GVNW

EX PARTE OR LATE FILED

February 26, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

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FEB 26 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: Ex Parte Notice, CC Docket No. 96-45

Dear Ms. Salas:

On February 26, 1998, I visited with Mr. Steve Burnett from the Accounting and Audits Division of the Common Carrier Bureau. We discussed the attached list of issues related to the methodology surrounding the calculation of local switching support.

An original and one copy of this ex parte notice are being filed. Please include a copy of this notice in the public record of these proceedings.

Respectfully submitted,

Kenneth T. Burchett

Kenneth T. Burchett
Attachments - 1

cc:

Mr. Steve Burnett
Accounting and Audits Division
Federal Communications Commission
2000 L Street, NW - Room 257
Washington, DC 20036

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GVNW's Analysis of Switching Support Rules
Items needing clarification or correction

1. It appears that some data items are needed for the computation but are not included in the data submitted to the administrator per 54.301(b)

   A. Accumulated depreciation by primary plant account
      - Switching Reserve – Account 3100 Subaccount 2210
      - GSF Reserve – Account 3100 Subaccount 2110

   B. Depreciation & Amortization Expense by primary plant account
      - Switching Depreciation & Amortization – Account 6560 Subaccount 2210
      - GSF Depreciation & Amortization – Account 6560 Subaccount 2110

2. Items asked for but apparently not used in development of the Local Switching Support

   A. Access Expense – Account 6540
   B. Deferred Charges – Account 1439

3. It appears that 54.301(b) is requiring end of year investment data rather than average year data. It appears that the average is not determined until after all of the end of year amounts have been assigned to the local switching by way of the allocations developed in 54.301(c). Does this mean that the allocation factors that are developed in 54.301(c) are developed using the end of period investment collected in paragraph b?

4. The allocations to switching in 54.301(c) fail to assign any of the direct switching investment i.e. Account 2210 Category 3. This investment should be assigned 100% to switching.

5. The formulae for calculating the local switching revenue requirement appears to double count the depreciation by including it in 54.301(d)(2), but not excluding it from 54.301(d)(3). ***(Note: This was corrected in Errata)***

6. It is not clear if the Depreciation included in 54.301(d)(2) is only that portion related to account 6560 subaccount 2210, or if it also includes that portion of the 2110 subaccount of 6560 that has been allocated to local switching in 54.301(c).

7. Is it the intent to use the maximum statutory Federal Income Tax rate for computing the FIT associated with the Unseparated Local switching Return, or should a data item be added to request the effective FIT rate for each company.

8. There is no calculation of State Income Tax in the formulae. Is it the intent to include the SIT with the expenses in 54.301(d)(3). If this is the case, it would be helpful to change the wording to clearly say expense and taxes (excluding FIT) in 54.301(d)(3).

Local Switching Support

Company Data Input

1	Company Name	
2	NECA Study Area Code	
3	Study Year	1998
4	Effective FIT Rate	0.0000%

Local Switch Support Factor Inputs

5	1996 Weighted DEM	0.474360
6	1996 Unweighted DEM	0.158120
7	Study Year Unweighted DEM	0.158120
8	Study Year Access Lines	4332

Investment Inputs

	Description	Account(s)	Prior Year End Bal.	Study Year End. Bal.
9	TPIS	2001	12,709,960	14,240,946
10	Tele. Plant - PHFU	2002	0	0
11	Tele. Plant - CWIP	2003	0	0
12	Tele. Plant - Tel. Plant Adjustment	2005	0	0
13	GSF	2110	2,379,594	2,763,623
14	COE - Switching-Total	2210	1,467,167	1,554,716
15	COE- Switching, Cat. 3	2210, Cat. 3	1,379,992	1,467,541
16	COE - Operator	2220	0	0
17	COE - Transmission	2230	2,030,379	2,411,229
18	IOT	2310	0	0
19	C&WF	2410	6,261,883	6,727,891
20	Amort. Tang. Assets	2680	570,937	783,487
21	Intangibles	2690	0	0
22	RTB Stock	included in 1402	148,900	148,900
23	M&S	1220.1	47,330	50,000
24	Cash Working Capital	part 65.820(d)	30,539	30,939
25	Accum. Depr. - Total	3100	0	0
26	Accum. Depr. - GSF	3100.2110	1,259,156	1,397,590
27	Accum. Depr. - COE Switching	3100.2210	1,014,899	1,128,219
28	Accum. Amort - Tang.	3400	7,462	41,323
29	Accum. Amort - Intang.	3500	0	0
30	Accum. Amort - Other	3600	0	0
31	Net Def. Income Taxes	4100, 4340	0	0
32	Other Non-Current Assets	1410	0	0
33	Deferred Maint. and Retirements	1438	0	0
34	Deferred Charges	1439	0	0
35	Other Juris. Assets and Liab	1500, 4370	0	0
36	Customer Deposits	4040	29,346	30,000
37	Other Long Term Liabilities	4310	0	0

Expense & Tax Inputs

38	Net Support Expenses	6110	6,935	8,697
39	General Support Expenses	6120	162,049	211,170
40	COE Expense - Switching	6210	119,292	136,479
41	COE Expense - Operator	6220	0	0
42	COE Expense - Transmission	6230	57,482	57,541
43	IOT Expenses	6310	0	0
44	C&WF Expenses	6410	284,634	331,049
45	Oth. Prop., Plant, & Equip. Exp.	6510	0	0
46	Network Op. Expense	6530	136,004	177,135
47	Access Expenses	6540	0	18,549
48	Depr. and Amort. Exp. - Total	6560	0	0
49	Depr. and Amort. Exp. - GSF	6560.2110	168,759	216,651
50	Depr. and Amort. Exp. - COE Switching	6560.2210	109,096	113,321
51	Marketing Exp.	6610	94,909	142,455
52	Services Expense	6620	305,561	361,655
53	Corp. Oper. Expense - Executive	6710	189,667	202,020
54	Corp. Oper. Expense - Other	6720	535,706	613,511
55	Operating State and Local Taxes	7230	0	0
56	Operating Other Taxes	7240	68,466	75,466
57	FIT Credits	7210	0	0
58	Prov. for Def. Op. Income Taxes	7250	0	0
59	AFUDC	7340	0	0
60	Charitable Contr.	included in 7370	47,787	29,250
61	Interest and related items	7500	509,699	608,847

Local Switching Support
Factor Development

1998

Local Switching Support Factor (54.301(a)(2)-(3))

1	1996 Unweighted DEM	0.158120
2	Multiple For Additive to DEM	2
3	Preliminary Switch Support Factor	0.316240
	85% Test	
4	Preliminary Switch Support Factor	0.316240
5	Study Year Unwtd. DEM	0.158120
6	Total For Test	0.474360
7	Adjustment if over 85%	0.000000
8	Adjusted LSS Factor	**0.316240**

Allocation Factors

	Prior Year 1997	Study Year 1998
Factor 1 - COE Cat 3/(2210+2220+2230+2310+2410)	0.141401	0.137232
Factor 2 - COE Cat 3/Acct 2001	0.108576	0.103051
Factor 3 - COE Cat 3/Acct 2210	0.940583	0.943929
Factor 4 - COE Cat 3/Acct 2001 (Same as Factor 2)	0.108576	0.103051
Factor 5 - (COE Cat 3/COE)*(COE Exp./Big 3 Exp.)	0.128268	0.117712
Factor 6 - COE Cat 3/(2210+2220+2230)	0.394560	0.370036
Factor 7 - COE Cat 3 is 100% local switching	1.000000	1.000000

Local Switching Support
Allocations

1998

	Description	Account(s)	Alloc. Ref.	Prior Year End Bal.	Unsep Alloc. Factor	1997 Unsep. Local Switching	1998 Study Year End. Bal.	Unsep Alloc. Factor	1998 Unsep. Local Switching
	Gross Investment								
1	Tele. Plant - Other	2002, 2003, 2005	2	0	0.108576	0	0	0.103051	0
2	GSF	2110	1	2,379,594	0.141401	336,477	2,763,623	0.137232	379,259
3	COE- Switching, Cat. 3	2210, Cat. 3	7	1,379,992	1.000000	1,379,992	1,467,541	1.000000	1,467,541
4	Amort. Tang. Assets	2680	1	570,937	0.141401	80,731	783,487	0.137232	107,520
5	Intangibles	2690	1	0	0.141401	0	0	0.137232	0
6	RTB Stock	included in 1402	2	148,900	0.108576	16,167	148,900	0.103051	15,344
7	M&S	1220.1	2	47,330	0.108576	5,139	50,000	0.103051	5,153
8	Cash Working Capital	part 65.820(d)	2	30,539	0.108576	3,316	30,939	0.103051	3,188
9	Other Non-Current Assets	1410	2	0	0.108576	0	0	0.103051	0
10	Deferred Maint. and Retirements	1438	2	0	0.108576	0	0	0.103051	0
11	Total Gross Investment Attributable To Cat 3					1,821,821			1,978,005
	Reserves, Deferals & Customer Deposits								
12	Accum. Depr. - GSF	3100.2110	4	1,259,156	0.108576	136,714	1,397,590	0.103051	144,023
13	Accum. Depr. - COE Switching	3100.2210	3	1,014,899	0.940583	954,597	1,128,219	0.943929	1,064,958
14	Accum. Amort	3400, 3500, 3600	2	7,462	0.108576	810	41,323	0.103051	4,258
15	Net Def. Income Taxes	4100, 4340	2	0	0.108576	0	0	0.103051	0
16	Other Juris. Assets and Liab	1500, 4370	2	0	0.108576	0	0	0.103051	0
17	Customer Deposits	4040	2	29,346	0.108576	3,186	30,000	0.103051	3,092
18	Other Long Term Liabilities	4310	2	0	0.108576	0	0	0.103051	0
19	Total Reserves Deferals & Cust Dep.					1,095,307			1,216,331
20	**Net Investment**					726,515			761,674
	Expense & Tax Inputs								
21	Net Support Expenses	6110	2	6,935	0.108576	753	8,697	0.103051	896
22	General Support Expenses	6120	1	162,049	0.141401	22,914	211,170	0.137232	28,979
23	COE Expense	6210, 6220, 6230	6	176,774	0.394560	69,748	194,020	0.370036	71,794
24	Oth. Prop., Plant, & Equip. Exp.	6510	2	0	0.108576	0	0	0.103051	0
25	Network Op. Expense	6530	2	136,004	0.108576	14,767	177,135	0.103051	18,254
26	Depr. and Amort. Exp. - GSF	6560.2110	4	168,759	0.108576	18,323	216,651	0.103051	22,326
27	Depr. and Amort. Exp. - COE Swi	6560.2210	3	109,096	0.940583	102,614	113,321	0.943929	106,967
28	Marketing Exp.	6610	2	94,909	0.108576	10,305	142,455	0.103051	14,680
29	Services Expense	6620	2	305,561	0.108576	33,176	361,655	0.103051	37,269
30	Corp. Oper. Expense	6710, 6720	5	725,373	0.128268	93,042	815,531	0.117712	95,997
31	Operating State and Local Taxes	7230	2	0	0.108576	0	0	0.103051	0
32	Operating Other Taxes	7240	2	68,466	0.108576	7,434	75,466	0.103051	7,777
33	Prov. for Def. Op. Income Taxes	7250	2	0	0.108576	0	0	0.103051	0
34	Charitable Contr.	included in 7370	2	47,787	0.108576	5,189	29,250	0.103051	3,014
35	Total Expenses					378,264			407,954
36	AFUDC	7340	2	0	0.108576	0	0	0.103051	0
37	Interest and related items	7500	2	509,699	0.108576	55,341	608,847	0.103051	62,742
38	FIT Credits	7210	2	0	0.108576	0	0	0.103051	0

Local Switching Support
Calculation of Support

1998

Calculation of Unseparated Local Switching Revenue Requirement (54.301(d))

	Ending Prior Year 1997	Ending Study Year 1998	1998 Study Year Average
Step 1 (Part 54.301(d)(1))			
1 Gross Investment in Local Switching	$1,821,821	$1,978,005	
2 Reserves, Deferral & Cust. Deposits	$1,095,307	$1,216,331	
3 COE Cat 3 Net Investment	$726,515	$761,674	$744,094
4 Authorized Rate of Return			11.25%
5 Return Component			$83,711
Step 2 (Part 54.301(d)(2))			
1 COE Cat 3 Depr. (Incl. both 2110 & 2210 Related Depr.)			$129,293
Step 3 (Part 54.301(d)(3))			
1 Expenses			$278,661
Step 4 (Part 54.301(d)(4))			
1 Return on Investment			$83,711
2 Account 7340		$0	
3 Account 7500		$62,742	
4 Account 7210		$0	
5 Total Reductions			$62,742
6 Tax Base			$20,968
7 Federal Income Tax Rate		0.00%	
8 FIT Gross Up Rate (1-Fed. Inc. Tax Rate)			0.00%
9 Federal Income Tax			$0
Local Switching Revenue Requirement (Sum of Steps 1 through 4)			$491,665

Calculation of Swithing Support (54.301(a)(1))

1 Local Switching Revenue Requirement	$491,665
2 Local Switching Support Factor	0.316240
3 Local Switching Support	**$155,484**