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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE INCREASE IN)

CAMBRIDGE TELEPHONE COMPANY’S )CASE  NO.  CAM-T-95-1

RESIDENTIAL LINE RATE TO MEET)

UNIVERSAL SERVICE FUND REQUIRE-)

MENTS)COMMENTS OF THE

)COMMISSION STAFF

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COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and

through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and

submits the following comments for the Commission’s consideration in Case

No. CAM-T-95-1.

On August 24, 1995 the Commission reviewed the annual report of the Idaho Universal Service Fund (USF) for the period from July 1, 1994 through June 30, 1995.  After reviewing the report and the requirements of §62-610, Idaho Code, the Commission determined that a $2.70 average increase in Cambridge Telephone Company’s residential local access rates was necessary in order for Cambridge to continue to qualify for funds from the USF.  On August 31, 1995 the Commission, on its own motion, issued a Notice of Modified Procedure to increase these rates effective October 1, 1995 and requested comments within 21 days.  Staff’s comments follow.

BACKGROUND

Cambridge Telephone Company applied for Universal Service Funds (CAM-T-88-1) in July, 1988, just four months after the Commission granted authority for Cambridge to increase its rates (U-1017-25).  Cambridge requested significant rate increases in U-1017-25  to compensate for a decrease in revenue resulting from the dissolution of the long distance pools that existed before divestiture.  The Commission found it just and reasonable to allow Cambridge to increase its one-party local rates to the following levels, effective March 1, 1988:

Cambridge and Indian ValleyRes - 12.50Bus - 25.00

LowmanRes - 11.50Bus - 23.00

CuprumRes - 10.50Bus - 21.00

These increases were in some cases nearly 300% of the previous rates, which had been $4.25 for residence and $9.80 for business one-party service in all three exchanges.  The Commission said, in Order Number 21765, its decision represented

a reasonable balance between two competing interests, the first arguing for lower local rates in the interest of rate stability, rate affordability and value of service pricing and the second arguing for higher local rates due to federally driven cost-shifting and other factors.

The dramatic increases in local rates were accompanied with extremely high toll access rates—$0.309 average revenue per minute for Cambridge.  Without the assignment of high proportions of costs to intrastate toll, local rates would have been even higher.  The sharp increases in local and toll access rates requested by Cambridge and several other phone companies following the new allocation of non-traffic sensitive costs by the FCC prompted a Commission investigation that led to the establishment of the Universal Service Fund.  The USF was established by the Idaho Legislature under the general legal authority of the Telecommunications Act of 1988.  Chapter 6, Title 62, Idaho Code, and the specific authority of Section 62-610, Idaho Code established the criteria for companies to receive funding.  It required local rates and toll access rates to be set at 125% of statewide weighted average.  The eligibility thresholds for local rates at that time were $14.75 for residence and $35.05 for business customers.

Cambridge Telephone Company submitted a tariff advice on June 23, 1988, prior to its application for USF funds, which set tariffed residential rates at $14.77 and tariffed business rates at $35.06, which were 125% of the weighted statewide average.  The billed rates for both residential and business local access were to remain as set by the Commission in U-1017-25 (see chart preceding), and the difference (loss) in revenue recovery was to be offset by a credit from the Interstate Universal Service Fund.  Cambridge’s $0.309 average revenue per minute in toll access was already well above the USF threshold of $0.136.  Cambridge’s application for Universal Service Funds was unique at the time because in addition to billed business rates being lower than tariffed rates, Cambridge’s billed residential rates were also set lower than the tariffed rate.  Staff indicated in its comments that it hoped that “having a difference between the billed rate of a service and the tariffed rate [would] be short-lived...” and U S WEST suggested that the use of the interstate Universal Service Fund to maintain basic local exchange rates was a transition vehicle to be used until the companies could eventually set their billed rates at the Idaho USF threshold rates.  The Commission approved Cambridge Telephone Company’s eligibility to receive distributions from the USF based on the above described tariff advice rates.  These rates are current today.

STAFF DISCUSSION

The Commission’s Universal Service Rules, IDAPA 31.46.01.000 were revised effective April 26, 1995, to establish “those circumstances under which telephone companies would revise their rates in order to continue meeting the USF threshold for funding eligibility.”  (General Order No. 192)  According to the revised rule, rates would be changed if the difference between the Company’s current average rate and the statewide average threshold rate (for local access, the threshold is currently 125% of the weighted statewide average) is more than 3% and the difference in the annual revenue associated with the Company’s current rate and the revenue associated with the statewide threshold rate is over $6,000.

Cambridge Telephone Company is the only one of the seven companies receiving distributions from the USF with residence rates that fall outside of the criteria defined in the rules.  Cambridge’s rates vary 22.2% from the threshold rate, for a revenue difference of $27,184 according to the 1995 Annual Report of the Universal Service Fund.  Cambridge Telephone Company’s billed residential rates are an average of $2.70 below the statewide average threshold rate.

Cambridge’s 1987 rate case resulted in rate increases that more than doubled local service rates beginning in the first quarter of 1988.  It was just and reasonable that instead of requiring another rate increase less than six months later to bring Cambridge’s residential rates to $125% of the weighted statewide average, the Commission used the tariff rate/billed rate mechanism to allow Cambridge to become eligible to draw from the Universal Service Fund.  However, Staff believes after seven years it is now reasonable for Cambridge to bring its rates in line with the other recipients of USF funds.  Staff believes that to continue this discrepancy among companies participating in the USF is unfair to other participants and also seems unfair to non-participating companies that have higher residential rates than Cambridge but do not draw USF funds.

In Washington and Oregon U S WEST has proposed to “rebalance” local rates for residential lines to about $20 per month.  In the pending U S WEST Revenue Sharing case, USW-S-95-4, U S WEST commented on August 5, 1994 that the Company believes it is undercollecting $13 million from residential line rates and would experience another deficiency of $21 million from using the Company’s preferred depreciation rates.  These numbers represent what U S WEST believes to be an undercollection of more than $10 per month on residential lines.  If U S WEST’s rates in Idaho change according to these calculations, it is obvious that the statewide weighted average will increase by about the same amount and the USF threshold (and consequently, local rates of participating companies) will increase by 125% or about $12.50 per month.  If Cambridge Telephone Company’s rates continue to lag behind the current threshold rates, any adjustments required by an overall average rate increase will be felt more keenly by Cambridge customers than by the other USF-recipient company customers.  Therefore, Staff believes it is in the best interests of Cambridge customers to bring its billed rates to the current threshold rate and be on a par with other USF participants.

Staff has calculated proposed rates to produce an additional $27,184, as specified in the USF Order No. 26148 and the CAM-T-95-1 Notice of Modified Procedure, and they are shown on the attached exhibit.  This is an average increase of $2.59 per month.  Using these rates and the line counts shown in Cambridge’s 1994 annual report, these increases result in a weighted average of $14.73, which is slightly less than 125% of the statewide average, but still within the 3% range allowed by the USF Rules.  Cambridge has indicated that it would prefer rounding the rates to:  Indian Valley and Cambridge, $15.20; Cuprum, $12.75; and Lowman, $14.00.  This rounding would not significantly change the overall results from Staff’s proposal.  A table showing these rates is shown on the attached exhibit.

To avoid rate shock, the proposed rates could be implemented over the next two years, with increases in October 1995, 1996 and 1997.  An average rate increase of $.90 per line would yield the results shown in Part 3 of the attached exhibit for the first year.

DATED  at Boise, Idaho, this            day of September, 1995.

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Weldon B. Stutzman

Deputy Attorney General