PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION RESOLUTION T-15727
TELECOMMUNICATIONS BRANCH APRIL 05, 1995

R E S O L U T I O N

RESOLUTION T-15727. GTE CALIFORNIA INCORPORATED, LONG RUN INCREMENTAL COSTS FOR FOR PBX, DID, AND LINE HUNTING SERVICE.

BY ADVICE LETTER NO. 5838, FILED FEBRUARY 9, 1995.

SUMMARY

This Resolution grants GTE of California Inc.'s (GTEC) request to modify its Long Run Incremental Costs (LRICs) for Private Branch Exchange Service (PBX), Direct Inward Dialing (DID) and Line Hunting Service (Line Hunt) as authorized by D.94-09-065.

Protests to GTEC's Advice Letter No. (AL) 5838 were filed by AT&T Communications of California (AT&T) and the Division of Ratepayer Advocates (DRA).

BACKGROUND

In our Decision (D.)88-09-059 we first granted the Local Exchange Carriers (LECs) authority to exercise rate flexibility for a limited number of services designated to have downward pricing authority. In D.94-09-065, we summarized the procedure for establishing and modifying price floors and in so doing superceded some components D.88-09-059.

D.94-09-065 also authorized the LECs to establish new price floors in conjunction with a request for pricing flexibility as long as the advice letter filing requesting a new price floor included cost support for the price floor(s).

On January 18, 1995, GTEC filed AL 5757 requesting authority to modify its November 15, 1994 IRD compliance filing price floor for CentraNet Service. Pursuant to this request, GTEC was directed by the Commission Advisory and Compliance Division (CACD) to update its LRIC studies for PBX, Line Hunt and DID in order to update the CentraNet imputation calculation in AL 5757.

On February 9, 1995, GTEC filed AL 5838 requesting authority to modify its Long Run Incremental Costs (LRICs) for PBX, Line Hunt and DID service.

NOTICE

GTEC states that a copy of the Advice Letter was mailed to interested utilities and/or parties indicated in GTEC's letter to the Public Utilities Commission dated June 5, 1985. Notice of this Advice Letter appeared on the Commission's daily calendar of February 9, 1995.

PROTESTS

Protests were filed by AT&T and DRA. AT&T filed its protest on February 29, 1995. DRA filed its late Protest to AL 5838 on March 3, 1995.

GTEC filed its response to AT&T's protests on March 1, 1995 and its response to DRA's protest on March 15, 1995.

AT&T and DRA protested GTEC's AL 5838 for the following reasons:

- o GTEC's AL 5838 and supporting workpapers do not provide the level of detail necessary to validate GTEC's investment costs per unit. As such, AT&T argues that GTEC's cost analysis limits the degree to which inputs associated with relevant USOA accounts can be validated.
- o The investment amounts associated with USOA account 2423.10 are not consistent with the similar lengths of cable reported in GTEC's cost studies for PBX and CentraNet. As such, DRA and AT&T believe that the CentraNet LRIC is understated.
- o GTEC has not explained its decision to change its "Design Capacity Utilization Factor." The protestants maintain that GTEC's new utilization factor understates GTEC's LRICs.
- o AT&T maintains that GTEC's service diagram is inadequate.
- o GTEC's AL 5838 uses a station to trunk ratio that is different from its IRD based DID station to trunk ratio. As such, DRA and AT&T believe that GTEC's contribution calculations for Line Hunt, DID and PBX are not representative of their actual imputation value and result in an understated CentraNet price floor.
- o The weighted average LRIC for circuit termination costs for CentraNet and PBX Access lines should be recalculated. DRA believes that the combined weighted average monthly circuit termination cost is misstated by a significant amount based on analysis of customer specific contracts.
- o AT&T believes GTEC's cost analysis is flawed due to numerous computational errors.

DISCUSSION:

Because much of the information supporting AL 5838 is proprietary in nature and protected under G.O. 66-C, we believe it is appropriate to limit our discussion to the conceptual basis for the parties concerns and GTEC's underlying methodology.

I. Necessary Level of USOA Account Detail

We share AT&T's concern in principal that a cost study is only as valid as its underlying data. However, to simply state this concern does not by default give cause to invalidate a cost study or in this instance GTEC's AL 5838.

GTEC's AL 5838 LRIC study is composed of a myriad of USOA Part 32 accounts. In turn these accounts are the basis for determining the investment cost necessary to provide a given portion of underground CentraNet or PBX cable, for example, on a per kilofoot basis.

Therefore, AT&T's protest with regard to the the level of detail necessary to validate GTEC's cost analysis does not directly address the issue of whether or not the data summarized in AL 5838 is correct. We believe this to be a compliance matter rather than the basis for rejecting AL 5838.

AT&T's protest should be denied. However, we do not believe that it would be inappropriate to audit GTEC's USOA data inputs at some future date.

II. USOA Account 2423.10 (Buried Underground Cable)

Both DRA and AT&T disagree with the methodology employed by GTEC to reflect the investment costs associated with USOA Account 2423.10 (Buried Underground Cable). The protestants call attention to GTEC's practice of factoring CentraNet line utilization and dedication in order to capture the portion of all buried cable dedicated to CentraNet customers.

GTEC argues that this allocation is necessary in order to preclude overstating the investment costs associated with CentraNet.

We do not expect that 100% of the costs associated with buried underground cable should be allocated to CentraNet customers. At best we expect that only a portion of costs associated with USOA Account 2423.10 should be allocated to CentraNet customers because underground cable does not serve CentraNet customers exclusively. Therefore, we would not expect CentraNet customers to bear 100% of the incremental costs associated with buried cable.

We believe GTEC's allocation methodology to be reasonable.

III. The Use of a Higher Design Capacity (DC) Utilization Factor Misrepresents GTEC's CentraNet price floor (AL 5757) and LRICs filed in AL 5838.

The protestants point out that GTEC applies a DC utilization factor that is higher than GTEC's IRD compliance filing DC utilization factor.

DRA believes that GTEC should be required to adhere to its IRD compliance filing utilization factor until it can demonstrate the reasonableness of its new factor.

GTEC argues that its switch utilization currently runs at a higher level than during the IRD and subsequent compliance filing. However, GTEC has not been able to demonstrate that this actually is the case other than to state that the industry standard is now approximately 90%

We are genuinely concerned that GTEC has not adequately demonstrated that its network indeed does function at the level of utilization it states. Responses to data requests have done little to alleviate our concerns.

DRA and AT&T's protests are reasonable and should be granted.

IV. Adequacy of GTEC's Service Diagrams

We disagree. We believe this is also a compliance issue.

V. GTEC's Revised DID Station to Trunk Ratio

GTEC's IRD testimony mirrored Pacific Bell's use of a DID Station to trunk ratio of 5:1. GTEC's revised AL 5838 cost analysis included an updated DID station to trunk ratio of 10:1.

Both DRA and AT&T protest the use of a 10:1 DID station to trunk ratio because they believe a 10:1 to station to trunk ratio is without merit. DRA also argues that GTEC should be compelled to adhere to its IRD testimony rather than a revised figure. Again we find this issue to be a matter of computational reasonableness. We do not believe that the IRD decision precludes a LEC from updating its cost analysis assumptions once it has met its burden under the November 15, 1994 compliance filing. GTEC has demonstrated through data requests and responses to CACD that its line to trunk ratio is reasonable.

Finally, a station to trunk ratio of 10:1 does not break new ground but rather is consistent with the rate design methodology employed in D.91-01-018 (Appendix B).

VI. The Weighted Average Cost for PBX Circuit Termination is Misstated.

DRA believes GTEC's monthly PBX circuit termination cost is understated by a significant amount. DRA compared GTEC's reported costs for monthly circuit termination in the IRD compliance filing, several customer specific contracts and AL 5838. From this comparison DRA determined that the monthly circuit termination cost for customer-specific contracts was approximately 200% higher than that assumed in AL 5838.

DRA believes that an average monthly circuit termination cost for the customer specific contracts DRA analyzed should be applied to AL 5838. DRA argues that it would appear internally inconsistent for customer specific contracts to have higher circuit termination costs than AL 5838 which reflects the servicewide profile.

GTEC argues that its LRIC analysis is correct because its analysis allocates 100% of the switch costs associated with customer specific contracts to the customer. Conversely, GTEC allocates a portion of the central office line termination cost to CentraNet customers for the servicewide LRIC because line termination costs are allocated across all switched services for the servicewide LRIC.

We find GTEC's methodology reasonable, however we would expect that GTEC would also take into consideration servicewide unit costs in developing customer specific LRICs as discussed on page 229 of D.94-09-065.

VII. Computational Errors

AT&T points out computational error as an issue that must be rectified. We agree. Therefore, GTEC should supplement its workpapers in order to demonstrate outstanding computational errors have been corrected.

FINDINGS

1. GTEC's AL No. 5838 filed February 9, 1995 requests authority to establish new LRICs for PBX, DID and Line Hunt.

2. AT&T protested GTEC's AL. 5838 due to numerous computational concerns including:
   o level of detail necessary to validate USOA account information

   o design utilization factors

   o service diagram adequacy

   o station to trunk ratios

   o outside plant costs

   o computational errors

3. DRA protested numerous computational concerns including:
   o outside plant costs

   o design utilization factors

   o station to trunk ratios

   o circuit termination costs

4. AT&T's protests with regard to the necessary level of detail in order to validate USOA Account information, service diagram adequacy, station to trunk ratios and outside plant costs should be denied and are without merit.

5. DRA's protests with regard to outside plant costs, station to trunk ratios and circuit termination costs should be denied and are without merit.

6 DRA's and AT&T's protest with regard to the appropriate level of switch utilization is reasonable.

7. GTECs request to revise its Long Run Incremental Costs for DID, PBX and Line Hunt should be granted and is consistent with D.94-09-065.

THEREFORE, IT IS ORDERED THAT:

1. GTE California Incorporated (GTEC), is authorized to revise its LRICs for DID, Line Hunt and PBX.

2. GTEC shall supplement Advice Letter No. (AL) 5838 in order to reflect its Decision 94-09-065 compliance filing design utilization factor and shall correct computational errors as required by the Commission Advisory and Compliance Division (CACD).

3. GTEC's AL 5838 as supplemented shall be effective upon CACD approval.

4. GTEC shall incorporate its revised LRIC's for DID, Line Hunt and PBX into its price floor for CentraNet service as authorized in resolution T-15728.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 05, 1995. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners

I abstain.
/s/ HENRY M. DUQUE
Commissioner