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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IMPROVING OR RE-)

PLACING U S WEST COMMUNICATIONS’)CASE NO. USW-S-95-4

REVENUE SHARING PLAN FOR SOUTHERN)

IDAHO.)REPORT OF THE COMMISSION

                                                                   )STAFF

In last year’s revenue sharing case, the Commission directed the Staff and U S WEST Communications to review the southern Idaho Revenue Sharing Plan for the purpose of recommending modifications to the plan “or creat[ing] a new method by which to regulate U S WEST’s southern Idaho operations.”  Order No. 25826 at 5.  Pursuant to this directive, the Staff and Company have met several times to discuss how the Sharing Plan could be improved or replaced with a new regulatory mechanism.   Although these meetings have been productive and far-reaching, the Staff and the Company have been unable to reach final agreement by this filing date on all issues in this complex endeavor.  Consequently, the Staff is filing this report individually and anticipates that U S WEST will also file an individual report.  Staff intends to continue negotiations with the Company until testimony is filed in this case.

BACKGROUND

In final Order No. 25826 issued December 13, 1994, the Commission determined that the existing Revenue Sharing Plan should be modified or replaced.  The Commission found that several components of the existing Sharing Plan were no longer appropriate.  In particular, the Commission invited interested parties to offer recommendations on the issues of:  (1) no longer compensating U S WEST the full amount of “lost” revenue when future toll routes are converted to extended area service (EAS) routes; (2) eliminating rural zone charges; and (3) adopting service quality standards to reverse the decline in U S WEST’s quality of service.  The Commission ordered that a workshop proceeding be established so that interested parties could examine these and other issues.  The workshop participants were directed to file a report either individually or jointly, addressing the required modifications to the Revenue Sharing Plan or a replacement plan.  This report was to be filed no later than June 1, 1995.  The Commission envisioned subsequent hearing on the parties’ recommendations so that the revised or replacement plan would be operational for calendar year 1996.

In February 1995, U S WEST filed a timely Petition for Reconsideration of the revenue sharing Order.  On reconsideration, the Commission abandoned the workshop format to examine the Sharing Plan and instead directed the Staff and the Company to negotiate revisions to the existing plan or to propose an appropriate replacement plan.  The Commission retained the requirement that the Staff and the Company, either jointly or individually, file a report outlining the new regulatory framework for Title 61 services by June 1, 1995.  Order No. 25923 issued March 15, 1995.

On May 31, 1995, the Staff and U S WEST filed a Joint Motion requesting an extension of time to file the Report until June 12, 1995.  The parties maintained that their negotiations were not yet at a stage where they can submit a detailed report to the Commission.  In Order No. 26051, the Commission granted the parties’ Joint Motion.

THE IDAHO SERVICE INCENTIVE PLAN

The Staff believes that the Revenue Sharing Plan has served as an effective regulatory tool for U S WEST’s southern Idaho operations during the first five years of U S WEST’s operation under the new regulation framework allowed by the Telecommunications Act of 1988.  After reviewing the areas of concern identified by the Commission in its prior Orders, the Staff has developed a new regulatory plan intended to replace the Sharing Plan.  The concept of this  new Plan, the Idaho Service Incentive Plan (ISIP), has undergone refinement throughout the discussions with the Company.  The linchpin of ISIP is the adoption of  service quality standards to ensure that U S WEST is meeting its statutory duty of providing adequate and efficient service to its customers.  The Company’s service quality, as measured by these standards, is tied to increases or decreases in local rate levels.  As more fully described below, those areas of concern identified by the Commission in its prior Orders are also components of the new Plan.  Although the Staff and the Company have not reached an agreement on local rate levels, service quality standards or the exact rate for EAS cost compensation, there is conceptual agreement on most elements of the new Plan.  We believe that the structure of the ISIP, is an appropriate and reasonable replacement to the Revenue Sharing Plan.  The rates and service standards we have indicated have not been discussed with U S WEST.  As details of the ISIP are added and as negotiations continue, Staff will fine tune its recommendations before submitting a final recommended plan in testimony.

A. Service Quality Standards

In Order No. 25826, the Commission found U S WEST’s quality of customer service  had declined in recent years.  The Commission observed that the Company’s recent cost-cutting measures and “downsizing” contributed to the decline in service.  In addition, the Commission observed that the Revenue Sharing Plan may have unintentionally contributed to the decline in service by eliminating any incentive or disincentives for maintaining adequate quality of service.  Although it acknowledged that the Company should be commended for initiating actions intended to produce more efficient and effective operations, the Commission observed that “efficiencies achieved at the expense of service quality are as unacceptable to this Commission as they are in the competitive marketplace.”  Id. at 15.

To reverse the decline in service quality, the Commission proposed adopting specific service quality standards intended to improve the level of service offered to U S WEST’s customers.  In final Order No. 25826, the Commission proposed adopting 17 service quality measurements in two primary areas:  Repair service and installation service. Id. at Attachment C.  The service quality measurements and their respective standards were generally obtained from U S WEST reports or systems including its “Basic Service Quality Indicator” and “Mechanized Force Management System” reports.  To encourage attainment of the service quality standards, the Commission proposed weighted, monetary penalties if U S WEST failed to meet the service quality standards.

On reconsideration, the Commission directed that the proposed service quality standards be considered in a separate proceeding (Case No. USW-S-95-2) from this case.  Although the Commission initiated a separate docket to examine the service quality standards, service standards have been incorporated as an indispensable component of the ISIP.  For purposes of this report, the Staff is recommending that the new regulatory plan measure the Company’s service performance in three areas—repair, installation and accessibility.  As indicated in Attachment A, the Staff has identified 14 service quality measurements and their respective standards.

1.  The Service Standards.  Proposed service quality standards are shown on Attachment A.  Repair service is measured by the number of trouble reports per 100 lines and the percentage of out-of-service reports cleared by the Company within 24, 48 and 72 hours.  For installation or “provisioning,” the Staff proposes a service standard for measuring the total number of held orders.  The Staff also proposes to measure the percentage of new service orders completed within 48 hours.   The ability of customers to contact repair and installation centers will be measured as well as the Company’s track record in keeping appointment commitments.

The Staff’s service quality standards are very similar to those standards proposed by the Commission in Order No. 25826.  Rather than separately measure residential and small business service quality as the Commission proposed, the Staff has combined the two measurements.  In addition, the quality of service standards proposed here have been modified to match the standards currently under consideration by the U S WEST Regional Oversight Committee (ROC).  Uniform adoption of the ROC standard by all state commissions would allow the Company to calculate a single set of service quality measurements across its 14-state service area, and should result in monitoring and reporting efficiency.

2.  Monetary Incentives.  If the Company meets the target standards shown on Attachment A, then the annual residence service rate increase scheduled for the next anniversary date of the ISIP will go into effect.  On  October 30 of 1996 and each year of the ISIP, the Company's performance for the previous 12 months will be determined.   If it earns an "A" on service quality, then the 1/1/97 or subsequent ISIP year rate increase will go into effect.  If it earns a "B", there will be no rate increase.  If it earns a "C", then there will be a decrease of the same amount as the increase was scheduled to be.  (These standards still need to be weighted so that a numeric grade can be calculated and then a letter grade will be applied.  E.g. 90-100% = A; 80-90% = B; 79% or below = C).

If the ROC adopts Service Quality measurements different than these, the Company may request that this plan be modified to replace these standards with those adopted by the ROC.

Also, Staff proposes that credits be given to customers whose service appointments are missed by the Company and whose service is not repaired in the time frames included in the standards.  Customers who order installation but do not receive it within 2 business days (where facilities exist) should also be compensated and those whose order requires new construction which will not be completed within 30 days should receive enough credit to purchase an alternative to U S WEST’s service and should be given call forwarding.

B.  Local Service Rates

The Staff's May 25, 1994  earnings investigation report calculated that the Company was earning 10.4% ROR on Title 61 operations, given the current average residence line rate of $11.61 and business average rate of $29.76.  The Company claims it needs to increase the residence rate by about $10 per month or more.  U S WEST Comments, August 5, 1994 at 22 and 41.

U S WEST has two studies available - an embedded cost study with allocation factors (the CAAS methodology)  to arrive at Title 61 revenue requirement and a Total Service Long Run Incremental Cost (TSLRIC) study that identifies the cost of a service based on forward looking investment costs.  Under the CAAS study, U S WEST reported in it August 5, 1994 Comments that residence line rates were undercollecting revenue requirement by $13M or $3.85 per line per month (using the Staff's recommended 9.78% ROR).  The Company also claimed that using the Company's preferred depreciation rates (which are higher than the FCC-prescribed rates) would create an  additional revenue deficiency of $21M or $6.20 per residence line.   Therefore, the residence rate is $10.05 too low, using 9.78% ROR; it should be $21.66.  Using the TSLRIC study which uses an 11.3% ROR, the residence rate would be even higher.

Neither the Staff's earnings estimate nor the Company's CAAS estimates or TSLRIC studies have been fully reviewed by the Commission.  Many assumptions in these studies have major impacts on revenue requirement and rates for residence and Title 61 business customers.  Proponents of each of the studies recognize the validity of differing opinions while holding fast to their own and can supply noted industry experts who will support the different methodologies.    Add to this dilemma the uncertain regulatory and competitive environment the future holds and one can understand why, even though there have been productive and sincere discussions between the Staff and Company, there has not yet been an agreement to support one method over the other or to recommend a monthly rate for residence and small business access line service.  The Staff is prepared however, to offer a schedule of local rate changes over the next five years, in the context of an alternative regulation plan that addresses other issues, which it believes results in fair compensation to U S WEST and will be most likely to provide quality service to Idaho customers at fair, just and reasonable rates.

Attachment B indicates Staff's adjustments made to the current rates to arrive at the appropriate "base" Title 61 rates for the ISIP.  These adjustments compensate the Company for the elimination of zone charges and for the EAS surcharge added to the Revenue Sharing Plan and credit the Title 61 rates for approximately one-half of the average annual Revenue Sharing amounts earned in recent years.  The rates for business and residence after these adjustments are $29.22 and $11.73, respectively.  A rate schedule was then developed for the 5 year ISIP.  In recognition of cost studies, plant investment needs, regulatory flexibility and all other aspects of the ISIP, Staff proposes to hold business rates level while raising residence rates by $2.00 in four equal annual increments beginning on January 1, 1997.  The resulting rates in year 5 of the plan would be $29.22 for business and $13.73 for residence.  As stated in the above section, service quality determines whether or not these increases can occur as scheduled or if a decrease should occur instead.

C.  Compensation for EAS Conversions

Under the Revenue Sharing Plan, when long-distance routes are converted to EAS routes, Title 61 revenue sharing funds are used to compensate U S WEST for its lost toll revenue.  See U S WEST’s 1994 Sharing Report, line 27.  In Order No. 25826, the Commission found that this mechanism is anti-competitive because only U S WEST is compensated for its lost toll revenue while other carriers serving the same route are not.  Order No. 25826 at 8.  The Commission directed that the practice of compensating U S WEST for its lost toll revenue be modified.

The Staff recognizes that the conversion of toll routes to EAS has both revenue and cost effects upon U S WEST.  To eliminate the anti-competitive concerns while recognizing the legitimate cost increases caused by EAS, the Staff recommends that the Company be compensated for the additional cost burdens on the local network when toll routes are converted to EAS.  The Staff recommends that U S WEST's compensation be calculated on a minutes of use (MOU) basis at a rate similar to the current switched access rate.  This rate should take into account the trend for reduction in switched access charges, stimulated calling due to the removal of toll charges,  other carriers' converted traffic and the other aspects of this total alternative regulation plan.  Once the MOU revenue requirement is determined, any rate group change revenue increases will be subtracted from the additional revenue requirement.  This residual requirement will be spread equally across all customers, with the rate change taking place on the next anniversary date of the plan.  This rate change will be in addition to the scheduled rate change, if any, due under the Local Rate agreement of this plan.

D.  Rural Zone Charges

Under the revenue sharing program, sharing funds have been used as monthly credits to reduce rural zone charges in U S WEST’s southern Idaho territory.  More than 60,000 customers in the rural portions of U S WEST’s 60 exchanges pay rural zone charges.  For the past two revenue sharing years, the $3.19 per month rural zone charge was cut in half by providing a $1.60 per month credit from Title 61 sharing funds.

In last year’s revenue sharing Order, the Commission directed that the rural zone charges be discontinued after 1995.  Order No. 25826 at 13.  Under the new regulatory plan, rural zone charges are eliminated.  Elimination of such charges is consistent with the Commission’s policy to eliminate rural zone or mileage charges for other Idaho telephone companies.  As indicated in Attachment B, Staff calculates that the elimination of rural zone charges represent approximately $2.3 million in Title 61 revenue.  Recovering this amount from Title 61 residential customers results in a residential customer increase of approximately $.66.

Although U S WEST may argue that it is more costly to provide service to customers located “greater distances from their serving central office and in areas of low population density,” the Staff asserts that eliminating rural zone charges accomplishes two primary objectives.  U S WEST Petition for Reconsideration at 30.  First, elimination of rural mileage charges promotes the goal of universal service by significantly reducing charges for local access.  In most cases, elimination of rural zone charges will result in a 20% reduction in a customer’s monthly local access rate (not including the subscriber line charge).  Second, elimination of rural zone charges eliminates the perceived difference between the “haves” and “have nots” (i.e., the distinction between urban and rural customers).  Like the previous rural modernization projects utilizing revenue sharing funds, the elimination of rural zone charges is yet another step in reducing the telecommunications distinctions between urban and rural areas within Idaho.  Recognizing that the vast majority of rural zone charge customers are residential customers, Staff spread the revenue recovery of $0.66 on residence lines only.

OTHER ISSUES

1.  Merging Northern and Southern Idaho Operations.  During our meetings, the Staff and U S WEST have discussed other elements for possible inclusion in a new regulatory plan.  One issue discussed but unresolved was the merger of U S WEST’s northern and southern Idaho operations.  Currently, the Company’s northern operations in eight exchanges is subject to the Commission’s full regulatory authority.  Although merging north and south may provide some operational efficiencies to the Company, there remains a host of questions to be addressed including:  The different rate structures between the two areas; the status of the two networks; the different level of toll and access charges; and other issues.

2.  Technology Consistency Between Rural & Urban Exchanges.  Rural exchanges should not be left behind as the Company upgrades it network and adds enhanced and advanced services in the more profitable and competitive urban exchanges.  The Company should maintain a level of service in all exchanges that, at a minimum, meets the standards that will be adopted by the IPUC under the State Telecommunications Modernization Plan required by the Rural Utilities Service (RUS, formerly REA).

3.  Schedule.  As previously indicated, the prior Orders in this case anticipate that the revised sharing plan or its replacement would be effective January 1, 1996.  Working backward from this date, the Staff contemplates a hearing in early October.  A tentative schedule is set out below.

|  |  |
| --- | --- |
| August 11, 1995  September 8, 1995  September 22, 1995  October 5-6, 1995 | Staff and Company filing  Intervenor filing  Deadline for filing rebuttal  Hearing |

This schedule provides some additional time for further negotiations between the Company and Staff.

4.  Service Standard Case.  In Order No. 25923, the Commission established a separate proceeding to consider the adoption of service quality standards and monetary penalties.  That case was assigned No. USW-S-95-2.  At its decision meeting convened on May 15, 1995, the Commission made an inquiry concerning the status of the service quality standards case.  As set out above, the Staff believes that any new regulatory plan must encompass service quality standards.  Consequently, the Staff believes that it is prudent to hold Case No. USW-S-95-2 in abeyance until such time as the Commission decides whether service quality standards should be included in any new regulatory plan.  In the event that the Commission decides to merely revise the existing revenue sharing plan, then the Staff believes that service quality standards case could then be revived.

RESPECTFULLY submitted this 12th day of June 1995.

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Attorney for the Commission Staff

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EXPLANATION OF QUALITY OF STANDARDSSERVICE

Repair

Number of Trouble Reports per 100 Lines:

This number is calculated by dividing the total number of trouble reports received by the Company by the total number of lines in service.  This calculation shall be made by wire center and total state by month.

Percentage of Out-of-Service Reports Cleared:

This percentage is calculated by dividing the number of out-of-service conditions cleared with 24, 48, or 72 hours,  by the total number of out-of-service trouble reports received.  An out-of-service condition is defined as service quality that deteriorates to such an extent that the customer cannot make local calls or cannot receive local calls or cannot use the service for voice grade communications because of cross-talk, static, or other transmission problems.  This calculation shall be made by wire center and total state by month.

Percentage of Premises Visit Appointments Kept:

This percentage is calculated by dividing the number of premises visit appointments kept by the total number of appointments.  An appointment shall be considered kept if the repair technician arrives at the customer's premises on the scheduled date within a specified time frame of four hours or less duration.  This percentage shall be reported on a monthly basis.

Provisioning

Number of Held orders:

This represents the average number of held orders for each day of the month.  This number should represent held orders for primary lines only.  An order is considered held if facilities cannot be assigned to it.  Timing of held orders starts on the date the order was initially taken.  This number shall be reported by wire centers and total state by month.

Percentage of Orders for Service Completed within Two Days:

This represents the percentage of orders for service completed within two working days.  It includes any request for a primary or additional line regardless of the type of order, i.e., N, T, C, or any other order requiring an "I" action code.  Orders where a customer specifically requests a due date greater than two days shall be excluded.  This percentage shall be reported on a monthly basis by wire centers.

Percentage of Premises Visit Appointments Kept:

This percentage is calculated by dividing the number of  premises visit appointments kept by the total number of appointments.  An appointment shall be considered kept if the repair technician arrives at the customer's premises on the scheduled date within aspecified time frame of four hours or less duration.  This percentage shall be reported on a monthly basis.

Accessibility

Percentages shall be reported on a monthly basis for both the Repair

Bureau and the Business Office.

Percentage of Busy Signals / Reorders Received:

This represents the percentage of customers who, in trying to call the business office, either get a busy signal or are sent to reorder at the tandem or the originating central office.  This number is taken directly from the Company's mechanized force management system.

Percentage of Calls Answered:

This represents the percentage of calls that are answered within 20 or 40 seconds by a person who is able to provide customer assistance.  Calls reaching voice mail or answered by a person simply to place a call on hold shall not be included in this percentage.  This number is taken directly from the Company's mechanized force management system, and shall be reported on a monthly basis.