(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE INVESTIGATION TO IDENTIFY AND QUANTIFY IMPLICIT SUBSIDIES CONTAINED WITHIN THE RATES OF IDAHO INCUMBENT TELEPHONE CORPORATIONS. | )  )  )  )  )  )  ) | CASE NO. GNR-T-97-12  NOTICE OF INQUIRY  ORDER NO.  27049 |

On March 19, 1997, the Governor signed into law House Bill No. 313 (1997 Sess. Law ch. 192) amending various provisions of the Idaho Telecommunications Act of 1988.  Section 9 of the Bill (codified at Idaho Code § 62-623, effective July 1, 1997) directs the Commission to initiate an administrative proceeding to identify and quantify implicit subsidies within the rates of incumbent telephone corporations.   Section 62-623 requires the Commission to

(1) Identify and quantify implicit subsidies within the rates of incumbent telephone corporations including, but not limited to:

(a) Access charges paid by intrastate interexchange carriers to incumbent telephone corporations including all of the carrier common line charge;

(b) Above cost rates paid by one (1) class of customers to reduce the price paid by another class of customers; and

(c) imputation of revenue from nonregulated telecommunications services.

(2) Determine a mechanism for removal of the subsidies from the rates of incumbent telephone corporations and the creation of explicit subsidy mechanisms.

(3) Determine revisions that may be necessary to section 62-610, Idaho Code, regarding universal service in order to comply with the telecommunications act of 1996 and regulations promulgated thereunder.

The Commission must also issue a report to the Governor and the Legislature recommending any necessary or desirable legislation no later than December 1, 1997.  Accordingly, the Commission hereby initiates this proceeding to accomplish the objectives of Section 62-623.

IMPLICIT SUBSIDIES

The term “implicit subsidy” is not defined in the statute. It is clear that the Legislature intended that we examine at least the possible subsidies identified in subsections (a), (b) and (c) of Section 62-623.  Preliminarily, the Commission believes that if a telecommunications service is priced above its costs, there is no subsidization of that service. Conversely, if a telecommunications service is priced below its costs, then subsidization may be present, although the source of the specific subsidy may not be identified.

Following passage of House Bill 313, the Commission Staff convened an informal working group to discuss the tasks required in the statute.  Members of the group included AT&T Communications, Citizens Communications Company of Idaho, GTE Northwest, MCI Telecommunications, U S WEST Communications, the Idaho Telephone Association (ITA), TDS, and Sprint Communications.  The working group identified possible implicit subsidies and, after reviewing its list of subsidies, we believe a preliminary list of implicit subsidies may include the following:

1.Access charges including all of the carrier common line charge;

2Rate differentials between business and residential service,

3.The differential between toll rates and local exchange service rates,

4.Allocating 15% of the non-traffic sensitive costs of local service to long-distance services.

This is not an exhaustive list of all possible implicit rate subsidies.  However, given the formidable task of identifying and quantifying implicit subsidies within the rates of each incumbent local exchange company (LEC) in Idaho, and given the limited time in which to complete our investigation and file a report of our findings with the Legislature, we believe it is important to identify and to some extent prioritize implicit subsidies.

Members of the working group identified other possible rate subsidies in addition to the implicit subsidies listed above.   Other identified subsidies include the Universal Service Fund used to defray the costs of high-cost LECs, the Idaho Telephone Assistance Program for the low-income elderly, and 911 fees collected pursuant to the Emergency Communications Act.  Unlike the previous list of subsidies, fees collected for these purposes may amount to explicit rather than implicit subsidies. Rates for these programs are usually considered explicit by the fact that they are either expressly designated surcharges paid by LEC customers or are rate elements included within the tariff provisions for basic local exchange service.  In addition, all of these programs are specifically authorized by Idaho statutes.  Some of the fees, such as 911 fees, are wholly outside the realm of this Commission’s jurisdiction and may be imposed upon customers after a public vote.  Given these distinctions, the Commission does not intend to review these issues.(footnote: 1)

The identification of implicit subsidies requires the Commission to examine the cost of services and cost methodologies, because the amount of a subsidy cannot be identified without identifying the cost elements included in providing the service. This type of analysis raises a variety of questions. For example, should costs be calculated using embedded or incremental costs? If incremental costs are used, what elements are to be included? Should joint and common costs, a return on investment, or stranded costs be included in the calculation? How are costs to be separated between intrastate and interstate services? Once these issues are determined, a cost methodology must be adopted.

The Federal Communications Commission (FCC), parties involved in negotiating or arbitrating interconnection agreements, and various state commissions are grappling with the question of the methodology best used to determine the costs of providing specific telecommunications services.  The most prevalent costing methodologies are the Hatfield Model and the Benchmark Cost Proxy Model (BCPM). Other models have also been developed by state commissions and economic consultants.

The Commission is interested in determining whether there is a consensus for using a specific cost methodology model. The Commission also desires to know whether it is reasonable and appropriate to use a single cost model for all LECs in Idaho.  Will one cost model fit all sizes of LECs?

THE IDAHO UNIVERSAL SERVICE FUND

House Bill No. 313 also requires the Commission to determine necessary changes to the Idaho Universal Service Fund (IUSF), established by Idaho Code § 62-610.  Since 1987, this fund has been used to defray a portion of the cost of providing local exchange service in high cost areas of Idaho.  Section 254 of the federal Telecommunications Act required the FCC to modify the federal USF no later than May 8, 1997.  Pursuant to this federal directive, the FCC issued an order to comport with the introduction of competition in most telecommunications markets.  CC Docket No. 96-45, First Report and Order, FCC 97-157 (commonly referred to as the Universal Service Order). The Universal Service Order requires that support for high cost areas be based on the forward looking costs of providing service, sets interstate support at 25% of the difference between the cost of service and the federally determined affordability level, gives states until August 15, 1997 to declare which cost study they would use for the larger LECs, and delays determination of an appropriate cost study for rural LECs until January 1, 2001.

In accordance with the statutory directive, the Commission seeks comments from interested parties regarding necessary changes to the Idaho Universal Service Fund. Commentors should identify what changes are necessary and supply the necessary rationale for those changes.  The Commission specifically invites comments on the manner and timetable for a transition from the existing IUSF mechanism found in Idaho Code § 62-610 and its implementing rules (IDAPA 31.46.01.000 et seq.)  to a new state USF system.  It is the Commission’s intent to suggest legislative changes.

NOTICE OF INQUIRY

YOU ARE HEREBY NOTIFIED that the Commission solicits written comments addressing the issues set out above.  Persons desiring to comment on the topics outlined above shall submit their written comments to the Commission at the address reflected below:

COMMISSION SECRETARY

IDAHO PUBLIC UTILITIES COMMISSION

PO BOX 83720

BOISE, IDAHO  83720-0074

Street Address for Express Mail:

472 W WASHINGTON ST

BOISE, IDAHO  83702-5983

All comments should contain the case caption and case number shown on the first page of this document.

YOU ARE FURTHER NOTIFIED that persons desiring to address the topics listed above or provide other information relevant to the topics discussed above may file written comments within 21 days of the date of this Order.  Reply comments also may be filed.  Those persons intending to reply to initial comments made by other persons must submit reply comments no later than 35 days after the service date of this Order.

YOU ARE FURTHER NOTIFIED that those persons desiring to be served with initial and reply comments in this proceeding should contact the Commission Secretary in writing no later than ten (10) days from the service date of this Order.  The Commission will create a service list and provide it to interested persons.  Persons filing initial and/or reply comments in this proceeding will be required to serve their comments on members of the service list.

YOU ARE FURTHER NOTIFIED that all proceedings in this case will be conducted pursuant to the Commission’s jurisdiction under Titles 61 and 62 of the Idaho Code and that the Commission may enter final orders consistent with its authority under Titles 61 or 62.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission’s Rules of Procedure IDAPA 31.01.01.000 et seq.

O R D E R

IT IS HEREBY ORDERED that Case No. GNR-T-97-12 is initiated for the purposes set forth above.

IT IS FURTHER ORDERED that those persons desiring to receive the comments filed in this case must notify the Commission Secretary no later than 10 days from the service date of this Order.  Once the Commission Secretary has received the service requests, she shall issue a Notice of Interested Persons desiring to be served with comments in this case.  Persons submitting comments to the Commission are required to serve those persons on the Commission’s service list.

IT IS FURTHER ORDERED that persons desiring to submit written comments for the Commission’s consideration in this proceeding file their comments within 21 days of the service date of this Order.  Persons desiring to respond to written comments provided by others may submit reply comments no later than 35 days from the service date of this Order.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of July 1997.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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In addition, Idaho Code § 62-613 prohibits price faith and regulated [Title 61] services from subsidizing nonprice-regulated [Title 62] telecommunications services.  In Order Nos. 24506 and 26434, the Commission generally examined the issue of subsidization.  In those Orders, the Commission noted that the existence of a subsidy can only be determined if the relevant cost of Title 61 services are known.  0

**FOOTNOTES**

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Some members of the working group also identified that implicit subsidies may exist in local exchange rates caused by the imputation of directory (yellow pages) revenues or the distinction between rural customers and urban customers.  The Commission does not intend to review the yellow page issue because yellow pages do not meet the statutory definition of “telecommunication services” and because Section 4 of House Bill 313 has already addressed this issue.  See Idaho Code § 62-613.

The Commission also does not believe that Idaho Code § 62-623 warrants an examination of the rates paid as between urban customers and rural customers.

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

July 18, 1997