To:Fred Logan, GTE1/16/96

From:Lynn Anderson, IPUC

Re:LCP Rates

I am faxing two worksheets.  The first shows current residence rates (nonLCP and LCP) for all exchanges, GTE's proposed rates, and my estimates of future take-rates given GTE's proposed rates.  On this worksheet I've circled the take-rates that I suspect are different than GTE's estimates.  These estimates for each exchange are subtotaled by GTE's rate groups (i.e. small-small, etc.) and are compared to GTE's subtotals.  These subtotal comparisons are shaded and I've circled the more significant differences.  The bottom lines show that my estimated take rates produce nearly $12,000 more monthly revenue than do GTE's estimates, excluding measured call revenues.

On this first worksheet I've also underlined the exchanges for which GTE's proposed rates are problematic because of rate increases of more than $.25 or so, and/or because the Community and Community Plus rate options do not include the EAS the exchange currently has without incurring a significant rate increase.  The biggest public outcry about this problem is, as you know, coming from Moscow, but the problem also exists in Peck, St. Maries, Mullan, Bovill, Deary, Harrison and Setters.

I believe the magnitude of these problems could be reduced to a much more acceptable level through tinkering with GTE's proposed rate group cuttoffs and/or granting more rate exceptions such as GTE proposed for Bonners Ferry, Evergreen, Rock Creek, Tensed and Kellogg.  However, these solutions can get a little messy and it is preferable to avoid exceptions to a chosen rate design.  And I'm not sure at this point that reducing the magnitude of the problem will make it go away.  I think the Commission is now very sensitive to Moscow complaints of having to choose between higher rates or losing Pullman in their flat-rate calling area.  Assuming we can fix that problem, we'll have to fix the same problem in the other exchanges.

On the second worksheet much of the information from the first worksheet is repeated, but I've added columns at the far right showing the results of an alternative rate design.  These rates are based on the rate design elements shown at the bottom of the worksheet, i.e. a "base" rate ($9.00 in this example) which is also the LCP "Basic" rate, and a declining block additive for each hundred lines in the exchanges' flat rate calling areas ($0.08 per 100 for the first 2,500 lines, $0.025 per 100 for the next 7,500 lines, etc.).  This example also includes LCP option adders of $1.00 for Community and $2.00 for Premium, which I don't really like but were necessary to result in greater rate continuity with current LCP and nonLCP rates.  Rate continuity is a fact of life of rate design unless there's good reason for big changes, as I believe there are for the Basic and Premium options.  I think the Basic rate should be increased, as stated in the Staff Review last summer, because too many of GTE's customers are migrating to local measured service and it is a service lacking in economic justification.  The large Premium rate reductions are necessary to make them much more reflective of the added value their flat rate areas.

While this alternative rate design reduces the problems of GTE's rate design noted above, it does not eliminate them.  (Moscow customers would get a $.73 increase instead of GTE's proposed $1.60)  I've again underlined the exchanges where customers would be forced to chose between a smaller flat rate area or a significant rate increase.  After reading numerous customer letters and the newspaper articles you faxed yesterday, I believe it is imperative that we fix these problems if LCP expansion is going to fly.  So, I'll be working on a reconfiguration of LCP routes and rate design to accomplish this.  I believe it will be necessary to include in the Community Plus flat rate area for each exchange only those exchanges that are currently EAS (e.g. Pullman for Moscow) and put most or all others in the Premium option (e.g. Genesee, Potlatch, Cora, Wellesley, Deary and Bovill for Moscow).  This appears to be a practical solution given the much lower premium rates that I am proposing.  Using the rate elements on the faxed worksheet, Moscow's residence Community Plus rate would be about $15.20 and its Premium rate about 16.35.  Of course, given the significant changes in flat rate areas that would occur under this design the optimum rate elements are likely to also change and should allow getting Moscow's Community Plus rate down closer to its current $14.60.

Let me know if the facsimiles of these worksheets are legible when you receive them.   Let me know if you think the ideas have merit and want me to fax the worksheets to Dave and Gwen so that we work jointly to arrive at the exact rate elements, rates for each exchange and estimated take rates.  I'm hoping to reach agreement with GTE on a solution to the rate problems and thus avoid lengthy pre-filed testimony trying to explain the differences and the merits of the Staff's rate design versus the Company's.