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| Date Mailed December 10, 1999 |
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BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Administration of the Mechanisms of Price Regulation Pertaining to 2180-TI-131
GTE North Incorporated on the Fourth Anniversary Date

SECOND FINAL DECISION

INTRODUCTION

This is the second final decision in this proceeding, establishing for GTE North Incorporated (GTE) company-specific infrastructure investment components together with benchmark ranges and component weights, and establishing benchmarks related to contributions to the Wisconsin Advanced Telecommunications Foundation (WATF).

The infrastructure investment components, together with benchmark ranges and component weights set forth in Appendix B, and the WATF contribution amounts shown in Findings of Fact provision 6 shall be used in calculating the adjustment to the productivity offset on GTE's anniversary date in the year 2000.

Background

On May 26, 1999, the Commission issued a Notice of Proceeding and Investigation and Assessment of Costs (Notice) in this docket. The Notice initiated an investigation to administer the mechanisms of price regulation pertaining to the amount that GTE may increase or must decrease its rates for price-regulated services. This proceeding was also initiated to set new

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company-specific benchmarks for service quality to administer the mechanisms of price regulation pertaining to GTE's anniversary date in the year 2000.

The price cap index is the mechanism established by the legislature in 1993 Wisconsin Act 496 (Act 496) for setting reasonable rates in lieu of rate base 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), as modified by the Commission's order in docket 2180-TI-111, 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.

On June 23, 1999, the Commission issued its Findings of Fact, Conclusions of Law, and Final Order in docket 2180-TI-131 (First Order). The First Order directed GTE to decrease its average rates for price regulated services by 0.22 percent, and set new company-specific benchmarks for service quality to administer the mechanisms of price regulation pertaining to GTE's anniversary date in the year 2000.

The Notice also specified that this proceeding might include setting new company-specific benchmarks for infrastructure investment and contributions to the WATF and making other determinations, as necessary, to administer the mechanisms of price regulation pertaining to GTE's anniversary date in the year 2000. These determinations were not made in the First Order due to possible changes to the incentive and penalty mechanisms as a result of the Commission's review of price regulation in docket 05-TI-174. The Commission's order in docket 05-TI-174 (June 23, 1999) directed staff to open a rulemaking proceeding to make certain changes to the incentive and penalty mechanisms. Until the rulemaking is completed, the current

rules in Wis. Admin. Code ch. PSC 163 continue to apply. This second final decision therefore uses those rules to set future infrastructure and WATF benchmarks for GTE's anniversary date in the year 2000.

No hearing was held in this docket and none was requested.

FINDINGS OF FACT

THE COMMISSION FINDS:

1. GTE is a telecommunications utility, as defined in Wis. Stat. § 196.01, engaged in providing telecommunications service to the public through 192 exchanges in the state of Wisconsin.
2. GTE is a price-regulated telecommunications utility as defined in Wis. Stat. § 196.196.
3. The total maximum increase in the productivity offset for infrastructure deployment is 0.40 percent and the total maximum decrease is 0.80 percent.
4. 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 GTE's anniversary date in the year 2000.
5. It is reasonable to base a decrease in the productivity offset for WATF contributions on the WATF's calculated annual contribution plus 20 percent and an increase in the productivity offset on the WATF's calculated annual contributions less 10 percent.
6. The WATF's calculated annual contribution for GTE for 1999 is \$466,971.

7. On GTE's anniversary date in the year 2000, an increase in the productivity offset will be imposed if the annual amount of contributions to the WATF in 1999 is less than \$420,000. A decrease in the productivity offset will apply if the annual amount of contributions in 1999 is greater than \$560,000.

CONCLUSION OF LAW

THE COMMISSION CONCLUDES:

It has jurisdiction under Wis. Stat. §§ 196.01, 196.02(3), 196.03(6), 196.196(1)(c) and (e)1., 196.204, and 227.11 and Wis. Admin. Code ch. PSC 163 to issue an order establishing infrastructure investment components together with benchmark ranges and component weights, and establishing ranges for contributions to the Wisconsin Advanced Telecommunications Foundation, pursuant to the findings of fact and opinion set forth herein.

OPINION

Infrastructure

Pursuant to Wis. Adm. Code § PSC 163.04(2)(d)7., on each anniversary date, the Commission, following an opportunity for hearing, may compute new company-specific infrastructure benchmarks. Also on each anniversary date, upon a request by the utility or on the Commission's own motion, the Commission may initiate a review of the appropriateness of the infrastructure investment components.

Appendix B sets forth infrastructure investment components together with benchmark ranges and component weights to be used in calculating the productivity offset on

GTE's anniversary date in the year 2000. Measurement timeframes for infrastructure investment components shall be December 31, 1999. Appendix B reflects the following changes from the infrastructure components, basis for benchmark ranges, and component weightings used in 1999:

1. Replacement of Analog Subscriber Carrier: The disincentive benchmark for this component will be based on a 3-year average of analog working channels replaced with digital. The incentive benchmark for this component will be based on 150 percent of this 3-year average.
2. Replacement of VIDAR switch at Lyndon Station: An incentive will be granted if the VIDAR switch at Lyndon Station is replaced with a digital switch with Signaling System 7 (SS7) functionality, by December 31, 1999. A disincentive will be assessed if this does not occur.
3. Intermediate, or target, benchmarks have been introduced. If actual deployment exceeds the target benchmark, a partial pro-rata incentive will be granted.
4. Due to the proximity of this order to the end of the measurement timeframe, and other factors, the infrastructure investment components for SS7, Broadband Facilities, Outside Plant Modernization, Data Transmission Capability, and High-Speed Data have been eliminated for this year.

Wisconsin Advanced Telecommunications Foundation

In its Final Decision in docket 6720-TI-159 dated October 1, 1999, the Commission found that the methodology for determining WATF contribution ranges should be changed. To correct the deficiencies in the current methodology, the Commission found that it is reasonable to calculate an incentive for WATF contributions based on WATF's calculated annual contributions plus 20 percent and to calculate a penalty based on WATF's calculated annual

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contributions less 10 percent. The Commission finds that it is reasonable to apply the same method to GTE.

The WATF's calculated 1999 contribution for GTE is \$466,971. Therefore, the Commission finds that on GTE's anniversary date in the year 2000, an increase in the productivity offset will be imposed if the annual amount of contributions to the WATF during 1999 is less than \$420,000. A total WATF decrease in the productivity offset will apply if the annual amount of contributions in 1999 is greater than \$560,000.

ORDER

THE COMMISSION ORDERS:

1. 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 GTE's anniversary date in the year 2000.

2. The WATF contribution amounts shown in Findings of Fact provision 6 shall be used in calculating the adjustment to the productivity offset on GTE's anniversary date in the year 2000.

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 Chapter 227, Stats., therefore there are no parties to be listed or certified under § 227.47, Stats. However, an investigation was conducted, and the persons listed below participated.

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(Not a party but must be served)
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GTE North Incorporated
2180-TI-131
Infrastructure Investment Benchmarks
for Anniversary Date in the Year 2000
(1999 Measurement Timeframe)

| Component | Maximum Productivity Offset Values | | Productivity Offset Benchmarks | | |
|--|------------------------------------|-----------|--------------------------------|---------------|------------------------|
| | Disincentive | Incentive | Disincentive ¹ | Target | Incentive ² |
| Total Dollars of Enhancements and Technology Advancement Since January 1, 1995 | .15% | .30% | \$104 million | \$108 million | \$116 million |
| Number of Central Offices Served with Interoffice Fiber | .10% | .20% | 173 | 175 | 179 |
| Analog Working Channels of Subscriber Carrier Replaced with Digital | .10% | .20% | 1,141 | 1,330 | 1,712 |
| Replacement of VIDAR Switch at Lyndon Station | .05% | .10% | no | | yes |
| Total Infrastructure Investment | .40% | .80% | | | |

¹ Disincentive will be assessed if measurement at December 31, 1999, is less than disincentive benchmark.

² Full incentive granted if measurement at December 31, 1999, is equal to or greater than incentive benchmark. Partial incentive granted on a pro-rata basis if measurement is equal to or greater than target.