

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Development of LOCAL EXCHANGE)	DOCKET NO. 900633-TL
COMPANY COST STUDY METHODOLOGY(IES))	ORDER NO. 23474
)	ISSUED: 9-12-90

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 FRANK S. MESSERSMITH

ORDER INITIATING DEVELOPMENT OF LEC COST STUDY METHODOLOGY

BY THE COMMISSION:

The Commission has for several years and with increasing frequency, expressed the need for a cost study for telephone services. The burgeoning number of new services and the reconfiguration of old services has aggravated the basic problem of determining the "cost" of any service. It is becoming more clear that the joint costs of providing telephone service constitute a major portion of the total service cost. Moreover, increasing deployment of digital technology has increased the level of nontraffic sensitive costs. All of these factors complicate the development of accurate cost measures for the telephone industry.

Local exchange companies now function both as service wholesalers to their competitors and as retailers to their end-use customers. The introduction of competition in the telephone industry raises new issues such as anticompetitive pricing of end-user services and access services and the imputation of monopoly service element prices as a cost to LEC-provided competitive services.

We recognize that, historically, cost has not been the sole basis for pricing in the telephone industry. Rather, prices have been set based on such principles as value of service, acceptance of customers, residual ratemaking, and other standards in addition to cost. The principal example is the residual pricing of basic local service in response to the goal of universal service.

Cost Studies

Protection of rate payers and competitors against predatory pricing now looms as an increasing concern. Having a monopoly position in some markets and selling services below cost in competitive markets will create a barrier to competition. This shifts revenue recovery to the monopoly service ratepayer for the unrecovered cost from predation. In addition, a monopolist can

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restrict service availability, raise prices and reduce the incentive to serve efficiently. If too little joint cost is attributed to competitive services, some consumers may be economically deprived of access to monopoly services.

One of the principal tools used to address the issues of cost and price is the cost study. In order to have a standardized framework for analysis, we see a need for a uniform cost methodology to be applied to all services or groups of services. To that end, this proceeding has been initiated to develop a uniform cost methodology. In developing a cost methodology, we recognize that different forms of cost studies may ultimately be incorporated into a uniform methodology.

We recognize that the development of a cost study methodology is no small task and that it needs and deserves the input of all effected parties. This docket shall be the forum. We anticipate an initial series of workshops to solicit the views of the parties as the beginning of the development process. It is hoped that this workshop process will achieve several goals. First, the goals to be served by the uniform cost methodology must be identified. Second, the various types of cost studies needed to serve the goals must be identified.

The workshops should also explore the development of costs by function as well as by service. The basic functions should be identified such as residential access or business access. Some effort should be given to developing cost criteria for each function.

In addition, a process for the actual development of the cost methodology will be considered.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that workshops shall be held to begin development of a uniform cost methodology as set forth in the body of this Order.

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By ORDER of the Florida Public Service Commission, this 12th
day of SEPTEMBER, 1990.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

by: Kay Feyna
Chief, Bureau of Records

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