MEMORANDUM

TO:INTERESTED PARTIES

MYRNA J. WALTERS, COMMISSION SECRETARY

FROM:BILL EASTLAKE, TELECOMMUNICATIONS ANALYST

DATE:MARCH 19, 1998

SUBJECT:SELECTION OF MAJOR COST DRIVERS FOR FURTHER SENSITIVITY ANALYSIS

CASE NO. GNR-T-97-22 COST MODELNOTICE

At the March 9-10 hearings, there was agreement on another run of all three models under consideration, to be provided on March 31.  Also agreed upon were some suggestions for sensitivity analysis and mapping to accompany the model runs for the specified wire centers.  In addition, several parties requested the opportunity to provide legal briefing on the issue of whether early choice of a state-specific cost model might unnecessarily constrain the State in creating its new intrastate USF.

1.  Common inputs.  These secondary model runs should be made with the FCC common inputs.  This run, designed to further isolate the differences between the models, is to be accomplished with the long list of common inputs already in use by the FCC to aid in comparisons between the HAI and BCPM models.  All parties agree that these FCC input values are chosen for comparison purposes only and are not to prejudice the ultimate selection of the appropriate input values to be used in estimation of Idaho-specific USF support amounts in a later case.  The purpose of utilizing this long list of common inputs is to narrow the range of different assumptions among the models so that we can concentrate further attention on those variables and assumptions that represent critical differences among the various models under consideration.

2. Major cost drivers.  For each of the wire centers specified, model proponents should conduct specific sensitivity analysis indicating quantitatively how important each of the major drivers is to the final cost result.  Due to lack of sufficient familiarity with all the differences in treatment of variables among the models, Staff has chosen not to specify an exact procedure for deciding how and where changes to the major drivers should be defined and inserted into the models. Model proponents bear the burden of indicating precisely how and where and by what amounts they made the changes to major cost drivers on which their sensitivity results are based.

Staff conceives of this sensitivity analysis in terms of the economics concept of elasticity (the ratio of the percentage change in cost to the percentage change in the driver that caused it, with all other drivers held constant).  This implies that sensitivity analysis for each driver should be done separately, with all other drivers at their original levels, rather than being done in a cumulative fashion, with each changed driver added on top of the previous one.  It is not essential that model proponents actually provide a calculation of elasticity for each driver for each specific wire center, but Staff will most likely make its own calculation of such a number to allow assessment of the relative importance of the different drivers.

As agreed by the parties, model proponents have submitted to Staff their choice of a small number of major cost drivers for further sensitivity analysis.  After some discussion with model proponents, Staff has selected the following list of major drivers:

---Structure sharing (percentage of costs allocated to company itself)

---Plant mix (aerial, UG, buried)

---Plant-related expenses

---Overhead assignment

---Cost of money

---Depreciation rates

---Fill factor

---Maximum length of analog copper loop

No specific values, nor even a range of values, need be assigned.  Each model proponent will likely change both in the direction and in the amount it thinks is appropriate from the FCC common input values.  From such choice it should be easy to infer an appropriate range of values.

Sensitivity analysis should indicate for each driver the original default value, the value or values to which they were changed, and the resulting change in final cost for the wire center under study.  Presenting all final results in tabular form would be helpful for ease in comparison among the models.

3.  Wire centers.  Models should be run as indicated before, for a summary of all (62) U S WEST southern Idaho wire centers and for these specific wire centers: Boise-Main [BOISIDMA], Pocatello-North [PCTLIDNO], American Falls [AMFLIDMA], and Castleford [CSFRIDMA].  Brief explanatory material may be filed along with model runs and should concentrate on the specific reasons that costs are high or low for a particular wire center.

As agreed at the hearing conference, model proponents should provide for each specific wire center whatever maps are available.  This will allow visual examination of the difference in network design between the models.  Model reports on some specific wire center detail may be helpful as background for understanding the explanations of wire center summary results provided.

4.  Filing of results.  By March 31, model proponents should file new model runs using the common inputs and wire centers specified above.  Each model filing should contain a CD with the model run, as well as a hard copy of the final outputs.  Sensitivity analysis (perhaps accompanied with brief explanatory material) and maps as outlined above should accompany the filing.  Those wishing to file legal briefs on the issue of making a model choice now should also file by this date.

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