DECISION MEMORANDUM

TO:COMMISSIONER NELSON

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COMMISSIONER HANSEN

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WORKING FILE

FROM:BILL EASTLAKE

DATE:MAY 10, 1996

RE:             IDAHO RURAL EXCHANGE CARRIER (IREC) SPECIAL ACCESS TARIFF

                    REVISION

The IREC Proposal

Proposed changes to access tariffs for Digital Data Service (DDS) and High Capacity Data Service (DS1) were formally filed on behalf of IREC by GVNW on April 5.  These revisions, affecting both charges for Channel Termination and for Channel Mileage, are “to reflect rates that are more in keeping with current market rates” for such special access services.    These services have not yet been requested from the companies, with the exception of two cooperatives,  so the revenue effect of adjusting the rates will be zero.  GVNW asks for an effective date of May 15, 1996, for the revised tariffs.

                  An earlier (February 28) fax memo to Staff had detailed the manner in which the revision was based on rate ratios for the relationship between Voice Grade Service (2 Wire), 56 KBPS DDS, and 1.54 MBPS DS1 Service as established by the National Exchange Carriers Association (NECA) in their 1995 rate filing.   Draft workpapers show how the ratios were established from NECA data, then used as multipliers to create new rates based on 2 Wire rates for each company in IREC.  (Mud Lake, a cooperative unregulated by this Commission, had previously made a similar change in 1994).

Staff Analysis

                   Staff has attached Exhibit 1 that allows comparison of existing 2 Wire rates with proposed DDS and DS1 rates for both Channel Termination and Channel Mileage.  The companies all currently have published monthly Channel Termination rates of $58.88 for DDS and $61.51 for DS1.  In addition, each currently has a single Channel Mileage rate to cover Voice Grade, DDS, and DS1, ranging widely from $33.24 to $186.27 (see column 2 of the Exhibit).  Three types of changes are proposed:

     1).   One proposed change would replace the common Channel Termination rate of $58.88 for DDS service with rates 1.85 times each company’s specific 2 Wire rates..  For Custer, Filer, Farmers, Potlatch, and Troy, the new DDS rates would actually be a bit smaller than the current $58.88 (see column 3 of the Exhibit).  For the other nine companies, the rates would rise considerably, the highest being $115.72 for Rural.

     2).  A second change would replace the common Channel Termination rate of $61.51 for DS1 service with rates 5.20 times each company’s specific 2 Wire rates.  For all companies, rates would rise drastically, with a low of $149.14 and a high of $325.26 (see column 5 of the Exhibit).

     3).  The third change would keep the single Channel Mileage rate for each company that now applies to 2 Wire, DDS, and DS1 alike, supplementing it with two additional rates for the data grade services, one for DDS and one for DS1.  The existing rate (found in column 2 of the Exhibit) would continue to apply to 2 Wire.  New specific rates would apply to both DDS and DS1.  The DDS rate would be 2.0 times the existing 2 Wire rate (see column 4 of the Exhibit).  The DS1 rate would be from 5.07 to 8.8 times larger than the existing 2 Wire rate, based primarily on mileage specific to each company (see column 6 of the Exhibit).

Staff Recommendation

      Staff is uncomfortable with accepting the proposed tariff revision for several reasons.   The major reason is that these rates do not appear to be a substantive improvement over existing rates.  Those rates were approved in Case No. GNR-T-90-6 in 1990.  In Order No. 23431 of that case, it is noted as follows:

      “Neither the companies themselves nor the Staff yet have experience in estimating the cost of providing the special access services.  Accordingly, the rates are a “best guess” and little else.  Nevertheless, there is value in having the tariffs, and if or when a cost history can be developed, we may then revisit the rates and charges for adjustment (Staff-added emphasis).  In the meantime, we approve the terms, rates and charges.”

      These changes are simply another abstract adjustment of rates for which there are still no customers and for which no cost experience is available.  While the relationships between voice grade and data grade rates may seem suspect, GVNW has offered nothing beyond updated NECA data in the way of actual costs to improve on the situation under which the original rates were provisionally accepted.  Another update merely to reflect more current NECA data seems fruitless and unresponsive to the above Order.

      In addition, lacking cost data to justify such increases in rates for data grade services, Staff is concerned that the proposed rates will be prohibitively expensive for educational and health care institutions in particular, the very customers on whom the hopes of rural communities for integration into the modern  telecommunications world may depend.  The likely upsurge in interest in data services by such institutions as a result of the Telecommunications Act of 1996 makes it especially important that any revised rates be reasonable.

     Staff and GVNW have been unable to arrive at a mutually acceptable set of cost data in support of the proposed tariff.  For this reason, Staff believes that it may be preferable not to make the proposed revision to the existing tariff, but to allow the Company to negotiate rates with access customers on an individual case basis (ICB) and develop a revised tariff later based on actual costs and market experience.

DECISION ALTERNATIVES

     Staff recommends that the Commission specifically grant IREC authority to treat access requests for data services on an individual case basis, with the proviso that IREC report to the Commission after six months of providing such services.  Such report would outline the costs associated with provision of such services, providing a basis for IREC or the Commission to initiate formal tariff revisions that reflect actual operational experience.  Does the Commission agree?

     Alternatively, the Commission could deny the proposed revisions, for lack of company-specific cost support data.

     Or, the Commission could approve the revisions, with the proviso that actual cost data be used to justify or further revise the rates within six months after actual provision of such services.

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                                                                                                    William B.  Eastlake