

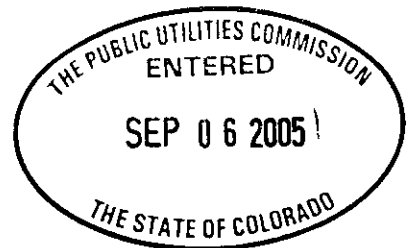
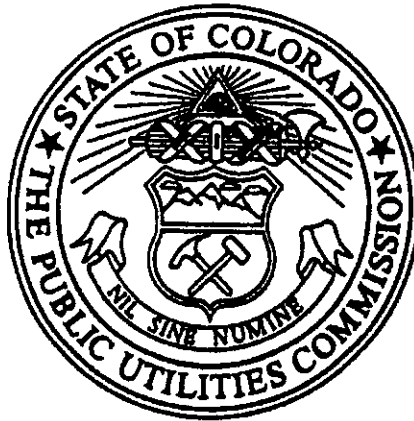
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**INVESTIGATIVE REPORT ON THE POSSIBLE EXPANSION OF THE LOCAL
CALLING AREA OF CENTURYTEL'S ORDWAY EXCHANGE**

Report Prepared in Connection With Docket No. 05I-119T

PUBLIC REPORT
(Confidential Exhibits A, D and E are filed separately under seal)



Prepared by:

Staff of the Colorado Public Utilities Commission

September 2, 2005

EXECUTIVE SUMMARY

As required by rules of the Public Utilities Commission of the State of Colorado (Commission), Staff of the Commission (Staff) conducted a biennial local calling area survey of Qwest Corporation (Qwest) and all of the other Independent Local Exchange Carriers (ILECs) in the state at the end of 2004. The three months of call volume data provided by CenturyTel of Eagle (CenturyTel) met the community of interest standard for calls from CenturyTel's Ordway exchange to Qwest's Pueblo exchange.

With this first criteria satisfied, the next step in the process required Staff to recommend that the Commission open an investigatory docket and that CenturyTel and Qwest be ordered to conduct cost studies to determine the monthly rate impact to each company's customers for implementing this particular local calling area expansion. The Commission opened the requested docket and ordered the cost studies.

After Qwest and CenturyTel submitted their confidential cost studies to Staff, the process progressed to the third step, which required CenturyTel to conduct a statistically valid survey of its customers in the Ordway exchange, to determine if the majority responding would support the monthly rate increase for expanding their local calling area into the Pueblo exchange. CenturyTel's cost study determined that a rate increase of \$0.07-\$0.08 per customer per month would be required.

The results of CenturyTel's customer survey showed that a statistically valid sample of customers in its Ordway exchange responded and that those responding overwhelmingly supported the rate increase and the expansion of their local calling area.

Staff recommends that the Commission enter a decision in this investigatory docket declaring that the local calling area expansion of CenturyTel's Ordway exchange and Qwest's Pueblo exchange is justified, but that CenturyTel shall be given the opportunity to apply for cost recovery and obtain a Commission decision on the cost recovery issue prior to the actual implementation of expanded local calling area service. With such an order, the purposes of this investigatory docket will have been served and it should be closed.

BACKGROUND

Pursuant to its duties set forth at Rule 17.3 of the Commission's Rules Regulating Telecommunications Service Providers and Telephone Utilities, 4 *Code of Colorado Regulations* (CCR) 723-2 (Rule 17.3), Staff initiated a biennial local calling area analysis in December 2004. *See* Rule 4 CCR 723-2-17.3.2. The purpose of the biennial local calling area analysis is to ensure that Staff studies every local calling area no less than every two years to determine if the technical data obtained from such analysis supports further Commission investigation into the possibility of expanding any local calling areas.

When performing its biennial local calling area analysis, Staff asks that all Colorado telecommunications companies providing basic local exchange service to submit three months of local call volume data. Staff examines this call volume data to determine if the relevant call volumes meet the community of interest standard. *See* Rule 4 CCR 723-2-17.3.3. Specifically, and as relevant to this report, Staff applies the technical data to the following standard:

When the exchange area under consideration for expansion of local calling area service is the Pueblo, Ft. Collins, Grand

Junction, or Greeley Exchange, a calling rate of six calls per customer per month to the Pueblo, Ft. Collins, Grand Junction, or Greeley Exchange with at least two calls per customer per month made by at least 50% of the customers from the smaller exchange area, [sic] would provide a showing of interest sufficient to warrant investigation of the appropriateness of local calling area service expansion for these exchange areas.

See 4 CCR 723-2-17.3.3.1.

Pertinent to this report, CenturyTel's Ordway exchange is smaller than Qwest's Pueblo exchange. CenturyTel submitted its response to Staff's December 2004 biennial local calling area analysis on January 21, 2005. CenturyTel's response comprised calling volume data from August, September and October, 2004. Staff's local calling analysis demonstrated that (1) on average, CenturyTel's customers located in its Ordway exchange placed nine calls per month to Qwest's Pueblo exchange, and (2) 52.6% of CenturyTel's customers in the Ordway exchange made at least two calls per month to Qwest's Pueblo exchange. *See* Confidential Exhibit A (CenturyTel's January 21, 2005 local calling volume data submittal).

Thus, Staff's analysis demonstrated that the community of interest standard has been met and that a local calling area expansion might be warranted. In accordance with the requirements of Rule 17.3.3.1 requiring the "opening of a formal docket" and Rule 17.3.5 requiring the performance of revenue and cost analyses "[u]pon a showing that the criteria of Rule 17.3.3 are met", Staff recommended that the Commission open an investigatory proceeding. This docket, Docket No. 05I-119T, is the result of that recommendation. The parties to Docket No. 05I-119T are Staff, CenturyTel, Qwest and the Colorado Office of Consumer Counsel (OCC).

By Decision No. C05-0338 (attached as Exhibit B), the Commission opened this investigatory docket. The Commission stated, “[a] Community of Interest is declared to exist between the Ordway exchange of CenturyTel and the Pueblo Exchange of Qwest Corporation.” See Decision No. C05-0338, Ordering Paragraph 1. The action items for this investigatory docket are set forth at Rules 17.3.5 and 17.3.6. As the Commission explained in Decision No. C05-0338, Rule 17.3.5 requires both CenturyTel and Qwest to perform and submit a cost study “to quantify the rate increment per customer,” which rate increment according to Rule 17.3.3.3 “shall be determined by apportioning the cost among all the customers of the provider.” Further, as noted in Decision No. C05-0338, following Staff’s acceptance of the cost studies and in the absence of the applicability of the Rule 17.3.6.1 de minimus rate increase exception, Rule 17.3.6 requires CenturyTel and Qwest to perform and submit the results of a “statistically valid survey of all residential customers in the exchange area being considered for calling area expansion.”

CenturyTel and Qwest performed and submitted to Staff the required cost studies and customer survey. An administrative law judge for the Commission conducted a prehearing conference in this docket on June 28, 2005 to establish the procedure by which Staff would proceed with determining whether all relevant requirements of Rules 17.3.3, 17.3.5 and 17.3.6 had been met. All parties to this matter agreed that Staff would prepare a report summarizing its review and making a formal recommendation to the Commission. By Decision No. R05-0815-I (attached as Exhibit C), the administrative law judge for the Commission accepted the parties’ proposal.

This document is the report required by Decision No. R05-0815-1. This report sets forth the necessary detail for the Commission to determine whether all requirements of Rule 17.3.7, the next and last phase of the local calling area expansion process, have been met.

ANALYSIS OF THE COMMUNITY OF INTEREST STANDARD

As explained above in the background section, the community of interest standard has been met between CenturyTel's Ordway exchange and Qwest's Pueblo exchange. Specifically, the community of interest calling volume standards set forth at Rule 17.3.3 have been met because (1) on average, CenturyTel's customers located in its Ordway exchange placed nine calls per month to Qwest's Pueblo exchange, and (2) 52.6% of CenturyTel's customers in the Ordway exchange made at least two calls per month to Qwest's Pueblo exchange. See Confidential Exhibit A. This element of Rule 17.3.7 has been met.

ANALYSIS OF CENTURYTEL AND QWEST COST STUDIES

CenturyTel submitted its initial cost study to Staff on May 6, 2005. CenturyTel supplemented its cost study on May 23, 2005 to reflect the calculation of the rate increment in accordance with Rule 17.3.3. Staff reviewed the May 23, 2005 cost study and determined that it was accurate for the purpose of this investigatory docket. The May 23, 2005 cost study showed a potential rate increment per customer, in accordance with Rule 17.3.3, of no more than \$0.91 (rounded) per line, per year or \$0.08 (rounded) per line, per month. See attached Confidential Exhibit D.

Qwest submitted its cost study to Staff on May 5, 2005. Staff reviewed the cost study and determined that it was accurate for the purpose of this investigatory docket. The cost study showed a potential rate increment per customer, in accordance with Rule 17.3.3, of no more than \$.024 per line, per year, or \$0.002 (rounded) per line, per month. See attached Confidential Exhibit E. Qwest has indicated to Staff that it will not seek to change its rates at this time based solely on the diminution of revenue stated in Confidential Exhibit E.

Through the above described and accurately performed cost studies that are prescribed by Rule 17.3.5, this element of Rule 17.3.7 has been met.

CONDUCT AND RESULTS OF CUSTOMER SURVEY

Absent the applicability of the de minimus exception set forth at Rule 17.3.6.1.1, Rule 17.3.6.1 requires both CenturyTel and Qwest to perform a “statistically valid survey of all residential customers in the exchange areas being considered for local calling area expansion.”

Rule 17.3.6.1.1 does not require a customer survey be conducted in the larger local exchange area if “the increase in the monthly rate for basic local exchange service in the [larger] local exchange area [in this case, Qwest’s Pueblo exchange] represents less than a 0.5 percent increase.” Qwest’s rate increment of \$0.002 (rounded) per line per month represents an increase below the 0.5 percent threshold specified in Rule 17.3.6.1.1. Therefore, Qwest was not required to survey, and has not surveyed, the residential customers located in its Pueblo exchange.

Because the rate increment for CenturyTel's residential customers exceeds the 0.5 percent threshold specified in Rule 17.3.6.1.1, CenturyTel did perform the statistically valid customer survey of its residential customers in the Ordway exchange required by Rule 17.3.6.1. CenturyTel submitted the results of its customer survey to Staff on June 24, 2005. CenturyTel mailed the survey to all of the Ordway exchange's 1,117 residential customers and 703 (or 62.9%) were returned. Of those who responded, 678 (or 96.4%) would support the stated rate increase of up to \$0.08 per month if their local calling area were expanded to include Qwest's Pueblo exchange. This easily satisfies the requirement of Rule 17.3.6.1 that "[t]he survey results must demonstrate at least a 50% positive acceptance of the local calling area at the stated rate levels." See Exhibit F.

Through the above described and statistically valid customer survey that is prescribed by Rule 17.3.6, this element of Rule 17.3.7 has been met.

RECOMMENDATION

Staff believes that the process that began as part of its biennial local calling area analysis and that concludes with this report has satisfied all requirements of Rule 17.3. Everything in this process that has been undertaken to date suggests that the Commission should now follow through with the requirements of Rule 17.3.7. Based on the data analyzed so far, it appears to Staff that expanding the local calling area of CenturyTel's Ordway exchange and Qwest's Pueblo exchange is in the public interest. The Commission should enter all orders necessary to facilitate the local calling area expansion.

Staff, therefore, recommends that the Commission declare that Staff's investigation has conclusively determined that an expansion of the local calling areas associated with CenturyTel's Ordway exchange and Qwest's Pueblo exchange is justified under the standards set forth in Rule 17.3. However, compliance tariff filings to implement this local calling area expansion should be delayed pending resolution of CenturyTel's cost recovery concerns. To address CenturyTel's cost recovery concerns, the Commission should set a procedural schedule that results in the modification of certain existing CenturyTel and Qwest local calling areas simultaneously with the conclusion of a CenturyTel application to determine whether to permit CenturyTel to increase its rates for basic local exchange service to cover the rate increment associated with the expected loss of toll access revenues, and switching and facility costs. Staff, therefore, recommends the Commission order CenturyTel to file, within 120 days of its final order in this docket, an application with the following contents:

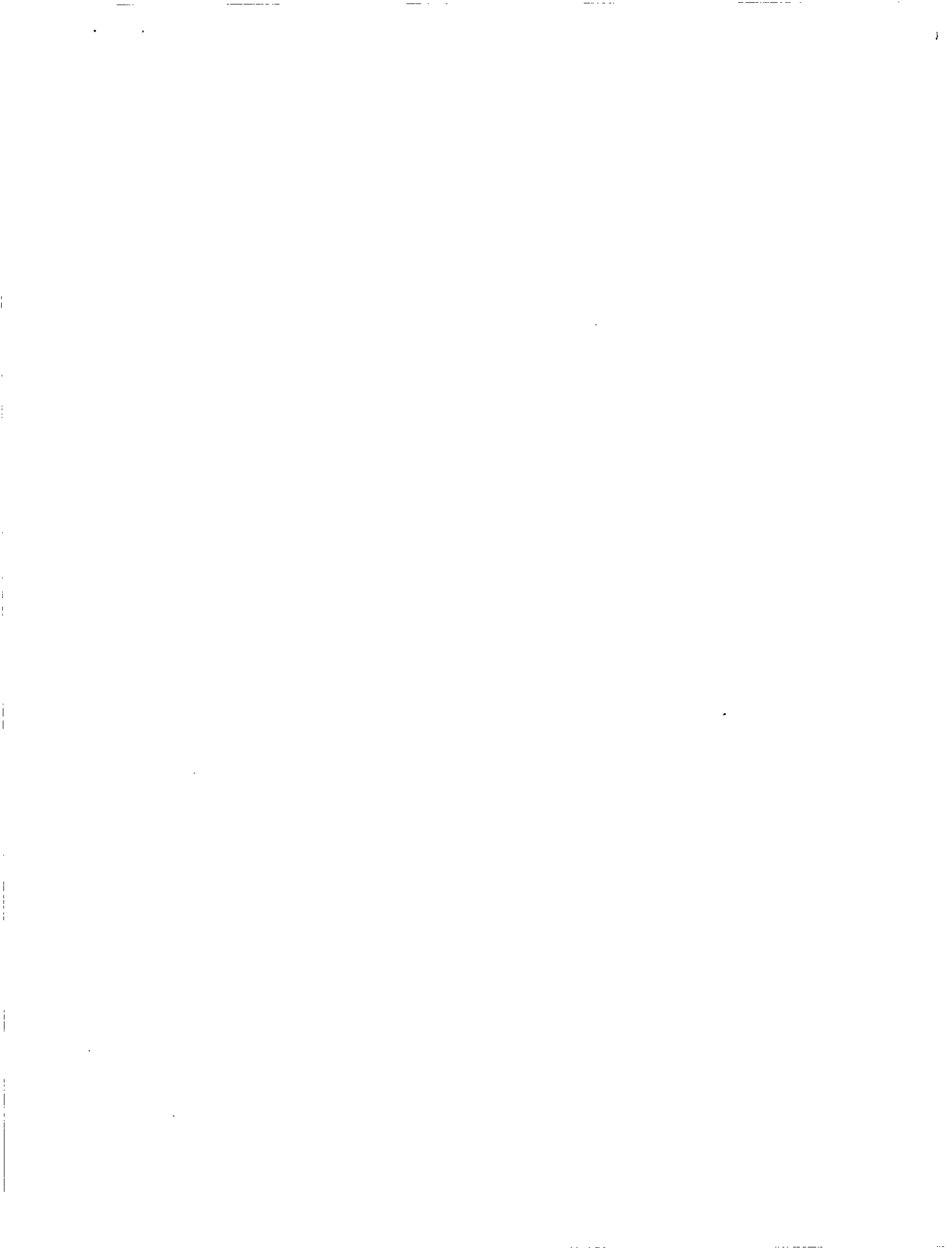
- (1) a statement that the Commission, in Docket No. 05I-119T, has already determined that the expansion of the existing local calling area of CenturyTel's Ordway exchange and Qwest's Pueblo exchange is justified and, therefore, the application docket shall be restricted against the receipt of any evidence addressing whether these local calling areas should be expanded or against challenging the conclusions or content of CenturyTel's customer survey;
- (2) this report by Staff in Docket No. 05I-119T shall be attached to CenturyTel's application and shall be evidence in CenturyTel's application;
- (3) a statement that the primary issues to be addressed in the application relate to cost recovery by CenturyTel and network implementation by both CenturyTel and Qwest;
- (4) a statement that Qwest is indispensable to the resolution of the issues presented in CenturyTel's application and shall be made a party

thereto; (5) a statement that upon entry of a final Commission decision on CenturyTel's cost recovery request (whether that decision is a full grant, partial grant or outright denial) and the network implementation issues applicable to both CenturyTel and Qwest, both parties shall file tariffs to effectuate the expansions of the Ordway exchange and Pueblo exchange, respectively.

CenturyTel shall have the burden of going forward and the burden of proof on the cost recovery aspects of this application. Also, in CenturyTel's application seeking cost recovery associated with the expansion of the Ordway exchange local calling area, no person, including the parties to this investigatory docket, is obligated to accept the cost impact set forth in Confidential Exhibit D. Additionally, CenturyTel shall not be precluded in its application proceeding for cost recovery from relying on applicable provisions of Commission rules relating to Local Calling Area standards including Rule 17.3.8 (lower priced alternative to full flat rate local service), Rule 17.4 (no obligation to construct facilities) or other applicable Commission rules.

Staff further recommends that the Commission immediately close this investigatory docket as all that might have been accomplished in it has already been done.

Staff is authorized to state that Qwest, CenturyTel and the OCC have reviewed this report and have no objection to its contents and recommendations.



**CONFIDENTIAL EXHIBIT A
HAS BEEN SEPARATELY SUBMITTED UNDER SEAL**



Decision No. C05-0338

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 05I-119T

IN THE MATTER OF INVESTIGATION OF THE ORDWAY EXCHANGE OF
CENTURYTEL FOR AN EXPANDED LOCAL CALLING AREA.

**ORDER OPENING AN INVESTIGATIVE DOCKET;
DECLARING A COMMUNITY OF INTEREST TO EXIST;
INSTRUCTING CENTURYTEL AND QWEST TO
CONDUCT A COST STUDY; AND INSTRUCTING
CENTURYTEL TO CONDUCT A CUSTOMER SURVEY**

Mailed Date: April 1, 2005
Adopted Date: March 16, 2005

I. BY THE COMMISSION

A. Statement

1. This matter comes before the Commission for a decision based upon Commission Staff's (Staff) biennial review conducted pursuant to Commission Rule (Rule) 4 *Code of Colorado Regulations* 723-2-17.3. Rule 17.3 has specific standards that must be met for a pair of exchanges to qualify for consideration of conversion from toll to local calling, based on calling volumes. The standard for such conversion requires that calling volumes exceed an average of six calls per customer per month into the Pueblo exchange, *and* that an average of two calls per month must be made by at least 50 percent of the customers

2. Call volume data for three months of calls provided by CenturyTel shows that an average of nine calls a month were made from the Ordway exchange to the Pueblo exchange of Qwest Corporation (Qwest), and that 52.6 percent of the customers in the Ordway exchange made two or more calls per month to the Pueblo exchange. By meeting these two criteria, Rule 17.3.3.1 states that the Ordway and Pueblo exchanges qualify as a Community of Interest.

Exhibit B

3. Once the Community of Interest standard is met, Rule 17.3.5 dictates that the telecommunications provider(s) furnishing service in and between the exchange areas being considered for inclusion in the local calling area shall perform a revenue and cost analysis (cost study) to quantify the rate increment per customer. We conclude that CenturyTel as well as Qwest must each perform such a cost study to determine the rate impact of including the Pueblo exchange of Qwest in the local calling area of the Ordway exchange.

4. CenturyTel and Qwest shall have 30 days to conduct their respective cost studies and submit the results to the Commission. Upon receipt, Staff shall verify the figures and, if necessary, will provide corrections before the filing of the cost studies. After the cost impact figures are accepted, Rules 17.3.5 and 17.3.6 specify that Staff will send a letter to CenturyTel directing them to proceed with a customer survey. Upon receipt of the letter from Staff, CenturyTel shall conduct a statistically valid survey of the customers in the Ordway exchange, explaining to them the proposed expansion and the calculated rate increase. The survey results must demonstrate at least a 50 percent positive acceptance of the proposed expanded calling area at the stated rate levels.

5. When the preceding requirements have been met, the Commission will issue a further order to set a procedural schedule for conducting any required public hearings. The proponent for expanding the Ordway local calling area, whether that is Staff or CenturyTel, will then have the burden of going forward and the burden of proof.

II. ORDER

A. The Commission Orders That:

1. A Community of Interest is declared to exist between the Ordway exchange of CenturyTel and the Pueblo exchange of Qwest Corporation.

2. An investigative docket shall be opened to determine if the local calling area in the Ordway exchange should be expanded to include the Pueblo exchange of Qwest Corporation.

3. The Commission joins Qwest Corporation as an indispensable party in this docket.

4. CenturyTel and Qwest Corporation are each directed to conduct their own separate cost studies, consisting of a revenue and cost analysis, to determine the rate increment (increase) per customer if the Ordway local calling area were expanded to include the Pueblo exchange. CenturyTel and Qwest Corporation shall submit their respective cost studies to the Commission no later than 30 days after receipt of this Order.

5. Commission Staff shall submit its report on the cost studies to the Commission no later than 15 days after their receipt from the parties.

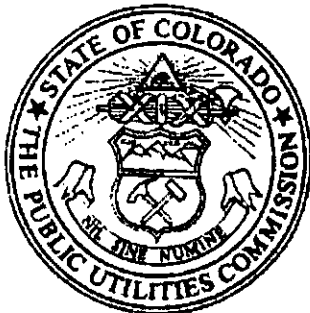
6. Once CenturyTel has been notified that its cost study has been accepted, Commission Staff will notify it to proceed with the customer survey. As with the cost study, CenturyTel will have 30 days from the date of Commission Staff notification in which to complete and submit the customer survey.

7. Further action on expansion of the Ordway local calling area will proceed at the Commission's discretion, pursuant to Rule 17.3.7.

8. This Order is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
March 16, 2005.**

(SEAL)



ATTEST: A TRUE COPY

Doug Dean,
Director

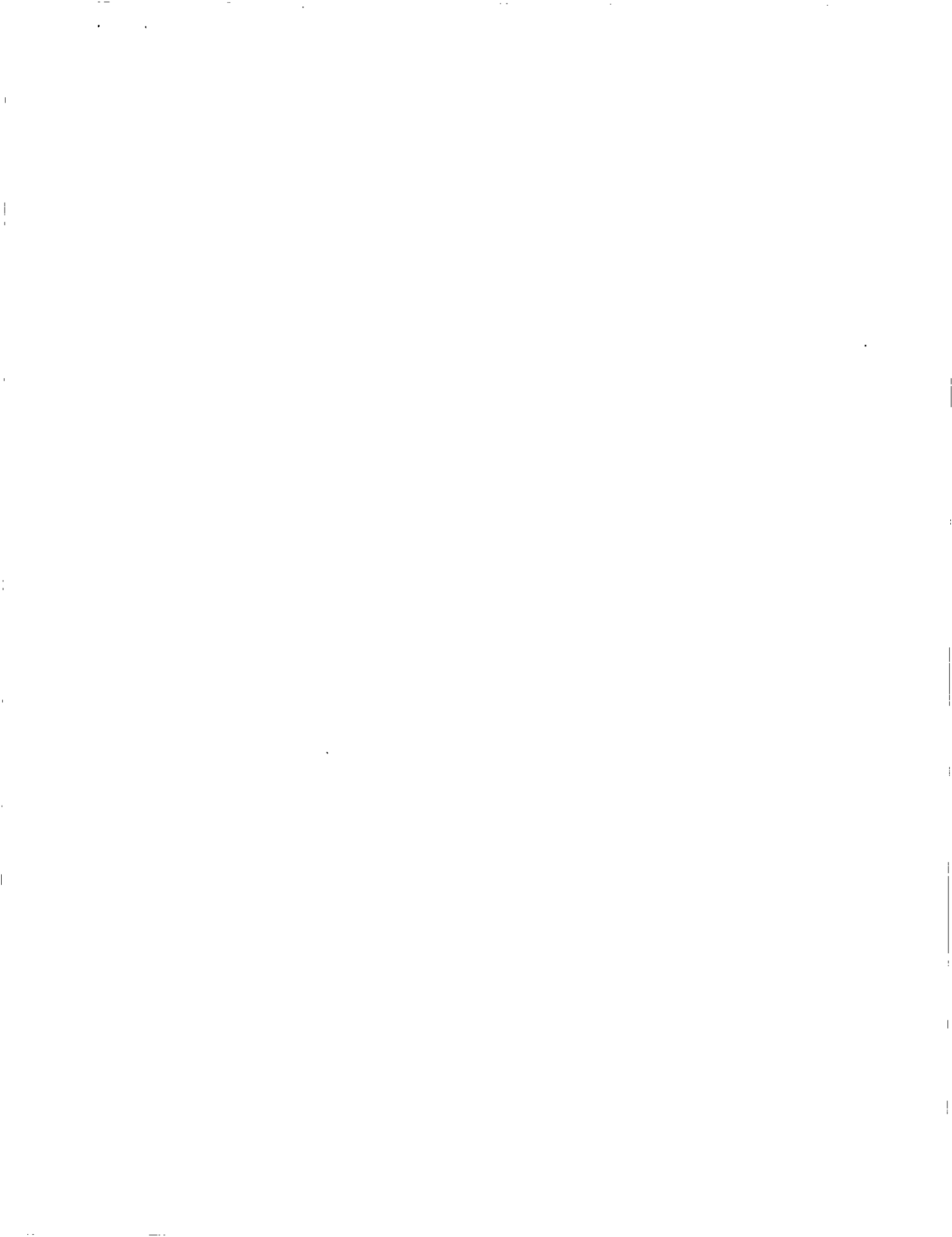
THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

GREGORY E. SOPKIN

POLLY PAGE

CARL MILLER

Commissioners



Decision No. R05-0815-I

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 05I-119T

IN THE MATTER OF THE INVESTIGATION OF THE ORDWAY EXCHANGE OF
CENTURYTEL FOR AN EXPANDED LOCAL CALLING AREA.

**INTERIM ORDER OF
ADMINISTRATIVE LAW JUDGE
WILLIAM J. FRITZEL
MAKING STAFF OF THE PUBLIC UTILITIES
COMMISSION A PARTY TO THE ACTION AND
GRANTING STAFF 60 DAYS TO FILE A REPORT**

Mailed Date: June 29, 2005

I. STATEMENT

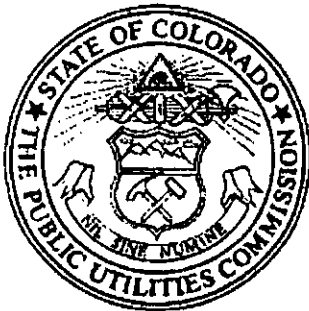
1. By Decision No. R05-0735-I, mailed on June 13, 2005, a prehearing conference was scheduled.
2. The prehearing conference was held as scheduled. Appearances were entered on behalf of CenturyTel of Colorado, Inc., Staff of the Public Utilities Commission (Staff), the Colorado Office of Consumer Counsel, and Qwest Corporation.
3. The attorney for Staff requested leave for Staff to review the cost studies and the customer survey filed in this action. After a review, Staff stated that it would file a report with recommendations to the Commission. Staff requested a 60-day period to file the report.
4. All of the parties of record supported Staff's request for review and the filing of a report.
5. Staff also requested that it be made a party to this action. The request was orally granted.

II. ORDER

A. It Is Ordered That:

1. Staff of the Public Utilities Commission is made a party to this docket.
2. Staff of the Public Utilities Commission shall on or before 60 days of the mailing date of this Interim Order file with the Commission a report with recommendations for Commission action.
3. This Order is effective immediately.

(SEAL)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

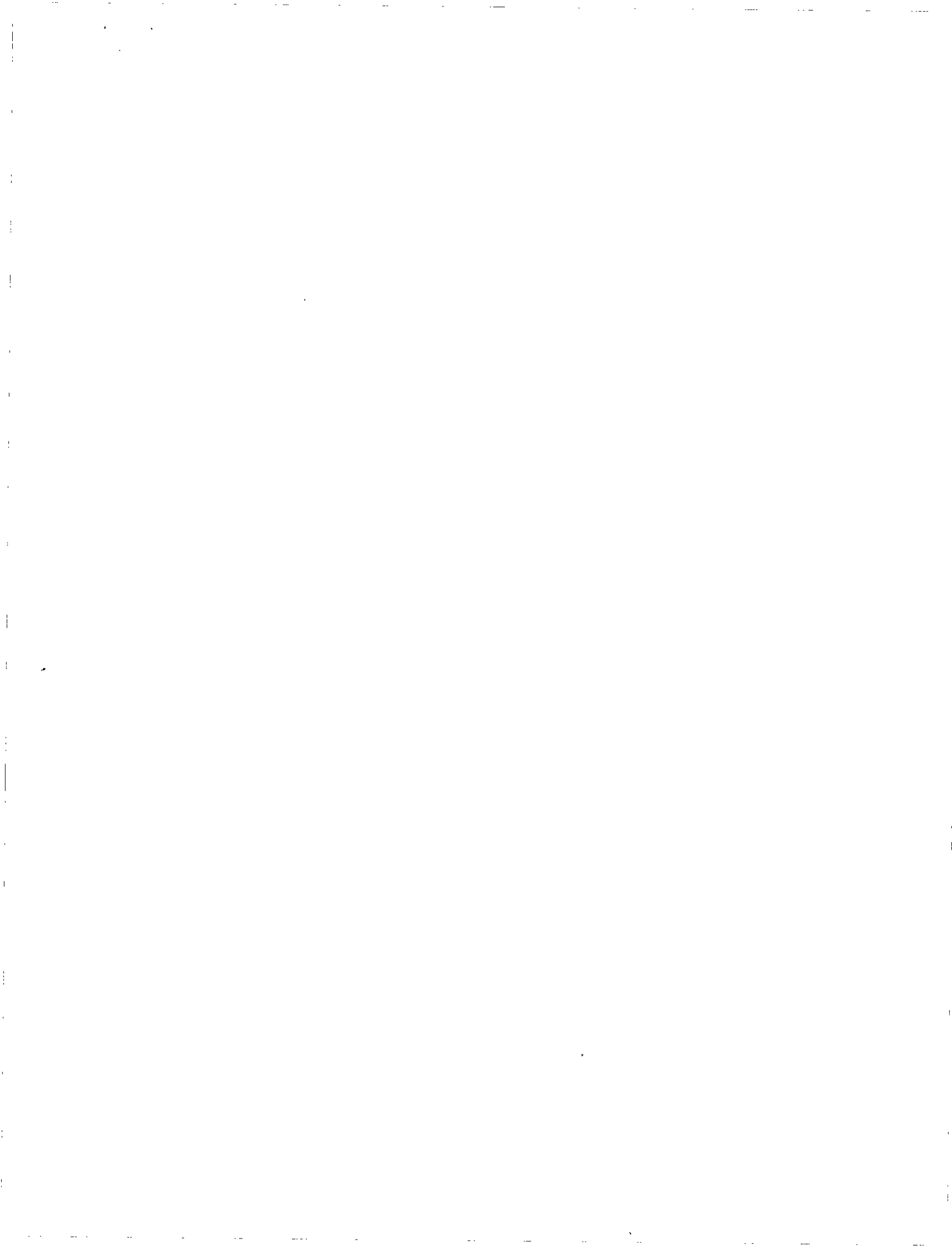
WILLIAM J. FRITZEL

Administrative Law Judge

**CONFIDENTIAL EXHIBIT D
HAS BEEN SEPARATELY SUBMITTED UNDER SEAL**



**CONFIDENTIAL EXHIBIT E
HAS BEEN SEPARATELY SUBMITTED UNDER SEAL**



Summary of Survey Results
CenturyTel of Eagle, Inc.
EAS Survey
of Ordway, CO exchange residential customers
June 24, 2005

Number of Surveys Mailed	1,117
Number of Surveys Returned	703
Response Percentage	62.9%
Number of Respondents Favoring The Expansion and Rate Increase	678
Number of Respondents Not Favoring The Expansion and Rate Increase	25
Percentage of Respondents Supportive	96.4%
Percentage of Respondents Opposed	3.6%