DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVID SCHUNKE

JOE CUSICK

BEVERLY BARKER

BIRDELLE BROWN

JIM LONG

DAVID SCOTT

WORKING FILE

FROM:BILL EASTLAKE

DATE:JANUARY 16, 1997

RE:GTE-T-95-3

THE COMPANY’S FILING

Order No. 26330 of January 22, 1996, implemented GTE’s Local Calling Plan (LCP) in 34 local calling areas and ordered a review of additional inter- and intra-LATA routes within 180 days.  In addition, the Order asked for a report following the close of one year outlining the results of implementation, specifically customer satisfaction and revenue effects, and identifying any specific modifications needed to improve LCP for customers or to assure revenue neutrality.   In the Order, the Commission noted that comments and evidence received in the case indicated other routes should be included and therefore directed review of seven specific routes.

The Company’s response to the Order  recommended adding three of the seven routes, Bonners Ferry-Sandpoint, Kellogg/Pinehurst-Coeur d’Alene, and Bayview-Post Falls.   For Bonners Ferry, the expansion was in the Community Plan and new rates would be $1.50 higher for residences and $2.50 higher for business.  In Sandpoint, the expansion would be in the Community Plus Plan and rates would rise $.95 for residences and $2.30 for small business, $4.00 for large business.  For Kellogg/Pinehurst, Community rates would rise the same as for Bonners Ferry, but for Community Plus the increase would be $3.45 for residence and $11.30 for small business, $13.00 for large business.

PREVIOUS COMMISSION ACTION

At the October 28, 1996, Decision Meeting the Commission indicated general acceptance of the three proposed routes.  In addition it directed the Company to prepare further analysis of the feasibility of including the Harrison-Kellogg/Pinehurst route as a fourth  route.

THE COMPANY’S FURTHER ANALYSIS

Company analysis indicates that inclusion of this new route as a Premium Option can be accomplished with no change to the rates already in existence.  Both exchanges are small enough that adding the new customers to the calling area leaves the exchange in the same rate group as before.  What this means is that Harrison can have Kellogg-Pinehurst added to its existing Premium option at previous rates.  For Kellogg-Pinehurst, including Harrison requires addition of a Premium option that was not available before.  Pricing of the new Premium option is identical to pricing in other similar exchanges.  The passage of time has allowed the Company to substitute actual for predicted engineering costs associated with the extra routes, and the actual costs come in at $70,600 instead of the $125,000 estimated in the earlier analysis.  That reduction in engineering cost provides enough cushion to offset the increase in lost toll as LCP is implemented on the new route, leaving the Company revenue neutral.

The Company has not yet implemented the three additional routes, preferring to roll all four out simultaneously upon Commission approval.

STAFF ANALYSIS

Staff notes one apparent difference in treatment of customers between Harrison and Kellogg-Pinehurst.  Harrison essentially gets the addition at no cost within the existing Premium option.  Kellogg customers, on the other hand, must move to the new Premium option to add Harrison.  This option changes the monthly charge from $16.20 to $25.92 for a residential customer, from $38.30 to $61.28 for a single line business.

Staff suggested to the Company that Harrison be added to the Community Plus option for the Kellogg-Pinehurst exchange.  Modeling this change alone suggests about a $900 a month revenue shortfall from revenue neutrality.  This is not particularly alarming relative to the Company’s original filing in September that showed about a $270 shortfall from adding the three routes.  These shortfalls seem well within the range of error in estimation of customer response to the new calling options.

The Company preferred a symmetrical treatment of Harrison and Kellogg-Pinehurst and modeled Staff’s proposed change by putting each exchange in the other’s Community Plus option rather than accepting Staff’s suggestion.  This modeling led to a predicted revenue shortfall of about $1900 a month, more than the Company was willing to stretch in defining revenue neutrality.

No action has been taken on this case, pending the Company’s submission of an additional alternative for Harrison to Kellogg-Pinehurst.  Now that we have the complete proposal, with four additional alternative routes, there needs to be some public notice.  No parties have had an opportunity to examine and comment on the Company’s proposal and Staff’s counter-proposal, so Staff recommends that they be put out for comment under Modified Procedure.

COMMISSION DECISION

Does the Commission wish to notice this filing under Modified Procedure?

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               Bill Eastlake