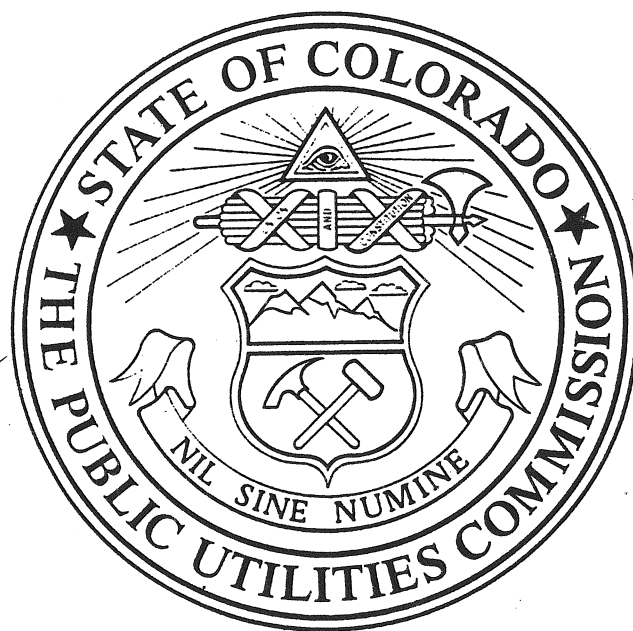


**Amended  
2002 Annual Report of the  
Colorado High Cost Support Mechanism**



Prepared by:  
The Colorado Public Utilities Commission Staff  
September 1, 2003

# STATE OF COLORADO

## PUBLIC UTILITIES COMMISSION

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## Department of Regulatory Agencies

Richard F. O'Donnell  
Executive Director

September 1, 2003



Bill Owens  
Governor

The Senate Business Affairs and Labor Committee  
and  
The House Business Affairs and Labor Committee  
Colorado General Assembly  
State Capitol Building  
Denver, Colorado 80203

Dear Committee Member:

This report provides amended information regarding the operation of the Colorado High Cost Support Mechanism during the calendar year 2003. Also included are the anticipated amended proposed operations for the calendar year 2003.

As you may recall, House Bill 95-1335 was enacted on May 4, 1995. This initiated a new era in Colorado telecommunications law. The Act declared that the policy of the State is to encourage competition in the basic local exchange telecommunications market and to strive to ensure that all Colorado consumers benefit from such increased competition. The bill directed that the Commission should seek the furtherance of universal basic service, toward the ultimate goal that basic service be available and affordable to all citizens of the State of Colorado. In order to accomplish that goal of universal basic service, the Commission was to create a system of support mechanisms to assist in the provision of such services in high cost areas to ensure that all providers of basic local exchange service would be fully reimbursed for the difference between the costs incurred in making basic service available to customers within a rural, high cost geographic support area and the affordable price for such service.

This amended report is to advise you of a change in the operations of the Colorado High Cost Support Mechanism. Section 40-15-208(b), C.R.S., requires that a report be prepared annually by the Colorado Public Utilities Commission accounting for the operation of the high cost support mechanism and that the report be submitted to the General Assembly before December of each year.

The report covering actual operations in 2002 and projected operations for 2003 was submitted on December 2, 2002. On June 27, 2003 Commission Rule 4 *Code of Colorado Regulations* 723-41-9.4 was adopted, which expanded Colorado high cost support to all access lines from the previous support to just primary residential and first business lines. Distributions from the high cost support mechanism for calendar year 2003 are now estimated to be approximately \$52.3 million. Customers currently are paying a 2.0 percent rate element for telecommunications services to support the high cost support mechanism, which will remain unchanged through the first quarter of calendar year 2004.

If I can be of further assistance to you, please let me know.

Very truly yours,

A handwritten signature in cursive script that reads "Bruce N. Smith".

Bruce N. Smith  
Director

cc: The Honorable John Andrews, President of the Senate  
The Honorable Lola Spradley, Speaker of the House of Representatives

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## **Amended 2002 Annual Report of the Colorado High Cost Support Mechanism**

### **I. Executive Summary**

The Colorado High Cost Support Mechanism (CHCSM) is under the administration of the Colorado Public Utilities Commission (Commission), pursuant to § 40-15-208, C.R.S., and is implemented by the Commission rules found at 4 CCR 723-41.

Recently, the Commission adopted Rule 4 CCR 723-41-9.4 requiring support be provided to non-rural providers for all access lines (Docket No. 02R-278T; Decision No. C03-0709). See Attachment 1. Prior to the implementation of the new rule, non-rural providers received support for only primary residential access lines and the first business access lines. The rural providers receive support based on an accounting methodology for all access lines. In the initial 2002 Annual Report to the General Assembly, dated December 2, 2002, it was reported that the proposed rules had not yet been adopted. However, when the rule was adopted, it would have an effect on the CHCSM. The rule became effective June 27, 2003, and the resulting tariff compliance filing by Qwest Corporation (Qwest) became effective on August 1, 2003. Qwest currently is the only non-rural provider receiving high cost support in Colorado. In the required tariff compliance filings, Qwest reduced rates for some of its services on a dollar-for-dollar basis to offset the increased support it will receive from the CHCSM, consistent with Commission Rule 4 CCR 723-41-8.8.

The 2003 estimated budget included in the December 2002 report to the General Assembly stated that the estimated budgeted distributions from the CHCSM fund would be \$47 million. With financial support being extended to all access lines for support to non-rural providers, the projected distribution requirements for Qwest were increased from \$45,305,324 annually to \$56,036,012 annually. This \$10,730,888 increase is a lesser amount than the estimated \$12 million increase initially reported in the December 2002 Report.

The CHCSM budget adopted by the Commission for the calendar year 2003, as described in this amended report, will be subject to close and ongoing scrutiny for the remainder of 2003 and 2004. The Commission will continue to review CHCSM operation to ensure that telecommunications providers are compensated for the provision of basic local exchange service while avoiding generation of excessive revenues.

## Amended Budgeted Operations - 2003

**Amended CHCSM Budget for calendar year 2003.** Support is projected to be provided to both rural and non-rural incumbent eligible telecommunications service providers that serve customers in rural high-cost geographic areas in calendar year 2003. The 2003 budget for the CHCSM total disbursement was initially estimated at \$47,965,025. Due to the implementation of Rules 4 CCR 723-41-9.4, the estimated gross disbursements for calendar year 2003 increase by \$4,347,067 to \$52,312,092. The estimated budgeted disbursements are identified in Table A below:

Table A  
**2003 Colorado High Cost Support Mechanism  
 Budgeted Disbursements**

Local Exchange Provider	Estimated Supported Access Lines for Year 2003	Estimated Gross Disbursements Calendar Year 2003	Estimated Annual Disbursements per Supported Line for 2003
Agate Mutual Telephone	153	\$3,262	\$21.32
Century Tel of Eagle	84,382	\$390,044	\$4.62
Delta County	10,816	\$335,219	\$30.99
Nucla-Naturita	1,708	\$94,909	\$51.63
Peetz Cooperative	247	\$26,126	\$105.77
Pine Drive Telephone	932	\$350,003	\$372.08
Qwest Corporation	295,110	\$49,776,527	\$144.63
Rico Telephone	167	\$36,000	\$215.57
Uncommitted Reserve		\$1,300,000	
<b>Total</b>	<b>393,515</b>	<b>\$52,312,092</b>	
Average Per Line for Companies Receiving Support			<b>\$121.55</b>

In 2003, budgeted contributions to the CHCSM will again be made via an assessment on end-user telecommunications service revenues as billed by each telecommunications service provider. **The rate element was reduced from 2.3 percent to 2.0 percent effective January 1, 2003.** The projected assessment rate of 2.0 percent will produce an estimated \$44,693,884 in contributions. The specific amount of the assessment will continue to be reviewed by the Commission. The rate element of 2.0 percent will remain constant for the calendar year 2003 and the first quarter of 2004.

Decision No. C03-0709

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO**

DOCKET NO. 98M-236T

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IN THE MATTER OF THE ADMINISTRATION OF THE COLORADO HIGH COST  
SUPPORT MECHANISM.

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**ORDER IMPLEMENTING COLORADO HIGH  
COST SUPPORT MECHANISM RULES AND  
REVISING THE CALENDAR YEAR 2003 BUDGET  
OF THE HIGH COST SUPPORT MECHANISM**

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Mailed Date: June 27, 2003

Adopted Date: June 25, 2003

**I. BY THE COMMISSION**

**A. Statement**

1. In Docket No. 02R-278T, we revised the Commission's Rules Concerning the Colorado High Cost Support Mechanism, 4 *Code of Colorado Regulations* (CCR) 723-41, to provide support to all non-rural high cost access lines instead of primary residential and single business lines only. See Decision Nos. C02-1250 (Mailed Date November 8, 2002) and C02-1458 (Mailed Date December 26, 2002). The amendments adopted in Docket No. 02R-278T were to become effective on March 2, 2003. Implementation of those amendments required Qwest Corporation (Qwest) to provide certain information to and make certain filings with the Commission. Specifically, Qwest was to provide updated line counts to enable the Commission to calculate the revised amounts to be distributed from the Colorado High Cost Support Mechanism (CHCSM). In addition, Qwest was required to change its tariff to reduce rates for some of its services to offset the increased support it will receive from the CHCSM (as a result of all access lines becoming eligible for support). See Rule 41.8.8, 4 CCR 723-41.

2. By Decision No. C03-0283 the Commission ordered that the amendments to the Rules concerning the CHCSM that were adopted in Docket No. 02R-278T and relating to support of all access lines were stayed until further order of the Commission.

3. Staff of the Commission (Staff) has advised the Commission that Qwest has now provided it with the necessary information and that Qwest is prepared to make the necessary tariff filings offsetting any increased support it will receive from the CHCSM. The support for Qwest will increase from an annual amount of \$45,305,324 to \$56,036,212 with the expansion of support to all lines. The 2003 budget thus will be increased from the reported \$47,830,939 to \$52,312,092 effective August 1, 2003. *See* Attachment A. Staff has also included the first quarter 2004 budgeted amounts.

4. Effective January 1, 2003 by Decision No. C02-1457 the Commission, acting as the administrator, set the Universal Service Charge at 2.0 percent for the year 2003. The Universal Service Charge rate will remain at 2.0 percent for the calendar year 2003 and through the first quarter of 2004. The Administrator shall review and re-evaluate the new rate for the Colorado Universal Service charge each quarter hereafter per Commission rules 4 CCR 723-41-7.2.4.

5. The organic statute for the CHCSM requires that the Commission include as part of its annual written report to the General Assembly, the proposed benchmarks, the proposed contributions to be collected through a rate element assessment by each telecommunications provider, and the proposed total amount of the CHCSM from which distributions are to be made for the following calendar year. § 40-15-208(2)(b)(IX), C.R.S. The report transmitted to the General Assembly at the end of November 2002 for calendar year 2003 indicated the likely impact on support amounts to be provided to high cost providers if the Commission's rule



changes became final. Staff will now issue an update of the annual CHCSM report to the General Assembly advising them of the changes to the amounts in the distributions for 2003 and the first quarter of 2004, and the calculation of the new benchmarks due to the implementation of the new CHCSM rules.

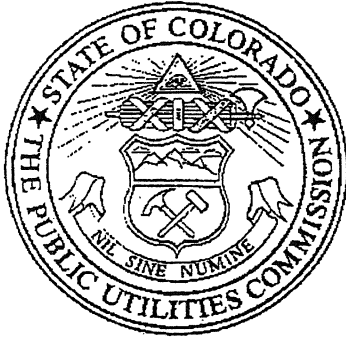
## II. ORDER

### A. The Commission Orders That:

1. The amendments to the Rules Concerning the Colorado High Cost Support Mechanism, 4 *Code of Colorado Regulations* 723-41, adopted in Docket No. 02R-278T and relating to support of all access lines shall be implemented by this Order of the Commission.
2. The revised budget for the Colorado High Cost Support Mechanism appended to this Order as Attachment A is adopted for the calendar year 2003 and the first quarter 2004. The budget reflects the expansion of support for all lines increasing Qwest Corporation's support from \$45,305,324 annually to \$56,036,212 annually.
3. Qwest Corporation shall change its tariff to reduce rates for some of its services to offset the increased support it will receive from the Colorado High Cost Support Mechanism. See Rule 41.8.8, 4 *Code of Colorado Regulations* 723-41. Increased Colorado High Cost Support Mechanism payments to Qwest Corporation will commence concurrently with the effective date of a tariff filing to reduce rates.
4. Staff of the Commission is directed to issue an amended report to the General Assembly disclosing the changes to the Colorado High Cost Support Mechanism as a result of the implementation of the Rules.
5. This Order is effective on its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING  
June 25, 2003.**

(SEAL)



ATTEST: A TRUE COPY

*Bruce N. Smith*

Bruce N. Smith  
Director

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

POLLY PAGE

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JIM DYER

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Commissioners

CHAIRMAN GREGORY E. SOPKIN  
ABSENT.

**2003**  
**COLORADO HIGH COST SUPPORT MECHANISM**

Eligible Local Exchange Provider	Initial Authorized Gross Amount The HCMS per Year	Effective Date of HCMS Funding	AMOUNT FROM THE HCMS Effective First Quarter 2003	AMOUNT FROM THE HCMS Effective Second Quarter 2003	AMOUNT FROM THE HCMS Effective Third Quarter 2003	AMOUNT FROM THE HCMS Effective Fourth Quarter 2003	CALENDAR YEAR 2003	AMOUNT FROM THE HCMS Effective First Quarter 2004
1 AGATE	\$3,262	01/01/02	\$815	\$815	\$816	\$816	\$3,262	\$673
2 BIG SANDY			\$0	\$0	\$0	\$0	\$0	\$0
3 BIJOU			\$0	\$0	\$0	\$0	\$0	\$0
4 BLANCA			\$0	\$0	\$0	\$0	\$0	\$0
5 CenturyTel of Colorado	\$344,157	06/01/98	\$137,663	\$114,719	\$68,831	\$68,831	\$390,044	\$68,831
6 CenturyTel of Eagle			\$0	\$0	\$0	\$0	\$0	\$0
7 COLUMBINE	\$346,770	10/18/00	\$86,693	\$86,693	\$86,693	\$75,142	\$335,221	\$71,521
8 Delta County Tele-Comm			\$0	\$0	\$0	\$0	\$0	\$0
9 DUBOIS			\$0	\$0	\$0	\$0	\$0	\$0
10 EASTERN			\$0	\$0	\$0	\$0	\$0	\$0
11 EL PASO			\$0	\$0	\$0	\$0	\$0	\$0
12 FARMERS			\$0	\$0	\$0	\$0	\$0	\$0
13 GREAT PLAINS			\$0	\$0	\$0	\$0	\$0	\$0
14 HAXTUN			\$0	\$0	\$0	\$0	\$0	\$0
15 KINGS DEER	\$97,760	11/01/01	\$24,440	\$24,440	\$24,440	\$21,589	\$94,909	\$20,163
16 NUCLA-NATURITA			\$0	\$0	\$0	\$0	\$0	\$0
17 NUNN	\$27,321	10/01/01	\$6,830	\$6,830	\$6,831	\$5,635	\$26,126	\$5,635
18 PEETZ			\$0	\$0	\$0	\$0	\$0	\$0
19 Phillips County Telephone Company	\$366,017	10/01/01	\$91,504	\$91,504	\$91,504	\$75,491	\$350,003	\$75,491
20 PINE DRIVE			\$0	\$0	\$0	\$0	\$0	\$0
21 PLAINS	\$49,776,527	01/01/03	\$11,326,331	\$11,326,331	\$13,114,812 *	\$14,009,053	\$49,776,527	\$14,009,053
22 Qwest Corp.	\$60,000	01/01/00	\$9,000	\$9,000	\$9,000	\$9,000	\$36,000	\$6,000
23 Rico Telephone Company			\$0	\$0	\$0	\$0	\$0	\$0
24 ROGGEN			\$0	\$0	\$0	\$0	\$0	\$0
25 RYE			\$0	\$0	\$0	\$0	\$0	\$0
26 SOUTH PARK			\$0	\$0	\$0	\$0	\$0	\$0
27 STONEHAM			\$0	\$0	\$0	\$0	\$0	\$0
28 STRASBURG			\$0	\$0	\$0	\$0	\$0	\$0
29 SUNFLOWER			\$0	\$0	\$0	\$0	\$0	\$0
30 UNION			\$0	\$0	\$0	\$0	\$0	\$0
31 WIGGINS			\$0	\$0	\$0	\$0	\$0	\$0
32 WILLARD			\$0	\$0	\$0	\$0	\$0	\$0
33 Forecasted (Undesignated)			\$325,000	\$325,000	\$325,000	\$325,000	\$1,300,000	\$415,000
			\$12,008,276	\$11,985,332	\$13,727,927	\$14,590,557	\$52,312,092	\$14,672,367

\* Qwest Support will change from \$ 11,326,331 Qtrly to \$14,009,053 Qtrly effective August 1, 2003. The 3rd Qtr Distribution is prorated to reflect the increase August 1, 2003