

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CINCINNATI BELL TELEPHONE COMPANY'S)
AVOIDED COST STUDY) CASE NO. 97-402

O R D E R

On September 26, 1997, Cincinnati Bell Telephone Company ("CBT") filed its avoided cost study with the Commission in response to the Commission's Order in Administrative Case No. 355.¹ An informal conference was held with CBT to discuss the study's methodology. It was agreed that CBT would file a second study based on intrastate Kentucky expenses. On December 24, 1997, CBT filed its updated study. Additionally, on March 4, 1998, CBT filed another revision to its avoided cost study to reflect actual intrastate Kentucky revenues. The Commission has reviewed the March 4th study filed by CBT and will use this study to determine the wholesale discount rate at which CBT's services will be available for resale. The avoided cost information filed by CBT has been granted confidential protection.

CBT's avoided cost study contains two separate calculations of the wholesale discount factor, one used when CBT performs operator service functions and one used when a competitive local exchange carrier ("CLEC") performs the operator service functions. In the first calculation it is assumed that CBT will continue to provide operator

¹ Administrative Case No. 355, An Inquiry Into Local Competition, Universal Service, and the Non-Traffic Sensitive Access Rate, Order dated September 26, 1996, at 14.

services; therefore, only a limited amount of the expenses in account 6621, Call Completion, and account 6622, Number Services, are considered avoided. In the second calculation CBT assumes that the CLEC will provide the operator services. In this calculation CBT omits the entire amount of expenses from accounts 6621 and 6622 and also excludes the revenues associated with these services. It is CBT's position that when a CLEC provides the operator services, the operator services revenues that support the operator services costs are automatically eliminated with the costs. In effect, there are no revenues to discount, and there is no reason to further discount non-operator services since those services do not recover operator service costs.

The Commission will use as a starting point the resale discount study calculation in Exhibit 1, page 1 of the CBT avoided cost study and make three adjustments to that exhibit as discussed below. All other factors proposed by CBT will be used in the calculation of the wholesale discount rate with the exception of the indirect allocator, which changes in proportion to the amount of direct expenses avoided.

The revenue amount used in CBT's calculation contains revenue from services that are not subject to resale and should not be used in the calculation of the wholesale discount. The revenues from accounts 5230, Directory; 5240, Rent; and 5260, Miscellaneous Revenues, will not be included in the wholesale discount rate calculation.

In Case No. 96-431,² the Commission established the percentage of avoided costs in account 6621, Call Completion, and account 6622, Number Services, at 75 percent. Call Completion and Number Services expenses are from operator service functions, and in resale situations in which CLECs perform these functions, expenses will be avoided. As discussed earlier, at present it is not possible to predict with any certainty the level of operator service functions that will exist after resale competition becomes more widespread. Therefore, the Commission will maintain the 75 percent allocation factor for these expenses until CBT can quantify the costs avoided for these accounts.

Based on these adjustments the Commission has determined that the wholesale discount rate is 15.37 percent and finds that it should apply to all CLECs that purchase services for resale from CBT. In Case No. 96-431 the Commission adopted a separate wholesale discount rate for residential and business services.³ CBT did not propose separate residential and business discount rates; nor did it supply the Commission with separated revenues for residential and business needed to compute separate rates. Therefore, if CBT determines that separate rates are warranted, it shall supply the Commission the information required to calculate a separate wholesale discount rate for residential and business service.

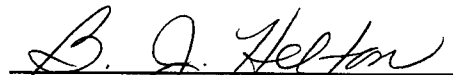
² See Case No. 96-431, Petition by MCI for Arbitration of Certain Terms and Conditions of a Proposed Agreement with BellSouth Telecommunications, Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996, Order dated December 20, 1996, at 12.

³ Id. at 13.


IT IS THEREFORE ORDERED that the wholesale discount rate for CLECs purchasing services from CBT shall be 15.37 percent.

Done at Frankfort, Kentucky, this 24th day of April, 1998.

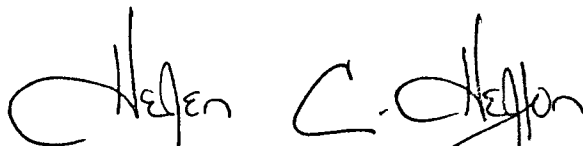
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ATTEST:


Executive Director