

DA 97-1609

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)
)
1997 Annual Access)
Tariff Filings) CC Docket No. 97-149
)

**ORDER DESIGNATING ISSUES FOR INVESTIGATION
MEMORANDUM OPINION AND ORDER ON RECONSIDERATION**

Adopted: July 28, 1997 Released: July 28, 1997

By the Deputy Chief, Common Carrier Bureau:

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I. INTRODUCTION

1. On June 27, 1997, we released the *1997 Annual Access Order*, which, *inter alia*, suspended for one day the annual access tariffs filed by several incumbent local exchange carriers, imposed an accounting order, and initiated an investigation into the lawfulness of a number of issues raised by these tariff filings.¹ We concluded that the annual access tariffs filed by 15 price cap LECs raised significant questions of lawfulness that warranted investigation.² We also concluded that provisions in the annual access tariffs filed by the Puerto Rico Telephone Company (PRTC) and a number of other smaller rate-of-return carriers raised questions of lawfulness that warranted investigation³

2. In this Order, we designate for investigation issues regarding common line costs for all 15 price cap carrier, equal access exogenous cost changes for 13 carriers, and other billing and collection expenses for four price cap carriers. We also designate for investigation issues regarding cash working capital for four rate of return carriers. In addition, on our own motion, we reconsider our decisions to suspend and investigate price cap LECs' growth factor calculation issues, two price cap LECs' equal access exogenous cost expense issues, all rate of return LECs' non-recurring charge (NRCs) issues, and cash working capital issues for four rate-of-return companies.

¹ 1997 Annual Access Tariff Filings, National Exchange Carrier Association Universal Service Fund and Lifeline Assistance Rates, Transmittal No. 759, CC Docket No. 97-149, Memorandum Opinion and Order, DA 97-1350 (Com. Car. Bur., rel. June 27, 1997) (*1997 Annual Access Suspension Order*).

² Those carriers were: Ameritech Operating Companies (Ameritech), Bell Atlantic Telephone Companies (Bell Atlantic), BellSouth Telecommunications, Inc. (BellSouth), Frontier Communications of Minnesota and Frontier Communications of Iowa (Frontier), GTE System Telephone Companies (GSTC), GTE Telephone Operating Companies (GTOC), Aliant Communications. Co. (Aliant), Nevada Bell (Nevada), New York Telephone and New England Telephone and Telegraph Company, (collectively NYNEX), Pacific Bell (Pacific), Rochester Telephone Corporation (Rochester), Southern New England Telephone Company (SNET), Southwestern Bell Telephone Company (SWBT), Sprint Local Telephone Companies (Sprint), and U S WEST Communications (U S WEST).

³ Those other companies were: Chillicothe Telephone Company (Chillicothe), Concord Telephone Company (Concord), Horry Telephone Company (Horry), Virgin Island Telephone Company (Virgin Island), Rock Hill Telephone Company (Rock Hill), Home Telephone Company (Home), Fort Mill Telephone Company (Fort Mill), Lancaster Telephone Company (Lancaster), Lufkin-Conroe Telephone Company (Lufkin-Conroe), Buffalo Valley Telephone Company (Buffalo Valley), El Paso Telephone Company (El Paso), Harrisonville Telephone Company (Harrisonville), Wabash Telephone Company (Wabash), Mt Horeb Telephone Company (Mt. Horeb), Roseville Telephone Company (Roseville), and Union Telephone Company (Union).

II. PRICE CAP CARRIERS

A. Common Line Issues

1. Background

3. For price cap LECs, the maximum end user common line (EUCL) and carrier common line (CCL) rates are set in accordance with the various requirements contained in Parts 61 and 69 of the Commission's rules. A key element in these requirements is the base factor portion (BFP) revenue requirement, which is defined in Part 69 as that portion of an incumbent LEC's common line revenue requirement that remains after the assignment of certain specified common line investment and expenses exclusively to the CCL element.⁴ Section 69.502 provides that projected EUCL revenues should be deducted from BFP, with the remainder being assigned to the CCL element.⁵

4. Under our access charge and price cap rules, each incumbent LEC subject to price cap regulation projects its BFP revenue requirement and its EUCL demand in order to determine the maximum CCL charge and EUCL charge,⁶ subject to the common line basket's price cap.⁷ More specifically, our rules require an incumbent LEC to divide its projected BFP revenue requirement for the upcoming access year by its projected EUCL demand to determine its prospective interstate per-line common line revenue requirement.⁸ An incumbent LEC then recovers these costs in part through the EUCL charge, up to a cap of \$3.50 for residential and single-line business (SLB) lines,⁹ or \$9.00 for multi-line business (MLB) lines.¹⁰ Until January 1, 1998, an incumbent LEC recovers its remaining common line costs through the per-minute CCL charge. A price cap LEC then determines its

⁴ Costs assigned directly to the CCL element and, therefore, recovered solely from IXCs, are those attributable to customer premises equipment (CPE), surrogate CPE, and customer premises wiring included in information origination-termination equipment accounts. 47 C.F.R. §§ 69.2(r), 69.501(b)-(c). The Commission recently revised section 69.501 to include the costs of public telephone loops in the BFP. *See* Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128, Report and Order, 11 FCC Rcd. 2054 (1996); Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, Order on Reconsideration, 11 FCC Rcd 21233 (1996) (*Payphone Reconsideration Order*).

⁵ Section 69.502 also provides that projected Special Access surcharges shall be deducted from the BFP. 47 C.F.R. § 69.502.

⁶ EUCL charge is also referred to as the subscriber line charge (SLC).

⁷ After January 1, 1998, incumbent LECs will also use their projected BFP revenue requirement in developing the residual presubscribed interexchange carrier charge (PICC). *See* Access Charge Reform, CC Docket No. 96-262, First Report and Order, FCC 97-158 at ¶¶ 94-104 (rel. May 16, 1997) (*Access Charge Reform Order*).

⁸ *See* 47 C.F.R. §69.104.

⁹ 47 C.F.R. § 69.152(d)(1). Effective January 1, 1998, the EUCL charge cap on second and additional residential lines will increase to \$5.00. 47 C.F.R. § 69.152(d)(2).

¹⁰ 47 C.F.R. § 69.152(b)(3).

maximum per-minute CCL charge pursuant to the formula prescribed in Section 61.46(d), which factors in the proposed EUCL charge set above.¹¹

5. As discussed in the *1997 Annual Access Suspension Order*, the recent increase in the MLB EUCL charge cap increased the impact that per-line BFP revenue requirement projections have on EUCL charges, maximum CCL charges, and the total amount of common line revenues that a price cap LEC reasonably can expect to recover.¹² When a price cap carrier's per-line BFP revenue requirement projection is greater than the \$3.50 residential/SLB EUCL cap but does not exceed the \$9.00 MLB EUCL cap, that projection will effectively determine the relative proportions of its common line revenue recovered from end users, via EUCL charges, and interexchange carriers, via CCL charges. A relatively lower projected per-line BFP revenue requirement generally will lead to a relatively lower MLB EUCL charge and an increase in the maximum CCL charge. Because, under price cap regulation, total common line revenues are constrained by the relevant price cap formulas rather than a projected revenue requirement, a LEC's total anticipated common line revenues would not necessarily decrease with a lower projected per-line BFP projection. Rather, under those formulas, so long as this year's growth in minutes of use per common line is expected to exceed half the previous year's growth, the price cap LEC would expect to receive greater total common line revenues by charging relatively lower EUCLs and relatively higher CCL charges.¹³

6. In the *1997 Annual Access Suspension Order*, we suspended the portions of the price cap LECs' tariffs relating to the BFP revenue requirement and EUCL demand forecasts for one day and set these tariff provisions for investigation.¹⁴ In its petition requesting that the Commission suspend and investigate the price cap LECs' tariff revisions, AT&T provided its own estimates of the BOCs' BFP revenue requirements, using historical trend data.¹⁵ We stated in the *1997 Annual Access Suspension Order* that we were not persuaded that AT&T's estimates had sufficiently accounted for changes in the treatment of general support facilities (GSF) investment and expense and other regulatory changes that would affect apparent historical patterns. Nevertheless, we found that the issues raised by the petitions raised substantial questions of lawfulness that warranted investigation of all price cap LECs' BFP forecasts, in light of the failure of the price cap LECs to offer complete support for their projected BFP revenue requirements and in light of the wide disparity between the projections of all of the BOCs and the projections offered by AT&T in its petition.¹⁶

a. Projected BFP Revenue Requirement

¹¹ 47 C.F.R. § 61.46(d).

¹² *1997 Annual Access Suspension Order* at ¶ 5.

¹³ This outcome results from the Commission's decision in the Price Cap Proceeding to adopt the "balanced 50-50" formula that reduces the maximum CCL charge by a percentage representing half the growth in minutes of use per line in the prior year (g/2). 47 C.F.R. § 61.46(d). *See also* Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, 5 FCC Rcd 6786, 6793-95 (1988).

¹⁴ *1997 Annual Access Suspension Order* at ¶ 22.

¹⁵ AT&T Petition at 2-5 and Appendix B.

¹⁶ *1997 Annual Access Suspension Order* at ¶ 22.

7. Several price cap carriers used historical trends to develop their forecasts of BFP revenue requirements for the 1997-98 tariff year.¹⁷ Bell Atlantic, for example, assumed that the expected cost growth rate would follow the historical 1995 to 1996 pattern, and uses the growth in costs for this period to estimate costs for the 1997-98 tariff year.¹⁸ Similarly, NYNEX states that it developed an 18-month normalized, subject-to-separations (STS) growth rate using 11 months of data from 1995 and 1996 to project its BFP revenue requirement.¹⁹ These carriers then adjust their revenue requirement forecasts to account for changes in various Commission rules, income tax adjustments, and other exogenous cost factors.

8. Other carriers state that they developed projections based on a model or using a "bottoms-up approach."²⁰ Pacific Bell, for example, claims that, to calculate its BFP revenue requirement for the 1997-98 tariff year, it started with its total company budget based on Part 32 of the Commission's rules.²¹ Pacific Bell then states that, after analyzing its operating environment, "economic and demographic forecasts were developed based on that analysis."²² Pacific Bell states that its forecasted BFP revenue requirement for the 1997-98 tariff year, calculated using this "bottoms-up" approach, represents a 1.57 percent increase over calendar year 1996, after adjustment for the changes to the BFP calculation process required by the *RAO 20 Order*²³ and the *Payphone Reconsideration Order*.²⁴ SWBT indicates that it developed projected BFP revenue requirement for the 1997-98 tariff year by using "its Interstate Cost Analysis System to calculate the Common Line -- BFP costs." SWBT states that "[t]his model conforms with cost allocation requirements contained in parts 36 (Jurisdictional Separations) and 69 (Access Charges) [of the Commission's rules.]"²⁵

¹⁷ See, e.g., Bell Atlantic Telephone Companies, 1997 Annual Price Cap Filing, Trans. No. 970, Volume 1-1, Supporting Documentation, Description and Justification (filed June 16, 1997) (Bell Atlantic 1997 Access Filing), at pages 3-1 to 3-7; NYNEX Telephone Companies, 1997 Annual Access Charge Tariff Filing, Trans. No. 455, Volume 1, Description and Justification (filed June 16, 1997) (NYNEX 1997 Access Filing), at pages 8-13; U S WEST Communications, 1997 Annual Access Tariff Charge Filings, Trans. No. 847, Volume 1, Description and Justification (filed June 16, 1997) (U S WEST 1997 Access Filing), at pages 4-10 to 4-14.

¹⁸ Bell Atlantic 1997 Access Filing, Description and Justification at 3-1 to 3-7.

¹⁹ NYNEX 1997 Access Filing, Description and Justification at 8-13.

²⁰ See, e.g., Pacific Bell, 1997 Price Annual Access Charge Tariff Filing, Transmittal No. 1921, Volume 1-1, PCI Revisions (filed June 16, 1997) (Pacific Bell 1997 Access Filing), at pages 16-20; Southwestern Bell Telephone, 1997 Annual Access Tariff Charge Filing, Trans. No. 2640, Volume 1 (filed June 16, 1997) (SWBT 1997 Access Filing), at page 5-3.

²¹ 47 C.F.R. Part 32. See Pacific Bell 1997 Access Filing at pages 16-20.

²² Pacific Bell 1997 Access Filing at page 17.

²³ Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other than Pensions in Part 32, Report and Order, 12 FCC Rcd 2321 (1997) (*RAO 20 Order*).

²⁴ 11 FCC Rcd 21233.

²⁵ SWBT 1997 Access Filing at page 5-3.

9. Several other price cap carriers give little or no documentation as to how they develop their BFP revenue requirement projections. Ameritech, for instance, states that it developed its BFP estimates "on a study area basis in accordance with Price Cap rules."²⁶ Ameritech also states that it estimated prospective end-user demand for the 1997-98 tariff year "based on historical growth patterns."²⁷ BellSouth simply reports its projected BFP revenue requirement without any explanation of the basis for its projection.

10. After the effectiveness of its annual access tariffs, Bell Atlantic submitted calculations of its actual BFP revenue requirements for 1991-1996.²⁸ In addition, Bell Atlantic submitted adjustments that must be made to its revenue requirements to reflect changes in several of the Commission's rules.²⁹ Specifically, Bell Atlantic adjusted its 1991 and 1992 actual interstate BFP revenue requirements for changes in the SPF, and its 1991 to 1993 BFP revenue requirements for changes in the allocation of GSF.³⁰ Using these adjusted BFP revenue requirements, Bell Atlantic calculated the year-to-year percentage increase in BFP revenue requirements.³¹ The year-to-year percentage increase in Bell Atlantic's adjusted BFP revenue requirements ranged from 9.22 to 2.45 percent and had a median of 4.38 percent.³² Using the year-to-year percentage changes, Bell Atlantic performed a simple time-trend analysis and estimated its percentage increase in its BFP revenue requirement for the 1997-98 tariff year.³³ This analysis resulted in a predicted percent increase in BFP revenue requirement of 1.46 percent between calendar years 1996 and 1997.³⁴ By contrast, Bell Atlantic shows that the BFP revenue requirement in its 1997-98 tariff filing is 3.3 percent (annualized) higher than its actual 1996 BFP revenue requirement.³⁵

11. Sprint provides calculations of its actual BFP revenue requirement for 1993-1996, noting that data prior to 1993 should not be used in its trending process because these data reflect information from before the GSF restructure. Sprint shows that the BFP revenue requirement it filed

²⁶ Ameritech Operating Companies, 1997 Annual Access Tariff Charges, Trans. No. 1106, Volume 1-2 (filed June 16, 1997) (Ameritech 1997 Access Filing), at page 8.

²⁷ *Id.* at 7.

²⁸ Letter from Joseph J. Mulieri, Director, Government Relations -- FCC, to Brad Wimmer, Economist, Competitive Pricing Division, filed July 18, 1997.

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

³² *Id.*

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.*

for the 1997-98 tariff year exceeds a projection using revenue requirements from 1993-1996 and AT&T's methodology by over \$8 million.³⁶

b. Projected End-User Demand

12. The majority of price cap carriers indicate that they evaluated a variety of factors, such as the economic performance in a study area and demographic factors, to estimate end-user demand. For example, NYNEX states that it obtained historical demand data, by class of service, for the following categories: (1) Residence (excluding Lifeline); (2) Lifeline; (3) Single Line Business; and (4) Multi-line Business and Centrex. NYNEX then states that it projected the growth in access lines for each state and subscriber category using forecasts of economic growth, non-farm employment, population, unemployment, real personal income, interest rates, housing starts, and competitive pressures. NYNEX, however, does not provide any information quantifying these factors or explaining how they were weighed. It states that its 1996 forecast of end user demand for the 1996-97 tariff year using the same method was within 0.04 percent of actual EUCL demand. Pacific Bell states that it used information on "market intelligence, historic demand levels, product cross elasticities, and new product introductions" to forecast EUCL demand for the Multi-line Business, Single-line Business, Centrex in service prior to July 27, 1983, Centrex in service after July 27, 1983, Residence without Lifeline, and Lifeline service classes.³⁷ No carrier, however, provided any specific explanation of the basis for its estimate, reporting only the results of its studies.

2. Information Requirements and Issues Designated for Investigation

13. Based on a review of the record, we concluded in the *Suspension Order* that investigation of the price cap LECs' BFP revenue requirement and EUCL demand forecasts is warranted. We here designate for investigation the issue of whether the price cap LECs have justified these projections, and direct the price cap LECs to justify their projections, and specifically to respond to the information requirements below. In this investigation, the price cap LECs have the burden of proving that their BFP revenue requirement projections and EUCL demand forecasts are just and reasonable.

14. Although our rules do not prescribe any particular methodology that incumbent LEC must use to develop their BFP revenue requirement and EUCL demand forecasts, the accuracy of LEC common line cost forecasts has often been at issue, particularly when those forecasts have departed from the trend of BFP costs.³⁸ In an effort to facilitate resolution of such issues we stated in the *1997 TRP* that "information on the SLC calculation should be included in the annual access tariff filing,"³⁹ and that "the information filed should explain any forecast that deviates from the historical cost or demand trend, and significant differences between actual results and predictions produced by forecast models used in recent annual filings."⁴⁰

³⁶ Sprint Reply at Exhibit 1.

³⁷ Pacific Bell 1997 Access Filing at 18-19.

³⁸ Material to be Filed in Support of 1997 Annual Access Tariff Filings, Tariff Review Plans, DA 97-593 (rel. Mar. 21, 1997), ¶ 8 (*1997 TRP Order*).

³⁹ *Id.*

⁴⁰ *Id.*

15. After conducting a preliminary analysis of the price cap LECs' current projections, we find that these projections are likely, in many cases, to be inconsistent with the recent trend of actual BFP revenue requirements. Many of the price cap LECs have neither explained fully how they derived their BFP revenue requirement and end-user demand projections,⁴¹ nor have they shown their projections to be consistent with historical patterns. To enable us to complete an analysis of the incumbent LECs' 1997-1998 tariff year estimates of BFP revenue requirements and EUCL demand, price cap LECs must submit the information specified below in accordance with the instructions set forth in Appendix B. The price cap LECs also may submit additional information with respect to other methods of projecting BFP revenue requirements and EUCL demand.

a. BFP Revenue Requirements

16. As discussed in more detail, below, we require each price cap LEC subject to this investigation to submit: (1) its actual BFP revenue requirements, computed using ARMIS data, if available, for each calendar and tariff year between the 1991-1992 tariff and calendar years and the 1996-1997 tariff and calendar years, and projected BFP revenue requirements filed in each year's TRP for the same period; (2) a list of any change in its BFP revenue requirements caused by any revisions to the Commission's rules over this period, including an itemized quantification of the effects of these changes; and (3) documentation that explains in detail the methodology that each LEC used to compute its BFP revenue requirement projection for tariff year 1997-98.

(1) Actual and Projected BFP Revenue Requirements

17. We require each LEC that files ARMIS data to calculate its actual interstate BFP revenue requirement for calendar years 1991-1996 and associated tariff years (beginning with the 1991-1992 tariff year) using data from ARMIS report 43-01, columns k and m. The use of ARMIS ensures that the LECs' calculated actual BFP revenue requirements are easily replicable and verifiable on the basis of publicly available data. We require price cap LECs that did not file ARMIS data during this period to develop their actual BFP revenue requirements using separated, interstate data from company records.⁴² We also require each price cap LEC to submit its projected BFP revenue requirements filed in each year's TRP since tariff year 1991-92. With this information, we intend to establish the historical pattern of the LECs' BFP revenue requirements and the accuracy of their past projections. LECs are, therefore, required to explain fully any significant differences between each annual BFP revenue requirement projection and the LEC's actual BFP revenue requirement.⁴³ For purposes of this request, a difference will be classified as significant by comparing the projected year-

⁴¹ In their 1997 annual access tariff filings, Bell Atlantic and Pacific Telesis provided some information on the methods they used in developing their BFP revenue requirements. Subsequent to its filing, Bell Atlantic presented, in a written ex parte presentation, an analysis of its BFP revenue requirement's historical trend. In its comments filed in response to the petitions of AT&T and MCI, Sprint also provided some explanation of its projections. Sprint Comments, filed June 26, 1997, Exhibit 1.

⁴² See Appendix B for instructions on how these revenue requirements shall be calculated.

⁴³ We do not require LECs to adjust this data for any changes in Commission rules that affect its BFP revenue requirement unless the change occurred during the tariff year for which its BFP revenue requirement was being projected. If a change in Commission rules occurred during the tariff year, LECs should calculate the effect such a change had on its BFP revenue requirement for that year, and include this information in its explanation of why its projection was not realized.

to-year percentage change in BFP revenue requirements with the actual year-to-year percentage change. A difference will be considered significant if the projected percentage change is greater than or less than 10 percent of the percentage change actually realized. For example, if a LEC's BFP revenue requirement actually increases by 3 percent, and the LEC projects that its BFP revenue requirement will grow by more than 3.3 percent or less than 2.7 percent, we will classify these projections as significantly different. Additionally, LECs are required to explain fully any patterns of significant and consistent over- or under-estimation of their BFP revenue requirements that may emerge.

18. We require that actual BFP revenue requirements be calculated for calendar years 1991-1996 because LECs typically use calendar-year data to project their revenue requirements. We also require LECs to calculate actual BFP revenue requirements for tariff years 1991-1996 because to enable us to compare those data with the projected revenue requirements that the price cap LECs submitted with their annual access tariff filings for the relevant years in support of their proposed EUCL and CCL rates.⁴⁴ We intend to use calendar year BFP revenue requirements to develop historical trends of BFP revenue requirements, and use actual and projected BFP revenue requirements calculated for tariff years to determine the accuracy of LECs' past projections of BFP revenue requirements. LECs must file data on a total company basis,⁴⁵ but are free to file additional data on a study-area basis.

(2) Adjusted BFP Revenue Requirements

19. We also require LECs to provide adjusted BFP revenue requirement data for calendar years 1991-1996 in order to explain differences in LECs' actual BFP revenue requirements between calendar years 1991-1996. Accordingly, we require price cap LECs subject to this investigation to develop calendar year BFP revenue requirement series that are adjusted for the effect that changes in Commission rules had on actual BFP revenue requirements. As explained in more detail below, in fulfilling this requirement, each price cap LEC must submit an itemized list of each change in Commission rules that affected BFP revenue requirements, including (a) the date each change became effective and its impact on the BFP revenue requirement for the calendar year in which the changed rule became effective, measured in dollars; and (b) the LEC's actual BFP revenue requirements, adjusted for all such changes in Commission rules for calendar years 1991-96, reported in two series as described below.

20. For each change in the Commission's rules that became effective on or before December 31, 1996, and that affected the LEC's BFP revenue requirement, we require each LEC to identify the change, state its effective date, and calculate the effect, in dollars, that the change had on its BFP revenue requirement. We also require the LEC to calculate the effect that each rule change would have had on BFP revenue requirements in previous years, back to 1991, had the revised rule then been in effect. For example, effective July 1, 1993, the Commission revised the rules governing the LECs' allocation of interstate costs associated with General Support Facilities (GSF). This change in rules increased costs allocated to BFP, and thus increased BFP revenue requirements. In order to compare

⁴⁴ We understand that LECs will have to use company data to calculate their actual BFP revenue requirement for tariff year 1996 (July 1, 1996 through June 30, 1997) because ARMIS data are only reported on a calendar-year basis for 1996.

⁴⁵ We project those LECs that have not filed tariffs on a holding company basis for this entire period to recast their projections on a holding company basis and for submission in this filing. These companies to explain and document fully the data, assumptions and methodologies used to derive these projections.

BFP revenue requirements over the years, we require LECs to calculate the impact the change in allocation of GSF costs would have had on BFP revenue requirements in 1991, 1992, and the first half of 1993, if the revised rule had been in effect during those years. For changes that became effective after December 31, 1996, LECs must submit data that show the effect, in dollars, that these changes had on projected BFP revenue requirements prepared for their annual access tariff revisions filed to become effective July 1, 1997.

21. These lists itemizing the effect changes in Commission rules had on BFP revenue requirements shall include, *but need not be limited to*: (1) changes with respect to the treatment of GSF; (2) the phase-in of the subscriber plant factor (SPF) and dial equipment minutes of use (DEM) separations rule changes; and (3) changes to the treatment of Account 4310 of the Uniform System of Accounts, Other Long Term Liabilities, especially with respect to Other Postretirement Employee Benefits (OPEBs).

22. After determining the effect that changes in the Commission's rules had on their BFP revenue requirements, LECs must report the calculation of their adjusted BFP revenue requirements for the calendar years 1991-1996 in two series as follows. The first series must be adjusted for (1) changes to the allocation of GSF expenses; (2) the phase-in of the SPF and DEM separations allocation rule changes; and (3) revision of the allocation of Other Billing and Collection expenses to reflect a five percent allocation to the common line revenue requirement, if the LEC has not consistently allocated five percent of these expenses to the common line revenue requirement in the past. The second series must be adjusted for all changes to the Commission's rules identified above. These series must be constructed to allow for year-to-year comparisons of BFP revenue requirements. These BFP revenue requirements must be calculated in a manner consistent with the Commission's rules on December 31, 1996.

23. We intend to use these data to compare BFP revenue requirements in a consistent manner on a year-to-year basis. In their submissions, LECs must file all data underlying their computed revenue requirements, and must fully explain the data assumptions and methodology used to compute the BFP revenue requirement and projections and to adjust the revenue requirements for changes in Commission rules. This documentation shall include an explanation of all calculations, including a list of all equations used,⁴⁶ and an explanation of the methodology used to compute the actual revenue requirements.

24. We also require these LECs to explain in detail any relatively "large" year-to-year changes that emerge in each adjusted series of actual BFP revenue requirements. Because price cap LECs will be providing only six data points, each data point will have a relatively great impact on calculation of historical trends. For each series, therefore, we intend to discount or exclude observations that we consider to be "large" deviations from the overall trend in BFP revenue requirements, absent clear evidence that such a "large" change is not an isolated occurrence, but instead represents a change in the BFP revenue requirement trend that is likely to continue over time. For example, three of the data points percent changes in Bell Atlantic's adjusted BFP revenue requirements are clustered around 4.5 percent (4.26 to 4.90 percent), and two other data points, upon visual

⁴⁶ Submission of a spreadsheet, where the equations are found by examining the formula used in individual cells, will not fulfill this requirement. A listing of all equations used to calculate revenue requirements and to adjust data for changes in our rules, either separately, or within a spreadsheet that has equations displayed clearly in row or column headings, for example, will fulfill this requirement.

inspection, appear to be outliers (9.22 and 2.45 percent).⁴⁷ Because of the small number of observations, excluding either of these suspected outliers from the regression analysis greatly affects Bell Atlantic's forecast. We, therefore, require each LEC to identify actual BFP revenue requirements that appear to be outliers, and furnish an explanation for the deviations. At a minimum, LECs are required to justify inclusion of BFP revenue requirements that are associated with the highest and the lowest percentage changes in BFP revenue requirements for the 1991-1996 period by showing that these results reflect a change in the BFP revenue requirement trend that is likely to continue over time. If, on the other hand, a particular percentage change is the result of a one-time event or other isolated occurrence, the LECs must explain the event and its impact, and calculate their BFP revenue requirements excluding the effects of the event.

25. The small number of observations for each LEC makes a simple trend analysis ineffective when the data used for this analysis reflect one-time events. We therefore seek information on alternative methods to forecast BFP revenue requirements. For example, we could include all LECs' BFP revenue requirements from 1991-1996 in the analysis by pooling these BFP revenue requirements into a single data set. We could then determine the average trend in the industry, or identify changes in BFP revenue requirements that are outliers. By pooling the data, we would increase the number of observations, making statistical methods more reliable. Alternatively, we could examine each LEC individually and use either the average percentage change or the median percentage change to forecast its BFP revenue requirement. We seek comment on these methodologies and on any possible alternative methods to forecast BFP revenue requirements.

(3) Justification of 1997 BFP Revenue Requirement

26. All price cap LECs must explain and document fully the data, assumptions, and methodology used to derive BFP revenue requirement projections contained in the price cap LEC's access tariff revisions filed to become effective July 1, 1997. Each price cap LEC must also explain whether its projection is consistent with the historical pattern. If the LEC believes that its projection is consistent with the historical pattern, it must explain in detail this conclusion and its basis. If a LEC projection is not consistent with the historical trend, the LEC must fully explain its reasons for the deviation from the historical pattern. All worksheets used to derive projections for the 1997-98 tariff year should be filed both electronically, in a format compatible with EXCEL 4.0, and as a hard copy. Supporting worksheets must include an explanation of all calculations, including a list of all equations used.⁴⁸

27. Additionally, for the 1997-1998 tariff year, each price cap LEC shall show separately the adjustments for the recent *OB&C Order*⁴⁹ and the *Payphone Reconsideration Order*,⁵⁰ that were reflected in its recent BFP revenue requirement projections. This showing must include a complete

⁴⁷ Letter from Joseph J. Mulieri, Director, Government Relations -- FCC, to Brad Wimmer, Economist, Competitive Pricing Division, filed July 18, 1997.

⁴⁸ As noted above, submission of a spreadsheet, where the equations are found by examining the formulae used in individual cells, will not fulfill this requirement. A listing of all equations used, such as in a spreadsheet with equations displayed clearly in row or column headings, will fulfill this requirement.

⁴⁹ Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Report and Order, 12 FCC Rcd 2679 (*OB&C Order*).

⁵⁰ 11 FCC Rcd at 2733.

explanation and full documentation of the data, assumptions, and methodology used to derive these adjustments. Finally, each price cap LEC shall indicate whether it has followed the same methodology to derive its BFP revenue requirement for each year between 1991 and 1997, and, if not, must (1) explain why it changed methodologies in each case; (2) provide complete explanations of the ways in which any previous methodologies differ from the methodology used in preparing the BFP revenue requirement projection for the 1997 annual access tariff filing; and (3) explain the effect these changes had on their projections for the 1997-98 tariff year.

28. In developing their BFP revenue requirement projections, carriers in general used one of two basic methodologies. One group states that they based their projections on the historical trends of costs.⁵¹ These carriers should be able to use the data filed in response to the information requirements in subsections b(1) through b(3) above, to establish the historical pattern of actual BFP revenue requirements to justify their BFP projection filed for the 1997-98 tariff year. We question the use of unseparated company data by some of these price cap LECs to calculate the percentage change in costs for projecting the company's BFP revenue requirement. Under our rules, a LEC's BFP revenue requirement is an interstate allocated cost, and its projection should, therefore, take into account the effect regulatory rules, such as separations, have on revenue requirements. We therefore require in Section II.A.2.a(1), above, that the price cap LECs provide BFP revenue requirement data using separated, interstate data from ARMIS, where possible, or from company records. If a LEC believes that the use of unseparated company data would be more appropriate, it may supply BFP revenue requirement projections using such data, provided that the LEC also demonstrates with a thorough explanation containing clear evidence that such a calculation produces a result that is more accurate than that produced by the use of separated, interstate data. Such submissions must be in addition to, and not in lieu of, submissions using separated, interstate data.

29. The second group of carriers states that they estimated costs using either a "bottoms-up" approach or a model. We require that these carriers fully explain their methodology and provide us with detailed information regarding the factors underlying the projection, and the weight given to each factor. Fundamentally, a bottoms-up approach estimates the value of factors, such as total operating expenses and net investment, directly affecting BFP revenue requirements for the period of the projection. Using these values, a bottoms-up approach projects the revenue requirement based on underlying estimates of factors that directly affect BFP. Carriers that followed this approach must submit information that documents the source of their final BFP revenue requirement projections, including worksheets displaying any statistical analysis supporting their projections, and must also file any underlying estimates incorporated into the final projections. We also require these carriers to explain the basis for their conclusion that this method produces results that are at least as accurate as projections developed using historical trends.

30. If a LEC followed the same methodology for each year between 1991 and 1997, we expect to be able to replicate its past BFP revenue requirement projections using the methodology described by the LEC in response to this Order. LECs that have adjusted their methodology over time must provide the same information regarding their projection methodology for 1995-96 and 1996-97 tariff years that we require for their most recent BFP revenue requirement projections. In order to

⁵¹ For example, Bell Atlantic used the percentage change in unseparated costs from calendar year 1995 to 1996 to estimate its BFP revenue requirement for tariff year 1997. While Bell Atlantic provided the worksheets showing its calculation, it did not include a complete explanation of its calculations. Bell Atlantic used the percentage change in unseparated operating expenses, total plant in service, and total reserves from calendar year 1995 to 1996 to estimate the BFP revenue requirement for tariff year 1997.

understand current projections and to compare them to previous projections, we find it necessary to be able to replicate at least two previous BFP revenue requirement projections.

b. End-User Demand

31. All price cap LECs must provide the past actual average number of total billable access lines, multi-line business lines, residential and single-line business lines, for the past six tariff years (beginning with the 1991-1992 tariff years), using ARMIS data, if available, and the projections of these lines filed for each of these tariff years. If ARMIS data are not available for a particular LEC, the LEC must use company records to provide this information.⁵² For periods where the difference between the actual number of lines and the projected number of lines is significant, we require LECs to explain in detail the difference between their projection and the actual number of lines. As in the case of BFP revenue requirements, we define a difference to be "significant" for this purpose if the projected percentage change is greater than 10 percent of the actual percentage change.⁵³

32. Most LECs report that they use information concerning a variety of factors, such as general economic performance and demographic characteristics, to estimate end-user demand. We require each LEC that had a significant difference between its projection of lines and the actual number of lines in any tariff year (1991-1996) to identify separately for those years the variables used to forecast end-user demand, and the weight given to each variable. Additionally, each such LEC must provide information concerning, at least, the two most significant individual variables that did not change as expected and thus resulted in an inaccurate projection of end-user demand. We also require these LECs to explain whether, and why, they expect such unexpected changes to be evidence of a change in the underlying trend of end-user demand, or a one-time event that does not affect the overall trend of end-user demand. A separate explanation must be provided for each individual class of lines (*i.e.* multi-line business, single-line business, and residential) and for total lines.

33. We also require that each LEC either: (1) demonstrate that the projection for the 1997-1998 tariff year is consistent with the value predicted by the historical trend of end-user demand; or (2) state specifically the underlying factor or factors that they expect will change, and the projected effect(s) of the expected change(s), expressed in a numerical prediction. For example, if the LEC cites an expected increase in the demand for second lines, it must provide an analysis that justifies this expected demand increase. To demonstrate whether projections are consistent with historical trend, LECs must provide trend analyses using the actual number of lines and the natural logarithm of the number of lines, as reported in ARMIS, if available. These trends must be estimated separately for total billable lines, residential lines, multi-line business lines, and single-line business lines, using calendar year data from 1991-1996. We also require LECs to explain any significant differences between the projection filed in their 1997-98 Annual Access Tariffs, and the forecasts derived from the trend

⁵² LECs must calculate the "average" number of lines for any given tariff year by dividing by five the sum of the line counts from the last day of each quarter of that tariff year (September 30, December 31, March 31, and June 30) and the line count from the last date of the previous tariff year (June 30 of the previous tariff year). In addition to average line counts calculated using this quarterly method, LECs may also supply average line counts calculated by dividing by 13 the sum of their line counts for the last day of every month of the tariff year and the line count for the last day of the last month of the previous tariff year.

⁵³ See *supra* ¶ 17.

analysis we are requiring.⁵⁴ Those price cap LECs that are unable to demonstrate that their projections for tariff year 1997-1998 are consistent with the historical trend must also explain and document the data and methodology used to derive their EUCL demand projections filed in their 1997-1998 TRP. All worksheets used to derive these projections must be filed both electronically, in a format compatible with EXCEL 4.0, and in hard copy. As in the case of BFP revenue requirement projections, carriers are required to provide the requested information on a company-wide basis, but may, in addition, provide this on a study-area, or smaller, basis if they desire. LECs should also explicitly show the number of public payphone lines they are projecting for tariff year 1997-98. In addition, each LEC must indicate the number of semi-public payphones that, prior to the *Payphone Reconsideration Order*,⁵⁵ it charged single-line business EUCL charges, but will now charge multi-line business EUCL charges. These projections must be compared with historical counts of public and semi-public payphone lines. Additionally, LECs must explicitly show how they are treating ISDN lines in their 1997-98 projections.

c. Per-Line BFP Revenue Requirements

34. Finally, price cap LECs must file their actual and projected BFP revenue requirements on a per-line basis for each tariff year between 1991 and 1996. These revenue requirements must be calculated by dividing the actual BFP revenue requirement by total billable lines. The price cap LECs must then explain any differences between these actual per-line BFP revenue requirements and their per-line BFP revenue requirements projected in their Annual Access Tariff filing for each year.

B. Equal Access Exogenous Cost Changes

1. Background

35. In the *Access Charge Reform Order*, the Commission ordered price cap LECs to make an exogenous cost decrease to account for the December 31, 1993 completion of the amortization of equal access expenses that the Commission had required to be deferred and amortized over eight years.⁵⁶ The Commission found that these equal access expenses had been completely recovered, and directed price cap LECs to make a downward exogenous adjustment to the traffic sensitive basket in their 1997 annual access tariff filing.⁵⁷ The Commission found that the removal of these equal access expenses would ensure that ratepayers are not paying for costs that have already been completely recovered.⁵⁸

36. The price cap LECs filed with their 1997 annual access tariff filings summary support information, which explained, *inter alia*, the manner in which the carriers calculated the equal access

⁵⁴ We use the same definition for significant as defined in the case of BFP revenue requirements and comparison of past actual and projected end-user demand. See, *supra* ¶ 17.

⁵⁵ 11 FCC Rcd at 21323-21324.

⁵⁶ *Access Charge Reform Order* at ¶ 314. The background to the Commission's treatment of equal access costs is set forth in that decision.

⁵⁷ *Id.* at ¶ 314. See *id.*, ¶¶ 302-314 for an extensive discussion of the amortized equal access costs.

⁵⁸ *Id.* at ¶ 302.

exogenous adjustment. The majority of the LECs determined the exogenous adjustment by calculating the portion of equal access revenues at the initiation of price cap regulation that constituted the expenses subject to the special amortization. The LECs then calculated the expense amount to be removed from the traffic sensitive basket by reducing the amount of these equal access expenses by the amount of the price cap index (PCI) change in the traffic sensitive basket between the initiation of price cap regulation and June 30, 1997.⁵⁹ LECs argue that it was proper to reduce their equal access expenses subject to the amortization by the amount of the PCI change in the traffic sensitive basket between January 1, 1991 and June 30, 1997. Furthermore, the LECs argue that the equal access exogenous adjustment removes costs that do not change with demand. They state that because these costs are fixed, any adjustment for demand growth is inappropriate. In contrast to the other price cap LECs, Aliant determined the portion of equal access revenues at the initiation of price caps that constituted the equal access expenses subject to amortization (" z/R_{96} "), and then increased that amount to account for the change in total revenue for the traffic sensitive basket between the initiation of price caps and the present.⁶⁰

37. In the *Annual Access Suspension Order*, we decided to investigate whether LECs have fully removed those equal access expenses from their rates, as required by the *Access Charge Reform Order*.⁶¹ We stated that we were not convinced that the LECs had completely removed equal access exogenous cost expenses because after they calculated these expenses, they had reduced this amount by the amount of the PCI change in the traffic sensitive basket between the initiation of price cap regulation and June 30, 1997. We stated that instead of reducing this exogenous cost adjustment by changes in the PCI, LECs may need to increase the adjustment by the percentage change in base period revenue ("R") (assuming that revenues have increased) from the date each LEC made its first annual access price cap filing through June 30, 1997. We also found that the documentation of the unadjusted equal access expense provided by Ameritech and SNET indicates that they may have failed to implement properly the requirements of the *Access Charge Reform Order*. Although we noted that Aliant appears to have made the "R" adjustment to its equal access expense, we stated that we were not persuaded that Aliant's exogenous cost adjustment was correctly calculated or fully supported.

⁵⁹ This may be represented mathematically by the following formula:

$$(z/R_{96}) * (PCI_{96}/PCI_1)$$

where z/R_{96} represents the portion of the equal access revenues at the initiation of price caps that constituted amortized equal access costs, and PCI_{96}/PCI_1 represents the change in the PCI from the initiation of price cap regulation to present.

⁶⁰ Specifically, Aliant's exogenous adjustment can be represented mathematically as follows:

$$(z/R_{96}) * (R_{96}/R_1)$$

where z/R_{96} represents the portion of the equal access revenues at the initiation of price caps that constituted amortized equal access costs, and R_{96}/R_1 represents the change in total revenues for the traffic sensitive basket from the initiation of price cap regulation to present.

⁶¹ *Annual Access Suspension Order* at ¶ 36.

2. Information Requirement and Issues Designated for Investigation

38. Exogenous Cost True-Up Adjustment. In implementing the exogenous reduction required by the *Access Reform Order*, Aliant is the only price cap LEC that made an adjustment to account for revenue changes between the date that it made its first annual access price cap filing and June 30, 1997. All other LECs reduced the equal access expense subject to amortization by the percentage change in their traffic sensitive PCI between the date they made their first price cap filing and June 30, 1997.

39. AT&T recommends that the Commission require LECs to adjust their baseline amortized equal access costs for revenue growth that has occurred since January 1, 1991. AT&T suggests that the Commission require LECs to apply the "R" value true-up in order to calculate the exogenous cost adjustments that must be made effective July 1, 1997.⁶² According to AT&T, this "R" value true-up would adjust the price cap LECs' amortized equal access costs by the percent growth in their local switching revenues from the date LECs made their first annual access price cap filing through June 30, 1997. AT&T states that this adjustment would result in complete removal of such equal access costs from LECs' current traffic sensitive basket PCIs because this adjustment accounts for demand and price changes since their first annual access price cap filings.⁶³

40. Most LECs argue that the *Access Charge Reform Order* did not explicitly require that the exogenous cost adjustment take into account the change in revenue growth and that they should, therefore, not be required to make this adjustment. Citing the *1995 Annual Access Order* as an analogy, LECs argue that the Commission cannot "after the fact" require LECs to take the change in revenue growth into account when calculating the equal access exogenous decrease. In the *1995 Annual Access Order*, the Common Carrier Bureau (Bureau) did not require OPEB adjustments to take account of any revenue adjustments. AT&T points out that the Bureau, in its Annual Access Tariff Filings of Price Cap Carriers, has required the LECs to utilize a revenue true-up procedure for adjustment of previous periods' exogenous cost sharing obligations. MCI argues that there is no logical difference between an exogenous adjustment of a sharing obligation from a LEC's PCI and the reversal of any other PCI adjustment. LECs respond that sharing is distinctly different from the reversal of equal access expense, because sharing involves the return of excess revenues through a price cap reduction. NYNEX challenges the revenue adjustment recommended by AT&T and used by Aliant. According to NYNEX, because the equal access rate was applied on a flat rate per-presubscribed line per month basis, the equal access revenues grew as a function of line growth, and not as a function of per-minute growth.

41. We tentatively conclude that a revenue adjustment to the amortized equal access expenses, as opposed to a PCI adjustment, is a reasonable method of fully removing the amortized equal access costs from current rates. A revenue adjustment is reasonable in this case because it recognizes that price cap indices are adjusted to reflect the average basket price and a component of that price reflects equal access amortization. It further recognizes that as demand has grown over time, the revenue recovered through this equal access amortization component of price has grown correspondingly. Therefore, to remove fully the revenues being collected today associated with the amortized equal access cost, we tentatively conclude that the LECs must account for this demand growth.

⁶² AT&T Petition at 10. AT&T states that, alone among the price cap LECs, Aliant has made the "R" value true up calculation properly. *Id.* at 11 n.12.

⁶³ AT&T Petition at 11-13.

42. We seek comment on the "R" adjustment used by Aliant and proposed by AT&T, particularly their use of growth rates in LECs' local switching revenue growth rates to calculate the exogenous cost adjustment. We also seek comment on whether an "R" adjustment related to the reversal of the equal access expense is or is not similar to reversal of sharing obligations. In addition, we invite parties to submit alternative proposals for measuring the downward exogenous cost true-up adjustment that LECs are required to make to account for the completion of the amortization of equal access non-capitalized expenses. Commenters must fully justify their proposals. Commenters may also address whether the Commission should prescribe the particular methodology for removing these costs or whether the Commission should allow LECs to use any reasonable method that completely removes the amortized equal access expenses from their rates.

43. We direct Ameritech, Bell Atlantic, BellSouth, Frontier, GTE, Aliant, Nevada Bell, NYNEX, Pacific Bell, Rochester, SNET, Southwestern Bell, and U S West to submit data on the local switching revenue of their traffic sensitive basket as reflected in their initial price cap filings. These data will allow the Commission to calculate the revenue change for each of these companies from the dates they made their initial price cap filings through June 30, 1997.

44. Calculation of the Initial Equal Access Exogenous Cost Revenue Requirement. In calculating its initial equal access exogenous cost revenue requirement, SNET is the only price cap LEC that included equal access expenses from prior periods, but not from the 1990 period. AT&T asserts that, based on the data in the 1990 Cost of Service No. 5 Report (COS-5), SNET underestimated its equal access exogenous cost adjustment by approximately \$2.1 million. SNET responds that it accurately estimated its equal access exogenous cost adjustment because the Commission's instructions for completing the 1990 annual access tariff filings required LECs to include equal access expense from prior periods, but not from the "current" period, which at that time was the 1990 period. We require SNET to identify the specific part of the instructions for completing the 1990 annual access tariff filings that permitted SNET to include equal access expenses from prior periods, but not from the 1990 period. We also seek comment from SNET and other parties as to how SNET's adjustment should be treated in calculating the exogenous cost reduction required in the *Access Charge Reform Order*.

45. AT&T also claims that Ameritech failed to compute properly the proportion of equal access amortization revenue requirements associated with the total equal access revenue requirements because Ameritech did not use data contained in the 1990 COS-5 Report. Ameritech argues that it used "separations information system" materials to determine the portion of the equal access costs that were amortized because the COS-5 Report only reveals total equal access costs. We seek comment on whether Ameritech was able to calculate accurately the equal access amortization revenue requirement through the use of internal separations data. We require Ameritech to explain and document fully how it used its separations information system data to determine the portion of the equal access costs that was amortized. In particular, Ameritech must fully explain and document the data, assumptions, and methodologies that were used to calculate the equal access costs that were amortized. These explanations must include a copy of all studies that were conducted to calculate equal access costs that were amortized.

C. Other Billing and Collection Exogenous Cost Increases

1. Background

46. Earlier this year, the Commission changed the separations rules applicable to Other Billing and Collection (OB&C) Expense.⁶⁴ Effective May 1, 1997, the *OB&C Order* revised these rules to replace a complicated allocation procedure relying on user and message counts with a simple allocation procedure based on a fixed allocator of 33% or 5%, depending on whether the price cap LEC performs any end user billing for IXCs.⁶⁵ Price cap LECs were required to file exogenous adjustments to reflect these changes in the separations rules.⁶⁶

47. In the *Suspension Order*, we found that U S WEST's OB&C exogenous adjustment of \$845,145, which U S WEST claimed was necessary in order to recover the two months of OB&C costs between May 1 and July 1, 1997, raises substantial questions of lawfulness.⁶⁷ Further, we were not persuaded that other aspects of its treatment of OB&C Expense are lawful. In particular, we noted that U S West's ARMIS Report 43-04 shows that its allocation factors (i.e., the relative usage measurements it is required to use as a basis for allocating OB&C Expense among service categories and between the intrastate and interstate jurisdictions) are inconsistent with its allocation of that expense.

48. In addition, we stated that GTE has not adequately explained why it accounts for more than half of the total OB&C exogenous cost amounts claimed by all LECs in the April filings. We found that this anomaly raises substantial questions of lawfulness.⁶⁸

49. We also found a disparity between the portion of billing revenues that Pacific Bell allocated to the interstate jurisdiction and the portion of billed toll messages that it attributed to interstate services. We noted that Pacific Bell's data submission shows that the share of these toll messages attributed to interstate calls declined by more than 66 percent between the end of calendar year 1994 and the end of calendar year 1995 even though its corresponding interstate revenues (from billing and collection services provided to IXCs) increased slightly during that same year. We stated that Pacific Bell has not explained how such a precipitous decline in billed interstate messages could have occurred at a time when the associated revenues were increasing. In addition, we found that Pacific Bell may have overstated its exogenous cost changes by using the wrong base period. While most other price cap LECs used 1996 data when calculating such changes,⁶⁹ Pacific Bell used 1995 data. We believe that if Pacific Bell had used 1996 data, its calculated exogenous changes would have still been substantial because its 1996 interstate assignment of OB&C Expense was far below the 33 percent interstate assignment prescribed by the new separations rule. Pacific Bell's interstate assignment in 1995, however, was even lower than its interstate assignment in 1996. Hence, by using 1995 data, rather than 1996 data, Pacific Bell's calculations showed that the new rule had a greater impact when raising its interstate assignment to the 33 percent level. Because Pacific Bell has not explained its use of

⁶⁴ Amendment of Part 36 of The Commission's Rules and Establishment of a Joint Board, FCC 97-30, Rel. February 3, 1997.

⁶⁵ *Id.* at ¶¶ 13-17.

⁶⁶ 47 C.F.R. §§ 61.45(d)(1)(iii), 61.44(c).

⁶⁷ *1997 Annual Access Suspension Order* at ¶¶ 47-48, 51.

⁶⁸ *Id.* at ¶ 52.

⁶⁹ *See Infra* Para. 58. GTE used 12 months ended June 1996 for purposes of calculating its exogenous change.

1995 base period data or the discrepancies discussed above, we found that its tariff raises a substantial question of lawfulness.⁷⁰

2. Information Requirements and Issues Designated for Investigation

50. The data disparities and anomalies identified above, which are discussed in greater detail below, raise questions as to whether GTE, Pacific Bell, and U S West are in compliance with the Commission's jurisdictional separations rules for OB&C Expense and have properly calculated the exogenous change resulting from the 1997 change to those rules. We therefore require these companies to explain and document the process by which they separate OB&C Expense between the intrastate and interstate jurisdictions. To facilitate our analysis of that process, we also require these companies to explain and document the process by which they separate the corresponding revenues, Carrier Billing and Collection Revenues. Although the jurisdictional separations of those revenues did not affect the companies' claimed exogenous changes because those revenues are non-regulated, we intend to use the associated jurisdictional allocation factors, *i.e.*, the message counts used for separating such revenues, as a basis for evaluating the message counts used for separating the message toll portion of OB&C Expense. This evaluation procedure seems reasonable given that the companies apparently used message counts as a basis for separating both revenues and expenses.

51. Further, because calculation of an exogenous change requires a comparison of separations procedures used in 1990 (the base year for initializing price caps) with separations procedures used in 1996 (the base year for the 1997 annual access charge filings), we require the companies to explain and document in response to the data requirements outlined below, the procedures they used for computing their separated interstate OB&C Expense for calendar years 1990 and 1996. Moreover, we require them to explain and document this process for the intervening years, 1991 through 1995, to provide a basis for evaluating the reasonableness of their transition from 1990 procedures to 1996 procedures. Accordingly, GTE, Pacific Bell, and U S West shall provide, for the calendar years 1990 through 1996, the information required below on both a holding company level and COSA level.

- (a) Provide the user counts that were used as a basis for allocating OB&C Expense among the service categories prescribed by Section 36.380(b) of the Commission's rules. Show these counts for the following service categories: message toll telephone, exchange including semi-public, directory advertising, and private line.
- (b) Explain the process by which users were counted for jurisdictional separations purposes during this seven-year period. In particular, explain the assumptions (including the time period over which information was gathered) and methodologies that were used.
- (c) Identify any discrepancies that exist between the user counts provided in response to (a) above and those that were reported in ARMIS Report 43-04. These LECs must explain why these discrepancies occurred.⁷¹ Similarly, they must identify and explain any discrepancies that exist between the 1990 user counts provided in response to (a)

⁷⁰ *Id.* at ¶ 53.

⁷¹ If the companies find any data that has been incorrectly reported in ARMIS for the period 1990 through 1996, they should refile the ARMIS data with the Commission.

above and those that were used to calculate interstate costs when they converted from cost of service to price cap regulation.

- (d) Provide the message counts used in allocating the message toll portion of OB&C Expense between the intrastate and interstate jurisdictions.
- (e) Explain the process by which messages were counted for jurisdictional separations purposes during this seven-year period. In particular, explain the assumptions (including the time period over which information was gathered) and methodologies that were used.
- (f) In the event that the message counts provided in response to (d) exclude some toll messages that appear on customer bills, provide the counts for the excluded messages and explain why these message counts were not included in the allocation factor used for separating the message toll portion of OB&C Expense. Pacific Bell, for example, should provide message counts for the billed messages associated with its *invoice-ready* billing service and should explain why its allocation factor apparently includes only the billed messages associated with its *message-ready* billing service.⁷²
- (g) Identify any discrepancies that exist between the message counts provided in response to (d) and those that were reported in ARMIS Report 43-04. Explain why these discrepancies occurred. Similarly, identify and explain any discrepancies that exist between the 1990 message counts provided in response to (d) and those that were used to calculate interstate costs when initializing price caps.
- (h) Explain and document how Carrier Billing and Collection Revenue was jurisdictionally separated during this period. If this revenue was separated based on toll message counts, identify these counts. In the event that such counts differ from the toll message counts discussed above, explain why. If an alternative methodology was used for separating these revenues, identify the measurements used as a basis of allocation.
- (i) Explain any instances where OB&C Expense is not categorized or apportioned according to the prescribed factors and provide revised separations results reflecting appropriate use of the prescribed factors. U S WEST, for example, seems to have assigned directly a portion of its OB&C Expense to the intrastate jurisdiction prior to categorizing that expense. U S WEST should correct its separations results to reflect use of the prescribed allocation procedures, which do not permit use of direct assignment.⁷³

52. Further, we require GTE, Pacific Bell, and U S WEST to provide the following additional information:

- (a) If any message counts or user counts that are used as a basis of allocation remain constant from one year to the next, explain why. We are seeking this information because it appears that the companies may have used allocation factors that were

⁷² Letter from Sheryl L. Herauf to William F. Caton, dated July 3, 1997, AAD 97-77, Pacific Bell Petition for Expedited Waiver of Section 36.380 of the Commission's Rules, filed July 2, 1997.

⁷³ 47 C.F.R. §36.380(b).

updated too infrequently to reflect reasonably the relative use of the billing and collection function by different service classes. Pacific Bell, for example, should explain why, during calendar years 1994 through 1996, the interstate share of invoice-ready *billing service revenues* remained constant while the interstate share of related invoice-ready *toll message counts* varied substantially during that period.⁷⁴ This disparity seems unreasonable because Pacific Bell asserts that it separated the revenues from its invoice-ready billing services based on the associated message counts.⁷⁵

- (b) Provide work papers showing the calculations of the OB&C exogenous change contained in the 1997 Price Cap filing. GTE should calculate the exogenous change using calendar year 1996 data rather than the twelve months ended June 1996. If any errors in that calculation are discovered when responding to data requests in this order, provide a corrected calculation. We are seeking this information because it appears that these three companies may have miscalculated the exogenous change, either by incorrectly separating the OB&C Expense or by incorrectly apportioning that expense among the Part 69 access elements.

53. We require GTE to explain and document the methodology it used, during the period 1990 through 1996, to distribute customer services expense among the three categories prescribed by section 36.376 of the Commission's rules. In particular, we require GTE to explain why Category 3, All Other Customer Services Expense, grew rapidly during that period, increasing from 18 percent to 28 percent of total customer services expense.⁷⁶ GTE must also explain why Category 1, Business Office Expense, declined rapidly during that period, decreasing from 60 percent to 47 percent of total customer services expense.⁷⁷ We seek this information because these changes suggest that the 1996 Category 3 expense may mistakenly include a portion of business office expense that GTE had properly assigned to Category 1 in 1990. We observe that GTE's Category 3 assignment is unusually large when compared to that of the RBOCs. In 1996, the share of customer services expense that GTE assigned to Category 3 was more than double the largest share assigned by any RBOC during that year. Whereas the Category 3 expenses for individual RBOCs ranged from .03 percent to 13 percent of customer services expense, GTE's Category 3 expense was 28 percent.⁷⁸ Further, during the same year, GTE assigned an unusually low share of customer services expense to Category 1. Whereas that

⁷⁴ Letter from B. Jeannie Fry to William F. Caton, dated July 9, 1997, AAD 97-77, Pacific Bell Petition for Expedited Waiver of Section 36.380 of the Commission's Rules, filed July 9, 1997. Pacific Bell requests that the data contained in the attachments to the Ex Parte filing be treated as confidential and proprietary.

⁷⁵ Letter from Sheryl L. Herauf to William F. Caton, dated July 3, 1997, AAD 97-77, Pacific Bell Petition for Expedited Waiver of Section 36.380 of the Commission's Rules, filed July 2, 1997.

⁷⁶ FCC ARMIS 43-04 Report (1990-96), Rows 7300 and 7310, for GTE Corporation.

⁷⁷ FCC ARMIS Report 43-04 (1990-96), Rows 7220 and 7310, for GTE Corporation.

⁷⁸ FCC ARMIS Report 43-04 (1996), Rows 7300 and 7310, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and U S WEST.

share ranged from 70 percent to 82 percent for individual RBOCs, GTE's share was only 47 percent.⁷⁹

54. Further, GTE must explain why its share of user counts attributed to message toll users decreased by more than 9 percent from 1995 to 1996.⁸⁰ We seek this information because during this same period, the RBOCs decreased their share of user counts attributed to message toll users by 2.2 percent at most and Ameritech's reported share of user counts attributed to message toll users increased by 8 percent.⁸¹

55. We require GTE and Pacific Bell to explain why the share of billed toll messages attributed to interstate calls changed greatly between 1990 and 1996. We seek this information because, at the end of that period, the interstate shares reported by GTE and Pacific Bell were far lower than those reported by any other RBOC. Whereas the other RBOCs attributed on average 46.6 percent of billed toll messages to interstate calls for the calendar year 1996, GTE and Pacific Bell attributed only 8.7 percent and 4.4 percent, respectively, to such calls.⁸²

56. Specifically, for the period 1990 through 1992, GTE should explain why its interstate share of billed messages increased from approximately 17 percent to 37 percent.⁸³ For the year 1995, GTE should explain why the interstate share of billed toll messages declined by 52 percent even though, during the same year, there was an increase in the interstate share of Carrier Billing and Collection Revenues.⁸⁴ For the year 1996, GTE should explain why it attributed only 8.7 percent of toll message counts to interstate messages while it allocated 45 percent of Carrier Billing and Collection Revenues to the billing of interstate calls.⁸⁵ Similarly, Pacific Bell should explain why its reported interstate share of billed messages declined by approximately 66 percent in 1995 even though, during the same year, there was an increase in the share of Carrier Billing and Collection Revenues attributed to the billing of interstate calls.⁸⁶

57. With regard to those changes in interstate shares, it seems likely that a positive relationship should have existed between the interstate share of billed toll messages and the interstate share of revenues associated with the billing of those messages. Indeed, Pacific Bell acknowledges that its Carrier Billing and Collection Revenue was separated based on the relative number of intrastate and

⁷⁹ FCC ARMIS Report 43-04 (1996), Rows 7220 and 7310, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and U S WEST.

⁸⁰ FCC ARMIS Report 43-04 (1994 and 1995), Row 7241, for U S WEST.

⁸¹ FCC ARMIS Report 43-04, Row 7241 (1994 and 1995), for Ameritech, Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and Pacific Bell.

⁸² FCC ARMIS Report 43-04 (1996), Row 7252, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and U S WEST.

⁸³ FCC ARMIS Report 43-04 (1990 and 1992), Row 7252, for GTE Corporation.

⁸⁴ FCC ARMIS Report 43-04 (1995), Rows 4031 and 7252, for GTE Corporation.

⁸⁵ FCC ARMIS Report 43-04 (1996), Rows 4031 and 7252, for GTE Corporation.

⁸⁶ FCC ARMIS Report 43-04 (1994-1995), Rows 4031 and 7252, for Pacific Bell.

interstate toll messages that it billed its customers on behalf of other carriers.⁸⁷ Consequently, it is unclear why this positive relationship is not evident in GTE and Pacific Bell's data submissions. It is also unclear why GTE and Pacific Bell reported decreases (of 52 percent and 66 percent, respectively) in their 1995 interstate shares of billed toll messages that far exceed the corresponding average decrease of 6 percent for other RBOCs.⁸⁸ The accuracy of the interstate share of billed toll messages affects the accuracy of exogenous change calculations because that interstate share is used to separate a portion of OB&C Expense, as discussed above. If that interstate share is understated, as the revenues data of GTE and Pacific Bell seem to indicate, the interstate assignment of OB&C Expense would be too small. In that event, the exogenous changes contained in their 1997 Annual Access Tariff filings would be too large. An understatement of the base-period interstate assignment prior to the rule change would exaggerate the effect, on interstate access costs, of raising that assignment to the 33 percent level set by the new rule. We therefore seek this information in order to evaluate the accuracy of GTE and Pacific Bell's separations of OB&C Expense and calculations of exogenous changes.

58. GTE should also explain why it used the 12 months ended June 1996 rather than calendar year 1996, in connection with its 1997 Annual Access Tariff filing, for purposes of calculating the exogenous changes associated with the separations rule change for OB&C Expense.

59. Pacific Bell should also explain why it used 1995 data rather than 1996 data, in connection with its 1997 Annual Access Tariff filing, for purposes of calculating the exogenous changes associated with the separations rule change for OB&C Expense.

60. We require U S WEST to explain why the share of user counts attributed to message toll users decreased by 14 percent in 1995.⁸⁹ This decrease seems unusually large because, during the same period, none of the other RBOCs had a decrease in that share exceeding 5 percent.⁹⁰ Because carriers allocate OB&C Expense among Part 36 service categories based on user counts, as noted above, the accuracy of these counts affects the accuracy of the separated interstate cost assignment and, in that way, the accuracy of calculated exogenous adjustments. We also require U S WEST to explain why it is reasonable to make an OB&C exogenous adjustment of \$845,145 to recover additional interstate incurred during the two-month period between May 1 and July 1, 1997.

61. Further, U S WEST should provide corrected message toll user counts for 1990. Its reported figures show that message toll users constituted approximately 99 percent of the total number of billed users.⁹¹ That total should consist of a count of the number of customer bills on which a charge

⁸⁷ Letter from Sheryl L. Herauf to William F. Caton, dated July 3, 1997, AAD 97-77, Pacific Bell Petition for Expedited Waiver of Section 36.380 of the Commission's Rules, filed July 2, 1997.

⁸⁸ FCC ARMIS Report 43-04 (1994-95), Row 7252, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and U S WEST.

⁸⁹ FCC ARMIS Report (1994-95), Row 7241, for U S WEST.

⁹⁰ FCC ARMIS Report 43-04 (1994-95), Row 7241, for Ameritech, Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and Pacific Bell.

⁹¹ FCC ARMIS Report (1990), U S WEST, Row 7241.

appears for message toll, exchange, private line, and directory advertising services.⁹² The total user count for a customer bill would be three, for example, if the bill lists charges for three of those services (irrespective of how many charges appear for an individual service). Hence, message toll users could have accounted for 99 percent of the total user count in 1990, as U S West reported, only if charges for exchange, directory advertising, and private line services appeared on no more than 1 percent of customer bills. The 99 percent figure therefore misleadingly implies that there were virtually no users of these other services in 1990. U S WEST should explain whether it used these incorrect counts in calculating its interstate OB&C expenses when initiating price caps.

III. CASH WORKING CAPITAL FOR CERTAIN RATE OF RETURN CARRIERS

62. One of the components of the interstate rate base is an allowance for cash working capital. LECs need this allowance to pay for operating expenses that are incurred prior to the receipt of sales revenues. Generally, cash working capital is computed by determining the revenue lag and the expense lag and multiplying the difference by the carrier's average daily expenses. Revenue lag is the average number of days between the date a service is provided and the date associated revenues are collected. Expense lag is the average number of days between the date a service is provided and the date the expenses associated with the service are paid. The Commission has previously recognized a 15-day net lag period as an acceptable standard for calculating cash working capital for Class B carriers.⁹³ If the standard 15-day allowance is not used, the carrier must conduct a lead-lag study to determine the net lag period.

63. In the *1997 Annual Access Suspension Order*, we suspended and initiated an investigation of the annual access tariffs of PRTC and a number of Class B carriers.⁹⁴ We found that these LECs had not provided sufficient explanation for their cash working capital net lag periods. Specifically, we found that these LECs either (1) had not provided a lead-lag study and calculated a net lag period that appeared to exceed 15 days; or (2) had conducted a lead-lag study and calculated a net lag period significantly above the industry average. In a separate order, we suspended and set for investigation the proposed cash working capital requirements of Roseville Telephone Company.⁹⁵ Roseville's proposed cash working capital calculations resulted in a net lag period that exceeded the industry average. In Section IV of the Order, we reconsider, on our own motion, our decision to

⁹² See 47 C.F.R. §36.380(b). Although this rule also requires TWX service to be counted, carriers discontinued such service prior to the period for which we seek information.

⁹³ Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, CC Docket No. 86-497, Order on Reconsideration, 4 FCC Rcd 1697 (1989).

⁹⁴ See *1997 Annual Access Suspension Order* at ¶ 67. These Class B carriers include: Chillicothe Telephone Company, Concord Telephone Company, Horry Telephone Company, Virgin Island Telephone Company, Rock Hill Telephone Company, Home Telephone Company, Fort Mill Telephone Company, Lancaster Telephone Company, Lufkin-Conroe Telephone Company, and Union Telephone Company. In *Roseville*, we suspended and set for investigation the proposed cash working capital requirements of Roseville Telephone Company. Roseville's proposed cash working capital calculations resulted in a net lag of 49 days.

⁹⁵ See *1997 Annual Access Tariff Filings*, CC Docket No. 97-149, Order, DA 97-1413 (Com. Car. Bur. July 7, 1997).

investigate of most of these Class B carriers. We decline to investigate most of these Class B carriers because they have now provided information that verifies that their net lags are close to 15 days.

2. Information Requirements and Issues Designated for Investigation

64. Although PRTC, Chillicothe, and Concord submitted ex parte filings in support of their lead-lag studies, we find that this material is insufficient to explain their proposed net lag periods. We therefore require PRTC, Chillicothe, Concord, and Roseville to submit the lead-lag study used to determine their proposed net lag periods. To ensure that we have sufficient information to assess the reasonableness of the net lags proposed by these LECs, we require them to provide the information discussed below.

65. In its Petition, PRTC asserts that final resolution of a disputed claim can take up to 90 days and that this lengthy dispute schedule must be considered in the development of its cash working capital requirement.⁹⁶ Accordingly, we direct PRTC to explain fully the dispute process referenced in its Petition, the number of disputes PRTC handled in the 1994 calendar year,⁹⁷ the length of time needed to resolve each dispute in that year, the total amount of revenue associated with all disputes in that year, and the percentage of total revenue that this amount reflected in that year. In addition, we require PRTC to document and explain the 143-day expense lag for payments in lieu of taxes.

66. We require Chillicothe to document and explain the following revenue lags: (1) NECA carrier common line settlements including PPA (195 days); (2) OCC traffic sensitive revenue (161 days); (3) rent receivable (115 days); (4) AOS inmate services (94 days); and (5) operator services (173 days).⁹⁸ Finally, we require Concord and Roseville to explain fully any category of revenue with a lag in excess of 45 days and any category of expense with a lag in excess of 30 days.

IV. RECONSIDERATION OF DECISION TO SUSPEND AND INVESTIGATE CERTAIN TARIFF PROVISIONS

A. Growth Factor Calculations

1. Background

67. In the *1997 Annual Access Suspension Order*, the Bureau found that NYNEX, U S West, and Southwestern Bell's proposed tariffs raised significant questions of lawfulness because these LECs failed to provide sufficient explanation of their "g" factor calculations.⁹⁹ Based on a preliminary review of the record, the Bureau concluded that NYNEX, U S West, and SWBT's proposed tariffs appeared to include an incorrect "g" factor calculation.

2. Discussion

⁹⁶ PRTC Petition at 3-4.

⁹⁷ We are requesting that PRTC provide this information for the 1994 calendar year because PRTC's lead-lag study references that year.

⁹⁸ Chillicothe Reply at Attachment B.

⁹⁹ *1997 Annual Access Suspension Order* at ¶ 42.

68. Pursuant to Sections 1.108 and 0.291 of the Commissions rules,¹⁰⁰ we reconsider on our own motion, our decision in the *1997 Annual Access Suspension Order* to suspend and initiate an investigation of the growth factor calculations of NYNEX, U S West, and SWBT. In response to the *1997 Annual Access Suspension Order*, U S West provided additional information in an ex parte filing on July 8, 1997.¹⁰¹ NYNEX and SWBT made ex parte filings on July 9, 1997,¹⁰² and NYNEX made an additional ex parte filing on July 15, 1997.¹⁰³ We find that the information supplied by these three LECs provide a reasonable explanation of their "g" factor calculations. We, therefore, decline to investigate the "g" factor calculations made by U S West, SWBT, and NYNEX.

69. U S West states that, although growth in nonprimary access lines increased during 1996, the growth in access minutes remained stable because nonprimary access lines are not generally used for toll calling. According to U S West, these lines are generally used for local calls and internet access.¹⁰⁴ We find that U S West's statement reasonably explains its "g" factor calculation and we, therefore, decline to investigate this issue.

70. SWBT explains that the change in its "g" factor was the result of adjustments made for the removal of payphone lines and ISDN lines, and that this adjustment resulted in a decline in minutes of use (MOU) per line growth.¹⁰⁵ We find that SWBT's statement reasonably explains SWBT's "g" factor calculation and we, therefore, decline to investigate this issue.

71. We also find that NYNEX provides a reasonable explanation for its "g" factor calculation. The record indicates that NYNEX's "g" factor declined in 1996 because the New York State Public Service Commission (NYPSC) required NYNEX to change the way it calculates its minutes of use per line. Prior to the NYPSC decision, NYNEX calculated the PIU for calls that lacked jurisdictional information by using an estimate of minutes of use per line provided by its own measured call data. In an order that took effect in March 1996, the NYPSC directed NYNEX accept PIU information provided by IXCs for calls that lacked jurisdictional information.¹⁰⁶ We find that this new method of calculating the PIU reasonably accounts for NYNEX's reported decrease in minutes of use in the interstate jurisdiction.¹⁰⁷

¹⁰⁰ 47 C.F.R. §§ 0.291, 1.108.

¹⁰¹ Letter from B. B. Nugent, U S West to William F. Caton, Acting Secretary, FCC, dated July 8, 1997 (*U S West Ex Parte Filing*).

¹⁰² Letter from Mary Liz Hepburn, NYNEX to William F. Caton, Acting Secretary, FCC, dated July 9, 1997 (*NYNEX July 9 Ex Parte Filing*); Letter from Christine Jines, SWBT to William F. Caton, Acting Secretary, FCC, dated July 9, 1997 (*SWBT Ex Parte Filing*).

¹⁰³ Letter from Kenneth Rust, NYNEX to William F. Caton, Acting Secretary, FCC, dated July 15, 1997 (*NYNEX July 15 Ex Parte Filing*).

¹⁰⁴ *U S West Ex Parte Filing* at 2.

¹⁰⁵ SWBT Reply at 11-12.

¹⁰⁶ *NYNEX July 9 Ex Parte Filing*, Attachment I at 8-9.

¹⁰⁷ We note that there is identical language in NYNEX's F.C.C. Tariff No. 1, which requires NYNEX to accept PIU data from interexchange carriers when there is insufficient call detail to determine the jurisdiction of the call. *See* NYNEX F.C.C. Tariff No. 1, Section 2.3.10. Page 2-18. *See also NYNEX July 9 Ex Parte Filing*, Attachment I at 8,

B. Non-Recurring Charges (NRCs)

1. Background

72. The Commission's *NRC Order* defines non-recurring charges (NRCs) as "the one-time expenses incurred, upon the request of a customer in installing, moving, rearranging or terminating an access service for the initial receipt of a service order to the point at which service is provided or terminated."¹⁰⁸ That Order permitted carriers that previously had assessed relatively low NRCs to raise their rates to recover the full costs of the associated non-recurring activities. In the *Suspension Order*, the Bureau found that a number of Class B LECs had failed to provide sufficient explanation for substantial increases to their NRCs for certain rate elements.¹⁰⁹ The Bureau suspended these LECs' proposed NRCs and set them for investigation.

2. Discussion

73. Pursuant to Sections 1.108 and 0.291 of the Commission's rules,¹¹⁰ we reconsider on our own motion our decision to suspend and investigate the reasonableness of the tariff provisions of LECs that include increases in their NRCs. Following the release of the *1997 Annual Access Tariff Suspension Order*, all carriers that increased their NRCs revised their tariff filings so that they no longer include these rate increases.¹¹¹ Accordingly, we decline to investigate these LECs' NRCs because the issue is now moot.

C. Cash Working Capital

1. Background

74. As discussed above, cash working capital is the amount of investor-supplied funds used to pay operating expenses incurred in the provision of services before revenues are received for such services. A 15-day net lag period has been previously recognized as an acceptable standard for calculating cash working capital for Class B carriers.¹¹² In the *Suspension Order*, we suspended and

citing to, New York Telephone Company, P.S.C. No. 913, Section 2.3.10, Page 20.2.

¹⁰⁸ Investigation of Interstate Access Tariff Non-Recurring Charges, CC Docket No. 85-166, Phase I, Part 3, Memorandum Opinion and Order, 2 FCC Rcd 3498 (1987) (*NRC Order*).

¹⁰⁹ See *1997 Annual Access Suspension Order* at ¶ 72. These LECs include: Buffalo Valley Telephone Company, El Paso Telephone Company, Harrisonville Telephone Company, Home (Illinois) Telephone Company, Mt Horeb Telephone Company, Union Telephone Company, and Wabash Telephone Company.

¹¹⁰ 47 C.F.R. §§ 0.291, 1.108.

¹¹¹ See Mt. Horeb Telephone Company, Transmittal No. 26, filed July 17, 1997; GVNW (on behalf of El Paso, Harrisonville, Home (Illinois), Union, and Wabash), Special Permission No. 97-221; ICORE (on behalf of Buffalo), Special Permission No. 97-216.

¹¹² Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, CC Docket No. 86-497, Order on Reconsideration, 4 FCC

initiated an investigation of the annual access tariffs of PRTC and a number of Class B carriers with cash working capital lags periods that appeared to exceed 15 days.¹¹³

2. Discussion

75. Pursuant to Sections 1.108 and 0.291 of the Commissions rules,¹¹⁴ we reconsider on our own motion our decision to suspend and investigate tariff provisions that include rate elements associated with cash working capital for the following LECs: Horry Telephone Company, Virgin Island Telephone Company, Rock Hill Telephone Company, Home Telephone Company, Fort Mill Telephone Company, Lancaster Telephone Company, Lufkin-Conroe Telephone Company, and Union Telephone Company. Each of these LECs made *ex parte* filings in which they provided information sufficient to replicate their calculations and verify that their net lag periods are close to 15 days.¹¹⁵ Accordingly, we decline to investigate these LECs' tariff provisions that relate to cash working capital.

D. Equal Access Exogenous Adjustment

1. Background

76. In the *1997 Annual Access Tariff Suspension Order*, the Bureau found that the price cap LECs' proposed tariffs raised significant questions of lawfulness because of the potential failure to fully remove all of the amortized equal access expenses from their rates.¹¹⁶ Sprint, Frontier Communications of Minnesota, and Frontier Communications of Iowa argue that they were not required to make exogenous adjustments because they received waivers of the Commission Order that required LECs to amortize certain equal access expenses.

2. Discussion

77. Pursuant to Sections 1.108 and 0.291 of the Commissions rules,¹¹⁷ we reconsider on our own motion our decision in the *1997 Annual Access Suspension Order* to suspend and initiate an investigation of the equal access exogenous adjustments for Sprint, Frontier Communications of Minnesota, and Frontier Communications of Iowa. We find that Sprint, Frontier Communications of Minnesota, and Frontier Communications of Iowa are not required to make an exogenous cost

Rcd 1697 (1989).

¹¹³ See *1997 Annual Access Suspension Order* at ¶ 67.

¹¹⁴ 47 C.F.R. §§ 0.291, 1.108.

¹¹⁵ See Letter from Emmanuel Staurulakis, John Staurulakis, Inc. to William F. Caton, Secretary, FCC, dated July 2, 1997 (on behalf of Home, Horry, Lancaster, Rock Hill, Fort Mill); Letter from Gregory Vogt, Wiley, Rein, Fielding to William F. Caton, Secretary, FCC, dated July 2, 1997 (on behalf of Virgin Island); Letter from Benjamin H. Dickens and Raymond Quianzon to William F. Caton, dated July 9 1997 (on behalf of Lufkin-Conroe); and Letter from Judy Trey to Alicia Dunnigan, FCC, dated July 17, 1997 (on behalf of Union Telephone Company).

¹¹⁶ *1997 Annual Access Suspension Order* at ¶ 36.

¹¹⁷ 47 C.F.R. §§ 0.291, 1.108.

decrease to account for the December 31, 1993 completion of the amortization of equal access expenses that the Commission had required to be deferred and amortized over eight years. We make this determination because the Commission previously granted these companies a waiver of any requirement that they amortize these expenses.¹¹⁸ Accordingly, we decline to investigate the equal access expense issue in relation to Sprint, Frontier of Minnesota, and Frontier of Iowa.

IV. PROCEDURAL MATTERS

A. Filing Schedules

78. This investigation will be conducted as a notice and comment proceeding. We have designated CC Docket No. 97-149. The following companies are the parties designated to this investigation: Ameritech Operating Company, Bell Atlantic Telephone Companies, BellSouth Telecommunications, Inc., Frontier Communications of Minnesota and Frontier Communications of Iowa, GTE System Telephone Companies, GTE Telephone Operating Company, Aliant Comm. Co., Nevada Bell, New York Telephone and New England Telephone and Telegraph Company, (collectively NYNEX), Pacific Bell, Rochester Telephone Corporation, Southern New England Telephone Company, Southwestern Bell Telephone Company, Sprint Local Telephone Companies, U S West Communications, The Puerto Rico Telephone Company, Chillicothe Telephone Company, Concord Telephone Company, and Roseville Telephone Company.

79. These parties shall file their direct cases no later than 30 days from the date this order is filed. The direct cases must present the parties' positions with respect to the issues described in this Order. Pleadings responding to the direct cases may be filed no later than 15 days after LECs file their direct cases, and must be captioned "Oppositions to Direct Case" or "Comments on Direct Case." The parties may each file a "Rebuttal" to oppositions or comments no later than seven days after the date the oppositions and comments are filed.

80. An original and six copies of all pleadings shall be filed with the Secretary of the Commission. In addition, parties shall file two copies of any such pleadings with the Competitive Pricing Division, Common Carrier Bureau, Room 518, 1919 M Street, N.W., Washington, D.C. 20554. Parties shall also deliver one copy of such pleadings to the Commission's commercial copying firm, International Transcription Service, Inc., 1231 20th Street, NW, Washington, DC 20036. Members of the general public who wish to express their views in an informal manner regarding the issues in this investigation may do so by submitting one copy of their comments to the Office of the Secretary, Federal Communications Commission, 1919 M Street, N.W., Room 222, Washington, D.C. 20554. Such comments should specify the docket number of this investigation.

81. All relevant and timely pleadings will be considered by the Commission. In reaching a decision, the Commission may take into account information and ideas not contained in pleadings, provided that such information or a writing containing the nature and source of such information is

¹¹⁸ Sprint's predecessor companies, United Telephone System Companies and Centel Companies, were granted waivers on August 18, 1987. *See* United Telephone System Companies Petition for Waiver of the Commission's Rules and Regulations Regarding the Eight Year Amortization Period for Equal Access Expenses, Memorandum Opinion and Order, 2 FCC Rcd 5104 (rel. Com. Car. Bur., Aug. 18, 1987); Centel Companies Petition for Waiver of the Commission's Rules and Regulations Regarding the Eight Year Amortization Period for Equal Access Expenses, Memorandum Opinion and Order, 2 FCC Rcd 1486 (rel. Com. Car. Bur., Mar. 9, 1987). Centel was also the predecessor of Frontier Communications of Minnesota, Inc. and Frontier Communications of Iowa, Inc.

placed in the public file, and provided that the fact of reliance on such information is noted in the order.

B. *Ex Parte* Requirements

82. This proceeding is deemed non-restricted under section 1.1206 of the Commission's rules.¹¹⁹ *Ex parte* contacts (*i.e.*, written or oral communications that address the procedural or substantive merits of the proceeding which are directed to any member, officer, or employee of the Commission who may reasonably be expected to be involved in the decisional process in this proceeding) are permitted in this proceeding until the commencement of the Sunshine Agenda period. The Sunshine Agenda period terminates when a final order is released and the final Order is issued. Written *ex parte* contacts and memoranda summarizing oral *ex parte* contacts must be filed on the day of the presentation with the Secretary and Commission employees receiving each presentation. For other requirements, *see generally* Section 1.1200 *et seq.* of the Commission's Rules, 47 C.F.R. §§ 1.1200 *et. seq.*

83. The information established in this Designation Order has been analyzed with respect to the provisions of the Paperwork Reduction Act of 1980, as amended by the Paperwork Reduction Act of 1995,¹²⁰ and found to impose no new or modified form, or information collection requirements on the public. Implementation of any new or modified requirements will be subject to approval by the Office of Management and Budget as prescribed by the Act.

V. ORDERING CLAUSES

84. **IT IS ORDERED** that, pursuant to Sections 4(i), 4(j), 201(b), 203(c), 204(a), 205, and 403 of the Communications Act, 47 U.S.C. §§ 154(i), 154(j), 201(b), 203(c), 204(a), 205, and 403, and Sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, the issues set forth in this Order **ARE DESIGNATED FOR INVESTIGATION**.

85. **IT IS FURTHER ORDERED** that the local exchange carriers listed in Appendix A of this Order **SHALL BE** parties to this proceeding.

86. **IT IS FURTHER ORDERED** that each local exchange carrier that is a party to this proceeding **SHALL INCLUDE**, in its direct case, a response to each request for information that it is required to answer in this Order.

87. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Order* to suspend and investigate tariff provisions that include rate elements associated with cash working capital for Horry Telephone Company, Virgin Island Telephone Company, Rock Hill Telephone Company, Home Telephone Company, Fort Mill Telephone Company, Lancaster Telephone Company, Lufkin-Conroe Telephone Company, and Union Telephone Company and, for the reasons stated herein, we decline to investigate these LECs' tariff provisions that relate to cash working capital.

¹¹⁹ 47 C.F.R. § 1.1206.

¹²⁰ 44 U.S.C. §§ 3501-3520.

88. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Order* to suspend and investigate tariff provisions of LECs that include increases in their nonrecurring charges and, for the reasons stated herein, we decline to investigate these LECs' nonrecurring charges.

89. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Order* to suspend and investigate the growth factor calculations of NYNEX, U S West, and SWBT and, for the reasons specified herein, we decline to investigate the growth factor calculations made by these LECs.

90. **IT IS FURTHER ORDERED** that pursuant to Sections 0.291 and 1.108 of the Commission's rules, 47 C.F.R. §§ 0.291, 1.108, we reconsider on our own motion our decision in the *1997 Annual Access Tariff Suspension Order* to suspend and investigate the equal access exogenous cost expenses in relation to Sprint Local Telephone Companies, Frontier Communications of Minnesota, and Frontier Communications of Iowa.

FEDERAL COMMUNICATIONS COMMISSION

A. Richard Metzger, Jr., Deputy Chief
Common Carrier Bureau

APPENDIX A

LOCAL EXCHANGE CARRIER SUBJECT TO THIS INVESTIGATION

Ameritech Operating Company
Bell Atlantic Telephone Companies
BellSouth Telecommunications, Inc.
Frontier Communications of Minnesota
Frontier Communications of Iowa
GTE System Telephone Companies
GTE Telephone Operating Company
Aliant Comm. Co.
Nevada Bell
New York Telephone and New England Telephone and Telegraph Company
Pacific Bell
Rochester Telephone Corporation
Southern New England Telephone Company
Southwestern Bell Telephone Company
Sprint Local Telephone Companies
U S West Communications
The Puerto Rico Telephone Company
Chillicothe Telephone Company
Concord Telephone Company
Roseville Telephone Company

APPENDIX B

Calculation of BFP Revenue Requirement and Adjustments

Introduction

In this appendix, we provide instructions to the price cap LECs subject to this investigation for calculating their actual BFP revenue requirements, and for adjusting data for changes in Commission rules as required by the *Designation Order*. Our instructions for calculating actual BFP revenue requirements are based on the methodology used by Bell Atlantic in its 1997-98 Annual Access Tariff filing. Price cap LECs are required to follow the instructions set forth below, but are free to file additional calculations using alternative methodologies if they desire. If a LEC files additional BFP revenue requirements using an alternative calculation, it must include a thorough explanation of why its calculation produces a more accurate result than our approach.

BFP Revenue Requirement

To develop historical trends of LEC BFP revenue requirements, we require LECs to follow Bell Atlantic's method of calculating actual BFP revenue requirements using ARMIS 43-01 data, columns k and m.¹ We require actual BFP revenue requirements to be calculated in the following manner:²

BFP Revenue Requirement = Total Operating Expenses (1190) + Total Other Taxes (1490) + Net Federal Income Taxes + [(Average Net Investment (1910)) * (0.1125)] + Uncollectible Revenues (1060) - Miscellaneous Revenues (1040) - Other Operating Income/Loss (1290) + Total Non-Operating Items (1390).

Net Federal Income Taxes are calculated as follows:

FIT = [(Average Net Investment (1910) * 0.1125) - Fixed Charges (1510) + IRS Income Adjustments (1520) + FCC Taxable Income Adjustments (1530) - ITC Amortization (1540) - FCC ITC Adjustment (1550)] * (.35/.65) - ITC Amortization (1540) - FCC ITC Adjustment (1550).

The line number from ARMIS Report 43-01 is listed in parentheses.

ARMIS 43-01 (column k), does not report values for Total Other Taxes (1490), Uncollectible Revenues (1060), and Miscellaneous Revenues (1040). In order to include values for these categories in BFP revenue requirement calculations, we require price cap LECs to calculate the ratio of Total Operating Expenses (1190) from column k (BFP) to Total Operating Expenses (1190) from column m (common line). LECs shall then multiply Total Other Taxes (1490), Uncollectible Revenues (1060), and Miscellaneous Revenues (1040) from column m by this ratio to estimate these values for their BFP revenue requirement calculations.

¹ In making its projections, Bell Atlantic adjusts its projections for deferred taxes and investment tax credits. We simply calculate BFP revenue requirements and do not adjust for these changes. According to Bell Atlantic's calculations, these effects are relatively small in magnitude.

² Those price cap LECs that have not filed data with ARMIS over the entire 1991-1996 period shall use company data to fulfill this request for years in which they were not included in the ARMIS report.

To calculate return on investment, we require LECs to calculate average annual net investment by taking the average of each year's quarterly data on average net investment. For 1996, where ARMIS reports only annual data, LECs shall use the year-end number reported in ARMIS.

Adjustments to BFP Revenue Requirements

In the Designation Order we require price cap LECs subject to this investigation to develop a series of BFP revenue requirements for calendar years 1991-1996 that is consistent with Commission rules in effect on December 30, 1996. Below, we provide instructions for calculating adjustments for changes in our payphone rules, allocation of general support facilities (GSF), and to the subscriber plant factor (SPF) to BFP revenue requirements. To facilitate our investigation of BFP, we require all carriers to file calculations that use the methodologies described below.

Payphone Adjustment

The *Payphone Order* required that all costs associated with public payphone lines be added to BFP. Prior to the *Payphone Order*, the cost of payphone lines were excluded from BFP. Thus, BFP revenue requirement projections must be adjusted upward to account for the inclusion of payphone loops. Each LEC subject to this investigation shall calculate the impact the *Payphone Order* would have had on its BFP revenue requirement in calendar 1996, and shall report two BFP revenue requirements for 1996 -- one where payphone lines are included in BFP, and another excluding payphone lines. Each LEC shall then adjust its projection for tariff year 1997-98 upward by multiplying its projection, absent payphone lines, by the ratio of calendar year 1996's BFP revenue requirement with payphones to the BFP revenue requirement excluding payphones.³ If a LEC used data from 1995 in its filing in response to the *Payphone Order* to calculate the impact changes in our payphone rules had on BFP, these carriers should refile those calculations in response to this investigation. Additionally, LECs are required to show explicitly how their most recent multi-line business and single-line business end-user demand projections are affected by the *Payphone Order*.

GSF Adjustment

Effective July 1, 1993, we required LECs to reallocate costs associated with General Support Facilities. This change in our rules increased costs allocated to BFP, and thus increased BFP revenue requirements. To compare BFP revenue requirements using accounting data prior to the change in GSF allocations with those including this change, we require LECs to adjust their accounting data for calendar years 1991, 1992, and the first half of 1993 for changes in the allocation of GSF. We, therefore, require LECs to submit two BFP revenue requirement calculations for calendar year 1993. The first should include the GSF adjustment for the entire calendar year, and the second shall exclude the GSF adjustment. Because the changes became effective on July 1, 1993, we require LECs to add one-half of the GSF adjustment for calendar year 1993 to its unadjusted 1993 BFP revenue requirement. For 1991 and 1992, the LECs shall multiply the ratio of 1993's GSF adjusted BFP revenue requirement to the unadjusted BFP revenue requirement of 1992 (1991) by 1992's (1991's) BFP revenue requirement.

Subscriber Plant Factor (SPF) Adjustments

Section 36.154 of our rules apportions the cost of exchange line cable and wire facilities among state and interstate jurisdictions. Section 36.154 (c) requires all carriers to allocate 25 percent of the costs assigned to subscriber or common lines that are jointly used for local exchange service and exchange

³ As discussed in the *Designation Order*, LECs shall only adjust their tariff year 1997/1998 projections for the change in our rules addressing payphones.

access for the state and interstate interexchange services shall be assigned to the interstate jurisdiction. Section 36.154 (d)-(f) prescribes a phase-in to this allocation. Thus, several LECs may have been allocating more or less than 25 percent of their exchange line cable and wire facilities to the interstate jurisdiction during some portion of our BFP study. As in the case of GSF, we must ensure that each BFP revenue requirement in an adjusted series uses allocates cost in the same way for each period in the entire series. We therefore require LECs to calculate their actual interstate BFP revenue requirements for the years 1991-1996 using the 25 percent allocator.