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

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| IN THE MATTER OF THE PETITION OF CUSTOMERS OF THE FREMONT TELCOM COMPANY REQUEST­ING EXTENDED AREA SERVICE (EAS) TO THE U S WEST EASTERN IDAHO CALLING REGION. | )  )  )  )  )  ) | CASE NO. GNR-T-97-14  ORDER NO.  27657 |

In this case customers of Fremont Telcom Company have petitioned the Commission for toll-free, extended area service (EAS) from their exchanges to U S WEST’s eastern Idaho calling region.  Fremont serves approximately 5,800 customers in the exchanges of Ashton, Island Park and St. Anthony in eastern Idaho.  On May 8, 1998, Fremont, U S WEST and the Commission Staff filed a Stipulation and Settlement Agreement regarding the EAS petition.  The parties generally recommended that the Commission grant EAS based upon the terms contained in the Stipulation.  A public hearing was held in Ashton on June 2, 1998 and a technical hearing was convened in Boise on June 25, 1998.  After reviewing the Stipulation and Settlement Agreement, the public testimony and the technical evidence of the parties, we adopt the Stipulation and authorize the Companies to implement EAS as set out in greater detail below.

BACKGROUND

A. Procedural History

On June 24, 1997, the Commission received a petition from approximately 1,400 Fremont Telcom customers requesting that the Commission implement EAS between Fremont County and U S WEST’s eastern Idaho local calling region.  The petition stated that eastern Idaho constitutes a single economic and geographic area and argued that failure to authorize EAS would isolate Fremont County from the remainder of eastern Idaho.  The petition also contended that granting EAS would have a positive impact on the school district, city and county governments, law enforcement, health care, and commerce.

B.  The Stipulation and Settlement Agreement

On May 8, 1998, Fremont Telcom, U S WEST and the Commission Staff filed a Stipulation and Settlement Agreement in this matter.  The parties settled many of the issues typically raised in EAS cases.  Fremont and the Commission Staff stated that EAS is warranted from the three affected exchanges to the U S WEST calling region.  U S WEST stated that it would not oppose EAS if the Commission finds that EAS is in the public interest.  The Stipulation and Settlement resolved the following issues.

1.  Stimulation Factor and Revenue Growth Potential.  Fremont and the Staff agreed that the appropriate stimulation factor to be used in calculating the increased amount of local calling if EAS is granted should be a factor of “three times” (3X).  When toll calls are converted to local (toll-free) calls, companies usually experience an increase or “stimulation” in calling traffic.  Fremont also agreed that it will not seek any revenues to compensate it for “lost growth potential” resulting from Fremont’s purchase of the three exchanges from U S WEST in Case Nos. FRE-T-94-1 and USW-S-94-4.

2.  Idaho USF Disbursements.  Under the terms of the Stipulation, Fremont will not seek further rate relief or disbursement from the Idaho Universal Service Fund (USF) until such time as the Staff completes an audit of the Company’s operations or when the Company has 1998 financial data available, whichever occurs first.  The Staff anticipated that it would complete the audit of Fremont’s operations and financial data no later than July 30, 1998.  If, upon completion of the Staff audit, the Staff found that Fremont is receiving less than its currently projected revenues, then Fremont may seek an annual disbursement from the existing USF of no more than $108,000 annually.  In the event that Fremont’s revenues are substantially reduced by federal or state legislative or regulatory actions not related to this case, then Fremont may seek other rate relief from the Commission.

3.  Residential and Business Rates.  The parties stipulated that Fremont increase its monthly rates for local exchange service.  The Stipulation recommended that if EAS is authorized,  Fremont’s residential and business local service monthly rates for unlimited calling throughout the local calling region be increased to $24.10 and $42.00, respectively.  The parties proposed three actions to mitigate the substantial local rate increases.  First, Fremont will eliminate its monthly rural zone charge of $1.59 for approximately 55% of all customers living in rural areas of the three exchanges.  Second, Fremont will offer its residential customers “local measured service” at a rate of $16.00 per month including ninety (90) minutes of free local calling to all exchanges included in the region.  Local calling in excess of the 90 minutes will be billed at $.03 per minute for local usage.  The parties calculated that for calls within the expanded local calling region, residential customers will reach the “break-even point” with the monthly rate for unlimited local service ($24.10) after making six hours of local calling.  Third, the parties contemplated that low income customers eligible to participate in the Idaho Telecommunications Service Assistance Program will receive a $10.50 credit for monthly local service.  Finally, adoption of the Stipulation and Settlement shall terminate the existing rate “freeze” for Fremont’s customers.

4.  Vacation Service.  Fremont and the Staff further proposed that the rates for vacation (suspension) service be set at 50% of the monthly local service rate for non-measured residential or business service.

5.  EAS Implementation.  The parties acknowledged that the Commission recently instituted Case No. USW-T-98-3 to determine U S WEST’s EAS costs in this and other cases.  The parties agreed that U S WEST will not be required to implement EAS in connection with this case until the Commission concludes its examination of U S WEST’s EAS costs.  If and when the Commission approves this EAS petition, U S WEST and Fremont will implement EAS as soon as reasonably practical.  If additional U S WEST or other independent local exchange companies are added to the eastern Idaho calling region, then EAS will also be provided to these additional exchanges.

The parties stated that the Stipulation and Settlement is a reasonable resolution of the EAS issues in this case.  They recognized the complexity of the issues presented and the resources that would be expended if settlement did not occur.  They urged the Commission to adopt the Stipulation and issue an Order granting EAS.

PUBLIC TESTIMONY

The June 2, 1998 public hearing was attended by approximately 300 persons of which  nearly 50 individuals testified.  The Fremont County Commission, the Ashton City Council, the South Fremont Economic Development group and the Fremont County School District all supported EAS. Almost every public witness spoke in favor of the EAS petition and urged the Commission to grant EAS.  Those witnesses speaking in favor of EAS indicated that they would experience substantial savings in monthly toll charges if EAS were granted.  Several other witnesses testified that granting EAS would improve access to out-of-area medical facilities, promote economic development, and foster better school and family communications.

Despite the overwhelming public support for EAS, several business customers expressed concern with the proposed monthly business rate of $42.00 per line. These customers requested that the Commission consider reducing the business line rate for businesses with multiple phone lines.  They noted that multi-line business often use single “dedicated” lines to perform certain functions such as submitting credit card or FAX transmissions, issuing Fish and Game licenses, or issuing lottery tickets.  Tr. at 30, 54.

THE TECHNICAL HEARING

Fremont, U S WEST and the Staff all filed direct testimony on May 18, 1998.  Staff witness Carolee Hall filed supplemental direct testimony on June 19, 1998 and Fremont witness Ray Hendershot filed supplemental testimony on June 24, 1998.  The Commission’s technical hearing was held June 25, 1998.

1.  Fremont Telcom.  Vice President John Bauchman testified that Fremont supports the EAS requests in this case.  He stated that substantial public interest exists for implementing EAS between the three Fremont exchanges and those exchanges included in the eastern Idaho calling region.  Tr. at 91.  He indicated that granting EAS would vastly expand local calling throughout eastern Idaho and improve commerce.

Company witness Hendershot addressed the issues included in the Stipulation and urged the Commission to adopt the agreement.  He stated that if the Commission were to approve EAS, then Fremont would experience a revenue decrease in intrastate access charges, billing and collection fees.  Tr. at 108-109.  Although the proposed local rate increases would defray the Company’s cost of implementing EAS, he testified that the Company will still not receive its “projected” revenues as estimated at the time Fremont purchased the three exchanges.

In his supplemental testimony, Hendershot noted that his previously filed direct testimony of May 1998 contemplated that the Company would utilize a microwave facility to accommodate the increased EAS traffic.  At the hearing, he indicated that the Company has decided instead to utilize fiber optic facilities.  Despite this change in facilities, the annual costs would not significantly change.  Tr. at 127.  He acknowledged that the Company and the Staff do not agree on several issues raised by the Staff’s supplemental testimony but those issues will be examined in greater detail as part of the Staff’s audit.  Tr. at 131-32.  Nevertheless, he concluded the revenues the Company obtains from implementing EAS “are still insufficient to meet the total Company’s revenue requirement. . . .”  Tr. at 138-39, 146.

After the close of the public hearing but before the technical hearing, Fremont’s Vice President forwarded a letter to Commissioner Smith addressing the discounting concerns expressed by the multi-line business customers at the public hearing.  He proposed that multi-line businesses receive a $5.00 discount per line for two to four lines and a $10.00 discount per line for five or more lines.  He calculated that implementing the multi-line discounts would decrease the Company’s revenues by approximately $28,000 annually.  He suggested that “this lost revenue [be made up] from another source (i.e. State USF).”  On July 7, 1998, Fremont moved that the hearing record be augmented to include the letter.  U S WEST and Staff did not object.

2.  U S WEST.  U S WEST witness John Souba testified that the Company and the Staff had recently signed a stipulation regarding the U S WEST’s cost recovery for this and other EAS cases.  Tr. at 150.  He recommended that if the Commission finds there is a community of interest among the requested exchanges, the Commission grant two-way EAS calling to all the exchanges included in the eastern Idaho calling region.  Tr. at 155-56.  Finally, he testified that if the Commission could expeditiously rule on this case, there is a chance that the Company could implement EAS for the three Fremont exchanges in August 1998.  Tr. at 164.  The Company can give a better time estimate after the final order is issued.

3.  Staff.  Staff witness Hall testified that the calling data shows a reasonable community of interest between the Fremont exchanges and the eastern Idaho calling area when using the EAS criteria established in Order No. 26311.  Tr. at 171-73.  She observed that St. Anthony is the county seat for Fremont County and the local school district encompasses many areas of the three exchanges.  Although she acknowledged the proposed rate increases are substantial, she suggested that the three mitigation actions will reduce the adverse effects of the rate increases.  Tr. at 175-77.  She declared that the proposed rates are reasonable and the rates “would generate enough revenue to offset the EAS cost, but not place the Company into an over-earning position.”  Tr. at 177-78.  She stated that if the Staff’s audit substantiated a revenue deficiency, then the parties agree that Fremont may apply for up to $108,000 in annual revenues from the State USF.  Tr. at 179.

In her supplemental testimony she outlined several concerns regarding the differences between the Staff’s and the Company’s calculations of the current revenue requirement.  Despite these differences, she testified that the Staff continues to recommend approval of the EAS petition and  adoption of the Stipulation.  She noted that most of the items addressed in her supplemental testimony will be more thoroughly reviewed in the Staff’s audit of the Company.

She also responded to Mr. Bauchman’s suggestion to reduce the monthly business rate for businesses with two or more lines.  While she “may support some sort of discount,” she did not support a discount at two lines.  “I believe the Company needs to examine its costs associated with providing business service and find an appropriate breaking point for the number of lines to discount.”  Tr. at 191.  She also was concerned with the Company’s suggestion that the resulting revenue reduction be made up with USF funding.  USF disbursements “are designed to support single-line residence and business services to keep these services at reasonable levels.”  Id. at 192.

FINDINGS OF FACT

We begin by noting that we are not bound by the parties’ Stipulation and Settlement.  However, after reviewing the terms of the Stipulation and Settlement and the issues resolved, we find that the settlement of the issues to be fair and reasonable, and in the public interest.

1.  EAS Standards.  Turning first to the community-of-interest standards, we further find that the evidence justifies the granting of EAS in this case.  Comparing the calling data to the EAS standards set out in our Order No. 26311 supports the granting of EAS in this case.  As noted above, the public overwhelmingly supported EAS at the rates proposed by the parties.  Having found that EAS is warranted, we also agree with U S WEST that the EAS routes should be two-way and include all the exchanges within the eastern Idaho calling region.  The proposed stimulation factor and elimination of “growth revenues” are also reasonable and comport with other EAS Stipulations we have recently adopted.

2.  Rates.  We further find the proposed rates, with the exception noted below, just and reasonable.  Although the proposed residential and business rates represent substantial rate increases, customers overwhelmingly testified in support of EAS.  Implementing EAS will allow Fremont customers a greatly expanded local calling area and provide them with the ability to call toll-free to more than 115,000 access lines in eastern Idaho.  We also believe that those mitigation measures identified by the parties will buffer the rate increases.  In addition to elimination of the rural zone charge and the offering of local measured service, eligible low-income customers are now able to take advantage of the expanded Idaho Telecommunications Service Assistance Program (ITSAP).  Eligible residential customers will receive a monthly credit of $10.50 to defray the cost of their monthly telephone service.

3.  USF Disbursements.  The parties’ Stipulation and Settlement provides that Fremont will not seek further rate relief or disbursements from the Idaho USF until such time as the Staff completes an audit of the Company or until the Company has 1998 financials available, whichever occurs first.  The parties contemplated that Fremont may seek an annual disbursement from the existing USF up to $108,000, if the Staff’s audit demonstrates that the Company has an unfunded revenue deficiency.  Tr. at 178-179.  Although we adopt the Stipulation and Settlement, we do not reach the merits of whether Fremont would be entitled to USF disbursements following completion of the Staff’s audit.  We find the issue of USF support is not ripe for resolution at this time.

4.  Business Line Discounts.  The one note of discord expressed at our public hearing was the uniform rate increase for business customers.  Although business customers supported EAS, they also voiced concern about the unavailability of rate discounts for businesses with several lines.  Based upon the lack of any objection, we find it is reasonable to enter the Company’s letter into the hearing record.  Fremont’s late-filed letter proposed that multi-line businesses with two to four lines receive a $5.00 discount per line from the proposed monthly rate of $42.00, while businesses with five or more lines receive a $10.00 per line monthly discount.  Staff opposed beginning the discounts at two lines.  Tr. at 191.  Ms. Hall also objected to making up the revenue deficiency caused by any discounts from the USF.  Id. at 192.

After reviewing the testimony and evidence regarding this issue, we find that allowing discounts for multi-line businesses is reasonable and appropriate in this case.  Fremont shall discount its $42.00 monthly business rate by $5.00 per line (beginning at the third line) for customers with three to five access lines at one location.  Business customers with six or more access lines shall receive a $10.00 monthly discount beginning with the sixth line.  We believe that these discounts provide appropriate relief for multi-line business customers.  We also note that business customers that dispense Fish and Game licenses or state lottery tickets are not the actual customers of record for these dedicated lines.  The state agencies are the actual Fremont customers.  These state agencies assess the vendors a communications charge to defray the charges for the dedicated access line.  IDAPA 13.01.19.160 and 52.01.01.034.09(a).

We also decline Fremont’s invitation to use USF revenues to offset the discounted revenues.  Given the changes to the discount rate structure from that proposed by the Company, the record does not disclose nor are we able to calculate the revenue offset.  Moreover, this matter may be more appropriately addressed following the Staff’s audit.

O R D E R

IT IS HEREBY ORDERED that the petition requesting EAS between the three Fremont  Telcom exchanges and the eastern Idaho calling region is granted.  Fremont’s Motion to place Mr. Bauchman’s letter in the hearing record is also granted.

IT IS FURTHERED ORDERED that the Stipulation and Settlement entered into by Fremont, U S WEST and the Staff is adopted as modified above.

IT IS FURTHER ORDERED that Fremont and U S WEST take the necessary actions  to implement EAS as authorized by this Order.  The parties shall advise us of the cut-over dates within fourteen (14) days of the service date of this Order.

IT IS FURTHER ORDERED that Fremont notify its customers of the impending rate changes and the scheduled implementation of EAS. The Company shall also waive any non-recurring charge for a period of sixty (60) days to allow residential customers to switch to local measured service.

IT IS FURTHER ORDERED that Fremont file local service tariffs in conformance with the rates set out in this Order.

IT IS FURTHER ORDERED that U S WEST’s EAS costs in this case be recovered under the methodology adopted in Case No. USW-T-98-3 and Order No. 27633.

THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. GNR-T-97-14 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. GNR-T-97-14.  Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration.  See Idaho Code § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of July 1998.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE PETITION OF CUSTOMERS OF THE FREMONT TELCOM COMPANY REQUEST­ING EXTENDED AREA SERVICE (EAS) TO THE U S WEST EASTERN IDAHO CALLING REGION. | )  )  )  )  )  ) | CASE NO. GNR-T-97-14     ERRATA TO  ORDER NO.  27657 |

On July 27, 1998, Order No. 27657 was issued by this Commission.  The following changes should be made to that Order:

1.  On page 2, paragraph No.  2, line 7 READS:

“Fremont may seek an annual disbursement from the existing USF of no more than $108,000”

SHOULD READ:

“Fremont may seek an annual disbursement from the existing USF of at least $108,000"

2.  On page 6, line 2 READS:

“Fremont may apply for up to $108,000 in annual revenues from the State USF.  Tr. at 179.”

SHOULD READ:

“Fremont may apply for at least $108,000 in annual revenues from the State USF. Tr. at 179.”

3.  On page 7, paragraph No. 3, line 5 READS:

“existing USF up to $108,000, if the Staff’s audit demonstrates that the Company has an unfunded”

SHOULD READ:

“existing USF at least $108,000, if the Staff’s audit demonstrates that the Company has an unfunded”

DATED at Boise, Idaho this day of July 1998.

Myrna J. Walters

Commission Secretary

vld/O:GNR-T-97-14.dh2, p.10-11

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

July 27, 1998