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

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| IN THE MATTER OF THE APPLICATION OF GTE NORTHWEST, INCORPORATED TO EXTEND ITS LOCAL CALLING PLAN (LCP) FOR THE PROVISION OF TOLL FREE EXTENDED AREA SERVICE (EAS) TO ITS EXCHANGES IN IDAHO. | ))))))) | CASE NO. GTE-T-95-3ORDER NO.  26330 |

This case was initiated by GTE Northwest, Incorporated (GTE) when it filed an Application to implement a rate structure it calls local calling plan (LCP) in 34 local telephone exchanges in northern Idaho.   LCP provides customers with options for their local calling area size and corresponding rate.  By this Order the Commission approves GTE’s LCP plan, with specific modifications for some communities.

BACKGROUND

GTE first implemented LCP in eleven local exchanges in Kootenai and Bonner Counties during 1993 and 1994.   The Commission approved this first phase of LCP after hearing evidence in consolidated cases—Case Nos. GTE-T-90-1, GTE-T-92-2, GTE-T-92-3, and GTE-T-92-4—which were initiated when the Commission received several petitions from GTE customers requesting toll-free extended area service (EAS) between the various petitioning communities and other nearby communities.  Once implemented, LCP made all toll routes of 23 or fewer miles local calls.  Customers were given four rate options with varying degrees of toll-free service, called Basic, Community, Community Plus and Premium options.  With Basic service, a customer pays a relatively low flat rate amount, and all usage is billed at rates based on distance and duration of the call.  With each of the other options, the flat fee increases as the customer’s toll-free calling area increases.

Order No. 24877 issued in the consolidated cases required GTE to “file a report outlining the results of implementation, customer satisfaction, and revenue effects of implementing the LCP proposal” following a one-year trial period.  Order No. 24877 at 24.  Accordingly, GTE filed on April 3, 1995 its “Report on the Implementation of GTE’s Local Calling Area Plan.”  Staff analyzed GTE’s report, and then filed a report of its own on July 18, 1995.

In its report, GTE stated that LCP was successful in Kootenai and Bonner Counties, that most customers responded favorably, and that Company revenue neutrality was achieved.  In its review of the phase one report, Staff concluded that LCP does help satisfy local calling needs of customers in exchanges previously lacking adequate local calling areas.  The Staff  review contained specific recommendations for changes to LCP, including the following:  1) rates for the Community option in Rathdrum should be reduced, 2) the Community Plus rates in Spirit Lake and Bayview should be reduced, 3) Premium rates in all exchanges should be reduced, 4) the LCP’s uniform limitation to routes no longer than 23 miles should be eliminated to accommodate communities in certain exchanges, 5) charges for detail billing should be eliminated, and 6) flat rates for the Basic option should be moderately increased to temper a migration to local measured service.  Tr. p. 150-51.

GTE filed an Application on July 10, 1995 to add LCP service to 23 local telephone exchanges and revise the service in the eleven exchanges where it was already available.  On August 29, 1995, GTE filed a written request to withdraw that Application in order to comply with the Commission’s Information to Customers of Telephone Companies Rules, IDAPA 31.41.02.  Rule 102 requires a local telephone exchange company to provide written notice  to each customer of proposed changes in rates as part of the application process.

GTE subsequently filed its Application in this case on November 30, 1995, requesting a tariff effective date of February 1, 1996 with implementation of the changes in May 1996.  The Commission first determined to initiate modified procedure and issued a Notice of Application and Notice of Modified Procedure on December 15, 1995, establishing a 30-day comment period.  Thereafter, many customers contacted the Commission, expressing concerns and some confusion regarding GTE’s proposal.  Accordingly, the Commission issued an Order suspending the proposed tariff effective date of February 1, 1996, and scheduled technical and public hearings in Moscow, Idaho for February 7, 1996.  In addition to GTE and the Staff, U S WEST Communications, Inc. participated in the hearing after its petition to intervene was granted.  U S WEST did not file testimony or exhibits, and did not present witnesses at the hearing.

THE HEARINGS

During the technical hearing GTE presented its Application and the proposed LCP rate structure for each of its 34 exchanges in northern Idaho. As proposed, residential rates for Basic service are $7.50-$8.00, Community calling rates are $10.50-$14.00, Community Plus rates are $11.25-$16.20, and Premium rates are $24.40-$25.92.  See Exhibit 2.  The proposed LCP measured rates are approximately 55% lower than existing long-distance rates for the same routes.  Exhibit Nos. 4 through 37 show the rates and calling areas for the different services in each exchange.  GTE’s proposal includes LCP options for business customers, which are also shown in Exhibits 4 through 37.

Staff witness Lynn Anderson testified that GTE’s proposal included many changes recommended by Staff.  For example, GTE included four exceptions to its general 23-mile LCP route limit (Priest River-Priest Lake, Priest River-Sandpoint, Bovill-Moscow, Bovill-Potlatch).  GTE also reduced all rates for the Premium options by several dollars, Community Plus rates in Spirit Lake and Community rates in Rathdrum, Post Falls and Hayden Lake.  Tr. p. 150.

Despite GTE’s adoption of some Staff recommendations, Staff identified several problems with GTE’s proposal and presented an alternative rate structure.  The primary difference between the Staff and GTE proposals lies in the Premium rates.  The Staff proposal significantly lowers the Premium rates and also transfers some calling areas from the Community Plus option to the Premium option.

According to Staff testimony, GTE’s proposal results in customers being required to choose between “large rate increases or a loss of local calling areas.”  Tr. p. 160.  Staff identified the exchanges where this occurs, including Moscow, where residential customers would be forced to choose between paying $1.60 more for retention of Pullman  in their calling area or paying $.60 less but losing Pullman.  Tr. p. 158-159.  Other exchanges where a similar problem occurs are St. Maries, Harrison, Deary and Bovill.  For example, with GTE’s proposal, Harrison residential customers would have to pay $4.10 more to keep St. Maries in their flat rate area and Bovill and Deary customers would both have to pay $4.60 more to retain the other community in theirs. Tr. p. 159.

Also during the hearing, the Commission received testimony from GTE customers, some of whom traveled many miles to attend the hearing, a journey made even more difficult by severe flooding.  Although numerous customers testified in support of the LCP proposal, many customers also identified the same problems discussed by Staff in GTE’s proposal for some exchanges.  For example, many Moscow customers objected to the option of paying $1.60 to retain Pullman in their toll-free calling area or paying $.60 less and losing Pullman. Likewise, Harrison and St. Maries customers objected to losing the other community in their calling areas unless they chose the Premium option with its significant rate increase.  The Commission also received a petition signed by 118 residents of Harrison and St. Maries objecting to that problem. Staff and concerned customers identified similar problems in the communities of Bovill and Mullan. Staff presented summaries of the customer comments filed with the Commission in Exhibits 112 and 118.

In response to the concerns raised by Staff and customers, GTE proposed two new alternatives for rates in the Moscow exchange.  Identified by GTE as Moscow proposals AA and BB, each proposal allows Moscow customers to retain Pullman in their calling area at rates lower than originally proposed.  Both alternatives include Pullman calls in the Community Plus option; proposal AA provides a rate of $15.45 and proposal BB a rate of $15.25. Proposal AA includes other adjacent exchanges in the Community Plus calling option.  GTE did not propose alternative rate options for the other exchanges identified by Staff and GTE customers as having similar concerns.

Regarding the effect on revenues, GTE presented evidence to show that the Company’s rate structures were designed so that implementation of LCP does not increase its total revenues.  Staff also analyzed GTE’s proposal and agreed, considering the acceptable margin of error involved in this type of revenue projection, that GTE’s proposal is revenue neutral.  Tr. p. 98.  Given the inherent uncertainty in revenue projections when a new rate structure is implemented, Staff recommended that GTE provide a report, similar to the report filed regarding phase one, to demonstrate whether revenue neutrality actually occurs.  Tr. p. 99.

Finally, Staff recommended that GTE include other routes in LCP as soon as possible following the implementation proposed in this case.  The additional intraLATA routes identified by Staff for LCP are the following:

Bonners Ferry—SandpointSt. Maries—Potlatch

Spirit Lake—SandpointSt. Maries—Bovill

Kellogg—Coeur d’AleneBayview—Post Falls

Kellogg—Harrison

DISCUSSION

When considering whether to extend toll-free calling between two or more exchanges, the Commission first looks to whether a “community of interest” exists between the areas.  The Commission reviews several factors in determining the existence of a community of interest, including “county boundaries, the location of the county seat, school district boundaries, the socioeconomic relationships between exchanges, telephone company boundaries, the average number of toll calls per access line between the exchanges, the number of customers who make few calls, the amount of lost toll revenue, the cost of improving network facilities, and other factors.”  Order No. 24877 at  4.  In Order No. 24877, the Commission found that LCP “represents a reasonable and appropriate solution” to the need to expand toll-free calling areas to nearby communities.  Order No. 24877 at 13.  The Commission noted that, although strong communities of interest existed in the affected exchanges, a “significant number of customers make no calls or very few calls.”  Id.  The LCP options “allow customers to choose an option that best meets their calling needs and ability to pay.”  Id.

After reviewing the public testimony and comments and the evidence provided during the technical hearing, we find the evidence supports a similar conclusion in this case.  The LCP options allow customers to choose a telephone service plan that best meets their individual calling needs.  The Premium option may be appropriate for customers wanting to make many calls to neighboring communities, while customers without the need to make many calls may be better served by the Basic or Community options.  An added benefit, as demonstrated by the testimony of several customers from communities neighboring Moscow, is that the ability to call toll-free to a larger business community assists in the development of a unified economic and social area.  Additionally, according to representatives of the University of Idaho and the Latah County Sheriff’s office, the LCP business rates will result in significant savings in taxpayer-funded operations.  On this record and for these reasons, we find that LCP should be extended to all 34 exchanges in GTE’s northern Idaho territory.

However, we believe the record also demonstrates that some adjustments are needed to the proposal as presented by GTE.  The concern expressed by customers who would be forced to choose between losing an existing EAS route or paying a significantly higher rate is one of those.  GTE witness Fred Logan testified that the Company did not specifically evaluate the community of interest where an EAS currently exists because GTE preserved the existing EAS routes in its LCP options.  Tr. p. 50-51.  Unfortunately, GTE’s proposal does not always result in the preservation of existing EAS routes at  existing rates.  We believe GTE underestimated the need to preserve existing toll-free routes at or near current rates.  Based on the evidence presented, we find that GTE’s proposal should be modified for the communities of Moscow, Bovill, Deary, St. Maries, Harrison and Mullan.  Our modifications will allow an option for customers that preserves existing EAS routes at about the current rates, recognizing that some slight increases are appropriate to maintain revenue neutrality for the Company.  Although the LCP plan we approve allows some small increases over current rates, the customers when calling outside their flat-rate area will have the benefit of greatly reduced rates for calls to nearby communities.  The precise modifications we approve are set forth in Attachment A.  Attachment B to this Order shows all LCP rates approved for implementation in the 34 exchanges.

GTE proposes to allow customers to change their chosen plan option without charge during a 90-day period following implementation.  Testimony was presented at the hearing that 90 days may be insufficient time for many customers to evaluate their calling patterns and notify the Company of a change, in part because a customer may only have one month to determine a calling pattern.  For various reasons, a single month of calls may not represent a customer’s usual calling habits, thereby resulting in a poor choice of calling plan options.  If a customer waits two or three months to determine a calling pattern, the opportunity to change options within the 90-day period will be lost.  We find, therefore, that the period of time for customers to change calling options without a fee should be 180 days rather than 90 days.  This finding is consistent with the first phase of LCP where customers were allowed to change options during a six-month period without incurring fees.  See Order No. 24877 at 22.

It also became apparent throughout this proceeding that many customers are confused by the options and the choices they must make, partially because LCP is complex.  GTE is responsible in part by the way it presented information to customers.  GTE’s own witness had difficulty explaining at the hearing an informational worksheet it prepared for customers’ use at the public hearing.  The Company must carefully prepare notices and ballots for customers to enable them to make proper, informed decisions.  We direct GTE to work closely with Staff and interested customers in preparing notices and ballots for implementing LCP in these exchanges.

Finally, we find that GTE should prepare a report following the close of one year after  implementation outlining the results of implementation, customer satisfaction, and the revenue effects of implementing LCP in these 34 exchanges.  In preparing the report, GTE should work with Staff to identify specific modifications to improve LCP for GTE’s customers, and to assure the LCP structure is revenue neutral.

While the proposed tariffs were suspended beyond their proposed effective date of February 1, 1996, we hope the Company’s implementation of LCP can still occur in the May 1996 time frame as originally contemplated.  Many customers have been waiting a long time to have the options approved in this Order and we do not want to delay their availability longer than necessary.

ADDITIONAL LCP ROUTES

We agree with Staff’s recommendation that additional routes may warrant inclusion in an LCP plan, as demonstrated by evidence presented in this case.  For example, the comments and testimony received by the Commission indicate a significant community of interest exists between the Harrison and Kellogg\Pinehurst exchanges.  We are particularly disappointed that the Company did not include a proposal for LCP between these exchanges.

We find by the comments and evidence received in this case that additional routes should be included in an LCP plan.  Implementation of the LCP plan proposed in this case is a good step toward improved calling areas and options for customers, but more should be done.  We therefore direct GTE to review the intraLATA routes identified by Staff for inclusion in an LCP rate design and listed on page 4 of this Order, as well as any other routes the Company or customers may identify.  The Company is further directed to present a proposal regarding those routes to the Commission within 180 days of the date of this Order.  In light of new federal telecommunications laws, GTE also should review possible interLATA routes for LCP treatment.

We express our appreciation to the Company for its work in extending LCP to the remainder of its service area.  While customers may need to spend more time thinking about their telephone service and calling patterns, it is clear that they have the opportunity, not available before, to make choices that will enhance the economic benefit of that service to them.

We also express our thanks to all the customers who took the time to express their opinions and needs either in writing or at the hearing.  Those concerns were instrumental in our deliberations on this matter and served to greatly improve the Company’s proposal.  They will also be of great value going forward as the Company examines the routes noted on page 4 and files proposals required within 180 days to include them in LCP.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

GTE Northwest Incorporated is a telecommunications corporation subject to our regulatory jurisdiction pursuant to Idaho Code Title 61.  The Commission has jurisdiction over this matter as authorized by Idaho Code § 61-503.  We find that adoption of the local calling plan proposal as modified by this Order is a reasonable method to extend toll-free calling areas to GTE’s customers.  We further find that the Company proposed rates, with the modifications identified in this Order and the attachment to this Order, are reasonable and appropriate.  We conclude that the rates approved in this Order and the attachment are fair, just and reasonable.

O R D E R

IT IS HEREBY ORDERED that GTE implement its LCP proposal as outlined in the body of this Order and the attachment to this Order.

IT IS FURTHER ORDERED that GTE submit appropriate LCP tariffs in conformance  with this Order.

IT IS FURTHER ORDERED that GTE review additional routes identified in this Order for inclusion in an LCP rate design, and present a proposal regarding those routes to the Commission within 180 days of the date of this Order.

IT IS FURTHER ORDERED that following the close of one year after implementation, GTE shall file a report outlining the results of implementation, customer levels of satisfaction, and the revenue effects of implementing the LCP proposal.  The Commission Staff and GTE shall identify specific adjustments, if any, to improve the LCP plan and ensure that it remains revenue neutral for the Company.

 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. GTE-T-95-3 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. GTE-T-95-3.  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  February 1996.

                                                             RALPH NELSON, PRESIDENT

                  MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

February 22, 1996