

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Development of Local Exchange Company cost study methodology (ies).) DOCKET NO. 900633-TL) ORDER NO. PSC-94-0462-FOF-TL) ISSUED: April 18, 1994)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING
LUIS J. LAUREDO

ORDER ADOPTING EDC COST CATEGORIZATIONS AND INVESTMENT ASSIGNMENTS

BY THE COMMISSION:

I. BACKGROUND

By Order No. PSC-93-1761-FOF-TL, issued on December 8, 1993 in this docket, we directed our staff, in conjunction with industry representatives, to develop an embedded direct cost (EDC) methodology to be applicable to local exchange telephone companies. Several work group meetings have been conducted with representatives of the major local exchange companies and other interested parties, and it appears that significant progress has been made towards developing an EDC study methodology.

An embedded direct cost study takes data such as revenues, expenses, investment, and taxes from the historic accounting records of a company and assigns them to various categories. Since cost assignment to services in an EDC study requires identifiable causal links, not all costs are assigned to product or service categories; rather, certain costs instead are assigned to common or family cost categories.

From the information before us it appears that a fundamental agreement has been reached regarding to which cost categories the various investment accounts should be attributed, and how specific assignments of investments to cost categories should be made. Moreover, further refinement of the EDC cost categories has been made in the past few months.

DOCUMENT FILED DATE

03562 APR 18 94

FFDC-REGISTRATION

II. EDC COST CATEGORIZATIONS AND INVESTMENT ASSIGNMENTS

As is generally true of all embedded cost studies, the assignments to cost categories of certain cost components such as depreciation and many expense accounts is driven by the assignment of related investments. At this juncture we find it appropriate to adopt an EDC cost study format. Appended to this Order as Attachment A is our cost study format with associated cost categories which summarizes how investment accounts will be assigned to cost categories. The overall structure and the assignments represent the joint efforts of our staff and industry representatives resulting from several lengthy meetings. On balance, we believe this EDC cost study format yields reasonable causal-based assignments, tempered by practical constraints. What follows is a more detailed description of the EDC cost study format.

A. General Format

Column (a) on Attachment A, labeled "Acct.," contains the Uniform System of Accounts (USOA) account number, while column (b) contains the USOA description for this account. In certain instances, further disaggregation of the main account is shown in column (b). For example, on page 2 of Attachment A, account number 2211, Analog Electronic Switching, is disaggregated into four subcategories for purposes of ultimately assigning investment to cost categories: Getting Started, Line Sensitive, Traffic Sensitive, and Other (e.g., 911, switch features). A more detailed description of these subcategories is set forth below.

Column (c), "Basis," identifies how the components of the account will be assigned to cost categories; for example, referring again to page 2 of Attachment 2, for Account 2211, the Getting Started subcategory will be directly assigned, while the Traffic Sensitive subcategory will be assigned based on unweighted DEM (dial equipment minutes).

Column (d) (currently vacant), "Total Company," will contain total company dollar amounts by for each of the accounts listed.

Columns (e) through (m) represent the cost categories to which the dollar amounts that will appear in column (d) [Total Company] will be assigned, based on the method identified in column (c) [Basis]; dollars will be assigned to those categories marked with an "x." With two exceptions, these categories are identical to the preliminary categories previously endorsed by the Commission. First, some minor relabeling of categories has occurred; for example, Switched Access/Toll - Transport formerly was labeled

Switched Access/Toll - Transport Usage, and Special Access/Private Line - Access Line formerly was Special Access/Private Line - Channel Termination.

Second, the Family Costs - Network category has been eliminated. Originally, this category was to contain those costs which related to all product categories (Exchange Services, Switched Access/Toll, Special Access/Private Line, and Other) but for which no causal basis existed to assign them to individual product categories. After further review and extensive discussions, we have been unable to identify any significant items which we believe should be assigned to such a category; accordingly, we have eliminated this category from the cost matrix.

B. Types of Investment Assignments

Several different approaches have been used to assign investments to ultimate cost categories. First, for certain accounts the entire dollars in an account are directly assigned to a single cost category. For example, as shown on page 1 of Attachment A, 100% of each of the General Support Assets accounts is directly assigned to Common.

Second, in some cases the entire amount in an account is allocated to two or more accounts based on a causal-related measure. An example of this approach is shown on page 2 of Attachment A, where Account 2220, Operator Systems, is allocated to Exchange Services - Usage and Switched Access/Toll - Usage based on total operator work seconds used to provide the respective operator functions to these services.

Third, detailed investment records for certain accounts are examined to identify specific types of equipment, which are then directly assigned to categories. Account 2362, Other Terminal Equipment (shown on page 3 of Attachment A) is handled in this manner. This account primarily contains three different kinds of investment: TDD equipment, network channel terminating equipment, and E911 terminating equipment. TDD and E911 terminating equipment are isolated and assigned to Exchange Services - Access Line, while Network Channel Terminating Equipment would be assigned, based on the specific equipment involved, either to Exchange Services - Access Line or Special Access/Private Line - Access Line.

Fourth, additional analyses are required for certain accounts in order to disaggregate them into causal-based cost pools, with the amounts in cost pools then either directly assigned or allocated to cost categories. Notable examples of this approach are the central office switching accounts (accounts 2211, 2212, and

2215, shown on page 2 of Attachment A) and the Cable & Wire Facilities accounts (accounts 2411 - 2441, shown on page 4 of Attachment A).

The CO switching accounts are disaggregated into four subcategories: Getting Started, Line Sensitive, Traffic Sensitive, and Other. The major local exchange telephone companies (LECs) have switching cost models (SCIS and COSTMOD) applicable to the types of switches they have deployed which will be used to partition total switch investment into these four subcategories. Getting Started costs refers to that level of investment incurred in order to offer a single access line, or handle a minute of traffic; as such, these costs relate to all switched services but since there is no causal basis to attribute them to specific switched services, they are directly assigned to Switched Family Costs. As shown on page 2 of Attachment A, line sensitive switching investments are directly assigned to Exchange Services - Access Line, while traffic sensitive investment is allocated between Exchange Services - Usage and Switched Access/Toll - Usage based on relative percentage of unweighted dial equipment minutes (DEM). The specific contents of the Other component may vary somewhat, but two primary parts are noted on the matrix: 911 switch-related equipment, and switch-related equipment used to provide switch features such as custom calling, CLASS services, and similar vertical services. As shown, 911 equipment is assigned to Exchange Services - Usage, while equipment associated with vertical services is assigned to the Other category.

The cable and wire facilities (C & WF) investments will be split into four subcategories in a two-step process. First, total investment in these accounts is split between Subscriber Facilities -Basic and -High Capacity, and Interoffice Facilities, using the results contained in the C&WF basic study prepared by each company for separations purposes. Next, the Interoffice Facilities portion is further split between Switched and Dedicated based on the relative number of circuit miles used for these groupings. As shown on page 4, Subscriber Facilities - High Capacity and Interoffice Facilities - dedicated are then directly assigned, while Subscriber Facilities - Basic and Interoffice Facilities - Switched are allocated to service categories.

III. CONCLUSION

We are adopting the EDC cost study format described above. It is important to note that selection of cost assignment methods for use in embedded studies is not a matter of determining the correct procedure, but rather our attempt to achieve, on balance, a reasonable and consistent set of guidelines.

ORDER NO. PSC-94-0462-FOF-TL
DOCKET NO. 900633-TL
PAGE 5

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the embedded direct cost study format shown on Attachment A appended to this Order and as further described in the body of this Order is hereby adopted. It is further

ORDERED that this docket remain open.

By ORDER of the Florida Public Service Commission, this 18th day of April, 1994.



BLANCA S. BAYO, Director
Division of Records and Reporting

(S E A L)

TWH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the

ORDER NO. PSC-94-0462-FOF-TL
DOCKET NO. 900633-TL
PAGE 6

First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

FLORIDA PUBLIC SERVICE COMMISSION: EMBEDDED DIRECT COST STUDY
COST ASSIGNMENT MATRIX

ORDER NO. PSC-94-0462-FOF-TL
DOCKET NO. 900633-TL
PAGE 7

(a) Acct.	(b) Description	(c) Base	(d) Total Company	(e)		(f)		(g)		(h) Other	(i)		(m) Common	
				Exchange Services Usage	Access Line	Switched Access/Toll Usage	Transport	Dedicated Transport	Access Line		Switched Family Costs			
General Support Assets														
2111	Land	Direct												■
2112	Motor Vehicles	Direct												■
2113	Aircraft	Direct												■
2114	Special Purpose Vehicles	Direct												■
2115	Garage Work Equipment	Direct												■
2116	Other Work Equipment	Direct												■
2121	Buildings	Direct												■
2122	Furniture	Direct												■
2123	Office Equipment	Direct												■
2124	General Purpose Computers	Direct												■

Total: General Support Assets

Attachment A
Page 1 of 5

**FLORIDA PUBLIC SERVICE COMMISSION: EMBEDDED DIRECT COST STUDY
COST ASSIGNMENT MATRIX**

ORDER NO. PSC-94-0462-FOF-TL
DOCKET NO. 900633-TL
PAGE 8

(a) Acct	(b) Description	(c) Base	(d) Total Company	(e) Exchange Services		(f) Switched Access/Toll		(g) Special Access/Private Line		(h) Other	(i) Switched Family Costs	(m) Common
				Usage	Access Line	Switched Usage	Transport	Dedicated Transport	Access Line			
Central Office Assets												
2211	Analog Electronic Switching											
	Getting Started	Direct									X	
	Line Sensitive	Direct			X							
	Traffic Sensitive	Unweighted DEM		X								
	Other (e.g., 911, switch features)	Direct		X					X			
2212	Digital Electronic Switching											
	Getting Started	Direct									X	
	Line Sensitive	Direct			X							
	Traffic Sensitive	Unweighted DEM		X		X						
	Other (e.g., 911, switch features)	Direct		X					X			
2216	Electro-mechanical Switching											
	Getting Started	Direct									X	
	Line Sensitive	Direct			X							
	Traffic Sensitive	Unweighted DEM		X		X						
	Other (e.g., 911, switch features)	Direct		X					X			
2220	Operator Systems		Total Operator Work Seconds		X		X					
2231	Radio Systems		Direct		X	X		X	X	X		
2232	Circuit Equipment											
	Subscriber Facilities - Base	Lines			X				X			
	Subscriber Facilities - High Capacity	Direct							X			
	Interoffice Facilities (I):											
	Switched	Interoffice Conv. MOUs		X			X					
	Dedicated	Direct					X					

Total: Central Office Assets

(1) Split based on terminations.

Attachment A
Page 2 of 5

**FLORIDA PUBLIC SERVICE COMMISSION; EMBEDDED DIRECT COST STUDY
COST ASSIGNMENT MATRIX**

ORDER NO. PSC-94-0462-FOF-TL
DOCKET NO. 900633-TL
PAGE 9

(a) Acct.	(b) Description	(c) Basis	(d) Total Company	(e) Exchange Services		(f) Switched Access/Toll		(g) Special Access/Private Line		(h) Other	(i) Switched Family Costs	(m) Common
				Usage	Access Line	Switched Usage	Transport	Dedicated Transport	Access Line			

Information Origination/Termination Assets

8311	Station Apparatus				X							
8321	Customer Premises Wiring				X							
8341	Large PBX				X							
8361	Public Telephone Terminal Equipment	Direct			X							
8362	Other Terminal Equipment											
	TDD	Direct			X							
	Network Channel Term. Equipment	Direct			X				X			
	8311 Terminating Equipment	Direct			X							

Total: IOT Assets

**FLORIDA PUBLIC SERVICE COMMISSION: EMBEDDED DIRECT COST STUDY
COST ASSIGNMENT MATRIX**

(a) Acct	(b) Description	(c) Base	(d) Total Company	(e)	(f)	(g)	(h)	(i)		(j)	(k)	(l)	(m)
				Exchange Service Usage	Access Line	Switched Usage	Transport	Dedicated Transport	Access Line	Other	Switched Family Costs	Common	
Cable & Wire Facilities Assets (2411-2441)													
	Subscriber Facilities - Base	Lines			x				x				
	Subscriber Facilities - High Capacity	Direct							x				
	Interoffice Facilities (1):												
	Switched	Conversation											
	Dedicated	Minute Miles Direct		x		x		x					
	Total: C & WF Assets												

(1) Split based on circuit miles.

02 Mar 94
 08:59 AM

**FLORIDA PUBLIC SERVICE COMMISSION: EMBEDDED DIRECT COST STUDY
 COST ASSIGNMENT MATRIX**

(a) Acct.	(b) Description	(c) Basis	(d) Total Company	(e) Exchange Service		(f) Switched Usage	(g) Switched Access/Toll	(h) Special Access/Private Line Dedicated Transport	(i) Access Line	(j) Other	(k) Switched Family Costs	(l) Common
				Usage	Access Line							
Amortizable Assets												
2001	Capital Lease	Direct										
2002	Leasehold Improvements	Direct										
2000	Intangibles	Direct										
Total Amortizable Assets												
2001	Telecommunications Plant in Service											