DECISION MEMORANDUM

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FROM:DON HOWELL

DATE:JUNE 17, 1998

RE:GTE NORTHWEST’S APPLICATION TO REDUCE ACCESS CHARGES AND REBALANCE LOCAL RATES, CASE NO. GTE-T-98-2

On May 29, 1998, GTE filed an Application to reduce its access rates and “rebalance” its local service rates.  GTE is a fully regulated, Title 61 company offering both local and intrastate long-distance services  This Application represents “the second phase of an overall reduction in [its intrastate] access charges of nearly 50%, from . . . $0.1133 cents per minute to the proposed effective composition rate of $0.0590 cents per minute.”  Application at 1.  The Company implemented the first phase of the access charge reduction ($0.01 reduction or $820,000 annually) on April 27,1998.  The Phase 1 and Phase 2 access charge reduction (if approved) would total approximately $4.42 million ($820,000 in Phase 1 and $3.6 million in Phase 2).

THE APPLICATION

A.  Access Charges

The Company proposed two primary changes to its intrastate access rate structure.    First, the intrastate end-office switching rate for the peak period of calling would be reduced to GTE’s current interstate rate.  The Company would also adjust the off-peak intrastate rate for end-office switching to maintain the existing ratio between peak and off-peak rates.  Off-peak rates are 60% of peak rates.  The second rate change the Company proposed was to reduce intrastate originating and terminating carrier common line (CCL) rates to a level “in line with the Company’s current interstate access composition rate.”  Banzer Testimony at 5.  These two changes would result in a composition rate of $0.059 per minute of use which is a decrease of almost 50% from the Company’s composition rate of $0.1133 per minute in effect prior to the Phase 1 filing.

In proposing these access charge reductions, the Company had two goals.  First, the Company desired to develop a rate design for intrastate access charges that “substantially reduce the amount of implicit subsidies that existed in the current access charge rate structure.”  Id. at 4-5.  Second, GTE wanted to bring its intrastate access charge rates in line with its interstate access charge rates.

B.  Local Rate Rebalancing

To offset the lower revenue caused by the reduction in access charges, the Company proposed to rebalance its local service rates for residential and business customers.  The rate rebalancing has several steps.  First, the Company proposed to eliminate its $1.00 per line monthly charge for “touch call” (touchtone) service.  Approximately 60% of all residential custom­ers and 70% of all business customers subscribe to touchtone service.  To maintain revenue neutrality, the Company recommended eliminating the touchtone charge of $1.00 per month and recover $0.62 per month from all access lines (except CentraNet and business trunk lines).

Second, the Company proposed to decrease its current business to residential rate ratio from approximately 2.28:1 to 1.9:1.  The Company maintained that reducing the business-residential ratio more accurately reflects the costs of providing the two different services.  In addition, this bus-res ratio approximates the 1.88:1 recently adopted in the U S WEST rate case.  Third, the Company proposed to only increase the monthly rates for its “premium” business and residential local service and business trunks by $0.62, to reflect the change in touchtone service.  After making these three adjustments, the monthly increase for residential customers currently subscribing to touchtone service would be $2.85, while the increase for a touchtone single-line business customer would be $1.35 per month.  The proposed rates are attached.  GTE has notified its customers of the proposed access charge reduction and the local rate rebalancing.

The Company maintained that the proposed rates are fair, just, and reasonable and provide a “substantial movement in the direction of eliminating implicit subsidies” as required by Idaho Code § 62-623.  As the Commission knows, this statute requires the Commission to identify implicit subsidies and to “[d]etermine a mechanism for removal of the [implicit] subsidies from the rates of incumbent telephone corporations. . . .”  Idaho Code § 62-623(2).

GTE indicated in its Application that the Company’s last general rate case occurred in May 1989.  Except for implementation of the current local calling plan (LCP) in 1993, there has been no increase in local service rates since 1989.  LCP offers customers an option of four, 7-digit dialing, local calling plans which are: (1) basic calling; (2) community calling; (3) community plus; and (4) premium calling.(footnote: 1)

In its Application, the Company requested that the Commission process this Application under Modified Procedure.  The Company believes that Modified Procedure is appropriate because this is a revenue-neutral, rate rebalancing Application based in part upon a Staff audit of the Company’s earnings. Approximately $600,000 of the Phase 1 reduction was attributable to Staff audit findings of excess Company earnings.  The Company and the Staff agree on the appropriate-ness of this adjustment.

Staff Analysis

The Commission Staff supports the reduction access charges and the rebalancing of local rates.  As set out above, the Staff believes that the reduction in access charge—basically mirroring the Company’s interstate access charges—comports with the intent with Idaho Code § 62-623 concerning the removal of implicit subsidies.  The Staff also agrees with the elimination of the separate touchtone service charge and the reduction of the business-residential rate ratio.

Although the rate rebalancing is done on a revenue-neutral basis, the Staff is unsure whether this case should be processed under Modified Procedure without the benefit of a public hearing.  It is the Staff’s understanding that interexchange carriers generally support the significant decrease in GTE’s access charges and reduction of implicit subsidies.  The Staff will leave the decision on whether to process this Application via Modified Procedure to the Commission’s discretion.

Finally, the Staff would suggest that the Commission include in its Notice of Application a deadline for intervention.  Once the intervention deadline is passed, the Staff could poll the intervenors to determine whether there were areas of dispute and/or need for cross-examination and public hearings.

Commission Decision

1.  Does the Commission wish to establish a deadline for intervention?

2.  Does the Commission desire to process this Application under Modified Procedure, with evidentiary hearings, or some combination?

3.  Does the Commission desire to reserve its decision on how to process this case after the Staff polls intervenors?

4.  Anything else?

Don Howell

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**FOOTNOTES**

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  For basic calling, all calls within the broad local calling radius are billed on a measured usage basis.  Community calling customers are charged a flat monthly rate for calls made within their local exchange.  All other calls up to approximately 23 miles away are charged on a measured local usage basis.  Community plus customers calling within their own local exchanges and to certain nearby exchanges are charged a flat monthly rate.  All other calls up to 23 miles away are billed on a measured usage basis.  Finally, premium calling (where available) allows customers unlimited local calling to exchanges up to approximately 23 miles away.  See Order Nos. 24877 and 26330.