

Attachment DTE-CC 1-13B

PSC of District of Columbia, Opinion and Order

962-T-671

**PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1333 H STREET, N.W., SUITE 200, WEST TOWER
WASHINGTON, DC 20005**

OPINION AND ORDER

NON-PROPRIETARY VERSION

**FORMAL CASE NO. 962, IN THE MATTER OF THE IMPLEMENTATION OF
THE DISTRICT OF COLUMBIA TELECOMMUNICATIONS COMPETITION
ACT OF 1996 AND IMPLEMENTATION OF THE TELECOMMUNICATIONS
ACT OF 1996, Order No. 12610**

BEFORE THE COMMISSION:

Angel M. Cartagena, Chairman
Agnes A. Yates, Commissioner
Anthony M. Rachal III, Commissioner

D. Issue 3.2: Indirect Costs**Issue 3.2.1: Calculation Methodology****Issue 3.2.2: General Support Expenses (Accounts 6121-6124)****Issue 3.2.3: Corporate Operations Expenses (Accounts 6711, 6712, 6721-6728)****Issue 3.2.4: Uncollectibles (Account 5301)****Issue 3.2.5: Plant-specific and plant non-specific expenses****1. Testimony**

57. The *Local Competition Order*, as refined by the *Iowa Utilities Board* decision requires ILECs to include avoided portions of indirect costs in the resale discount rate. Verizon DC calculates its indirect costs using a four-part methodology. First, each function code in the indirect expense accounts – General Support (612X) and Corporate Operations (67XX), was analyzed to determine whether it directly supports an avoided direct function. Second, these indirect expenses were categorized as fixed or variable relative to the level of retail output. Fixed expenses (e.g., information system programming and maintenance) are not avoided. Third, expenses that vary with the level of output were analyzed to determine the portion that would be avoided. They were considered avoided in the same proportion as the function they support. Finally, general and administrative expenses (part of the “Corporate Operations” category) that vary with the number of employees are considered avoided based on the ratio of avoided intrastate direct expense to total company direct intrastate expenses.¹⁶⁵

58. Verizon DC and OPC differed in their estimations of indirect avoided costs. Verizon DC and OPC’s comments on the indirect cost elements that should be included in the resale discount rates are summarized in Table II below. The percentage figures provided for the major product codes show the portion of costs treated by Verizon DC as avoided. For the entire indirect cost category, 11.7 percent of costs were treated as avoided, assuming use of Verizon DC operators. Under the alternative scenario, when CLECs provide Operator Services, that figure is 11.76 percent.¹⁶⁶

Table II: Comparison of Verizon DC and OPC Indirect Costs

Indirect Costs	Verizon DC Treatment	OPC Comments
• General Purpose Computer (6124)	45.38 percent avoided	
• Executive (6711)	6.10 percent avoided	
• General and Administrative (6728)	16.66 percent avoided	“should have been calculated based on the relation of avoided direct expenses to total direct

¹⁶⁵ Verizon DC July 16 Cost Studies, Exhibit D at 232-234.

¹⁶⁶ Verizon DC July 16 Cost Studies, Resale Discount Study, Tab 4.

expenses because
directly avoidable
expenses are embedded
within this account.”¹⁶⁷

- Other Plant-specific and Plant Non-specific Accounts Not Avoided
- Other Not Avoided
- Information Management (6724) Not Avoided¹⁶⁸
- External Relations (6722)
- Research and Development (6727)

Should be partially avoided; similar in nature to General Purpose Computer (6124) and should be avoided in the same proportion¹⁶⁹

Considerable Portion should be avoided – related directly to retail service

Should be almost entirely avoided¹⁷⁰

59. According to Verizon DC, as long as there are some retail activities that Verizon DC continues to perform, indirect, common costs associated with those activities will not be avoided in a direct or linear proportion to the amount of direct avoided costs. For example, if Verizon DC avoided a percentage of sales activities, the expense of the sales office copier would not be avoided. The same is true to various degrees for External Relations, Research and Development, and other indirect costs.¹⁷¹

60. With regard to Information Management expenses, Verizon DC contends that general-purpose computers are primarily associated with physical hardware and, therefore, avoided when the cost of the personnel using the computers is avoided. Information Management costs are associated with databases and software applications and are not avoided when certain personnel are avoided.¹⁷²

¹⁶⁷ OPC Direct Testimony at 24.

¹⁶⁸ Verizon DC July 16 Cost Studies, Exhibit D at 234.

¹⁶⁹ OPC Direct Testimony at 23.

¹⁷⁰ OPC Direct Testimony at 23-24.

¹⁷¹ Verizon DC Rebuttal Testimony, Exhibit I at 9-10.

¹⁷² Verizon DC Rebuttal Testimony, Exhibit I at 8.

2. Decision

61. The *Local Competition Order*, as amended by the *Iowa Utilities Board* decision, requires the exclusion of avoided indirect costs in the calculation of the resale discount rate. As was true with OPC's comments on direct costs, its comments on indirect costs criticize Verizon DC's methodology, but fail to provide any specific alternatives or substantive arguments that would lead this Commission to reject Verizon DC's methodology. Verizon DC's argument that Information Management costs will not be avoided is convincing. In contrast, Verizon DC's general rebuttal -- that as long as there are some retail activities Verizon DC continues to perform, indirect, common costs associated with those activities will not be avoided in a direct or linear proportion to the amount of direct avoided costs -- suggests that perhaps External Relations and Research and Development costs are partially avoided. The record in this proceeding has no evidence to confirm that this is the case and OPC has provided no estimate of actually avoided External Relations and Research and Development costs. Without any concrete evidence demonstrating the existence of additional avoided costs, the Commission is constrained to adopt Verizon DC's calculation of indirect costs.

E. Issue 4: What cost onsets will Verizon DC incur under the appropriate resale discount methodology?

62. Verizon DC contends that it incurred costs as a result of the implementation of the Telecommunications Act, such as establishing service centers for CLECs and resellers operating such centers, and establishing access to OSS. However, Verizon DC claims that it did not use these costs as offsets in the avoided cost calculations because Verizon DC "looks at the costs on a function code basis [or] treats such costs as part of separate rate elements."¹⁷³ No other party addressed this issue. Upon review, it is clear that Verizon DC's onset costs are not reflected in the resale discount rate calculations. The Commission agrees with Verizon DC that these onset costs should not be included in the resale discount rate because such costs are treated as part of separate rate elements for OSS.

F. Issue 5: What is the appropriate treatment for taxes in the calculation of the resale discount?

1. Testimony

63. In its July 16 Cost Studies, Verizon DC assumes that, when a reseller provides service to a customer in lieu of Verizon DC, Verizon DC's revenue and expenses will decline by the same dollar amount. Thus, net income will not change, and avoided taxes are zero (see example below).¹⁷⁴ OPC claims that "associated expenses have been calculated to be 10 percent avoidable." Therefore, net income will decline and

¹⁷³ Verizon DC July 16 Cost Studies, Exhibit D at 236.

¹⁷⁴ Verizon DC July 16 Cost Studies, Exhibit D at 234-235.