked to a basic service or specifically linked to a non-basic service, the company will propose a method of allocation and provide documentation supporting the allocation to the Tennessee Regulatory Authority and interested parties. Any interested party may petition the Authority for a hearing on the appropriate allocation method. For United's initial filing, the parties stipulate that the Service Connection and NRC charges are properly allocated between Basic and Non-Basic Services based upon the percentage of revenues where charges are applicable for each category.

Message Toll, Switched Access, Opportunity 800, WATS - revenues are derived from minutes of use multiplied by the corresponding per minute price.

Switched Access - Dedicated, Special Access - revenues are derived from the number of units multiplied by the corresponding per unit price.

Billing and Collection, Public and Semi-Public Phone Revenue, Cellular Interconnection, Directory Compensation, Miscellaneous - revenues are determined from the number of revenue-producing units multiplied by the corresponding per unit price. To the extent that detailed service volumes are not available for any such service, the Company will propose a method for determining these revenues and provide documentation supporting its calculations to the Tennessee Regulatory Authority and interested parties. Any interested party may petition the Authority for a hearing on the proposed method for determining these revenues.

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G. Revenue Producing Units - The units included in the service volumes are revenue-producing units only. Company official units are excluded from the service volumes.

#### IV. Methodology

A. Increases in the Basic Local Exchange category - cannot occur until October 15, 1999.

B. Call Waiting - Rates for call waiting have been set at \$3.00 for residence customers and \$3.90 for business customers until October 15, 1999 per the Act.

C. Interconnection Services - Prices for interconnection services are capped at the lesser of one-half (1/2) the percentage change in the previous year's inflation rate or the inflation rate for the previous year minus two percentage points (TCA 65-5-208). The inflation rate is defined as the percentage change in the final estimate of the Chain-Weighted GDP-PI from the most recent quarter when a final estimate is available. For this filing, the 1996 first quarter inflation rate is used. Subsequent evaluations for United Telephone-Southeast, Inc. will continue to use first quarter estimated inflation rates. Interconnection includes the ability for telecommunications carriers, including Competitive Local Exchange Companies, Cellular service providers, Wireless service providers, etc., to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers and obtain access to network elements on a non-discriminatory basis dependent on the cost of providing the network element (per the Telecommunications Act of 1996, Section 251, Interconnection).

D. New Services - New tariffed services will be included in the SPI for the appropriate category in the first annual filing after the service has been available for six months. The price in effect for the new service when it is added to the index calculations, divided by the value of the Service Price Index for the previous anniversary date, shall be the initial index price for the new service.

E. Revenue Neutral Filings - Revenue neutral filings are defined as filings that result in no increase in aggregate revenues. Revenue neutral filings will not include SPI calculations when services within the same category are affected.

F. Promotional Pricing - The permanent approved rates shall be used in calculating revenues for services where rates are discounted for promotional purposes during the year.

G. Calculation of PRI - Per the Act, the "maximum annual adjustment...is capped at the lesser of one-half (1/2) the percentage change in inflation for the United States using the

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Gross Domestic Product-Price Index (GDP-PI) from the preceding year as the measure of inflation, or the GDP-PI from the preceding year minus two (2) percentage points" (TCA 65-5-208). The Price Regulation Index is calculated annually as a) 100 plus b) the lesser of one-half (1/2) the percentage change in the previous year's inflation rate or the inflation rate for the previous year minus two percentage points c) divided by 100 and d) multiplied by the then current value of the PRI for the company. The inflation rate is defined as the percentage change in the final estimate of the Chain-Weighted GDP-PI from the most recent quarter when a final estimate is available. Attachment B reflects the calculation. Future years will use appropriately updated inflation rates.

H. Calculation of SPI for Basic and Non-Basic Services - The Service Price Index is calculated for both Basic and Non-Basic categories as 1) the annualized Proposed revenues for each category 2) divided by the annualized Base revenues for each category 3) multiplied by 100. The annualized Proposed revenues for each annual filing shall be the revenues for each category resulting from pricing out the annualized service volumes for the latest month available at the company's current prices for each service plus the net effect of any proposed price changes. The service volumes for the latest month available are for the month of June for the year of the annual filing. The annualized Base revenues for each annual filing shall be the revenues resulting from pricing out the annualized service volumes for the latest month available at the company's initial index prices for each service. The initial index prices are the service prices in effect on June 6, 1995 or as reset by the Tennessee Regulatory Authority under TCA 65-5-207. If the PRI and SPI are reset by the Authority, the same proportional relationship will exist between these two indexes before and after the resetting process. The SPI will be recalculated with each annual filing and as necessary for interim filings. The service volumes will remain constant for interim filings and will be adjusted with each annual filing.

## V. Attachments

A. List of Basic and Non-Basic Services as of 6/30/96

B. 1996 PRI Calculation

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## Attachment A

## List of Basic and Non-Basic Services as of 6/30/96

Basic Services	Tariff	Section	Revenue Category
ABC Network Access Registers (NARS) (plus one line per NAR)	GSST	13.18.7 B	Local
Exchange Access and Usage (including Key/PBX trunks)	GSST	3	Local and Measured
In-classroom Computer Access	GSST	3.12.3	Local
Lifeline Service	GSST	3.10.3	Local
Link-up Tennessee	GSST	4.11	Local
Shared Tenant Service	GSST	3	Local
Touch Tone	GSST	13.7.2	Local
* Other Services required by State and Federal Statutes			
Non-Basic Services	Tariff	Section	Revenue Category
ABC Intercom Lines & Features (less one line per NAR)	GSST	13.18.7	Local
ABC Medical Community	GSST	13.18.8	Local
Analog Private Lines	GSST	22.2.1	Local
Billing and Collection	Access	8	Billing and Collection
Coin Telephone Service - Pub and Joint Oper	GSST	7	Public and Semi-Public Phone
Custom Calling Services and Packages	GSST	13.9	Local
DID Service	GSST	13.14.2	Local
Directory Assistance	Not in tariff		Local
Directory Compensation	Contract		Directory Compensation
Directory Listings (Foreign, Add'l, etc)	GSST	6	Local
E-911	GSST	21	Local
Enterprise Service (Special Reverse Toll)	GSST	13.8	Local
ExpressTouch Services	GSST	13.20	Local
Extension Service	GSST	13.1	Local
Frame Relay Service	New Service		Local
FX Service	GSST	9.1.2	Local
Interconnection of Mobile Service	GSST	18.10	Cellular Interconnections
ISDN BRI and PRI	GSST	12	Local
Maintenance of Service Charge	GSST	15.4	Local
Messageline	GSST	13.24	Local
MTS	IMTS		Message Toll
Miscellaneous	Contract		Miscellaneous
N11 Service	GSST	10	Local
Operator Service	GSST	3.18	Local
Optional Calling Plans	GSST	20	Local
PBX Night, Sunday, etc. Arrangements	GSST	11.3.2	Local
Public Announcement Service	GSST	13.12	Local
Restriction Services	GSST	13.17	Local
Station Message Desk Interface (SMDI)	GSST	13.22	Local
Switched and Special Access	Access	6,7	Switched Access-Ded Switched Access Special Access
Telecommunications Service Priority System	GSST	13.21	Local
Telephone Answering Service	GSST	8.2	Local
Tie Service	GSST	13.3	Local
United Digilink/Translink	GSST	22.4 & 22.5	Local
United Flexlink	GSST	22.6	Local
United Lightlink	GSST	22.7	Local
United Switchlink	GSST	13.23	Local
WATS	GSST	19.4	Local, WATS, Opportunity 800

\* Categorization as Basic or Non-Basic is an issue to be determined in this proceeding.



### 1996 PRI Calculation

**Input:**

Inflation Rate 2.4  
First Qtr 1995 vs. First Qtr 1996

**Calculation:**

**Step 1:**

Base Rate of 100 100

**Step 2:**

Plus: The lessor of:

1/2 Inflation Rate 1.2

or

Inflation Rate - 2% 0.4

= 100.4

**Step 3:**

Divided by 100 1.004

**Step 4:**

Multiplied by the current PRI (100) 100.4



26 • July 1996

## SURVEY OF CURRENT BUSINESS

## 8. Supplementary Tables

Table 8.1.—Percent Change From Preceding Period in Selected Series  
(Percent)

	1994	1995	Seasonally adjusted at annual rates							1994	1995	Seasonally adjusted at annual rates						
			1994	1995					1995			1994	1995					1995
				IV	I	II	III	IV					I	IV	I	II	III	
Gross domestic product:																		
Current dollars	5.8	4.5	6.4	3.9	2.8	5.8	2.3	4.3										
Chain-type quantity index	3.5	2.0	3.2	.5	.5	3.6	.5	2.2										
Chain-type price index	2.3	2.5	2.2	3.3	2.5	2.2	2.2	2.4										
Implicit price deflator	2.3	2.4	2.2	3.2	2.3	2.2	1.8	2.1										
Personal consumption expenditures:																		
Current dollars	5.5	4.8	5.3	3.4	6.1	4.2	2.6	5.8										
Chain-type quantity index	3.0	2.4	3.3	.8	3.4	2.8	1.2	3.5										
Chain-type price index	2.4	2.4	2.0	2.7	2.9	1.5	1.7	2.4										
Implicit price deflator	2.4	2.3	2.0	2.8	2.7	1.4	1.4	2.1										
Durable goods:																		
Current dollars	9.5	4.4	12.4	-8.2	7.6	8.1	-2.0	9.4										
Chain-type quantity index	7.2	3.4	12.6	-8.7	7.0	9.3	.3	8.5										
Chain-type price index	2.1	1.4	-1.1	3.1	.8	-7.7	-2.2	1.2										
Implicit price deflator	2.1	1.0	-2.7	2.7	.5	-1.2	-2.3	-1.1										
Nondurable goods:																		
Current dollars	4.4	3.9	4.4	3.5	4.2	1.2	.9	7.7										
Chain-type quantity index	3.1	2.3	3.2	2.4	1.9	.5	-3.3	3.8										
Chain-type price index	1.3	1.7	1.2	1.0	2.6	.7	1.3	3.9										
Implicit price deflator	1.3	1.8	1.1	1.1	2.3	.7	1.3	3.3										
Services:																		
Current dollars	6.2	5.3	4.3	5.6	8.8	5.0	4.6	4.2										
Chain-type quantity index	2.1	2.3	1.4	2.1	3.4	2.5	2.2	2.5										
Chain-type price index	3.0	3.1	2.9	3.5	3.4	2.4	2.4	1.9										
Implicit price deflator	3.0	3.0	2.9	3.4	3.3	2.4	2.3	1.7										
Gross private domestic investment:																		
Current dollars	10.6	5.0	8.8	8.8	-7.9	9.7	-1.0	1.9										
Chain-type quantity index	14.3	3.2	5.0	7.3	-9.7	7.4	-3.7	3.0										
Chain-type price index	1.9	1.9	1.4	1.0	3.0	2.3	.8	.4										
Implicit price deflator	1.9	1.7	1.5	1.2	2.1	2.1	-3.3	-1.0										
Fixed investment:																		
Current dollars	12.3	7.7	9.8	9.4	.9	8.2	3.7	9.7										
Chain-type quantity index	10.1	8.1	8.4	8.9	-1.4	8.3	4.0	11.3										
Chain-type price index	1.9	1.8	1.2	.8	2.7	2.3	.7	0										
Implicit price deflator	1.9	1.5	1.2	.7	2.4	1.8	-3.3	-1.2										
Nonresidential:																		
Current dollars	11.4	10.7	12.0	15.5	6.1	6.6	1.9	10.7										
Chain-type quantity index	9.8	9.8	12.2	15.3	3.8	5.2	3.1	12.4										
Chain-type price index	1.4	1.2	-1.1	.1	2.8	2.0	.1	.1										
Implicit price deflator	1.4	.9	-2.2	.2	2.5	1.3	-1.3	-1.5										
Structures:																		
Current dollars	4.8	10.8	10.5	12.8	6.5	10.3	2.9	9.0										
Chain-type quantity index	1.6	7.2	13.0	9.9	3.4	8.2	.9	7.9										
Chain-type price index	3.3	3.3	4.9	2.4	2.9	3.8	1.8	1.3										
Implicit price deflator	3.3	3.3	4.9	2.6	3.1	3.8	2.0	1.0										
Producers' durable equipment:																		
Current dollars	14.1	10.8	9.7	16.6	6.0	5.3	1.4	11.3										
Chain-type quantity index	13.2	10.5	11.9	17.4	3.7	4.8	4.0	14.1										
Chain-type price index	.7	.4	-1.8	-7.7	2.7	1.4	-5.4	-4										
Implicit price deflator	.7	.1	-2.0	-7.7	2.3	.4	-2.4	-2.4										
Residential:																		
Current dollars	14.3	.7	4.4	-4.2	-11.1	12.5	8.8	7.3										
Chain-type quantity index	10.8	-2.3	-1.1	-8.3	-13.3	9.2	6.4	7.4										
Chain-type price index	3.1	3.1	4.5	2.2	2.8	2.9	2.2	-1										
Implicit price deflator	3.1	3.1	4.5	2.2	2.5	3.0	2.2	-1										
Exports of goods and services:																		
Current dollars	8.4	11.4	17.0	6.1	9.7	8.1	8.8	1.1										
Chain-type quantity index	8.3	8.3	15.3	2.6	4.8	8.0	11.0	2.0										
Chain-type price index	1.1	3.3	2.2	5.8	5.3	.8	.9	.4										
Implicit price deflator	1.1	2.9	1.5	5.4	4.9	.1	-2.0	-1.8										
Exports of goods:																		
Current dollars	10.8	14.2	23.0	10.3	11.9	9.5	10.5	-5										
Chain-type quantity index	10.1	10.8	21.3	3.7	6.6	9.6	14.1	2.1										
Chain-type price index	.8	3.5	2.9	6.9	5.3	.9	-1.6	-5										
Implicit price deflator	.8	3.0	1.9	6.3	4.8	0	-3.1	-2.5										
Exports of services:																		
Current dollars	8.2	4.9	2.4	2.7	4.7	4.3	4.5	5.6										
Chain-type quantity index	4.0	2.3	1.8	-3	-4	3.9	3.4	1.9										
Chain-type price index	2.1	2.6	.8	3.1	5.2	.4	1.1	3.6										
Imports of services:																		
Current dollars	6.8	4.8	-8	7.0	10.1	0	4.9	11.0										
Chain-type quantity index	5.2	2.0	-4.0	11.8	-3.5	1.5	8.8	12.3										
Chain-type price index	1.3	2.8	3.9	-4.1	14.8	-1.4	-1.9	-1.3										
Implicit price deflator	1.5	2.7	4.0	-4.1	14.1	-1.4	-1.7	-1.3										
Government consumption expenditures and gross investment:																		
Current dollars	1.9	3.3	1.7	3.8	4.2	1.4	-3	8.1										
Chain-type quantity index	0	.1	-1.4	-1.1	.9	-7.7	-4.1	3.9										
Chain-type price index	2.0	3.4	3.2	5.1	3.3	2.1	4.4	4.0										
Implicit price deflator	2.0	3.3	3.1	5.0	3.3	2.0	4.0	4.4										
Federal:																		
Current dollars	-1.1	.1	-2.1	-8	2.1	-4	-6.8	8.9										
Chain-type quantity index	-3.7	-3.5	-5.9	-6.3	-1.1	-5.9	-12.9	5.9										
Chain-type price index	2.7	3.9	4.2	6.2	3.2	1.7	7.5	1.3										
Implicit price deflator	2.7	3.7	4.0	5.9	3.3	1.5	7.0	2.8										
National defense:																		
Current dollars	-2.8	-1.8	-13.1	-2.3	6.3	-7.3	-9.5	5.2										
Chain-type quantity index	-5.1	-6.0	-16.1	-7.0	.9	-8.1	-12.0	3.8										
Chain-type price index	2.4	3.7	3.8	5.6	4.4	1.0	3.5	2.5										
Implicit price deflator	2.4	3.4	3.5	5.2	4.4	.8	2.8	4.2										
Nondefense:																		
Current dollars	2.9	4.1	28.3	2.1	-4.2	1.9	-1.2	10.1										
Chain-type quantity index	-7	-2	20.2	-4.8	-6.2	-1.2	-14.6	10.1										
Chain-type price index	3.5	4.4	5.1	7.5	.7	3.7	17.0	.4										
Implicit price deflator	3.6	4.3	6.1	7.3	1.1	3.2	15.7											