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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION)

OF GTE NORTHWEST INCORPORATED)CASE NO.  GTE-T-98-2

TO REDUCE ITS ACCESS CHARGES AND)

REBALANCE LOCAL RATES FOR)

TELECOMMUNICATIONS SERVICES.)COMMENTS OF THE

)COMMISSION STAFF

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COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donald L. Howell, Deputy Attorney General, and submits the following comments in the above referenced case.  As set out below Staff urges the Commission to approve GTE’s Application.

BACKGROUND

On May 29, 1998, GTE filed an Application to “rebalance” its rates, that is, reduce its access rates and raise its local service rates.  This Application represents the second phase of an overall reduction in the Company’s access charges of nearly 50%, from a composite rate of $0.1133 per minute to the proposed effective composite rate of $0.0590 per minute.  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 first filing addressed the potential overearnings identified by Staff in the recently completed audit of the Company.  As a result of the Staff audit, GTE agreed that $600,000 of the initial access rate reduction reflects excess earnings.  The $220,000 excess revenue reductions as a result of the initial access rate reduction were to be carried over to this second, rate rebalancing phase. The goal of this second filing is to bring GTE’s rates in balance with the spirit of the federal Telecommunications Act of 1996 and recent amendments to Idaho’s Telecommunications Act, and reduce implicit subsidies that exist in the Company’s current rate structure.

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 similar to the Company’s current interstate CCL rates.  These two changes result in a composite rate of $0.059 per minute of use which is a decrease of nearly 50% from the Company’s composite rate of $0.1133 per minute in effect prior to the Phase 1 filing.

In proposing these access charge reductions, the Company’s Application indicated it had two goals.  First, the Company desired to develop a rate design for intrastate access charges that “substantially reduce[s] the amount of implicit subsidies that existed in the current access charge rate structure.”  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 increase its local service rates for residential and business customers.  The proposed rate rebalancing has several steps.  First, the Company recommended eliminating 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.  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.  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)

STAFF ANALYSIS

In the 1997 amendments to the Idaho Telecommunications Act, the Legislature directed the Commission to identify the implicit subsidies contained within the rates of incumbent telephone corporations and determine a method for eliminating them.  The statute specifically identified access charges paid by long distance companies and above cost rates paid by one class of customer to reduce the price paid by another class of customer.  The Commission initiated a proceeding to examine these issues, and issued the Telecommunications Report to the Governor and the Idaho Legislature (Report) on January 26, 1998.

The statute failed to define the term “implicit subsidy”, and the comments received by the Commission indicated significant differences of opinion on the issue.  The Commission did not adopt any specific definition in the Report, and did not identify any subsidies within the rates of Idaho’s local telephone companies beyond those specifically mentioned in the statute.

The current filing addresses two of the implicit subsidies specifically mentioned in the statute:  1) Access charges the Company collects from long distance companies; and 2) the difference in the rates charged to business customers as compared to those charged residential customers.

Access Charges

Although there is not sufficient evidence before this Commission to adequately determine the amount of implicit subsidy embedded in access charges, Staff believes that adoption of the proposed rates is a move in the right direction.  The Company’s access rates are among the highest in the state, and are certainly well above the typical costs a company incurs to provide such services.  Staff also believes the level of reduction in access rates that is proposed in this filing is a reasonable goal.  The proposed composite rate is slightly below the statewide average for intrastate access charges, and is approximately equal to the Company’s composite rate for interstate calls.

The Staff is hopeful that long-distance carriers will “pass through” the reduction in access charges to the long-distance customers.  Some long-distance carriers have pledged in the past to pass through access charge reductions.  The “savings” that individual customers may receive will depend upon their long-distance usage and the extent to which carriers pass through the rate reductions.

Business vs. Residential Rates

Staff does not support the Company’s claim that the difference between the current rates for basic local access service for business users and residential users constitutes a subsidy.  As the Commission indicated in the Report:

a competitive business must recover all of its costs while at the same time have the freedom to set rates for its services as it sees fit in order to remain competitive.  Any business that produces multiple products or services necessarily incurs joint and common costs that should, in theory, be incorporated to some degree in all prices.  But there is no objectively correct method of allocating joint and common costs to multiple products.  Furthermore, even if an allocation method is deemed to be correct, businesses often knowingly price goods or services at less than fully allocated costs in order to maximize overall revenues.

The Commission also stated in the report it did not necessarily consider the difference between business and residential rates to be a subsidy.

The Commission does not consider the difference in rates to be a subsidy.  It believes that business lines impose higher costs on the network and have higher value and should therefore pay a higher rate.  The network has to be built to handle peak traffic and businesses contribute to daytime peak traffic.  In addition, businesses traditionally make more phone calls than residential customers.

Nevertheless, Staff believes the proposed rates recognize the differences between residential and business customers and the ratio of business to residential rates that results from the proposal is reasonable.  It is essentially the same ratio as is obtained from the rates the Commission approved for U S WEST’s Southern Idaho operations in that company’s recent rate case.

Local Rate Changes

1.  Touchcall. Staff also believes the proposal to eliminate the special charge for touchtone dialing is very appropriate.  This charge was imposed when providing touchtone dialing capability required an additional expense for the Company.  Touchtone dialing is now the standard, and a special charge can no longer be justified.  Staff concurs with the method the Company has proposed for replacing the revenue that would be lost with the elimination of the touchtone charges, and believes that it can be expected to be revenue neutral.

2.  Residential Service.  The Company has proposed distributing the increases required in basic local service rates equally among each of the various calling plan options, with the exception of the Premium option.  The Company indicated the number of customers choosing the Premium option had been well below projections, and it believed the rates for that option were already too high.  Staff examined the information on the number of customers selecting the various options provided by the Company.  The number of customers selecting the Premium option is so low that the impact of the Company’s decision to exclude this option from the rate rebalancing was minimal.

The proposal represents an average overall increase of 17% in local service rates.  The actual percentage increase any specific customer would realize from the proposal depends upon the exchange, calling option the customer has chosen, the class of service the customer is receiving, and whether the customer is currently paying for Touchcall service.  A residential customer not currently paying for Touchcall service, subscribing to the Basic option, and located in one of the 29 smaller exchanges where such service is proposed to increase from $7.50 to $11.35 per month, would experience an increase of 51%.  Residential customers subscribing to the Premium option would experience an average increase of approximately 2%, while for business customers subscribing to the Premium option, the average increase is only 1%.

3.  ITSAP Mitigation.  Staff is concerned about the impact of this rebalancing on those with limited incomes.  Staff examined a number of options that would reduce the increases on/ the basic residential service option, but found the resulting impact upon other options to be excessive.  In addition, with the recent revisions to the Idaho Telephone Service Assistance Program (ITSAP), both the amount of assistance that is provided, and the number of customers who will be eligible for assistance is expected to increase significantly.  Eligible ITSAP customers will now receive credits to their monthly charges for local service that will total $10.50 per month.

Customers qualifying for this program would be able to obtain Basic or measured service at rates equivalent to less than a dollar a month in the smaller exchanges, increasing to only $1.35 per month in Coeur d’Alene and Moscow.  For ITSAP participants choosing the Community option, which provides non-measured service to the local exchange, the comparable costs under this proposal would range from $3.85 per month in the smaller exchanges, to $8.05 per month in Moscow.  (Moscow customers can also call Pullman with this option.)

Staff believes that in light of the changes in the ITSAP program, the rate structure proposed by the Company is reasonable.

The Report indicated the Commission would address any subsidies that might exist in rate proceedings with each specific company.  The Commission Staff was conducting an audit of GTE at the time the Report was being prepared, and the Report indicated the Commission would evaluate adjusting access rates based upon the results of that audit.  The access charge reductions the Commission approved in the first step of the Company’s rate restructuring addressed the over-earnings identified in that audit.

The current filing, or second step of the Company’s rate restructuring, is identified by the Company as being revenue neutral.  The revenue reductions the Company can reasonably be expected to experience from the reductions proposed in access rates will be matched by the revenue increases the Company can reasonably be expected to receive as a result of the increases in the rates for basic services.  Staff has reviewed the information the Company has provided to document the revenue increases and decreases expected from the proposed changes, and does not dispute the Company’s claims that the proposal will be essentially revenue neutral.

STAFF RECOMMENDATION

Staff finds the Company’s proposal to be a reasonable means of achieving the goals established by the Legislature in the Idaho Telecommunications Act and its amendments.  The proposal can be expected to be revenue neutral to GTE.  Staff recommends the Commission approve GTE’s Application.

Respectfully submitted this                  day of July 1998.

Donald L. Howell, II

Deputy Attorney General

Technical Staff:Wayne Hart

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**FOOTNOTES**

1:

 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.