

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

In response to the Commission's Order dated May 15, 1998, GTE South Incorporated ("GTE South") filed its avoided cost study on July 30, 1998. The study uses 1997 financial data as provided to the Federal Communications Commission in its Automated Reporting Management Information System Report 43-03. The study produced a single discount rate of 10.7 percent for all services except Operator Services and Directory Assistance ("OS/DA"). The company concluded that the appropriate discount rate for OS/DA was 0 percent. The study also allocates a portion of avoided marketing expenses to the interstate jurisdiction where GTE South recovers a portion of those expenses. The study assumes that GTE South will not become a 100 percent wholesale provider, but will continue to provide retail services to end-users. The study also reflects the retailing costs GTE South will avoid plus additional costs it will incur as a result of providing resold services. These additional costs were developed by GTE South using its experience in other wholesale markets and are built into the avoided cost factors.

GTE South proposes a separate wholesale discount rate of 0 percent for OS/DA based upon the premise that there are no avoided costs associated with these services except a small amount of uncollectibles. It is GTE South's position that OS/DA has

separate tariff rates and that their expenses are not included in the rates for other services, therefore OS/DA revenues and expenses should not be included in determining a wholesale discount for other services.

The Commission has established a uniform wholesale discount rate for all services including OS/DA. This avoids the need to allocate avoided costs among all services subject to resale. Given the lack of evidence about avoided costs in the resale market at the present time, the Commission considers this the most expeditious method to determine the wholesale discount rate. Therefore, the Commission will establish a single, uniform rate for all of GTE South's services subject to resale including OS/DA.

In other avoided cost study cases before the Commission, companies have provided costs by job function code. This enabled the Commission to verify the costs which each company considered avoided and make changes if necessary. However, GTE South does not record expenses at the state level by job function code. Therefore, GTE South analyzed regional and national work centers and determined avoided costs through questionnaires completed by personnel familiar with the functions of each center. The Commission is aware that surveys of this type are generally very subjective. Also when comparing the avoided cost percentages developed in this manner with those developed by analyzing job function codes, it appears that GTE South's percentages in general may be somewhat lower than those submitted by other companies. However, because this is the only information available to the Commission, the avoided cost percentages proposed by GTE South, with the exception of OS/DA, will be used in the Commission's determination of an appropriate wholesale discount

rate. The Commission will also accept GTE South's allocation of a portion of marketing expenses to the interstate jurisdiction.

GTE South proposed to develop a separate uncollectible rate for OS/DA and all other services, yet it provides no evidence that alters the Commission's existing policy as ordered in Case No. 96-482,¹ that all uncollectibles will be considered avoided in a resale environment. A single avoided uncollectible amount will be used.

The indirect expense allocator developed by GTE South divided directly avoided expenses by total company expenses less expenses attributable to OS/DA. The Commission found in Case No. 96-482,² that the indirect allocator should be determined by dividing directly avoided cost by total direct costs and will apply that formula in this case. GTE has not furnished information that changes this decision.

The issue of the proper treatment of OS/DA has been argued in avoided cost studies previously decided by the Commission. The existing policy was decided in Case No. 96-431,³ wherein the Commission decided that a reasonable initial estimate of avoided OS/DA costs was 75 percent. This decision was based upon the fact that some companies will provide their own OS/DA and the impact of that decision cannot be determined until the resale market has had the opportunity to develop. At that time companies should be better prepared to present empirical evidence regarding OS/DA

¹ Case No. 96-482, The Interconnection Agreement Regulations Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc. Pursuant to 47 U.S.C., page 7.

² Id., page 8.

³ 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.

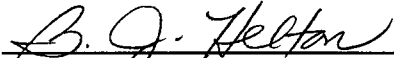
avoided costs and request adjustment of its existing wholesale rate. Until such time the Commission will consider 75 percent of OS/DA costs avoided. Furthermore, GTE South's arguments for not including OS/DA in the wholesale discount rate calculation is not supported by the Telecommunications Act of 1996 ("the Act") which requires that the discount rate be based on costs avoided in retail charges. GTE South has no retail service available to end-users that does not include OS/DA. Thus, the establishment of a wholesale discount rate based on retail costs without OS/DA is not supported by the Act. The information filed by GTE South is insufficient to show that a factor other than a 75 percent avoided OS/DA cost factor should be used. Therefore, the Commission will include in the wholesale discount rate 75 percent of the call completion and number services expenses shown on page 3 of 4 in attachment HCB-1. The result was then combined with the other expenses avoided for the same accounts.


GTE South has proposed a wholesale discount rate of 10.7 percent. Adjusting its study for the discussed changes, the Commission has determined that an appropriate wholesale discount rate would be 15.95 percent. Determination of the rate is illustrated on Exhibit 1 attached hereto.

IT IS THEREFORE ORDERED that GTE South shall offer a 15.95 percent wholesale discount rate to competitive local exchange carriers who wish to resell GTE South's retail services.

Done at Frankfort, Kentucky, this 7th day of December, 1998.

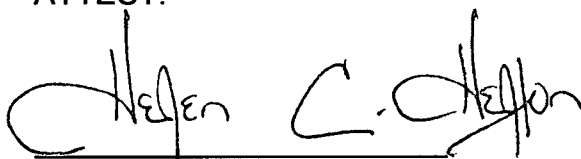
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