

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Mark Sievers, Chairman
 Ward Loyd
 Thomas E. Wright

In the Matter of the Application of United)
Telephone Companies of Kansas, d/b/a)
CenturyLink, Filing Basket 1 and Basket 3 API) Docket No. 12-UTDT-785-MIS
Calculation Report for the 2012 Annual Price)
Cap Demand Update.)

**ORDER APPROVING ANNUAL PRICE CAP DEMAND 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. The election was made in Docket No. 98-UTDT-401-MIS. In that same docket, the Commission directed CenturyLink to file annual price cap demand updates to be effective June 1st of each year.

2. In Docket No. 07-GIMT-782-MIS the Commission conducted a review of the price cap formula and approved a stipulated settlement agreement applicable to price cap filings occurring between 2008 and 2012.

3. On April 25, 2012, CenturyLink filed an application for approval of its proposed annual price cap demand update to be effective June 1, 2012. In its filing, CenturyLink integrated the price cap formula criteria agreed upon by the parties in Docket No. 07-GIMT-782-MIS.

4. Commission Staff ("Staff") has reviewed CenturyLink's price cap demand update and filed its Report and Recommendation on May 17, 2012, attached hereto and made a part hereof by reference. Staff validated CenturyLink's API and PCI calculations and verified the inflation factors against the federally published inflation indexes. Staff also examined CenturyLink's Exogenous Z-Factor adjustment made pursuant to a gain from a sale of its Onaga and Westmoreland exchanges. Staff noted that the Z-Factor adjustment was approved in a Stipulation and Agreement dated December 16, 2004. Staff found that the adjustments and calculations were made properly and adequate headroom remained in Baskets 1 and 3. Staff therefore 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 1, 2012, as requested.

5. 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 1, 2012, as requested.
- 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. 66-118; 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.

Sievers, Chmn.; Loyd, Com.; Wright, Com.

Dated: **MAY 31 2012**



ORDER MAILED JUN 01 2012

Patrice Petersen-Klein
Executive Director

MRN

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Mark Sievers, Chairman
Ward Loyd, Commissioner
Thomas E. Wright, Commissioner

Sam Brownback, Governor

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

STATE CORPORATION
COMMISSION

MAY 17 2012

TO: Chairman Mark Sievers
Commissioner Ward Loyd
Commissioner Thomas E. Wright

PATRICE PETERSEN-KLEIN
EXECUTIVE DIRECTOR

FROM: Hal Baumhardt

DATE: May 17, 2012

DATE SUBMITTED TO EXECUTIVE DIRECTOR: 5/17/12

DATE SUBMITTED TO LEGAL: 5-22-12 *[Signature]*

DATE SUBMITTED TO COMMISSIONERS: 5-23-12

SUBJECT: 12-UTDT-785-MIS

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 2012 Annual Price Cap Demand Update.

EXECUTIVE SUMMARY:

United Telephone Companies of Kansas, d/b/a CenturyLink (CenturyLink), filed an Application for Basket 1 and Basket 3 Actual Price Index (API) Calculation reports for the 2012 annual price cap demand update for the United Telephone Companies of Kansas.¹ The Company also included its new Price Cap Indices (PCI) for Basket 1 and Basket 3 Services that will be effective June 1, 2012. Lastly, due to the sale of two CenturyLink's exchanges (Onaga and Westmoreland) to Blue Valley Telecommunications, Inc. (Blue Valley) in 2004, this year's annual price cap demand update reflects a one-time Z-Factor Allocation-Exogenous Change. Staff recommends approval of CenturyLink's Application for its 2012 annual price-cap update to be effective June 1, 2012.

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 Embarq Missouri, Inc. d/b/a CenturyLink.

BACKGROUND:

CenturyLink² 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.

On January 29, 2007, the Commission opened Docket No. 07-GIMT-782-MIS (Docket 782) to conduct the fifth five-year review of the price cap formula, pursuant to K.S.A. 2005 Supp. 66-2005(g). The Commission approved a Stipulated Settlement in the Docket on April 30, 2008. The approved formula is applicable to price cap filings occurring in 2008 – 2012. Since this is the fifth year for the current price cap formula, the price cap formula will need to be revisited and reevaluated for subsequent years in a separate docket.

On April 19, 2011, 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 782. CenturyLink did not file any revisions to its General Exchange Tariff as it is not proposing any service rate increases.

CenturyLink operates as a rural telephone 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 has remained unchanged since 2008. 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. GDPPI-CW will continue to be used in the price cap formula as the basic inflation factor index for Basket 1 and Basket 3. Each of the three components were determined in Docket 07-782 as follows:

1. For Basket 1, the *productivity factor* is set at a percentage rate equal to the inflation factor (GDPPI-CW).
2. For Basket 3, the *productivity factor* is 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 0.0211%.

² On July 1, 2009, CenturyTel, Inc. and Embarq Corporation completed its merger. On September 17, 2009, the United Telephone Companies filed a Notification of Fictitious Name Change notifying the Commission that the fictitious names have changed from “Embarq” to “CenturyLink.”

Staff reviewed this price update Application by CenturyLink, which includes Basket 1 and 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 and there is no increase in the residential and business rates in Basket 1.

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 no change in the PCI for Basket 1 and an increase for Basket 3. There remains adequate headroom in both baskets.

Z-Factor Allocation-Exogenous Change

On March 2, 2004, CenturyLink and Blue Valley Tele-Communications, Inc. (Blue Valley) filed a joint Application requesting a Certificate of Convenience for Blue Valley's acquisition of the Onaga and Westmoreland exchanges from CenturyLink and concurrently requesting the Commission cancel CenturyLink's Certificate of Convenience and Authority previously granted for the two exchanges. The companies agreed to a Stipulation & Agreement (Stipulation) on December 16, 2004, which was approved by the Commission on December 27, 2004.

As a result of this transaction, CenturyLink realized a gain on sale due to the selling price being higher than the net book value of the sold exchanges. The net book value is the original cost of the telecommunications plant in-service located in the exchanges less the related accumulated depreciation as recorded on CenturyLink's books for the sold exchanges. The stipulating parties agreed that the analysis of the Gain on Sale Factor for CenturyLink will be bifurcated based upon when the Company transitioned from rate of return regulation to price cap regulation.

In a Commission approved Stipulation & Agreement (S&A) in Docket No. 04-UTDT-781-CCS, CenturyLink agreed to distributing a portion of the Sharable Gain to customers in Onaga and Westmoreland by providing a bill credit and/or issuing a check to each of its active customers of record as of the closing date of the transaction on a per access line basis. CenturyLink further agreed to distribute the remainder of the agreed upon Sharable Gain to its remaining customers by adjusting its price cap model used to structure rates under its price cap plan. CenturyLink selected a one-time exogenous (Z-Factor) Adjustment developed in accordance with the provisions contained in Commission Orders in Docket No. 02-GIMT-272-GIT as follows:

- CenturyLink shared the remaining Sharable Gain using the average net present value calculations with payments at the beginning and end of the month, using a seven-year period and a ten percent discount factor. The amount was be used as a one-time Z-Factor Adjustment to CenturyLink's PCI.
- CenturyLink's Z-Factor Adjustment, a negative number, was to exclude any allowable adjustment offsets, and was to be made one-time at the start of the seven-year period, with CenturyLink's normally scheduled annual price cap filing effective June 1, 2005 and left in place for seven years. Pursuant to the S&A, CenturyLink was required to make a reversal of this one-time Z-Factor Adjustment within its regular annual price cap filing effective June 1, 2012, by making a one-time Z-Factor Adjustment, a positive number, to

³ U.S. Department of Commerce, Bureau of Economic Analysis, Table 1.1.4 Price Indexes for Gross Domestic Product, released April 27, 2012.

the same basket(s) and in the same manner that the initial Z-Factor Adjustment was made in 2005.

Staff has reviewed CenturyLink's filing of Basket 1 and Basket 3 API Calculation Report for the 2012 Annual Price Cap Demand Update and confirms that the appropriate Z-Factor Adjustment, for the sale of Onaga and Westmoreland exchanges, was properly made according to the agreed upon Stipulation of December 16, 2004.

Also, since CenturyLink did not have any changes in either the price or demand for services, no tariff revisions for Basket 1 or Basket 3 were filed.

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 1, 2012, as requested.

cc: Patrice Petersen-Klein, Executive Director
Jeff McClanahan, Director of Utilities
Christine Aarnes, Chief of Telecommunications

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

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
JOHN R. IDOUX, STATE DIRECTOR REGULATORY AFFAIRS EMBARQ COMMUNICATIONS, INC. D/B/A CENTURYLINK COMMUNICATIONS KSOPKJ0401 CENTURYLINK 5454 WEST 110TH STREET OVERLAND PARK, KS 66211		
MICHAEL NEELEY, LITIGATION COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD ROAD TOPEKA, KS 66604-4027 ***Hand Delivered***		

ORDER MAILED JUN 01 2012

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.