2/12/96

To:Commissioner Nelson

Commissioner Smith

Commissioner Hansen

Weldon Stutzman

From:Lynn Anderson and Bill Eastlake

Subject: LCP Rates and Revenue in GTE-T-95-3

Attached are two worksheets using current rates as suggested by Commissioners for Moscow and other exchanges and adding to LCP the Harrison--Kellogg/Pinehurst route.

The first worksheet was prepared by Bill to estimate the effect of using current rates in the Moscow exchange for the “Swisher” alternative, which keeps the flat rate area exactly as is. All other routes stay in Comm. Plus; there is no Premium.  The estimated buy-ups are staff’s.  This worksheet shows most classes of customers (excluding only semipublic and P.A.L.)  and the conclusion is that this alternative will probably not harm the Company financially.

The second worksheet was prepared by Lynn to estimate the effect of extending the “Swisher” alternative to the several other exchanges where GTE’s proposal resulted in the problem of forcing customers to choose between higher rates or losing existing flat rate calling areas.  This worksheet shows only residence rates and revenue with an implication that using GTE’s bus./res. rate ratios will result in total revenue changes that are approximately proportional to current bus./res. revenue proportions, i.e. 45%/55%.  In other words, the total revenue loss is approximately double that of residence only.  Again, the staff conclusion is that the Commission’s “Swisher” alternative applied to these six exchanges and adding the Harrison--Kellogg/Pinehurst route will not financially harm the Company.

Our “no harm” conclusion is based on the premise that estimated revenue changes that are under 1% of base revenue are less than the range of the confidence interval of the estimate.  In other words, these are all guesstimates and we assume the Commission will “true-up” any significant revenue excess or shortfall.  It’s worth noting that a uniform $.10 change in rates is worth approximately $12,000 per month and we think our estimates are easily within this range.  We think it likely that GTE’s projected marketing success for Centranet will affect revenues more than the deviations of estimates from future actualities in this LCP case.

Having said that we think the Commission’s rate design will work financially, we do need to add that we think this will perpetuate unnecessary differences between exchanges vis-a-vis calling areas and rates.  For example, Mullan’s Community rate of $12.10 includes flat-rate calling to 2,688 lines, while St. Maries’ lower Community rate of $11.80 includes flat-rate calling to 4,373 lines.  Another example, Spirit Lake’s $15.25 rate includes flat-rate calling to 16,063 lines, while Moscow’s lower $14.60 rate includes over 10,000 more lines in its flat-rate area.  We believe the Commission’s rate design, like the Staffs, solves the problems caused by GTE’s proposal.  But, while the Staff’s rate design admittedly results in a few anomalies, the  magnitude of these are smaller than with the Commission’s rate design.  (See two attached graphs.)  The Commission’s alternative will perpetuate dual rate designs, which will befuddle GTE, Staff and Commission efforts in the future.  While we admit that consistency of rate design among exchanges should not be the overriding criteria in setting rates, such consistency, absent extenuating circumstances, results in an equitable distribution of rates among exchanges and should be sought when it has no adverse effects.