

DESCRIPTION & JUSTIFICATION

3 MEGABITS PER SECOND ASYMETRICAL DIGITAL SUBSCRIBER LINE (ADSL) SERVICE Nonrecurring / Recurring Cost Study

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OVERVIEW / METHODOLOGY

SERVICE DESCRIPTION

3 Megabits per second Asymmetrical Digital Subscriber Line (ADSL) Service is an access data technology service offered at high speed downstream and upstream over existing Telephone Company facilities that are also used to provision local exchange services. It is proposed for offering on a wholesale (WADSL) basis. The “Down” speed represents transmission speed in kilobits per second (Kbps) from the Telephone Company’s ADSL connection point to the customer-designated premises, while the “Up” speed represents transmission speed in kilobits per second from the customer-designated premises to the Telephone Company’s ADSL connection point. This service offers a “Down” speed of up to 3 Megabits per second (Mbps). The “Up” speed is 768Kbps. The ADSL connection point is the aggregation point designated by the Telephone Company for connecting multiple ADSL terminations. The terminations interface with other network services to connect to Internet Service Providers.

NONRECURRING COSTS

The term “nonrecurring” refers to the expensed labor efforts required to provide service to a customer. It includes both installation and disconnection activity under the assumption that ultimately the customer will discontinue the service at some point in time. Labor expenses, such as service order preparation, design, assignment of plant/central office facilities, testing and order completion are included. These costs are reflected in the overall revenue requirement under the “Subscriber” and “Network” expense categories.

RECURRING COSTS

The process outlined below identifies recurring fully-allocated costs for ADSL High Speed Service.

Investment

Investment is identified by cost elements (i.e. DSLAM, Shelf Assembly, Splitter Card, etc.) for plant and equipment required to provide ADSL High Speed Service. ADSL Service investments are comprised of plant and equipment classified to the following accounts:

? Interoffice Fiber	Account 2422.22
? Network Support Digital Circuit Equipment	Account 2232.90
? Digital Switching	Account 2212.10
? Digital Circuit Equipment	Account 2232.13
? Conduit	Account 2442.10

Cost Components

3 Megabits per second ADSL Service recurring costs were identified by the investments and associated account codes. These investments' recurring costs were then identified by applying standard factors. This is completed as follows:

The Return and Income Tax Requirement component is based on the FCC authorized 11.25% rate of return, and federal and state tax rates, of 35% and 8.84%, respectively. This component is applied to net investment and identifies the combined costs for the Return component and Tax Requirements. Other identifiable Taxes are included through a separate tax factor.

The depreciation rates are applied to gross investment based on the estimated life for the specialized equipment used to provide the service. This identifies the annual Depreciation Expense.

Subscriber Expenses are identified for installation, network maintenance and customer support. Estimates of cost are based on forecast customer demand, company fully-allocated labor rates and expected task completion times and frequencies.

Network Expenses are identified for local transport, CEV/CO trouble calls and CEV/CO maintenance. Estimates of cost are based on forecast customer demand, number of locations, internal cost factors, company fully-allocated labor rates and expected task completion times and frequencies.

SUREWEST TELEPHONE

Other Expenses are identified for product specialist and billing & collection efforts. Estimates of cost are based on forecast customer demand, full-time equivalencies, company fully-allocated labor rates and historical rate experience.

General and Administrative Expenses are identified for marketing, administrative and indirect overhead, and bad debt costs. Estimates of cost are based on marketing plans and historical factors.

The total annual revenue requirement is derived by the sum of the Annual Expenses (from Schedules C-1, C-2, C-3, C-4 and D) and the Return on Investment requirement (from Schedule D), and is shown on Schedule C.

This approach is the methodology used in the SureWest Telephone 3 Megabits per second ADSL Service FCC Tariff filing.