BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF QWEST'S PROPOSAL TO USE REVENUE SHARING FUNDS TO MAKE NETWORK IMPROVEMENTS IN ITS SOUTHERN IDAHO SERVICE AREA.

CASE NO. QWE-T-03-4

ORDER NO. 29197

BACKGROUND

On December 31, 2002, Qwest Corporation (Qwest) submitted a proposal to the Commission to use revenue sharing funds to make network improvements in its southern Idaho service area. When Qwest's predecessor U S WEST in 1989 elected regulation of some telecommunication services under Title 62, Idaho Code, the Commission approved a method for allocating costs between the fully regulated (Title 61, Idaho Code) and partially regulated (Title 62, Idaho Code) portions of Qwest's southern Idaho operations. The Sharing Plan measured total Company growth and shared a portion of that growth with Title 61 operations in recognition that Title 62 services depended on use of the joint network. Because revenue sharing funds were derived from joint use of the network that provides Title 61 services, the Commission held that revenue sharing funds must be used to benefit Title 61 customers. In 1989 and 1990, revenue sharing money was given to Title 61 customers as a one-time credit. In subsequent years, the Commission approved use of the funds to make network improvements in Qwest's southern Idaho service area. The revenue sharing program terminated in 1997, and the existing funds, totaling approximately $4 million, are the last revenue sharing funds provided by the program.

QWEST'S PROPOSAL

In its proposal filed with the Commission, Qwest identified specific areas for network improvement, and committed to match the available sharing funds, thereby proposing approximately $8 million for the purpose of upgrading outside plant facilities throughout the southern Idaho area. Qwest proposes to use the funds for four components:

1. Replacement of lead sheath cabling in the local exchange network in selected wire centers.
2. Replacement or rehabilitation of air core cabling in the local exchange network in selected wire centers.

3. Replacement of control points or access points (i.e. terminal boxes or enclosures) in selected wire centers.

4. Replacement of Anaconda analog carrier systems across southern Idaho.

According to Qwest, these network components represent areas that experience higher incidents of trouble reports from customers. The Company proposed to construct the improvements during a three-year period, and asserted that implementation of its proposal will result in improved service quality for its Title 61 customers. On January 17, 2003, Qwest provided additional information regarding the proposal and the specific improvements it recommends.

On January 24, 2003, the Commission issued a Notice of Modified Procedure and established a twenty-one day comment period, ending February 14, 2003, to allow interested persons or parties an opportunity to file written comments regarding Qwest's proposal.

SUMMARY OF COMMENTS

Written comments were filed by Qwest, the Commission Staff, Citizens Telecommunications Company of Idaho (Citizens), members of the Communications Workers of America union, and several interested customers. Except for the comments filed by Citizens, all were supportive of the proposal to make the identified network improvements. In support of its proposal, Qwest points out that Title 61 customers will realize improved service functionality and reliability sooner than otherwise as a result of the plant replacements. The Company believes its proposal will protect Idaho jobs and provide a lasting benefit while maintaining competitive neutrality.

Staff generally supported Qwest's proposal to use revenue sharing funds to improve service for Title 61 customers. Staff also expressed concern, however, that some of the projects will be expensive and may benefit few Title 61 customers. Staff recommended that projects such as the Anaconda systems replacement be pushed to the end of the project period and that other projects be reviewed quarterly to allow the Commission to consider cost effectiveness and other project alternatives. Staff recommended that the quarterly project review be used to evaluate the level of funding for expenses and all capital items.

Citizens stated Qwest's proposal is not an appropriate use of revenue sharing funds because the proposal "is comprised of projects most, if not all, other companies in Idaho have completed without the benefit of special funding." Citizens proposed that the revenue sharing funds be used to build a north-south fiber route between Riggins and Grangeville, a project previously considered by the Commission in Case No. USW-T-99-25/CTC-T-99-2.

Comments were received in support of Qwest's proposal from network engineering directors at Qwest and from Idaho members of the Communications Workers of America union. Three Qwest customers submitted comments stating, to the extent it would improve their service, support for the proposal.

COMMISSION DECISION

The record supports the finding that the use of the remaining revenue sharing funds proposed by Qwest is consistent with the public interest and the goals of the Commission. Qwest proposes to remove and replace old and deteriorating facilities, which will improve the quality of service to customers. According to Qwest, the improvements are much more than normal maintenance and repairs, and instead "will involve replacement of a minimum of 300 feet, and more typically 1000 foot sections, of cable plant which is beyond the capacity of routine repair work." Staff agreed, asserting that, "given the high cost per customer [of the proposed improvements] and general reduction in capital budgets, Qwest would not make the proposed upgrades in the foreseeable future but would continue to maintain and repair existing facilities." Facility improvements to the basic telephone service network will benefit not only the customers in the improved areas, but also those who call them and Qwest competitors that may use the facilities.

The Commission also finds that customers will benefit by the matching funds to be provided by Qwest. First, the matching funds will double the resources committed to facility improvements, significantly increasing the commitment for improvements to benefit customers. Second, the improvements provided by revenue sharing funds cannot be added to rate base, which means significant improvements will be made without adding to the capital costs of the Company recovered in rates from customers. Even the matching funds provided by Qwest will not be included in rates unless and until such time as Qwest files a rate case. At the least, "Title 61 customers would realize $8 million of improvements for essentially half the price." Staff comments, p. 3.

Finally, it is true, as Qwest and Staff point out, that the Commission has considered other options for use of the remaining revenue sharing funds. None were sufficiently beneficial to Qwest's Title 61 customers, or they suffered from other weaknesses, that precluded the

Commission's approval. For example, one proposal previously considered was construction of a fiber optic route between Riggins and Grangeville, Idaho. Citizens in its comments recommended the Commission use the revenue sharing funds for that purpose rather than the one proposed by Qwest. The Commission previously approved construction of the fiber route if funds were available from the planned sale of Qwest's north Idaho exchanges, but that sale fell through. Although a north-south fiber route has merit and would provide benefits to the state telecommunications system, constructing it with revenue sharing funds that were generated from Qwest's southern Idaho customers would not be appropriate because it would not provide a direct benefit to those customers.

The Commission finds the proposal to use the revenue sharing funds, matched dollar-for-dollar by Qwest, for capital improvements to the telecommunication facilities in southern Idaho to be reasonable, prudent, beneficial to Qwest's Title 61 customers, and in the public interest. The Commission is also mindful, however, that proper accounting and reporting safeguards must be in place to insure best use of the funds. Accordingly, Qwest is directed to provide to the Commission ongoing detailed proposals for projects planned in each quarter, including the anticipated costs with capital and expenses separately identified. Qwest shall also provide the proposed accounting entries.

Staff will review the proposed projects, in part to determine that the improvements are not merely maintenance projects, and notify the Commission of its concerns, if any, regarding the identified projects. Qwest may proceed with the work identified for the quarter if Staff does not file an objection with the Commission. No later than 10 days after close of the quarter, Qwest must file a report showing all related expenses and capital costs for the quarter by project with the actual accounting entries for each project in that quarter. Unless Staff notifies the Commission of an objection, the fund administrator will be instructed to release the appropriate amount of revenue sharing funds to Qwest. This process will enable Qwest to receive the funds in a timely manner, allow the fund administrator to match investments with expected withdrawals, and assure proper evaluation of program expenditures.

ORDER

IT IS HEREBY ORDERED that Qwest's proposal to use remaining revenue sharing funds, along with a dollar-for-dollar match provided by the Company, for capital improvements to its Title 61 facilities in south Idaho is approved. Qwest is directed to provide quarterly proposals in advance of commencing work and reports at the end of each quarter, as set forth in this Order.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. QWE-T-03-4 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. QWE-T-03-4. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 21st day of February 2003.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

Commissioner Hansen Dissenting Opinion Attached

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell

Commission Secretary

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DISSENT OF
COMMISSIONER DENNIS S. HANSEN
CASE NO. QWE-T-03-4
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Because I am concerned that the network improvements proposed by Qwest may properly fall within normal maintenance obligations, I dissent from the Commission's Order. As suggested by Citizens in its comments, the network improvements could amount to little more than "basic maintenance and network improvements that should rightfully be funded 100% by Qwest in the normal course of business." Although it is true that money for capital projects may be difficult to obtain in these lean economic times, the fact that Qwest is willing to commit to match the revenue sharing funds with its own money implies the Company could make funds available to complete necessary maintenance projects. Aside from Qwest's assertion, how is the Commission to know the network improvements approved by the Commission would not otherwise have been completed by the Company?

The other problem I see with the proposal is that some projects may be expensive to complete while benefiting a relatively small number of customers. An example is replacement of the old Anaconda Carrier Systems, which Qwest estimates will cost over $600,000, but will directly benefit only 61 customers. When compared to previous network improvements funded by revenue sharing dollars approved by the Commission, this proposal is disappointing in the scope of benefits identifiable for Title 61 customers. Because revenue sharing funds were provided by all of Qwest's Title 61 customers, that means all customers will be paying for improvements to benefit a few, at least to the extent sharing funds pay the costs. I think a better use of the revenue sharing funds would be to refund it to the customers, who contributed it to these funds in the first place.

Dennis S. Hansen

DENNIS S. HANSEN, COMMISSIONER