

Date Mailed
May 6, 2004

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Administration of the Mechanics of Price Regulation Pertaining to
Wisconsin Bell, Inc. d/b/a SBC Wisconsin, on Its September 1,
2003 Anniversary

6720-TI-184

SUPPLEMENTAL DECISION

This is a supplemental decision in this proceeding, establishing for Wisconsin Bell, Inc., d/b/a SBC Wisconsin (SBC), company-specific infrastructure investment components together with benchmark ranges and component weights. The infrastructure investment components, together with benchmark ranges and component weights set forth in Appendix B, shall be used in calculating the adjustment to the productivity offset on SBC's anniversary date in the year 2005.

Introduction

The price-cap index is the mechanism established by the Legislature in 1993 Wisconsin Act 496 for setting reasonable rates in lieu of rate-of-return regulation. The Commission applies Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code § PSC 163.04 to determine prospective adjustments in the price-cap index. Under Wis. Stat. § 196.196(1)(a), price-regulated services include basic local exchange service as defined in Wis. Stat. § 196.01(1g), and standard business access lines and usage by small businesses with no more than three access lines.¹ On September 11, 2003, the Commission issued a Notice of Proceeding (Notice) in this docket. The Notice initiated an investigation to administer the mechanisms of price regulation pertaining to

¹ In the order in docket 6720-TI-113, the Commission suspended the application of Wis. Stat. § 196.196(1)(a) to the extent that section regulates the provision of Basic Message Telecommunications Services.

the amount that SBC may increase or must decrease its rates for price-regulated services for SBC's anniversary date in the year 2003. An order was issued in this docket on October 29, 2003, establishing rate adjustments necessary for the 2003 anniversary date. This proceeding was also initiated pursuant to Wis. Admin. Code §§ PSC 163.04(2)(c), (d), and (e), to set new company-specific benchmarks for service quality and infrastructure investment, and make any other determinations, as necessary, to use on SBC's year 2005 anniversary date based on 2004 results.

On February 27, 2004, SBC submitted an infrastructure investment objectives plan, in accordance with Wis. Admin. Code § PSC 163.04(2)(dn)2. A draft order establishing, for SBC, company-specific infrastructure investment components together with benchmark ranges and component weights to be used in calculating the adjustment to the productivity offset on SBC's anniversary date in the year 2005, was mailed to all parties. Any comments received have been considered in approving this supplemental decision. No hearing was held in this docket and none was requested.

Findings of Fact

The infrastructure investment components together with benchmark ranges and component weights as set forth in Appendix B are reasonable for use in calculating the adjustment to the productivity offset on SBC's anniversary date in the year 2005, which will examine 2004 results.

Conclusions of Law

1. SBC is a telecommunications utility, as defined in Wis. Stat. § 196.01, engaged in providing telecommunications service to the public.

2. SBC is a price-regulated telecommunications utility as defined in Wis. Stat. § 196.196.

3. The Commission has jurisdiction under Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code ch. PSC 163 to issue an order establishing infrastructure investment components together with benchmark ranges and component weights.

Opinion

Appendix B sets forth infrastructure investment components together with benchmark ranges and component weights, to be used in calculating the productivity offset on SBC's anniversary date in the year 2005. Measurement time frames for infrastructure investment components shall be January 1, 2004, to December 31, 2004. Appendix B reflects discussions held between Commission staff and representatives of SBC.

The investment components are designed to improve or promote the following: switching technology, overall network speed and quality, competition, wholesale services, route diversity, and high-speed data transmission. Each of the specific investment components is discussed below:

New Technologies

This component represents the number of new applications of advanced technology deployed in SBC's service territory. The "New Technologies" incentive item challenges SBC to place the latest version of transport and switching elements in its network. These technologies increase the efficiency of the network by expanding the capabilities of existing fiber optic cables, with higher transmission speeds or use of multiple light frequencies on the same fibers. Other

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technologies on the list would reduce the need for conversions of data from higher speeds to lower speeds, or add diversity of routes in the loop plant.

Interoffice Fiber--New Routes

This component represents the number of new routes between central offices that are served by fiber. The addition of fiber optic cable routes improves the network by increasing the capacity available on the routes and removes older copper-based technology that is susceptible to troubles. This benefits both retail and wholesale customers. Routes that provide diversity for traffic between two points, and thus reduce the possibility of an outage due to a cable cut are also eligible for this incentive.

SONET Multifunction device

This component represents the number of new shelves where a hybrid SONET add/drop multiplexer and digital cross-connect system has been installed in a central office or large customer location. A SONET multifunction device is a switch technology improvement that allows for the reconfiguration of dedicated services purchased by carriers and large customers. It improves the provisioning process for these services, increases bandwidth potential on fiber facilities, and eliminates unnecessary digital to analog conversions which can be inefficient and add to troubles on these services.

Service Improvement

This component is based on the dollar amount of capital expenditures associated with the replacement of problem cable segments, inefficient cable control points, and temporary small pair-gain devices. In addition, this component includes expenditures related to replacement of dryers, valves, and other related equipment associated with pressurized cable. All of these

expenditures address problem areas that contribute to customer troubles. SBC must increase such expenditures by 50 percent over the average annual amount from 1997-2000 to avoid a disincentive for this component. To qualify for the full incentive, SBC must invest \$350,000 of service improvement capital in 16 identified target exchanges that have experienced relatively high troubles caused by outside plant.

Central Office Survivability

This component represents the number of existing nonsurvivable SONET or asynchronous interoffice transport systems replaced by, or migrated to, a survivable SONET ring architecture. Central office survivability refers to the continued operation of a central office's SS7, 911, or toll circuits in the event of a disruption in the fiber facilities serving these circuits. This component provides a benefit to both retail and wholesale customers.

Fiber to the Premise

SBC will be conducting a technical trial of a fiber to the premise network design in the Pabst Farm development in Waukesha County. All SBC Wisconsin investments in central office equipment, fiber, and associated electronics in the Pabst Farm development that are consistent with a fiber to the premise design shall qualify for this component.

Asynchronous Digital Subscriber Line (ADSL)

This component consists of a number of ADSL capable remote terminals and central office aggregators deployed by SBC. Adding new remote terminals or upgrading existing remote terminals provides for the potential deployment of high speed ADSL services further into the network, so that more customers have access to the ADSL service offering. Central office

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aggregators provide for added network efficiencies at the central office by aggregating incoming data traffic from multiple remote terminals to a smaller number of outgoing network facilities.

Order

The infrastructure investment components, together with benchmark ranges and component weights set forth in Appendix B shall be used in calculating the adjustment to the productivity offset on SBC's anniversary date in the year 2005.

Dated at Madison, Wisconsin, _____

By the Commission:

Lynda L. Dorr
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

APPENDIX A

This proceeding is not a contested case under Wis. Stat. Ch. 227, therefore there are no parties to be listed or certified under Wis. Stat. § 227.47. However, an investigation was conducted and the persons listed below participated.

PUBLIC SERVICE COMMISSION OF WISCONSIN

(Not a party, but must be served)

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SBC Wisconsin
Infrastructure Investment Benchmarks for
2004 Performance

<u>Component</u>	<u>Maximum Productivity Offset Values</u>		<u>Productivity Offset Benchmarks for Anniversary Date in the Year 2004 Performance</u>		
	<u>Penalty Value</u>	<u>Incentive Value</u>	<u>Disincentive</u>	<u>Half Incentive</u>	<u>Full Incentive</u>
New Technologies ¹		.25%		²	³
Interoffice – New Routes ⁴		.35%		1 new route	2 new routes
SONET multifunction device ⁵ (X-Connect/Add/Drop)		.40%		35 shelves	55 shelves
Service Improvement Capital ⁶	.20%	.20%	At least \$3.3 million in total	At least \$3.85 million in total	At least \$350,000 in target exchanges. Plus, at least \$4.4 million in total
Central Office Survivability ⁷		.40%		5 systems	10 systems
Fiber to the Premise Pabst Farm Technical Trial Site ⁸		.10%		Capital expenditure of at least \$500,000.	Capital expenditure of at least \$1 million.
ADSL Capable Remote Terminal and/or CO Aggregator ⁹	_____	.10% ¹⁰		6 units	9 units
Total Infrastructure Investment	.20%	1.8%			

Note: Footnotes appear on next page

SBC Wisconsin
Infrastructure Investment Benchmarks for
Year 2004 Performance – Footnotes from Page 1 of Appendix B

¹ New technologies include: (1) OC192 SONET route, (2) Dense Wavelength Division Multiplexing, (2a) Passive Wave Division Multiplexing, (3) LightSpan 2012 (LS2012) ring, (4) ATM switches--tandem or video (three video switches equals one element in this incentive), (5) Broadband Digital X-connect (OC3 -OC48), (6) Digital Radio, (7) Central Office Next Generation Automatic Call Distribution, (8) IP Centrex I-merger equipment and (9) Optical Multiplexing (e.g. Nortel 5100-5200 regeneration/gateways; CISCO 7609/3550 [Six units equals one application element in this incentive]). The LS2012 ring shall be a true ring including at least 65 percent of the route based on feet of fiber sheath.)

² At least 4 applications in operation in total.

³ At least 2 technologies used and 6 applications in operation in total; at least 2 applications outside of Milwaukee and Madison.

⁴ Routes can be between SBC Wisconsin (SBC) central offices not previously connected, a diverse route between SBC offices, or replace a section of a radio route or a route between SBC and an Independent Company office. To qualify for the incentive, a route must be completed and the cable spliced and tested by December 31, 2004. To receive the full incentive, a route from Green Bay to Sturgeon Bay and at least 1 more route, shall be completed, spliced and tested by December 31, 2004.

⁵ SONET multifunctional device that combines cross-connect and the Add/Drop capability into one network element, an example is the FLASHWAVE product. Similar products, by other vendors, will also qualify for this incentive item.

⁶ Target exchanges for obtaining the full incentive are as follows: Caledonia, Somers, Big Bend, Wrightstown, Winneconne, Omro, Ellsworth, Houlton, Evansville, Kaukauna, Hubertus, Richmond, Newburg, Union Grove, Roberts, and Muskego.

⁷ Central Office survivability is measured by having existing nonsurvivable SONET or Asynchronous interoffice transport systems replaced by, or migrated to, a survivable SONET ring architecture. This means SONET systems from an individual central office must be made survivable based on SBC's level 4 measure for fiber diversity, or higher. Level 4 fiber diversity refers to a nonadjacent buried facility along the same path, greater than 10 feet apart, or a combination of aerial cable and underground/buried facility along the same path, or adjacent conduit along the same path greater than 10 feet apart. Any SONET system involving the Sturgeon Bay central office may violate the Level 4 standard for up to 3,000 feet, and still be counted for this measure. Items used to meet the "New Technologies" incentive cannot be reused in this incentive.

⁸ All SBC investments in central office equipment, fiber, and associated electronics in the Pabst Farm development that are consistent with a fiber to the pedestal design shall qualify for this component. Although the copper investment shall not qualify for the dollar investment threshold, the copper must be spliced from the serving area interface (or equivalent) to the pedestals as a condition of this incentive. Copper facility placement beyond Phase 1 of this development is at the discretion of SBC Wisconsin.

⁹ Each ADSL capable Remote Terminal placed in service by 12/31/2004 counts as 1 unit for the incentive. For CO Aggregators, every 2 units placed in service count as 1 unit in this incentive. Only Remote Terminals and Aggregator units placed outside of the Milwaukee and Madison exchanges will be counted under this incentive.

¹⁰ SBC can earn additional incentives, if available, with the placement of Remote Terminals and/or CO Aggregators above the quantity stated in the full incentive. The incentive for each additional Remote Terminal will be valued at 0.017 percent and each CO Aggregator will be valued at 0.0085 percent. The total incentive value for this component shall not exceed 0.406 percent, and the total incentive value for all components, excluding Service Improvement Capital and Central Office Survivability, shall not exceed 1.2 percent.