



PUBLIC NOTICE

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CRITERIA FOR STATE-CONDUCTED ECONOMIC COST STUDIES

CC Docket 96-45

On May 8, 1997, the Federal Communications Commission (Commission) released a Report and Order on Universal Service ("Order"). In the Order, the Commission established, consistent with the recommendations of the Federal-State Joint Board on Universal Service, that all mechanisms used to calculate the forward-looking economic cost of providing universal service in rural, insular and high cost areas must meet certain criteria. We reiterate those criteria in this Public Notice for the benefit of any state commission that wishes to file a forward-looking economic cost study for purposes of determining universal service support in that state. As set forth in the Order, states are to elect by August 15, 1997, whether they will conduct their own forward-looking economic cost studies. Universal service support in states that do not file cost studies will be based on the economic cost model that the Commission adopts in this proceeding. States that elect to conduct such studies should file them with the Commission on or before February 6, 1998. The Commission will seek comment on state cost studies and determine whether they meet the following criteria:

- (1) The technology assumed in the cost study or model must be the least-cost, most-efficient, and reasonable technology for providing the supported services that is currently being deployed. A model, however, must include the ILECs' wire centers as the center of the loop network and the outside plant should terminate at ILECs' current wire centers. The loop design incorporated into a forward-looking economic cost study or model should not impede the provision of advanced services. For example, loading coils should not be used because they impede the provision of advanced services. Wire center line counts should equal actual ILEC wire center line counts, and the study's or model's average loop length should reflect the incumbent carrier's actual average loop length.
- (2) Any network function or element, such as loop, switching, transport, or signaling, necessary to produce supported services must have an associated cost.

- (3) Only long-run forward-looking economic cost may be included. The long-run period used must be a period long enough that all costs may be treated as variable and avoidable. The costs must not be the embedded cost of the facilities, functions, or elements. The study or model, however, must be based upon an examination of the current cost of purchasing facilities and equipment, such as switches and digital loop carriers (rather than list prices).
- (4) The rate of return must be either the authorized federal rate of return on interstate services, currently 11.25 percent, or the state's prescribed rate of return for intrastate services.
- (5) Economic lives and future net salvage percentages used in calculating depreciation expense must be within the FCC-authorized range.
- (6) The cost study or model must estimate the cost of providing service for all businesses and households within a geographic region. This includes the provision of multi-line business services, special access, private lines, and multiple residential lines. Such inclusion of multi-line business services and multiple residential lines will permit the cost study or model to reflect the economies of scale associated with the provision of these services.
- (7) A reasonable allocation of joint and common costs must be assigned to the cost of supported services. This allocation will ensure that the forward-looking economic cost does not include an unreasonable share of the joint and common costs for non-supported services.
- (8) The cost study or model and all underlying data, formulae, computations, and software associated with the model must be available to all interested parties for review and comment. All underlying data should be verifiable, engineering assumptions reasonable, and outputs plausible.
- (9) The cost study or model must include the capability to examine and modify the critical assumptions and engineering principles. These assumptions and principles include, but are not limited to, the cost of capital, depreciation rates, fill factors, input costs, overhead adjustments, retail costs, structure sharing percentages, fiber-copper cross-over points, and terrain factors.
- (10) The cost study or model must deaverage support calculations to the wire center serving area level at least, and, if feasible, to even smaller areas such as a Census Block Group, Census Block, or grid cell.

In order for the Commission to accept a state cost study submitted for the purposes of calculating federal universal service support, that study must be the same cost study that is used by the state to determine intrastate universal service support levels pursuant to section 254(f). A state need not perform a new cost study, but may submit a cost study that has already been performed for evaluation by the Commission. A state should, to the extent possible and consistent with the above criteria, use its ongoing proceedings to develop

permanent unbundled network element prices as a basis for its universal service cost study. In order to reduce duplication and diminish arbitrage opportunities that might arise from inconsistencies between the methodologies used for pricing unbundled network elements and determining universal service support, states are encouraged to coordinate the development of cost studies for the pricing of unbundled network elements and the determination of universal service.

States must file the cost studies referencing CC Docket 96-45 by February 6, 1998 with the Office of the Secretary, Federal Communications Commission, 1919 M Street, N.W., Room 222, Washington, DC 20554. States should also send an additional copy of the cost study to Sheryl Todd, Federal Communications Commission, Accounting & Audits Division, Universal Service Branch, 2100 M Street, N.W., Room 8611, Washington, DC 20554.

For further information pertaining the criteria for cost studies, please contact:

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