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December 20, 1996

EXECUTIVE SECRETARY

Dr. Chris Klein  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Dear Dr. Klein:

Per our meeting on Tuesday, December 17, please find enclosed three revised copies of United Telephone-Southeast, Inc.'s Price Cap Annual Filing Methodology for Tariff No. 96-201, Docket No. 96-01423.

These revisions reflect the agreement in concept reached among the parties of record in this docket to conform United's Service Price Index (SPI) methodology to the methodology contained in the final draft of the local competition rules. In addition, the new services language has been updated to reflect the language contained in the final draft rules. Also, other minor revisions were made to clarify the language. We have included a legislative markup to highlight all changes incorporated in the original document.

By my signature below, I certify that a copy of the enclosed has been sent to all parties of record in this docket. All parties of record should review the changes to ensure that we have included the concepts discussed and agreed upon and provide acknowledgment to myself or Jim Wright by the close of business on Monday, December 23, 1996.

Sincerely,

C. Steve Parrott

#### Attachments

c: L. Vincent Williams, Consumer Advocate Division  
Richard M. Tettelbaum, Citizens Telecommunications Company  
Guy Hicks, BellSouth Telecommunications, Inc.  
John Knox Walkup, Val Sanford (AT&T)  
Dianne F. Neal, Tennessee Regulatory Authority  
Bob Wallace, Sprint  
Jim Wright, Sprint

**Price Cap  
Annual Filing  
Methodology  
Revised**

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

**December 20, 1996**

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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 for the state of Tennessee. In response to the ruling, the attached reflects the Price Cap methodology used in calculating indexes and any price adjustments to ensure compliance with the law. Other filings 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 Basic and Non-Basic services is included as Attachment A. Revenue data gathered to support calculations for the first annual filing covers the period **June 1996**.

## **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.

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)

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)

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 V.A. below.

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 Authority under the ruling. The

SPIs for the Basic and Non-Basic categories are individually calculated and compared to the PRI. The Service Price Index shall be calculated as described in V. B. below.

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)).

#### **IV. Assumptions**

A. Revenues per Category - The revenues included in each category were gathered from various billing systems and general ledger entries as listed below. The sources are also referenced on Attachments B and D.

Local (Basic and Non-Basic) - revenues were derived from the number of revenue-producing units per item multiplied by the per unit revenue for each item.

Service Connection Charges/Nonrecurring Charges (NRC) - revenues were taken directly from the appropriate general ledger accounts and allocated between Basic and Non-Basic as described in B. below.

Message Toll, Switched Access, Opportunity 800, WATS - revenues were derived from minutes of use for each month multiplied by the per minute rate.

Switched Access - Dedicated, Special Access - revenues were derived from the number of units per item multiplied by the per unit revenue for each item.

Billing and Collection, Public and Semi-Public Phone Revenue, Cellular Interconnection, Directory Compensation, Miscellaneous - revenues were taken directly from the appropriate general ledger accounts.

B. Allocation of Service Connection and Nonrecurring Charges (NRC) - Service Connection and NRC Charges have been allocated between Basic and Non-Basic Services based upon percentage of revenues where charges are applicable for each category. Specifically, all Basic services and the local and cellular interconnection Non-Basic services were included in the total revenues for allocation. The resulting factors were 71% for Basic and 29% for Non-Basic. Future years will be calculated by a similar process.

C. Revenue Producing Units - The units included in the demand quantities are revenue-producing units only. Company official units have been excluded from the demand quantities.

D. Intrastate Allocation factors as of May 31, 1996 used for Miscellaneous revenues - The intrastate allocation factors used are for the period ending May 31, 1996. Future years will be updated as necessary.

E. Increase in Basic Local Exchange - cannot occur until October 15, 1999.

F. 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.

G. Interconnection Services - Rates for interconnection service 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 rate is used. 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).

H. 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. New services offered by United since October 15, 1995 include Frame Relay which was filed on April 9, 1996 with an effective date of May 16, 1996.

I. Revenue Neutral Filings - Revenue neutral filings are defined as filings that result in no change in net revenues. Revenue neutral filings made since October 15, 1995 include 1) a January 12, 1996 filing, effective on February 20, 1996 to decrease intrastate access rates for special access and to increase three-way calling and signal ring and 2) a May 23, 1996 filing, effective on June 24, 1996 to adjust rates for Custom Calling and ExpressTouch features for residence and business customers, service order charges, and Direct Inward Dial (DID) service. Revenue neutral filings will not include SPI calculations when services within the same category are affected.

## V. **Methodology**

A. 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. For this filing, the 1996 first quarter rate as published by the Survey of Current Business has been used. Attachment C reflects the calculation. Future years will use appropriately updated inflation rates.

**B. Calculation of SPI for Basic and Non-Basic Services** - The Service Price Index has been calculated for both Basic and Non-Basic categories as 1) the Proposed revenues for each category 2) divided by the annualized Base revenues for each category 3) multiplied by 100. The 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 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. June 1996 revenues are the "Base Revenues" for the first annual filing and are the result of "demand" multiplied by price for unit based items and total general ledger amounts for items that are not unit based. For subsequent years, initial index prices shall be the June 1996 prices as established in the first annual filing and "demand" shall be the annualized service volumes for the latest month available. The SPI will be recalculated with each annual filing and as necessary for interim filings. The "demand" for unit based items will remain constant for interim filings and will be adjusted with each annual filing

**C. Comparison of PRI and SPI** - The PRI for 1996 is 100.4 (Attachment C) and the SPI for 1996 after price changes is 100.4 (Attachment D).

## **VI. Results**

United proposes to implement Directory Assistance charges, to reduce the Switched Access Interconnection charge, and to reduce the per minute rate for Carrier Common Line. The calculations supporting the rate changes are included as Attachment D, pages 2, 3, and 4 (revised as of December 6, 1996). Additional "proprietary information" supporting Directory Assistance has been included under separate cover (revised as of December 6, 1996). The proposed tariffs are being filed in their entirety as Attachment E.

## **VII. Attachments**

- A. List of Basic and Non-Basic Services as of 6/30/96
- B. Total Revenues by Category for Basic and Non-Basic Services

C. 1996 PRI Calculation

D. Total Revenues by Category for Basic and Non-Basic Services  
Reflecting 1996 Proposed Price Changes and PRI/SPI comparisons

E. Proposed Tariffs