

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

AT NASHVILLE

December 19, 1995

**IN RE: UNIVERSAL SERVICE PROCEEDING
 DOCKET NO. 95-02499**

INITIAL ORDER

The Commission convened this proceeding to comply with T.C.A. 65-5-207 as set forth in our Order of June 29, 1995. This law, in pertinent part, directed the Commission to initiate a proceeding in order that it might...

determine the cost of providing universal service, determine all current sources of support for universal service and their associated amounts, identify and assess alternative support mechanisms, and determine the need and timetable for modifying current universal service support mechanisms and implementing alternative universal service support mechanisms. T.C.A. 65-5-207 (b).

By its Order of June 29, the Commission required each company offering Basic Local Exchange Telephone Service in Tennessee on June 6, 1995 to file a cost study for a period ending no earlier than December 31, 1994. The study was to identify 1) the embedded cost of providing Universal Service, consisting of Basic Local Exchange Telephone Service and carrier of last resort obligations, including the revenues derived from these services for both high-and low-density service areas and 2) the amounts by which any service or service categories supported universal service. The Commission further asked for testimony on alternative support mechanisms. Cost studies and testimony were filed and the Commission convened a hearing on October 27, 1995.

The Commission reviewed the cost studies and pre-filed testimony provided. The testimony revealed that the cost studies which were submitted used, not one, but several embedded cost methodologies. There was testimony recommending long run incremental cost methodology. Our review led to a disturbing conclusion that the companies had failed to respond sufficiently to

the June 29 Order. That is to say, the cost studies failed to identify the details of any current universal service support, a lack of detail which, as all parties to this proceeding are obligated to know, makes it highly unlikely that a determination of the cost of Universal Service could be made which would be based on a reasonably complete record.

At the October 27 hearing, testimony was presented which supported two methodologies: embedded cost and long run incremental cost. The total service long run incremental cost (TSLRIC) was supported by some witnesses as the most reliable methodology by which to determine the cost and sources of support for universal service. However, there were witnesses who testified that a TSLRIC study covering all regulated services would take at least ninety (90) days to complete and further testified that current methods for conducting a TSLRIC study needed fine-tuning; refinements which could postpone these studies or cast doubt over their accuracy. To adopt the TSLRIC methodology as a basis for carrying out the mandate of T.C.A. 65-5-207, would therefore be questionable for completion by January 1, 1996 and, if done in haste, could present lingering doubts about credibility.

A modified form of embedded cost study was recommended by Mr. Joseph T. Werner, a witness for the Consumer Advocate Division. This methodology recognized certain costs covered by 1) revenues for interstate services over which the Commission had no jurisdiction and 2) intrastate toll and access services which should be allocated out of the Universal Service costs and subsidy. This concept of a modified embedded cost study was not rebutted. In Mr. Werner's process, any excess of residual Universal Service costs over and above the revenues from the services comprising Universal Service must be derived from other local telecommunications services. The cost responsibilities attributed in this way represent the existing implicit subsidies from these other local services, intrastate toll and access to Universal Service. If these sources of support disappear, the costs of Universal Service remain to be recovered from other sources.

The companies, parties to this proceeding, have obstructed the ability of the Commission as fact-finder to determine the cost of universal service. To remedy this, the Commission must, in order to obtain reliable and complete information essential to this determination, request cost studies with great specificity and uniformity in the methodology by which the studies are prepared. Any other decision at this point would be based on such incomplete and potentially incorrect criteria as to be arbitrary.

Therefore, it is the decision of the Commission that the modified embedded-cost methodology, as presented by Mr. Werner, shall be adopted and that the companies shall file the modified embedded cost studies by Monday, December 11, 1995.

Universal Service is to be defined as residential basic local exchange telephone service comprised of 1) an access line, 2) a dial tone, 3) touch tone, 4) usage for two-way switched voice or data transmission over voice-grade facilities to residential customers, 5) lifeline, link-up Tennessee, and 911 Emergency Services, and 6) carrier of last resort obligations including white page directory listings, directory assistance, support for the Tennessee Relay Center and free blocking of 900 and 976-type services. This definition does not include any theoretical depreciation reserve deficiency that may represent a past carrier of last resort obligation. Neither does the definition require an acceleration of depreciation to upgrade existing technologies and facilities.

We reiterate our June 29 Order that these cost studies are to use the most recent Commission ratemaking findings of revenues, expenses, rate base and fair rate of return. Further, we request these specific submissions:

- 1) Total embedded cost of providing Universal Service in Tennessee for twelve (12) months ending no earlier than December 31, 1994;
- 2) The Tennessee Universal Service embedded cost obligations allocated to interstate services under the Federal Communications Commission Rules, Part 36;
- 3) The Tennessee Universal Service embedded cost obligations allocated to intrastate toll and access services (apply the allocation methodology in FCC Rules, Part 36;
- 4) The residual Tennessee Universal Service embedded cost to be recovered from all remaining local services after removing the costs recovered by allocation to interstate and intrastate toll, long distance, and access services;
- 5) The total Tennessee revenues from these items:
 - a) services comprising Universal Service, including FCC High Cost Fund payments;
 - b) intrastate toll and access services;
 - c) all other local services;

- 6) Supporting work papers, including identification and explanation of any assumptions used in preparation.

It is the mandate of T.C.A. 65-5-207(b) that we must issue our decision in this proceeding prior to January 1, 1996. Therefore, based on the testimony of the parties, there is not sufficient time to request that total service long run incremental cost studies be provided. However, we cannot ignore the testimony that total service long run incremental cost studies may provide, in fact, the best information. Therefore, to accomplish the intent of the legislature that the Commission assure that residential Basic Local Exchange Service is both available and affordable and, pursuant to the instruction of the T.C.A. 65-5-207 that it is both the authority and the obligation of the Commission to monitor the performance of universal service mechanisms, the Commission determines that total service long run incremental cost studies shall be provided to the Commission no later than June 30, 1996.

IT IS THEREFORE ORDERED:

1. That embedded cost studies as set forth in detail in the text of this Order shall be provided to the Commission by Monday, December 11, 1996.
2. That the Commission shall, upon review of the embedded cost studies, determine, as required by T.C.A. 65-5-207 (c), whether the creation of an alternative universal service support mechanism is essential.
3. That total service long run incremental cost studies, including a contribution to common cost for calendar year 1995, shall be provided to the Commission no later than June 30, 1996.
4. That embedded cost studies, as set forth in this Order, for calendar year 1995, shall be provided to the Commission no later than June 30, 1996.


CHAIRMAN


COMMISSIONER

COMMISSIONER

ATTESTED TO:


EXECUTIVE DIRECTOR