

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO UNIVERSAL) ADMINISTRATIVE
SERVICE AND FUNDING ISSUES) CASE NO. 360

O R D E R

On July 10, 1997, the Commission delayed until October 28, 1997 that portion of the Universal Service Fund hearing related to the presentation of cost models to determine high cost area support and Kentucky-specific costs. The delay was necessitated because BellSouth Telecommunications, Inc. ("BellSouth"), MCI Telecommunications Corporation and MCImetro Access Transmission Services, Inc. ("MCI"), and presumably other carriers were unable to produce adequate information on their cost models by the July 1997 hearing. By this Order the Commission directs the production of certain material.

The Commission will require the direct testimony, due September 30, 1997, to contain the information set forth herein. The focus of the proceeding should be twofold: (1) to ascertain the reasonableness of all modeling assumptions and data inputs and (2) to discern reasonableness of the models and the similarities and differences between all cost models.

The Commission is aware that both BellSouth and GTE South Incorporated ("GTE") may be utilizing models that are different from those submitted to the Commission in previous local interconnection proceedings. It is likely that the interexchange carriers will submit updated versions of the Hatfield model.

The Federal Communications Commission ("FCC") has recommended that states utilize a universal service costing methodology similar to that used to determine the cost of unbundled network elements ("UNEs"). The Commission finds this approach to be reasonable and will therefore follow FCC criteria for state-conducted economic cost studies and require the Total Element Long Run Incremental Cost ("TELRIC")/Total Service Long Run Incremental Cost ("TSLRIC") methodology be utilized to estimate the cost of universal service. All costing models should comport with the FCC criteria contained in CC Docket 96-45.¹

While BellSouth and GTE are free to submit any model they choose to calculate TSLRIC basic local service costs, the Commission will require that all underlying assumptions regarding basic local service cost estimations be as consistent as possible with those applied to UNEs. Therefore, the Commission will also require both BellSouth and GTE to calculate universal service costs using the TELRIC/TSLRIC methodology, while using the same models used to calculate their respective UNE costs, modified as necessary to accommodate a wirecenter. This will help assure all parties that consistent and reasonable assumptions have been utilized to estimate all TELRIC/TSLRIC costs.

As a further aid in determining which TELRIC/TSLRIC model is most appropriate, the Commission will require that all parties sign whatever confidentiality agreements are necessary in order to share all necessary input data so that all models submitted will

¹ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157 (released May 8, 1997) (Order) at paragraph 250.

calculate TELRIC/TSLRIC costs based upon inputs and assumptions that are as nearly identical as possible. To the extent that identical inputs and assumptions cannot be utilized, a clear explanation of any differences and how these differences affect end results will be required. It will not be helpful to the Commission for parties to submit cost estimates based upon different models utilizing different assumptions, study areas, or other inputs, as this would needlessly complicate an already onerous task.

The focus of the October 28, 1997 hearing will be to choose a reasonable cost model utilizing reasonable inputs and assumptions, not to arrive at definitive universal cost estimates for all, as yet to be determined, study areas in Kentucky. To lessen the burden on all parties, the Commission will require the respective parties submitting cost models to focus their models on both a single urban and a single rural wirecenter in BellSouth's and GTE's respective territories. BellSouth and GTE should select their respective wirecenters and be prepared to provide necessary information to the interexchange carriers and other parties as requested at the informal conference scheduled herein.

Moreover, all utilities filing cost studies should estimate the Commonwealth's entire high cost portion of the Fund using each model it provides to the Commission and their best respective input assumptions and data.

The direct testimony shall include a detailed narrative of the cost models proposed by the companies or required by the Commission. The narrative shall include a full description of the model's purpose and usefulness, operational mechanics, assumptions and inputs, and results. The Commission will require Cincinnati Bell Telephone

Company ("CBT") to file its proposed TELRIC/TSLRIC cost model and all other information required herein from BellSouth and GTE. CBT may supply cost data on any two of its Kentucky wirecenters if the wirecenters are representative of its Kentucky operations. However, the Commission will not require ALLTEL Kentucky, Inc., ("ALLTEL"), the TDS Telecom companies ("TDS")², or the Independent Telephone Group ("ITG")³ to furnish cost models at this time.

On its own motion, the Commission schedules an informal conference to discuss material the parties are required by this Order to produce. It shall be held on August 21, 1997, at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

IT IS THEREFORE ORDERED that:

1. The September 30, 1997 direct testimony of BellSouth, GTE, CBT, and other parties shall contain the information specified herein.
2. Criteria established by the FCC for state-conducted economic cost studies shall be followed.

² Leslie County Telephone Company, Inc., Lewisport Telephone Company, Inc., and Salem Telephone Company.

³ Ballard Rural Telephone Cooperative; Brandenburg Telephone Company; Duo County Telephone Cooperative; Foothills Rural Telephone Cooperative; Harold Telephone Company; Highland Telephone Cooperative; Logan Telephone Cooperative; Mountain Rural Telephone Cooperative; North Central Telephone Cooperative; Peoples Rural Telephone Cooperative; South Central Rural Telephone Cooperative; Thacker-Grigsby Telephone Company; West Kentucky Rural Telephone Cooperative.

3. In addition to using cost models of their choosing, BellSouth and GTE shall calculate universal service costs based on the same models used to calculate their UNE costs modified to accommodate a wirecenter.

4. BellSouth and GTE shall select their urban and rural wirecenters and be prepared to provide necessary information at the scheduled informal conference.

5. CBT shall file in the September 30, 1997 direct testimony its proposed cost model, assumptions, and input data for costing universal service.

6. ALLTEL, TDS, and the ITG are not required to file universal service cost studies at this time.

7. Within 7 days of the date of this Order, parties shall make their updated cost models in a CD Rom format available to Commission Staff or shall notify the Commission Staff when such update cost models will be available.

8. An informal conference shall be held on August 21, 1997 at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 14th day of August, 1997.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director