

April 4, 2007

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

Dear Chairman Kyle:

Re: ²⁰⁰⁷~~2005~~ Annual Price Regulation Filing

Enclosed for the Tennessee Regulatory Authority's review and approval are an original and thirteen copies of Citizens Telecommunications Company of Tennessee's ²⁰⁰⁷~~2005~~ Annual Price Regulation Filing. No price changes are proposed at this time. This filing is made to identify the headroom available to Citizens for potential future increases in revenue.

Should you have any questions, please contact me at 304-325-1216.

Sincerely,



J. Michael Swatts
State Government Affairs Manager

Enclosures

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Price Cap Annual Filing

**Citizens Telecommunications Company of Tennessee, LLC
d/b/a
Frontier Communications of Tennessee, LLC**

April, 2007

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I. Purpose

On April 12, 1996, in Docket No. 96-00010, Citizens Telecommunications Company of Tennessee LLC (CTC-TN) entered into Price Regulation in accordance with Chapter 408 of the Public Acts of 1995 for the State of Tennessee. The following reflects the Price Cap methodology used in calculating indexes and the related revenue shortfall experienced since CTC-TN elected Price Cap Regulation. The filing is in compliance with Tenn. Code Ann. §65-5-209. You will note this filing does not include any rate adjustments. The filing is being submitted for review and approval by the TRA and identifies the residual revenues that CTC-TN could implement via price increases and rate restructuring in response to competitive pressures, changing market conditions, customer demand, revenue shortfalls, and other miscellaneous conditions.

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 Basic and Non-Basic Services is included as Attachment C. Revenue data gathered to support calculations for this filing covers the period from June 1996 through December 2005. The TRA issued an Order Denying Petition for Rehearing on January 24, 2000, in Docket No. 98-00626 (United Telephone Southeast, Inc., Tariff to Reflect Proposed Changes Under Price Regulation Plan). In that Order, the TRA concluded that Tenn. Code Ann. §65-5-209(e) does not prohibit a price-regulated company from taking cumulative increases. The deferral of rate increases over this period of time allows CTC-TN to identify the accumulative "headroom" available for future rate increases.

III. Definitions

The definitions of terms below are used throughout this document. A number of the definitions are verbatim from TCA sections, as noted, to support an 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 of residential and business customers for the provision of two way switched voice or data transmission over voice grade facilities 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 the IV.F. 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.G. 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)). Since this filing represents Frontier's first price cap filing, the cumulative total GDP-PI from June 1996 to June 2003 was used.
- 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.

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 cannot be specifically linked to a basic service or specifically linked to a non-basic service, the NRC charges are properly allocated between Basic and Non-Basic Services based upon the percentage of revenues where charges are applicable for each category based on GL accounts. This method has been adopted in previous Price Cap filings by other LECs in TN.

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

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

Billing and Collection, Pay Phone Revenue, 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 a specific service, revenues were obtained through GL accounts.

- 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 – the moratorium on rate increases expired April 12, 2000.
- B. 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. Interconnection allows telecommunications carriers, including CLECs, Cellular and 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).
- C. 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.

- D. 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.
- E. Promotional Pricing – The permanent approved rates shall be used in calculating revenues for services where rates are discounted for promotional purposes during the year.
- F. 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 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.
- G. 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. 2005 Price Regulation Filing Summary
- B. PRI Calculation
- C. Basic and Non-basic Detail Back-up