

TC 96-032

THE

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
2/23 96	Filed and Notched,
2/29 96	TC Fax Filing,
4/12 96	Order Admitting Non-Resident Attorneys (revised),
4/22 96	Comments of Sprint Communications Company L.P.,
4/23 96	D. S. West's Responses to the Questions on Order for a Hearing,
4/23 96	Comments by the Local Exchange Carriers Association,
4/24 96	Comments on Access Rules by AT&T,
4/20 00	Order Closing Rocket,
4/20 00	Rocket Closed.

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11-95-032

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION OF
SWITCHED ACCESS RULES

ORDER OPENING DOCKET

TC56-012

At its regularly scheduled January 23, 1996, meeting, the Public Utilities Commission (Commission) opened a docket to inquire into the switched access rules found at ARSD Chapters 20:10:27 to 20:10:29, inclusive. To facilitate the investigation of this issue, the Commission is requesting that all interested persons and entities answer the following questions:

1. Do any of the above referenced switched access rules need to be modified?
2. If yes, which rules and what changes should be made? Submit all proposed rule changes with insertions into existing rules indicated by underlines and deletions from existing rules indicated by overstrikes.
3. How do these changes enhance the telecommunications industry?
4. Should there be any modifications to the Commission's test study program? If so, what?

To be considered, all comments are to be received no later than the close of business on April 22, 1996. The Commission has jurisdiction in this matter pursuant to SDCL Chapter 47-11. It is therefore

ORDERED that a docket be opened to inquire into the possible modification of the switched access rules found at ARSD Chapters 20:10:27 to 20:10:29, inclusive.

Dated at Pierre, South Dakota, this 23rd day of February, 1996.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Nelaine Killeo

Date: 2/26/96

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION

Kenneth Stofferahn
KENNETH STOFFERAHN, CLERK

James A. Burg
JAMES A. BURG, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

U.S. WEST, Inc.
1801 California Street, Suite 5100
Denver, Colorado 80202
303 672-2810
Facsimile 303 295-7069

William P. Henston
Senior Attorney

VIA OVER-NIGHT DELIVERY

APR 11 1996

Mr. William Bullard, Jr.
Executive Director
Public Utilities Commission
State Capitol
500 East Capitol
Pierre, South Dakota 57501

RE: In the Matter of the Investigation of Switched Access Routes
Docket No. TC96-0-2

Dear Mr. Bullard:

Enclosed is an original and two copies of an Order Admitting Non-Resident Attorneys issued by the Circuit Court, Sixth Judicial Circuit.

Please date stamp and return one copy to this office in the prepaid and return postage paid envelope in order to acknowledge receipt.

Thank you for your assistance in this regard.

Sincerely,

William P. Henston

Senior Attorney

U.S. West Communications, Inc.

Enclosures
/mob

STATE OF SOUTH DAKOTA)
COUNTY OF HUGHES)

IN CIRCUIT COURT
SIXTH JUDICIAL CIRCUIT

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION)
OF SWITCHED ACCESS RULES)

TC 95-032

ORDER ADMITTING
NON-RESIDENT ATTORNEY

It is hereby

ORDERED that the Motion for Admission for William P. Heaston, a non-resident attorney, to appear on behalf of J S WEST Communications, Inc. before the Public Utilities Commission and this Court relating to this matter is granted

BY THE COURT

TESTIMONY
Honorable Steven L. Zinn
Circuit Court Judge
Sixth Judicial Circuit

ATTEST:

Mary L. Erickson
Clerk of Courts

By: /s/ SHARON MCINTOSHER
Deputy

(SEAL)

STATE OF SOUTH DAKOTA
CLERK OF COURTS

FILED

APR 14 1995

Sharon McIntosher
Deputy Clerk of Courts



Donald Low
Senior Attorney
State Regulatory Affairs/Central Region

April 19, 1996

VIA AIRBORNE EXPRESS

Mr. William Bullard, Jr.
South Dakota Public Utilities Commission
500 E. Capitol Avenue, State Capitol
Pierre, SD 57501-5070

Re: Docket No. TC96-032

Dear Mr. Bullard:

Enclosed for filing, please find the original and 11 copies of the Comments of Sprint Communications Company L.P. in the above-referenced docket. Please return one file-stamped copy in the enclosed envelope.

Thank you for your assistance. Please call me if you have any questions.

Very truly yours,

Donald A. Low

DAL/rsm

Encl.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

RECEIVED

IN THE MATTER OF THE INVESTIGATION
OF SWITCHED ACCESS RULES

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TC96-032

MAR 27 1996

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

COMMENTS OF
SPRINT COMMUNICATIONS COMPANY L.P.

Pursuant to the Public Utilities Commission's ("Commission") Order of February 29, 1996, Sprint Communications Company L.P. ("Sprint") submits the following comments regarding the Commission's switched access rules.

Need for Modifications

1. Sprint respectfully suggests that the Commission needs to totally reexamine the rules which determine the pricing for switched access services in South Dakota so that access rates are based on actual economic costs rather than a fully distributed cost allocation process. Such changes are not only required by the Federal Telecommunications Act of 1996 (the "Act"), but also necessary to provide for the efficient and economic provision of services in a competitive environment.

2. The Act, which became law on February 8, 1996, has determined that telecommunications services should be open to competition. Section 251 of the Act, which largely preempts state authority, imposes certain "interconnection" duties on incumbent local exchange carriers ("LECs") in order to develop competitive markets. In addition, Bell Operating Companies ("BOCs"), including U S WEST, must comply with a competitive "checklist" before they can be authorized to enter the interLATA markets, pursuant to Section 271 of the Act. Attached to the Commission's information is a summary of Sprint's positions with regard to each of the checklist items.

3. Of most relevance to this proceeding is the duty imposed by Section 251(c)(2)(A) on LEC's to provide interconnection with the LEC's networks and non-discriminatory access to network elements on an unbundled basis. The interconnection is to be "for the transmission and routing of

telephone exchange service and exchange access." Network elements are to be provided "in a manner that allows requesting carriers to combine such elements in order to provide . . . telecommunications service." These provisions clearly allow any carrier to request and purchase interconnection and network elements and use them in lieu of the traditional LEC switched access service for obtaining access to the LEC's local network.

4. Section 252(d)(1) sets out the pricing standards for such interconnection and unbundled network elements which are to be applied by state commissions. That section requires that the rates "be based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element" and nondiscrimination, and allows the rates to include a reasonable profit. Thus, rates for interconnection and network elements cannot be based on fully allocated costing methods, since such methods are based on rate-of-return principles in which the total revenue requirements of the company are considered. Rather, the interconnection and network element rates will need to be based on long run incremental cost, which is the real economic cost.

5. As a consequence of these provisions of the Act, state commissions can no longer require access charges to be based on fully distributed or allocated costing methods. Access services, which are a form of interconnection, must instead be based on cost, as required by the pricing standards of the Act. Furthermore, even if pricing of access services were not addressed by the Act, the use of fully distributed costing methods would not be viable since carriers would be able to use the cost-based interconnection and unbundled network elements for purposes of obtaining access and would have no reason to subscribe to higher priced access services.

Needed Changes

6. Rather than suggesting specific changes to the current rules, Sprint recommends writing new rules to embody the principles of basing the price of switched access services on retail service long run incremental cost (TSLRIC) plus a markup of not more than 10% to be determined

toward the joint and common costs of the LEC. Using a standard markup of 15% above TSLRIC for all services greatly simplifies the Commission's task of monitoring U S WEST's cost studies. Since any allocation of a company's joint and common costs is purely an arbitrary process, there is no need to complicate the matter by developing complex allocation models which can be manipulated to place significantly large amounts of contribution on selected services without being detected.

7. To the extent that the Commission's software program develops the TSLRIC costs of providing service, those portions should continued to be used. However, the portions of the program that deal with the allocation of countless categories of a LEC's overhead costs can be deleted since a standard markup of not more than 15% will be allocated to each services.

Benefits to the Citizens of South Dakota

8. In short, lower access rates will lead to lower intrastate toll rates which will make toll calling more affordable for more citizens in SD. Switched access rates based on TSLRIC plus 15% markup, will be significantly lower than the current rate of 34¢ per MOU. Due to the competitive nature of the long distance industry, such cost reductions to the IXC's will be flowed through to the toll customers of South Dakota that choose an interexchange carrier rather than U S WEST to carry their intrastate toll traffic. The competition from the IXC's should be strong incentive to U S WEST to voluntarily lower their toll rates in an effort to remain competitive. To the extent that U S WEST does not lower their toll rates to compete, demonstrates their raw market power and underscores the need for the Commission to move rapidly to grant the IXC's authority to offer toll service under intraLATA 1+ presubscription to make it easier for customers to access IXC's for their intrastate toll traffic.¹


9. It is possible that some parties may argue that reducing switched access rates may "force" the Commission to raise local calling rates. Such claims are ill-supported. In the recent U S

¹ IntraLATA toll dialing parity is, of course, required for all local exchange carriers under Section 251(b)(3) of the Act.

WEST rate case filing in Washington State, the Commission not only reduced access rates, but ordered U S WEST to implement a statewide average local service rate that was less than half the rate that U S WEST claimed to have needed to remain a financially viable operating entity. Based on U S WEST's cost study, the Commission found that a statewide average rate of only \$10.50 per month would cover the incremental cost of service (calculated to be less than \$5) and provide a "substantial contribution to shared and common costs."² This stands in stark contrast to U S WEST's bald-faced attempt to increase rates for rural customers to \$26.35.

As South Dakota and the rest of the nation move into a new era of competitively provided telecommunications services, it is readily apparent that the old days of large subsidies for the monopoly LECs are rapidly disappearing. Sprint encourages the Commission to take the first step into the new era of cost-based telecommunications by setting aside antiquated fully distributed costing rules and implementing TSLRIC costing rules. This move will provide more residential and business customers in South Dakota with the advantages of lower toll calling rates.

Respectfully submitted,



Donald A. Low
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² See Washington Utilities and Transportation Commission v. U S WEST Communications, Inc. Docket No. UT-950200, Fifteenth Supplemental Order, "Commission Decision and Order Rejecting Tariff Revisions, Requiring Refiling," April 11, 1993, p. 10.

ESSENTIAL ELEMENTS FOR THE COMPETITIVE CHECKLIST

Sprint Corporation



ESSENTIAL ELEMENTS FOR THE COMPETITIVE CHECKLIST

The Telecommunications Act of 1996 (Act) requires state and Federal Communications Commission (FCC) review of Bell Operating Company (BOC) compliance with a comprehensive checklist before BOCs are allowed to provide in-region interLATA long distance. Whether the Act results in actual local telephone competition will depend in large measure upon whether this checklist is followed and enforced. If the BOCs forthrightly comply with all of the requirements to open local telephone markets to competition, the promise of competition will be realized. This paper describes what Sprint believes are essential policies for implementing the 14 checklist items contained in Section 271(c)(2)(B):

1. Interconnection in accordance with the requirements of sections 251(c)(2) and 252(d)(1).
2. Nondiscriminatory access to network elements in accordance with the requirements of sections 251(c)(3) and 252(d)(1).
3. Nondiscriminatory access to the poles, ducts, conduits, and rights-of-way owned or controlled by the Bell operating company at just and reasonable rates in accordance with the requirements of section 224.
4. Local loop transmission from the central office to the customer's premises, unbundled from local switching or other services.
5. Local transport from the trunk side of a wireline local exchange carrier switch unbundled from switching or other services.
6. Local switching unbundled from transport, local loop transmission, or other services.
7. Nondiscriminatory access to: (i) 911 and E911 services; (ii) directory assistance services to allow the other carrier's customers to obtain telephone numbers; and (iii) operator call completion services.
8. White pages directory listings for customers of the other carrier's telephone exchange service.
9. Until the date by which telecommunications numbering administration guidelines, plan or rules are established, nondiscriminatory access to telephone numbers for assignment to the other carrier's telephone exchange service customers. After that date, compliance with such guidelines, plan, or rules.
10. Nondiscriminatory access to databases and associated signaling necessary for call routing and completion.
11. Until the date by which the Commission issues regulations pursuant to section 251 to require number portability, interim telecommunications number portability through remote call forwarding, direct inward dialing trunks, or other comparable arrangements with as little impairment of functioning, quality, reliability, and convenience as possible. After that date, full compliance with such regulations.
12. Nondiscriminatory access to such services or information as are necessary to allow the requesting carrier to implement local dialing parity in accordance with the requirements of section 251(b)(3).
13. Reciprocal compensation arrangements in accordance with the requirements of section 252(d)(2).
14. Telecommunications services are available for resale in accordance with the requirements of sections 251(c)(4) and 252(d)(3).

Checklist Item 1. "Interconnection in accordance with the requirements of sections 251(c)(2) and 252(d)(1)."

The Act Requires that all incumbent local exchange carriers (LECs) must allow interconnection to their networks: (1) for exchange service and exchange access; (2) at any technically feasible point; (3) that is at least equal in quality to what the local exchange carrier gives itself, its affiliates, or anyone else; and (4) on rates terms and conditions that are just, reasonable, and nondiscriminatory. (251(c)(2)) Any interconnection, service, or network element provided under an approved agreement shall be made available to any other requesting telecommunications carrier upon the same terms and conditions as those provided in the agreement. (252(i)) Prices for interconnection shall be based on cost (without reference to any rate-based proceeding) and be nondiscriminatory, and may include a reasonable profit. (252(d)(1))

Sprint's Recommendations

- ▶ Interconnection at switching points is technically feasible.
It should be presumed that interconnection at switching points is technically feasible.
- ▶ Interconnection requests should be clearly defined.
For interconnection requests at any other points, requesting telecommunications carriers should have the obligation to define where they want to interconnect with sufficient detail to permit negotiations.
- ▶ Incumbent LECs must prove a requested interconnection is not technically feasible.
Incumbent local exchange carriers have the burden of proof if they believe that a requested interconnection is not technically feasible.
- ▶ Once provided, an interconnection should be presumed to be technically feasible.
Once an interconnection is made available by an incumbent local exchange carrier, it should be presumed that it is technically feasible for other incumbent local exchange carriers, using like technology, to also provide the interconnection.
- ▶ There should be no discrimination in the interconnections allowed.
 - » An incumbent local exchange carrier should allow requesting telecommunications carriers the same technical interconnections that it uses for itself or its affiliates, or allows anyone else. If this is not technically feasible, the incumbent local exchange carrier should instead provide interconnections that are at least equal in quality from the perspectives of the customer and requesting carrier.
 - » Incumbent local exchange carriers should not refuse to provide an interconnection arrangement simply because they believe that it is not economically feasible. Parties should negotiate how costs of providing an interconnection will be recovered, including the option of subsequent price decreases if additional telecommunications carriers later contribute to cost recovery by purchasing the same interconnection arrangement.

» Prices should be cost-based.

- » Prices for interconnection should be based on total service long run incremental cost (i.e., all the costs caused by the interconnection), including the cost of capital (i.e., profit), plus a reasonable contribution to joint and common costs. The level of contribution to joint and common costs should be a uniform loading that is reflective of an economically efficient local exchange carrier, but not to exceed 15%. The profit level should be the most recent authorized intrastate rate of return or prescribed interstate rate of return.
- » Price structures should allow telecommunications carriers to interconnect in an efficient manner.
- » Incumbents should impute in the aggregate the same interconnection charges as are charged to their competitors, plus the costs of other services and functionalities actually used by the incumbent. It is recognized that services targeted for universal service may not pass an imputation test absent explicit universal service support.
- » Full prices should not be charged for interconnections that are of a lesser quality than those the incumbent uses itself.
- » There should be no restrictions on how interconnections can be used. All telecommunications carriers have the right to request and purchase interconnection and to use the interconnection for any telecommunications service.

» Incumbent LECs must provide cost-based exchange access prices to satisfy the competitive checklist.

- » The Act sets up a conflict between interconnection prices which must be cost-based and prices for exchange access (a form of interconnection) which are not cost-based. Current access prices are priced significantly above cost because of historic subsidies, the use of fully distributed cost, and the use of residual ratemaking to price basic local exchange services. The FCC and state commissions should revamp existing access pricing policies and implement an aggressive transition to cost-based access prices. Specifically, this policy should include rebalancing prices, increasing the subscriber line charge, moving carrier common line charges to a per-line recovery charge, phasing down the residual interconnection charge, and adopting an explicit competitively-neutral universal service subsidy system based on the Benchmark Cost Model. Regulators should not consider this checklist item to be completed until access prices are cost-based.
- » During a commission-mandated transition to cost-based prices for exchange access, the lack of use restrictions on interconnection should not be used to avoid paying exchange access prices.

▪ Incumbent LECs should provide electronic interfaces for interconnection.

Electronic bonding is critical for nondiscriminatory interconnection. Regulators should require incumbent local exchange carriers to provide other telecommunications carriers with electronic interfaces to systems for provisioning, trouble reporting, ordering, facility assignment and control, and other functions necessary to ensure that other telecommunications carriers are unimpeded in their ability to provide their services. It is recognized that such integration is not without cost and time requirements, but the competitive checklist cannot be satisfied absent such integration. Read-only access is not sufficient for most systems.

Checklist Item 2. "Nondiscriminatory access to network elements in accordance with the requirements of sections 251(c)(3) and 252(d)(1)."

The Act Requires that all incumbent local exchange carriers must provide, to any requesting telecommunications carrier for the provision of a telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory. These unbundled network elements will be provided in a manner that allows carriers to combine the elements in order to provide the telecommunications service. (251(c)(3)) A network element is a facility or equipment used in the provision of a telecommunication service, including features, functions, and capabilities such as subscriber numbers, databases, signaling systems, and information sufficient for billing and collection, or used in transmission, routing, or provision of a telecommunications service. (3(a)(45)) In determining which network elements will be made available, the FCC shall consider, at a minimum, whether (A) access to network elements that are proprietary is necessary and (B) whether failure to provide access to these network elements would impair the ability of a carrier to provide the services it wishes. (251(d)(2)) Prices shall be based on cost (without reference to any rate-based proceeding) and be nondiscriminatory, and may include a reasonable profit. (252(d)(1)) As part of their competitive checklist, BOCs are required to unbundle loop transmission, trunk side local transport, and local switching. (271(c)(2)(B)(iv)-(vii))

Sprint's Recommendations

- Loop, switch, and transport unbundling is technically feasible.
All incumbent local exchange carriers should provide unbundled local loop transmission, trunk side local transport, and local switching.
- Requests for network elements should be clearly defined.
Telecommunications carriers requesting other network elements should have the obligation to define the elements they want with sufficient detail to permit negotiations.
- Network elements are not the same as retail services for pricing purposes.
A service offered at retail to customers who are not telecommunications carriers and available for resale (for example, a custom calling feature) should not be considered a network element. Elements that have been unbundled, such as unbundled loop transmission, local transport, and local switching, are network elements and are not retail services. Wholesale prices for retail services should be developed in accordance with Section 252(d)(3).
- Incumbent LECs must prove a requested network element is not technically feasible.
Incumbent local exchange carriers should have the burden of proof if they believe that a requested network element is not technically feasible.

- ▶ There should be no discrimination in the provision of network elements.
 - » If a requested network element is not technically feasible, incumbent local exchange carriers should be required to provide capabilities that, from the perspectives of the customer and requesting carrier, are reasonably comparable in quality and function to the requested network element.
 - » Incumbent local exchange carriers should not refuse to provide a network element simply because they believe that it is not economically feasible. Parties should negotiate how costs of providing a network element will be recovered, including the option of subsequent price decreases if additional telecommunications carriers later contribute to cost recovery by purchasing the same network element.
- ▶ Once provided, a network element should be presumed to be technically feasible.
Once a network element is made available by an incumbent local exchange carrier, it should be presumed that it is technically feasible for other incumbent local exchange carriers, using like technology, to also provide the network element.
- ▶ Prices for network elements should be cost-based.
 - » The price for a network element should be based on total service long run incremental cost, including the cost of capital, plus a reasonable contribution to joint and common costs. The level of contribution to joint and common costs should be a uniform loading that is reflective of an economically efficient local exchange carrier, but not to exceed 15%. The profit level should be the most recent authorized intrastate rate of return or prescribed interstate rate of return.
 - » Prices for network elements may be geographically deaveraged, for example, according to high cost, medium cost, and low cost exchanges. In addition, prices for loop transmission may vary according to bands that reflect distance from central offices.
 - » Price structures should allow telecommunications carriers to use these network elements in an efficient manner.
 - » Incumbents should impute in the aggregate the same charges as are paid by their competitors, plus the costs of other services and functionalities actually used by the incumbent. It is recognized that services targeted for universal service may not pass an imputation test absent explicit universal service support.
 - » Full prices should not be charged for network elements that are of a lesser quality than those the incumbent uses itself.
 - » There should be no restrictions on how network elements can be used. All telecommunications carriers should have the right to request and purchase network elements and to use the elements for providing any telecommunications service.

- ▶ Because network element prices are cost-based, incumbent LECs should not receive exchange access payments on unbundled network elements.

Access payments, to the extent that there are any, should go to the carrier that is paying for the network facilities. For example, if a carrier has purchased unbundled local loop transmission, or purchased unbundled local loop transmission, local switching, and local transport at cost-based prices, the incumbent local exchange carrier that is providing the unbundled facilities should not receive access payments for exchange access over the facilities.

- ▶ Incumbent LECs must provide cost-based exchange access prices to satisfy the competitive checklist.

The Act sets up a conflict between network element prices which must be cost-based, and exchange access prices which are not cost-based. The FCC and state commissions should revamp existing access pricing policies and implement an aggressive transition to cost-based access prices according to the policy described for interconnection. Regulators should not consider this checklist item to be completed until access prices are cost-based.

- ▶ Incumbent LECs should provide electronic interfaces for network elements.

Electronic bonding is critical for nondiscriminatory access to network elements. Regulators should require incumbent local exchange carriers to provide other telecommunications carriers with electronic interfaces to systems for provisioning, trouble reporting, ordering, facility assignment and control, and other functions necessary to ensure that other telecommunications carriers are unimpeded in their ability to provide their services. It is recognized that such integration is not without cost and time requirements, but the competitive checklist cannot be satisfied absent such integration. Read-only access is not sufficient for most systems.

Checklist Item 3. "Nondiscriminatory access to the poles, ducts, conduits, and rights-of-way owned or controlled by the Bell operating company at just and reasonable rates in accordance with the requirements of section 224."

The Act Requires each local exchange carrier to afford nondiscriminatory access to the poles, ducts, conduits, and rights-of-way to competing providers of telecommunications services, but they may deny access for reasons of safety, reliability, and generally applicable engineering purposes. (251(b)(4), 224(f)) Within two years, the FCC must prescribe regulations for charges for pole attachments used by telecommunications carriers (not incumbent local exchange carriers) to provide telecommunications services, when the parties fail to agree. Charges must be just, reasonable, and nondiscriminatory. (224(a)(5), (e)(1)) Pole attachment charges shall include costs of usable space and other space. (224(d)(1)-(3), (e)(2)) Duct and conduit charges shall be no greater than the average cost of duct or conduit space. (224(d)(1)) A utility must impute and charge affiliates its pole attachment rates (224(g))

Sprint's Recommendations

- ▶ LECs should provide competitors access to poles, ducts, conduits, and rights-of-way.
Access to poles, ducts, conduits, and rights-of-way should be provided unless the local exchange carrier demonstrates that generally accepted standards for safety, reliability, or engineering make access unfeasible. If capacity is not available and the local exchange carrier has no plans to add capacity, but the local exchange carrier chooses to construct capacity at the request of a competitor, then special construction charges should apply.
- ▶ Access should be nondiscriminatory.
A local exchange carrier should provide competitors access to poles, ducts, conduits, and rights-of-way on the same terms and conditions that it affords itself and/or its affiliates.
- ▶ Prices should be cost-based.
Prices should be based on an appropriate measurement of the use of the facility or right-of-way and should include a reasonable amount of profit. The profit level should be the most recent intrastate authorized rate of return or prescribed interstate rate of return.
- ▶ Terms and conditions should be set out in tariffs and contracts.
Tariffs should be filed for pole attachments. Contracts should be used for access to ducts, conduits, and rights-of-way. Contract terms, conditions, and prices should be available to other telecommunications carriers for the same facilities and rights-of-way.

LOOP TRANSMISSION

Checklist Item 4. "Local loop transmission from the central office to the customer's premises, unbundled from local switching or other services."

The Act Requires that BOCs unbundle loop transmission. (271(c)(2)(B)(iv)) This is to be provided at any technically feasible point and in a way that is nondiscriminatory, including rates, terms, and conditions that are just, reasonable, and nondiscriminatory. Unbundled network elements will be provided in a manner that allows carriers to combine the elements in order to provide the telecommunications service. (251(c)(3)) In determining which network elements will be made available, the FCC shall consider, at a minimum, whether (A) access to network elements that are proprietary is necessary and (B) whether failure to provide access to these network elements would impair the ability of a carrier to provide the services it wishes. (251(d)(2)) Prices shall be based on cost (without reference to any rate-based proceeding) and be nondiscriminatory, and may include a reasonable profit. (252(d))

Sprint's Recommendations

- ▶ Loops provide transmission between a central office and the customer's location.
Local loop transmission means non-switched transmission between a central office and the customer's location. The customer location may be the premises of another telecommunications carrier.
- ▶ Prices should be cost-based.
Prices for local loop transmission should be cost-based. The pricing and cost standards are the same as those for network elements. Consistent with the policy for network elements, there should be no restrictions on how local loop transmission can be used.
- ▶ Incumbent LECs should provide electronic interfaces for network elements.
Electronic bonding is critical for nondiscriminatory access to network elements such as local loop transmission. Regulators should require incumbent local exchange carriers to provide other telecommunications carriers with electronic interfaces in accordance with the policy described for network elements. Read-only access is not sufficient for most systems.

LOCAL TRANSPORT

Checklist Item 5. "Local transport from the trunk side of a wireline local exchange carrier switch unbundled from switching or other services."

The Act Requires that BOCs unbundle trunk side local transport. (271(c)(2)(B)(v)) This is to be provided at any technically feasible point and in a way that is nondiscriminatory, including rates, terms, and conditions that are just, reasonable, and nondiscriminatory. Unbundled network elements will be provided in a manner that allows carriers to combine the elements in order to provide the telecommunications service. (251(c)(3)) In determining which network elements will be made available, the FCC shall consider, at a minimum, whether (A) access to network elements that are proprietary is necessary and (B) whether failure to provide access to these network elements would impair the ability of a carrier to provide the services it wishes. (251(d)(2)) Prices shall be based on cost (without reference to any rate-based proceeding) and be nondiscriminatory, and may include a reasonable profit. (252(d))

Sprint's Recommendations

- ▶ Local transport provides transmission from the trunk side of a switch to a telecommunications carrier's facilities.
Trunk side local transport means transmission from the trunk side of a switch to a telecommunications carrier's facilities. Local transport does not include switching. Tandem switching should be unbundled from transmission.
- ▶ Prices should be cost-based.
Prices for local transport should be cost-based. The pricing and cost standards are the same as those for network elements. Consistent with the policy for network elements, there should be no restrictions on how local transport can be used.
- ▶ Incumbent LECs should provide electronic interfaces for network elements.
Electronic bonding is critical for nondiscriminatory access to network elements such as local transport. Regulators should require incumbent local exchange carriers to provide other telecommunications carriers with electronic interfaces in accordance with the policy described for network elements. Read-only access is not sufficient for most systems.

Checklist Item 6. "Local switching unbundled from transport, local loop transmission, or other services."

The Act Requires that BOCs unbundle local switching. (271(c)(2)(B)(vi)) This is to be provided at any technically feasible point and in a way that is nondiscriminatory, including rates, terms, and conditions that are just, reasonable, and nondiscriminatory. Unbundled network elements will be provided in a manner that allows carriers to combine the elements in order to provide the telecommunications service. (251(c)(3)) In determining which network elements will be made available, the FCC shall consider, at a minimum, whether (A) access to these network elements that are proprietary is necessary and (B) whether failure to provide access to these network elements would impair the ability of a carrier to provide the services it wishes. (251(d)(2)) Prices shall be based on cost (without reference to any rate-based proceeding) and be nondiscriminatory, and may include a reasonable profit. (252(c))

Sprint's Recommendations

- ▶ Local switching routes exchange service and exchange access traffic.
Local switching means the end-office switching of exchange service and exchange access traffic.
- ▶ Prices should be cost-based.
Prices for local switching should be cost-based. The pricing and cost standards are the same as those for network elements. Consistent with the policy for network elements, there should be no restrictions on how local switching can be used.
- ▶ Incumbent LECs should provide electronic interfaces for network elements.
Electronic bonding is critical for nondiscriminatory access to network elements such as local switching. Regulators should require incumbent local exchange carriers to provide other telecommunications carriers with electronic interfaces in accordance with the policy described for network elements. Read-only access is not sufficient for most systems.

Checklist Item 7. "Nondiscriminatory access to: (I) 911 and E911 services; (II) directory assistance services to allow the other carrier's customers to obtain telephone numbers; and (III) operator call completion services."

The Act Requires that access or interconnection provided or generally offered by a BOC to other telecommunication carriers must include nondiscriminatory access to (I) 911 and E911 service; (II) directory assistance service to allow the other carrier's customers to obtain telephone numbers; and (III) operator call completion services. (271(c)(2)(B)(vi))

Sprint's Recommendations

- ▶ All telecommunications carriers should have the same access as incumbent LECs.
 - » All telecommunications carriers should have access to incumbent local exchange carriers' 911, E911, directory assistance, and operator call completion capabilities on the same terms and conditions as enjoyed by the incumbent local exchange carriers.
 - » All telecommunications carriers should be allowed to have their telephone numbers included in directory assistance, line information database (LIDB), and other operator services at the same price, terms, and conditions as does the incumbent.
- ▶ Resale prices should include population of the databases and access to the services.
 - » When a telecommunications carrier buys a service for resale, the wholesale service should include populating the databases associated with the retail services with data on the reseller's customers.
 - » Retail local exchange service includes access to: (I) 911 and E911 service; (II) directory assistance service to allow the other carrier's customers to obtain telephone numbers; and (III) operator call completion services. When a telecommunications carrier buys local exchange service for resale, the wholesale service should include access to these services.
- ▶ Access to these databases should be nondiscriminatory.

Access to these databases should be available on a nondiscriminatory basis at the same price, terms, and conditions as the incumbent local exchange carrier.

Checklist Item 8. "White pages directory listings for customers of the other carrier's telephone exchange service."

The Act Requires that access or interconnection provided or generally offered by a BOC to other telecommunication carriers must include white pages directory listings for customers of the other carrier's telephone exchange service. (271(c)(2)(B)(viii))

Sprint's Recommendations:

- ▶ Incumbent LECs' directories should include other carriers' customers.
 - » All telecommunications carriers should be allowed to have their customers' telephone numbers included in the incumbent local exchange carriers' telephone directories. These listings should be equal in price, functionality, and quality to the incumbent's listings.
 - » Incumbent local exchange carriers' white page listings should include all other carriers' customers (except those customers that desire not to be so listed) residing in the incumbent's serving area. These listings should be identical to, and fully integrated and interfiled with, the white page listings provided to the incumbent's customers.
- ▶ Listings should be nondiscriminatory.
 - » The same listing formats, terms and conditions, and prices related to the listing that the incumbent uses should be available to all carriers.
 - » Listings should not contain any notation, symbol or other information which identifies that the customer is taking service from another carrier unless the carrier requests a special identification for its customers and this special identification is technically feasible. This enhancement should be available to all carriers at the same price, terms, and conditions.
 - » White pages informational sections should be made available to all carriers on a nondiscriminatory basis at the same price, terms, and conditions.
- ▶ White pages distribution should be nondiscriminatory.

The incumbent local exchange carrier should allow its channel of distribution to be used to deliver copies of the incumbent's white pages directories to other carriers' customers that are located in the incumbent's local service area. This should be available at the same price, terms, and conditions as the incumbent uses for itself.
- ▶ Access to yellow pages should be nondiscriminatory.

Other carriers' customers should have access to incumbent local exchange carriers' yellow pages directory at the same terms and conditions as are available to the incumbent's other customers.

- ▶ Carriers should be allowed to license
Incumbent local exchange carriers and other carriers should be allowed to license all listing information contained within directories service. Carriers should be compensated for such use based on a reasonable and nondiscriminatory amount.
- ▶ Carriers should be held harmless for errors and omissions
Liability limitation relating to directory errors and omissions should be offered through a satisfactory hold harmless agreement from all carriers.
- ▶ White pages should be included in the wholesale service
Retail local exchange service includes directory services. When a telecommunications carrier buys a service for resale, the wholesale service should include these directory services.

Checklist Item 9. "Until the date by which telecommunications numbering administration guidelines, plan, or rules are established, nondiscriminatory access to telephone numbers for assignment to the other carrier's telephone exchange service customers. After that date, compliance with such guidelines, plan, or rules."

The Act Requires the FCC to create or designate one or more impartial entities to administer telecommunications numbering and to make numbers available on an equitable basis. The FCC has exclusive jurisdiction over the U.S. portion of the North American Number Plan, but may delegate any or all jurisdiction to State commissions or other entities. (251(c)(1)) BOCs are required to provide nondiscriminatory access to telephone numbers for assignment by other carriers until telecommunications numbering administration guidelines, plan, or rules are established. Once these guidelines, plans, or rules are established, BOCs must comply with them. (271(c)(2)(B)(ix))

Sprint's Recommendations

- » Access to telephone numbers should be nondiscriminatory.
 - » All carriers should have equal and non-discriminatory access to sufficient blocks of telephone numbers to offer service.
 - » Numbering policy must be broadly developed and administered in a competitively neutral manner. The incumbent local exchange carrier must not be able to control the administration and assignment of numbering resources. NPA assignments must be handled in a neutral and non-discriminatory manner.
- » The North American Numbering Council (NANC) should select the number administrator.

The FCC has already established the NANC and given it the responsibility of selecting a neutral third party to administer number assignment. Sprint supports these efforts and has offered a representative to the NANC.
- » Spare numbers should be pooled when technically and administratively feasible.

Although pooling of spare numbers is an efficient means to help conserve the numbering resource, until it is technically and administratively feasible to have multiple central offices serve the same NXX (i.e., location portability), pooling of spare numbers would only be an administrative burden. When location portability is feasible, then Sprint would support pooling of numbers.

- ▶ Service order procedures should be nondiscriminatory.
 - » Each incumbent local exchange company should immediately establish a neutral point of contact for other telecommunications carriers to obtain telephone numbers. The contact would obtain a telephone number and return it to the other telecommunications carrier on the firm order confirmation. Numbers could be provisioned immediately, or assigned as a block of numbers similar to cellular carriers.
 - » Number administrators, including incumbent local exchange carriers, should develop means for electronic access to telephone number assignments so that number assignments are not tied to number administrators' hours of operation. Industry forums should establish the procedures.

Checklist Item 10. "Nondiscriminatory access to databases and associated signaling necessary for call routing and completion."

The Act Requires that access or interconnection provided or generally offered by a BOC to other telecommunication carriers shall include nondiscriminatory access to databases and associated signalling necessary for call routing and completion. (271(c)(2)(B)(x)) In determining which of these network elements will be made available, the FCC shall consider at a minimum, whether (A) access to network elements that are proprietary is necessary and (B) whether failure to provide access to these network elements would impair the ability of a carrier to provide the services it wishes. (251(d)(2)) Prices of network elements shall be based on cost (without reference to any rate-based proceeding) and be nondiscriminatory, and may include a reasonable profit. (252(d)(1))

Sprint's Recommendations

- ▶ Competitors should be allowed nondiscriminatory access to databases.
Telecommunications carriers should be allowed to have access to directory assistance, LIDB, Advanced Intelligent Network (AIN), 800, and other databases and have access to such resources equal in price, functionality, and quality as do incumbent local exchange carriers.
- ▶ Interconnection should be seamless.
Incumbent local exchange carriers should provide other telecommunications carriers with interconnections that give these carriers seamless integration into and use of the incumbents' signaling and interoffice networks. This seamless integration should be equivalent to that of the incumbents. For example, the other telecommunications carriers should have real time electronic access to databases.
- ▶ Prices should be cost-based.
Prices for databases and signaling should be cost-based. The pricing and toll standards are the same as those for network elements.

Checklist Item 11. "Until the date by which the Commission issues regulations pursuant to section 251 to require number portability, interim telecommunications number portability through remote call forwarding, direct inward dialing trunks, or other comparable arrangements, with as little impairment of functioning, quality, reliability, and convenience as possible. After that date, full compliance with such regulations."

The Act Requires all local exchange carriers to provide number portability, to the extent feasible, and in accordance with the FCC's requirements. (251(b)(2)) Number portability allows customers to retain, at the same location, their existing telecommunications numbers without impairment of quality, reliability, or convenience when switching from one telecommunications carrier to another. (3(a)(46)) Until the date that the FCC establishes for number portability, BOCs are required to provide interim number portability through remote call forwarding, direct inward dialing trunks, or other comparable arrangements, with as little impairment of functioning, quality, reliability, and convenience as possible. BOCs must fully comply with all FCC number portability regulations. (271(c)(2)(B)(xii))

Sprint's Recommendations

- ▶ The definition of number portability should evolve as technology and markets dictate.
The definition of number portability should include service provider only at this time. Location routing number architecture should be used for true number portability. Other portability, including location and service, should be phased-in as technology and markets dictate.
- ▶ Remote Call Forwarding (RCF) should be the method of interim number portability.
RCF should be the method used for interim number portability. However other methods such as direct inward dialing and Local Exchange Routing Guide (LERG) management may be appropriate in limited circumstances.
- ▶ Interim number portability does not promote competition.
 - » Significant disadvantages are imposed on competitors by interim number portability. Thus, the FCC should act aggressively in this area. The FCC should order true local number portability to be implemented by December 31, 1997, in the top 100 metropolitan statistical areas (MSAs). True local number portability should be implemented in the next 135 MSAs by December 31, 1999. The remaining areas should implement true local number portability upon a bona fide request after December 31, 1999. The FCC should initiate a proceeding to determine cost recovery issues with local number portability.
 - » Interim number portability pricing should provide an economic incentive to incumbent local exchange carriers to develop and implement true number portability. Interim number portability should be priced as a network element, but with a discount because of the lack of parity. This discount should be the same 55% discount provided for inferior exchange access during the transition to equal access.

Checklist Item 12. "Nondiscriminatory access to such services or information as are necessary to allow the requesting carrier to implement local dialing parity in accordance with the requirements of section 251(b)(3)."

The Act Requires that access or interconnection provided or generally offered by a SOC to other telecommunication carriers shall include nondiscriminatory access to such services or information as are necessary to allow the requesting carrier to implement local dialing parity in accordance with 251 (b)(3). (271(c)(2)(B)(xii)) All local exchange carriers have the duty to provide dialing parity to competing providers of telephone exchange service and telephone toll service, and the duty to permit all such providers to have nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listing, with no unreasonable dialing delays. (251(b)(3))

Sprint's Recommendations

- » Interconnections should allow seamless calling.
Competing networks should be interconnected so that customers can seamlessly receive calls that originate on another carrier's network and place calls that terminate on another carrier's network without dialing extra digits, paying extra, or doing anything out of the ordinary.
- » Call routing capabilities should be nondiscriminatory.
 - » Competitors to incumbent local exchange carriers should have control over the routing of all N11 numbers (except for 911) for their customers. These N11 numbers include 411, 611, and 811.
 - » These competitors should also have control over the routing of all 3- or 800 local and directory assistance numbers (e.g., 1-555-1212).

Checklist Item 13. "Reciprocal compensation arrangements in accordance with the requirements of section 252(d)(2)."

The Act Requires that all local exchange carriers must establish reciprocal compensation arrangements for transport and termination of telecommunications traffic. (252(d)(2)) The terms and conditions shall allow each carrier to cover its additional costs of terminating the traffic, including offsetting of reciprocal obligations such as bill-and-keep. Carriers may not engage in any rate proceedings nor require record keeping to determine the additional costs of the calls. (252(d)(2))

Sprint's Recommendations

- » Permanent solutions should be flat-rated, capacity-based charges that are cost based.
 - » Prices for reciprocal compensation should be flat-rated, capacity-based per charges. If the interconnecting carriers agree, these prices may be combined with interconnection into a single, flat-rated charge.
 - » Incumbent local exchange carriers' prices for the interconnection portion should be based on the interconnection price and cost standards.
 - » Incumbent local exchange carriers' prices for call termination should be based on total service long run incremental cost. The profit level should be the most recent authorized intrastate rate of return or prescribed interstate rate of return.
 - » A non-incumbent local exchange carrier's prices for interconnection and reciprocal compensation charges should be presumed to be cost-based and should not be regulated unless this carrier develops market power. If the prices are to be regulated, non-incumbent local exchange carriers should have the option of adopting the incumbent's prices.
- » Bill-and-keep is an interim solution, but may be voluntarily entered.
 - » Bill-and-keep arrangements are not a permanent solution for reciprocal compensation but should be used for an interim period not to exceed two years from the date of each telecommunications carrier's interconnection to the incumbent local exchange carrier's local calling area. Bill-and-keep should apply only to end office usage.
 - » Local exchange carriers may mutually agree to bill-and-keep arrangements beyond the two-year interim period.

- Reciprocal compensation rules should not apply to long distance.
Local exchange carriers should not use reciprocal compensation arrangements for the exchange of toll traffic. For example, local exchange carriers could segregate local and toll traffic to allow for separate billing, or apply factors that estimate the percent of exchanged traffic that should be billed as exchange access.
- Interconnection and reciprocal compensation should not be used to fund universal service.
Interconnection and reciprocal compensation should not be used to collect funds for universal service.

Checklist Item 14. "Telecommunications services are available for resale in accordance with the requirements of sections 251(c)(4) and 252(d)(3)."

The Act Requires that all local exchange carriers must not prohibit and not impose unreasonable or discriminatory restrictions on resale. (251(b)(1)) Incumbent local exchange carriers must offer wholesale rates for any telecommunications service that is provided at retail to customers who are not telecommunications carriers. (251(c)(4)(A)) Wholesale prices shall be based on retail prices less the marketing, billing, collection, and other costs that will be avoided by selling the service at wholesale. (252(d)(3)) State commissions may, to the extent permitted by the FCC, prohibit a reseller from buying a service available only to one category of customers and reselling it to different category of customers. (251(c)(4)(B))

Sprint's Recommendations

- ▶ The only restriction should be that residential services cannot be resold to business.
All local exchange services should be available for resale without restriction, except that residential local exchange services may not be resold to business customers.
- ▶ Unbundled network elements are not the same as retail services.
Services that are today offered at retail (for example, local private lines which may be considered functionally equivalent to local loops), are not network elements for purposes of the Act. Such services may not simply be offered at wholesale prices to meet the requirement for unbundled network elements. The pricing of network elements must be cost-based without regard to retail prices for such functionally equivalent services.
- ▶ Avoided costs should be calculated by cost category and should recognize costs that will be incurred to provide wholesale services.
 - » Avoided costs should be calculated for each category of costs that will be avoided in the provision of services at wholesale instead of retail prices. Avoided costs should recognize costs that will be incurred to implement and offer wholesale services. Avoided costs should be determined on a dollar-per-unit basis and expressed as a reduction to retail prices, rather than as a percent of retail prices.
 - » Avoided costs should not be defined so broadly as to create an artificial market for resale and to thereby deter the construction of alternative networks. Sustained price competition and deployment of advanced services or features are likely to be realized only with facilities-based competition.
 - » Incumbent local exchange carriers should not recover a greater share of joint and common costs from wholesale services (including interconnection and network elements purchased for use with wholesale services) than they recover from comparable retail services.

• Prices need to be rebalanced.

Incumbent local exchange carriers' local service prices are based on public policy objectives of universal service. The introduction of local competition means, among other things, that these prices need to be rebalanced and based on costs. Wholesale prices are not economically sound if retail prices are not based on costs. To the extent that there are avoided costs (and there may be only a few), they should be reflected in wholesale prices. However, resale rates must not be determined by an arbitrary discount, because that could distort the proper economic incentives for competitors to construct alternate local networks.

• Incumbent LECs should provide electronic interfaces for use with resold telecommunications services.

Electronic bonding is critical for nondiscriminatory resale of telecommunications services. Regulators should require incumbent local exchange carriers to provide other telecommunications carriers with electronic interfaces in accordance with the policy described for network elements. Read-only access is not sufficient for most systems.

• Incumbent LECs should continue to receive other service revenues, such as exchange access.

The resale of a retail service does not preclude the incumbent local exchange carrier from providing other services over the same facilities. For example, if another carrier resells local exchange service, the facilities provider would still receive payment for exchange access services.

• Exchange access services should not be offered at special wholesale prices.

- » Exchange access is not a retail service, and so should not be required to have special wholesale prices per Section 252(d)(3).
- » Because exchange access is designed to be provided to other telecommunications carriers, not to retail customers, there are no avoided costs that would form the basis for special wholesale prices.

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William P. Heaston
Senior Attorney

USWEST

VIA OVER-NIGHT DELIVERY

April 22, 1996

RECEIVED
APR 22 1996
SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
State of South Dakota
500 East Capitol Avenue
Pierre, South Dakota 57501

Re: Docket No. TC96-032

Dear Mr. Bullard:

Enclosed for filing please find an original and ten copies of US WEST's responses to the questions in the Order opening the above-referenced docket.

Please date-stamp one copy and return to me in the enclosed self-addressed stamped envelope. Thank you.

Yours truly,



William P. Heaston

Enclosures
WPH:mob

RECEIVED

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION)
OF SWITCHED ACCESS RULES)

TC96-032

The following are U S WEST Communications, Inc.'s ("U S WEST") responses to the questions in the Order opening this docket:

1. Yes, the rules should be modified but to a limited extent. One fundamental principle the rules recognize is the establishment of prices for switched access which allow for adequate cost recovery, plus a contribution to the overhead costs and an ability to realize a reasonable profit for the company. Whatever changes are instituted, that principle must be preserved.

2. Based on U S WEST's three years of experience with the rules, U S WEST would recommend the following rule changes:

a. Allocation of Category 3 Local Switching Equipment must be revised. If an allocation of costs is appropriate in this instance, it must be based on the usage of the equipment. Currently, the allocation is skewed by an artificial weighting factor which shifts switching costs from local service to access for some companies, thus forcing the toll user to subsidize local

service. It is time to remove this subsidy. The amended rule should read:

~~20:10:28:35. Apportionment of category 3 investment. For telecommunications companies with 100,000 or more access lines, intrastate category 3 investment is apportioned to toll and other services based on the relationship of unweighted intrastate toll dial equipment minutes of use (DEM) to unweighted total intrastate DEM which remain after the application of interstate procedures. To develop the toll relationship, unweighted intrastate toll DEM is divided by the sum of the unweighted intrastate toll and other services DEM which remains after the interstate allocation is subtracted from the total DEM. This result is applied to the intrastate category 3 investment.~~

~~For all other local exchange companies, category 2 investment is apportioned by the application of an intrastate allocation factor that is the lesser of either 85 percent of the DEM factor specified in the first paragraph of this section multiplied by a weighting factor of two. The total weighted DEM for intrastate toll and interstate is capped at 85 percent. Interstate weighted DEM plus intrastate weighted toll DEM must be less than or equal to 85 percent. If greater than 85 percent, intrastate weighted toll DEM is reduced to bring the combined weighted interstate and intrastate toll DEM to 85 percent.~~

b. U S WEST would recommend a change to the method of collecting Carrier Common Line (CCL) revenues. The change would give all local exchange companies the option of continuing to charge a usage sensitive price for the CCL or to recover revenues through a flat rate CCL recovery charge. This flat rate charge would be based on the various carrier's percentage market share which would be computed quarterly, based on the most current six

months of usage data. The carrier would be billed the flat monthly rate based on that market share calculation.

Effectively, this method of calculating the CCL will be more closely associated with the nontraffic sensitive cost it is designed to recover. A more detailed discussion of this proposal is at Attachment A.

The proposed changes are:

20:10:29:10. Carrier common line element --
Assessment of charge -- Determination of charge --
Equal originating and terminating charges. A charge that is expressed in dollars and cents per access minute of use is assessed on all users of switched access that use local exchange common line facilities for the provision of intrastate telecommunications services. However, the charge may not be assessed on interexchange carriers to the extent that they resell message toll service (MTS) or MTS-type services of other common carriers. The charge may be expressed in dollars and cents per access minute of use, calculated according to the provisions in this section, or, if the carrier's carrier elects to apply a nontraffic sensitive carrier common line charge, it shall be calculated according to the provisions in 20:10:29:10.01 following.

For purposes of this rule the term "open end" of a call describes the origination or termination of a call that utilizes exchange carrier common line plant. A call may have no, one, or two open ends. All open end minutes on calls with one open end, such as an 800 or foreign exchange call, may be treated as terminating minutes.

A per minute charge is computed by dividing the annual intrastate carrier common line revenue requirement by the annual intrastate carrier common line minutes of use. The per minute charge is equal for both originating and terminating traffic.

20:10:29:10.01. Carrier common line element
Non-usage-sensitive alternative for assessment of
charge. If a carrier's carrier elects to assess the
carrier common line charge on a non-usage-sensitive
basis rather than assessing the charge per access
minute of use as described in 20:10:29:10 proposed,
then a carrier common line recovery charge will be
assessed to each switched access customer based on
market share. The total market share will include all
local switching access minutes of use originating or
terminating in Company exchanges as described in
20:10:29:12.

A customer's market share will be determined via
relative share of minutes of use as billed by the
Company. The market share for each customer will be
recalculated each quarter utilizing the most recent
available data for a six month period of access and
toll minutes of use (converted to access equivalent
minute of use). The carrier common line recovery
charge will be recalculated on a quarterly basis and
will be billed uniformly each month within the quarter.

3. The benefits of the changes are stated with the explanations recommending the changes.

4. The answer to the question is yes. The following changes to the cost model are recommended:

a. On the various sheets there is a column titled "Interstate and other." There are amounts included in the "other" category which are state jurisdictional amounts. They should not be grouped with an interstate, but should be identified in a state jurisdictional area. Elimination of the state amounts will also allow U S WEST to more easily verify that

the dollars identified by the FCC's Part 36 rules are accurately input to this model.

b. Sheet B. (1) The model requires a gross receipts tax factor (line 15). It would be easier to enter the tax paid in the test period on line 45. (2) Line 23 should be eliminated because the AFUDC is added to the MR plant in service amounts. The income statement AFUDC will be zero. (3) Line 29 should be eliminated because contributions are not included in the tax calculation. It is a nonallowable expense.

c. Sheet D. (1) The Source/Allocator for Class A companies for lines 15, 20 through 25, and 27 through 29 should be H50. Class A companies are required to allocate general support expenses based on the separation of costs of the combined big three expenses. (2) Line 20 should be changed to "Support Assets, Allocable." Lines 21 through 25, and 27 through 30 should be eliminated. Support assets are a single line entry in the current U S WEST system. The assets are allocated based on the same allocator, therefore the use of summary information does not affect the allocations method. (3) The model inappropriately uses the same allocator (G28) for C&WF CAT 2 (line 120) and COE Transmission Equipment CAT 4.12 (line 71). Rule 20:10:28:62 requires that C&WF CAT 2 be allocated based on

relative intrastate minutes of use if direct assignment is not possible. The investment between these two categories differ and the allocator should also differ. An exchange trunk minutes allocation factor should be added for the C&WF CAT 2 investment.

(4) Switching COE leases should be recorded as a single item as U S WEST's system does not separate them as indicated in lines 162 and 163. The level of detail requires considerable effort to produce and has no impact on the model and should be eliminated.

d. Sheet G. Line 31, C&WF CAT 4 WATS is not used as an allocator in the model and should be deleted.

e. Sheet I. Lines 72 through 80, Depreciation Expense, should include a line for equal access related depreciation expense. This expense should be separated based upon the associated primary plant accounts (ARSD 20:10:28:116).

f. Those sheets which deal with the FCC Part 69 Intrastate Revenue Requirement Summary should not have a column for Billing and Collection. ARSD 20:10:29:03 specifies that the rules do not develop rates for billing and collection.

g. Sheets J and P. Line 18 should be eliminated for the reasons stated in b(2), above.

h. Sheets L and R. (1) The formula for line 30 (column B) is not correct. The formula in that cell of the computer model

reads D:D43-D29. It should read D:H41+D:J41. One hundred percent of the intrastate amount is allocated to Other. For U S WEST the amount recorded on line 30 is intercept investment and 100% of this investment should be allocated to Local Switching (ARSD 20:10:29:24(1)). (2) Lines 58 through 66 should add a line for "COE Wideband - Direct."

i. Sheets M and S. (1) A line should be added to the sections for both the Accumulated Depreciation, TPIS and Accumulated Deferred Income Taxes, Net for equal access related amounts. (2) The allocation of "Accumulated Amortization Tangible Investment (line 28) should be changed to be based on the distribution of "Total Tangible Assets" like that found on Sheet L, line 141.

Accordingly U S WEST respectfully requests that the Commission implement the recommended rules and cost model changes.

Dated this 22nd day of April, 1996.

US WEST COMMUNICATIONS, INC.



William P. Heaston
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CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of April, 1996, a true and correct copy of the foregoing was sent over night delivery to:

William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
State of South Dakota
500 East Capitol Avenue
Pierre SD 57501



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**IN THE MATTER OF THE INVESTIGATION)
OF SWITCHED ACCESS RULES) TC96-032**

ATTACHMENT A

CARRIER COMMON LINE RECOVERY CHARGE Proposed Restructure for South Dakota

U S WEST Communications is putting forth a proposal to restructure the way in which we collect Carrier Common Line (CCL) revenues from our long distance carrier customers. The CCL is one of the charges assessed to long distance carriers who use switched access service to reach their end user customers via the local switched network. We propose to change the present per minute-of-use CCL charge to a flat monthly charge based on the various long distance carriers' percentage market share. This will make the CCL rate structure more consistent with the non-traffic-sensitive nature of the costs this rate was designed to recover. The restructure is revenue-neutral, neither increasing nor decreasing the amount of revenue U S WEST receives from long distance carriers or from customers using U S WEST's long distance service.

Background

The Carrier Common Line charge was first introduced at the same time carrier access charges were instituted, shortly after divestiture. Jurisdictional separations rules, based on embedded fully distributed costs, called for the allocation of non-traffic-sensitive (NTS) costs between the state and interstate jurisdictions, based on allocations factors. These NTS costs are primarily costs associated with the local loop, and also include some NTS costs of the central office switch.

Before divestiture, the NTS costs allocated to the interstate jurisdiction were recovered in AT&T's interstate long distance charges. This subsidy of local service by long distance service was a primary mechanism to keep local basic exchange rates low and was viewed as necessary to assure Universal Service. After divestiture, access charges were instituted as a means of the long distance carriers compensating local exchange carriers for use of the local network. The FCC established a separate rate element called the Carrier Common Line charge to recover the interstate NTS costs. As dictated by the "equal charge rule" contained in the Modification of Final Judgment (MFJ), all access charges, including the CCL, were charged per minute-of-use of access traffic.

When the FCC created the CCL, it recognized the fact that the NTS costs are primarily associated with basic exchange service and are properly recovered from the basic exchange customer. At the same time, the FCC recognized the adverse public policy implications of suddenly imposing this cost recovery on basic exchange customers. Therefore, a system was instituted of phasing in an end-user charge (CALC or EUCL) which would gradually increase to recover increasing amounts of the interstate NTS costs, while the interstate CCL decreased correspondingly. At the present time, twelve years after divestiture, the EUCL has increased to a maximum of \$3.50 for residence and single-line business customers and \$6.00 for multi-line business customers. The interstate CCL paid by carrier customers has decreased from its original level of approximately five cents per minute to less than one cent per minute.

In the 14 state jurisdictions served by U S WEST, the state Commissions adopted the FCC's structure for access charges assessed to the long distance carriers. However, none of the 14 states presently has an end-user charge. Most intrastate CCL charges are significantly higher than the interstate CCL, and the CCL is a significant source of revenue in most states. Because the price of basic residential telephone service remains below its direct cost, the CCL continues to be a

significant source of support for residential service and plays a major role in supporting Universal Service objectives.

The South Dakota Commission has adopted switched access rules that call for the intrastate CCL charge to be determined by the intrastate portion of the NTS revenue requirement. The rules state that the revenue requirement shall be divided by the minutes of use to determine the charge per minute-of-use.

The Present Situation

The past year has brought profound changes to the telecommunications environment, as exemplified by the Telecommunications Act of 1996, signed by President Clinton on February 8, 1996. Instead of having separate companies providing local service and long distance service, the stage has been set for multiple providers to offer both local and long distance service. We find ourselves in a rapidly-changing environment that calls for new approaches to old problems. We are now faced with a situation in which:

- U S WEST is no longer the sole provider of local telephone service within its service territories.
- Residential basic exchange rates remain artificially low, which impedes the development of competition in this market.
- The advent of competition for local exchange service finds U S WEST in a position where the Company still must rely on contribution from long distance and access services for a large share of its contribution to common, shared and embedded costs as well as support for basic residential service.
- Alternative exchange companies (AECs) undoubtedly will first try to serve high-revenue customers, which have high long distance and access usage. When these customers sign up for an AEC's service, U S WEST loses all long distance and access revenue associated with that customer in addition to losing basic exchange revenue. By losing the high volume customers first, U S WEST will be losing switched access and long distance minutes-of-use faster than we will be losing access lines.
- The present usage-sensitive price structure for CCL causes competitors inappropriately to base their business decisions on an incremental price per access minute that includes CCL, in addition to the traffic sensitive portions of switched access service. Due to South Dakota's rules, the CCL can be expected to be higher than the traffic-sensitive per-minute access prices, outweighing the truly traffic-sensitive factors in the competitors' decision process. This is a significant factor which can cause competition to develop on an uneconomic basis.
- As U S WEST loses market share, those losses will be the greatest for revenues tied to long distance and switched access traffic volumes, thus undermining our ability to continue serving high-cost residential customers. Universal Service objectives are threatened.

Significant changes in the structure of switched access charges and the switched access marketplace have also taken place during the past several years.

- The MFJ "equal charge rule" has expired.
- The local transport charges have been restructured to more accurately reflect the actual services provided, with flat rates for dedicated facilities, and usage-sensitive rates for use of common facilities.
- In South Dakota, the local transport restructure resulted in the creation of a new residential-priced interconnection charge (RIC), charged per minute-of-use. This new charge is not related to any direct cost of access service and, therefore, is a means of collecting contribution to common, shared and embedded costs and support of residential service.
- The long distance carriers are concerned that high growth in long distance traffic has caused high growth in CCL and RIC payments, since the payments are tied to switched access minutes-of-use. At the same time, the more competitive environment gives carriers more alternative ways to reach their customers, making bypass of switched access service more viable.

The Proposal

In order to put the collection of the CCL revenues on a basis consistent with the manner in which NTS costs are incurred, U S WEST proposes to change the structure of its CCL charges. We propose to change the present per minute-of-use CCL charge to a flat monthly Carrier Common Line Recovery Charge based on the various long distance carriers' percentage market share. South Dakota rules call for the RIC revenues to be included in the revenue requirement that determines the CCL charge. Therefore, the current RIC revenues will also be included in the restructure. The CCL restructure will be performed in a revenue-neutral manner.

The rationale for the proposal is as follows:

1. **A flat monthly charge is more appropriate than a usage-sensitive charge.**

The CCL serves the function of providing contribution to recover non-traffic-sensitive costs. Switched access traffic has been growing at high rates since divestiture. The current usage-sensitive CCL revenues grow at inappropriate rates, unduly burdening carrier customers during periods of high traffic growth. A flat charge is more appropriate for the recovery of non-traffic-sensitive costs. Just as the local transport restructure introduced flat-rated charges for non-traffic-sensitive transport elements, this CCL and RIC restructure is introducing flat-rated charges for recovery of non-traffic-sensitive network costs, shared costs and common costs.

2. **Each long distance carrier's payment is determined by its market share, reflecting the benefit the carrier derives from use of the public switched network.**

Percentage market share is a fair way to distribute the CCL payments among all long distance carriers. U S WEST will also be included in the market share calculations and will bear its fair share of the CCL recovery through imputation to its long distance prices.

We have chosen minutes-of-use as the basis for market share percentage, because it most closely reflects the relative usage of U S WEST's ubiquitous switched network, and therefore the benefits enjoyed, by the various long distance carriers. We considered using pre-subscribed access lines as a measure of market share, but rejected that for at least two reasons: (1) long distance carriers who have a high proportion of very low use customers would pay an unfairly high portion of the CCL, and (2) there is no clearly fair way to consider both interLATA and intraLATA calling when dealing with pre-subscribed lines. Minutes-of-use are readily available and easily converted into percentages, since both switched access local switching charges and U S WEST long distance are billed per minute-of-use. Minutes-of-use provide a fair and easily-implemented method of determining market share.

Because CCL is imputed to U S WEST long distance services, U S WEST's long distance service bears its share of CCL cost, just as other long distance carriers pay their share of CCL cost. The proposal has no impact on the actual prices paid for U S WEST long distance service.

As an individual long distance carrier gains or loses market share, its CCL bill will rise or fall proportionately. As U S WEST gains or loses long distance market share to other carriers, we will impute more or less of the CCL to ourselves and bill less or more of it to the other long distance carriers.

Additional benefits result from the restructure because it eliminates complications contained in the present structure. Those complications include CCL exemptions for the closed end of WATS and 800 services. Under the new structure, each carrier's payment will simply be determined by its percentage market share. Also, the rate structure will be simplified by consolidating the RIC and the CCL charge into one rate element.

Implementation

Establishment of Base CCL Amount: First, the total amount of revenue to be accounted for is calculated by taking the CCL quantities for a test year and multiplying by the current CCL rate to determine the revenues collected from long distance carriers. The amount of CCL charges imputed to U S WEST's long distance services is then added to this revenue amount. The imputation to U S WEST long distance is performed for all originations and terminations of calls in a U S WEST exchange. Then the RIC revenues collected from carriers and imputed to U S WEST long distance are added to the total. This revenue total is the basis for the restructured charges.

Determination of Carrier's Charges: Each long distance carrier will pay a flat monthly amount, calculated from its intrastate market share percentage. The market share will be calculated from intrastate access minutes-of-use, including U S WEST long distance minutes-of-

use converted to an access equivalent. U S WEST will impute its share of CCL revenues to itself, and all other long distance carriers will be billed monthly.

Impact on Long Distance Carriers: The restructure is performed in a revenue-neutral manner, and the impact on individual carrier customers will be minimal. Individual carriers may see some slight increase or decrease in the amount of CCL they pay, depending on the amount of WATS and 800 service traffic they carry.

Quarterly Updates: The amounts billed and imputed will be recalculated each quarter, based on the most recent six months of data. First, long distance carrier market share percentages will be recalculated from access and long distance minutes-of-use over the previous six months. Second, each carrier's CCL bill will be calculated by multiplying its market share percentage times the total monthly revenue determined at the restructure. This is the amount each carrier will be billed each month for the next quarter.

Future Rate Changes: Under South Dakota rules, new embedded cost studies are to be prepared and filed every three years, and new switched access rates can be filed as a result of the new cost studies. If it is determined that CCL and/or RIC revenue amounts should be changed as a result of the new cost studies, then the new revenue requirements will be used as the basis for calculating each carrier's CCL bill.

Conclusion

The restructured charges will more accurately reflect the role of the CCL as recovery of non-traffic-sensitive costs. The amount that any individual long distance carrier pays for CCL will be a direct function of the relative amount that carrier uses U S WEST's local network to originate and terminate calls, as compared with that carrier's competitors. The restructure is revenue neutral; it does not change the amount of revenue U S WEST receives, but does change the manner in which that revenue is billed.

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE
INVESTIGATION OF SWITCHED
ACCESS RULES

Docket No. TC 96-032

COMMENTS BY THE
LOCAL EXCHANGE
CARRIERS ASSOCIATION

I. INTRODUCTION.

In its Order Opening Docket, dated February 23, 1996, the South Dakota Public Utilities Commission ("Commission") invited comments on whether any of the Commission's existing Switched Access Rules need to be modified. These comments are submitted on behalf of the Local Exchange Carrier's Association ("LECA"). LECA strongly supports retaining the existing Rules. Those Rules were carefully crafted to recover the actual cost of providing switched access service. Nothing has happened to suggest that the Rules are no longer valid or that they do not reflect the cost of providing switched access service. In addition, the Commission should delay determining whether any changes are appropriate until more information becomes available concerning: a) actions of the FCC which could significantly increase local rates; b) whether there will be a state universal service fund; and c) the impact of any potential change in the Rules on the USWC Purchased Exchanges.

II. THE COST RECOVERY METHODOLOGY CONTAINED IN THE EXISTING RULES SHOULD BE MAINTAINED.

The existing Switched Access Rules reflect the actual cost of providing switched access service. Nothing has changed to justify exempting switched access service from recovering its cost.

A. The Commission's Authority To Set Access Rates Is Unaffected By The Telecommunications Act of 1996.

The Telecommunications Act of 1996 ("Act"), in Section 251 (d) (3), reaffirms existing state commission rules establishing switched access rates, stating:

In prescribing and enforcing regulations to implement the requirements of this section, the Commission [FCC] shall not preclude the enforcement of regulation, order, or policy of a State commission that--(A) establishes access and interconnection obligations of local exchange carriers; (B) is consistent with the requirements of this section; and (C) does not substantially prevent implementation of the requirements of this section and the purposes of this part.

B. Cost Supports Should Not Be Removed From Switched Access.

In Docket TC95-115, the predecessor to this Docket, US West Communications, Inc. ("USWC") suggested changing: a) the dial component multiplier ("DEM") weighting required by ARSD 20-10-28.35; and b) reducing the allocation of costs related to carrier common lines, required by ARSD 20-10-28.01. Such reductions in cost support would be contrary to the obligation to recover the full cost of switched access service through the switched access rates.

The purpose of DEM weighting is to recognize that it costs more to provide switched access than it does to provide local access. Eliminating DEM weighting would improperly force local service to subsidize the provision of switched access. Such a subsidy is inconsistent with the obligation to set switched access rates which recover their cost.

The allocation factor allocates a portion of the cost of the loop connecting a customer to the central office in recognition that the loop permits both local and long distance service. As such, the loop costs are common costs which should be recovered from all services, including switched access. Eliminating the contribution from switched access would result in an improper subsidy to switched access service.

C. A Reduction In Access Rates Would Not Reflect The Economic Value Of Switched Access Services.

Switched access rates should not be reduced unless the rates exceed the economic value of the service. Interexchange carriers have the ability to bypass a local exchange carrier's switched access services. The fact that there have been no instances of such bypass demonstrates that the current rates reflect their economic value. In the absence of evidence that the current rates exceed their economic value, the existing rates and the rules establishing those rates should not be changed.

D. Reducing Access Charges May Only Increase Interexchange Carrier Profits.

Interexchange carriers are not required to reduce toll rates in response to a reduction in access charges. In fact, the available evidence indicates that access rate

reductions merely result in increased profits for the toll carriers. The Commission should not cause an increase in local rates where there is likely to be no offsetting ratepayer benefit.

E. Conclusion.

The existing Switched Access Rates should be retained: a) they are consistent with the Act; b) they reflect the actual cost of providing the service; c) they reflect the economic value of the service; d) reducing the rates may result in ratepayer harm with no offsetting ratepayer benefit.

III. IT WOULD BE INAPPROPRIATE TO CHANGE THE EXISTING RULES BASED ON AVAILABLE INFORMATION.

This is a time of great change, both nationally and locally. It would be inappropriate to make significant changes in the Switched Access Rules until more is known about: a) whether the FCC will make significant changes to the application of DEM weighting and the carrier common line charge ("CCLC"); b) whether there will be a South Dakota universal service fund; and c) the potential impact on the USWC Purchased Exchanges.

A. Actions By The FCC May Impose Significant Local Rate Increases.

The FCC has issued a notice of proposed rule making ("NOPR") in the Matter of Federal-State Joint Board on Universal Service, CC Docket NO. 96-45. The NOPR indicates that the FCC is considering changes to the interstate application of DEM weighting and is even considering eliminating the CCLC, which recovers a portion of the loop costs. If the FCC makes significant modifications to the interstate

recovery of switching and loop costs, the consequences could be a dramatic increase in local rates through an increase in the federal subscriber line charge. It would be inappropriate for the Commission to shift intrastate access cost recovery responsibility to local service at the same time the FCC was also increasing local rates. The FCC's actions are expected to be known by May 1997.

B. The South Dakota Legislature May Authorize A State Universal Service Fund.

The Act, Sections 254 (b) (5) and 254 (f), authorizes states to adopt universal service support mechanisms. While the existence of a state universal service fund would not justify setting switched access rates which fail to recover their cost, a state universal service fund may reduce the impact of any changes in funding on local customers. Therefore, the existing Rules should remain in effect until it is known whether the South Dakota Legislature will authorize a state universal service fund and until the nature of the support available through such a fund is known.

C. Information Concerning The USWC Exchanges Is Not Available.

Most local exchange carriers will be filing updated cost studies under the existing Rules by the end of July 1996. Those updated cost studies are needed before the impact of any changes to the Rules could be estimated. Also needed is information concerning the potential impact of a change in the Rules on the USWC Purchased Exchanges. Originally, the sale of the USWC exchanges was expected to be completed in early 1996. Due to unexpected delays by the FCC, the actual sale is not scheduled until late June. Consequently, information on the cost of operating


these exchanges will not be available prior to the first quarter of 1997. The exchanges sold by USWC represent 35 percent of the independent access lines. Clearly, no action should be taken to change the existing Rules until the impact on these exchanges can be determined.

IV. CONCLUSION.

The existing Switched Access Rules properly recover the cost of providing switched access service and should be retained in their current form. Further, the Commission should delay determining whether any changes are appropriate until more information becomes available concerning: a) the actions of the FCC; b) whether there will be a state universal service fund; and c) the impact of potential changes on the USWC Purchased Exchanges.

Dated: April 22, 1996

Respectfully submitted,


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Attorneys on behalf of Local
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Association

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APR 27 1996
SOUTH DAKOTA
UTILITY COMMISSION

Certificate of Service

I hereby certify that an original and eleven copies of the Comments by the Local Exchange Carriers Association were sent via facsimile and Federal Express on the 23rd day of April, 1996, to the following:

William Bullard
Executive Director
South Dakota Public Utilities Commission
State of South Dakota
500 East Capitol
Pierre, South Dakota 57501

and a true and correct copy was sent by Federal Express to the following:

Rolayne Wiest
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500 East Capitol
Pierre, South Dakota 57501

and by Federal Express or United States Mail, postage prepaid, to the persons on the attached list.


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APR 24 1996

SOUTH DAKOTA
UTILITY COMMISSION

William Bullard, Executive Director
SD PUC, State Capitol
500 E. Capitol
Pierre, SD 57501

RE: TC96-032 Comment on Access Rules


Dear Mr. Bullard:

I enclose an original and 11 copies of AT&T's Comments concerning the current commission rules on switched access and AT&T's proposals for future revisions of the same.

Per my telephone notification of staff attorney Karen Cremer on Monday afternoon, April 22, 1996, due to logistical and medical problems of the parties involved in the assembly and final preparation of the comments, we could not meet your filing deadline of 5:00 p.m. on April 22, 1996.

We do request that these comments and proposals be accepted for filing, and that the commission and the staff consider the comments in the review process which will be undertaken for the existing rules.

Yours very truly,


JOHN S. LOVALD
Attorney at Law

JSL/le
Enclosure

RECEIVED

APR 24 1996

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION)
OF SWITCHED ACCESS RULES)
)

TC 96-032

COMES NOW AT&T Communications of the Midwest, Inc., and in response to the Commission's Order Opening Docket Number TC96-032 responds to the four (4) questions posed by the Commission as follows:

1. Do any of the above referenced switched access rules need to be modified?

ANSWER: YES

2. If yes, which rules and what changes should be made? Submit all proposed rule changes with insertions into existing rules indicated by underscores and deletions from existing rules indicated by overstrikes.

ANSWER: AT&T'S PROPOSED CHANGES TO THE SWITCHED ACCESS RULES (ARSD CHAPTERS 20:10:27 TO 20:10:29, INCLUSIVE) ARE ATTACHED IN THE REQUESTED FORMAT.

3. How do these changes enhance the telecommunications industry?

ANSWER: AS PROPOSED, THESE CHANGES WILL ALIGN, IN PART, THE CURRENT RULES WITH THE RECENTLY ENACTED TELECOMMUNICATIONS ACT OF 1996. MOVING ACCESS CHARGES TOWARD THEIR ACTUAL COST WILL RESULT IN LOWER COSTS OF DOING BUSINESS FOR INTEREXCHANGE CARRIERS (IXC'S) IN SOUTH DAKOTA. FLOWING THESE COST SAVINGS BY THE IXC'S WILL RESULT IN LOWER INTRA STATE TOLL RATES WHICH, IN TURN, SHOULD STIMULATE INTRASTATE CALLING VOLUMES. THE NET RESULT IS A HEALTHY TELECOMMUNICATION INDUSTRY SPURRED ON BY INCREASED USE OF THE RESPECTIVE CARRIER(S) NETWORKS.

4. Should there be any modifications to the Commission's cost study program? If so, what?

ANSWER: YES. THE COMMISSION'S COST STUDY PROGRAM SHOULD BE REVISED TO INCLUDE ANY FINAL RULE CHANGES APPROVED BY THE COMMISSION.

DATED this 23rd day of April, 1996.

AT&T Communications of the
Midwest, Inc.

By: 

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CHAPTER 20:10:27

TELECOMMUNICATIONS SWITCHED ACCESS FILING RULES

Section

- 20:10:27:01 Definitions.
- 20:10:27:02 Determination of intrastate switched access charges – General.
- 20:10:27:03 Costs subject to commission's ratemaking determinations.
- 20:10:27:04 Uniform system of accounts used for classification.
- 20:10:27:05 Separation of switched access costs – Imputation.
- 20:10:27:06 Intrastate switched access service tariff – Recovery of costs – Return on investment.
- 20:10:27:06.5 Average Schedule Companies – Recovery of costs.
- 20:10:27:07 Filing of intrastate switched access service tariff.
- 20:10:27:08 Filing of an association switched access service tariff.
- 20:10:27:09 Merger or acquisition of association switched access service tariff participant.
- 20:10:27:10 Use of computer program – Petition to use company-specific computer program – Certification.
- 20:10:27:11 Petition to commission for exemption from developing company-specific cost-based switched access rates.
- 20:10:27:12 Determination of switched access rates for a company granted an exemption from developing company-specific cost-based switched access rates.
- 20:10:27:13 Determination of billing and collection costs for a company granted an exemption from developing company-specific cost-based switched access rates.
- 20:10:27:14 Historical test year.
- 20:10:27:15 Nonrecurring costs or revenues.
- 20:10:27:16 Inclusion of telecommunications plant under construction or telecommunications plant held for future use in investment base.
- 20:10:27:17 Contracts with deviations.
- 20:10:27:18 List of contracts with deviations to be filed – Form.
- 20:10:27:19 List of contracts with deviations to be filed within 30 days.
- 20:10:27:20 Phase-in of switched access rates.
- 20:10:27:21 Feature group A and B discounts.
- 20:10:27:22 Exemption for high capacity special access services.
- 20:10:27:23 Other special access services.
- Appendix A – Transport facility allocation example.
- Appendix B – Transport facility allocation example.
- 20:10:27:19 Determining Total Service Long Run Incremental Costs.
- 20:10:27:20 Cross Subsidization Test.
- 20:10:27:21 Schedule for Review of Rules.

20:10:27:01. Definitions. Terms defined in SDCL 49-31-1 have the same meaning when used in this chapter. In addition, terms used in this chapter mean:

(1) "Association," a voluntary telecommunications company association formed by individual telecommunications companies for the purpose of jointly filing and administering a common or uniform switched access tariff;

(2) "Average Schedule Company", defined by the Federal Communications Commission in Part 69.6;

(32) "Carrier's carrier," a telecommunications company, with monopoly power, which provides access services or facilities to another telecommunications company which in turn uses those facilities to provide telecommunications services to the public;

(4) "Common overhead costs", costs that are common to all outputs offered by the firm and do not vary with the volume of any individual service. Recovery of common overhead costs is a pricing issue.

(53) "Feature group A," a line side termination at the first point of switching;

(64) "Feature group B," a trunk side switching through the use of end office or access tandem switch trunk equipment;

(75) "Feature group D," an access service providing 1+ equal access;

(8) "Network Element", a facility or equipment used in the provision of a telecommunications service. Such term also includes features, functions, and capabilities that are provided by means of such facility or equipment including subscriber numbers, databases, signaling systems and information sufficient for billing and collection or used in the transmission, routing, or other provision of a telecommunications service.

(9) "Service-specific costs", costs that are caused by offering a service (e.g., service advertising.)

(10) "Shared costs", costs that are attributable to a group of outputs but not specific to any one within the group, do not vary with the volume of any service in the group, and are avoidable only if all outputs within the group are not provided.

(11) "Spare capacity costs", costs that are the result of investment in capacity that is not used to directly provide service. Spare capacity can result from: 1) capacity installed for administrative purposes to ensure service; 2) modular capacity or breakage that results from the purchase of an investment larger than needed to meet demand yet the smallest available in the market; or 3) capacity installed for future growth.

(12) "Statewide Average Local Exchange Rate", the sum of the annual revenues from residential and business local exchange services, Extended Area Service, and Zone Increments for all carrier's carrier companies divided by twelve and divided by the average monthly number of residential and business local exchange lines.

(136) "Switched access," a telecommunications service which provides part or all of a communications path between the customer of the service and its end user which utilizes subscriber loop, transport, and switching functions network elements.

(14) "Total Service Long Run Incremental Costs", the relevant economic costs which means the total forward-looking cost, using least cost and most efficient technology, for a telecommunications basic network element, feature or function that the telecommunications provider would incur if it were to initially offer such telecommunications basic network element, feature or function. Total service long run incremental cost captures all volume-sensitive and volume-insensitive costs and measures the costs for total demand of the network element, feature or function.

(15) "Uniform system of accounts for telecommunications companies," a historical financial accounting system, codified at 47 C.F.R. Part 32, prescribed by the federal communications commission, which reports the results of operational and financial events of a telecommunications company in a manner which enables both management and regulators to assess these results within a specified accounting period.

(16) "Volume-sensitive costs" costs that vary with changes in the output measured according to the cost drivers established for the output. (It is important to note that volume-sensitive is not synonymous with the terms usage-sensitive or traffic-sensitive.)

(17) "Volume-insensitive costs" are costs that do not vary with changes in the quantity of output, but are avoidable by not supplying the output.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

20.10.27.05 Separation of switched access costs -- imputation Those telecommunications companies that provide both intrastate switched access and intrastate message toll services shall remove those costs which are attributable to intrastate message toll services from the switched access costs otherwise derived from the use of chapters 20.10.28 and 20.10.29. Separated access costs and related access charges must be imputed to all intracompany toll service minutes of usage. The price floor for each retail unbundled and bundled services that is offered by the incumbent carrier's carrier, which has monopoly power, shall be based on the following:

1. A price floor test shall be established for each bundled and unbundled retail service;
2. Each retail service must be narrowly defined;
3. Prices for all network elements, features and functions purchased by other telecommunications providers and used by the incumbent carrier's carrier in the provision of each of its bundled and unbundled retail service shall be included ("imputed") in each price floor test;
4. The price floor test shall include price imputation and all remaining service-specific Total Service Long Run Incremental Cost inputs associated with provisioning of each particular service;
5. The price floor test must reflect all demand associated with providing each individual bundled and unbundled retail service;
6. The carrier's carrier shall not include the total service long run incremental costs of any network element, feature, function or service that it charges to other telecommunications providers rather than imputing the price of the network element, feature, function or service as part of any price floor test if that feature, function or service has not been proven to be effectively competitive;

7. All workpapers, assumptions and backup data associated with each price floor test must be provided to the Staff and all interested parties prior to the incumbent carrier's carrier changing existing rates or introducing any new bundled and unbundled retail service and
8. The incumbent carrier's carrier must set each retail bundled and unbundled service price to exceed the service's price floor, unless it is demonstrated that setting the price at the price floor will not result in price squeeze.

PURPOSE OF REVISION:

Price Floors, which include price imputation plus the inclusion of the remaining service-specific total service long run incremental cost inputs, promote efficient pricing. A price floor ensures that customers that purchase the same monopoly feature or function are not discriminated against and third, if the carrier's carrier cannot price the retail service above the sum of the prices charged to other telecommunications providers for those monopoly features plus all service-specific total service long run incremental cost inputs, then the carrier's carrier is financially better off not offering the retail service at all.

Price floors also help to prevent predatory pricing by the carrier's carrier with monopoly power. That is, insofar as a competitor must purchase monopoly basic network element, monopoly feature/function or service from the carrier's carrier with monopoly power in order to provide retail services similar to those offered by the carrier's carrier, imputation will prevent a price squeeze by the carrier's carrier with monopoly power.

Price imputation is a surrogate method for structurally separating a carrier's carrier that offers both monopoly services to other telecommunications providers as well as retail services to its end users that use the monopoly services as necessary inputs. One way to handle the issues that arise when a company with monopoly power operates in both the wholesale and retail markets is to require that the wholesale and retail businesses be conducted in separate companies. Such structural separation would ensure that the retail operation purchases its wholesale inputs under the same prices, terms, and conditions as other competing retail providers. Price imputation is an attempt to replicate this structural separation process. Thus, setting prices for unbundled and bundled retail services based on proper price floors encourages competition which results in better and more efficiently provided services and lower prices for the consumer.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

20:10:27:06.5 Average Schedule Companies -- Recovery of costs -- Where a carrier's carrier has filed with the Federal Communications Commission as an average schedule company, the carrier's carrier shall not file on an intrastate basis as a cost company. The recovery of intrastate switched access revenue requirement shall be the difference between the total annual revenue requirement minus 1) all annual interstate revenues including the High Cost

Fund, 2) statewide average local exchange rate times the number of annual lines, 3) annual interstate End User Charges, and 4) annual miscellaneous revenues. If the resulting sum of interstate switched access, interstate High Cost Fund and intrastate switched access revenues exceed 85% of the total revenue requirement, then intrastate switched access average rates shall be reduced so that the total of the interstate revenues, interstate High Cost Fund and the intrastate access revenues equal 85% of the total revenue requirements. In the event a carrier's carrier is a cost company for interstate purposes, this carrier can not file as an average schedule company for intrastate ratemaking purposes.

PURPOSE OF REVISION:

This recommended change is to prevent over recovery of revenue requirements in total and from access services for Class B Companies that are classified as average schedule companies. Without this rule some companies could file different cost recovery methods between interstate and intrastate depending on financial benefits for each situation, thus resulting in over recovery.

20:10:27:09. Merger or acquisition of association switched access service tariff participant. An association switched access service tariff participant that is a party to a merger or an acquisition may continue to participate in the association switched access service tariff. The association switched access service tariff participant may include other telecommunications properties involved in the merger or acquisition in the association switched access service tariff. An association participant or carrier's carrier that is a party to a merger or acquisition shall, for intrastate ratemaking purposes, combine the study areas.

PURPOSE OF REVISION:

As shown in the U S WEST sale of exchanges, shattering the revenue requirements into smaller study areas has the unintended uneconomic impact of increasing the costs on a per cost basis. Thus, combining study areas will assist in minimizing the impact to the revenue requirements due to mergers and acquisitions.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

20:10:27:10. Use of computer program -- Petition to use company specific computer program -- Certification. Each telecommunications company that files initial switched access rates or for a change in switched access rates shall use the computer program provided by the commission to determine switched access rates in accordance with chapters 20:10:28 and 20:10:29, excluding chapters 20:10:28.132 through 20:10:28.136. However a company may petition the commission to use its own company-specific computer program. The company's general manager or an authorized management representative of the company shall certify that the switched access rates filed with the commission were developed using the rules in chapters 20:10:27 to 20:10:29, inclusive. The commission may allow the use of such a computer program if it finds the program complies with chapters 20:10:27 to 20:10:29 inclusive.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

20:10:27:12. Determination of switched access rates for a company granted an exemption from developing company-specific cost-based switched access rates. The intrastate switched access rates of a telecommunications company which is granted its petition for exemption pursuant to § 20:10:27:11 are based on the costs of all the telecommunications companies with less than 100,000 access lines that determine switched access costs pursuant to chapters 20:10:28 and 20:10:29. Switched access rates for companies exempted pursuant to § 20:10:27:11 are calculated by dividing the sum of switched access revenue requirements for cost companies with less than 100,000 access lines for intraLATA and interLATA intrastate switched access traffic by the sum of switched access minutes for those same cost companies for intraLATA and interLATA intrastate switched access traffic. The intrastate switched access revenue requirements for average schedule companies shall be calculated in accordance with chapter 20:10:27:06.5.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

20:10:27:14. Historical test year. The commission shall adopt a recent test year for which actual costs have been recorded and, if required, adjust the actual costs to reflect changes that are known and measurable and least cost and most efficient. No adjustments are permitted unless they are based on changes in facilities, operations, or costs which are known with reasonable certainty and measurable with reasonable accuracy at the time of the filing. Such adjustments must become effective within 12 months of the last month of the test period. Expected changes in revenue must also be shown for the same period. Includable costs are limited to those which are necessary for the provision of service at the test year level. Cost and capital expenditures that enable a carrier's carrier to provide new services or capacity beyond that required to provide test year levels are to be excluded. Wages and other employee related expenses should be at the test year's end of year level. The test period shall consist of 12 months of actual experience ending no earlier than 6 months before the date of filing initial switched access rates or for a change in switched access rates. Test year costs shall be allocated to intrastate switched access service pursuant to chapters 20:10:27 to 20:10:29, inclusive.

A carrier's carrier may request and the commission may grant an extension of the six month filing period.

PURPOSE OF REVISION:

The purpose of this revision is to ensure that any changes to the incumbent carrier's carrier revenue requirement promotes economic efficiencies, thereby encouraging lower prices for consumers. This will preclude the carrier's carrier from adding plant investment as a known and measurable adjustment when the investment is made to generate new revenues for future services (e.g., broadband) or to add capacity in excess of the test year demand.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

20.10.27.17. Contracts with deviations A telecommunications company may file a contract with deviations with the commission whereby switched access rates which deviate from the tariffed switched access rates as determined by chapters 20.10.27 to 20.10.29, inclusive, are set by contract between the telecommunications company and a customer. The commission may approve such a contract, after investigation, if it finds the rates are fair and reasonable.

Source 19 SDR 111, effective January 31, 1993.

General Authority SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented SDCL 49-31-18.

20.10.27.18. List of contracts with deviations to be filed -- Form A telecommunications company providing switched access service to a customer under a contract with deviations shall maintain an up-to-date summary list of all such contracts in its switched access tariff schedule. The list shall be designated the list of contracts with deviations and must show at least the following information regarding each contract:

- (1) The name and location of each customer;
- (2) The type or class of service;
- (3) The execution and expiration dates;
- (4) The most comparable regular switched access tariff by schedule number and any contract differences.

Source 19 SDR 111, effective January 31, 1993.

General Authority SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented SDCL 49-31-18.

20.10.27.19. List of contracts with deviations to be filed within 30 days Two copies of the list of contracts with deviations shall be filed within 30 days after commission approval of a deviation or of the expiration or cancellation of any currently listed contract deviation. If there are no contracts with deviations, "none" shall be shown on the list.

Source 19 SDR 111, effective January 31, 1993.

General Authority SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented SDCL 49-31-18.

PURPOSE OF REVISION

Chapters 20.10.27.17 through 19 violate several sections of the Federal Telecommunications Act of 1996. These sections require cost based rates on a non-discriminatory basis. See Sections 251 (c) (3) and 252 (d) (1) (A) ii.

20.10.27.22. Exemption for high capacity special access services Local exchange companies subject to SDCL 49-31-5.1 which provide high capacity special access services to educational or medical entities for either distance learning or telemedicine applications may exempt certain investment and expense for such services from the cost separation procedures established by chapters 20.10.27 to 20.10.29, inclusive. The percentage of external working circuits to the total working circuits and unused capacity determines the amount of exempt investment and expense excluded from the switched access revenue requirement determined pursuant to chapters 20.10.28 and 20.10.29. Each working circuit used in providing the

exempt services is counted as one circuit. High capacity special access services for purposes of this section include all channels with transmission speeds greater than 64 kilobytes per second (kbps).

- Source: 20 SDR 189, effective May 22, 1994.
- General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.
- Law Implemented: SDCL 49-31-18.

— Note: A Digital Services 0 (DS0), a Digital Services 1 (DS1), or a Digital Services 3 (DS3) is counted as one circuit. The chart in Appendix A at the end of this chapter shows an example of a transport facility allocation using a 150 megabyte fiber system.

— 20-10-27-23 Other special access services: Notwithstanding the provision of chapters 20-10-27 to 20-10-29, inclusive, local exchange companies subject to SDCL 49-31-5.1 may assign investment and expense to all other special access services not qualifying for exemption under § 20-10-27-22 by converting each circuit used to provide special access services other than in § 20-10-27-22 to voice-grade-equivalent circuits and using the percentage of special access circuits to the total working circuits and unused capacity to determine the amount of investment and expense excluded from the switched access revenue requirement determined pursuant to chapters 20-10-28 and 20-10-29. This section does not allow the local exchange company to exempt investment and expense if a special access customer resells or leases the services subject to the exemption in this section.

- Source: 20 SDR 189, effective May 22, 1994.
- General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.
- Law Implemented: SDCL 49-31-18.

— Note: The chart in Appendix B at the end of this chapter shows an example of a transport facility allocation using a 150 megabyte fiber system.

DEPARTMENT OF COMMERCE AND REGULATION

PUBLIC UTILITIES COMMISSION

TRANSPORT FACILITY ALLOCATION EXAMPLE

Chapter 20.10.27

APPENDIX A

SEE § 20.10.27.22

(Source: 20 SDR 189, effective May 22, 1994)

TRANSPORT FACILITY ALLOCATION EXAMPLE - 150MB FIBER SYSTEM

APPLICATION OF § 2010:27-22

Fiber Terminal: \$30,000 Investment

Fiber Cable: Cable \$15,000 Investment and 150MB

Circuits	Description	Equivalent Circuits	Percentage Allocation	Terminal Allocation	Average Mile Interexchange Facilities Investment Factor of 20	Allocation
1 DS3	Distance Learning	1	0.16%	\$47.77	\$10.81	Distance Learning
1 DS1	Distance Learning	1	0.10%	\$47.77	\$10.81	Distance Learning
8 VG	EAS	8	1.27%	\$189.17	\$194.43	
3 VG	Private Line Data Circuits	3	0.45%	\$143.31	\$119.42	
1 DS1	Special Access	1	0.10%	\$47.77	\$10.81	
36 VG	Switched Access	36	5.45%	\$1,746.16	\$1,431.12	
577 VG	Unused VG Capacity on existing DS3	577	87.55%	\$1,7563.60	\$1,7563.60	
1 DS3	Unused Capacity	1	0.16%	\$47.77	\$10.81	
	TOTAL	628	100.00%	\$30,000.00	\$15,000.00	

Step 1 is to identify distance learning and telemedicine cost

DEPARTMENT OF COMMERCE AND REGULATION

PUBLIC UTILITIES COMMISSION

TRANSPORT FACILITY ALLOCATION EXAMPLE

Chapter 20.10.27

APPENDIX B

SEE § 20.10.27.23

(Source: 20 SDR 149, effective May 22, 1994)

TRANSPORT FACILITY ALLOCATION EXAMPLE -- 150MB FIBER SYSTEM

APPLICATION OF § 20.10-27-22

Fiber Terminal: \$30,000 Investment

(less investment allocated to distance learning)

Fiber Optic Cable: \$25,000 Investment

(less investment allocated to distance learning)

Circuits	Description	Equivalent Voice Grade Circuits	Percentage Allocation	Terminal Allocation	Access, Rtn. Interchange, Facilities Investment \$12,000.00	Allocation
1-DS3	Distance Learning	0	0.00%	\$0.00	\$0.00	
1-DS1	Distance Learning	0	0.00%	\$0.00	\$0.00	
8-VG	EAS	8	0.53%	\$160.00	\$0.00	
3-VG	Private-Line Data Circuits	3	0.19%	\$60.00	\$0.00	Special Access
1-DS1	Special Access	24	1.52%	\$480.00	\$0.00	Special Access
36-VG	Switched Access	36	2.27%	\$720.00	\$0.00	
577-VG	Unused VG Capacity on existing DS3	577	3.61%	\$1,734.00	\$0.00	
1-DS3	Unused Capacity	672	4.14%	\$13,440.00	\$0.00	
	TOTAL	1320	100.00%	\$15,600.00	\$0.00	

Step 2 - is to identify the remaining special access costs.

Step 3 - assigns all other investment not assigned to distance learning, leased circuits, or special access circuits to the switched access rules.

PURPOSE OF REVISION:

These chapters are no longer needed in light of the Federal Telecommunications Act of 1996, Section 254 (h). In addition, switched access should not carry the burden of excess capacity. To the extent that a carrier's carrier management decides to include capacity that may not ever be used over the life of the plant or for use for future services, then the shareholders should be liable for this decision, not the captive customers. Excess capacity is not allowed in total service long run incremental costs because it does not reflect least cost, most efficient or best business practice. Thus, the carrier's carrier that uses a fully distributed cost basis to develop its prices should not be allowed to include uneconomic costs in its rate development.

20:10:27:19. Determining Economic Costs. Class A Carriers shall use Total Service Long Run Incremental Costs in the development of its costs for a particular network element, feature, function or service. No prices shall be assessed to other telecommunications providers if no direct cost is associated with the prices.

PURPOSE OF REVISION:

Total service long run incremental cost is the relevant economic cost of providing a given basic network element, feature, function or service. It is also referred to as the cost that is avoidable when not providing a particular network element or service. It is a forward-looking analysis, using least-cost technology and assumptions, and captures all of the volume-sensitive and volume-insensitive costs of providing or avoiding the provision of the network element or service. Total service long run incremental cost measures the total demand of the feature or function.

Total service long run incremental cost is the relevant costs upon which efficient prices should be set in order to achieve economic efficiency, competition and intercustomer equity. Total service long run incremental cost is also the relevant cost standard to test for cross subsidization for individual network features, functions, services and/or groups of services that share costs within the group. Thus, total service long run incremental costs must be used to determine if network elements, services, and/or groups of services are priced below these costs. In competitive markets, prices are both cost-based and do not permit undue discrimination.

Because switched access services permit toll interconnection, these network elements must be cost based without consideration to arbitrary allocation of revenue requirements, historical rate base, and a return on that rate base. Thus, application of the use of a fully distributed historical accounting allocation, such as inherent in the current South Dakota rules would be contrary to the express mandate of the federal Telecommunications Act of 1996. The relevant cost standard is total service long run incremental costs. Specifically, Section 3 (a) (2) (45), and Section 252 (d) states, respectively:

- (45) Network element. -- The term 'network element' means a facility or equipment used in the provision of a telecommunications service. Such term also includes features, functions, and capabilities that are provided by means of such facility or equipment, including subscriber numbers, databases, signaling systems, and information sufficient for billing and collection or used in the transmission, routing, or other provision of a telecommunications service. (emphasis added)

(d) **PRICING STANDARDS.**

(1) **INTERCONNECTION AND NETWORK ELEMENT CHARGES**

Determinations by a State commission of the just and reasonable rate for the interconnection of facilities and equipment for purposes of subsection (c)(2) of section 251, and the just and

reasonable rate for network elements for purposes of subsection (c)(3) of such section--

(A) shall be--

(i) based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection network element (whichever is applicable), and

(ii) nondiscriminatory, and

(B) may include a reasonable profit. (emphasis added.)

20:10:27:20: Cross-subsidization. To test for cross subsidies, the following criteria shall be used:

The per unit price of each individual total service long run incremental cost must cover its volume sensitive and volume-insensitive costs. Revenues from all network elements, features, functions and services in a group of services that is defined by a shared cost shall cover the sum of the total service long run incremental costs of the individual network elements, features, functions and services in the group and the shared cost of the particular group. Each individual total service long run incremental cost of all elements of the group, plus all combinations of services that share the costs, must be identified and quantified. The volume insensitive costs shall be shown as a lump sum amount.

PURPOSE OF REVISION:

Per SDCL Section 49-31-4 "No telecommunications company may use the revenues from emerging competitive services to subsidize fully competitive services or revenues from non-competitive services to subsidize emerging competitive services or fully competitive services. Expenses and investment of fully competitive services may not be attributed to emerging competitive services or non-competitive services and the expenses and investment of emerging competitive services may not be attributed to non-competitive services." However, this Commission should also implement proper cross-subsidization tests for individual network elements, features, functions and services. Absent of a proper test, the Commission will not have enough information to determine if cross-subsidization is occurring between individual regulated, emerging competitive and competitive network elements, features, functions, services or groups of services. To foster competition and prevent monopoly power abuses, proper cross-subsidization is essential.

20:10:27:21. Schedule for Review of Rules. These rules shall be automatically reviewed every three years; or six months after any significant legislative changes on the federal or state level that might have an impact on these rules. In addition, the rules shall be reviewed six months after rule making on the 1996 Federal Telecommunications Act's Rules is complete.

TELECOMMUNICATIONS SEPARATIONS PROCEDURES

Section

- 20:10:28:01 Definitions.
- 20:10:28:02 Allocation procedures -- General.
- 20:10:28:03 Assignment of book costs -- General.
- 20:10:28:04 Separations procedures -- General.
- 20:10:28:05 Classification of telecommunications plant -- General.
- 20:10:28:06 Apportionment of telecommunications plant -- General.
- 20:10:28:07 Classification of property rented to or from affiliates.
- 20:10:28:08 Classification of property rented to or from nonaffiliates.
- 20:10:28:09 Costs billed to another company.
- 20:10:28:10 Telecommunications property -- Procedures for assignment of property and allocation of costs.
- 20:10:28:11 Treatment of rental plant.
- 20:10:28:12 Apportionment of depreciation deductible from book costs.
- 20:10:28:13 General support facilities -- Account 2110 -- Included assets.
- 20:10:28:14 Accounts for the big three expenses -- Plant-specific expenses, plant nonspecific expenses, and customer operations expenses.
- 20:10:28:15 Apportionment of cost of general support facilities for Class B companies.
- 20:10:28:16 Central office equipment accounts.
- 20:10:28:17 Assignment of central office equipment to categories.
- 20:10:28:18 Distribution of cost of common equipment not assigned to a specific category -- Weighting factor.
- 20:10:28:19 Apportionment of cost of central office equipment -- General.
- 20:10:28:20 Categories and apportionment procedures of central office equipment.
- 20:10:28:21 Operator systems equipment -- Category 1 -- Account 2220 -- Included equipment.
- 20:10:28:22 Classification of operator systems equipment.
- 20:10:28:23 Key pulsing switchboards -- Included equipment.
- 20:10:28:24 Traffic service position systems -- Included equipment.
- 20:10:28:25 Apportionment of cost of operator systems equipment.
- 20:10:28:26 Apportionment of cost of auxiliary service boards.
- 20:10:28:27 Apportionment of cost of service observing boards.
- 20:10:28:28 Apportionment of traffic service position system investments.
- 20:10:28:29 Tandem switching equipment -- Category 2 -- Accounts 2210, 2211, 2212, and 2215 -- Included equipment.
- 20:10:28:30 Tandem switching equipment at toll center toll offices -- Included equipment.
- 20:10:28:31 Tandem switching equipment at tributary offices -- Included equipment.
- 20:10:28:32 Tandem switching equipment at all switching entities -- Included equipment.
- 20:10:28:33 Assignment of cost of tandem switching equipment.
- 20:10:28:34 Local switching equipment -- Category 3 -- Accounts 2210, 2211, 2212, and 2215 -- Included equipment.
- 20:10:28:35 Apportionment of Category 3 investment.
- 20:10:28:36 Circuit equipment -- Category 4 -- Accounts 2230, 2231, and 2232 -- Included equipment.
- 20:10:28:37 Assignment of cost of circuit equipment to subsidiary categories.

- 20:10:28:38 Separation of circuit equipment into basic circuit equipment and special circuit equipment.
- 20:10:28:39 Segregation of cost of exchange circuit equipment and interexchange circuit equipment.
- 20:10:28:40 Apportionment of cost of exchange circuit equipment among the operations.
- 20:10:28:41 Apportionment of cost of interexchange circuit equipment among the operations.
- 20:10:28:42 Apportionment of cost of intrastate private line circuits and message circuits.
- 20:10:28:43 Segregation and apportionment of the cost of special circuit equipment.
- 20:10:28:44 Host/remote message circuit equipment – Category 4.3 – Included equipment – Apportionment of cost.
- 20:10:28:45 Information origination/termination equipment – Included equipment.
- 20:10:28:46 Segregation of cost of information origination/termination equipment.
- 20:10:28:47 Other information origination/termination equipment – Category 1 – Included equipment – Allocation of cost.
- 20:10:28:48 Customer premises equipment – Category 2 – Assignment of cost.
- 20:10:28:49 Cable and wire facilities – Account 2410 – Included plant.
- 20:10:28:50 Exchange cable and wire facilities categories – Included facilities.
- 20:10:28:51 Interexchange cable and wire facilities – Category 3 – Included services and facilities.
- 20:10:28:52 Host/remote message cable and wire facilities – Category 4.
- 20:10:28:53 Assignment of cable and wire facilities to categories.
- 20:10:28:54 Additional cost of high-frequency transmission.
- 20:10:28:55 Assignment of cost of cable loading.
- 20:10:28:56 Assignment of cost of other cable plant.
- 20:10:28:57 Assignment of cost of aerial wire.
- 20:10:28:58 Poles and antenna-supporting structures – Included equipment.
- 20:10:28:59 Assignment of cost of poles.
- 20:10:28:60 Assignment of cost of conduit systems.
- 20:10:28:61 Exchange line cable and wire facilities – Category 1 – Apportionment of cost.
- 20:10:28:62 Wideband and exchange trunk cable and wire facilities – Category 2 – Apportionment of cost.
- 20:10:28:63 Interexchange cable and wire facilities – Category 3 – Apportionment of cost.
- 20:10:28:64 Host/remote message cable and wire facilities – Category 4 – Apportionment of cost.
- 20:10:28:65 Amortizable tangible assets – Account 2680 – Apportionment of cost.
- 20:10:28:66 Amortizable intangible assets – Account 2690 – Apportionment of cost.
- 20:10:28:67 Other telecommunications plant – Apportionment of cost.
- 20:10:28:68 Rural telephone bank stock – Investment in nonaffiliated companies – Account 1402.
- 20:10:28:69 Material and supplies – Account 1220 – Apportionment of cost.
- 20:10:28:70 Cash working capital – Apportionment.
- 20:10:28:71 Equal access investment – Included costs.
- 20:10:28:72 Allocation of equal access investment.
- 20:10:28:73 Operating revenues and certain income accounts – General.
- 20:10:28:74 Operating revenues – Accounts.
- 20:10:28:75 Assignment of basic local services revenues – Account 5000.
- 20:10:28:76 Network access revenues – Account 5080.
- 20:10:28:77 End user revenue – Account 5021.
- 20:10:28:78 Switched access revenue – Account 5062.
- 20:10:28:79 Special access revenue – Account 5083.

- 20:10:28:80 Assignment of intrastate access revenues – Account 5084.
- 20:10:28:81 Assignment of long distance message revenues – Account 5100.
- 20:10:28:82 Assignment of miscellaneous revenues – Account 5200.
- 20:10:28:83 Apportionment of uncollectible revenues – Account 5300.
- 20:10:28:84 Apportionment of other operating income and expenses – Account 7100.
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- 20:10:28:86 Interest and related items – Account 7500 – Apportionment of expenses.
- 20:10:28:87 Apportionment of extraordinary items – Account 7600.
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- 20:10:28:89 Subsidiary record categories.
- 20:10:28:90 Plant-specific operations expenses – Accounts – General apportionment.
- 20:10:28:91 Network support expenses, Account 6100 – General support expenses – Account 6120 – Included expenses – Apportionment of expenses.
- 20:10:28:92 Central office expenses – Accounts 6210, 6220, and 6230 – Apportionment of expenses.
- 20:10:28:93 Classification of information origination/termination expenses, Account 6310.
- 20:10:28:94 Other information origination/termination equipment expenses – Included expenses – Apportionment of expenses.
- 20:10:28:95 Assignment of customer premises equipment expenses.
- 20:10:28:96 Cable and wire facilities expenses, Account 6410 – Included expenses – Assignment of expenses.
- 20:10:28:97 Plant-nonspecific operations expenses – Accounts.
- 20:10:28:98 Other property plant and equipment expenses, Account 6510 – Included expenses – Apportionment of expenses.
- 20:10:28:99 Network operations expenses, Account 6530 – Included expenses – Apportionment of expenses.
- 20:10:28:100 Access expenses, Account 6540 – Included expenses – Assignment of expenses.
- 20:10:28:101 Depreciation and amortization expenses, Account 6560 – Included expenses – Separation of expenses.
- 20:10:28:102 Customer operations expenses – Accounts.
- 20:10:28:103 Apportionment of marketing expenses, Account 6610.
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- 20:10:28:105 Telephone operator services – Included expenses – Apportionment of expenses.
- 20:10:28:106 Published directory listing – Included expenses – Assignment of expenses.
- 20:10:28:107 All other – Categories.
- 20:10:28:108 All other, Category 1 – Local business office expense – Subcategories.
- 20:10:28:109 End user service order processing – Included expenses – Subcategories – Assignment of subcategories.
- 20:10:28:110 End user payment and collection – Included expenses – Subcategories – Assignment of subcategories.
- 20:10:28:111 End user billing inquiry – Included expenses – Subcategories – Assignment of subcategories.
- 20:10:28:112 Intrastate interexchange carrier service order processing – Included expenses – Subcategories – Assignment of subcategories.
- 20:10:28:113 Intrastate interexchange carrier payment and collection – Included expenses – Subcategories – Assignment of subcategories.

- 20:10:28:114 Intrastate interexchange carrier billing inquiry -- Included expenses -- Subcategories -- Assignment of subcategories.
- 20:10:28:115 Coin collection and administration -- Included expenses -- Assignment of expenses.
- 20:10:28:116 All other, Category 2 -- Customer services expenses (revenue accounting) -- Included expenses -- Classifications.
- 20:10:28:117 Message processing -- Included expenses -- Subcategories -- Assignment of subcategories.
- 20:10:28:118 Other billing and collecting -- Included expenses -- Segregation into services -- Assignment of service expenses.
- 20:10:28:119 Assignment of end user common line charge billing expense.
- 20:10:28:120 Carrier access charge billing and collecting -- Included expenses -- Apportionment of expenses.
- 20:10:28:121 All other, Category 3 -- All other customer services expenses -- Apportionment.
- 20:10:28:122 Corporate operations expenses -- Accounts.
- 20:10:28:123 Executive and planning, Account 6710 -- General and administrative, Account 6720 -- Assignment of expenses.
- 20:10:28:124 Operating taxes, Account 7200 -- Included taxes.
- 20:10:28:125 Apportionment procedures for operating taxes.
- 20:10:28:126 Equal access -- Included expenses.
- 20:10:28:127 Reserves and deferrals -- Accounts.
- 20:10:28:128 Accumulated depreciation, Account 3100 -- Separation of amounts.
- 20:10:28:129 Accumulated depreciation, property held for future telecommunications use, Account 3200 -- Apportionment.
- 20:10:28:130 Accumulated amortization, tangible, Account 3400 -- Accumulated amortization, intangible, Account 3500 -- Accumulated amortization, other, Account 3600 -- Apportionment.
- 20:10:28:131 Net current deferred operating income taxes, Account 4100 -- Net noncurrent deferred operating income taxes, Account 4340 -- Apportionment.
- 20:10:28:132 Development of Costs for Class A Companies
- 20:10:28:133 Basic Network Elements
- 20:10:28:134 Study Filing Requirements
- 20:10:28:135 Study Document
- 20:10:28:137 Pricing of Network Elements

20:10:28:13. General support facilities -- Account 2110 -- Included assets. The costs of the general support facilities are contained in Account 2110, land and support assets. This account contains land, buildings, motor vehicles, aircraft, special purpose vehicles, garage work equipment, other work equipment, furniture, office equipment, and general purpose computers. Regardless of the account to which facilities are booked, capital expenditures which are not necessary for the provision of switched access services shall be excluded for rate base and cost of services purposes.

PURPOSE OF REVISION:

The purpose of this revision is intended to omit investments from the rate base which do not add value to providing telecommunications services.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

Cross-References: Land and support assets, 47 C.F.R. § 32.2110 (1991); General support facilities, general, 47 C.F.R. § 36.111(a) (1991).

20.10.28.35. Apportionment of Category 3 investment. For Class B telecommunications companies with 100,000 or more access lines, intrastate Category 3 investment is apportioned to toll and other services based on the relationship of unweighted intrastate toll dial equipment minutes-of-use (DEM) to unweighted total intrastate DEM. To develop the toll relationship, unweighted intrastate toll DEM is divided by the sum of the unweighted intrastate toll and other services DEM. This result is applied to the intrastate Category 3 investment. For all other local exchange companies, Category 3 investment is apportioned by the application of an intrastate allocation factor that is the lesser of either 85 percent or the DEM factor specified in the first paragraph of this section multiplied by a weighting factor of two. The total weighted DEM for intrastate toll and interstate is capped at 85 percent. Interstate weighted DEM plus intrastate weighted toll DEM must be less than or equal to 85 percent. If greater than 85 percent, intrastate weighted toll DEM is reduced to bring the combined weighted interstate and intrastate toll DEM to 85 percent.

PURPOSE OF REVISION:

The weighted intrastate DEM is an arbitrary allocation that is an implicit subsidy mechanism which artificially increases switched access prices. This type of implicit subsidy mechanism must be eliminated in order to promote efficiency and competition. The 85 percent cap for interstate and intrastate access rate development is still required because the interstate DEM weighting plus any allocation to intrastate access can result in an over recovery of revenue requirement for Category 3 Switching.

20.10.28.61. Exchange line cable and wire facilities – Category 1 – Apportionment of cost. The first step in apportioning the cost of exchange line cable and wire facilities among the operations is the determination of an average cost per working loop. The average cost per working loop is determined by dividing the total cost of exchange line cable and wire facilities Category 1, by the sum of the working loops described in the following subcategories:

(1) Subcategory 1.1 - Intrastate private line and state WATS lines, including all private lines and WATS lines carrying exclusively intrastate traffic as well as private lines and WATS lines carrying both intrastate and interstate traffic if the interstate traffic on the line involved constitutes ten percent or less of the total traffic on the line.

(2) Subcategory 1.3 - subscriber or common lines that are jointly used for local exchange service and exchange access for intrastate and interstate interexchange services.

The intrastate costs assigned to subcategory 1.1 are directly assigned. Twenty five percent of total subcategory 1.3 investment is assigned to intrastate toll. If the sum of the Federal High Cost Fund, the interstate assignment, excluding the federal End User Charge plus the twenty five percent intrastate allocation exceeds 85 percent, the intrastate allocation shall be reduced to bring the combined Federal High Cost Fund, interstate assignment and intrastate switched access allocation to 85 percent.

This assignment to toll and switched access shall be phased out each year at the following percentages.

Year 1:	25% (with the cap)
Year 2:	15% (with the cap)
Year 3:	10% (with the cap)
Year 4:	0%

PURPOSE OF REVISION

The allocation of the loop revenue requirement to toll and switched access is an arbitrary allocation. This is another implicit subsidy that must be eliminated to foster efficient pricing and competition.

20 10:28:67. Other telecommunications plant - Apportionment of cost. The amounts carried in property held for future telecommunications use, Account 2002, telecommunications plant under construction, short-term, Account 2003, telecommunications plant under construction, long-term, Account 2004, and telecommunications plant adjustment, Account 2005, are apportioned among the operations based on the apportionment of Account 2001, telecommunications plant in service. Account 2002, 2004 and Account 2005 shall not be included for toll and switched access charge ratemaking.

PURPOSE OF REVISION

The purpose of excluding these accounts for ratemaking purposes is that the investment included in these accounts is not used and useful in the test year. Account 2005 (i.e., plant acquisition adjustment) must be excluded for ratemaking purposes. Captive ratepayers should not be required to pay for management decisions to purchase investment above the net book, as ordered in the U S WEST sale of exchanges.

20 10:28:68. Rural telephone bank stock - Investment in nonaffiliated companies - Account 1402. The amount carried in rural telephone bank stock, investment in nonaffiliated companies, Account 1402, is separated into subsidiary record categories as follows:

- (1) Class B rural telephone bank stock, and
- (2) All other.

The amounts contained in subdivision (1), Class B rural telephone bank stock, are excluded from these separations procedures, allocated based on the relative separations of Account 2001, telecommunications plant in service. The amounts contained in subdivision (2), all other, are excluded from these separations procedures.

PURPOSE OF REVISION:

Rural bank stock is a financing tool of the carrier's carrier that allows a very favorable source of funds. Often the proceeds from the bank stock are not used for investment in telecommunications investment. Many carrier's carriers have invested the proceeds from the

bank stock in non-telecommunications investments so as to provide additional income to the shareholders. Thus, it is prudent to exclude these investments for ratemaking purposes.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

Cross-References:

Telecommunications plant in service, 47 C.F.R. § 32.2001 (1991)

Investments in nonaffiliated companies, 47 C.F.R. § 32.1402 (1991).

Rural telephone bank stock, 47 C.F.R. § 36.172(a)(b)(c) (1991).

20:10:28:72. Allocation of equal access investment. The equal access investment is allocated between the intrastate and interstate jurisdictions based on 47 C.F.R. Part 36 (1991). Intrastate equal access investment which remains and which is not related to centralized equal access provisioning is directly assigned to toll. The costs incurred for equal access shall be recovered in a competitively neutral manner from all toll providers including the incumbent carrier's carriers. Centralized equal access investment is recovered separately by the centralized equal access provider. Costs incurred by a local exchange company to provide centralized equal access are directly assigned to toll.

20:10:28:85. Nonoperating income and expenses -- Account 7300. Only allowance for funds used during construction and charitable, social, and community welfare contributions are considered in Account 7300 for separations purposes. Account 7300 shall not be included for ratemaking purposes.

~~— Subsidiary record categories are maintained for this account that identify amounts made to the account for credits representing allowance for funds used during construction and for contributions for charitable, social, or community welfare purposes, employee activities, membership dues and fees in service clubs, community welfare associations, and similar organizations.~~

~~— The portion reflecting allowance for funds used during construction is apportioned based on the cost of telecommunications plant under construction, long term, Account 2004. The portion reflecting costs for social and community welfare contributions and fees is apportioned based on the apportionment of corporate operations expenses.~~

PURPOSE FOR REVISION:

The amounts included in Account 7300 should not be used for intrastate toll and switched access ratemaking. In general, consumers may not wish to fund specific charitable, social or community welfare programs that the company may have chosen. Inclusion of such is an individual decision and the consumer should have a choice of which and whether to contribute to charities, etc.

20:10:28:87. Apportionment of extraordinary items -- Account 7600. Extraordinary item amounts of an operating nature in Account 7600 shall not be included in ratemaking and are apportioned consistent with the nature of the item.

PURPOSE OF REVISION:

The amounts included in this account include extraordinary events, and as such, should only be included if the amounts are shown to be in the public interests.

20.10.28.132. Development of Costs for Class A Company: Class A Company shall develop costs using Total Service Long Run Incremental Costs. Total Service Long Run Incremental Cost means the total forward-looking cost, using least cost technology, for a telecommunications service or basic network element, feature, function or service that the telecommunications provider would incur if it were to initially offer such telecommunications service or basic network element. Total service long run incremental cost studies shall be based on the following:

- 1) Long run implies a period long enough that all costs are variable.

Long run is a period of time long enough so that all costs are treated as variable (avoidable). Long run shall be defined to mean a period of time sufficient for all costs associated with the provision of a basic network element, function or feature to be avoidable, it is a time interval over which all plant, equipment and other investment are to be replaced. In a cost study conducted in compliance with these guidelines, no forward-looking investment required to provide basic network element, function or feature in question shall be considered sunk.

- 2) Cost causation is a key concept in incremental costing.

Cost causation is a consistent and fundamental principle of Total Service Long Run Incremental Cost studies. The principle of cost causation should be utilized to determine the appropriateness of including a cost in a total service long run incremental cost study. The basic principle of cost causation is that only those costs that are caused by an activity in the long run should be directly attributable to that activity. Costs are considered to be caused by an activity, in the long run, if the costs are brought into existence as a direct result of the activity and are avoidable when the activity ceases.

- 3) The increment being studied should be the entire quantity of the service provided, not some small increase in demand.

A company's choice of forward-looking, least cost technologies shall be consistent with the level of output necessary to satisfy current levels of demand for all basic network elements, feature, function using the plant, equipment, or other investment in question, or the level of output necessary to meet reasonable forecasts of demand for all services or basic network functions using the plant, equipment or other investment in question over the study period. The determination of investment level shall represent the economic or efficient level of investment needed to meet the study demand. A company's choice of the use of current or forecasted demand shall remain consistent for all studies performed (i.e., a telecommunications company may choose replacement

technologies based on current demand for all studies performed or based on forecasted demand for all studies performed, but may not vary this assumption among studies.) This ensures that all customers who utilize identical network functions are attributed the same level of cost. The Total Service Long Run Incremental Cost for a bundled service is the sum of all basic network elements, features, or functions costs as well as the service-specific costs.

4) Any function necessary to produce a service must have an associated cost.

This principle assumes that any function necessary to produce an output or telecommunications service has an associated cost. A distinction is not made between volume sensitive and volume insensitive costs because the key to this principle is to capture all costs necessary to offer or provision a telecommunications service. The associated cost necessary to offer that service should in turn be included in a total service long run incremental cost analysis. Most often, this principle is misinterpreted in accounting for investment or capital costs. In the past, the principle that has guided cost studies on whether to include investment costs was whether an increase in investment for a particular service would be needed during a planning period. If an increase in investment costs was not anticipated, investment costs were totally excluded from the cost analysis. This was justified by marginal cost principles that treat start-up capital costs as sunk. This would be incorrect if applied to a total service long run incremental cost study, because a total service long run incremental cost study would treat capital costs as costs necessary to offer a telecommunications service.

5) Network Topology.

Existing network topology will be assumed to exist over the long run, unless the company has documented plans to change such topology. If a planned, rather than actual, network topology is used, it shall be used for all cost studies performed in compliance with these guidelines. The technologies that provide the most efficient means of supplying the necessary capacity, given this topology, should be assumed. Each study shall clearly identify the technologies, the capacity, assumed for each technology used in the study, and a statement of whether the technology(ies) assumed in the study is the most efficient and least cost. The technologies that provide the most efficient means of supplying the necessary capacity over the topology will be used. If a company can show that it does not plan to change its network topology over the long run, it may use its existing network topology.

6) Common overhead costs are not part of a long run incremental cost study. Recovery of common overhead costs should be a pricing issue.

Common overhead costs are those costs that cannot be identified as a cost specific to a service or group of services of the firm. A clear distinction should be made between shared costs and common overhead costs. While common overhead costs should not be included in a Total Service Long Run Incremental

Cost analysis, reasonable shared costs must be reflected. Shared costs are volume-insensitive and shall not be unitized and allocated to the individual Total Service Long Run Incremental Cost within the group. Shared costs shall be shown as a lump sum amount for the group of services.

- 7) Technology used in a long run incremental cost study should be the least cost, most efficient technology that is currently available for purchase.

This principle assumes that a total service long run incremental cost analysis should be based on the complete replacement of the existing facilities using the least-cost, most efficient technology assuming best business practices. The least-cost technology should reflect a known and proven technology that is clearly identified and is in use, at least partially, today.

- 8) Costs should be forward looking.

Forward-looking technology shall be defined to mean that a company will include in its total service long run incremental cost studies the technology, or mix of technologies, that would be chosen in the long run as the most economically efficient choice for the provision of a given basic network element, feature, or function. The company must clearly explain within the worksheets or source documents the choice of each technology, the price of each technology, the source of the technology and its price or the method by which the price was determined. A company's choice of forward looking, least cost technologies shall be restricted to those technologies available in the marketplace and for which vendor prices can be obtained at the time the study is performed.

- 9) Cost studies should be performed for the total output of specific services and at the level of basic network element, feature or function from which services are derived.

The cost methodology should ensure that costs for services which use the network in exactly the same way are treated consistently. One of the main reasons why services that utilize the network in exactly the same way are attributed different costs (in certain types of cost studies) is that emphasis is placed on the cost of services rather than on the cost of the functional network elements, features or functions from which the services are constructed. Many of these cost studies are derived from cost studies that are driven by service-specific parameters. A service-specific or service-costing methodology does not ensure that identical uses of the network will be attributed the same level of cost. Cost studies based upon an unbundled network element, feature or function minimize service-driven parameters costs by deriving identical costs for identical network functions.

- 10) The same long run incremental cost methodology should apply to all services, new and existing, regulated and non-regulated, competitive and non-competitive.

A total service long run incremental cost study should be based on a specific set of costing principles and data that yields consistent cost results that can be compared to all services, new and existing, regulated and non-regulated, competitive and non-competitive.

- 11) A total service long run incremental cost study should use specifically determined forward looking least cost expenses.

Expenses derived from factors and loadings are not proper for a total service long run incremental cost study unless the company demonstrates that such expenses are forward looking and use the least cost approach for the function or service under study.

- 12) Spare capacity.

A portion of the costs associated with plant, equipment or other investment that is used by a company to offer two or more services or basic network functions shall be included in the total service long run incremental cost of each service or basic network element, feature or function only upon a showing that a discrete component of this shared investment can be identified as having been directly caused by the decision to offer the service or basic network function being studied (and which will be avoidable if the service or basic network function being studied is not offered.) The costs associated with the use of shared investments that cannot be avoidable if the service or basic network function being studied is not offered should be considered shared costs, and should not be included in the total service long run incremental costs for a service or basic network function. At no time should costs which are not avoidable if the service or basic network function being studied is not offered be allocated or otherwise included in the cost study for the service or basic network function. If the capacity of the shared investment is finite, the displacement of capacity by the service or basic network function being studied contributes directly to the exhaustion of the investment and represents a relevant total service long run incremental cost of the service or basic network element feature or function. Observed, actual or average fill factors shall not be used in the development of the total service long run incremental cost estimate. To the extent that the carrier's carrier identifies modular investment, the size of investment is the smallest feasible level of investment to meet the current or forwarding looking demand over the economic life of the investment. In no event shall investment and/or capacity for future services be included in the costs for the basic network element, features, functions. The costs associated with shared investment shall be explicitly identified and shown as a lump sum amount in total service long run incremental cost studies performed in compliance with these guidelines.

The development of the capacity cost calculations in a total service long run incremental cost study has dramatic impact on the level of volume and volume insensitive costs. If the level of investment and its associated fill factors do not represent the least cost, most efficient levels and best business practices over the economic life of the investment, then the costs could be greatly overestimated. Thus, proper documentation of the investment levels, fill factors,

and assumptions must be included in the filing requirements in order to assess whether the studies do follow guidelines.

- 13) The study must express shared group costs in a lump sum for the group and identify the total service long run incremental costs for all the services in the group.

The recovery of shared group costs is a pricing issue and the cost study shall not presume a pricing solution in the manner that the cost data is presented. Therefore, the shared group costs shall be expressed as a lump sum for those services that share the costs. It is inappropriate to utilize or allocate the shared costs to the individual total service long run incremental costs for each service.

- 14) All service specific volume-insensitive costs which do not vary with individual units of output, or with changes in the level of output, but which are incurred by a carrier's carrier as a result of its decision to offer a service or basic network element, feature or functions (or which would be avoidable in the long run by a decision not to offer the service or basic network functions), shall be included in all studies performed in compliance with these guidelines. These service specific volume-insensitive costs shall be shown as a lump sum amount.

20:10:28 133. Basic Network Elements: Total service long run incremental cost studies filed in accordance with these rules shall reflect the cost of individual basic network elements, features or functions. Basic network elements, feature or functions for which individual total service long run incremental costs shall include but are not limited to the following:

- (a) Local Loop Distribution
- (b) Local Loop Concentrator
- (c) Local Loop Feeder
- (d) Local Switching
- (e) Operator Services
- (f) Tandem Switched Local Transport
- (g) Dedicated Local Transport
- (h) Interoffice Transport
- (i) Signaling Links
- (j) Signal Transfer Point (STP)
- (k) Signal Control Point (SCP)

Individual basic network elements, features or functions, such as those listed above, shall be combined to reflect the cost of service offerings, such as basic residential local exchange service, after the cost of the basic network elements, features or functions needed to provide such service have been determined. Costs associated with the basic network elements, features, or functions necessary to provide the local loop shall not be included in the total service long run incremental cost of any services, other than basic local exchange services. Total service long run incremental cost results proposed by a company shall be consistent throughout all services using the basic network elements, features or functions.

20:10:28 134. Study Filing Requirements: Class A Company submits a total service long run incremental cost study, it must simultaneously file a complete set of workpapers and source documents.

- (a) The workpapers must clearly and logically present all data used in developing the cost estimates and provide a narrative explanation of all formulas and algorithms applied to the data. These workpapers must allow others to replicate the methodology and calculate equivalent or alternative results using equivalent or alternative assumptions. All acronyms for cost terms, equipment and nonstandard verbiage shall be clearly defined within the study. All spreadsheets shall include the formulas used in calculating the individual results. All spreadsheet and workpaper results shall be referenced or mapped to other spreadsheets or workpapers for a complete audit trail. If a company plans to discontinue the use of a spreadsheet, program, or model currently in use, it shall notify the Commission and provide a detailed explanation of how the incremental cost for services or basic network functions currently being calculated using the model in question will be determined. If a company plans to begin use of a spreadsheet, program or model not currently in use, it shall notify the Commission and provide a detailed description of how the proposed spreadsheet, program, or model will operate, including a list of required inputs, a description of processing algorithms, and a description of the model output.
- (b) The workpapers must clearly set forth all significant assumptions and identify all source documents used in preparing the cost estimate.
- (c) The workpapers must be organized so that a person unfamiliar with the study will be able to work from the initial investment, expense, and demand data to the final cost estimate. Every number used in developing the estimate must be clearly identified in the workpapers as to what it represents. Further, the source should be clearly identifiable and readily available, if not included with the workpapers.
- (d) Any input expressed as a "dollars per minute", "dollars per foot", "dollars per loop", "dollars per port", and the like must be traceable back to the original source documents containing the number of dollars, minutes, feet, loops, ports, and the like from which these figures were calculated.
- (e) To the extent practicable, data and workpapers must be provided in machine readable form on diskettes using standard spreadsheet or database software formats. Each diskette must contain a "read me" or similar file that defines the contents of each file on the diskette and contain an explanation of the definitions, formulas, equations and data provided on the diskette. To the extent that proprietary models are used, those proprietary models will be made available, along with documentation and user instructions, under protective order for use by Commission staff and other parties of standing.
- (f) An index or detailed table of contents of the workpapers and source documents must be provided. In addition, to the extent practicable, a cross index should be included that will allow other parties to track key numbers through the various source documents, workpapers and exhibits.
- (g) Each individual study shall list other cost studies that use the individual cost study as a component for other features, functions and/or services. This list

shall include a description of the feature, function or service and a tariff or price list reference.

- (h) Where weightings are used in the development of the costs, the study shall state the numeric weightings used, and a statement and description of whether these weightings are historical or forward looking and whether the weightings are state specific, region-specific, and/or product management, engineering, etc. estimates.
- (i) Where shared costs for a group of services are identified, each study shall identify and provide a description of the type of costs (e.g. spare capacity, administrative, etc.) that is considered a shared cost. These shared costs shall be identified as a lump sum. In addition, each shared cost identified shall include a list of each regulated, deregulated, and/or price list feature, function, or service that share these costs. For each service listed that share the costs of the group, the individual total service long run incremental cost also shall be provided. In no event shall the shared costs be "unbundled or allocated" to the individual total service long run incremental costs that comprise the group.
- (j) Each study will identify the administrative, growth, and modular fill factors used in the development of the volume sensitive and volume insensitive investment levels. Each fill factor must indicate whether the fill factor was used to estimate the volume sensitive or volume insensitive investment levels. Each fill factor must also be identified to determine whether the fill factor is optimal, estimate, observed or actual, average, etc.

Each study shall demonstrate that the growth fill factors used in the study meet two criteria:

- a) The size of the investment has a direct relationship to the current or expected demand over the economic life of the investment.
- b) The size of the investment and fill factor used is forwarding looking, least cost, and most efficient.

Observed, actual or average fill factors shall not be used in the development of the estimate.

To the extent that modular investment is used in the study, the carrier's carrier must fully demonstrate in each study that the size of investment is the smallest feasible level of investment to meet the current or forwarding looking demand over the economic life of the investment.

- (k) Different unbundled and bundled services offered by a company will often use equivalent basic network elements, features or functions. It is expected that the costs identified for equivalent basic network elements, features or functions will not vary among total service long run incremental cost studies for specific unbundled and bundled services.

20:10:28:135. Study Documentation: The level of documentation for total service long run incremental cost studies performed consistent with these guidelines may require the production of information that a company asserts to be proprietary or confidential. Complete documentation, including the asserted proprietary information, shall be provided to the Commission and intervenors, subject to an acceptable proprietary agreement. A company may, upon showing of good cause to the Commission, restrict intervenor access to this information to those individuals not responsible for the development, pricing or marketing of services that are competitive with the service or basic network function in question of a telecommunications company. At no time shall the Commission's access to this information be restricted.

20:10:28:136. Pricing of Network Elements: For purposes of the price development of the switched access services, a Class A Company shall not charge any price for a element that has no direct cost of providing switched access services. A Class A Company shall set prices for its basic network elements, features, and functions that it charges to other telecommunications providers at the total service long run incremental costs for those network elements, features and functions. For those existing basic network elements, features or functions that other telecommunications providers currently purchase, the prices shall be phased down to the individual total service long run incremental costs by equal percentages over a three year period.

PURPOSE OF REVISION:

The Carrier Common Line Charge and Interconnection Charge are not cost based. These price elements do not have any direct costs associated with these elements. The federal Telecommunications Act of 1996 requires that the price for interconnection, including switched access to be cost based; thus, such charges would be contrary to the law. See Section 3 (a) (2) (45), and Section 252 (d) states, respectively. Therefore, the all non cost based elements must be eliminated. Likewise, other switched access cost based elements associated with switching and transport must be set at the total service long run incremental costs because this will comply with the law, as well as promote efficient pricing and competition.

TELECOMMUNICATIONS SWITCHED ACCESS CHARGES

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20 10 29 02. Application of access charges -- General. This chapter establishes rules for switched access charges for intrastate switched access services provided by telecommunications companies as classified as Class B. Such switched access charges are based on the intrastate switched access portion of toll as determined in chapter 20 10 28, excluding chapter 20 10 28 132 through 135. Charges for such switched access services are computed, assessed, and collected and revenues from such charges are distributed as provided in this chapter.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

Cross-Reference: Application of access charges, 47 C.F.R. § 69.2 (a) (1) (1993).

20 10 29 03. Charges to be filed. A carrier's carrier's or association's charges for intrastate switched access service filed with the commission shall include charges for each of the following elements:

- (1) Carrier common line for an interim period as outline in chapter 20 10 28 31.
- (2) Local switching.
- (3) Transport.

This chapter does not develop rates for information, interexchange, special access, end user common line, and billing and collection. Prices/Costs associated with these categories are not included in the carrier's carrier's charges for intrastate switched access.

A carrier's carrier that offers expanded interconnection for switched transport pursuant to 47 C.F.R. § 64.1401 (October 1, 1993) may include an element for connection charges for expanded interconnection.

PURPOSE OF REVISION:

The Carrier Common Line Charge ("CCLC") does not have a direct cost for providing switched access or toll. This subsidy mechanism may be supporting common overheads, inefficiencies or shareholder equity. Thus, the CCLC is an implicit subsidy mechanism that needs to be eliminated to promote efficiency and competition.

Source: 19 SDR 111, effective January 31, 1993; 21 SDR 81, effective November 3, 1994.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

Cross-Reference: Charges to be filed, 47 C.F.R. § 69.4 (b) and (c) (1993).

20.10.29.10. Carrier common line element -- Assessment of charge -- Determination of charge -- Equal originating and terminating charges. A charge that is expressed in dollars and cents per access minute of use is assessed on all users of switched access that use local exchange common line facilities for the provision of intrastate telecommunications services. However, the charge may not be assessed on interexchange carriers to the extent that they resell Message Toll Service (MTS) or MTS-type services of other common carriers. For purposes of this rule the term "open end" of a call describes the origination or termination of a call that utilizes exchange carrier common line plant. A call may have an, one, or two open ends. All open end minutes on calls with one open end, such as an 800 or foreign exchange call, may be treated as terminating minutes, shall be treated as originating minutes.

A per minute charge is computed by dividing the annual intrastate carrier common line revenue requirement by the annual intrastate carrier common line minutes of use. The per minute charge is equal for both originating and terminating traffic during the interim period as outlined in chapter 20.10.28.61.

PURPOSE OF REVISION

AT&T is recommending a phase-out of the CCLC because there are no direct costs in the provision of switched access and toll services, however, during the interim period the originating CCLC should be assessed on all open end minutes. Currently, a higher terminating CCLC is assessed for open end minutes for those customers that purchase 800 or foreign exchange services. Customers that purchase CCLC for MTS originating minutes are assessed a lower originating CCLC rate for open end minutes. Therefore, there is undue price discrimination between customers which purchase originating CCLC for MTS, 800 and foreign exchange minutes.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

Cross-Reference: Carrier common line, 47 C.F.R. § 69.105 (a) (1993).

20.10.29.14. Equal access -- Assignment of revenue requirements. Intrastate exchange revenue requirements which result when an exchange carrier voluntarily elects to convert a local exchange switch to provide Feature Group D service substantially equivalent to access provided for message toll service or wide area telephone service are assigned to the local

switching element. Where intraLATA equal access is provided, the cost shall be recovered in a competitively neutral manner from all toll providers, including the incumbent carrier's carriers.

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

Cross-References: Definitions, § 20:10:27-01; Equal access, 47 C.F.R. § 68.107 (1991).

PURPOSE OF REVISION:

All toll carriers should share in the cost of intraLATA equal access. IntraLATA equal access benefits all companies' customers by providing more choices in providers, therefore cost recovery of these benefits should be shared by all companies.

~~20:10:29-16-05. Interconnection charge. An interconnection charge expressed in dollars and cents per access minute is assessed on all interexchange carriers and on all other persons interconnecting with the carrier's carrier's switched access network. The interconnection charge is computed by subtracting entrance facilities, tandem-switched transport, direct-trunked transport, and dedicated signaling transport revenues from the annual intrastate transport revenue requirement and dividing by the annual intrastate local switching minutes.~~

~~Source: 21 SDR 81, effective November 3, 1994.~~

~~General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.~~

~~Law Implemented: SDCL 49-31-18.~~

~~Cross Reference: Interconnection charge, 47 C.F.R. § 69.124 (1993).~~

PURPOSE OF REVISION:

The Interconnection Charge is not cost based. The federal Telecommunications Act of 1996 requires that the price for interconnection, including switched access, be cost based; thus, such charge would be contrary to the law. See Section 3 (a) (2) (45), and Section 222 (d). Therefore, the interconnection charge must be eliminated.

20:10:29-19. Apportionment of net investment accounts. Net investment in accounts 2001 and 1220, and Class B rural telephone bank stock broked in Account 1402 are apportioned among the interexchange category, billing and collection category, special access category, and applicable switched access elements as provided in §§ 20:10:29-20 to 20:10:29-30 inclusive.

~~Net investment in accounts 2002, 2003, and, to the extent that such inclusions are allowed by the commission, Account 2005, are apportioned based on the total investment in Account 2001, telecommunications plant in service.~~

Source: 19 SDR 111, effective January 31, 1993.

General Authority: SDCL 49-1-11, 49-31-5, 49-31-18.

Law Implemented: SDCL 49-31-18.

Cross-References:

Inventories, 47 C.F.R. § 32.1220 (1991).

Investments in nonaffiliated companies, 47 C.F.R. § 32.1402 (1991).

Telecommunications plant in service, 47 C.F.R. § 32.2001 (1991).

Property held for future telecommunications use, 47 C.F.R. § 32.2002 (1991).

Telecommunications plant under construction - short-term, 47 C.F.R. § 32.2003 (1991).

Telecommunications plant adjustment, 47 C.F.R. § 32.2004 (1991).

Net investment, 47 C.F.R. § 69.302 (a) (b) (1991).

PURPOSE OF REVISION:

Rural bank stock is a financing tool of the carrier's carrier that allows a very favorable source of funds. Often the proceeds from the bank stock are not used for investment in telecommunications investment. Many carrier's carriers have invested proceeds from the bank stock in non-telecommunications investments so as to provide additional income to the shareholders. Thus, it is prudent to exclude these investments for ratemaking purposes.



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312 230 2041

April 25, 1996

William Bullard
South Dakota Public Utilities Commission
State of South Dakota
500 East Capitol
Pierre, South Dakota 57501

Re: In the Matter of the Investigation of Switched
Access Rules; TC96-032

Dear Mr. Bullard:

Please remove C. Edward Watson, II from the service list in
the above-referenced matter and replace with:

Maria Arias-Chapleau
AT&T
1875 Lawrence Street
Suite 1575
Denver, CO 80202
(PH: 303-298-6232 / Fax: 303-298-6301)

Thank you for your assistance.

Very truly yours,

C. Edward Watson, II

CEW/ilh

cc: Maria Arias-Chapleau
Service List

JACK BROWN
GOLDEN WEST TELECOMMUNICATIONS
COOPERATIVE, INC.
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WALL SD 57790-0411

RICHARD D COIT
DIRECTOR OF INDUSTRY AFFAIRS
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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE INVESTIGATION OF
SWITCHED ACCESS RULES

) ORDER CLOSING DOCKET
)
)

TC95-032

At its regularly scheduled January 23, 1996, meeting, the Public Utilities Commission (Commission) opened a docket to inquire into the switched access rules found at ARSD Chapters 20:10:27 to 20:10:29, inclusive. To facilitate the investigation of this issue, the Commission requested that all interested persons and entities answer the following questions:

1. Do any of the above referenced switched access rules need to be modified?
2. If yes, which rules and what changes should be made? Submit all proposed rule changes with insertions into existing rules indicated by underscores and deletions from existing rules indicated by overstrikes.
3. How do these changes enhance the telecommunications industry?
4. Should there be any modifications to the Commission's cost study program? If so, what?

To be considered, all comments were to be received no later than the close of business on April 22, 1996. The Commission received timely filed comments and rebuttal comments from AT&T Communications of the Midwest, Inc., Local Exchange Carriers Association, U S WEST Communications, Inc., and Sprint Communications Company L.P. The Commission has jurisdiction in this matter pursuant to SDCL Chapter 49-31.

At its regularly scheduled April 13, 2000, meeting, the Commission unanimously voted to close the docket due to the age of the comments. It is therefore

ORDERED, that the docket is hereby closed.

Dated at Pierre, South Dakota, this 20th day of April, 2000.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By

Date

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner