

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Shari Feist Albrecht, Chair
 Jay Scott Emler
 Pat Apple

In the Matter of United Telephone Companies)
of Kansas, d/b/a CenturyLink, Filing Basket 3) Docket No. 15-UTDT-516-MIS
API Calculation Report for the 2015 Annual)
Price Cap Demand Update)

ORDER APPROVING ANNUAL PRICE CAP UPDATE FOR CENTURYLINK

NOW, the above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed its files and records and being duly advised in the premises, the Commission makes the following findings:

1. United Telephone Companies of Kansas, d/b/a CenturyLink (CenturyLink) elected to be price cap regulated pursuant to K.S.A. 66-2005(b). The election was made in Docket No. 98-UTDT-401-MIS. In that same docket, the Commission directed CenturyLink to file annual price cap updates. The price cap update includes a demand update to refresh CenturyLink's actual price index (API) and a price cap index (PCI) update stemming from the Commission approved price cap formula.

2. In Docket No. 13-GIMT-473-MIS (Docket 473) the Commission began its review of the price cap formula for the third five (5) year review pursuant to K.S.A. 66-2005(g). The Commission last reviewed the price cap formula in Docket No. 07-GIMT-782-MIS and approved a Settlement Agreement in that Docket on April 30, 2008.

3. On June 27, 2013, the Commission and CenturyLink adopted the Stipulation and Agreement (Stipulation) proposed in Docket 473, and on July 9, 2013, the Commission ordered that the price cap formula and associated factors agreed to in Docket 473 would be effective for a

period of four (4) years and used for annual price cap filings made after January 1 in each of the years 2014, 2015, 2016 and 2017.

4. On May 1, 2015, CenturyLink filed an application for approval of its proposed annual price cap update. In its filing, CenturyLink included its new Price Cap Indices for Basket 3 Services and also integrated the price cap formula criteria agreed upon by the parties in Docket 473.

5. Commission Staff (Staff) reviewed CenturyLink's price cap update and submitted a Report and Recommendation on May 15, 2015, attached hereto and made a part hereof by reference. Staff found that the adjustments and calculations were made properly. Staff validated CenturyLink's PCI calculations and verified the inflation factors used in the PCI calculation against the federally published inflation indexes. Staff also found that the overall impact of the PCI calculation results in a slight increase in the PCI for Basket 3. Staff recommended that the Commission accept the calculations as filed and grant the annual update of the Price Cap Plan for CenturyLink, with an effective date of June 2, 2015, as agreed to between Staff and CenturyLink.

6. The Commission finds Staff's recommendation of approval to be reasonable and hereby adopts the same.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. CenturyLink's price cap update is approved, effective June 2, 2015, as agreed to between Staff and CenturyLink.

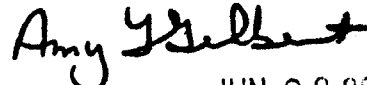
B. The parties have fifteen (15) days, plus three (3) days if service of this order is by mail, from the date this order was served in which to petition the Commission for reconsideration of any issue or issues decided herein. K.S.A. 66-118b; K.S.A. 77-529(a)(1).

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of issuing such further order, or orders, as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Albrecht, Chair; Emler, Commissioner; Apple, Commissioner

Dated: JUN 02 2015


ORDER MAILED JUN 03 2015
Amy L. Gilbert
Secretary

MJD

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Pat Apple

FROM: Hal Baumhardt, Senior Telecommunications Analyst
Christine Aarnes, Chief of Telecommunications
Jeff McClanahan, Director of Utilities

DATE: May 15, 2015

SUBJECT: 15-UTDT-516-MIS

In the Matter of United Telephone Companies of Kansas, d/b/a CenturyLink, Filing Basket 3 API Calculation Report for the 2015 Annual Price Cap Demand Update.

EXECUTIVE SUMMARY:

United Telephone Companies of Kansas, d/b/a CenturyLink (CenturyLink), filed an Application for Basket 3 Actual Price Index (API) Calculation reports for the 2015 annual price cap demand update for the United Telephone Companies of Kansas.¹ Basket 1 is no longer subject to price cap regulation.² The Company also included its new Price Cap Indices (PCI) for Basket 3 Services that will be effective June 2, 2015.

Staff recommends approval of CenturyLink's Application for its 2015 annual price cap update to be effective June 2, 2015.

BACKGROUND:

CenturyLink has elected price cap regulation. Pursuant to K.S.A. 66-2005(h) and (j), the price caps for local services in Basket 1 and miscellaneous services in Basket 3 are to be adjusted annually. The annual refresh updates existing quantities and adjusts the PCI for inflation and productivity factors. Based on these criteria, the difference between the API and the PCI, or headroom, provides pricing flexibility to CenturyLink.

¹ The United Telephone Company of Kansas d/b/a CenturyLink, United Company of Eastern Kansas d/b/a CenturyLink, United Telephone Company of Southcentral Kansas d/b/a CenturyLink, and Embargo Missouri, Inc. d/b/a CenturyLink.

² See *In the Matter of a General Investigation into the Price-Cap Formula in Compliance with K.S.A. 2011 SUPP. 66-2005(g)*, June 26, 2013, Docket No. 13-GIMT-473-GIT, ¶ 2.

On January 31, 2013, in Docket No. 13-GIMT-473-MIS (Docket 473), the Commission issued an Order Opening Investigation for the purpose of conducting the third five-year review of the price cap adjustment formula, as required by K.S.A. 66-2005(g). K.S.A. 66-2005(g) required the Commission to determine the price cap adjustment formula by January 1, 1997. This was accomplished by the Commission pursuant to its Order issued December 27, 1996, in Docket No. 94-GIMT-478-GIT, and an Order on Reconsideration issued February 3, 1997. K.S.A. 66-2005(g) requires the Commission to review the price cap formula, but not actual prices, every five (5) years. The Commission last reviewed the price cap formula in Docket No. 07-GIMT-782-MIS (Docket 782) and approved a Settlement Agreement in that Docket on April 30, 2008.

On February 19, 2013, CenturyLink filed comments in Docket 473 proposing that the existing price cap formula be extended for a one-year period and that the parties immediately commence discussions in an effort to reach a settlement regarding the price cap formula that should be used after expiration of the one-year extension.

Staff filed its Report and Recommendation on March 4, 2013, recommending the Commission adopt the then-current price cap formula for 2013 and approve the procedural schedule proposed by CenturyLink for adopting a price cap formula for years 2014-2017.

On June 27, 2013, the Commission and CenturyLink adopted the Stipulation and Agreement (Stipulation) proposed in Docket 473, and on July 9, 2013, the S&A Order was approved to be effective for a period of four years and used for annual price cap filings made after January 1 in each of the years 2014, 2015, 2016, and 2017.

On May 1, 2015, CenturyLink filed an Application for approval of its proposed annual price updates. CenturyLink integrated the price cap formula criteria agreed to by the parties in Docket 473. CenturyLink did not file any revisions to its General Exchange Tariff as it is not proposing any service rate increases.

CenturyLink operates as a price cap regulated company and is the second largest local exchange carrier (LEC) in Kansas. CenturyLink operates three separate service areas in Kansas: Eastern, Southeast, and United. CenturyLink is headquartered in Monroe, Louisiana, and its President is Kenny Wyatt.

ANALYSIS:

Changes in the annual refresh involve the general structure of the price cap formula, which were updated in 2013 in Docket 473. The price cap formula is stated as: $PCI = Y - X \pm Z$ where "Y" is the inflation factor, "X" is the productivity factor and "Z" is the Exogenous adjustment factor. Gross Domestic Product Price Index-Chain Weighted (GDPPI-CW) is used in the price cap formula as the basic inflation factor index for Basket 3. Each of the three components were determined in Docket 782 that extended the price cap formula for one year, and in Docket 473 for a period of four (4) years and used for annual price cap filings made after January 1 in each of the years 2014, 2015, 2016 and 2017 as follows:

1. The use of the current inflation factor (GDPPI-CW), or its official equivalent, will continue to be used in the price cap formula as the basic inflation factor for Basket 3.
2. The productivity factor for Basket 3 will be set at zero (0) percent.
3. The *Exogenous adjustment factor* remains unchanged and will be considered by the Commission on a case-by-case basis for reserved infrequent large dollar events.

The only changes in the annual price cap update are the adjustment of the PCI for the inflation and productivity factors. This year's calculation shows that the GDPPI-CW inflation factor increased 0.0124%.

Staff reviewed this price update Application filed by CenturyLink for Basket 3 services as defined in K.S.A. 66-2005(f) through (k). In this annual update, all prices and demand are held constant for each service item.

Staff validated the PCI calculations and verified the inflation factors against the federally published inflation indexes³. The overall impact of the PCI calculation results in a slight increase in the PCI for Basket 3, and there remains adequate headroom.

CenturyLink did not have any changes in either the price or demand for services; therefore, no tariff revisions for Basket 3 were filed.

Z-Factor Allocation-Exogenous Change

There are no exogenous changes in this year's annual price cap demand update. All exogenous changes were made in the past three annual price cap demand updates resulting from the sale of CenturyLink's exchanges to Blue Valley Telecommunications, Inc., Twin Valley Telephone, Inc., and Rural Telephone Service Co, respectively.⁴

RECOMMENDATION:

Staff recommends that the Commission accept the calculations as filed and grant this annual update of the Price Cap Plan for CenturyLink, with an effective date of June 2, 2015.

³ U.S. Department of Commerce, Bureau of Economic Analysis, Table 1.1.4 Price Indexes for Gross Domestic Product, released March 27, 2015.

⁴ See *In the Matter of United Telephone Companies of Kansas, d/b/a CenturyLink, Filing Basket 1 and Basket 3 API Calculations Report for the 2012 Annual Price Cap Demand Update*, June 1, 2012, Docket No. 12-UTDT-785-MIS, ¶ 3; See *In the Matter of the Application of United Telephone Companies of Kansas, d/b/a CenturyLink, Filing Basket 1 and Basket 3 API Calculation Report for the 2013 Annual Price Cap Demand Update*, June 1, 2013, Docket No. 13-UTDT-675-MIS, ¶ 3; See *In the Matter of United Telephone Companies of Kansas, d/b/a CenturyLink, Filing Basket 3 API Calculation Report for the 2014 Annual Price Cap Demand Update*, June 1, 2014, Docket No. 14-UTDT-515-MIS, ¶ 3.

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET
TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
MICHAEL DUENES, LITIGATION COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD RD TOPEKA, KS 66604-4027 ***Hand Delivered***		
JOHN R. IDOUX, DIRECTOR KANSAS GOVERNMENTAL AFFAIRS UNITED TELEPHONE CO. OF KANSAS D/B/A CENTURYLINK 600 NEW CENTURY PKWY NEW CENTURY, KS 66031		

ORDER MAILED **JUN 03 2015**

The Docket Room hereby certified that on this ____ day of _____, 20____, it caused a true and correct copy of the attached ORDER to be deposited in the United States Mail, postage prepaid, and addressed to the above persons.