

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GTE SOUTH INCORPORATED)
AVOIDED COST STUDY) CASE NO. 98-041

O R D E R

In Case No. 96-440,¹ the Commission ordered GTE South Incorporated ("GTE") to file an avoided cost study based on Kentucky-specific data verifiable by the Commission. The study was to analyze each directly avoided expense account by job function code. On February 4, 1998, in this GTE avoided cost study proceeding, the Commission mandated that the avoided cost study be state specific and include an analysis by job function of the accounts included in the study.

On April 6, 1998, GTE filed its avoided cost study. This study, like the one filed in Case No. 96-440, analyzed the total telephone operations expenses in GTE's regional and national service centers located throughout the country. The percentage of avoided expenses in the accounts of these service centers were then applied to corresponding GTE Kentucky-specific expenses as shown on GTE's Automated Reporting Management Information System ("ARMIS") filed with the Federal Communications Commission ("FCC") for the year 1996 to arrive at Kentucky avoided expenses.

After reviewing GTE's avoided cost study, the Commission finds that additional information is required to evaluate the study. Although the April 6, 1998 cost study

¹ Case No. 96-440, Petition by MCI for Arbitration of Certain Terms and Conditions of a Proposed Agreement with GTE South Incorporated Concerning Interconnection and Resale Under the Telecommunications Act of 1996 at 8.

comes closer to satisfying the Commission's state-specific requirement than the study filed in Case No. 96-440, it still depends on regionally or nationally incurred expenses to allocate Kentucky expenses. This methodology does not satisfy the verification standard set forth in Case No. 96-440. For example, GTE states that it removed all costs and revenues associated with operator and directory assistance services before calculating a wholesale discount for all remaining services.² These costs and the avoided costs in Attachment 3 cannot be verified.

Therefore, the Commission will require that expenses allocated to Kentucky from the regional and national work centers and recorded in Kentucky-specific ledgers be analyzed by job function code to determine avoided costs. This analysis must show for each account in the study: (1) the name of the job function; (2) the job function code; (3) the 1996 expense; (4) the amount avoided or not avoided; and (5) the reason the expenses are avoided or not avoided.

Also, GTE must explain how the "Avoided Sales Expense Percent" in Attachment 4 is used in the analysis on Attachment 3. GTE must file a copy of the ARMIS-FCC Report 43-02, Report 43-03, and Report 43-04 for the year 1996.

With regard to Accounts 6621 and 6622, GTE has removed all costs and revenues associated with operator and directory assistance services before calculating a wholesale discount for all remaining services. For the Commission to review the costs which should be included in the avoided cost study, GTE must revise its analysis to

² GTE April 6, 1998 Avoided Cost Study at 8.

show the total expenses recorded to Accounts 6621 and 6622, and the revenues associated with operator and directory assistance services.

IT IS THEREFORE ORDERED that within 30 days of the date of this Order GTE shall file the information requested herein.

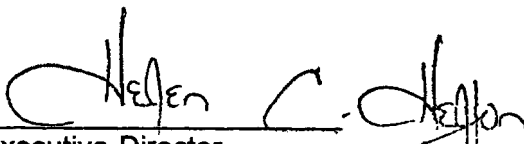
Done at Frankfort, Kentucky, this 14th day of May, 1998.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director