COMMONWEALTH OF KENTCUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPROVING DUO COUNTY'S AVOIDED COST METHODOLOGY AND STUDY	))	CASE NO. 99-376

O R D E R

The Commission, on May 25, 2000, entered its Order establishing an avoided cost methodology and wholesale discount rate for Duo County Rural Telephone Cooperative Corporation, Inc. ("Duo County"). On June 16, 2000, Duo County filed a request for rehearing, stating that it considers the Commission methodology "acceptable" with two exceptions. The exceptions cited by Duo County concern account 5301 – uncollectibles and the avoided cost determinations in accounts 6611-6613 and Account 6623. Duo County states that telecommunications uncollectibles should, pursuant to 47 C.F.R. 51.609(c)(2), be treated as indirectly avoidable. In addition, Duo County contends that FCC rules also mandate treatment of Accounts 6611-6613 and Account 6623 that differs from the methodology ordered by the Commission.

For the reasons discussed below, Duo County's petition is granted in part and denied in part.

Telecommunications Uncollectibles

The Commission's decision in its May 25 Order is consistent with its prior decision in Case No. 96-482.[1] However, Duo County is correct that, since the decision in Case No. 96-482, legal framework has changed. The FCC's pricing rules were, at the time Case No. 96-482 was decided, stayed by the Eleventh Circuit Court of Appeals. The FCC's authority over the wholesale pricing methodology has now, however, been confirmed, and the stay is no longer in effect. Accordingly, the May 25 Order should be modified to reflect that uncollectibles shall be treated as indirectly avoidable.

Avoided Costs Accounts

In its May 25, 2000 Order, the Commission rejected Duo County's proposal to apply its proposed 64.35 percent avoided cost rate to only the intrastate expenses found in Account 6623 – Customer Service. The 64.35 percentage was determined by dividing the avoidable costs in Account 6623 by the total interstate and intrastate expenses in that account. In its calculation the Commission applied the 64.35 percent avoided cost percentage to the entire account, rather than to a portion of it, to determine the avoided costs for purpose of the calculation of the wholesale discount rate.

In its rehearing request, Duo County argues that the Commission's method is inconsistent with FCC rules as set forth in 47 C.F.R. 51.609(d) because the 64.35 percent adjustment was applied to Account 6623 and the FCC default rate to other

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

accounts, thereby ignoring adjustments allowed by 47 C.F.R. 51.609(d). Duo County recommends using the FCC's default rate for Account 6623 in lieu of the 64.35 percent rate.

The percentages used by the Commission in determining the avoided costs in directly avoided expense categories are identical to those used by Duo County in all of its submissions to the Commission. The only departure from Duo County's method relative to these directly avoided expenses was the application of the directly avoided cost percentage to Account 6623 in its entirety. In developing the avoided cost percentage for Account 6623, Duo County examined the account in detail to determine which of the numerous expenses included in the account were not avoidable for a rural local exchange carrier in order to rebut the presumption of avoidable expenses. The result of the analysis was that expenses for local service order processing included in Account 6623 were found to be 75 percent avoidable.[2] Identified as 100 percent unavoidable were expenses related to PIC change charges, interexchange carrier order processing, coin collection and counting, message processing and carrier access billing systems activities. The remaining individual expenses in Account 6623 were determined by Duo County to be 100 percent avoidable. Duo County then applied these percentages to the costs associated with each of these activities to determine avoided costs. Of the $350,033 total expenses included in Account 6623, $223,849 were determined to be avoided based on percentages determined by Duo County. To this point, the adjustments to the individual expense items are exactly the adjustments

[2] Duo County's September 7, 1999 filing, page 4, Attachment II.

allowed in 47 C.R.F. 51.609(d). Consequently, they are in accord with the FCC rules. However, Duo County has gone one step further, erroneously applying the avoided cost percentage to Account 6623 after removing interstate costs.

With regard to the other direct accounts, the Company demonstrated that the costs in Account 6622 – Number Services – were not avoidable. However, no demonstration of avoidability was made for Account 6613, and it appears that the FCC's default rate was used for this account.

In summary, the Commission finds that, in regard to Accounts 6611-6613 and Account 6623, the May 25 Order adopted Duo County's avoided cost percentages and is wholly consistent with the FCC's rules. The Commission allowed Duo's proposed adjustments to Accounts 6622 and 6623 and accepted the FCC's default rate for Account 6613. However, the Commission will not revisit its refusal to apply the avoided cost percentage to local and intraLATA toll expenses alone. Removing interLATA expenses from the equation would be inconsistent with the FCC's methodology for determining a wholesale discount rate.

Conclusion

For the foregoing reasons, the Commission grants in part and denies in part Duo County's petition for rehearing. Attached is the Commission's revised calculation of Duo County's wholesale discount rate consistent with the decisions reached herein.

IT IS THEREFORE ORDERED that Duo County's petition is granted in part and denied in part as described herein.

Done at Frankfort, Kentucky, this 6th day of July, 2000.

By the Commission

ATTEST:

Executive Director