

changes that the Commission shall permit or require, and include those caused by:

- (1) The completion of the amortization of depreciation reserve deficiencies;
- (2) Changes in the Uniform System of Accounts;
- (3) Changes in the Separations Manual;
- (4) The reallocation of investment from regulated to nonregulated activities pursuant to §64.901; and
- (5) Such tax law changes and other extraordinary exogenous cost changes as the Commission shall permit or require.

These exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes thus attributed to price cap services shall be further apportioned on a cost-causative basis among price cap baskets.

(d) In calculating the “ $\Delta Y$ ” variable in the formula detailed in paragraph (b) of this section:

(1) The net change in total non-traffic sensitive access costs for all capped services (in all baskets), calculated at base period demand, shall be allocated among the baskets in proportion to each basket’s share of total base period non-traffic sensitive minutes of access (both originating and terminating);

(2) The net change in total traffic sensitive access costs for all capped services (in all baskets), calculated at base period demand, shall be allocated among the baskets in proportion to each basket’s share of total base period traffic sensitive minutes of access; and

(3) Changes in special access costs in each basket, calculated at base period demand, shall be assigned directly to the baskets in which such costs are incurred.

(e) In calculating the “ $w$ ” variable in the formula detailed in paragraph (b) of this section, the access costs that must be subtracted from the “ $R$ ” variable shall be apportioned among the baskets in a manner that is consistent with the methodology provided in paragraph (d) of this section for calculating the “ $\Delta Y$ ” in each basket.

(f) The “ $w(\text{GNP-PI} - X)$ ” component of the PCI formula shall be employed

only in the adjustment made in connection with the annual price cap filing.

(g) The exogenous cost changes and changes in access costs caused by new services subject to price cap regulation must be included in the appropriate PCI calculations under paragraph (b) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced.

(h) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to §61.46) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.

[54 FR 19842, May 8, 1989, as amended at 55 FR 42383, Oct. 19, 1990]

#### §61.45 Adjustments to the PCI for Local Exchange Carriers.

(a) Local exchange carriers subject to price cap regulation shall file adjustments to the PCI for each basket as part of the annual price cap tariff filing, and shall maintain updated PCIs to reflect the effect of mid-year exogenous cost changes.

(b) Adjustments to local exchange carrier PCIs for the baskets designated in §61.42(d) (2), (3), (4), (5), and (6) shall be made pursuant to the formula set forth in §61.44(b), and as further explained in §61.44 (e), (f), (g), and (h).

(1) Notwithstanding the value of  $X$  defined in §61.44(b), the  $X$  value applicable to the baskets specified in §61.42(d) (2), (3), and (6) shall be 6.5%.

(2) For the basket specified in §61.42(d)(4), the value of  $X$ , for all local exchange carriers subject to price cap regulation, shall be 3.0%.

(3) Notwithstanding the value of  $X$  defined in §61.44(b), the value of  $X$  applicable to the basket specified in §61.42(d)(5) shall be 0%.

(c)(1) Subject to paragraphs (c)(2) and (e) of this section, adjustments to local exchange carrier PCIs for the basket designated in §61.42(d)(1) shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w \{ (\text{GDP-PI-X} - (g/2)) / (1 + (g/2)) \}] + \Delta Z/R$$

where

GDP-PI=the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year,

X=productivity factor of 6.5%,

g=the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, minus 1,

$\Delta Z$ =the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to  $PCI_{t-1}$ , measured at base period level of operations,

R=base period quantities for each rate element "i", multiplied by the price for each rate element "i" at the time the PCI was updated to  $PCI_{t-1}$ ,

$w=R+\Delta Z$ , all divided by R,

$PCI_t$ =the new PCI value, and

$PCI_{t-1}$ =the immediately preceding PCI value.

(2) The formula set forth in paragraph (c)(1) of this section shall be used by a local exchange carrier subject to price cap regulation only if that carrier is imposing a carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier PCIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth in § 61.44(b), and paragraphs (i) and (j) of this section, and as further explained in § 7thns;61.44 (e), (f), (g), and (h). For the purposes of this paragraph, and notwithstanding the value of X defined in § 61.44(b), the X value applicable to the basket specified in § 7thns;61.42(d)(1), shall be 6.5%.

(d) The exogenous cost changes represented by the term " $\Delta Z$ " in the formula detailed in paragraphs (b) and (c) of this section shall be limited to those cost changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling.

(1) Subject to further order of the Commission, those exogenous changes shall include cost changes caused by:

(i) The completion of the amortization of depreciation reserve deficiencies;

(ii) Such changes in the Uniform System of Accounts, including changes in

the Uniform System of Accounts requirements made pursuant to § 32.16 of this chapter, as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(iii) Changes in the Separations Manual;

(iv) Changes to the level of obligation associated with the Long Term Support Fund and the Transitional Support Fund described in § 69.612;

(v) The reallocation of investment from regulated to nonregulated activities pursuant to § 64.901;

(vi) Such tax law changes and other extraordinary cost changes as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(vii) Retargeting the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark.

(viii) Inside wire amortizations.

(ix) The completion of amortization of equal access expenses.

(2)(i) Local exchange carriers specified in § 61.41 (a)(2) or (a)(3) shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism set forth in the Commission's Second Report and Order in Common carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.

(ii) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall not be subject to the sharing mechanism set forth in the Commission's *Second Report and Order* in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990, with respect to earnings accruing on or after July 1, 1997/ This paragraph has no effect on any sharing obligation of any local exchange carrier relating to earnings accrued before July 1, 1997.

(3) Local exchange carriers specified in § 61.41 (a)(2) or (a)(3) of this part

shall, in their annual access tariff filing, recognize all exogenous cost changes attributable to modifications during the coming tariff year in the obligations specified in §61.45(d)(1)(iv) as well as those changes attributable to alterations in their Subscriber Plant Factor and the Dial Equipment Minutes factor, and completions of inside wire amortizations and reserve deficiency amortizations.

(4) Exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes thus attributed to price cap services shall be further apportioned on a cost-causative basis among the price cap baskets.

(e) The “ $w[(GDP-PI-X-[g/2])/(1+(g/2))]$ ” component of the PCI formula contained in paragraph (c) of this section shall be employed only in the adjustment made in connection with the annual price cap filing.

(f) The exogenous costs caused by new services subject to price cap regulation must be included in the appropriate PCI calculations under paragraph (c) of this section beginning at the first annual price cap tariff filing following completion of the base period in which such services are introduced.

(g) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to §61.46) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.

(h) [Reserved]

(i)(1) Notwithstanding the provisions of paragraphs (b) and (c) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to §69.124 or §69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the baskets designated in §61.42(d)(1) and (2) that result from the application of the formula in §61.45(c) and, pursuant to §61.45(b), application of the formula in §61.44(b) as further explained in §61.44 (e), (f), (g),

and (h), to the PCI for the basket designated in §61.42(d)(3), with no adjustment being made to the PCIs for the baskets designated in §61.42(d)(1) and (2) as a result of the application of the formulas in §§ 61.44(b) and 61.45(c). These reductions are to be made after the adjustment is made to the PCI for the basket designated in §61.42(d)(3) resulting from the application of the formula in §61.44(b), as further explained in §61.44 (e), (f), (g), and (h).

(2) Notwithstanding the provisions of paragraph (b) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to §69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reduction associated with the basket designated in §61.42(d)(6) that result from the application, pursuant to §61.45(b), of the formula in §61.44(b), as further explained in §61.44 (e), (f), (g), and (h), to the PCI for the basket designated in §61.42(d)(3), with no adjustment being made to the PCIs for the baskets designated in §61.42(d)(6) as a result of the application of the formula in §61.44(b). This reduction is to be made after any adjustment made pursuant to paragraph (i)(1) of this section.

(3) Through December 31, 1997, the reduction in the PCI for the basket designated in §61.42(d)(3) that results from paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar effects of the PCI reductions that would have applied to the baskets designated in §61.42(d)(1) and (2) except for the provisions of paragraph (i)(1) of this section by the dollar amount associated with the PCI for the basket designated in §61.42(d)(3), and multiplying the PCI for the basket designated in §61.42(d)(3) by one minus the resulting ratio.

(4) Effective January 1, 1998, the reduction in the PCI for the basket designated in §61.42(d)(3) that results from paragraphs (i)(1) and (i)(2) of this section shall be determined by dividing the sum of the dollar effects of the PCI

reductions that would have been applied to the baskets designated in § 61.42(d)(1), (d)(2), and (d)(6), except for the provisions of paragraphs (i)(1) and (i)(2) of this section, by the dollar amount associated with the PCI for the basket designated in § 61.42(d)(3), and multiplying the PCI for the basket designated in § 61.42(d)(3) by one minus the resulting ratio.

(j) In determining the extent of the targeting that shall occur pursuant to paragraphs (i)(1) and (i)(1) of this section, local exchange carriers shall (1) compute their anticipated residual interconnection charge amount by excluding revenues that are expected to be reallocated to cost-causative facilities-based charges in the future. To determine interconnection charge amounts so excluded in connection with the July 1, 1997 tariff filings, the following local exchange carriers shall use as an estimate of the residual interconnection charge revenues the specified residual interconnection charge percentage: NYNEX, 77.63 percent; BellSouth, 56.93 percent; U S West, 59.14 percent; Bell Atlantic, 63.96 percent; Southwestern Bell Telephone, 69.11 percent; and Pacific Bell and Nevada Bell, 53.52 percent. Each remaining price cap local exchange carrier shall estimate a residual interconnection charge in an amount equal to 55 percent of its current interconnection charge revenues. For subsequent tariff filings in which the PCI reductions are to be targeted to the interconnection charge, these initial estimates shall be adjusted to reflect the actual amounts that have or will be reallocated. If the use of these estimates results in more PCI reductions being targeted to the interconnection charge that required to eliminate the per-minute interconnection charge, the local exchange carrier shall make the necessary exogenous adjustments to reverse the effects of the access targeting.

(2) Not include the amount of any exogenous adjustments reflected in the z component of the formulas in §§ 61.44(b) and 61.45(c). Any such exogenous adjustments shall be reflected in the various PCIs and SIBs in the same manner as they would if there were no targeting.

(k) The calculation of the PCI for the basket designated in § 61.42(d)(3) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

(l) The calculation of the PCI for the basket designated in § 61.42(d)(6) shall include any marketing expense revenues recovered pursuant to §§ 69.153 and 69.156 of this chapter.

[55 FR 42383, Oct. 19, 1990; 55 FR 50558, Dec. 7, 1990, as amended at 56 FR 21617, May 10, 1991; 58 FR 36148, July 6, 1993; 60 FR 19527, Apr. 19, 1995; 60 FR 52346, Oct. 6, 1995; 62 FR 31930, 31941, June 11, 1997; 62 FR 40460, July 29, 1997]

**§ 61.46 Adjustments to the API.**

(a) Except as provided in paragraphs (d) and (e) of this section, in connection with any price cap tariff filing proposing rate changes, the carrier must calculate an API for each affected basket pursuant to the following methodology:

$$API_t = API_{t-1} [\sum v_i (P_i/P_{t-1})_i]$$

where

API<sub>t</sub> = the proposed API value,

API<sub>t-1</sub> = the existing API value,

P<sub>i</sub> = the proposed price for rate element "i,"

P<sub>t-1</sub> = the existing price for rate element "i,"

and

v<sub>i</sub> = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate element "i" priced at the existing rate, to the base period demand for the entire basket of services priced at existing rates.

(b) New services subject to price cap regulation must be included in the appropriate API calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the API.

(c) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the API pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates into rates of equivalent value under the proposed structure, and then the comparison of the existing rates