

S T A T E O F M I C H I G A N
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of _____)
GTE NORTH INCORPORATED for approval of its)
forward-looking economic cost study for use in Case No. U-11664)
determining federal universal service support.)

At the June 26, 1998 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT Hon. John G. Strand, Chairman
Hon. John C. Shea, Commissioner
Hon. David A. Svanda, Commissioner

OPINION AND ORDER

On April 1, 1998, GTE North Incorporated filed an application for approval of its forward-looking economic cost (FLEC) study for determining universal service support costs for itself and Contel of the South, Inc., d/b/a GTE Systems of Michigan, (collectively, GTE) pursuant to the Federal Communications Commission's (FCC) Universal Service Order¹ that adopted rules

¹Report and Order, Federal-State Joint Board on Universal Service, 12 FCCR 8776 (1997).

implementing a federal universal service support system.² Accompanying the application was a cost study under confidential cover.³

GTE's application states that its preferred cost model, the Integrated Cost Model (ICM), is currently under development and will not be ready for immediate use. During the interim before the ICM can be introduced, GTE proposes to use its "COSTMOD" model, which it says was the basis for calculating total service long run incremental costs (TSLRIC) in Case No. U-11281. Because the Universal Service Order requires disaggregation of costs to the wire center level, GTE proposes to use the Benchmark Cost Proxy Model 3.1 (BCPM) to determine wire center-specific costs.

On May 7, 1998, AT&T Communications of Michigan, Inc., (AT&T), MCI Telecommunications Corporation (MCI), and the Commission Staff (Staff) filed initial comments. On May 18, 1998, GTE filed response comments and a motion to advance the deadline for filing the reply comments to May 26, 1998, which was the FCC's deadline for state approval of a provider's FLEC study. On May 20, 1998, AT&T filed a response opposing GTE's motion.⁴ On June 1, 1998, AT&T, MCI, and the Staff filed reply comments.

GTE's motion to advance the timetable for this case is now moot, and the Commission will proceed to address the comments on their merits.

²47 CFR pts. 36, 54, 69.

³The first page of the documents designated as GTE's confidential cost study shows GTE's average monthly costs per line and computes a constraint factor of .6534 as the ratio of the COSTMOD TSLRIC per line to the total average costs per line. (GTE describes the computation in its response comments, which are summarized below.) The remaining six pages provide a one-line summary of cost data for each wire center.

⁴On May 22, 1998, GTE filed a reply to AT&T's response.

However, some observations on the recent development of universal service support issues should be noted as a preliminary matter.

As explained in the FCC's Universal Service Order, released on May 8, 1997, a provider's eligibility for cost support for providing service in high cost areas will be determined by the amount by which its FLECs exceed a nationwide benchmark. FLECs for nonrural carriers, such as GTE, would be determined by applying either a yet-to-be-adopted FCC default cost model or cost studies approved by state commissions. The application in this case seeks Commission approval of GTE's own cost study for submission to the FCC. The Universal Service Order also specified criteria that any cost methodology used to calculate the FLEC of providing universal service must satisfy.

On August 13, 1997, the Commission advised the FCC that it would use the TSLRIC standard legislatively mandated in Michigan, MCL 484.2102(ff); MSA 22.1469(102)(ff), for determining universal service costs. On February 25, 1998, the Commission issued an order in Case No. U-11281, which, among other things, approved a cost methodology for GTE to determine its TSLRICs. GTE was directed to file TSLRIC and related studies and tariffs within 14 days.

All of the parties commenting in this case except GTE recommend that the Commission reject GTE's application in its entirety. AT&T says that even though there was only a short period in which GTE's study was available for review, GTE impeded the other parties' ability to participate by not providing supporting documentation for its models and their cost outputs. The Staff elaborates that the TSLRIC studies approved in Case No. U-11281 are the only legitimate basis for calculating GTE's FLECs, but that GTE's cost study does not explain how the capital and operating costs are related to the TSLRICs approved in Case No. U-11281.

According to the Staff, the absence of a relationship between GTE's TSLRICs and the cost outputs for universal service support differentiates this case from Ameritech Michigan's use of closing factors to adjust its TSLRICs in disaggregating its total costs to the wire center level in Case No. U-11635.⁵

The Staff further says that even if GTE's proposed study were assumed to be consistent with Case No. U-11281, the depreciation assumptions used in Case No. U-11281 fall outside of the FCC's criterion relating to depreciation.

AT&T asserts that the BCPM incorporates many unrealistic assumptions and that the cost outputs are excessive. AT&T recommends that the Commission rely on the standard model to be developed by the FCC for computing GTE's universal service support costs.

GTE responds that the function of the BCPM in its FLEC study is limited to developing a ratio between wire center costs and average Michigan costs and that the study is otherwise consistent with the TSLRICs resulting from Case No. U-11281. GTE explains that its methodology (1) developed a weighted average residential/business TSLRIC of \$32.71 per line per month from Case No. U-11281, (2) computed a Michigan average cost of \$50.06 per line per month using the BCPM, and (3) computed a ratio of .6534 ($\$32.71 \div \50.06) as a basis for deaveraging the TSLRICs per line to the wire center level. GTE's response comments, filed May 18, 1998, at 1-2. With respect to the Staff's comment regarding depreciation, GTE anticipates that the FCC will revise its authorized depreciation ranges on a more forward-looking basis.

GTE defends the BCPM as one of only two models that are currently under consideration by the FCC. It says that AT&T's endorsement of the FCC's default model to compute GTE's costs sacrifices accuracy for the sake of consistency.

The Staff responds that GTE's FLEC study is inconsistent with the TSLRIC study approved in Case No. U-11281. The Staff says that use of a constraint factor based in part on the TSLRIC study is not adequate to convert the outputs of the BCPM to a TSLRIC-based standard. More-

⁵The Commission modified and approved Ameritech Michigan's FLEC study in the May 11, 1998 order in Case No. U-11635.

over, the Staff notes that the Michigan weighted average cost produced by GTE's application of the BCPM is 53% higher than GTE's TSLRIC equivalent in Case No. U-11281. In the Staff's view, GTE's use of the BCPM has the effect of introducing an entirely new set of costs.

The Commission concludes that GTE's FLEC study should be rejected. As both AT&T and the Staff noted, GTE's submission in this case was sparse in detail, did not reveal its underlying assumptions, and provided minimal computations in support of the outputs. Although the FLEC study should have been an adaptation of the TSLRIC study approved after lengthy proceedings in Case No. U-11281, GTE did not use the BCPM in Case No. U-11281. Thus, GTE's use of BCPM outputs in this case (without providing any computations or other details used in deriving the outputs) is a significant and inexplicable departure from Case No. U-11281. Although GTE claimed that the need to disaggregate its costs was the reason for using the BCPM, it did not explain why this was so or whether other methods would have been more appropriate. Using BCPM costs that are 53% higher than their TSLRIC equivalent in Case No. U-11281, coupled with the lack of supporting detail, undermines the credibility of GTE's methodology.

Because this order rejects GTE's cost study, GTE's costs for purposes of the ongoing FCC proceedings shall be determined pursuant to the model and methodology to be approved by the FCC.

The Commission notes that the next biennial TSLRIC filing for GTE is due in January 1999. Until approval of that study, GTE shall use the results of Case No. U-11281 in regulatory matters in Michigan.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1991 PA 179, as amended by 1995 PA 216, MCL 484.2101 et seq.; MSA 22.1469(101) et seq.; the Communications Act of 1934, as amended by the Telecommunications Act of 1996, 47 USC 151 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AAC S, R 460.17101 et seq.

b. GTE's FLEC study submitted for use in the FCC's universal service support mechanism for high cost areas should be rejected.

c. The next biennial TSLRIC filing for GTE is due in January 1999.

THEREFORE, IT IS ORDERED that:

A. The forward-looking economic cost study submitted by GTE North Incorporated for use in the Federal Communications Commission's universal service support mechanism for high cost areas is rejected.

B. The next biennial total service long run incremental cost filing for GTE North Incorporated is due in January 1999.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ John G. Strand

Chairman

(S E A L)

/s/ John C. Shea

Commissioner, concurring in a

separate opinion.

/s/ David A. Svanda

Commissioner

By its action of June 26, 1998.

/s/ Dorothy Wideman
Its Executive Secretary

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ISSION

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Case No. U-11664

Suggested Minute:

“Adopt and issue order dated June 26, 1998 rejecting the application filed by GTE North Incorporated to use a forward-looking economic cost study in determining federal universal service support, as set forth in the order.”

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CONCURRING OPINION OF COMMISSIONER JOHN C. SHEA

(Submitted on June 26, 1998 concerning order issued on same date.)

I concur in the result only.

John C. Shea, Commissioner