Service Date: September 28, 1999

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF CenturyTel of Montana Inc.'s request for Authority to Implement 2-PIC Dialing Parity on a State Boundary Basis	)))))	UTILITY DIVISION DOCKET NO. D99.4.108 ORDER NO. 6191a

FINAL ORDER ON COST RECOVERY

INTRODUCTION AND PROCEDURAL BACKGROUND

1. On April 22, 1999, CenturyTel of Montana Inc. (Century or Company) filed its Application for Approval of its Intrastate Equal Access Implementation Plan (Plan) with the Montana Public Service Commission (Commission).

2. Century filed its Plan in response to the Federal Communication Commission's (FCC) order adopted on March 19, 1999 (See *In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, Order, CC Docket No. 96-98, adopted March 19, 1999, released March 23, 1999).

3. The Commission has adopted rules for intraLATA dialing parity implementation in Montana. 1998 Mont. Admin. Reg., No. 7, at 983-1003 (April 16, 1998) (the "dialing parity rules" or "rules"). *See* ARM 38.5.4101 through 38.5.4120. ARM 38.5.4120 requires Century to implement intraLATA dialing parity pursuant to a Commission-approved plan.

4. On June 8, 1999, the Commission approved Century's intrastate dialing parity implementation Plan with an effective date of June 22, 1999; however, the

Commission delayed action on Century's request to recover its implementation costs pending the Company filing appropriate cost support materials for approval of its recovery request. On June 21, 1999, Century submitted its cost recovery proposal and supporting materials. The Commission issued a Notice of Opportunity for Hearing on July 2, 1999, requesting comments on Century's request no later than July 20, 1999. No parties filed comments or requested a hearing.

5. The Commission makes the following findings and conclusions on Century's intrastate equal access cost recovery request.

FINDINGS OF FACT AND COMMISSION DECISION

6. ARM 38.5.4120 requires a LECs plan to describe the anticipated cost of implementation, including its specific intraLATA presubscription costs, the recovery vehicle and recovery time frame as part of its implementation plan. Specifically, ARM 38.5.4115 requires the LEC to calculate a surcharge and determine the vehicle it intends to use to recover the implementation costs from all participating IXCs. The switched access per minute of use surcharge is to be calculated by dividing the additional intraLATA equal access costs by the projected annual total of all switched intraLATA originating minutes of use (including Century's).

7. ARM 38.5.4115(3) requires equal access cost recovery from "all providers of intraLATA toll service in the exchange(s) through a charge and imputation of such charge applicable to all switched intraLATA minutes of use originating in the exchange(s)." Costs are to be recovered over a three-year period unless otherwise approved by the commission and are subject to "periodic true-ups" based on actual traffic volumes and actual implementation costs.

7. On June 21, 1999, Century submitted its cost recovery proposal accompanied by corresponding tariffs. Their proposal defines the development of implementation costs, development of the annual demand factor (MOU calculations), development of the "administrative setup" costs and the cost recovery vehicle, all of which are used to calculate to the annual surcharge. These inputs are analyzed below.

8. Of the total capital outlay for the implementation of dialing parity roughly 50 percent is attributable to customer notification costs. Customer notification was generated in two separate mailings of roughly equal size to Century's approximate 50,000 customers. The first mailing comprised of inserts in the end users bill while the second required a "special mailing". The second special mailing generated the majority of the notification costs because it was directly mailed to customers. This was required in order for Century to meet the Commission's customer notification deadlines. The Commission finds that the end user notification cost is reasonable considering the unique time constraints placed on the Company.

9. The next largest outlay is the expense to upgrade Century's Montana switch. The switch upgrade provides end users full 2-PIC capability as required by Montana and FCC statue. Switch upgrade costs are classified into two distinct categories – software engineering and installation and switch translations. Software engineering and installation account for the bulk of these costs, with installation accounting for the majority. The remaining cost, switch translations, is primarily due to engineering labor cost. The final costs are classified as employee training and computer setup costs used to train Century's employees of dialing parity and modify Century's billing system, respectively. This amounts to roughly 4 percent of the total outlay. The Commission

finds the cost to upgrade Century's switch, the training of its customer service representatives and the setup up costs to modify its billing system are all recoverable under ARM 38.5.4115(1), are reasonable, therefore are approved.

10. Century then uses this total outlay and multiplies it by an annual charge factor. Expense factors are then multiplied to the annual cost to arrive at the total annual cost. This is the amount Century intends to recover per year over the three-year recovery period.

11. The denominator used to calculate the surcharge is calculated based on the total originating switched intrastate minutes of use (including the local exchange carriers), sometimes referred to as the demand factor. See ARM 38.5.4115(1). Century grounds its demand factor on historic traffic volumes as recorded in the TET database. From this starting point, the base MOU are grown by one year using an annual growth rate that is based on observed access line growth rates. The annual demand is then discounted to arrive at the present value. This process is repeated over the three-year recovery period to arrive at the total MOU present value. The value is then multiplied by the discount factor to arrive at the levelized demand.

12. The total annual cost is then divided by the levelized annual demand, or MOU, to arrive at the annual surcharge. Century estimates the resulting surcharge is $0.001921 per switched access minute of use. The Commission finds Century's methodology used to calculoated the forecasted demand factor is reasonable and appropriate under ARM 38.5.4115(1). Additionally, the expenses, expense factors and growth rate used to calculate the total annual surcharge is also reasonable under this rule.

13. ARM 38.5.4115(4) requires a LEC to true up its estimated surcharge once actual costs and traffic volumes are determined. The true-up is to be filed on a "periodic" basis over the three-year recovery period. Century states that it will submit an 18-month true up once the Commission approves the cost recovery surcharge. The Company will true up its costs and demand factor using actual costs and actual traffic volumes rather than estimated costs and forecasted MOU on a going forward basis beginning at the time of cutover – July 16, 1999. Century requests an 18-month true up period because the Company has established similar timeframes in other jurisdictions, which Century asserts, is more efficient than a separate yearly Montana true up. The Commission finds Century's request legal under ARM 38.5.4115; therefore, approves Century's request to true up its annual intrastate equal access surcharge 18-months after the effective date of its equal access tariffs.

14. As part of the true up filing, the Commission requires Century's to provide the Commission with a comparison of the forecasted traffic volumes and the estimated implementation costs to the actual traffic volumes and actual implementation costs and a detailed explanation why the surcharge differed from the original calculated estimate. Century is also required to provide the Commission with appropriate supporting materials demonstrating any change in the surcharge.

CONCLUSIONS OF LAW

1. The Commission has authority to supervise, regulate and control public utilities. Section 69-3-102, MCA. Century is a public utility offering regulated telecommunications services in the State of Montana. Section 69-3-101, MCA.

2. The Commission has authority to do all things necessary and convenient in the exercise of the powers granted to it by the Montana Legislature and to regulate the mode and manner of all investigations and hearings of public utilities and other parties before it. Section 69-3-103, MCA.

3. The Montana Public Service Commission is the state agency charged with regulating telecommunications carriers in Montana and properly exercises jurisdiction in this Docket pursuant to Title 69, Chapter 3, MCA.

4. Adequate public notice and an opportunity to be heard has been provided to all interested parties in this Docket, as required by the Montana Administrative Procedure Act, Title 2, Chapter 4, MCA.

ORDER

THEREFORE, based on the foregoing, IT IS ORDERED that Century's intrastate dialing parity implementation cost recovery Plan is approved as discussed herein.

DONE AND DATED this 21st day of September 1999, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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DAVE FISHER, Chairman

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NANCY MCCAFFREE, Vice Chair

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BOB ANDERSON, Commissioner

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GARY FELAND, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.