

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:)	GTA DOCKET 11-04
)	
GTA TELECOM LLC INDIVIDUAL CASE BASIS FILING)	PUC COUNSEL REPORT
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INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [PUC] upon the filing of GTA Telecom LLC [GTA] to establish an Individual Case Basis arrangement [ICB] pursuant to its General Exchange Tariff No. 1.¹ A portion of the documentation, particularly that involving the GTA Long Run Incremental Cost [LRIC] Methodology, has been filed under seal pursuant to a claim of confidentiality.
2. GTA's proposed tariff for ICB arrangements was approved by the PUC in Docket 05-3.² There the PUC established the conditions for the filing of an ICB arrangement and the required analysis.³

BACKGROUND

3. On or about February 16, 2011, the Department of Education [DOE] issued GDOE Invitation for Bid 020-2011 [GDOE E-RATE NETWORK (GENET) 2011].⁴ Therein, among other things, DOE sought the provision of Central Office Telephone Services known generally as Centrex services.⁵
4. GTA's bid offered to provide 1,032 Centrex lines to the Guam Department of Education. Since GTA believed that its cost per line to the Department of Education qualified for an Individual Case Basis Arrangement, GTA's Bid offered DOE a price offering above the average floor rate developed in its ICB analysis, a "Centrex Revenue Requirement Summary/School Proposal."⁶

¹ GTA Telecom LLC filing for an Individual Case Basis Arrangement, Docket No. 05-3 [Renamed GTA Docket 11-04], filed on March 31, 2011.

² See PUC Orders, Docket 05-3, dated February 15, 2008 and October 03, 2008.

³ Id.

⁴ Guam Department of Education IFB 020-2011, Invitation for Bid, issued February 16, 2011.

⁵ GDOE IFB 020-2011, Scope of Work, Part 1.

⁶ GTA Petition to Establish Individual Case Basis Arrangement, GTA Docket 11-04, filed March 31, 2011; attached

5. On March 21, 2011, DOE issued a “Notice of Intent of Possible Award to GTA for Centrex Services.”⁷
6. In prior Orders and proceedings, the PUC has established the criteria and conditions for the review of an ICB Filing. The PUC held as follows in its Order issued October 3, 2008: with regard to GTA Tariff Transmission #1 [Individual Case Basis Filings]:⁸ “After regulatory review, PUC issued an order on February 15, 2008, which approved the tariff, subject to the following conditions:
 - a] ICB pricing shall be offered only to business or government customers with more than 10 lines and shall not exceed the tariff prices, where specific charges are provided in GTA’s tariff;
 - b] GTA should, consistent with PUC’s confidentiality rules, file with PUC each ICB contract upon execution together with analysis, which establishes that the contract prices exceed incremental cost as determined using the long run incremental cost [LRIC] standard; and
 - c] ICB prices contained in any contract shall be available to any similarly situated customer.
7. In addition, GTA is required to file, with each ICB contract, an analysis which is consistent with the guidelines set forth in the Report issued by the Georgetown Consulting Group on March 10, 2008.⁹
8. In its Report dated March 10, 2008, GCG indicated the “Cost support” that would be necessary for Individual Case Basis (ICB) Contract Filings.¹⁰ Therein GCG recognized that “it is a long established regulatory principle that prices for telecommunications services must be set at or greater than their incremental cost.

thereto is a Certification of Adherence with the ICB filing requirements set forth in Docket 05-3 and the provision by GTA of the LRIC (Long Run Incremental Cost) analysis required under Docket 05-3 to establish the floor prices for the competitive services which it has offered to the Department of Education. This PUC Counsel Report will not make reference to specific price or cost data, as all such information has been filed under a claim of confidentiality. However, such cost data, as well as the LRIC (Centrex Revenue Requirement Summary) is fully available to the Commissioners for review.

⁷ GDOE Letter of Intent, GDOE IFB 020-2011, issued March 21, 2011.

⁸ PUC Order, Docket 05-3, filed October 3, 2008, at p. 2.

⁹ Id. at p. 3.

¹⁰ GCG Report in re: Cost Support for Tariff Revisions-Individual Case Basis (ICB) Contract Filings, Docket 05-3, filed March 10, 2008.

Below cost pricing is generally considered to be anti-competitive except in the context of short-run promotional sales.¹¹

9. Generally, studies are undertaken to determine the average unit cost of a larger incremental quantity taking into account the economies of scale achieved by large operators. These studies determine Long Run Incremental Cost (LRIC).¹²
10. While recognizing that LRIC studies could be very expensive, GCG indicated that “the Commission may be assured that prices are not anti-competitive if GTA performed a more simple LRIC-like study using historical accounting data. The calculation for each service offered as an ICB would be determined based upon the following calculation:
 - a.) Direct equipment and plant specific costs
 - + b.) Allocated plant non-specific costs
 - + c.) Depreciation related to direct equipment
 - = d.) Total increment plant related cost of the service.
 - + e.) Customer services costs directly related to the service being provided
 - = f.) Total incremental cost of the service (d+e)
 - ÷ g.) Total quantity of units produced
 - = h.) Incremental unit cost of service.¹³
11. GCG supported an approach using the above formula “for the limited purpose of demonstrating that competitive bidding prices are above LRIC.”¹⁴

ANALYSIS

12. In this case, GTA seeks to offer ICB pricing to a government customer with more than 10 lines. GTA offers 1,032 Centrex lines to DOE. The per line cost offered by GTA to DOE does not exceed the tariff prices provided in GTA’s General Exchange Tariff No. 1.
13. Consistent with the PUC’s confidentiality rules, GTA is required to file with PUC each ICB contract an analysis which establishes that the contract prices exceed incremental cost as determined using the long-run incremental cost [LRIC] standard. In compliance with this requirement, GTA has filed Exhibit B to

¹¹ Id. at p. 1.

¹² Id.

¹³ Id. at p. 2.

¹⁴ Id. at p. 3.

its Petition, the GTA LRIC methodology for GTA's offering of Centrex services to DOE.¹⁵

14. The LRIC study filed by GTA [Centrex Revenue Requirement Summary/School Proposal], and Exhibit 2B Supplemental to the Petition, indicates that the average cost per loop offered by GTA to DOE is above the average cost per line developed in the LRIC study. The offered contract prices exceed the incremental cost as determined using the LRIC standard.¹⁶
15. The GTA consultant that prepared the LRIC analysis certifies that it is in compliance with the formula set forth by GCG in its report filed March 10, 2008.¹⁷
16. GTA has certified that the Individual Case Basis Contracted Price with DOE "will be available to any similarly situated customer should that customer request a similar arrangement."¹⁸

RECOMMENDATION

17. The PUC should approve GTA's Individual Case Basis [ICB] filing dated March 31, 2011, which provides for a per line pricing for Centrex services to DOE which is above the average cost per line as determined by the LRIC study. GTA has satisfied the three conditions for approval of an ICB arrangement as set forth in the PUC Order issued on February 15, 2008.
18. The ICB pricing afforded by GTA to DOE should be in accordance with the price represented in Exhibit 2B Supplemental to its Petition.
19. A draft Order is submitted to the Commission for its consideration.

Dated this 13th day of April, 2011.

Frederick J. Horecky
PUC Legal Counsel

¹⁵ GTA Petition for Individual Case Basis filing, GTA Docket 11-04, Exhibit B.

¹⁶ Id., Exhibit 2B Supplemental.

¹⁷ JSI Letter dated April 11, 2011, certifying compliance with GCG LRIC analysis.

¹⁸ Id. at Exhibit A, Certification of Adherence with Docket 05-3.