4901:1-7-19 **Forward-looking economic costs.**

(A) The forward-looking, economic, cost-based price of an element shall be set at a level that allows the providing carrier to recover the sum of the total element long-run incremental cost (TELRIC) of the element and a reasonable allocation of the forward-looking, joint and common costs.

(B) TELRIC

(1) Principal

The TELRIC of an element is the forward-looking economic cost over the long-run of the total quantity of the facilities and functions that are directly attributable to, or reasonably identifiable as incremental to, such element, calculated while holding all other products' volumes constant.

(2) Study period

The commission will consider a cost study period of five years to be reasonable. An incumbent local exchange carrier (ILEC) ~~shall~~will have the burden of proof, to the commission's satisfaction, that such study period would not be reasonable for a specific element.

~~(3) Technology~~

~~The TELRIC of an element shall be measured based on the use of the most efficient telecommunications technology currently available and the lowest cost network configuration, given the existing location of the ILEC's wire centers.~~

~~(4) Cost of capital~~

~~The TELRIC of an element shall be calculated using the forward-looking cost of capital (debt and equity) reflecting the risks of a competitive market, that includes a reasonable level of profit. An ILEC may use an unbundled network element-specific, forward-looking, cost of capital in calculating the TELRIC-based cost for that unbundled network element.~~

~~(5) Depreciation~~

~~The TELRIC of an element shall be calculated using the economic depreciation rates that reflect the forward-looking economic lives of the equipment and the economic value of an asset. In doing so, an ILEC may accelerate recovery of the initial capital outlay for an asset over its life to reflect the anticipated decline in its value.~~

~~(6)~~(3) Federal, state, and local income taxes

(a) Federal, state, and local income tax expenses ~~shall~~will be determined based on the TELRIC recognizing the "tax-on-tax" situation that results from the deductibility of state and local tax when federal taxes are paid.~~.~~

~~(b) Since federal, state, and local taxes are applicable, recognition shall be given to the "tax-on-tax" situation that results from the deductibility of state and local tax when federal taxes are paid.~~

~~(7)~~(4) Inflation

TELRIC studies shall reflect costs that are expected to be incurred during the study period. Such costs ~~shall~~are to be projected to their anticipated level over the study period by using prices in supplier contracts or an appropriate index of future cost, such as supplier estimates of price changes, indices developed from labor contracts, or other relevant indices.

~~(8)~~(5) Investment development

(a) Material investment

(i) The development of the material component of investment shall begin with the current vendor price(s) for the hardware and software resources required to provide the element, projected over the study period as described above.

(ii) Other components of material investment ~~shall~~may include inventory, supply expenses, and sales taxes.

(iii) The sales tax component of investment ~~shall~~is to be calculated by applying a sales tax factor if applicable. The factor shall reflect taxes imposed by state and local taxing bodies on material purchases~~. It shall~~ and be applied to the material and inventory components.

(iv) The supply component ~~shall~~may include the expense incurred by the ILEC for storage, inventory, and delivery of material.

(b) Labor investment

There are two major components of labor investment, vendor-related and ILEC-related.

(i) Vendor-related labor investment ~~shall~~ includes vendor-provided installation and engineering.

(ii) ILEC-related labor investment may be developed based on account averages or from estimates of product-specific plant engineering and installation hours.

(iii) Total labor costs ~~shall~~are to be computed by multiplying the account average or product specific work times by the appropriate labor rate.

(iv) Hourly labor rates include the operational wages, benefits, paid absence, and, if applicable, tools and miscellaneous expenses.

~~(9)~~(6) Fill factors

The investment developed above shall be adjusted to reflect reasonably accurate "fill factors." Fill factors are the proportion of a facility that will be filled with network usage during the study period. The ILEC ~~shall have~~has the burden to justify the reasonableness of the fill factors used in its TELRIC studies.

~~(10)~~(7) Maintenance

Maintenance costs are incurred in order to keep equipment resources in usable condition.

(a) Included in this classification are: direct supervision; engineering associated with maintenance work; labor and material costs incurred in the upkeep of plant; rearrangements and changes of plant; training of maintenance forces; testing of equipment and facilities; tool expenses; and miscellaneous expenses.

(b) The specific maintenance cost estimates associated with the element in question or investment-related annual maintenance factors may be applied to arrive at an annual maintenance cost.

(c) The factor ~~shall~~is to be specific to the investment and expense accounts associated with the element and developed from the most current data reasonably available to the ILEC.

~~(11)~~(8) The forward-looking, economic, cost per unit of an element ~~shall~~ equals the forward-looking, economic cost of the element, divided by a reasonable projection of the sum of the total number of units of that element that the ILEC is likely to provide to requesting telephone companies and the total number of

units of that element that the ILEC itself is likely to use in offering its own services, during the study period.

~~(12)~~(9) In the determination of the total number of units:

(a) If the ILEC offers an element on a flat-rate basis, the number of units ~~shall be~~are defined by the ILEC as the discrete number of elements that the ILEC uses or provides (e.g., number of loops or number of ports).

(b) If the ILEC offers an element on a usage-sensitive basis, the number of units ~~shall be~~are defined by the ILEC as the unit of measurement of the usage (e.g., number of minutes-of-use or database queries).

~~(13)~~(10) The TELRIC of an element ~~shall~~is to reflect any cost-based volume discount, term discount, and/or geographic-deaveraging the ILEC plans to offer.

(C) Forward-looking, joint and common costs

(1) Forward-looking common costs are economic costs incurred by the ILEC in providing all elements and services provided by the ILEC that cannot be attributed directly to an individual element or service.

(2) Forward-looking joint costs are those forward-looking costs that are common to only a subset of the elements or services provided by the ILEC.

(3) Reasonable allocation of forward-looking, joint and common costs:

(a) Forward-looking joint costs which are common to only a subset of the elements or services provided by the ILEC, ~~shall~~are to be allocated to that subset, and should then be allocated among the individual elements or services in that subset, based upon measures of utilization, including such measures as: number of circuits, minutes-of-use, and bandwidth. The commission ~~shall~~may evaluate the reasonableness of the joint cost allocation methodology on a case-by-case basis.

(b) Forward-looking common costs ~~shall~~are to be allocated among elements and services in a reasonable manner. The ILEC may allocate forward-looking common costs using a fixed allocator as a markup over the sum of the TELRIC and the allocated forward-looking joint cost allocated to such element. The ILEC ~~shall have~~has the burden of proving that the fixed allocator permits only reasonable recovery of any forward-looking common costs.

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CERTIFIED ELECTRONICALLY

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