

DESCRIPTION & JUSTIFICATION

**WHOLESALE MULTICAST VIDEO TRANSPORT
(WMVT) SERVICE WITH HIGH-SPEED INTERNET ACCESS AT UP TO
3 MEGABITS PER SECOND (Mbps)
Nonrecurring / Recurring Cost Study**

November 16, 2004

**OVERVIEW / METHODOLOGY
Transmittal No. 14**

SERVICE DESCRIPTION

Wholesale Multicast Video Transport (WMVT) Service provides high-speed transport over existing Telephone Company facilities that are also used to provision dedicated or local exchange services. It is proposed to be offered on a wholesale basis to retail providers of retail multi-channel video programming services, individually and in combination with high-speed internet access. Where available, WMVT will provide video streams (the number of streams is dependent upon the distance from the Designated End User Location (DEUL) to the WMVT Connection Point, the type of facility, and the physical condition of the plant) and one (1) high-speed data stream providing internet access. The internet access service will allow "Download" speeds up to 3 Megabits per second (Mbps), and "Upload" speeds up to 768 Kbps. The WMVT Connection Point is the aggregation point designated by the Telephone Company for retail providers of retail multi-channel video programming services to connect to the Telephone Company's WMVT Service. Additionally, with this filing, the Telephone Company is proposing to change the initial startup period from 24 months to 36 months. The initial startup period is used to determine eligibility for the Commitment Level subscribed by the customer. The initial startup period is being changed due to the timing of the capability of the Telephone Company electronic equipment to be able to serve premises within specific distances as compared to the timing of the initial startup period for the customer.

NONRECURRING COSTS

The term “nonrecurring” refers to the expensed labor efforts required to provide service to the customer and the DEULs, and includes both installation and disconnection activity. 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. A nonrecurring “Change” charge will apply for changes to existing WMVTs for the add or removal of high speed internet access. Additionally, a nonrecurring “Optical Activation Charge” will apply for end-user locations served by ‘Fiber to the Home’.

RECURRING COSTS

The process outlined below identifies recurring fully allocated costs for WMVT Service.

Investment

Investment is identified by cost elements (i.e. DSLAM, Routers, Splitters, Cards, etc.) for plant and equipment required to provide WMVT Service. WMVT 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 Circuit Equipment	Account 2232.13
? Conduit	Account 2442.10

Cost Components

WMVT 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.

SUREWEST TELEPHONE

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

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

Other Expenses are identified for project management and billing & collection efforts. Estimates of cost are based on forecast 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. 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 Company's Wholesale Multicast Video Transport Service FCC Tariff filing.