M E M O R A N D U M

To:Weldon Stutzman, Eileen Benner, Stephanie Miller, Beverly Barker

From:Lynn Anderson

Subject:GTE's August 4, 1995, Response to Staff's Review of GTE's LCP Report

Date:August 7, 1995

GTE was requested to respond to the Staff's Review of its LCP Report by August 4, 1995, which it has done.  However, GTE's Response is erroneously dated July 18, 1995, but it actually was not sent until August 4, 1995, via facsimile transmission, the cover letter of which is erroneously dated July 7, 1995.

In this memo I refer to GTE's initial LCP Report as the "Report", the Staff's Review of the Report as the "Review", and GTE's Response to the Review as the "Response."

There are several factual errors and inadequate analyses contained in GTE's Response:

1)On page 1, 3rd paragraph, GTE quotes from the Review that "LCP satisfies most customers ... and has not adversely affected GTE's revenues" and attributes this finding to the Staff.  While the quote is correct, the conclusion is one found in GTE's Report -- the Staff's conclusion in its Review is somewhat different.  The Staff's conclusion is that the "...Plan helps satisfy the local calling needs of customers in exchanges previously without adequate local calling areas...[however] some...think its worse than what they had before...[b]ut with Staff's suggested modifications to rates, billing practices and route selections, overall customer satisfaction should be increased without diminishing GTE's rate-of-return."

2)At the bottom of page 2, GTE states that LCP eliminated the need for route by route studies.  This is not true.  Even with LCP, GTE studied route by route toll revenues to help estimate rates necessary for revenue neutrality and and it studied traffic to ensure adequate interexchange facilities would be available.  The Staff studied individual exchange circumstances in an attempt to ensure that local calling needs would be met and that there would be no undue discrimination between exchanges in the adequacy of their local calling areas.  At a hearing held for consideration of LCP Staff identified two routes that were excluded by the arbitrary 23-mile limit and two routes that were needlessly included.

3)At the top of page 3, GTE states that exchanges in the Community Plus flat rate calling areas were determined by mileage band, i.e. 1 to 16 miles.  This is not true.  Mileage band determination of Community Plus flat rate areas were not discussed either in negotiations with Staff or in public hearings.  Instead, existing EAS and recognized community needs were used to determine the appropriate areas.  For example, the following pairs of exchanges are listed in Community Plus flat rate areas (miles in parentheses):  Sandpoint-Clark Fork (21), Sandpoint-Priest River (18), Sandpoint-Bayview (21),

Spirit Lake-Post Falls (18), and Bayview-Rathdrum (19).

4)Below the table on page 3, GTE states that LCP has four rate groups.  This is not true.  The Basic, Community and Premium options each have two different rates per class of service, while the Community Plus option has three.

GTE also states that these rates were developed to ensure revenue neutrality, when, in fact, there was no assurance of revenue neutrality.  The Staff and GTE had different estimates of revenue effects and agreed to a revenue true-up, if necessary, at the end of a one-year trial.

5)In the last full paragraph of page 3, GTE states that rates were based on many factors and then lists three factors.  GTE's statement is true, but somewhat inadequate in that no mention was given to important factors such as rate increases were to be avoided for options which did not expand flat rate local calling areas and that rates for the Community option should decrease for exchanges with EAS prior to LCP.  (There were exceptions to both of these generalities in consideration of exchanges that had outgrown their tariff rates.)

GTE Item 1

6)At the top of page 4, GTE states that the 23-mile LCP criterion is appropriate and that deviations from it will cause customer confusion and and an adverse revenue effect.  The Staff response is that the 23-mile criterion is itself arbitrary, that customers will not be confused by deviation from an arbitrary airline toll mile calculation that very few understand (customers understand driving miles, not V&H toll coordinates), and that any revenue effects will be considered just as they were initially.

7)  In the 2nd paragraph of page 4, GTE tries to show that LCP inclusion is not necessary on certain routes because it considers the average toll revenue per customer to be quite low, e.g. $1.80 and $2.58.  However, such analysis was not used by GTE for justification of its initial LCP proposal.  For example, note that at least the following LCP routes had average toll per customer near or below those cited by GTE:  Bayview to Sandpoint ($2.90), Bayview to Rathdrum ($1.42), Spirit Lake to Rathdrum ($2.12), Spirit Lake to Hayden Lake (($1.60), Spirit Lake to Post Falls ($1.83), Clark Fork to Bayview ($.10), and Hope to Bayview ($.10).  It seems unduly discriminatory to now justify an arbitrary mileage limit by use of average toll usage that was not previously used.

8)In the 3rd paragraph of page 4, GTE says it is opposed to changing V&H coordinates as an alternative to selectively expanding the 23-mile limit.  It says such changes are not appropriate because the V&H coordinates are filed in AT&T's FCC tariffs and are used by other companies for rating toll and private lines.  These are true statements but they are irrelevant for determining where V&H coordniates should be located within an exchange.  Such coordinates are GTE's to assign and control and they can be changed by GTE, just as

U S WEST did for its American Falls exchange a few years ago per a Staff request.

GTE Item 2

9)On pages 4 and 5 GTE opposes providing call detail at no additional charge because the additional costs should be paid by only those customers wanting the detail.  GTE notes that there have been few complaints to the Commission on this subject.  It should be noted the Commission's Director of Consumer Assistance concurs with the Review's recommendation that billing detail be provided to all customers with no additional charge.  It should also be noted that GTE provided no information about how many complaints and inquiries it has received regarding disputed local calling bills.

GTE Item 3

10)In the 3rd paragraph on page 5, GTE says the Review's recommendation to increase rates for the Basic option is in conflict with the Commission's desire to have GTE provide one-party service and measured service to all customers by January 1, 1996.  There is no foundation for GTE to draw this conslusion.  The Staff's recommendation in the Review was intended only to temper the migration to local measured service in keeping with the Commission's prior stated policy -- it has absolutely no effect on GTE's ability to offer

1-party and measured services.

11)In the 4th paragraph on page 5, GTE says that based only on post-LCP data there appears to be no migration to measured service.  This is inadequate analysis because there is, in fact, a five-fold increase in full measured service when compared to pre-LCP percentages and this is without counting customers who chose the Community option, of which much of the calling is measured, and without counting those with the Community Plus option, of which some of the calling is measured.

12)In the last paragraph on page 5, GTE states that the Community option was comparable to basic service in existence prior to LCP and somehow concludes that this is evidence that there has been no migration to measured service.  The statement that the Community option was comparable to basic service pre-LCP is not true for most exchanges.  The only exchanges for which the Community option rates and flat rate calling areas were the same as pre-LCP are those that had no EAS prior to LCP, i.e. Sandpoint, Bayview and Spirit Lake.  In the other eight exchanges the Community flat rates are lower and flat rate local calling areas are smaller than existed pre-LCP.  Contrary to GTE's allusion, these facts provide no evidence regarding measured service migration.

GTE Item 4

13)On page 6 GTE opposes a reduction in Rathdrum's Community Calling rates to match those for Sandpoint because the number of lines in Rathdrum's total local area (a.k.a. Premium flat rate area) is much greater than in Sandpoint's.  GTE admits that total local area was only one factor used in setting rates.  Other factors used in setting these rates included the number of lines in the home exchange, the reduction in toll revenue, and pre-LCP calling areas and rates.  In consideration of these other factors, a rate reduction for the Community option in Rathdrum seems appropriate.

GTE Item 5

14) On page 6 GTE opposes the Review's recommendation for rate reductions in the Community Plus options in the Bayview and Spirit Lake exchanges to match the rates of other, mostly smaller, exchanges.  Again, GTE defends the current rates based only on the single factor of total local calling area in apparent disregard of the much more limited flat rate calling areas with Community and Community Plus options.

GTE Item 6

15)On page 6, in its opposition to the Review's suggestion that perhaps the Premium option should be eliminated, GTE again erroneously implies that the Community Plus option was restriceted to 16 miles.  As previously shown, there is no basis for this implication of a mileage limit for the Community Plus option.

Customer Survey

16)On page 7 GTE states that the Staff reported that the low response rate to GTE's customer survey was due to customer confusion.  This statement completely mischaracterizes the Review's analysis of the low response rate to the customer survey.  At the bottoms of pages 7 and 8 of the Review, the Staff states that the reason for the low response rate was that many customers were apparently indifferent to LCP, especially those customers who had larger local calling areas prior to LCP.  Based on the fact that nearly a quater of the customers who did respond said the options were too confusing, the Staff hypothesized that an even greater percentage of nonrespondents were similarly confused, perhaps causing them to not respond (p. 9).

Customer Complaints

On page 7 GTE says the Staff errored in counting LCP complaints from customers without LCP.  However, it seems proper to count complaints of exclusion when that exclusion is the result of an arbitrary mileage limit, as in the case of Priest Lake.

GTE downplays the significance of the number of LCP complaints to the Commission, but does not offer its records of complaints that it has received.  It is typical of utility customers far removed from the Commission's Boise office to complain less to the Commission than customers much closer to Boise.