(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE INVESTIGATION TO DETERMINE AN APPROPRIATE COST MODEL USING FORWARD-LOOKING ECO­NOMIC COSTS FOR CALCULATING THE COSTS OF BASIC TELECOMMUNICATION SERVICES IN IDAHO. | )  )  )  )  )  )  )  ) | CASE NO. GNR-T-97-22  NOTICE OF INQUIRY             NOTICE OF  PREHEARING CONFERENCE  ORDER NO.  27269 |

Idaho Code § 62-623 directed the Commission to issue a report to the Governor and the Idaho Legislature recommending necessary legislation concerning state and federal “universal service” support mechanisms.  Universal service is a long-standing public policy that all residences have access to affordable basic telephone service.  On December 1, 1997, the Commission submitted its Report.  Among other things, the Report recommended that the Legislature create a new state universal service funding mechanism to operate in conjunction with federal universal support mechanisms.

In its Universal Service Order issued May 8, 1997, the Federal Communications Commission (FCC) determined that non-rural carriers providing universal services in high cost areas should receive universal service support based on forward-looking costs of providing the supported services.  CC Docket No. 96-45, FCC 97-157 (62 Fed. Reg. 32862).  The FCC is currently evaluating two forward-looking cost mechanisms (cost models) and intends to select or develop an economic cost model no later than August 31, 1998.  The FCC intends to use the new cost model to fund universal service supports for non-rural carriers beginning January 1, 1999.  Selection of a cost model will ensure that universal service support is operated in a predictable, competitively neutral, and non-discriminatory manner to preserve and advance universal service.  47 U.S.C. § 254; Idaho Code § 62-610.

For intrastate purposes, the FCC’s Universal Service Order also permits state regulatory commissions to develop their own state-specific forward-looking cost models to provide high-cost support to universal services within their respective jurisdictions.  States intending to develop their own cost models must submit those models to the FCC for its review no later than April 24, 1998.  FCC Order CC Docket No. 96-45/97-160, DA 97-2538 (December 3, 1997).(footnote: 1)  Consequently, the Commission initiates this investigation to select and/or develop an appropriate cost model for intrastate high-cost support.

In its efforts to select a cost model, the FCC has embarked upon a multi-step approach to refine and select a cost model for high-cost support.  In its USF Order, the FCC noted that three cost models were submitted: (1) the Hatfield Model 3.1 developed by Hatfield Associates under the sponsorship of AT&T and MCI; (2) the benchmark cost proxy model (BCPM) submitted by Sprint, PacTel and U S WEST; and (3) the telcom economic cost model (TECM) developed by Ben Johnson Associates and submitted by the New Jersey Advocate.  Universal Service Order, App. J, at ¶ 126.  With FCC encouragement, these cost models have continued to evolve and refine.  The FCC is considering adoption of the Hatfield, BCPM, or a hybrid cost proxy model (HCPM)(footnote: 2) for selection as the platform for the federal mechanism.  In addition, the FCC may consider other models or components of models “in selecting the best mechanism for determining non-rural carriers’ forward-looking costs for providing the supported [universal] services.”  62 Fed. Reg. at p. 65390.

1.  The BCPM.  This model is a geographically-based high level engineering model of a hypothetical local network that can be used to estimate benchmark costs for providing basic residential and business telephone service in small geographic areas.  The BCPM assumes that all plant is installed at a single point in time throughout the nation based upon existing central office locations and boundaries.  This information is converted into a geographic information system (GIS) that associates each telephone central office with large census block groups (CBGs).  With this information, the BCPM designs a local exchange network using a “tree and branch” topology.  Universal Service Order, App. J at ¶ 138.  The BCPM has recently been improved by using wire center boundary data based on census blocks instead of the larger CBGs.  62 Fed. Reg. at p. 65390.

2.  The Hatfield.  As noted in the FCC’s Universal Service Order, proponents of the Hatfield 3.1 model maintained that it is a “bottom-up” estimate of costs based on detailed information concerning customer demand, network component prices, operational costs, network operational criteria, and other factors affecting the costs of providing local service.  Universal Service Order, App. J at ¶ 148.

Both the Hatfield and the BCPM utilize a data base provided by business local research (BLR) and use wire center boundary data based on census blocks.  62 Fed. Reg. at p. 65390.

3.  The TECM Model.  The TECM model develops costs primarily at the wire center level.  The model is usually run using the loop length data of existing wire centers; thus it is a “scorched node” model.(footnote: 3)

All three models contain various modules and design assumptions.  The models allow users to modify numerous input values and assumptions.  Later versions of all the models use “Geo-code” data that associate the location of each customer with latitudinal and longitudinal coordinates.  Geo-code data is generally viewed as preferable to algorithms that estimate customer locations based on census data or other information regarding the number of customers in a given geographic area.  62 Fed. Reg. at p.  65390.

The purpose of this proceeding is to gather information to make an informed choice or to develop a forward-looking economic cost model.  At this time, the Commission believes that the selection of a model should serve two purposes.  First, it will be used to determine the cost of providing support for universal service in high-cost areas of the state of Idaho.  Second, it will be used as an aid to determine the costs of providing individual services and unbundled network elements in the context of future arbitration, mediation, and negotiations of interconnection agreements between individual telecommunication providers.  To that end, the Commission intends to examine the Hatfield, BCPM, HPCM, and the TECM.  The Commission’s goal is to adopt a model that complies with the FCC’s cost model requirements.

Notice of Presentation

The Commission intends to convene a number of informed public sessions at which proponents of various models will be invited to present their latest model version and to discuss with participants its strengths and weaknesses and further refinements.  The Hatfield model was presented on December 16, 1997, and the TECM model was presented on November 3, 1997.  The BCPM model will be presented by U S WEST on December 22, 1997, at 2:00 p.m. in the Commission’s Hearing Room located at 472 West Washington Street, Boise, Idaho.

YOU ARE HEREBY NOTIFIED that the Commission intends to obtain a sample cost model run with Idaho specific data from each cost model proponent, and then receive written comments on the cost models.  After receiving written comments, the Commission may convene a final public session to provide the Commission and others an opportunity to question proponents of each model.

YOU ARE FURTHER NOTIFIED that the Commission will convene a PREHEARING CONFERENCE ON THURSDAY, JANUARY 8, 1998 AT 9:30 A.M. IN THE COMMISSION HEARING ROOM LOCATED AT 472 W. WASHINGTON STREET, BOISE, IDAHO.  The purpose of the prehearing conference is to determine a schedule to complete the Commission’s inquiry, including the filing of written comments, and for any other purpose provided in the Commission’s Rules of Procedure.  In the interest of expeditiously completing this process, the proponents of each cost model should be prepared, if possible, to file their sample Idaho specific cost model result at the prehearing conference on January 8, 1998. If not possible, proponents should advise the Commission when Idaho cost models can be filed.

YOU ARE FURTHER NOTIFIED that the Commission intends to solicit written comments addressing the various models and recommendations of selection and/or development of the cost model for use in Idaho.  Persons desiring to be served with initial and reply comments in this proceeding should contact the Commission Secretary in writing no later than fourteen (14) days from the service date of this Order.  The Commission will create a service list and provide it to interested persons.  Persons filing initial and/or reply comments in this proceeding will be required to serve their comments on members of the service list.

YOU ARE FURTHER NOTIFIED that all proceedings in this case will be held pursuant to the Commission's jurisdiction under Title 61 of the Idaho Code and that the Commission may enter any final Order consistent with its authority under Title 61 and Title 62.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 et seq.

O R D E R

IT IS HEREBY ORDERED that Case No. GNR-T-97-22 is initiated for the purposes set forth above.

IT IS FURTHER ORDERED that the Commission shall convene a prehearing conference on Thursday, January 8, 1998, at 9:30 a.m. to determine a schedule for the filing of written comments and to complete the Commission’s inquiry in this case.  If possible, the proponents of each cost model should be prepared to file their sample Idaho specific cost model result at the prehearing conference.

IT IS FURTHER ORDERED that those persons desiring to receive comments filed in this case must notify the Commission Secretary no later than 14 days from the service date of this Order.  Once the Commission Secretary has received the service requests, she shall issue a Notice of Interested Persons desiring to be served with comments in this case.  Persons submitting comments to the Commission are required to serve those persons on the Commission’s service list.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of December 1997.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**FOOTNOTES**

1:

Support for rural telecommunication carriers will continue to be based on the existing support levels until a model that accurately predicts rural carriers’ forward-looking economic costs can be developed.  In no event, will rural carriers receive support based on forward-looking economic costs before January 1, 2001.  Universal Service Fund Order at ¶¶ 252-56.

2:

The HCPM is a hybrid model developed by the Staff of the FCC’s Common Carrier Bureau that combines features of the Hatfield and BCPM models.

3:

Scorched node model is one that “models” the network using the existing wire centers.  By contrast, a “greenfield” model does not use existing wire centers but models a completely new network.

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

December 19, 1997