1/23/96   3:00 p.m.

To:Fred, Dave, Gwen

From:Lynn

Re:LCP Rates -- FYI -- Comments?

With this note I'm faxing two worksheets.  The first is the results of my last rate design, on which circled staff-proposed rates are those that are more than $.25 lower than current and "rectangled" staff-proposed rates are those that are more than $.25 higher than current.  (But I ignored Basic and Premium rate changes as well as some of the very tiny exchanges.)  I've decided the circled and rectangled rates for the exchanges on the lower half of the worksheet (below Sandpoint) are OK.  The exchanges on the upper half of the worksheet cause me more concern -- I'm debating whether to play with the rate design or the variables chosen, or simply to make exceptions to the design.  In any event, the revenue impact from changing rates for these small exchanges should be negligible, especially since any adjustments will tend to be offsetting.

The second worksheet shows the rate design that produced the rates on the first sheet as well as a list of rates sorted by flat rate calling area lines and a graph of rates and flat rate calling area lines.  The graph, while much smoother and consistent than would show for existing or GTE-proposed rate deign, does show some lumpiness and inconsistency because of the necessity to use much higher "rate continuity adders" than I would have liked.  But like I conceded previously, there is legitimacy for considering rate continuity and public perception in designing rates.

The exchanges with new Premium option and their areas in this rate design are:

St. Maries:Plummer/Worley

Mullan:Kellogg(I may rescind Premium for Kellogg and Mullan.

Kellogg:Mullan  Their Community Plus rates need a boost.)

Bovill:Moscow and Potlatch

Deary:Moscow, Potlatch and Peck

Harrison:Coeur d'Alene, Hayden Lake, Post Falls and Plummer/Worley

Moscow:Genesee, Potlatch, Wellesley, Cora, Deary and Bovill

The purpose of these new premium routes is to allow customers the option of keeping only their existing EAS areas at about the same rates as they are paying now.  I did not intend to propose new Premium areas for exchanges where the LCP routes had a negligible effect on calling area or where the Community Plus rate went down in spite of the new route, e.g. Sandpoint's addition of Priest Lake.  (Note comment about Kellogg and Mullan above.)

These new Premium areas are the only way I can figure to "allow the option of virtually no change" that many customers (and Marsha) want.  This plan can only be successful if the Premium rates are reduced to a viable level, which $25 or $26 are not.  The revenue effect of lower Premium rates is not an obstacle because there are only a few small exchanges where the Premium option is important to more than a very small percent of customers, e.g Spirit Lake, Bayview, Harrison, Bovill and Deary.  And even in those exchanges it is likely that the lower Premium rates will result in more revenue, not less.  For example, if 80% of a 1,000 lines subscribe to Premium with a $4.00 rate increase, that amounts to more revenue than if 15% subscribe with a $15 rate increase and may very well offset the lost usage revenue, especially considering that the 15% of customers who make 50% of the calls were already flat-rated.