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Reply to:

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November 2, 1998

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850

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Re: Docket No. 980696-TP

Dear Ms. Bayo:

Enclosed for filing in the above docket is the original and fifteen copies of the Attorney General's Post-Hearing Statement and Argument.

Thank you for your courtesies.

Sincerely,

[Handwritten signature of Michael A. Gross]

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cc: All parties of record

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Determination of the Cost of )  
Basic Local Telecommunications ) Docket No. 980696-TP  
Service, Pursuant to Section 364.025, )  
Florida Statutes: ) Filed: November 2, 1998  
\_\_\_\_\_ )

**ATTORNEY GENERAL'S POST-HEARING STATEMENT AND ARGUMENT**

**Basic Position**

\*The Attorney General's position is that if the cost proxy model selected by the Florida Public Service Commission (FPSC) includes the entire costs of the loop and NTS-COE facilities, the applicable revenues to be used as a comparison (i.e. benchmark) to those costs must be the revenues from all services which use, share and benefit from the use of the loop and NTS-COE facilities.\*

**Issues and Positions**

**Issue 1** What is the definition of basic local telecommunications service referred to in Section 364.025(4)(b), Florida Statutes?

**Position:** \*The Attorney General believes that the definition of "Basic local telecommunications service" as contained in Section 364.02(2) of the Florida Statutes is an appropriate definition of basic local telecommunication service as it is referred to in Section 364.025(4)(b) of the Florida Statutes.\*

**Issue 2** For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, what is the appropriate cost proxy model to determine the total forward-looking cost of

providing basic local telecommunications service pursuant to Section 364.025(4)(b), Florida Statutes?

Position: \*No position.\*

**Issue 3** For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, should the total forward-looking cost of basic local telecommunications service pursuant to Section 364.025(4)(b), Florida Statutes, be determined by a cost proxy model on a basis smaller than a wire center? If so, what basis should it be determined?

Position: \*No position.\*

**Issue 4** For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, for each of the following categories what input values to the cost proxy model identified in Issue 2 are appropriate for each Florida LEC?

- (a) Depreciation rates
- (b) Cost of Money
- (c) Tax rates
- (d) Supporting Structures
- (e) Structure sharing factors
- (f) Fill factors
- (g) Manholes
- (h) Fiber cable costs
- (i) Copper cable costs

- (j) Drops
- (k) Network interface devices
- (l) Outside plant mix
- (m) Digital loop carrier costs
- (n) Terminal costs
- (o) Switching costs and associated variables
- (p) Traffic data
- (q) Signaling system costs
- (r) Transport system costs and associated variables
- (s) Expenses
- (t) Other inputs

Position: \*No position.\*

- Issue 5**
- (a) For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, for which Florida local exchange companies must the cost of basic local telecommunications service be determined using the cost proxy model identified in Issue 2?
  - (b) For each of the LECs identified in (a), what cost results from using the input values identified in Issue 5 in the cost proxy model identified in Issue 2?

Position: \*No position.\*

- Issue 6**
- (a) For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service

mechanism, should the cost of basic local telecommunications service for each of the LECs that serve fewer than 100,000 access lines be computed using the cost proxy model identified in Issue 2 with the input values identified in Issue 4?

- (b) If yes, for each of the LECs that serve fewer than 100,000 access lines, what cost results from using the input values identified in Issue 4 in the cost proxy model identified in Issue 2?
- (c) If not, for each of the Florida LECs that serve fewer than 100,000 access lines, what approach should be employed to determine the cost of basic local telecommunications service and what is the resulting cost?

Position:     \*No position.\*

**Argument**

The Attorney General is not taking a position as to which cost proxy model the FPSC should adopt for Universal Service funding purposes. However, the Attorney General's basic position deals with the proper and consistent matching of revenue sources to the costs of facilities which are used to produce those revenues. The Attorney General stresses to the FPSC that the costs of the major facilities used to provide the services included in the definition of Universal Service are shared/joint/common costs of each of those services. Specifically, the costs of the loop and non-traffic-sensitive central office equipment (NTS-COE) facilities represent costs that are joint/shared/common among many services, including intraLATA toll, intrastate switched access, interstate switched access, as well as local services like basic local exchange service and vertical services.

The appropriate revenues to use in any comparison analysis of Universal Service revenues and costs depends upon the portion of the cost of the joint/shared/common facilities (including the loop and NTS-COE facilities) included in the cost proxy model.

The Attorney General's position is that if the cost proxy model selected by the FPSC includes the entire costs of the loop and NTS-COE facilities, the applicable revenues to be used as a comparison (i.e. benchmark) to those costs must be the revenues from all services which use, share and benefit from the use of the loop and NTS-COE facilities. Both the FCC-State Joint Board<sup>1</sup> and the FCC properly concluded that recovery of the cost which includes the shared facilities costs should be benchmarked against the revenues earned from all of the services that share those facilities. The FCC specifically stated:

As the Joint Board recommended, the revenue benchmark should take account not only of the retail price currently charged for local service, but also of other revenues the carrier receives as a result of providing service, including vertical service revenue and interstate and intrastate access revenues.<sup>2</sup>

We include revenues from discretionary services in the benchmark for additional reasons. ... Revenues from services in addition to the supported services should, and do, contribute to the joint and common costs they share with the supported services.<sup>3</sup>

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<sup>1</sup>The FCC-State Joint Board is made up of both state commissioners and FCC commissioners.

<sup>2</sup>¶200, Report and Order, CC Docket No. 96-45, FCC 97-157, adopted May 7, 1997, released May 8, 1997 (hereinafter referred to as the *Universal Service Order*).

<sup>3</sup>¶261, *Universal Service Order*, FCC 97-157. The imputed access revenues associated with the facilities whose costs are included in the study should be included for toll services which do not actually pay an access charge (such as the toll services provided by the same LEC who is providing the local facility).

To give the FPSC an idea of the magnitude of these revenues, the FCC has found that the nationwide revenue benchmark for residential services should be approximately \$31. The FCC specifically stated:

[W]e have determined that the revenue benchmark should be calculated using local service, access, and other telecommunications revenues received by ILECs, including discretionary revenue. Based on the data we have received in response to the data request from the Federal-State Joint Board in CC Docket 80-286 (80-286 Joint Board) on universal service issues, it appears that the benchmark for residential services should be approximately \$31 and for single-line businesses should be approximately \$51.<sup>4</sup> (Citation Omitted)

Respectfully submitted,

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<sup>4</sup>267, Universal Service Order, FCC 97-157.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by facsimile as noted (\*) and U.S. Mail to the following this November 2nd, 1998:

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