

199—22.13(476) Methodology for determining costs to serve.

22.13(1) Construction of rule. This rule shall be construed in a manner consistent with its purpose to provide information on costs of supplying specific telephone services and on the relative contributions of general telephone service offerings to the rates of return to the telephone utilities. Unless a waiver is granted prior to filing, this rule shall require periodic fully distributed cost (FDC) studies to be prepared and submitted to the board and shall require individual tariff filings to be supported by cost studies.

22.13(2) Fully distributed cost studies. As used in this chapter, an FDC study operates to estimate the costs to serve customer classes.

a. In an FDC analysis, the totality of all investment and operating costs for all services offered during a specified test period are first determined. In addition, the total volume of each service provided during the test period is determined from the utility's records. Direct costs which can be identified for a particular category of service are segmented and attributed to the relevant services. The remaining common and joint costs are allocated among the services according to quantitative determinations as to test period direct investment in each service or test period relative use which each service made of the facilities, personnel, and operations supported by such costs. Revenues are identified, segmented and attributed to the relevant services. At the conclusion of the process, it should be possible not only to compute a rate of return for each service, but also to estimate unit costs for each of the services offered during the test period, which can be used as a basis for assessing relative revenue requirement contributions for each service which would have satisfied the utility's total revenue requirement—including cost of capital. The rates for each service shall be computed so as to have contributed an equal rate of return on investment.

b. Service category cost studies shall be made a part of any cost study. The test period direct costs, common and joint costs, investments and revenues shall be identified and attributed to each of the categories.

Categories and subcategories of service to be studied include, but are not limited to, the following:

(1) Private line—group channel service; cable carrying charges; continuous property loop; signal grade subscriber loop; voice grade subscriber loop; signal grade and voice grade block loops; local wiring charge; airport lines; intercept lines; signal multiloop; channels for program transmission; intrastate video transmission channel; multipoint loudspeaker network transmission channel; industrial television; and interoffice mileage.

(2) Intrastate tolls—toll DDD service; operator-assisted; and WATS.

(3) Local exchange service—existing inside station wiring; transmission service; and EAS.

c. Reconciliations of the subcategory cost studies to the category cost studies and of the category cost studies to the test period investment and costs shall be provided.

22.13(3) Service class cost studies. As used in this rule, a cost study operates to determine the cost for a specific service or equipment offering within the service class.

a. Fully allocated cost studies or other board-approved cost studies shall be provided for discrete service and equipment offerings when rates are proposed therefor or when requested by the board.

For fully allocated cost studies, these studies shall identify directly attributable costs and investments to which must be added an appropriate allocation of general administrative costs and other overhead costs, as well as an allocation of common and joint costs. Where possible, allocations should be made in the same manner as in the utility's FDC study.

b. Fully allocated cost studies or other board-approved cost studies shall include:

(1) An explanation, on a separate page, of the sources, derivation and calculation of all values used.

(2) Definitions, statements of all assumptions, formulae or documentation or other company procedures utilized, unit costs, and allocation factors for specific and common costs.

(3) All work papers used.