

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Jurisdictional Separations and Referral to the	)	CC Docket No. 80-286
Federal-State Joint Board	)	

**COMMENTS OF SPRINT NEXTEL CORPORATION**

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Sprint Nextel Corporation (“Sprint”) hereby respectfully submits its comments on the Federal Communication Commission (FCC or Commission) *FNPRM*<sup>1</sup> proposal to extend for two years, until June 30, 2014, the current freeze of jurisdictional separations categories and cost allocation factors. Sprint urges the FCC not to extend the separations freeze and the market distortions it creates. If, however, the Commission adopts its proposed extension, Sprint requests that the Commission take steps to limit the misuse of this data.

**I. INTRODUCTION AND SUMMARY**

There can be no dispute that many of the regulatory mechanisms currently in place are desperately in need of reform to reflect new technologies and marketplace realities. The fact that the Commission recently acted to reform universal service support and intercarrier compensation in the *USF/ICC Transformation Order*<sup>2</sup> amplifies the need to end, rather than extend, the harms caused by the separations freeze.<sup>3</sup> In the same way that the FCC sought in its USF/ICC reform

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<sup>1</sup> *Further Notice of Proposed Rulemaking*, CC Docket No. 80-286, FCC 12-27 (released March 15, 2012) (“*FNPRM*”).

<sup>2</sup> See *In the Matter of Connect America Fund* (WC Docket No 10-90) et al., Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, (rel. Nov. 18, 2011) (“*USF/ICC Transformation Order*”).

<sup>3</sup> The Commission quoted in *In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board*, (CC Docket No. 80-286) 16 FCC Rcd 11382 at note 6, the Supreme Court in *Smith v. Illinois Bell Tel. Co.*,

efforts to eliminate market distortions and consumer burdens by eliminating inflated charges and by more narrowly targeting support, the FCC should act to eliminate the distortions and burdens caused by mechanisms based on outdated cost allocations. Because of the inaccuracy of the cost allocations, if the Commission extends the freeze, it should prohibit the use of those cost allocations by ILECs in the determination of any state support funds. Instead, should an ILEC wish to receive any state support funding, it should be required to submit to the state commission a rigorous total company review, or it should submit to several of the reforms proposed by the State Members of the Federal State Joint Board on Separations in their March 5, 2010 letter and proposal.<sup>4</sup>

## **II. PART 36 SEPARATIONS SHOULD BE REFORMED AND STATE COMMISSIONS ADVISED OF CURRENT SHORTCOMINGS OF FROZEN FACTORS FOR STATE REVENUE REQUIREMENT USE**

The separations process is broken and fails to reflect a reasonable allocation of the joint costs of telecommunications services provided over today's broadband networks and to accurately reflect the new service opportunities available over those networks, leading to significant over-allocation of costs to the intrastate regulated jurisdiction. This over-allocation to the intrastate regulated jurisdiction results in higher charges than are necessary, either through inflated rates imposed on other carriers or consumers, or through assessments for state universal

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282 U.S. 133, 148 (1930) where it said "while the difficulty in making an exact apportionment of the property is apparent, and extreme nicety is not required, only reasonable measures being essential, it is quite another matter to ignore altogether the actual uses to which the property is put." After over 10 years of frozen Part 36 separations factors, given the mammoth changes in ILEC plant involving special access service, broadband service, and video service, the frozen factors, in Sprint's view, can no longer be considered to be reasonable and refusal to address the problem is tantamount to a decision by the Commission "to ignore altogether the actual uses to which the property is put."

<sup>4</sup> Letter from State Members of the Federal State Joint Board on Separation to Mignon Clyburn, Chair, Federal State joint Board on Separations, dated March 5, 2010 ("March 5, 2010 letter").

service funds. When this topic was addressed by AT&T in 2010, it noted that no separations “changes could have any effect on any of AT&T’s rates for interstate *or* intrastate voice, data, video or any other services” because AT&T was either deregulated or subject to price caps.<sup>5</sup> This argument, however, is incorrect with respect to rate of return LECs. Moreover, it is misleading even with respect to AT&T.

AT&T, for example, has an intrastate revenue requirement and rates and cost recovery mechanisms that have been established through the use of frozen Part 36 factors. If cost allocations more accurately reflect the expanding scope of services provided and the significant deregulation that has been afforded, the intrastate regulated revenue requirement of AT&T (and other LECs) would decrease and claims for state USF funding would decrease. Claims to replace reductions in USF or ICC with intrastate rate increases would also decrease. And for rate-of-return LECs, the connection is even more direct as Part 36 factors result in direct revenue claims in the intrastate jurisdiction. For rate of return LECs, reform of the Part 36 factors would result in reductions in intrastate revenue requirement and often reductions in their claimed need for state USF receipts and other intercarrier charges. As a result, the freeze of Part 36 factors artificially increases allocations to intrastate regulated services, which for all carriers receiving state support from USF or other high cost mechanisms and for carriers that are rate of return regulated, overstates revenue requirements and increases state USF assessments, has a negative impact on intrastate rates, and harms consumers.

The State Members in the March 5, 2010 letter identified the problem with the freeze:

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<sup>5</sup> See *Comments of AT&T, In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80286, April 29, 2010 at 2.

Under the freeze, large price cap carriers have frozen the relationships among their categories and subcategories of investment. Based on direction provided through correspondence with FCC Staff (footnote omitted), some if not all of these carriers have also ceased applying direct assignment rules to special access facilities. (footnote omitted). The same may be true of rate-of-return companies that have chosen to voluntarily freeze their category relationships.

\* \* \*

Companies' use of the same frozen categorization percentages that they used in 2001, regardless of the actual uses of their current plant, is not sufficient to properly separate costs between jurisdictions.<sup>6</sup>

Since 2001, the ILECs have been deploying broadband and the Commission is well aware of its deployment in the form of DSL, FIOS, U-Verse and other broadband products. These broadband products allow the provision of not only traditional voice products but also VoIP products, Internet connectivity, and video content. The Commission has found broadband Internet connectivity<sup>7</sup> and video<sup>8</sup> to be interstate in nature and has also declined to find VoIP a regulated telecommunications service that the states may regulate leaving it in the interstate jurisdiction.<sup>9</sup> Much of the "new" plant, in the form of routers and Cable and Wire Facilities installed in the past few years, has been installed in support of broadband, an interstate service. Yet the frozen Part 36 factors for the Central Office Equipment and Cable and Wire Facilities accounts continues to significantly over allocate to intrastate based on very stale, and increasingly inaccurate, 2001 usage patterns. The fact is that these facilities are used to a great

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<sup>6</sup> May 5, 2010 letter at 5.

<sup>7</sup> See e.g. *In the Matters of Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, (CC Docket No. 02-23) et al., 20 FCC Rcd 14853 at 6, (asserting Commission interstate jurisdiction and finding wireline broadband Internet access service to be an information service).

<sup>8</sup> See e.g. 47 U.S.C. 543 (limiting the regulatory role of the Commission to specified actions short of Title II regulation) and *United States et al. v. Southwestern Cable Co. et al.*, 352 U.S. 157 (the court approved the Commission's view that CATV is "related to interstate transmission" but providers are not common carriers subject to Title II regulation).

<sup>9</sup> See e.g. *In the Matter of Vonage Holdings Corporation Petition for Declaratory Ruling Concerning an Order of the Minnesota Public Utilities Commission*, (WC Docket No. 03-211), 19 FCC Rcd 22404 at ¶ 31 (preempting intrastate jurisdiction and applying federal oversight for the interstate service).

extent by interstate services, not intrastate services. And this over allocation has a negative impact.

A recent report from the National Telecommunications Cooperative Association (“NCTA”) highlights the extensive deployment and use of broadband facilities by even the smallest LECs. In its survey, NTCA reports the use of DSL, fiber to the home, and/or fiber to the node by 100% of the responding LECs.<sup>10</sup> The survey indicates a 66% take rate for broadband services.<sup>11</sup> Video services are offered by 72% of the responding companies.<sup>12</sup> This data indicates that over the past several years, while the Part 36 freeze has been in effect, LECs have deeply deployed broadband and video services which are not intrastate in nature yet the frozen allocation system continues to allocate these costs to the intrastate jurisdiction. This investment in plant that is largely dedicated to interstate services rather than intrastate has resulted in a significant overstatement of intrastate operating costs and investment and burdens intrastate ratepayers.

Rather than extend the cost distortions, the allocation system should be updated. The Commission recognizes that it is appropriate to look at the real financials of a LEC in determining its revenue need. In the *USF/ICC Transformation Order* the Commission supported examining:

. . . costs and revenues that *may* affect our analysis of requests for additional support, including: (1) other revenues derived from regulated services provided over the local network, such as special access; (2) productivity gains; (3)

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<sup>10</sup> See *NTCA 2011 Broadband/Internet Availability Survey Report*, March 2012, at 5, available at <http://www.ntca.org/current-press-releases/broadband-deployment-in-rural-america-continues-to-rise.html> (“NTCA Report”).

<sup>11</sup> *Id.* at 7.

<sup>12</sup> *Id.* at 11.

incumbent LEC ICC expense reductions and other cost savings, and (4) other services provided over the local network.<sup>13</sup>

The Commission clearly recognizes that an examination of all services provided over the local network is necessary in order to properly address the financial claims of the LECs. This principle applies directly to allocations of costs to the intrastate and interstate jurisdictions. Without examining the “other services provided over the local network” an accurate picture of jurisdictional costs cannot be obtained and the allocation to the intrastate jurisdiction remains significantly overstated. The Commission stated:

*Other Services Provided Over the Local Network.* In addition to regulated services provided over the local network, many carriers also provide unregulated services, such as broadband and video. Although parties have identified some uncertainty regarding the Commission’s ability to consider revenues from such services in calculating a carrier’s return on investment in the local network, (footnote omitted) the Commission will, at a minimum, carefully scrutinize the allocation of costs associated with such services. As one commenter states, “[i]t simply no longer makes any sense (if it ever did) for the agency to allow rural carriers to spend as much as they can on their networks, earning a rate of return on these historical costs while only considering the small sliver of unregulated local telephone revenues earned using these USF subsidized networks.”<sup>14</sup>

This concept is directly applicable to the Part 36 freeze. It no longer makes any sense (if it ever did) for the agency to use Part 36 factors that do not recognize the network use of unregulated services such as broadband and video. A change in Part 36 allocations can correct this problem.

Nor is this only a potential problem. For example, in Oklahoma, the LECs, including AT&T, have been supporting the use of Part 36 Separations as the justification for increasing the

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<sup>13</sup> See *USF/ICC Transformation Order* at ¶924.

<sup>14</sup> *Id.* at ¶930.

Oklahoma USF. AT&T visited the Oklahoma Corporation Commission in December 2011 to argue that the Separations study process would support an increase in the primary Oklahoma USF by over 1,500%.<sup>15</sup> AT&T noted that this “[c]omplex process has been decades in the making” and that there is “no double counting of costs.” AT&T noted that “[s]eparations cost studies typically have extensive support,” with” [a]udited financials,” and produce “[o]utput [d]ocuments showing jurisdictionally separated results.”<sup>16</sup> Unfortunately, AT&T fails to tell the rest of the story – the part about cost assignments and allocations based on factors which have not been updated in more than a decade producing grossly inaccurate jurisdictional allocations by failing to reflect the modern uses of local networks. AT&T further fails to inform the Oklahoma Commission that it is permitted to adjust these factors to reflect reality as it considers intrastate cost recovery. This use of inaccurate Part 36 processes to justify an increase in the size of the Oklahoma USF is precisely the type of harm the Commission should eliminate.

Since the ILECs continue to push the use of the existing separations process to demonstrate a subsidy need, the Commission has two choices. The Commission should explicitly prohibit and preclude use of the current results of the Part 36 process for a “needs test” in regard to either state high cost or state USF needs. Any ILEC desiring to receive any state support funding should be required to submit to the state commission a rigorous total company

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<sup>15</sup> See *Application of David B. Dykeman, Director of Public Utility Division, Oklahoma Corporation Commission, seeking to Establish an Annual Oklahoma Universal Service fund Assessment for the Fiscal Year Beginning July 1, 2012*, Cause No. PUD 201200005, Pre-Filed testimony of Chris Herbison, March 23, 2012, at CH-1, which estimates the 2012 primary Oklahoma USF fund need at \$3,656,897. Proposals made in PUD 20100211 would result in an immediate initial increase to the primary Oklahoma USF by approximately \$37 million, with an additional estimated \$15-20 million in additional increases as a result of applications being filed pursuant to relief requested by Rural Telephone companies in that case, for a total increase estimated at \$57 million.

<sup>16</sup> See *Separations Study Process A Big Picture View*, Dan Rhinehart, AT&T Finance, December 1, 2011, presented to the Oklahoma Corporation Commission, included as Attachment 1.

review. Alternatively, the Commission should adopt several of the reforms proposed by the State Members of the Federal State Joint Board in their March 5, 2010 letter to more accurately reflect the costs attributable to all services now provisioned over today's broadband network.

Because the Commission is proposing to again freeze the Part 36 factors, Sprint believes that the first option is likely the alternative that can most easily be adopted. By noting the deficiencies of the current Part 36 process for the establishment of state USF and state high cost funding, and supporting a needs test that would be performed at the state level on a total company basis, the Commission may continue the current Part 36 freeze without misleading state regulators concerning the accuracy of the Part 36 process to allocate costs to the state jurisdiction. The Commission should clearly indicate that current use of broadband plant results in over allocation of broadband costs to the intrastate jurisdiction and that states are strongly encouraged to examine the need of ILECs for state funding after adjusting the broadband investment allocations to reflect the actual jurisdictional use of that plant and total company revenues.

If the Commission determines that updating the Part 36 system should occur rather than a continuing freeze, it should implement the following changes to allocations:

- The cost of all interstate special access circuits should be directly assigned to the interstate jurisdiction first based on renewed circuit counts as was contemplated in the first freeze order<sup>17</sup>

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<sup>17</sup> *In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, 16 FCC Rcd 11382 at ¶ 11. The carriers were to calculate the relationships between categories of investment and expenses within Part 32 accounts and the jurisdictional allocation factors. Updating special access circuit counts was a large part of this effort. Since this was done in 2001, interstate special access revenues have grown very

- The cost of the local loop should be allocated among all of the services customers purchase on today's broadband network
- Until a full review can be accomplished Sprint recommends a "rough justice" allocation of 50% of the local loop cost of broadband capable lines to the ILEC broadband non-voice services category
- Sprint recommends that 25% of the local loop cost of broadband capable lines remain in the intrastate jurisdiction assigned to voice services and the remaining 25% should continue to be allocated to interstate voice service
- ILEC lines that are not broadband capable should continue to be allocated 75% to intrastate and 25% to interstate

This allocation system is simpler and more easily and quickly implemented than the one proposed by the State Members.<sup>18</sup> Sprint believes that this adjustment can be made in a timely manner and would not cause an undue hardship on any ILEC.

These proposed adjustments to the Part 36 allocations would more appropriately allocate the cost of the local loop to all of the services customers purchase on today's broadband network. Further, these adjustments would correct the over-allocation of local loop costs to the intrastate jurisdiction which currently grossly inflates the cost of basic local service and leads to ILEC requests that other carriers and their customers subsidize their "below cost" local service rates. In reality, the Part 36 cost allocation system is now simply creating an illusion that local rates are

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rapidly, with revenues increasing from approximately \$7.5 billion in 2000 to \$14.5 billion in 2009. Similar growth in broadband usage has occurred. These changes have made the frozen Part 36 factors severely inaccurate from the standpoint of recognizing the actual use and jurisdiction of ILEC facilities. Special access circuits should include Ethernet circuits.

<sup>18</sup> March 5, 2010 Letter at 13.

not sufficient. When local loop costs are allocated to all services on today's broadband networks, the cost attributable to basic local service are much smaller and the need for state USF and state high cost funding is much smaller.

### III. CONCLUSION

Sprint recommends that either (a) the Commission provide strong guidance to state commissions that the frozen Part 36 allocations should not be used for the purpose of determining state USF or state high cost subsidies without an examination of need through review of the total company business of the ILECs making such requests or (b) that the Part 36 allocations be modified to reflect the direct assignment of the costs of special access circuits to the interstate jurisdiction and a more appropriate allocation of the costs of broadband capable loops to the interstate jurisdiction.

Respectfully submitted,

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**ATTACHMENT 1**



# Separations Study Process

A Big Picture View

Dan Rhinehart, AT&T Finance

December 1, 2011

# Cost-Based OUSF Draw Determination

- Separations-Based Cost Identification
  - Jurisdictional Costs Conforming to FCC Rules
  - Interstate Costs Identified – Message Tel, Private Line, Wideband/Broadband
  - Intrastate Costs Identified – Local, EAS, Message Tel, Private Line
  - Finalized Studies Reflect NECA Reviews



# The Starting Point

- Total Company
  - Several structures are common
    - Stand-Alone Telco with regulated and non-regulated services
    - Holding Company with Telco as an Affiliate
    - Telco as Holding Company with non-regulated affiliates
- Accounting Conforms to FCC Uniform System of Accounts
  - Overall accounting structure is mandatory
  - Subaccounting is discretionary
  - No mandatory accounting structure for non-regulated activities



# Adjustments to Total Books of Account

- FCC Part 64 Rules Require Segregation of Regulated and Non-Regulated Costs
  - Large carriers must have a Cost Allocation Manual (CAM)
  - Small carriers are not required to maintain a formal CAM
  - NECA cost studies expect non-regulated costs to be excluded
- Some Non-Regulated Cost Accounting is accomplished directly
  - Dedicated accounts
  - Separate subsidiaries or affiliates
- FCC accounting rules also require exclusion of certain items
  - Certain rate base items paid for others via sources such as CIAC, OUSF, Stimulus Funds
  - Lobbying and contributions expenses



# Separations Cost Models

- Part 36 of FCC Rules
  - Dictates jurisdictional split of investments and costs
  - Complex process has been decades in the making
- Modeling of Part 36 Rules
  - Various consultants have developed models
  - Models are typically proprietary
  - All models achieve the same basic results
  - Results are tested against NECA modeling
  - No double counting of costs



## Other FCC Regulations

- Federal USF Regulations – Part 54
  - Special allocations of intrastate cost – e.g. High Cost Loop
  - Limits imposed on certain costs – e.g. Corporate Operations
  - Generates federal sourced revenues to offset intrastate cost
- Federal Rate of Return Regulations – Part 65
  - Established interstate 11.25% RoR
  - Intrastate RoRs are state specific
- Access Charge Regulations – Part 69
  - Splits out costs into access elements
  - Common Line, Local Switching, Transport, Special Access, +



## “Filing Package” Contents

- Separations cost studies typically have extensive support
  - Basic and/or detailed company accounting data
  - Audited financials
  - Cost Allocation Manual or equivalent
  - Pro Forma Adjustments
  - Input Documents
    - Adjusted Accounting Information
    - Cost Factors (e.g., RoR, Tax rates, SPF, DEM, CMM, Billing ...)
    - Other (e.g., loop counts, direct assignments of cost)
  - Output Documents showing jurisdictionally separated results



# Typical Part 36 Results Report (1)

RUSH-TILL, INC  
2009

PAGE: 1  
09/08/09

ALL JURISDICTIONS

LINE ACCT CAT	TOTAL	EAS	LOC/PI	LOCAL	INTER-STATE MESSAGE TOLL		INTER-STATE PRIVATE LINE		MESSAGE TOLL		PRIVATE LINE	
					INTRA-LATA	INTER-LATA	INTRA-LATA	INTER-LATA	INTRA-LATA	INTER-LATA	INTRA-LATA	INTER-LATA
200 EXTE BASE	2,079,437	0	0	825,105	751,799	0	54,813	0	0	436,763	0	12,355
201 RATE		0.000000	0.110001	0.110000	0.112500	0.112500	0.112500	0.110000	0.110000	0.110000	0.110000	0.110000
203 RETURN	235,754	0	0	90,762	34,577	0	6,166	0	0	48,044	0	1,765
205 DEDUCTS	89,639	0	0	37,652	29,128	0	2,135	0	0	16,898	0	426
206 INVEST TAX CR.	0	0	0	0	0	0	0	0	0	0	0	0
207 BEFORE FED TAX	159,115	0	0	58,710	55,449	0	4,031	0	0	31,146	0	779
208 SBTAX	18,333,333	0	0	7,286,977	6,622,275	0	485,349	0	0	3,841,771	0	96,981
209 FED INC TAX	68,516	0	0	26,622	25,512	0	1,850	0	0	14,159	0	333
210 BAL REF ST TAX	218,631	0	0	85,332	40,981	0	5,481	0	0	45,305	0	1,132
211 ST INCOME TAX	22,682	0	0	8,853	8,402	0	616	0	0	4,702	0	117
212 RETURN PLUS TAX	321,952	0	0	125,237	118,511	0	8,626	0	0	66,901	0	1,675
213 EXPENSES	2,263,204	0	0	850,549	848,589	0	52,890	0	0	500,977	0	10,704
214 GROSS REC TAX	0	0	0	0	0	0	0	0	0	0	0	0
215 [EXPENSE] ADJ	0	0	0	0	0	0	0	0	0	0	0	0
216 TOTAL EXPENSE	2,263,204	0	0	850,549	848,589	0	52,890	0	0	500,977	0	10,704
217 SUBTOTAL	2,585,136	0	0	976,266	946,402	0	61,516	0	0	567,875	0	12,379
218 ADJUC.	0	0	0	0	0	0	0	0	0	0	0	0
219 RENT REVENUE	94,102	0	0	41,150	30,174	0	2,872	0	0	19,338	0	576
220 REVENUE REQ	2,491,034	0	0	935,636	936,426	0	58,644	0	0	548,543	0	11,403



# Typical Part 36 Results Report (2)

Page 2

Part 36 - Results Report

At&T Telephone Utility  
 Period 1/1/08 - 12/31/08  
 ADAK STATE ACCESS  
 Subpart: REVENUE REQUIREMENT  
 Group: Revenue Requirement

ITEM	TOTAL	MTS IS ER	MTS IS RA	MTS ST ER	MTS ST RA	PL IS ER	PL IS RA	PL ST ER	PL ST RA	EAS	OTHER	LOCAL PL
Rate Base	4805332	1624408	0	0	811273	68071	0	0	85948	0	2215632	0
Rate of Return	0.0000	0.1100	0.1100	0.1100	0.1100	0.1100	0.1100	0.1100	0.1100	0.1100	0.1100	0.1100
Return on Rate Base	528567	176685	0	0	89240	6388	0	0	13654	0	243720	0
Operating Expenses	2619144	1045154	0	0	464251	40233	0	0	44996	0	1224510	0
TAX ADJUSTMENTS:												
Investment Tax Credit	0	0	0	0	0	0	0	0	0	0	0	0
Interest During Const	0	0	0	0	0	0	0	0	0	0	0	0
Fuel Charges	305080	103912	0	0	51237	3777	0	0	6090	0	140064	0
Miscellaneous Tax Adj	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation Adjust	0	0	0	0	0	0	0	0	0	0	0	0
Total Tax Adjustments	305080	103912	0	0	51237	3777	0	0	6090	0	140064	0
AFTER TAX INCOME:												
After Tax Income	223507	74773	0	0	38003	2611	0	0	4485	0	103655	0
FEDERAL INCOME TAX:												
FIT Effective Tax Rate	0.3400	0.3400	0.3400	0.3400	0.3400	0.3400	0.3400	0.3400	0.3400	0.3400	0.3400	0.3400
FIT Gross-Up Rate	0.5152	0.5152	0.5152	0.5152	0.5152	0.5152	0.5152	0.5152	0.5152	0.5152	0.5152	0.5152
Total Federal Income Tax	115140	38519	0	0	19577	1345	0	0	2300	0	53398	0
STATE INCOME TAX:												
State Income Tax Base	338646	113292	0	0	57580	3956	0	0	6786	0	157053	0
SIT Effective Tax Rate	0.0940	0.0940	0.0940	0.0940	0.0940	0.0940	0.0940	0.0940	0.0940	0.0940	0.0940	0.0940
SIT Gross-Up Rate	0.1038	0.1038	0.1038	0.1038	0.1038	0.1038	0.1038	0.1038	0.1038	0.1038	0.1038	0.1038
Total State Income Tax	35135	11754	0	0	5974	410	0	0	702	0	16295	0
REVENUE REQUIREMENT:												
Revenue Requirement	3456006	1274113	0	0	579042	48376	0	0	56552	0	1537923	0



# Summary Part 36 Revenue Requirements

## SUMMIT TELEPHONE COMPANY SEPARATED REVENUE REQUIREMENTS - PART 36 For the Test Year Ended December 31, 2008

Line No.	Description (a)	Total Company (b)	Interstate Message Tot Service (c)	Interstate Private Line Service (d)	Intrastate Message Tot Service (e)	Intrastate Private Line Service (f)	EAS (g)	Local (h)
1	<b>RATE BASE</b>							
2	Plant in Service	\$ 4,759,436	\$ 1,795,805	\$ 83,940	\$ 732,686	\$ 58,814	\$ 62,450	\$ 2,020,741
3	Capital Lease Items	72,510	27,359	1,355	11,163	898	951	30,786
4	Accumulated Depreciation & Amortization	(2,297,135)	(732,452)	(51,198)	(385,111)	(32,646)	(42,055)	(1,053,643)
5	Net Plant	2,534,811	1,090,712	39,097	358,738	27,064	21,316	997,884
6	Telephone Plant Under Construction	433,847	163,697	8,107	66,788	5,361	5,693	184,201
7	Materials and Supplies	42,455	10,270	777	8,233	613	41	22,521
8	Customer Deposits	(11,843)	(4,469)	(721)	(1,823)	(186)	(155)	(5,029)
9	Deferred Income Taxes	(135,706)	(38,312)	(3,075)	(24,154)	(2,021)	(2,220)	(65,924)
10	Cash Working Capital	37,960	15,175	548	7,155	364	382	14,298
11	Total Rate Base	2,901,464	1,237,073	45,233	414,947	31,235	25,057	1,147,919
		2,901,462						
12	Rate of Return		11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
13	Return Requirement	319,161	136,078	4,978	45,644	3,438	2,756	125,271
14	<b>OPERATING EXPENSES</b>							
15	Plant Specific Operations Expense	228,822	87,427	4,279	34,904	2,811	3,100	96,301
16	Plant Non-Specific Operations Expense	169,700	84,030	3,171	26,124	2,097	2,227	72,051
17	Depreciation Expense	380,066	124,346	8,487	62,778	5,354	7,267	171,834
18	Customer Operations Expense	85,539	29,565	60	30,968	58	24	24,864
19	Corporate Operations Expense	421,857	178,763	5,461	84,152	3,611	3,910	145,992
20	Total Operating Expenses	1,285,984	484,131	21,458	238,926	13,931	16,528	511,010
21	<b>OPERATING TAXES</b>							
22	Federal Income Taxes	119,520	50,407	1,890	17,251	1,303	1,051	47,608
23	State Income Taxes	30,568	12,893	483	4,412	333	271	12,176
24	Other Operating Taxes	16,257	6,149	355	2,509	201	214	6,619
25	Total Operating Taxes	166,345	69,449	2,678	24,172	1,837	1,546	66,403
26	Total Operating Expenses and Taxes	1,452,369	553,580	24,136	263,098	15,768	18,074	577,713
27	<b>TOTAL COMPANY REVENUE REQUIREMENTS</b>	<b>\$ 1,771,530</b>	<b>\$ 689,653</b>	<b>\$ 72,132</b>	<b>\$ 304,742</b>	<b>\$ 19,234</b>	<b>\$ 20,830</b>	<b>\$ 763,984</b>

Note: Jurisdictional separations are derived from a Part 36 cost study included in Section IV of this report.

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