1/18/96

To:Fred, Gwen, Dave @ GTE

From:Lynn @ IPUC

Re:Staff LCP Rate Design (larger type and more premium)

I am faxing each of you a new staff rate design that makes greater use of the premium option to eliminate (or nearly so) customers having to choose between higher rates or smaller flat rate calling areas.  This rate design also has one more declining block rate which affects only Setters and the anomaly caused by its EAS with Spokane's 188,000 lines.   (I've also deleted GTE's proposed rates on this sheet to allow the type to be 35% larger :)

I suspect that none of you are very fond of the idea of supporting a declining block rate design, partly because it may seem more complex than it really is and partly because of internal corporate inertia.  I urge you to give it serious consideration.  Even though U S WEST said this design was complex and confusing, it turned out that U S WEST had implemented a rate design in Oregon that is identical to this one in concept.  (Their application differs slightly and their declining block takes an unexpected upward jump in the last block, but it really isn't any different than this one.)

The exchanges with new premium options (to generally allow only existing EAS under Community Plus) are St. Maries, Mullan, Kellogg, Bovill, Deary and, of course, Moscow.  The monthly rates might produce pret' near exactly the revenue that GTE had projected from its proposed residence rates, i.e. $1,113,771 vs. GTE's $1,113,765.  I have not yet taken the time to fine-tune my estimated take rates, but what I have here shouldn't be too far off.

The biggest problem areas with this rate design, from your customers' perceptions are likely to be Oldtown's $.56 increase for Community and Setter's $1.75 increase for Community Plus.  Moscow's $.34 increase for Community Plus may be objected by some customers but I doubt the Commission would find it unreasonable.  I think the rate design could be adjusted further to reduce only Setter's rate (although I think $16.75 is a bargain).  I can't do much about Oldtown without affecting many other exchanges--perhaps it won't be a problem, and it is offset by a decrease of similar amount for Community Plus.

I intend to develop graphs comparing this rate design to GTE's.  These graphs will show that this rate design results in fairly smooth and consistent rate correlation with the number of lines in the various flat rate areas, while GTE's will be shown to be lumpy and inconsistent, i.e. there will be instances of small line increases resulting in large rate increases and instances where customers with larger flat rate areas will have lower rates than customers with smaller flat rate areas.  In testimony I don't intend to make a big deal out of this comparison -- but a picture is worth a thousand words!

A theoretical fault of this rate design is that it does not account for the number of lines in the measured rate area (where usage rates are reduced over 50%).  Originally I intended to incorporate this added value in the flat rates but soon discovered that it added considerable complexity and potential confusion and provided relatively little actual rate differences -- it simply isn't worth it.

Thanks for your consideration of this rate design.