COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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<tr><td>THE INTERCONNECTION
AGREEMENT BETWEEN UNIVERSAL
TELECOM, INC. AND ALLTEL
TELECOMMUNICATIONS</td><td>)
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CASE NO. 2000-027
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<tr><td>And</td><td></td><td></td></tr>
<tr><td>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</td><td>)
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CASE NO. 2000-083

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O R D E R

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.

Uncollectibles

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:

Thomas M. Dorman

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

1999 Alltel

	Account #	Regulated Amount	Direct Costs by Account	Direct Avoid %	Direct Avoid Cost	Indirect Costs by Account	Indirect Avoid %	Indirect Avoid Cost	
Basic Local Service	520	7,503,476							
LD Network Services	525	308,573							
Revenues Subject to Resale		7,812,049							
Uncollectibles	5301	64,080				64,080	11.31%	7,247	
Uncollectibles - Other	5302	0				0	0.00%	0	
Uncollectible Revenue		64,080				64,080		7,247	
Network Support	6110	70,719	70,719	0.00%	0				
Land & Building	6121	65,509				65,509	11.31%	7,409	
Furniture & Artworks	6122	339				339	11.31%	38	
Office Equipment	6123	5,516				5,516	11.31%	624	
Gen. Purpose Computer	6124	929,282				929,282	11.31%	105,096	
General Support	6120	1,000,646				1,000,646	11.31%	113,167	
Central Office Switch	6210	399,425	399,425	0.00%	0				
Operator Systems	6220	0	0	#DIV/0!	0				
Central Office Trans.	6230	37,036	37,036	0.00%	0				
Information O/T	6310	0	0	0.00%	0				
Cable & Wire	6410	634,078	634,078	0.00%	0				
Other PP&E	6510	20,057	20,057	0.00%	0				
Power	6531	0	0	0.00%	0				
Network Adm.	6532	846,555	846,555	0.00%	0				
Testing	6533	0	0	0.00%	0				
Plant Operations Admin.	6534	0	0	0.00%	0				
Engineering	6535	0	0	0.00%	0				
Network 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	6613	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				
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				
Executive	6711	85,040				85,040	11.31%	9,618	
Planning	6712	0				0	11.31%	0	
Exec. & Planning	6710	85,040				85,040	11.31%	9,618	
Accounting & Finance	6721	0				0	11.31%	0	
External Relations	6722	0				0	11.31%	0	
Human Resources	6723	0				0	11.31%	0	
Information Management	6724	0				0	11.31%	0	
Legal	6725	0				0	11.31%	0	
Procurement	6726	0				0	11.31%	0	
Research & Development	6727	0				0	11.31%	0	
Other General & Administrati	6728	0				0	11.31%	0	
General & Administrative	6720	1,480,595				1,480,595	11.31%	167,447	
Prov. Uncollect. Notes	6790	0				0	11.31%	0	
Total Expenses		8,697,897	6,131,616	11.31%	693,451	2,630,361	11.31%	297,479	990,930
									12.68%