

(Decision No. C92-1350)

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

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IN THE MATTER OF PROPOSED RULES REGARDING)	DOCKET NO. 92R-596T
THE COSTING AND PRICING OF TELEPHONE )	
SERVICES. )	NOTICE OF PROPOSED
)	RULEMAKING REGARDING
)	THE COSTING AND
)	PRICING OF TELEPHONE
)	SERVICES

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Mailed Date: October 30, 1992  
Adopted Date: October 28, 1992  
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STATEMENT

BY THE COMMISSION:

The Colorado Public Utilities Commission hereby gives notice of proposed rulemaking regarding the costing and pricing of telephone services. This proceeding follows from Docket No. 92M-039T. In that case, the Commission held an informal hearing at which a number of parties participated to consider general issues regarding the costing and pricing of telephone services. These issues included: appropriate methodologies for measuring the costs of new and existing telephone services; appropriate methodologies for pricing new and existing telephone services; and whether the Commission should adopt rules regarding the costing and pricing of telecommunications products and services; etc. The informal hearings in Docket No. 92M-039T were conducted during the week of February 24-28, 1992, and the participating parties subsequently filed written comments on these issues. Having considered all comments, the Commission hereby determines that it will initiate this rulemaking proceeding.

Attached to this notice are copies of two separate proposed rules. These two proposals represent separate options being considered by the Commission on the issues presented in this proceeding. A list detailing the principle differences between the two options is appended to this notice. At the rulemaking hearing, the Commission will consider all comments regarding either both proposed options in addition to other suggestions which any interested party may wish to make.

As stated in the proposed rules, the basis and purpose of the proposed rules is, in part, to standardize the methodologies and principles used for the determination of costs and to be considered by the Commission in the setting of prices for telecommunications services. The statutory authority for the proposed rules is contained in §§ 40-2-108, 40-3-101, 40-3-102, 40-15-201, and 40-15-302, C.R.S.

The Commission will conduct a hearing on the proposed rules and related issues beginning on December 1, 1992, at 9 a.m. in Hearing Room A, Office Level 2 (OL2), Logan Tower, 1580 Logan Street, Denver, Colorado. If necessary, hearing will continue on December 2 and 3, 1992 (morning 6). The entire record established in Docket No. 92M-039T, including any transcript of the informal hearings, is hereby made a part of the record in this rulemaking proceeding. Interested parties need not refile comments made in the previous docket. Any party may file further comments in the present proceeding and may present these orally at the hearing as the Commission deems necessary. The Commission requests that these be filed by November 23, 1992.

The Commission notes that certain provisions in the proposed rules may be inconsistent with existing rules governing telecommunications services.

◦Existing Rule 2.3 of the Cost Allocation Rules For Telecommunications Service Providers, 4 Code of Colorado Regulations 723-27 ("CCR"), which defines "cross-subsidization" may be inconsistent with the definition proposed in Option 1, Rule (2)(22).

◦Various sections in the existing Cost-Allocation rules (4 CCR 723-27) require the regulated utilities to perform fully distributed cost studies for purposes of determining whether services are improperly cross-subsidized (e.g., Rules 6 and 7, 4 CCR 723-27). Option 1 would replace the fully-distributed-cost standard with a standard utilizing total service long-run incremental cost (for purposes of determining improper cross subsidies). If the Commission chooses to adopt Option 1, the existing rules contained at 4 CCR 723-27 may be modified for consistency.

◦In addition, Option 2 involves a modification to existing rules concerning Open Network Architecture found at 4 CCR 723-12. A copy of the proposed amendments is appended to Option 2.

Finally, the Commission notes that existing Rules Regulating Emerging Competitive Telecommunications Service (4 CCR 723-24), provide that the Commission may grant regulatory flexibility for Part 3 service only on a product-specific basis. The Commission

hereby gives notice that it may modify these rules to allow the Commission to grant "blanket" pricing flexibility (*i.e.*, on a non-product-specific basis) to Part 3 services designated as such by § 40-15-301, C.R.S.

THEREFORE THE COMMISSION ORDERS THAT:

1. This Notice of Proposed Rulemaking shall be filed with the Secretary of State for publication in the November 10, 1992, copy of The Colorado Register. This notice shall also be filed in the Office of Regulatory Reform.

2. Hearings on the proposed rules and related matters shall be held beginning December, 1, 1992, at 9 a.m. in Hearing Room A, and continuing, December 2, 1992, if necessary, on December 3, 1992, until noon.

3. Interested persons may submit written comments on the proposed rules and present these orally at hearing as the Commission deems necessary.

4. Further, the Commission hereby gives notice that it may modify these rules to add more options or forms of relaxed regulation and to conform those rules to the costing and pricing principles adopted in this proceeding.

This Order is effective on its Mailed Date.

ADOPTED IN OPEN MEETING October 28, 1992.

(S E A L)



ATTEST: A TRUE COPY

*Bruce N. Smith*  
Bruce N. Smith  
Executive Secretary

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

ROBERT E. TEMMER

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GARY L. NAKARADO

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CHRISTINE E. M. ALVAREZ

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Commissioners

SDR:srs

Some Differences Between  
 OPTION No. 1 and  
OPTION No. 2

Item	OPTION No. 1	OPTION No. 2
Cross-subsidization	Cross-subsidization is defined and then used in the discussion of the pricing of monopoly services. Prohibited cross-subsidy or illegal restraint of trade is also included in the list of definitions.	Cross-subsidization is not explicitly defined but conditions for determining price floors are outlined for both monopoly and emerging competitive services.
Service Classifications	Monopoly, emerging competitive, and fully competitive services are treated separately.	Monopoly and emerging competitive services are treated separately. No section is devoted to fully competitive services.
Price Floors	A price floor for a given service is defined as the total service long run incremental cost for that service.	Price floors are determined such that the revenue of each service covers its total service long run incremental cost and the sum of the revenues of each group of services covers the total service long run incremental cost of that group of services.
Economic/ Uneconomic Costs	These terms are included in the list of definitions. Moreover, the amount of uneconomic costs covered by the price of each service must be identified.	These terms are not included in the list of definitions.
Common Costs	This term is included in the list of definitions.	This term is not included in the list of definitions. In place of it the terms "shared cost" and "overhead cost" are used. Moreover, the amount of overhead costs covered by the price of each service must be identified.
Fully Distributed Costs	This term is not included in the list of definitions, though reference is made to its possible usefulness in determining prices of monopoly services. This usefulness depends upon the extent of competition and uneconomic costs.	This term is included in the list of definitions and is then specified as one of several factors to be considered when making pricing decisions for monopoly services.

Bundling/ Unbundling	Unbundling is including in the list of definitions and the issues are discussed in 4 (2) (e) and 4 (2) (g).	Both terms are included in the list of definitions. The issues are discussed as amendments to the existing ONA rules (4 CCR 723-12).
Residual Pricing	This term is not included in the list of definitions.	This term is included in the list of definitions. Residual pricing of monopoly services is prohibited.
Cost Study Specifications in Rule 4 (Monopoly Services)	These studies must include costs for billing, marketing, advertising, and the network and must be updated when costs change or if requested by the Commission.	These studies must include TSLRIC, FDC, and stand alone costs, must indicate whether costs are related to services or functional components, must use cost accounting standards, must include costs for billing, marketing, advertising, and the network, must include imputations where relevant, must be approved by the Commission, and must be updated at least every three years.
Pricing in Rule 4 (Monopoly Services)	No list of areas of consideration in the pricing process is given.	A nonexhaustive list of areas of consideration in the pricing process is given.
Rule 5 (Emerging Competitive Services)	Other than establishing price floors and ceilings in ways analogous to those in Rule 4, procedures for establishing and maintaining price bands as a flexible pricing alternative are specified.	Other than establishing price floors and ceilings in ways analogous to those in Rule 4, regulation of these services should be governed by existing statutes and part 3 rules.
Fully Competitive Services	These services are treated in ways similar to emerging competitive services except that there is no price ceiling and pricing flexibility is even greater.	This classification is not included.