

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI****AUG 15 2005****Missouri Public
Service Commission**

In the Matter of the Request from the Customers in the)
Rockaway Beach Exchange for an Expanded Calling)
Scope to Make Toll-Free Calls to Branson.) **Case No. TO-2003-0257**

**AMENDMENT/SUPPLEMENT TO
THE RESPONSE OF CENTURYTEL OF MISSOURI, LLC
TO STAFF'S SUGGESTIONS IN OPPOSITION
TO STIPULATION AND AGREEMENT**

COMES NOW CenturyTel of Missouri, LLC ("CenturyTel") and, pursuant to 4 CSR 240-2.080(20) and in response to inquiries from the bench during the On-The-Record Presentation held August 11, 2005 herein, respectfully amends and supplements the Response of CenturyTel of Missouri, LLC To Staff's Suggestions In Opposition To Stipulation And Agreement previously filed in this matter on August 8, 2005, as follows:

1. In accordance with the directives contained in the Commission's Order Directing Filing issued on August 4, 2005, CenturyTel filed its expedited Response on the same date that Staff filed its Suggestions in Opposition to Stipulation and Agreement, August 8, 2005. This pleading is submitted within 10 days of that filing.

2. As noted in Paragraph 7 of the Response, the Staff argues that Section 392.245 requires that any CPI-TS rate adjustment made by a price cap company must be made "across-the-board" on an equal percentage basis to all basic services. Indeed, during the On-The-Record Presentation, Staff Counsel confirmed that position:

Commissioner Murray: So we can look in the definition of basic local services and determine that under Staff's interpretation of the statute, a legal price cap filing would have to include a reduction in every one of those services equally to all customers?

Mr. Poston: Yes. Percentage – the percentage would be equal to all customers and that would apply to the items listed under the basic local definition.

(Tr. 95).

3. As CenturyTel explained in its previous Response and on the record, Staff is in error on this point. Contrary to Staff's Suggestions, there is no statutory reason why the rate reductions mandated by Section 392.245 must be applied across-the-board, on an equal percentage basis as long as the rate reductions are applied to basic local service and access rates, and aggregate to the full amount of the CPI-TS adjustment mandated by Section 392.245. Not every element of these basic local exchange services must be impacted equally. The rate design used to implement the CPI-TS rate adjustment may be applied in any reasonable manner, provided it is approved by the Commission, and adjusts basic local exchange and access rates in the aggregate by the full amount of the CPI-TS adjustment mandated in Section 392.245. Under the Signatory Parties' Plan, basic local exchange and access services are reduced by the full amount of this statutorily mandated adjustment.

4. In support of its position, CenturyTel pointed out that contrary to the Staff's legal arguments in this case, Staff has previously recommended the approval of a rate design proposal that did not apply the CPI-TS rate reductions on an across-the-board, equal percentage basis. As set forth in Paragraph 9 of its Response, CenturyTel noted that in December, 2000, the Staff recommended approval of a Sprint proposal to eliminate the separate touch tone and zone mileage charges as a part of Sprint's annual CPI-TS rate adjustment filing. Attached to the Response as Attachment No. 1 was the

Staff Recommendation, File No. 200100493 ("Sprint case"). According to the Staff Recommendation in the Sprint case,

Rather than reducing all components of basic local services (access lines, measured access, EAS, service charges, touch tone, and zone mileage) by the amount of the CPI-TS adjustment, Sprint is proposing to eliminate the separate touch tone and zone mileage charges and combine these charges into the basic access line rates for business and residential customers. (Staff Recommendation, p. 3 of 7).

Staff clearly recognized that different customers would be impacted differently by the Sprint proposal when Staff pointed out in its Recommendation approving Sprint's proposal:

The impact of these changes will be different for particular customers depending on whether they currently purchase Touch Tone service and pay zone mileage charges. . . Residential customers who currently purchase Touch Tone as a separate service and pay zone mileage—*approximately 27% of customers—will realize a monthly savings of approximately 40 cents.* Customers who currently purchase Touch Tone and do not pay zone mileage charges (50% of customers) will incur a monthly rate increase of \$1.95. (*original emphasis*).

Yet in the Sprint case, Staff recommended approval of the proposed rate design:

Staff has analyzed Sprint's proposed price cap filing and find that it meets the requirements of the price cap regulations as set forth in RSMo 392.245. Staff has no objections to the rate changes going into effect, including the elimination of separate Touch Tone and zone mileage charges. (Attachment No. 1, p. 7 of 7).

5. During the On-The-Record Presentation, Commissioner inquiries were directed to the Sprint price cap rate design methodology discussed above (Tr. 48-50, 97-99), and whether that particular price cap tariff filing and its targeted reductions (and Staff's support thereof) may have been a unique, one-time circumstance. Upon further analysis and review, it appears that Staff's position in File No. 200100493 is not the

exception, but more akin to the rule, when addressing Sprint price cap filings. For the Commission's consideration and review, CenturyTel attaches hereto the following:

Attachment 2: Staff Memorandum dated November 25, 2002, recommending approval of Sprint Price Cap Tariff Filings, which notes that, **Rather than applying the CPI-TS adjustment to all basic local rates, Sprint increased a few selected non-recurring rates resulting in the same expected revenue impact as applying the adjustment to all basic local rates. . . . Rather than increase all access rates, Sprint revised its local switching rate. . . . Staff has reviewed the CPI-TS adjustments and finds them consistent with Section 392.245.4 RSMo as stated above.** (Emphasis added.);

Attachment 3: Staff Memorandum re: Sprint Price Cap Tariff Filing to be effective January 18, 2005 (NP version, File Nos. JI-2005-0426 and JI-2005-0427), **reflecting percentage reductions to Basic Residential and Business services** (total CPI-TS reduction of 2.68%), **ranging from -1.61% to -25.24%!** (See, pp. 1-4, Basic Service Rates (CPI-TS Adjustments)) Once again, Staff states that it "has reviewed Sprint's proposed price cap filing and finds that it meets the requirements of the price cap regulations as set forth in Section 392.245, RSMo 2000." (Page 7).

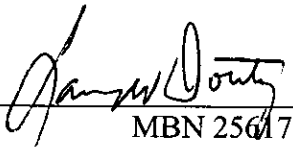
See also: Staff Memorandum re: Sprint Price Cap Tariff Filing to be effective December 12, 2001 (Tariff File No. 200200318), noting that **"Rather than applying the CPI-TS adjustment to all switched access services, Sprint further reduced the CCL terminating access rates by applying the CPI-TS adjustment just to the rebalanced CCL terminating rates. . . . To offset the revenue losses resulting from the reductions to switched access rates, Sprint added \$1.50 to the monthly rates for business and residential basic local services, including Access Line, Measured Access Line, and Access Line-Semi Public Telephone. . . . These rebalanced rates were then reduced by the CPI-TS adjustment."** (Emphasis added.)

WHEREFORE, CenturyTel of Missouri, LLC respectfully submits this Amendment/Supplement to its previously filed Response To Staff's Suggestions In Opposition To Stipulation and Agreement, and requests that the Commission issue its Order approving the Stipulation and Agreement and the tariffs filed by CenturyTel of Missouri, LLC on August 1, 2005.

Respectfully submitted,

CENTURYTEL OF MISSOURI, LLC

/s/ Larry W. Dority

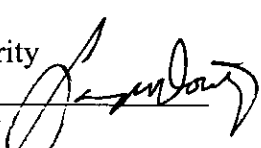

Larry W. Dority MBN 25617
FISCHER & DORITY, P.C.
101 Madison, Suite 400
Jefferson City, Missouri 65101
Telephone: (573) 636-6758
Facsimile: (573) 636-0383
E-mail: lwdority@sprintmail.com

Attorneys for CenturyTel of Missouri, LLC

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, transmitted by e-mail or mailed, First Class, postage prepaid, to all counsel of record this 15th day of August, 2005.

/s/ Larry W. Dority


Larry W. Dority

MEMORANDUM

To: Missouri Public Service Commission Official Case File
Tariff File Nos. JI-2004-0611, JI-2004-0612, JI-2004-0613, JI-2004-0614, JI-2004-0615
Case Nos. IT-2004-0225, IT-2004-0226, IT-2004-0227, IT-2004-0228, IT-2004-0229

From: Walter Cecil
Telecommunications Department

/s/ Natelle Dietrich 12/09/03
Utility Operations Division/Date

/s/ William K. Haas 12/09/03
General Counsel's Office/Date

Subject: Recommendation To Approve Sprint Price Cap Tariff Filings

Date: December 5, 2003

P.S.C. Mo. Nos. 22, 23, 24, 25, 26

I. Introduction

On October 31, 2003, Sprint Missouri, Inc., d/b/a Sprint (Sprint) an incumbent local exchange carrier, filed proposed tariff sheets with an effective date of December 18, 2003, in accordance with Section 392.245 of the Missouri Revised Statutes (2000) (price cap filing). Substitute sheets were filed on December 3, 2003.

Staff analyzed Sprint's filing, including supporting workpapers. Sprint proposes to change almost five hundred effective rates including local rates, private line services rates and exchange access services rates. Sprint also proposes to increase more than 1,500 prices contained in the Company's schedules of Maximum Allowable Rates. The following sections discuss the proposed changes and compliance with applicable Missouri statutes.

Staff does not object to the proposal.

II. Reduction of basic local rates and certain access rates by the change in the Consumer Price Index -Telephone Services (CPI-TS)

Section 392.245.4 states:

4. (1) ... the maximum allowable prices for exchange access and basic local telecommunications services of an incumbent local exchange telecommunications company shall be annually changed by one of the following methods:

(a) By the change in the telephone service component of the Consumer Price Index (CPI-TS), as published by the United States Department of Commerce or its successor agency for the preceding twelve months...

The statute allows a price cap regulated company to choose one of two methodologies by which it may change its maximum allowable basic local and access rates. This year's CPI-TS adjustment is -.0503 percent. Accordingly, Sprint is reducing basic local business and residential rates in all rate groups by approximately one cent per month. Sprint is also reducing its carrier common line (CCL) terminating access rate by \$.000068 per minute.

Staff notes that Sprint filed for and received authorization to rebalance its access rates and basic local rates in IT-2004-134 and IT-2004-135. While the rebalancing of rates has been authorized, Sprint has not imposed the increased basic local rates. The instant proposal will reduce the increase due to rebalancing. The increase in basic local services rates will now be \$1.49 instead of \$1.50.

III. Increase of nonbasic local rates, access rates and private line services rates by 8%
Section 392.245.11 states (emphasis added):

*11. The maximum allowable prices for nonbasic telecommunications services of a large, incumbent local exchange telecommunications company regulated under this section shall not be changed until January 1, 1999, or on an exchange- by-exchange basis, until an alternative local exchange telecommunications company is certified and providing basic local telecommunications service in such exchange, whichever is earlier. **Thereafter, the maximum allowable prices for nonbasic telecommunications services of an incumbent local exchange telecommunications company may be annually increased by up to eight percent for each of the following twelve-month periods upon providing notice to the commission and filing tariffs establishing the rates for such services in such exchanges at such maximum allowable prices.** This subsection shall not preclude an incumbent local exchange telecommunications company from proposing new telecommunications services and establishing prices for such new services. An incumbent local exchange telecommunications company may change the rates for its services, consistent with the provisions of section 392.200, but not to exceed the maximum allowable prices, by filing tariffs which shall be approved by the commission within thirty days, provided that any such rate is not in excess of the maximum allowable price established for such service under this section.*

The highlighted portion of the statute allows a large price cap regulated company to increase its rates for nonbasic telecommunications services on an annual basis by up to eight percent. Sprint's proposal increases the effective rates for certain nonbasic services by amounts not exceeding eight percent. These services include nonbasic local services (Filing No. JI-2004-0611), private line services (Filing No. JI-2004-0613), and nonbasic exchange access services other than CCL (Filing No. JI-2004-0615). Staff finds the proposed rate increases consistent with Section 392.245.11 RSMo.

Staff notes that all proposed filings contain increases of 8% or less to the Company's schedules of maximum allowable prices. Staff further notes Filing Nos. JI-2004-0612 (Message Telecommunications Service) and JI-2004-0614 (Wide Area Telecommunications Services) propose 8% increases exclusively to the Company's schedules of maximum allowable prices. This practice is similar to the banking

practice that was disallowed by the Commission in Case No. TT-2002-447; however, the schedules of maximum allowable prices allow the company to track the maximum prices that could have been charged, are not imposed on any end user and do not affect the rates charged to the end user. Last year, after issuing its decision in Case No. TT-2002-447, the Commission approved similar increases to the Company's maximum allowable prices in Case Nos. IT-2003-0166, IT-2003-0167, IT-2003-0168, IT-2003-0169 and IT-2003-0170 (2002 Price Cap). In its Orders Approving Tariff, the Commission found that Case No. TT-2002-447 addressed the issue of "banking" and was not applicable to the adjustments of maximum allowable prices in the 2002 Price Cap cases. Sprint's actions in the aforementioned cases are similar to its actions in the instant cases. (The Cole County Circuit Court recently affirmed the Commission's Case No. TT-2002-447 decision in Case No. 03CV323021. However, the case remains subject to appeal to the Western District Court of Appeals.)

IV. Staff Analysis

This filing requires application of two distinct subsections of the statutes: 392.245.4 and 392.245.11. Section 392.245.4 deals with the annual change in rates imposed against basic local services and access services based on certain economic indicators. The proposed adjustments are consistent with previous practice and similar filings, and are mathematically correct. Staff finds the proposed rate adjustments consistent with the application of the statute and does not object.

The second section of the price cap statute, Section 392.245.11, requires an analysis of each of the approximately four hundred proposed nonbasic rate changes to ensure compliance with the eight percent limit. Staff has examined each proposed rate increase, and found the proposed rate increases to be between approximately six percent and eight percent, and therefore less than or equal to the maximum of eight percent allowed by statute.

Staff further analyzed the proposed rate increases with respect to the various yardstick economic indices mentioned in the Commission's *Report and Order* in Case No. IT-2004-0015. Specifically the Commission indicated the CPI-TS or the GDP-PI should be considered in determining whether a proposed rate increase is just and reasonable. The Commission also indicated it would consider whatever competent and substantial evidence the parties may adduce as to the reasonableness of the proposed prices. During the past twelve months, the percentage changes in the indices mentioned in the Commission's *Report and Order* in Case No. IT-2004-0015 varies from -2.6973 (CPI-TS) to +2.8398 (CPI-Local Services) (CPI-LS).

Since Sprint's proposed nonbasic price cap adjustments range from approximately 6% to 8%, which is greater than the highest yardstick index, Staff contacted Sprint for additional justification of the increases. Sprint responded by stating the company is proposing to adjust only a portion of its nonbasic rates and the aggregate increase in non-basic service revenues is less than the percentage change in the highest yardstick index. Sprint's proposed filing increases the company's non-basic service revenue by only 2.23%. Thus, Sprint's proposed aggregate increase in non-basic service revenues of 2.23% is less than the percentage change in the most recent CPI-LS index of 2.8398%.

VI. Summary and Recommendation

Mo. PSC Case Nos. IT-2004-0225, IT-2004-0226, IT-2004-0227, IT-2004-0228, IT-2004-0229
Tariff File Nos. JI-2004-0611, JI-2004-0612, JI-2004-0613, JI-2004-0614, JI-2004-0615
December 5, 2003
Page 4 of 4

Staff has reviewed the proposed tariff filings and supporting documentation and finds that Sprint has complied with the requirements of Section 392.245. Staff has no objections to the filings, as amended, and recommends the Commission approve the proposed tariff revisions to Sprint Missouri, Inc., d/b/a Sprint PSC MO Nos. 22, 23, 24, 25 and 26. Staff is unaware of any other filing which affects or which would be affected by this tariff filing.

☒ The Company is current in filing an annual report and paying the PSC assessment.

☐ The Company is delinquent. Staff recommends the Commission grant the requested relief/action on the condition the applicant corrects the delinquency. The applicant should be instructed to make the appropriate filing in this case after it has corrected the delinquency.

(☐ No annual report ☐ Unpaid PSC assessment. Amount owed:)

UTILITY OPERATIONS DIVISION ROUTING SLIP

File Nos. JI-2005-0426 and JI-2005-0427

To:	Initial	Assigned: December 3, 2004	Initial	Date	Revised
Chair Gaw		From:	MS	12-30-	
		Mike Scheperle		04	
Commissioner Murray		Natelle Dietrich	ND	12-30-	
				04	
Commissioner Clayton					
Commissioner Davis					
Commissioner Appling		Legal	WKH	12-30-	
				04	
Agenda Date:					
Final Agenda: January 13, 2005		Staff Deadline: December 30, 2004		By 5pm	
Commission Action:					
Approve:	Suspend:	STAFF RECOMMENDS APPROVAL			

Company: Sprint Missouri, Inc. d/b/a Sprint

Effective Date: January 18, 2005

Purpose: To change rates for various price capped rates for basic and non-basic services pursuant to Section 392.245 RSMo. 2000.

File Nos.: JI-2005-0426 and JI-2005-0427

Company: Sprint Missouri, Inc., d/b/a Sprint

Effective Date: January 18, 2005

Purpose: To change rates for various price capped rates for basic and non-basic services pursuant to Section 392.245 RSMo 2000.

OVERVIEW

On December 3, 2004, Sprint Missouri, Inc., d/b/a Sprint (Sprint), an incumbent local exchange telecommunication carrier, submitted tariff revisions to change basic and non-basic service rates pursuant to Section 392.245 RSMo 2000. By the instant filing, Sprint proposes to decrease basic service rates for residential and business customers, to decrease originating and terminating Carrier Common Line (CCL) access rates and adjust (mostly increase) certain non-basic rates.

Sprint requests the Commission approve the proposed rates effective January 18, 2005.

The Sprint price cap filings (JI-2005-0426 for PSC Mo. No. 22, General Exchange Tariff and JI-2005-0427 for PSC Mo. No. 26, Access Services Tariff) propose an annual rate reduction of **** HC-----****.

Summary of Sprint Price Cap Filings	Annual Adjustment
Annual Consumer Price Index - Telephone Services (CPI-TS) adjustment for basic services (PSC Mo. No. 22)	** HC-----**
Annual Consumer Price Index - Telephone Services (CPI-TS) adjustment for basic access services (PSC Mo. No. 26)	** HC-----**
Annual proposed non-basic increases (PSC Mo. No. 22 and PSC Mo. No. 26)	** HC-----**
Total Reductions	** HC-----**

The Telecommunication Department Staff (Staff) analyzed Sprint's filings, including the supporting workpapers, and does not object to the proposal.

BASIC SERVICE RATES (CPI-TS ADJUSTMENTS)

Pursuant to Section 392.245.4(1)(a), RSMo 2000, Sprint proposes to reduce its basic local exchange services rates by an amount equal to the percentage change in the telephone services component of the Consumer Price Index (CPI-TS). Specifically, this proposal reduces the current rates for business and residential basic local rates and reduces switched access rates by reducing the CCL component of switched access services. The basic service rate reductions total **** HC-----**** annually or 2.68% (based on average percent change).

Statutory Compliance

Section 392.245.4 states:

NP

4. (1) Except as otherwise provided in subsections 8 and 9 of this section and section 392.248, the maximum allowable prices for exchange access and basic local telecommunications services of a small, incumbent local exchange telecommunications company regulated under this section shall not be changed for a period of twelve months after the date the company is subject to regulation under this section. Except as otherwise provided in subsections 8 and 9 of this section and section 392.248, the maximum allowable prices for exchange access and basic local telecommunications services of a large, incumbent local exchange telecommunications company regulated under this section shall not be changed prior to January 1, 2000. Thereafter, the maximum allowable prices for exchange access and basic local telecommunications services of an incumbent local exchange telecommunications company shall be annually changed by one of the following methods:

(a) By the change in the telephone service component of the Consumer Price Index (CPI-TS), as published by the United States Department of Commerce or its successor agency for the preceding twelve months; or

(b) Upon request by the company and approval by the commission, by the change in the Gross Domestic Product Price Index (GDP-PI), as published by the United States Department of Commerce or its successor agency for the preceding twelve months, minus the productivity offset established for telecommunications service by the Federal Communication Commission and adjusted for exogenous factors;

Sprint used method (a) above to determine its proposed rates for applicable services, calculating a reduction in the CPI-TS of 2.68% and applying such in the instant filing. Also, Sprint adjusted rates associated with a contested part of a previous, 2002, price cap filing where the Office of Public Counsel appealed (in part) the method used in that price cap filing. In 2002, the CPI -TS allowed for an increase in basic services and Sprint increased five components of basic services, within the CPI-TS, in lieu of increasing local rates for business and residential customers. However, Staff notes that Sprint did increase local rates for business and residential customers by \$1.50 as allowed by section 392.245(9), but Sprint would have been allowed to further increase the basic rates for business and residential customers by the increase in the CPI-TS component. With this instant filing, Sprint is adjusting and reducing the five components to the pre-2002 rate levels while still reducing local rates for business and residential customers based on the total CPI-TS reduction of 2.68%. The five components are summarized below:

Five Components of Sprint's 2002 Price Cap Filing	Existing Rate	Proposed Rate	Pre-2002 Rate
Service Restoration Charge	\$22.25	\$17.65	\$17.65
Record Order Charge	\$10.50	\$7.85	\$7.85
Service Order Charge	\$16.00	\$12.00	\$12.00
Access Line Work charge	\$25.00	\$24.45	\$24.45
Premises Visit Charge	\$10.00	\$9.15	\$9.15

Residential and Business Reductions in Rates (CPI-TS Adjustments)

With this filing, Sprint proposes to reduce its residential and business basic local rates and services by approximately ** HC-----**. Outlined below are the proposed reductions by Sprint for basic local residence and business services:

Basic Residential and Business Reductions

Service	Current Rate	Proposed Rate	Difference	Percent
Access Line - Residential				
Rate Group 1	\$13.02	\$12.76	(\$0.26)	-2.00%
Rate Group 2	\$13.57	\$13.31	(\$0.26)	-1.92%
Rate Group 3	\$14.41	\$14.15	(\$0.26)	-1.80%
Rate Group 4	\$15.21	\$14.95	(\$0.26)	-1.71%
Access Line - Business				
Rate Group 1	\$18.80	\$18.40	(\$0.40)	-2.13%
Rate Group 2	\$19.90	\$19.50	(\$0.40)	-2.01%
Rate Group 3	\$21.39	\$20.99	(\$0.40)	-1.87%
Rate Group 4	\$23.19	\$22.79	(\$0.40)	-1.72%
Local Measured Service - Residence				
Rate Group 1	\$10.58	\$10.40	(\$0.18)	-1.70%
Rate Group 2	\$10.88	\$10.70	(\$0.18)	-1.65%
Rate Group 3	\$11.35	\$11.15	(\$0.20)	-1.76%
Rate Group 4	\$11.79	\$11.60	(\$0.19)	-1.61%
Local Measured Service - Business				
Rate Group 1	\$13.92	\$13.63	(\$0.29)	-2.08%
Rate Group 2	\$14.52	\$14.23	(\$0.29)	-2.00%
Rate Group 3	\$15.35	\$15.06	(\$0.29)	-1.89%
Rate Group 4	\$16.34	\$16.05	(\$0.29)	-1.77%
Service Restoration Charge				
Record Order Charge	\$22.25	\$17.65	(\$4.60)	-20.67%
Service Order Charge	\$10.50	\$7.85	(\$2.65)	-25.24%
Access Line Work Charge	\$16.00	\$12.00	(\$4.00)	-25.00%
Premises Visit Charge	\$25.00	\$24.45	(\$0.55)	-2.20%
	\$10.00	\$9.15	(\$0.85)	-8.50%

The five rates listed above were previously discussed on page 2 of Staff's recommendation relating to Sprint's 2002 price cap filing.

Switched Access Rate Deductions (CPI-TS Adjustments)

With this filing, Sprint proposes to reduce its interLATA and intraLATA switched access components overall by 2.68% or approximately ** HC---** million dollars. Specifically, Sprint proposes to reduce its interLATA and intraLATA switched access CCL charges as outlined below. This method of reducing the CCL charges is consistent with prior Sprint price cap reductions in switched access charges when the percent change in the CPI-TS index decreases, whereby, Sprint reduces the CCL component only and not the switching and/or transport components. Staff supports the proposed method by Sprint, whereby, Sprint reduces its CCL rates to bring

NP

Sprint's CCL rates closer to CCL industry average rates in Missouri. Incumbent Local Exchange Carriers (ILECs) industry average rates for intraLATA are \$.0153 for originating access and \$.0283 for terminating access. The specific changes in the CCL rates are:

InterLATA and IntraLATA	Current Rate	Proposed Rate	Difference	Percent
Carrier Common Line Originating	\$0.035917	\$0.034150	(\$0.001767)	-4.92%
Carrier Common Line Terminating	\$0.054065	\$0.051457	(\$0.002608)	-4.82%

NON-BASIC SERVICE RATES

Pursuant to Section 392.245.11, RSMo. 2000, Sprint proposes to increase non-basic rates by **** HC-----**** annually. Sprint's proposal would increase total non-basic revenues by **** HC---**** while Section 392.245.11 potentially allows an overall 8.0 % increase for revenue generated by all non-basic services.

Section 392.245.11 states (emphasis added):

*11. The maximum allowable prices for nonbasic telecommunications services of a large, incumbent local exchange telecommunications company regulated under this section shall not be changed until January 1, 1999, or on an exchange-by-exchange basis, until an alternative local exchange telecommunications company is certified and providing basic local telecommunications service in such exchange, whichever is earlier. **Thereafter, the maximum allowable prices for nonbasic telecommunications services of an incumbent local exchange telecommunications company may be annually increased by up to eight percent for each of the following twelve-month periods upon providing notice to the commission and filing tariffs establishing the rates for such services in such exchanges at such maximum allowable prices.** This subsection shall not preclude an incumbent local exchange telecommunications company from proposing new telecommunications services and establishing prices for such new services. An incumbent local exchange telecommunications company may change the rates for its services, consistent with the provisions of section 392.200, but not to exceed the maximum allowable prices, by filing tariffs which shall be approved by the commission within thirty days, provided that any such rate is not in excess of the maximum allowable price established for such service under this section.*

The highlighted portion of the statute allows a large price cap regulated company to increase its maximum allowable prices for non-basic telecommunications services on an annual basis by up to eight percent. Section 392.245.11 requires an analysis of each of the proposed non-basic rate changes to ensure compliance with the eight percent limit. Staff has examined each proposed rate adjustment, and found each rate increase to be at or below the maximum eight percent level. Therefore, the proposed rate increases are less than or equal to the maximum of eight percent allowed by statute. Staff, with respect to the maximum allowable increase, finds the proposed rate increases consistent with Section 392.245.11 RSMo 2000.

NP

In accord with the Commission's directive in Case Nos. IT-2004-0015¹ and IT-2004-0225, *et. al.*², the Telecommunications Department Staff (Staff) analyzed Sprint's filing with respect to statutory requirements and compared proposed rate changes to changes in various macroeconomic indicators. Staff also requested and received from Sprint a spreadsheet indicating the rate change history for each service for which a price change is proposed in this filing.

As discussed below, Staff further analyzed the proposed rate increases with respect to the various yardstick economic indices mentioned in the Commission's Report and Order in Case No. IT-2004-0015. Specifically the Commission indicated the CPI-TS or the GDP-PI should be considered in determining whether a proposed rate increase is just and reasonable. In its analysis, Staff examined changes in the aforementioned indices as well as the consumer price index for all goods (CPI-all) and the producer price index for wireline telecommunications services providers (PPI-TS). The period chosen for analysis is July 2003 through July 2004 for all indices. This period was chosen as it comes closest to matching the Sprint price cap filing cycle. The following tables summarize Staff's research of macroeconomic indices.

Index	July 2003	July 2004	% Change
CPI-all	183.9	189.4	2.99%
CPI-TS	98.1	95.6	-2.55%
PPI-TS	86.0	83.5	-2.91%

Index	July 1, 2003	July 1, 2004	% Change
GDP-PI	106.148	108.454	2.17%

As previously mentioned, the proposed increases in this filing (for non-basic services) are less than or equal to a maximum 8%. Based on the Commission's directive in Case No. IT-2004-0015, those rate changes that exceed the changes in relevant economic indices require further examination. Specifically, Sprint adjusted 93 non-basic rates. Seventy-four of the proposed rate increases were greater than 3.0 %. The next step in Staff's analysis required the comparison of Sprint's proposed rates whose changes exceed the aforementioned indices with the rates for similar, preferably identical, services offered by competitors and other incumbent local exchange carriers. In analyzing the proposed rate increases, Staff compared services offered by Sprint in sample groups (categorized as buckets of services) with Sprint price increases since 1999. Further rate analysis and comparison of services of other companies and other states would require more time beyond the January 18, 2005 effective date because of the number of rate increases and the difficulty in making an "apples-to-apples" comparison among services offered by other companies.

Attachment A (a bucket of services) are tables indicating the proposed changes in Directory Listings, Directory Assistance and Local Operator Assistance rates in dollar values and percentage terms. Staff notes that Sprint's

¹ In the Matter of Southwestern Bell Telephone Company, L.P., d/b/a SBC Missouri's Proposed Revised Tariff Sheet Intended to Increase by Eight Percent the Rates for Line Status Verification and Busy Line Interrupt as Authorized by Section 392.245, RSMo, the Price Cap Statute. Report and Order. P. 34.

² In the Matter of the Tariff Filing of Sprint Missouri, Inc., d/b/a Sprint, to Modify Rates in Accordance with Sprint's Price Cap Regulation Pursuant to Section 392.245, RSMo 2000. Order Denying Motion to Suspend.

proposed rate changes for directory listing services, directory assistance services rates and local operator assistance rate changes vary between 6.25% and 7.50%. These changes translate to monetary changes ranging between \$0.02 and \$0.20.

Attachment B are tables comparing the proposed Sprint rates for Directory Listings, Directory Assistance and Local Operator Assistance to selected CLECs and ILECs rates for similar/comparable services. It is not always possible to identify and compare the relevant rates of each company's service to another's, so there are blanks where it was not possible to identify an "apples-to-apples" comparison. Staff has examined the prices of other incumbent local exchange carriers (SBC Missouri, CenturyTel of Missouri, ALLTEL and Mid-Missouri) and competitive local exchange providers (MCIMetro and AT&T) and found Sprint's prices to be generally within comparable ranges of other telecommunications companies. Blanks in the table indicate a one-to-one comparison was not always possible.

In addition, Staff's analysis also listed Sprint's additional rate components (non-basic rates) where Sprint's proposed non-basic rate changes exceeded a 3.0 % increase. Attachment C are tables indicating the proposed changes in various rate categories detailing the proposed rates in dollar values and percentage terms.

Attachment D are tables (four buckets of services) comparing the proposed Sprint rates for Trouble Isolation Charges, Toll and Casual Dialing Restriction Service, Custom Calling Services, and Express Touch Services. Staff examined the prices of other incumbent local exchange carriers (SBC Missouri, CenturyTel of Missouri, ALLTEL and Mid-Missouri) and competitive local exchange providers (MCIMetro and AT&T) and found Sprint's prices to be generally within comparable ranges of other telecommunications companies. Blanks in the table indicate a one-to-one comparison was not always possible.

While the macroeconomic indices referenced above may indicate the proposed rate increases may not be reasonable, macroeconomic indices do not reflect the individual circumstances that a firm may consider to determine whether or not it must increase a specific price or by how much it must be increased. Sprint is not increasing all of the prices for the various uses and combinations of each service. Further, according to a Sprint spokesperson, the proposed rate increases will generate a minimal revenue increase of approximately **** HC---**** for non-basic services.

Finally, Staff also examined the history of increases of the 74 proposed rates above a 3 % increase. Based upon the information provided by Sprint, of the rates in question, 56 were increased last year (2003), 48 were increased the year before (2002), 41 were increased in 2001, and 41 were increased in 2000. Staff notices that from 1999, when Sprint would have first been eligible to increase its prices under price cap regulation, the change in the CPI-all indicates consumer prices have increased more than 16% while the CPI-TS indicates consumer telecommunications prices have fallen by approximately 5% for the same period.

CHANGES IN NON-BASIC RATES FACING EFFECTIVE COMPETITION

In Case No. IO-2003-0281, effective December 14, 2003, certain Sprint non-basic services were classified as facing effective competition in certain exchanges and/or on a statewide basis. Within the **** HC-----**** annual non-basic increase, Sprint increased rates based on some services classified as facing effective competition in certain exchanges. For example, PSC MO. No. 22, Section 18, Page 17, Sprint increased toll and casual dialing restriction service by the same percentage for non-competitive exchanges and competitive exchanges, while in PSC MO. No. 22, Section 9, Page 7, there are differences in non-basic rates for non-competitive exchanges versus competitive exchanges. Throughout Sprint's proposed tariff filing, there are

NP

many instances where rates are listed for non-basic non-competitive services and rates listed for non-basic competitive services. Staff has no objections to this type of outline of rates as proposed by Sprint.

MAXIMUM ALLOWABLE RATES (PHANTOM RATES)

Staff notes on P.S.C. MO. No. 22 Section 50 and P.S.C. MO. No. 26 Section 20, Sprint is maintaining a set of maximum allowable rates not actually applied to customer bills. These are similar to the "phantom" rates approved by the Commission in IT-2004-0226³. Staff examined each maximum allowable rate proposal and finds the increases in the "phantom" rates within the maximum eight percent limit based on existing "phantom" rates.

RECOMMENDATION

Staff has reviewed Sprint's proposed price cap filing and finds that it meets the requirements of the price cap regulations as set forth in Section 392.245, RSMo 2000. Staff has no objections to the rate changes. Staff recommends that the Commission approve the proposed tariff revisions to Sprint PSC Mo. Nos. 22 and 26, as submitted, with an effective date of January 18, 2005. Staff is unaware of any other filing which affects or which would be affected by this proposal.

- ☒ The Company is not delinquent.
☐ The Company is delinquent (☐ filing an annual report ☐ paying PSC assessment)

³ In the Matter of the Tariff Filing of Sprint Missouri, Inc., d/b/a Sprint, to Modify Rates in Accordance with Sprint's Price Cap Regulation Pursuant to Section 392.245, RSMo 2000. Order Denying Motion to Suspend.