COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE INTERCONNECTION AGREEMENT BETWEEN UNIVERSAL TELECOM, INC. AND ALLTEL TELECOMMUNICATIONS))) CASE NO. 2000-027)
And	
THE APPLICATION BY COMM SOUTH COMPANIES, INC. D/B/A KENTUCKY COMM SOUTH AND ALLTEL COMMUNICATIONS SERVICE CORPORATION FOR APPROVAL OF RESALE AGREEMENT PURSUANT TO THE FEDERAL TELECOMMUNICATIONS ACT OF 1996)))) CASE NO. 2000-083))

<u>O R D E R</u>

This Order establishes a wholesale discount rate for the two above-captioned, consolidated cases, following conditional approval of negotiated resale agreements, and following ALLTEL Kentucky, Inc.'s ("ALLTEL's") submission of additional information, requested by the Commission, pertaining to its status as a rural exempt carrier and its wholesale discount rate.

BACKGROUND

By Order dated October 17, 2000, upon remand from the U.S. District Court, Eastern District of Kentucky, the Commission clarified its earlier rejection of tariff pricing terms in the negotiated interconnection agreements between ALLTEL and Universal Telecom, Inc. ("Universal Telecom"), and between ALLTEL and Comm South Companies, Inc. d/b/a Kentucky Comm South ("Comm South"). The Commission also

scheduled a hearing for December 14, 2000, on the issue of a wholesale discount rate to reflect avoided costs, and to allow ALLTEL to present evidence as to why it should be entitled to retain rural exemption status under 47 U.S.C. § 251(f)(1)(B). The hearing was subsequently cancelled upon the receipt of requested information and ALLTEL's rural exemption status is no longer an issue in this case.

ALLTEL was ordered to submit an avoided cost study to enable the Commission to calculate a wholesale discount rate to replace the 8 percent negotiated rate included in the resale agreements filed in the above two interconnection agreements, and to apply in interconnection agreements between ALLTEL and any other carrier seeking to resell ALLTEL's tariffed services. The 8 percent wholesale discount rate proposed by ALLTEL was based on a study filed on November 12, 2000, reflecting a wholesale discount rate of 7.46 percent, later amended by ALLTEL to 7.59 percent. A conference call was held on February 2, 2001 to address several issues regarding the avoided cost study.

ALLTEL'S AVOIDED COST STUDY

General

Using calendar year 1999 as the basis for its study, ALLTEL first determined which expense accounts would be directly affected by resale and then determined the portion of the account that would be avoided in a resale environment. After applying the avoided cost percent to the total expense accounts, and determining the revenues subject to resale, ALLTEL applied a 10 percent "penetration" rate to each expense account based upon its position that resellers in its territory will win at least 10 percent of its customers. ALLTEL also applied the 10 percent rate to revenues used in its

calculations. These steps do not produce a wholesale discount rate different than if the 10 percent penetration rate were not used, therefore, the Commission will not include the additional steps in its wholesale discount rate computation.

Revenues

In its proposed study, ALLTEL included revenues derived from the federal Subscriber Line Charge ("SLC") in the wholesale discount rate calculation. The SLC is not a revenue stream that will be lost by ALLTEL as a result of resale and should not be included in the wholesale discount rate calculation. Therefore, the Commission will remove it from the study.

<u>Uncollectibles</u>

Uncollectible revenues were included as 100 percent avoided. In Case No. 99-376,¹ the Commission determined that uncollectibles should be treated as an indirect cost and avoided at the indirect cost percentage. Therefore, the Commission will apply the indirect avoided cost rate of 11.31 percent.

Avoided Cost Percentages

ALLTEL proposed avoided cost percentages of 90 percent for Product Management, Account No. 6611; Sales, Account No. 6612; and Advertising, Account No. 6613. Although no function-by-function analysis of these accounts was performed in order to determine the 90 percent factor, the Commission will accept 90 percent because it conforms to the factor found appropriate in past reviews of avoided cost studies. After consideration, the Commission also accepts ALLTEL's position that none

¹ Case No. 99-376, Approving Duo County's Avoided Cost Methodology and Study.

of the expenses included in Call Completion, Account No. 6621 and Number Services, Account No. 6622, will be avoided.

In Account No. 6623, Customer Services, ALLTEL analyzed each job function within the account and assigned an avoided cost percentage to each job function. Most job functions determined to be partially avoided by resale were assigned a 90 percent avoided cost rate, while some were assigned a 50 percent avoided cost rate. In the February 2, 2001 conference call, ALLTEL stated that in those cases where a 90 percent avoided cost rate was used, it relied on the FCC recommended percentage for Account No. 6623.² ALLTEL opined that expenses related to Agency Commissions would not be avoided because these are generally associated with residential customers, whereas its competitors would target business customers.

Commission's Conclusions

ALLTEL has not provided evidence warranting a 50 percent avoided cost rate for some job functions in Account No. 6623 while assigning a 90 percent avoided cost rate to other job functions. The Commission has consistently determined that a 90 percent avoided cost rate, as recommended by the FCC, should be applied to certain expense accounts to determine avoided costs. It has not been demonstrated that this approach is inconsistent with the Act or FCC orders. Absent empirical evidence by wholesale providers that the methodology is flawed, the Commission will continue to apply the existing standards.

² FCC CC 96-325, paragraph 928.

The Commission determines that a 90 percent avoided cost rate should be

applied to all job functions in Account 6623. The Commission also determines that

expenses associated with Agency Commissions should be assigned a 90 percent

avoided cost factor. The companies that ALLTEL currently has interconnection

agreements with target residential customers, not business customers as asserted by

ALLTEL, thereby decreasing reliance on collection agents.

The Commission determines that certain adjustments as discussed herein should

be made to the avoided cost study as proposed by ALLTEL.

Accordingly, IT IS THEREFORE ORDERED that:

1. ALLTEL shall offer a wholesale discount rate of 12.68 percent, based on

calculations attached hereto as Appendix 1.

2. This discount shall be offered to any competitive local exchange carrier

reselling ALLTEL's tariffed services.

Done at Frankfort, Kentucky, this 19th day of March, 2001.

By the Commission

ATTEST:

Executive Director

APPENDIX 1

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-027 AND CASE NO. 2000-083 DATED MARCH 19, 2001

APPENDIX 1

		Regulated	Direct	Direct	Direct	Indirect	Indirect [Indirect
	Account #	Amount	Costs	Avoid	Avoid	Costs	Avoid	Avoid
			by Account	%	Cost	by Account	%	Cost
aria I and Samios	520	7,503,476					ŀ	
asic Local Service	525	308,573						
D Network Services	525	7,812,049						
evenues Subject to Resale		7,012,049		· · · · -				
Incollectibles	5301	64,080				64,080	11.31%	7,247
Incollectibles - Other	5302	0				0	0.00%	0
ncollectible Revenue		64,080				64,080		7,247
	2440	70 740	70,719	0.00%		<u> </u>		
etwork Support	6110	70,719 65,509	70,719	0.0076	<u>·</u>	65,509	11.31%	7,409
and & Building	6121					339	11.31%	38
urniture & Artworks	6122	339	'		:	5,516	11.31%	624
Office Equipment		5,516	·			929,282	11.31%	105,096
Sen. Purpose Computer Serieral Support	6124 6120	929,282 1,000,646		-		1,000,646	11.31%	113,167
Seneral Support	6210	399,425	399,425	0.00%	0			1 10,101
perator Systems	6220	033,420	0.00,420	#DIV/0!	. 0			
Central Office Trans.	6230	37,036	37,036	0.00%	 õ		-	
nformation O/T	6310	07,000	0,000	0.00%	<u>0</u>			
able & Wire	6410	634,078	634,078	0.00%				
Other PP&E	6510	20,057	20,057	0.00%	0			
ower	6531	0	0	0.00%	0			
ietwork Adm.	6532	846,555	846,555	0.00%	0			
esting	6533	.0	0	0.00%	0		. 1	
Plant Operations Admin.	6534	0	0	0.00%	0			
Ingineering	6535	0	0	0.00%	0			
Vetwork Oper.	6530	846,555	846,555	0.00%	. 0			
Access	6540	456,101	456,101	0.00%	0			
Depr. / Amort.	6560	2,325,952	2,325,952	0.00%	0		·	
Product Management	6611	43,578	43,578	90.00%	39,220			
Sales	6612	63,525	63,525	90,00%	57,172		}	
Product Advertising	5613	27,107	27,107	90.00%	24,396			
Marketing	6610	134,210	134,210	90.00%	120,788			
Call Completion	6621	21,386	21,386	0.00%	.0	i		
Number Services	6622	323,444	. 323,444	0.00%	0			
Customer Service	6623	862,653	862,653	66.38%	572,663			
Service Expense	6620	1,207,483	1,207,483	47.43%	572,663			
xecutive	6711	85,040				85,040	11.31%	9,618
Planning	6712	0				0	11.31%	. 0
xec. & Planning	6710	85,040	1			85,040	11.31%	9,618
Accounting & Finance	6721	0	1			0	11.31%	
External Relations	6722	0	1			0	11.31%	
Human Resources	6723		1			0	11.31%	0
nformation Management	6724					0	11.31%	. 0
_egal	6725	0	1			0	11.31%	0
Procurement	6726	0	!			0	11.31%	0
Research & Development	6727	0	1			0	11.31%	0
Other General & Administrat		0			<u> </u>	0	11.31%	
General & Administrative	6720					1,480,595		167,447
Prov. Uncollect. Notes	6790	0		1		0	11.31%	<u> </u>
Tatal Evropess		8,697,897	6,131,616	11.31%	693,451	2,630,361	11.31%	297,479
Total Expenses		0,037,037	0, 131,010	11.0170	223,431	2,000,001	1 1.3176	201,713