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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1997 Annual Access Tariffs	)	CC Docket No.97-149
	)	
GTE TELEPHONE OPERATING COMPANIES	)	
TARIFF FCC NO. 1	)	Transmittal No. 1100
	)	
GTE SYSTEM TELEPHONE COMPANIES	)	
TARIFF FCC NO. 1	)	Transmittal No. 210

DIRECT CASE OF GTE

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TABLE OF CONTENTS

SUMMARY

GTE has fully supported its 1997 annual access tariff filing. As this Direct case will demonstrate, GTE has properly forecasted the interstate Base Factor Portion ("BFP") revenue requirement within reasonable limits, incorporated line counts for the 1997-1998 tariff year consistent with the value predicted by historical trend of end user demand, and has fully complied with the Commission's procedures for the allocation of Other Billing and Collection ("OB&C") expense to access elements.

GTE has adequately justified its method of projecting BFP revenue requirement for the 1997-1998 tariff year. GTE's projected revenue requirement projections in comparison to actual revenue requirement amounts is well within reasonable limits. The Commission's stated criteria for judging the accuracy of historical BFP projections (projected year-to-year percentage change in BFP revenue requirement is greater or less than 10 percent of the actual percentage change) is arbitrary and unreasonably restrictive. A more valid analysis of the accuracy of the interstate BFP projection should be to compare the variance between the actual and projected interstate BFP revenue requirements for each tariff period. For the tariff periods of 1991-92 through 1995-96, the difference between the projected and the actual interstate BFP revenue requirement for GTE has been a composite percent variance of only 1.50%.

Similarly, GTE projections of access lines are within acceptable industry parameters and the forecast error falls within a range from a low of 0.06% to a high of 3.06% for tariff years 1991 through 1996. Again, GTE believes that the Commission's definition of "significant" error is arbitrary, failing to account for the inherent volatility of the specific data series studied. GTE's actual average total lines in service have

always fallen within a 95% confidence interval around the forecast level. Accordingly, GTE's believes its projection of access lines used to calculate subscriber line charges for the 1997-1998 tariff year is consistent with the value predicted by the historical trend of end-user demand.

GTE has fully complied with the Commission's requirements for assigning OB&C expense and, therefore, has properly calculated the exogenous cost changes included in its 1997 annual tariff filing. As required by jurisdictional separations rules, the segregation of OB&C expenses to the appropriate services is based on the relative number of users (user counts). The further apportionment of the message toll expense portion among the operations is on the basis of the relative number of messages. Historically, GTE has properly applied these separation rules, using both user and message counts, to allocate OB&C expenses. As a result, historical allocations of OB&C expenses have not been understated.

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DIRECT CASE OF GTE

GTE Service Corporation ("GTE"), on behalf of its affiliated GTE Telephone Operating Companies ("the GTOCs") and the GTE System Telephone Companies ("the GSTCs"), respectfully submits this Direct Case in response to the FCC's Order Designating Issues For Investigation, DA 97-1609, released July 28, 1997, ("Designation Order") in the matter of the 1997 Annual Access Tariff Filings. The Bureau is investigating issues regarding Common Line Costs and Other Billing and Collection Expenses. GTE responds herein to the issues raised specifically with regard to GTE in the Designation Order.

GTE has properly forecasted the interstate Base Factor Portion ("BFP") revenue requirement contained in the 1997 annual access tariff filing. As shown in the exhibits attached, GTE has forecasted BFP within reasonable limits. However, as an alternative method, GTE advocates in this Direct Case using actual (historical) interstate data in place of projecting the interstate BFP revenue requirement. GTE has followed the FCC procedures for the allocation of Other Billing and Collection ("OB&C") expense. Also, GTE's exogenous adjustments for OB&C expense are reasonably based and reflect all primary and secondary impacts of the Commission's rules.

I. COMMON LINE COST ISSUES

GTE has accurately forecasted interstate BFP revenue requirement. As shown in the attached exhibits, GTE's projected revenue requirement in comparison to actual revenue requirement is well within acceptable limits. For the tariff periods of 1991-92 through 1995-96, the difference between the projected and the actual interstate BFP revenue requirement for GTE has been a composite percent variance of 1.50%.

A. Actual and Projected BFP Revenue Requirements

The Designation Order (at ¶17) requires the use of data from the ARMIS 43-01 report, columns k and m or, if ARMIS data is not available, use of separated interstate data from company records (equivalent data) to calculate:

(1) actual interstate BFP revenue requirement for calendar years 1991-1996,

(2) actual interstate BFP revenue requirement associated with tariff years beginning with the 1991-1992 tariff year, and

(3) projected BFP revenue requirements filed in each year's TRP since tariff year 1991-92.

Exhibit A-1, Series 1 Trend of Calendar Year Actual BFP Revenue Requirement, responds to item A. (1). The exhibit displays the actual interstate BFP revenue requirement for calendar years 1991-1996, calculated using ARMIS 43-01 data where possible. Study areas which did not require ARMIS submission used separated interstate data, calculated in accordance with FCC Rules Part 36 and Part 69, from Company records. Exhibit A-5, Support Calculations: Total Operating Expense Ratio, provides the support for the calculation of the BFP operating expense.

GTE sold properties during the period of 1991-1996. Therefore, in order to compare the interstate BFP revenue requirements over the years, the data presented has been adjusted to reflect the requested information for the properties held as of December 31, 1996. The properties that have been excluded from the data are:

1) For GTOC: GTGA, GTMT, GTTN, and GTWV
2) For GSTC: COGA, COID, COJB, COME, COND, CONH, CONY, COSD, COUT, COVT, COWV, and COWZ.

Also, the data for COOR has been shown as a part of the GTOC data for the entire period to reflect the merger of the GSTC and GTOC Oregon study areas.

Exhibit A-8, Trend of Tariff Period Interstate BFP Revenue Requirement--Actual/Projection, is provided in response to items A. (2) and (3). The information displayed on this exhibit has also been adjusted for the sale/merger of GTE properties during the period of 1991-1996, as listed above. The exhibit compares the variance between the tariff period actual interstate BFP revenue requirement and the projected interstate BFP revenue requirement.

Lines 1-9 of the exhibit display the actual interstate BFP revenue requirements by tariff period, by company (GSTC and GTOC) and a total for GTE in the level of detail outlined in the BFP Revenue Requirement section of Appendix B of the Order. Line 10 displays the actual interstate BFP revenue requirement adjusted for the Universal Service Fund. This adjustment needs to be made since the projected interstate BFP revenue requirement excludes the Universal Service Funding requirements.

On line 11, the exhibit displays the projected interstate BFP revenue requirement by tariff period by company (GSTC and GTOC) and a total for GTE. Exhibit A-10, 1991-1997 Tariff Period Projected Interstate BFP Revenue Requirement, provides additional support data.

Line 12 displays the annual percentage change by tariff period by company (GSTC and GTOC) and a total for GTE of the actual tariff period interstate BFP revenue requirement. On line 13, the exhibit displays the annual percentage change between the projected interstate BFP revenue requirement for the current period and the actual interstate BFP revenue requirement for the preceding period by tariff period by company (GSTC and GTOC) and a total for GTE. On line 14, the exhibit displays the annual percentage variance between the projected and the actual tariff period interstate BFP revenue requirements by tariff period by company (GSTC and GTOC) and a total for GTE.

Lines 15-25 of the exhibit display the detailed calculation of Federal Income Taxes by tariff period, by company (GSTC and GTOC) and a total for GTE in the level of detail outlined in the BFP Revenue Requirement section of Appendix B of the Order.

The Designation Order (at ¶17) requires LECs to explain significant differences between each annual BFP revenue requirement projection and the LECs' actual BFP revenue requirement.

During the period of 1991-1996, GTE used forecasted budget data in the preparation of its projected interstate BFP revenue requirements. With the wide geographic area GTE serves and the changes in economic conditions and/or acts of nature, there were variances between the budget data and the actual interstate BFP revenue requirement results. While this comparison fell within the Commission's definition of significant variance, GTE believes its forecasts are well within reasonable limits. As stated previous, the difference between the projection and actual interstate BFP revenue requirement for the tariff periods 1991-92 through 1995-96 is 1.50%.

B. Adjusted BFP Revenue Requirements

The Designation Order (at ¶¶19-22) requires each LEC to adjust the actual interstate BFP revenue requirement for calendar years 1991-1996 to reflect the effect of changes in the Commission's rules on actual BFP revenue requirements. In addition, each price cap LEC is required to submit an itemized list of each change in the Commission's rules that affected BFP revenue requirements.

GTE has reflected the impacts of the Commission rule changes as identified in the Order which include:

SPF transition (1986-1992)

DEM transition (1988-1992)

GSF rule change (released 5/19/93; effective 7/1/93; Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket 92-222, Report and Order, 8 FCC Rcd 3697 (1993))

OPEB (released 3/7/96; Rescinding the rate base instructions issued in RAO 20, CC Docket 96-22, Memorandum Opinion and Order (Order to Vacate), 11 FCC Rcd 2957 (1996)). Exhibit A-6, Support Calculations: Exogenous Calculation - OPEB, provides support data.

In addition, an impact has been developed for GSTC for 1991 revising the allocation of Other Billing and Collection expenses to reflect a five percent allocation to the common line revenue requirement, as required in ¶22 of the Designation Order. Exhibit A-7, Support Calculations: Adjustment for Contel 1991 Interstate Other Billing and Collection Costs provides supporting data. The interstate BFP revenue requirement impacts of the Commission's rule changes and the OB&C adjustment in dollars are also reflected on Exhibit A-4, Support Calculations: Commission Rule Changes.

As required, GTE has provided two (2) exhibits: Exhibit A-1, Series 1 Trend of Calendar Year Actual BFP Revenue Requirement, reflects the impacts of the separation rule changes for GSF, SPF, DEM, and OBC. Exhibit A-2, Series 2 Trend of

Calendar Year Actual BFP Revenue Requirement, reflects all the changes of Series 1 and, in addition, reflects the impacts of OPEB.

Columns C, D, and E on lines 1-9, Exhibits A-1 and A-2 display the actual interstate BFP revenue requirements for calendar years 1991-1996 data by company (GSTC and GTOC) and a total for GTE. In columns C, D, and E on lines 10-20, the exhibits display the detail calculation of the interstate Federal Income Taxes for the calendar years 1991-1996 data by company (GSTC and GTOC) and a total for GTE. The information is displayed at the level of detail outlined in the BFP Revenue Requirement section of Appendix B of the Designation Order.

In columns F, G, and H on lines 1-9, the exhibits display a summary of the impacts of the separation rules for each period as required. In columns L through AC, the impacts of each of the individual separation rule changes and the summary for each period are displayed. In columns I, J, and K, lines 1-9, the exhibits display the calendar years 1991-1996 data by company (GSTC and GTOC) and a total for GTE adjusted for the separation rule changes.

To summarize the year-to-year comparisons of the adjusted actual interstate BFP revenue requirements, GTE is providing Exhibit A-3, Summary Trend of Calendar Year Adjusted Actual BFP Revenue Requirement. Columns AD, AE, and AF display, for calendar years 1991-1996 data by company (GSTC and GTOC) and a total for GTE, a summary of the annual BFP revenue requirements adjusted for the separation rule changes required for Series 1. Columns AG, AH, and AI display similar data for the separation rule changes required for Series 2.

In order to adjust interstate BFP revenue requirements for changes in Commission's rules prior to December 31, 1996, GTE used exogenous cost data from applicable tariff filings. The specific tariff filings, in which the exogenous data was filed, are reflected on Exhibit A-4, Support Calculations: Commission Rule Changes. The methodology used to determine the exogenous impacts was through the use of base and test case separation studies. A base period was determined for the base study. Then, the data or system logic was updated to reflect the exogenous change, *i.e.*, SPF, DEM, GSF, to develop a test case study. Both the base and the test case studies were calculated following Parts 36 and 69 of the Commission's rules. The exogenous amount was then determined by identifying the dollar differences between the base study and the test case study separated results.

The Designation Order (at ¶20) requires LECs to submit data which shows the effect, in dollars, that rule changes, which became effective after December 31, 1996, had on projected BFP revenue requirements prepared for their annual access tariff revisions filed to become effective July 1, 1997. Exhibit A-9, Projected Interstate BFP Revenue Requirement Calculation, pages 1 and 2, provides the effect in dollars which rule changes effective after December 31, 1996, had on interstate BFP revenue requirement.

The Designation Order (at ¶24) requires the LECs to explain any relatively "large" year-to-year changes which emerge in each adjusted series of actual BFP revenue requirements. Exhibit A-3, Summary Trend of Calendar Year Adjusted Actual BFP Revenue Requirement, provides a year-to-year comparison of the adjusted actual interstate BFP revenue requirements. Two of GTE's adjusted interstate BFP revenue requirements appear to be "outliers" from the series. The first outlier is the change between years 1991 and 1992. The GSTC study areas had a significantly greater change than the GTOC study areas. The merger of GTE and Contel occurred during this time. This deviation is primarily related to the transition to GTE systems and procedures. The second outlier is between years 1995 and 1996, reflecting a decrease in interstate BFP revenue requirement rather than an increase as is seen in previous years. This decrease is primarily due to process re-engineering activities which took place during this time which resulted in significant cost savings.

The Designation Order (at ¶25) seeks information on alternative methods to forecast BFP revenue requirements. GTE favors the use of the previous year's actual interstate BFP revenue requirement rather than projecting interstate BFP revenue requirement on either a historic trend or a bottoms-up approach. In fact, using projected data for the BFP revenue requirement is currently the only requirement for projected data remaining after the inception of Price Caps. The Commission should strive to use actual data for this purpose and put an end to projecting interstate BFP revenue requirements by any method, thus avoiding the associated questions and explanations which accompany projections. The previous year interstate BFP revenue requirement could be used instead of a projected amount. This amount would be derived from the LEC's separation results. Alternatively, actual revenue requirement could be developed by using ARMIS 43-01 data, as in this Order. Adjustments could also be made for known and measurable future rule changes.

Moreover. it would be unreasonable to pool all LECs' BFP revenue requirements into a single data set. This option of applying a one-size-fits all approach to all Price Cap LECs does not consider the different operating characteristics, areas served and different technologies specific to each LEC.

Furthermore, LECs should not be required to apply the effect of rule changes on a retroactive basis. First, such retroactive application, if applied to rates, clearly would violate the filed rate doctrine and the prohibition against retroactive ratemaking. Second, with the number of changes coming from current reform activities and rule changes, LECs are not in a position to continually apply rule changes on a retroactive basis to determine the impact such rule changes would have made if the rule changes had been in effect during historical periods. The system and human resource requirements for this type of exercise make this an overly burdensome task.

Instead of comparing the percent change for the actual tariff periods with the percent change of the projections, a more valid analysis of the accuracy of the interstate BFP projection could be developed by comparing the variance between the actual and projected interstate BFP revenue requirements for each tariff period. GTE has made this comparison on line 14 of Exhibit A-8, Trend of Tariff Period Interstate BFP--Actual/Projection. On a total GTE basis, the variance between the actual and projected interstate BFP revenue requirements (in 1,000's) has been:

Tariff Period	Actual BFP Rev. Req.	Projected BFP Rev. Req.	% Variance
1991-1992	$1,131,864	$ 1,133,953	(.18%)
1992-1993	1,160,461	1,098,976	5.59%
1993-1994	1,389,294	1,335,180	4.05%
1994-1995	1,421,105	1,410,849	.73%
1995-1996	1,413,077	1,436,879	(1.66%)

GTE believes that the above information shows that it has been forecasting the interstate BFP within acceptable limits.

C. Justification of 1997 BFP Revenue Requirement

The Designation Order (at ¶26) requires LECs to document data, assumptions and methodology used to derive BFP revenue requirement projections contained in the access tariff revisions filed to become effective July 1, 1997. In projecting the interstate BFP revenue requirement, GTE used a two-year trend of historical interstate BFP revenue requirements by study area to project an interstate BFP revenue requirement by study area for the 1997-98 tariff period. This projection of trended revenue requirements was then updated for known and measurable rule changes associated with the Payphone Deregulation and the Part 36 Other Billing & Collection rule changes. These changes were calculated by creating base and test case fully separated cost studies for both rule changes independently to calculate the change in interstate BFP revenue requirement including, all secondary downstream impacts associated with the separations process. Exhibit A-9, Projected Interstate BFP Revenue Requirement Calculation, pages 1 & 2, displays GTE's calculation of the 1997-98 interstate BFP revenue requirement including rule adjustment overlays.

GTE's 1997-98 projection is not consistent with the historical trend for two primary reasons. First, as discussed previously, GTE recognized a decrease in actual interstate BFP revenue requirement in 1996 as compared to 1995. This had the effect of creating a lower projection for the 1997-98 tariff period compared to the 1996-97 tariff period. Secondly, as will be described *infra*, GTE changed its projection methodology for interstate BFP revenue requirement for the 1997-98 tariff period. Despite these differences, the rates developed were reasonable.

The Designation Order (at ¶27) requests LECs to show separately the adjustment for the recent *OB&C Order* and the *Payphone Reconsideration Order* including an explanation of the derivation of these adjustments which were reflected in the 1997-98 BFP revenue requirement projection. In addition, each Price Cap LEC must indicate whether it has followed the same methodology to derive BFP revenue requirement for each year between 1991 and 1997.

GTE has included Exhibit A-9, Projected Interstate BFP Revenue Requirement Calculation, displaying the 1997-98 Interstate BFP revenue requirement forecast and adjustments for rule changes. The above response to ¶26 of the Designation Order explains the derivation of these adjustments.

GTE has not followed the same methodology to derive its interstate BFP revenue requirement for each year between 1991 and 1997. For the period of 1991-1996, GTE used the budget of the next calendar year by study area to calculate a forecasted interstate BFP revenue requirement. For 1997, GTE changed its method to a two-year trend of historical interstate BFP revenue requirements, by study area. GTE changed to this method due to the budget data being aggregated at a higher level for 1997 than it had been in prior years. If the method used to forecast previous periods had been continued, GTE would have been required to not only vertically allocate budget data back into separation categories but also would have had to allocate data to study areas from higher aggregate levels. This allocation upon an allocation left considerable room for variances. The projection for 1997-98 based on a historic trend, then adjusted for known rule changes, was deemed to be a more accurate way to project interstate BFP revenue requirement on a study area level. It is unknown what effect this change had on the 1997-98 tariff year projection as the previous method was not completed for the reasons above.

The Designation Order (at ¶30) requires LECs that have adjusted their revenue requirement projection methodology to provide the same information for projections for

1995-96 and 1996-97 tariff years as their most recent (1997-98) BFP revenue requirement projections. GTE has included Exhibit A-9, Projected Interstate BFP Revenue Requirement Calculation, displaying interstate BFP revenue requirement projections for 1995-96 (pages 5 & 6) and 1996-97 (pages 3 & 4) tariff years calculated using similar methodology as the interstate BFP revenue requirement projection for the revisions filed to become effective July 1, 1997 (1997-98 tariff year).

D. End User Demand

In Section II.A of the Designation Order (at ¶31), the Commission required each Price Cap LEC to provide the past actual average number of total billable access lines, multi-line business lines, residential and single-line business lines, for the past six tariff years, and the projections of these lines for each of these tariff years along with explanations for significant differences where the projected percentage change is greater than 10% of the actual percentage change. The Commission required ARMIS data be used where available, and company records used when ARMIS data was not available. Paragraph 33 also required that each LEC demonstrate that the projection for the 1997-1998 tariff year is consistent with the value predicted by the historical trend of end-user demand; or state specifically the underlying factor or factors that they expect will change.

In order to comply with the above requirements, GTE is providing Exhibit B-1, Billable Access Lines which was calculated from ARMIS or equivalent company records, adjusted for sold and merged study areas similar to the manner in which BFP revenue requirements were adjusted. This exhibit displays the average historical and average projected total billable access lines, multi-line business lines, residential and single-line business lines for the past six years (beginning with the 1991-1992 tariff year), along with a comparison of the projected percentage change to the actual percentage change. The historical growth was determined by comparing the change in historical data from one period to the next. The projected growth was determined by comparing the line projection from one period to the historical lines from the previous period (*e.g.*, change from 7/97-6/98 projection to 7/96-6/97 actuals).

In calculating the EUCL charge, the BFP is divided by "total" lines and thus the real impact on rates is based on total lines, and not the sub-categorize of lines (i.e., residence, business single line, business multi-line). Although there are some significant variations among individual categories, in total, GTE's projections are within acceptable industry parameters and the forecast error falls within a range from a low of 0.06% to a high of 3.06% for tariff years 1991 through 1996.

GTE believes that the Commission's definition of "significant" error is arbitrary, failing to account for the inherent volatility of the specific data series studied. As can be seen in Exhibit B-4, GTE Total Lines Forecasts & Actuals, the actual average total lines (GTOC and GSTC) in service have always fallen within a 95% confidence interval around the forecast level. In compliance with Paragraph 33, this exhibit demonstrates that the projection for the 1997-1998 tariff year is consistent with the value predicted by the historical trend of end-user demand. Also of note is that there are no consistent patterns in the errors. GTE has neither consistently under predicted nor over predicted the values filed, showing that the errors are random and that GTE did not contrive the forecast to its own advantage.

Paragraph 33 also required each Price Cap LEC to provide historical counts of public and semi-public payhone lines and the projection for the 1997-98 tariff period. In addition, each LEC must indicate the number of semi-public payphones that were charged single-line business End User Common Line charge ("EUCL") charges prior to the *Payphone Reconsideration Order*, but will now be charged multi-line business EUCL charges.

Exhibit B-2, Payphone Lines displays the public and semi-public average historical lines for tariff periods 1991-1992 through 1996-1997 and the average projected lines for tariff period 1997-1998, along with the percentage change from one tariff period to the next. Prior to the *Payphone Reconsideration Order*, no EUCL was assessed on public lines and the single-line EUCL was charged for the semi-public lines. In the 1997-98 tariff period, the historical and projected public and semi-public payphone lines are included in the multi-line business category at the multi-line EUCL rate.

In addition, Paragraph 33 required that each Price Cap LEC show how it is treating ISDN lines in its 1997-98 projections. The 1997-98 projections include 75,404 total company (GTOC and GSTC) average BRI ISDN lines and the 10,855 total company (GTOC and GSTC) average PRI ISDN were multiplied by five to arrive at a total of 54,275. These projections were calculated in accordance with the *Access Charge Reform Order*, FCC 97-158, released May 16, 1997 and are included in the multi-line projection in the 1997-98 tariff period.

E. Revenue Requirement Per Line

Section II.A of the Designation Order (at ¶34) requires each Price Cap LEC to provide the actual and projected BFP revenue requirements on a per-line basis for each tariff year between 1991 and 1996, along with an explanation of significant differences. These revenue requirements must be calculated by dividing the actual BFP revenue requirement by total billable lines.

GTE herein provides Exhibit B-3, Interstate Revenue Requirement Per Line. This exhibit was calculated from ARMIS or equivalent company records adjusted for sold and merged study areas as explained *supra*. This exhibit displays the average and projected BFP revenue requirement on a per-line basis for each tariff year between 1991 and 1996, along with the percentage variance to forecast for each tariff year. *See also* variance explanations provided for the Actual and Projected BFP Revenue Requirements and End User Demand *supra*.

II. OTHER BILLING AND COLLECTION ISSUES

GTE has followed the FCC procedures for the allocation of Other Billing and Collection expense. Moreover, GTE's exogenous adjustments for OB&C expense are reasonably based and reflect all primary and secondary impacts of the Commission's rules.

A. Information Requirements and Issues Designated for Investigation

The Designation Order (at ¶50) questions whether GTE has complied with the Commission's jurisdictional separations rules for OB&C expense. GTE is also asked to justify the proper calculation of the exogenous change resulting from the 1997 change to those rules.

GTE's procedures to allocate OB&C expenses between the interstate and intrastate jurisdictions are in accordance with the Commission's jurisdictional separations rules. As required in Sections 36.380(b) and 36.380(b)(1), the segregation of OB&C expenses to the appropriate services is based on the relative number of users (user counts). The further apportionment of the message toll expense portion among the operations is on the basis of the relative number of messages. As described in greater detail below, GTE has properly applied these separation rules, using both user and message counts to allocate OB&C expenses. The methodology used to allocate the Carrier Billing and Collection revenues, based on billed messages, and its relationship to the allocation of expenses is also explained in further detail.

The Designation Order (at ¶51a) requires GTE to provide user counts used as a basis for allocating OB&C Expense among the service categories prescribed by Section 36.380(b) for years 1990 through 1996. Exhibit C-1, User Counts, displays the user counts for years 1990 through 1996 for the requested categories. Prior to the OB&C expense rule change, GTE performed a manual basic study at the study area level to develop the user counts for input into its separations system ("SACS") to apportion OB&C expense. The methodology used in developing this basic study is discussed below.[1]

The Designation Order (at ¶51b) requires GTE to explain the process by which users were counted for jurisdictional separations purposes during this seven-year period and to explain the assumptions (including the time period over which information was gathered) and methodologies that were used. The 1990 and 1991 user counts were extracted from the billing system for each class of service used, *i.e.*, total message toll, exchange, directory advertising, and private line. From this extract of the billing systems, each customer was counted once for each class of service which they used (*i.e.*, message toll, exchange, directory advertising and private line). The total

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1 During the period of 1990 through 1992, manual user basic studies were performed at up to seven remote regional locations. With the consolidation of the separations study functions into GTE headquarters, many of these manual basic studies were either archived in a centralized offsite archive location in California or archived at an offsite remote regional location. As of the filing date, GTE has not been able to retrieve all of this data for the period of 1990 through 1993. GTE is continuing to have archived data sent to its headquarters location and will provide the Commission with the 1990 through 1993 data as it becomes available if the Commission believes it will assist them in evaluating this case.

message toll user counts were apportioned to the state and interstate jurisdictions based on Sent Paid - Receive Collect ("SPRC") messages. The time period from which the user count was extracted was a representative prior period and differed between study areas and regions of the country.[2]

The 1992 and 1993 user counts were frozen at the 1991 level for many of the filed GTOC and GSTC study areas. For study areas for which user counts were updated, the same methodology was used in 1990 and 1991. The 1994 exchange user counts were extracted from a new billing system, while the message toll users were updated based on growth rates from 1993. The updated toll users were then apportioned to the state and interstate jurisdictions based on SPRC messages. Private line users were also updated based on private line growth rates. The 1995 and 1996 user counts were extracted from the billing system for each class of service used, *i.e.*, total message toll, exchange, directory advertising and private line. The total message toll users were then apportioned to the intrastate and interstate jurisdictions based on SPRC messages. The months of October 1994 and July 1996 were chosen as the representative time period for the 1995 and 1996 user counts.

The Designation Order (at ¶51c) requires GTE to identify any discrepancies that exist between the user counts provided in response to (a) above and those that were reported in ARMIS Report 43-04 and to explain why these discrepancies occurred.

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2 Additional detail will be available upon receipt of the archived data as explained above in response to ¶51a.