BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE EVALUATION OF U S WEST COMMUNICATIONS’ REVENUE SHARING PLAN FOR THE FIRST FIVE YEARS OF OPERATION. | )  )  )  )  ) | CASE NO. USW-S-94-3  ORDER NO.  25826 |

On May 24, 1994, the Idaho Public Utilities Commission initiated this case to evaluate the effectiveness of U S WEST Communications’ Revenue Sharing Plan for the first five years of operation.  By this Order, we find that the Revenue Sharing Plan should continue for another year and that an industry workshop forum should be established to initiate the process of developing a revised or new regulatory plan for U S WEST’s southern Idaho operations.  We also find that 1994 revenue sharing funds should not be used to fund further infrastructure improvements.  We hold that if revenue sharing is continued beyond 1995 or if a new or revised regulatory plan is implemented, U S WEST should  no longer be compensated for lost toll revenue on new EAS routes.  We believe intraLATA equal access should be implemented as soon as possible as a means of promoting toll competition and therefore find that a docket should be opened to establish the provision of equal access in southern Idaho (the Boise LATA).  We reject the Company’s proposals to remove directory revenue from the Sharing Plan and to revise its depreciation rates.  To further the goal of universal service, we find that rural zone charges should be eliminated.

Because of the decline in the quality of service offered by U S WEST, we propose adopting specific measurable quality of service standards discussed in this Order.  Additionally, we propose penalties be assessed if the standards are not reached.  The penalties will be assessed against specific standards and cumulatively could total as much as $19 million.  We solicit comments on the proposed standards and their implementation.

BACKGROUND

In 1989, the Commission authorized the implementation of a “Revenue Sharing Plan” as a method for allocating costs between the fully regulated (Title 61, Idaho Code) and partially regulated (Title 62, Idaho Code) portions of U S WEST Communications’ southern Idaho operations.(footnote: 1)  The Sharing Plan measures total Company revenue growth annually and shares a portion of that growth with Title 61 operations in recognition of Title 62 services’ use of the joint network.  The Sharing Plan uses 1987 data to determine the average revenue per telephone access line served by U S WEST in southern Idaho.  This figure represents the base-year calculation.  In subsequent calendar sharing years (e.g., 1993), the same calculation is made using the actual sharing year data to determine the average revenue per access line for the sharing year.  If the sharing year revenue per line is greater than the base year revenue per line (e.g., comparing the years 1987 and 1993), a proportion of the growth in revenue will be “shared” or attributed to Title 61 regulated services.  The portion of the increased/decreased revenues shared between Title 61 and Title 62 services is determined by the ratio of the revenues generated by such services for the year being calculated.  In other words, the sharing ratio mirrors the ratio of Title 61 service revenues to Title 62 service revenues.  Allocations under the Sharing Plan are made annually with the end-of-year operational report due from U S WEST no later than May 1 of each year.  The Commission determines the appropriate disposition of the revenue growth “shared” with Title 61 customers as calculated according to the Revenue Sharing Plan.

The Sharing Plan is not affected by an increase or decrease in the Company’s operating expenses except in two instances.  First, changes in intrastate expenses attributed to jurisdictional separations procedures prescribed by the Federal Communications Commission will be reflected in the net calculation of sharing year revenues.  Second, net revenues in the sharing year may also be adjusted for changes in Idaho and federal income tax rates, structures, or methods of calculation.  The Sharing Plan has undergone a number of other modifications since its inception in 1989.

In the calendar years 1989 and 1990, revenue sharing money was given back to Title 61 customers as a one-time credit.  See Order Nos. 23441 and 23951.  In the calendar years 1991, 1992 and 1993, the Commission used revenue sharing money to partially fund the Technology Plus--Phase II project and to reduce monthly zone charges. See Order Nos. 24506, 25147, and 25733.

PROCEDURAL HISTORY

On September 28, 1993, the Commission issued Order No. 25187, the final order regarding the 1992 sharing year.  In that Order, the Commission invited Staff and other interested parties to begin “to examine the relative merits of the sharing plan.”  Order No. 25147, p. 11.  Comments were to be submitted in conjunction with this year’s revenue sharing case.  See also Case No. USW-S-94-2.  Reports were filed by U S WEST and the Commission Staff on May 25, 1994.

On May 20, 1994, the Commission issued a Notice of Inquiry by which the Commission initiated an evaluation of the Revenue Sharing Plan.  The Commission Staff, U S WEST and other interested parties were directed to submit comments evaluating the efficiencies and effectiveness of the Sharing Plan.  The Commission received timely written comments from the Commission Staff, U S WEST, MCI Telecommunications, Inc., the Idaho Cable Television Association, AT&T Communications of the Mountain States and the Idaho Consumer Affairs.

In its comments, U S WEST states that almost all aspects of the telecommunications industry are experiencing or will soon be experiencing competitive pressure.  U S WEST believes that the telecommunications industry and the Commission must plan for a future in which all telecommunications services are subject to full competition.  Although U S WEST believes the Revenue Sharing Plan should continue for a limited time, it also believes the time has come to identify subsidies, adjust rates, address inadequate capital recovery and prepare for the transition to a competitive environment.  U S WEST recommends an industry-wide workshop be convened to develop a new regulatory plan for telecommunications in Idaho.

MCI generally opposes alternative forms of regulation unless such alternatives promote competition as well as efficiencies for local exchange companies.  To create a truly competitive environment, MCI maintains the Commission must, among other things, establish pricing safeguards to protect against price discrimination and cross-subsidization as well as order the implementation of 1+ equal access.(footnote: 2)  MCI also urges the Commission to adopt service quality standards and measurements similar to those adopted by the Colorado Commission.

AT&T asserts that the existing Revenue Sharing Plan should be discontinued because it is not consistent with the legislative goals of balancing regulation and competition.  AT&T believes a new sharing plan should be developed that assures that costs are properly allocated and that regulated services are not subsidizing non-regulated services.  AT&T posits that the new sharing plan should move prices for services to cost and should identify means of targeting subsidies.

The comments filed by the Idaho Cable Television Association (ICTA) focused on infrastructure improvement and market competitiveness under the current Sharing Plan.  The ICTA asserts that with a subsidized infrastructure, the “playing field” tilts in U S WEST’s favor.  The current Sharing Plan, according to the ICTA, does not test or respond to price discrimination or predatory pricing.

The Idaho Consumer Affairs (ICA) suggested that an evaluation of the Sharing Plan be conducted by an entity independent of the telecommunications industry.  The ICA also believes that while revenue sharing has improved the telecommunications infrastructure, future sharing money should be returned to the ratepayers.

In its comments, the Commission Staff states that while the Sharing Plan has been successful, several changes need to be made.  Because, under the Plan, reducing expenses increases the Company’s profits, but not the revenue it must share, Staff asserts that U S WEST has implemented cost-reducing employee layoffs and other cutbacks that have reduced the quality of service at all levels.  Staff recommends the implementation of service quality standards, penalties for non-compliance with those standards and the tracking of complaints.  In order to further promote universal service, Staff recommends the elimination of rural zone charges and the establishment of outreach programs that would target those needing assistance to get on or remain on the telecommunications network.  Staff asserts that the Commission should address the need for competitive parity in accessing the U S WEST network and should eliminate compensating U S WEST for lost toll revenue on EAS routes.  Finally, Staff believes plant investment should be more stringently monitored and that no more revenue sharing money be used for improving the infrastructure.

Based upon the comments filed by the parties, we make the following findings, articulate the following policies, and set out a procedural schedule for treatment of certain issues.

1.  Continuation of the Plan:  Some of the comments discussed areas in which the Revenue Sharing Plan could be improved.  Others suggested replacing the Plan with a different form of regulation.  Several commenters suggested convening a workshop with industry participants to discuss revising the regulatory scheme under which U S WEST operates in southern Idaho.

The Revenue Sharing Plan has operated successfully over the past five years to bring substantial benefits to Idaho’s U S WEST ratepayers.  However, the emergence of competition and the speed of technological evolution within the telecommunications industry led us to undertake this  review of the Sharing Plan to insure it was meeting the needs of Title 61 ratepayers.  The comments filed in this case indicate a need for modification or replacement of the Plan.  We agree that an industry workshop should be established to discuss and recommend ways of either modifying the current Revenue Sharing Plan or creating a new method by which to regulate U S WEST’s southern Idaho operations.  The goal of the workshop should be a report outlining the design of a regulatory framework for Title 61 that, among other things, promotes universal service, effective competition, quality service, and fair rates for Title 61 customers.  The Staff should convene a workshop as soon as possible and create a time line that allows implementation of a modified or new form of regulation by January 1, 1996.  The report should be filed by June 1, 1995.  We anticipate that hearings will be held after the report is filed.  While we are not scheduling a hearing date at this time, the parties should expect an August date for prefiling testimony, with the hearing to be held in September.  We find that current the Revenue Sharing Plan should continue, until a final order is issued following the outcome of the workshop and hearings.

2.  Infrastructure Improvements:  As stated previously, the 1989 and 1990 revenue sharing money was returned to Title 61 customers in the form of one-time credits.  Most of the 1991, 1992 and 1993 revenue sharing money was used to partially fund U S WEST’s three-year modernization program called Technology Plus--Phase II (Tech II).  Under the Tech II program, U S WEST is enhancing the local networks of 45 targeted wire centers to provide a transmission rate of 9600 bits per second (bps) to at least 60% of the wire centers’ local lines.  U S WEST will achieve the 9600 bps transmission rate by deploying digital facilities on copper carrier or fiber optic cable systems.  Title 61 revenue sharing funds in the amount of $13.6 million are being used to improve the local network facilities of 30 small rural wire centers.  The Company has committed $24.7 million of its own money to upgrade the larger urban wire centers during the three-year project.  U S WEST is also spending $12.78 million to construct an alternate fiber route across its southern Idaho service territory.

Calendar year 1994 is the last year of the three-year local network modernization project.  Tech II has ensured that Idaho’s smallest and most rural communities have the same telecommunication attributes and capabilities as customers in Idaho’s larger urban areas.  Improving the local loop has benefitted and will continue to benefit Title 61 and Title 62 customers.  In addition to the Tech II project, U S WEST has converted all of its central offices to computerized switches(footnote: 3) and has predominantly digital inter-office service connections.  Several years ago, all customers were converted to one-party service and all customers now receive Touch Tone service.

The existing telecommunications network in southern Idaho is capable of providing excellent service to Title 61 customers.  Therefore, further upgrades or replacement of basic service facilities must be carefully reviewed to ensure they are necessary and beneficial for Title 61 services.  Telecommunications technology is evolving rapidly.  Yesterday’s options are today’s standards and will be surpassed by tomorrow’s choices.  Service providers and regulators alike face a daunting challenge to select the technology and facilities that will meet customer demand for a long enough service life to recover investment cost.  For example, fiber optic cable is the medium of choice in nearly all distribution plant and for inter-office transport.  But just a few years ago, companies were still using copper wire in the distribution facilities and microwave on inter-office routes.  Fortunately, modern technology can often provide more and better quality services at a lower cost and can support the multiple mediums of voice, video and text.

Finally, the delivery of telecommunication services is no longer limited to just the local telephone company. The transmission of information can be accomplished through a variety of entities such as local telephone companies, competitive access providers, electric utilities, cable TV companies and TV satellite systems.  Conversely, telephone providers have the technological ability to deliver video and data services.  Thus, regulation has the additional challenge to assign cost recovery of facilities installed for the purpose of providing non-telephone services or unregulated services to those services or to the companies’ stockholders.

Under the Revenue Sharing Plan, Title 61 ratepayers are somewhat insulated from plant costs unless the costs are specifically authorized by the Commission and paid for with Title 61 sharing money.  However, we agree with Staff’s comment that when an earnings calculation is based upon plant in service that has not yet been subjected to a prudency review and usefulness test, earnings may be understated and ratepayers may pay excessive rates.  Therefore, we find that the revenue sharing funds that accrue during the 1994 sharing year should not be used for infrastructure enhancements.  Further, we instruct workshop participants to devise a safeguard for Title 61 ratepayers to protect them from unreasonable plant upgrades and replacement under any regulatory scheme that is recommended to the Commission.

3.  EAS Funding and Equal Access:  Staff claims in its comments that the lost toll revenue replacement feature of the Revenue Sharing Plan is anti-competitive.  With this feature, when EAS is implemented, the net of U S WEST’s foregone toll revenue and access charge expense (paid to other local exchange companies or imputed to U S WEST) is recovered from Title 61 services.  Recovery is accomplished through a reduction in sharing funds due Title 61 services, if the funds can cover the revenue requirement, or through a rate increase on Title 61 services.

Lost toll recovery was appropriate in the initial stages of revenue sharing, due in part to the sharing calculation formula which relies upon the proportion of Title 61 and Title 62 revenue to total Company revenue.  If the Company loses a source of revenue, as when EAS is implemented, its proportion of Title 62 revenue will decrease and thus its share of total revenue growth will be reduced.  At the same time, U S WEST is required to impute the level of Title 62 revenue contribution in the base year to the sharing year in question, should that sharing year’s Title 62 revenue contribution drop below the base year level.

Other toll providers have criticized the revenue replacement mechanism of the Plan as being anti-competitive because U S WEST does not suffer a net revenue loss when the toll market is reduced by the creation of an EAS route, but these carriers lose revenues for any toll calls they carry on the EAS route.  Unquestionably, the Revenue Sharing Plan causes this consequence.  U S WEST may argue that this is not anti-competitive because no part of other toll carriers’ networks is under Commission regulation and other carriers do not have an agreement to share toll and other Title 62 revenue with Title 61 customers as a method of cost allocation.

We believe the fact that the mechanism creates an impression of anti-competitive action is sufficient reason to end the practice.  As stated previously, we are extending the Plan through 1995.  We find that one modification that will be necessary if revenue sharing is to continue beyond 1995 or if a new regulatory plan is implemented will be to end the mechanism that compensates U S WEST for lost toll revenues on any new EAS routes.

Discussion on EAS compensation brings to light a major issue the Commission regularly faces:  customers’ desire for relief from toll charges, especially on calls to their “community of interest” area(s).  This issue presents itself in the form of EAS petitions.  In virtually all of the petitions, a small, rural community is seeking toll-free service to a larger community in order to have free telephone access to what are deemed “essential services.”  These petitions have led the Commission to initiate a statewide investigation into EAS that has just completed its first phase.  See Case No. GNR-T-93-13.

We believe one method to reduce the pressure and need for more EAS routes is to promote greater competition among interexchange carriers.  Even though numerous toll carriers operate within southern Idaho, many routes appear to be without effective competition.  We believe toll competition can be promoted through the implementation of intraLATA equal access.  Equal access is a specialized form of originating access service provided to interexchange carriers.  The interconnection is equal in type and quality for all interexchange carriers.  Equal access services allow local exchange subscribers to route, by dialing “1” plus an area code and phone number, all of their interexchange communications to the interexchange carrier of their choice.  Equal access encourages competition because the dialing parity it provides allows interexchange carriers to compete for customers on the basis of price and quality. IntraLATA equal access does not exist within U S WEST’s southern Idaho operations.  As a consequence, only U S WEST’s toll services are used when a caller simply dials “1” plus  the called number.  To use a different service provider, a caller must dial between five and  eleven additional digits.  Because of the EAS requests the Commission is receiving and because one of the goals of the Telecommunications Act of 1988 is to promote competition for toll services, we believe that intra-LATA equal access must be implemented as soon as possible.  The customers of the other local exchange companies in the Boise LATA cannot access any service provider other than U S WEST when dialing “1” plus the called number; therefore, we find that a docket should be opened to address implementing equal access for intra-LATA toll calls within southern Idaho (the Boise LATA).  Notice of that docket will be sent to all local exchange companies and interexchange companies operating in the Boise LATA.

4.  Cost Allocation and Cross-Subsidization:  Under the broad category of regulated ratepayer protection, the Commission invited parties to comment on subsidy concerns and to evaluate the Plan’s success in ensuring that Title 61 rates are not providing revenue flows to   U S WEST’s Title 62 operations.   MCI, AT&T and the ICTA asserted that the Plan does not provide adequate assurance that subsidy flows will not occur.  They criticized the Plan’s use of Title 61 rates that are not based upon a  recent cost of service study and concluded  therefore, that there is no certainty they do not subsidize Title 62 services.  Relying on its earnings investigation results, Staff concluded that costs are being fairly allocated under the Plan and that Staff’s estimate of Title 61 services’ return on investment was within a range of reasonableness.  U S WEST was alone in alleging that basic local residence service was priced below its cost and that Title 62 services substantially contribute to Title 61 services.

When adopting the Plan, the Commission concluded that the rates in effect were reasonable and reflected a fair allocation of costs between the impending separated operations of Title 61 and Title 62.  Additionally, there was merit in adopting a regulatory framework that facilitated a smooth and expeditious transition to the new regulatory scheme created by the Telecommunications Act.

The Staff earnings investigation, while concluding that Title 61 services do not provide a cross-subsidy to Title 62 services, has not been subjected to the sort of rigorous analysis that accompanies a contested case proceeding.  Other parties provided comments suggesting a conclusion opposite from Staff’s could be reached if the question were fully litigated.  While not necessarily adopting the Staff finding, we find the record here is sufficient to conclude that the risk is low that a prohibited subsidy exists and it is not necessary to immediately prescribe a different allocation method.

We believe, however, that emerging competition for Title 62 telecommunications services and entry of U S WEST into non-telecommunications service provision such as video dialtone create incentives to use Title 61 operations’ to enhance the Company’s other operations.  These forces are straining the mechanisms of the Revenue Sharing Plan that are intended to prevent subsidy flows from Title 61 to other operations.  Therefore, as already described in this Order, workshop participants should strive to find a recommended plan of regulation by revising or replacing the existing Plan that will ensure Title 61 services do not enrich, subsidize or otherwise contribute to the Company’s non-Title 61 operations.

The Revenue Sharing Plan is itself a type of cost allocation.  As we have expressed, though, its adequacy has come into question.  Parties will have to consider what is the best allocation method to use in assigning a fair share of the costs of operating U S WEST’s growing network to Title 61 services.  We will not, at this time, specify the cost allocation method that should be used.  Staff’s Report and U S WEST’s Comments illustrate the vastly different outcomes possible based upon a method’s underlying assumptions and economic theory.  The workshop participants should explore ways to separate and/or allocate these costs consistent with their recommended regulatory scheme.

Of course, the largest cost of service is associated with the physical facilities or plant used to provide service.  The Staff and ICTA both advised that future investments in the U S WEST network should be carefully reviewed to determine their necessity for the provision of Title 61 services.  We share their concern that Title 61 rates could, in the future, be contributing to recovery of investment put into service wholly or largely to provide non-telecommunications services and/or Title 62 services.  Parties should recommend procedures to facilitate a review of plant investment with the goal of allocating to Title 61 services only that plant which is used and necessary for the provision of Title 61 services.

The following criteria or principles should be followed in an allocation method:

1)  Title 62 services must not be subsidized by Title 61 services, pursuant to I.C. § 62-613;

2)  Title 62 services must be assigned a reasonable portion of the common and joint network costs as well as general overhead costs.  In particular, all services using the local loop should be included in the allocation of the loop costs;

3)  Direct cost assignment must be used when facilities or other operating expenses are clearly necessary for only Title 61 or Title 62 services; when the level of costs is escalated beyond what is necessary for Title 61 service alone, the additional cost should be directly allocated to Title 62.

The total amount of some costs, such as depreciation expense and employee benefits expense, is largely determined by the accounting procedure employed.  For instance, U S WEST claims its depreciation rates are deficient by $54 million, on the basis of competitive positioning. As another example, Staff took exception to U S WEST’s booking of the FA 106 post-retirements other than pensions benefit as a one-time write off of $48 million.  To the extent the accounting treatment for these and other expenses can be agreed to in the workshop, the parties are encouraged to work toward that end.  Whether or not agreement is reached, however, the Commission intends to scrutinize these treatments for their reasonableness for a regulated service provider, albeit one which operates in a largely unregulated arena as well.

5.  Depreciation:   In its comments, U S WEST submits that the current capital recovery policies must be improved in order to lead to realistic asset lives as measured by technological evolution and emerging competition.  U S WEST maintains that depreciation lives which fail to keep pace with changing technology result in a depreciation reserve deficiency, i.e., a gap between the degree to which plant has been depreciated on the books and the amount that should have been depreciated given its age and life expectancy.  This deficiency, according to U S WEST, creates a disproportionate obligation for present and future customers to pay for  past investment.

Depreciation, like other expenses, is not a factor under the current revenue  sharing form of regulation.  The Company may, without our approval, use any depreciation rates it finds appropriate while revenue sharing operates.  We have not approved the depreciation rates suggested by U S WEST for any local exchange company and we do not believe that it is appropriate to accelerate depreciation rates on embedded plant used for regulated operations in order to replace it with new plant as a means to remain or become competitive in Title 62 or other non-regulated services.

 When the workshop convenes, it will be addressing various methods by which U S WEST’S southern Idaho operations should be regulated.  If the workshop recommends a return to traditional rate of return regulation, for example, depreciation is a factor that may need to be addressed.  And while it may be appropriate to address depreciation in such a context, nothing in our Order today should suggest that we have drawn any conclusions regarding the adequacy of U S WEST’s depreciation rates.

6.  Directory Revenue:  In its comments, U S WEST suggests that the Commission consider modifying the Plan to address the alleged flow of subsidies from advertising services to telephone operations.  More specifically, U S WEST recommends that telephone directory revenues be removed from the sharing formula and used to increase the Company’s depreciation reserve.  The Company characterizes this change as a small interim step that would address subsidy and capital recovery issues.

Since the inception of the Sharing Plan, the Commission has directed that Idaho directory revenues be included in the revenue sharing formula.  During the first two sharing years, directory revenue was allocated to Title 62 services.  In the 1991 sharing year, the Commission modified the Plan so that directory revenue was apportioned between both Title 61 and Title 62 services.   Order No. 23531.

While U S WEST’s depreciation rates may need to be addressed by the workshop depending upon which regulatory design is recommended, there is no need to link Idaho directory revenues to the Company’s depreciation reserve.  We adhere to our previous finding that “the benefit of the directory revenues themselves must continue to flow to the regulated services of the telephone operations.”  Order No. 22738, p.11.

7.Universal Service:  In its comments, MCI states that universal service goals must be explicitly defined and the associated costs quantified separately from the revenue requirement of the local exchange company.  MCI urges the adoption of funding methods that fairly share the  financial responsibility of universal service among all service providers.  Both U S WEST and the Staff note that prices for local service have stabilized under the Sharing Plan.  Both parties believe the rural zone charge credit has also reduced the cost of basic service for those customers located outside the basic rate area.

To ensure universal service, U S WEST suggests that revenue sharing funds be used to (1) provide credits to the zone or installation charges for customers qualifying for public assistance; (2) assist those too young to qualify for the Idaho Telephone Assistance Plan; and (3) establish a program whereby telephones are available for use in Community Actions Centers or similar locations.  Staff recommends that future sharing funds be used first to eliminate all rural zone charges, rather than providing yearly credits.  Staff recommends that revenue sharing money also be used to fund community outreach programs that would seek out those needing assistance to get on or remain on the telephone network.

Although the term “universal service” is used often in the telecommunications industry, there is no formal standard or uniform definition of the term.  It is generally accepted, and we agree, that at least some minimum set of telephone service should be physically available, economically affordable and technologically accessible to everyone.

Historically, the goal of universal service has been defined in terms of the penetration level of telephone service. While a high percentage of households (94%) in the United States have telephone service, the industry generally agrees that there are low penetration rates among certain groups and within certain areas.  In its comments, Staff informs us that data from the 1990 census indicate that although average Idaho subscribership is also 94%, subscribership levels in some Idaho counties are as low as 85%, with  even lower levels in some communities.  We find there is a need for the Commission and  the telecommunications industry to continue seeking the causes of low subscribership in Idaho  and taking the steps necessary to improve those levels.

We agree with Staff comments that the current Revenue Sharing Plan contributes  to the achievement of universal service through its rate freeze on local access rates.   The  one-time credits and the rural zone charge credits provided under the Plan have also been of  assistance. However, we believe more needs to be done.  Mileage charges and rural zone charges have been or are being eliminated by most local exchange companies in Idaho.  We believe the time has come for U S WEST to move in a similar direction.  We agree with Staff that rural zone charges hinder many who are trying to maintain or obtain telephone service.  We therefore find that rural zone charges should be discontinued after 1995.  The revenue reduction that will result from eliminating zone charges should be recognized by the workshop participants when discussing alternative forms of regulation.  We encourage the workshop to formulate further measures that (1) correct existing deficiencies in subscribership penetration levels; (2) insure financial assistance programs are maintained and even expanded; and (3) recognize and account for the changing technology beyond what is presently considered universal service.

8.  Service Quality:  Both the Staff and MCI urge the Commission to adopt quality of service standards and penalties for non-compliance with those standards.  By studying complaints and U S WEST reports, we have come to believe steps must be taken to stem an apparent downward slide in customer service.

Under traditional rate of return regulation, financial penalties for poor performance or incentives for superior performance would have been a potential consequence of any rate proceeding.  Under the current alternative regulation scheme, however, this incentive/penalty mechanism is absent.  Consequently, it appears that the importance of providing superior service has been discounted by U S WEST.  We note that when revenue sharing first began, Staff expressed concerns that service quality could suffer.  We acknowledged those concerns and put the Company on notice that the Commission would respond to any reduction in the quality of service enjoyed by U S WEST’s customers.  See Order No. 22738.

During the past few years, this Commission has been confronted with increasing evidence of a decline in the quality of service being offered by U S WEST.  As a result, the Commission asked Staff to begin an inquiry into the Company’s service quality.  On August 5, 1994, the Staff reported its findings as part of its comments on the Revenue Sharing Plan.  These findings serve to confirm what we believe has been occurring, namely, that there has been a decline over the last three years in the level of service offered by U S WEST.

The Commission believes that the root cause of these problems lies squarely with the Company’s cost cutting measures and its resulting inability to react to and manage changes.  By all appearances, the Company has chosen to reduce its employee numbers too quickly and too far in its attempt to become a more competitive organization.  For example, information provided by the Staff to the Commission shows that between 1991 and 1993, the number of U S WEST access lines increased from 331,038 to 362,578.  At the same time, the Company decreased the number of its field technicians from 244 to 218.  This results in an increase in the number of lines per technician from 1,357 to 1,663, or 22.5%.  In conjunction with the reductions in personnel, U S WEST has installed support systems that have either been too slow in developing or have not performed up to expectations.  This is not to say the Company is wrong in pursuing a more efficient and effective organization.  On the contrary, it has every right and obligation to do so.  However, efficiencies achieved at the expense of service quality are as unacceptable to this Commission as they are in the competitive marketplace.

This decline has shown up in a number of different areas.  Specifically, there has been a noticeable increase in the number of overall complaints.  In 1992, for example, the Commission received 34 service quality complaints from customers.  In 1993, that number had grown to 73, and in 1994 it had reached 74 by the end of November.  The number of held orders has shown a similar disturbing trend.  According to the Company’s own Basic Service Quality Indicators Report, the number of held orders on primary lines has increased from 31 at the end 1993 to 169 at the end of the third quarter of 1994.  In addition, there are an increased number of  complaints concerning the difficulty getting through to the repair bureau and to the business office, and the difficulty of arranging for prompt service repair, particularly out-of-service problems.  All of the above point to increasing customer dissatisfaction with the service provided by U S WEST.

For its part, U S WEST points to the growth in Idaho as well as other states as the reason why it has fallen behind.  We believe it is the responsibility of a well-managed company to anticipate and react to growth.  U S WEST also blames system problems as a cause of service difficulties.  Again, systems are tools of management and it is the responsibility of management to choose the proper tools and to use them wisely.

U S WEST service quality should not be in decline.  During the last decade, with the Commission’s endorsement, U S WEST has implemented a LATA-wide upgrade to single-party service, spent $65 million on the Tech Plus program and $52 million on the Tech II plan.  With this type of investment, the technical portion of the Company’s network should be among the best in the nation.  Unfortunately, many factors indicate that while technology was improving the mechanics of the local network, service quality has been and is still continuing to decline.  In the Company’s drive to cut costs and create efficiencies, it is evident that inadequate attention has been given to providing quality customer service. The Commission sees the quality of the Company’s service slipping and believes that something must be done to halt that slide.

With this in mind, the Commission asked the Staff to develop a set of service standards aimed at promoting improved service quality for U S WEST customers and to design a mechanism to be used for assessing penalties for non-compliance with these standards.  We have reviewed Staff’s proposal and propose it be adopted.

As proposed, the service quality standards will become effective for the 1995 sharing year (synchronous with the calendar year).  Specific penalties for non-attainment will be assessed against an amount of money to be placed “at risk.”  We have determined that twenty-five percent (25%) of Title 61 revenues will be placed at risk.  The amount of money at risk for the 1995 sharing year is to be calculated using the 1995 adjusted net revenue figure as reported by U S WEST on its annual Revenue Sharing Plan filing.  See e.g. Attachment A.  This figure is multiplied by the percent subject to disposition (currently 40.38%) to arrive at the portion of revenues attributable to Title 61 services.  In subsequent years, depending upon the form of regulation adopted, the amount of money “at risk” will require recalculation but should remain in the range of 25% of annual Title 61 revenue.  Attachment B is an example of the calculation of “at risk” revenues using data from the 1993 sharing year.  The 1995 sharing year’s Title 61 revenue at risk will likely be in the same range, i.e., $19 million.

The amount of the “at risk” figure and its significance is fully recognized by this Commission.  It reflects our previously stated concern with U S WEST’s service quality and our concern with the way in which the Company is handling its transition to a minimally regulated environment.  In its race to become what it believes it should be, the Company has lost sight of what it used to be and what this Commission believes it must be: a provider of quality basic service to all its customers.

Attachment C contains the proposed service quality standards for U S WEST for the 1995 sharing year.  The standards have been set using historical data from the Company as well as standards used in other states.  The measurements required for these standards are taken generally from U S WEST reports or systems, such as its Basic Service Quality Indicator Report and its Mechanized Force Management System, which is also used to measure compliance with service standards in Colorado.  These standards are stringent, but they are obtainable.  In many cases, such as held orders and trouble reports per 100 lines, they represent standards that the Company was achieving just a few years ago.  The standard for out-of-service reports cleared within twenty-four hours simply repeats what is currently part of the Commission’s own rules.  IDAPA 31.41.01.503.  The other standards are items which the Commission believes represent good customer service and reflect the types of complaints which have been received by the Idaho Commission as well as the other commissions in states served by U S WEST.

The weighting given to each particular standard reflects the relative importance that  the Commission attributes to each standard.  For example, greater importance has been attributed to the promptness with which the Company provides new service and repair.  We also note that these are also the areas where U S WEST has experienced the most decline.

Penalties will be assessed if the Company fails to achieve the standard in a particular category.  For example, if U S WEST exceeds a trouble report rate of 2.5 reports per 100 lines for residence customers, it will be assessed a penalty of 5% of the “at risk” amount.  Using the 1993 figures in Attachment B, that would be $966,324 ($19,326,473 x .05 = $966,324).  These penalties will be assessed as a credit to Title 61 customers.  This credit will be given in the bills sent to customers in the first billing cycle following the Commission order which determines the amount of 1995 revenue sharing funds.  The total dollar amount of penalties assessed shall be allocated to Title 61 ratepayers in addition to the growth revenues that are shared with Title 61 customers under the current Revenue Sharing Plan.  Any penalties assessed must be booked below the line.

It is evident from the general increase in customer complaints and the comments from customers concerning service outages that persist for more than 24 hours that the rule requiring a service credit for customers who are out of service more than 24 hours is not providing sufficient incentive to U S WEST.  Therefore, for U S WEST, we will expand on this rule and  require one month’s service credit for each consecutive 24 hour period a customer is out of service.  This credit should also be booked below the line.

Attachment D is an explanation of the standards and a brief rationale for each.  These are  important to avoid confusion as to what the Commission wants measured and how it wants it measured.  It is incumbent upon the Company to measure these standards accurately and consistently and to inform the Commission if there any difficulties in measurement either now or in the future.  U S WEST is to provide the Commission with a monthly report of its performance on these standards and is directed to work with the Commission Staff to ensure timely reporting.

As stated above, we are proposing that these service quality standards be adopted  beginning with the 1995 revenue sharing year.  All parties are invited to file comments discussing the standards and suggesting improvements or changes.  Persons shall have 28 days from the service date of this Order in which to file their comments.

The Commission is proposing what it considers to be dramatic action in an attempt to halt the reduction of service quality in U S WEST’s territory.  We do so reluctantly, but out of necessity.  Over the last three years, the Company has assured us that a number of programs it was instituting would improve service.  We assume that the Company has been well intentioned in these programs.  In spite of the Company’s assurances, we believe that U S WEST has reduced its workforce too fast and that the support systems put in place to enable these reductions have not worked as planned.   We believe there are many good people in the field working hard to provide good service.  However, we do not believe that these people are being given the support necessary from U S WEST to achieve this goal.  We hope that this Order will provide the incentive necessary to commit the resources required to achieve quality service within U S WEST’s southern Idaho service territory.

CONCLUSION

Since its inception in 1989, the Revenue Sharing Plan has brought substantial benefits to U S WEST’s ratepayers and has been a reasonable method of regulating U S WEST’s southern Idaho operations.  In reviewing the Plan, we have found that with emerging competition and rapid technological evolution, a different method of regulation may now be appropriate.  Consequently, we have determined that an industry workshop should be convened to recommend ways of either modifying the current Revenue Sharing Plan or creating a new method by which to regulate U S WEST’s Title 61 operations in southern Idaho.  The workshop participants will need to consider, among other things, the best method of allocating costs between Title 61 and Title 62 services under their recommended regulatory plan.  Because we are eliminating rural zone charges, the revenue loss associated with those charges will need to be recognized at the workshop when alternative forms of regulation are discussed.  The workshop is also directed to formulate measures that further the goal of universal service, as outlined in the body of this Order.  Until our review of revenue sharing is completed, the Revenue Sharing Plan will remain in effect.  The workshop report is due June 1, 1995.  We anticipate that prepared testimony will be filed in August, with a hearing to be held in September.

Based upon the comments filed, we find that infrastructure improvements will not be made using 1994 revenue sharing money.  To address concerns of anti-competitive mechanisms in the Plan, we hold that after 1995, U S WEST should not receive compensation for Title 62 revenues on EAS routes under any regulatory scheme.  Because of the need to open toll markets to effective competition, we find that intraLATA equal access should be implemented as soon as possible; a docket will be opened to pursue establishing equal access in southern Idaho (the Boise LATA).  Depreciation rates are not a factor in the current Revenue Sharing Plan; consequently, we decline to revise U S WEST’s depreciation rates in this proceeding.  We continue to adhere to our philosophy that U S WEST’s directory service is inexorably tied to its public service function as a provider of local telephone service and as such, revenue from that service should be included in revenue sharing.

Finally, we are proposing that specific service quality standards be adopted, effective for the 1995 sharing year.  These standards are intended to improve the level of service offered by U S WEST to its customers.   Penalties will be assessed against an amount of “at risk” money if the Company fails to meet the standards.  If the standards are attained, no penalty will be incurred.

We have made the decisions and taken the steps described in this Order after careful thought, discussion and deliberation.  We are confident that the industry workshop will be successful in formulating a new or revised regulatory plan for U S WEST and in addressing the items outlined above.  We are also optimistic that the proposed service quality standards will improve the level of service provided by U S WEST in southern Idaho and invite comments from the Company and interested persons on them.

O R D E R

IT IS THEREFORE ORDERED that the Revenue Sharing Plan continue through 1995. IT IS FURTHER ORDERED  that an industry workshop convene to develop a revised or new regulatory plan for U S WEST’s southern Idaho operations consistent with the terms of this Order.

IT IS FURTHER ORDERED that 1994 revenue sharing money not be used for infrastructure development.

IT IS FURTHER ORDERED that a docket be opened to establish the provision of equal access in southern Idaho (the Boise LATA).

IT IS FURTHER ORDERED that directory revenue remain in the Revenue Sharing Plan.

IT IS FURTHER ORDERED that U S WEST’s depreciation rates remain unchanged.

IT IS FURTHER ORDERED that the service quality standards addressed in and attached to this Order be proposed for adoption.  Persons have 28 days from the service date of this Order within which to file comments on the proposed standards and their implementation.  The comments should contain the case caption and case number shown on the first page of this document.

THIS IS A FINAL ORDER as to all issues but the proposed service quality standards.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. USW-S-94-3 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. USW-S-94-3.  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              day of December 1994.

MARSHA H. SMITH, PRESIDENT

DEAN J. MILLER, COMMISSIONER

RALPH NELSON, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

vld/O-USW-S-94-3.lm2

REPORT SUMMARY

U S WEST Communications

Southern Idaho Intrastate Operations

REVENUE SHARING PLAN: 1993 Filing

Line

No.LINE DESCRIPTION

1End of Period Access Lines

REPORTED REVENUES

2Local Revenues

3Network Access Revenue

4Long Distance Revenue

5Billing and Collection Revenue

6Miscellaneous Revenue

7Total Revenue Per 1961—1

ADJUSTMENTS TO REVENUE

8Adjustment Miscellaneous Revenue

9Total Idaho Directory Revenue

10FCC Deregulated Revenue

11Base Year Adjustment—Rates

12Uncollectibles

13Technology Plus Program

13aTech II Program

14Operator Services Revenues Growth

   (Base Year 1990)

15Prior Year Accrual of Shared Revenues

16Current Year Accrual of Shared Revenues

17Total Adjustments

18Adjusted Revenues

19Accumulated Net Changes

Separations, State and Federal

Taxes (Cumulative 1993 changes

   over 1988)

20Adjusted Net Revenues

21Average Net Revenues Per Line

22Base Year Average Net Revenue Per Line

23Increase/(Decrease) Per Line

24Percent Subject to Disposition

25Revenue Per Line Subject to Disposition

26Calculated Sharing

27EAS Revenue Adjustment

28Tech II Interstate Adjustment

29Total Sharing

FORMULA

L2 .. L6

L8 .. L6

L7 + L17

L18 + L19

L20 / L1

L21 Base Year

L21 - L22

Calculation

L23 \* L24

L25 \* L1

Stipulated

L26 + L27 + L28

19871993

BASESHARING

YEARYEAR

($000)($000)

295,307362,578

80,96093,653

7,97813,092

56,31961,359

242241

          8,015        (4,031)

153,514164,314

(4,511)8,038

13,52322,366

04,652

(7,000)0

(868)(1,632)

(9,854)0

0(3,403)

00

0(582)

               0          6,200

(8,710)35,639

144,804199,953

0(8,507)

144,804191,446

490.35 528.01

490.35490.35

   0.00   37.66

37.92% 40.38%

    0.00   15.21

5,514,293

(231,805)

237,000

  $5,519,488

U S WEST Communications

Calculation of Revenues at Risk to

Service Quality Standards

1993 Figures

Adjusted Net Revenues 1$191,446,000

Percent Subject to Disposition 2       x        40.38%

"Title 61" Revenues$  77,305,895

Percent of Revenue Subject to

 Service Quality Standards       x       25.00%

Total Revenue at Risk$  19,326,474

Note 1 - Figure taken from line 20 of U S WEST Communications

    Revenue Sharing Plan:  1993 Filing - Report Summary

Note 2 - Figure taken from line 24 of U S WEST Communications

 Revenue Sharing Plan:  1993 Filing - Report Summary

Quality of Service Standards

U S WEST Communications

Southern Idaho

Percent

1995of Revenue

Service Quality MeasurementsTargetat Risk

Repair

Trouble Reports/100 Lines

Res2.55.0%

Sm Bus2.05.0%

Percentage of Out-of-Service Reports

not Cleared within 24 Hours

Res10.0%7.5%

Sm Bus10.0%7.5%

Access to Repair Bureau

Percent of Busy Signals/Reorders

received

Res5.0%5.0%

Sm Bus5.0%5.0%

Percent of Calls Not Answered

by an Employee within 60 Seconds

Res10.0%5.0%

Sm Bus10.0%5.0%

Percent of Calls not Anwered

within 10 Minutes

Res0.2%5.0%

Sm Bus0.2%5.0%

Provisioning

Held Orders10010.0%

Orders for Service Receiving a Due Date

greater Than Two Days

Res25.0%7.5%

Sm Bus25.0%7.5%

Access to Business Office

Percent of Busy Signals/ Reorders

received

Res5.0%5.0%

Sm Bus5.0%5.0%

Percent of Calls Not Answered

by a Service Rep within 60 Seconds

Res5.0%5.0%

Sm Bus5.0%5.0%

  Total100.0%

Explanation and Rationale of Service Quality Standards

for Title 61 Residential and Small Business Customers

A.    Repair

1.  Trouble Reports / 100 Lines / Month :

This calculation is the total number of trouble reports by class of customer received by the Company divided by the total number of lines for that class of customer.  This figure should be calculated each month and at the end of the year the simple average for each month is then calculated.

Historically, the number of trouble reports per 100 lines is as follows:

1991199219931994 (Thru Aug.)

Res3.122.803.523.63

SmBus  -2.232.582.69

U S WEST's record on trouble reports over these years has been poor and the targets of 2.5 for residence and 2.0 for small business are not only achievable, but what customers should expect.

2.  Percentage of Out-of-Service Reports Not Cleared within 24 Hours:

This standard is already required by Commission Rule 503.  The credit currently required is expanded to require one month's service credit for each consecutive 24 hour period a customer is out of service.  The calculation should be done in accordance with IDAPA 31.41.01.503.03.

3.  Access to Repair Bureau:

a.  Percent of Busy Signals / Reorders Received:

This represents the percentage of customers who, in trying to call the repair center, either get a busy signal or are sent to reorder at the tandem or the originating central office.  This number is taken directly from the Company's mechanized force management system and is based upon a cumulative basis for the calendar year.

b.  Percent of Calls Not Answered by an Employee within 60 Seconds:

Once a call is answered by the Company's automated answering system, the percentage of calls that are not answered by a person (not simply voice mail) within sixty seconds.  Not included in this are calls which may be answered by a person simply to place a call on hold for an indeterminate period of time.  This number is taken directly from the Company's mechanized force management system and is based upon a cumulative basis for the calendar year.

c.  Percent of Calls Not Answered within 10 minutes:

Same criteria as in the category for calls answered in 60 seconds.  This number is taken directly from the Company's mechanized force management system and is based upon a cumulative basis for the calendar year.

The criteria for these access figures is derived at using standards set in other states, most notably Colorado.  The criteria for access within ten minutes is set at 0.2% because this is simply something that should never happen.

B.   Provisioning

1.  Held orders:

The average of the number of held orders at the end of each month for the calendar year.  This number should represent total held orders, i.e., both primary and additional lines.  An order is considered held if facilities cannot be assigned to it.  The held date should revert back to the date the order was initially taken.

The average total held orders for the first 10 months of 1993 was 104.  This is the most recent data available for total held orders.  The Company's Basic Service Quality Indicators Report for the first and second quarters of 1994 shows 92 and 134 held orders, respectively.  However, these numbers represent only primary lines so the number of total held orders is understated.

The level required in this standard is the level the Company was achieving two years ago.

2.  Orders for Service Receiving a Due Date Greater Than Two Days:

This standard includes any request for a primary or additional line regardless of the type of order, i.e., N, T, C, or any other order requiring an "I" action code.  The percentage need not include those orders where a customer requests a due date greater than two days.

The target of 25% is in line with the Company's average of 31% as reported in response to Staff's October 27, 1993  letter to U S WEST.  The percentage should go down as the Company implements quality improvement programs, such as Force-to-Load and Just Say When.

3.  Access to Business Office:

a.  Percent of Busy Signals / Reorders Received:

The percentage of customers who, in trying to call the business office, either get a busy signal or are sent to reorder at the tandem or the originating central office.  This number is taken directly from the Company's mechanized force management system and is based upon a cumulative basis for the calendar year.

b.  Percent of Calls Not Answered by an Employee within 60 Seconds:

The percentage of calls that are not answered by a person (not simply voice mail) within sixty seconds, once a call is answered by the Company's automated answering system.  For the purposes of this standard, calls which may be answered by a person simply to place a call on hold for an indeterminate period of time are considered unanswered.  This number is taken directly from the Company's mechanized force management system and is based upon a cumulative basis for the calendar year.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE EVALUATION OF)

U S WEST COMMUNICATIONS’ REVENUE)CASE NO. USW-S-94-3

SHARING PLAN FOR THE FIRST FIVE)

YEARS OF OPERATION.)     ERRATA TO

                                                                  )ORDER NO. 25826

Page 1, First Paragraph, Fifth and Sixth Sentences

READ:

             . . .and therefore find that a docket should be opened to establish the provision of equal access in southern Idaho (the Boise LATA).  We reject the Company's proposals to remove directory revenue from the Revenue Sharing Plan and to revise its depreciation rates.

SHOULD READ:

            . . .and therefore find that a docket should be opened to address establishing the provision of equal access in southern Idaho (the Boise LATA).  We reject the Company's proposals to remove directory revenue from the Revenue Sharing Plan and decline to revise its depreciation rates in this docket.

Page 18, last line

READS:

. . .after 1995, U S WEST should not receive compensation for Title 62revenues on EAS routes under any regulatory scheme.

SHOULD READ:

. . .after 1995, U S WEST should not receive compensation for toll revenues on EAS routes under any regulatory scheme.

Page 19, Sixth full Paragraph

READS:

IT IS FURTHER ORDERED that a docket be opened to establish the provision of equal access in southern Idaho (the Boise LATA).

SHOULD READ:

IT IS FURTHER ORDERED that a docket be opened to address establishing the provision of equal access in southern Idaho (the Boise LATA).

Page 20, First Paragraph

READS:

IT IS FURTHER ORDERED that U S WEST's depreciation rates remain unchanged.

SHOULD READ:

IT IS FURTHER ORDERED that we decline to review U S WEST's depreciation rates in this docket.

Attachment C under “Provisioning”

READS:

Orders for Service Receiving a Due Date Greater Than Two Days

SHOULD READ:

Orders for Service Not Completed in Two Days From Date Taken

Attachment D, Page 3, Paragraph 2

READS:

2.  Orders for Service Receiving a Due Date Greater Than Two Days:

SHOULD READ:

2.  Orders for Service Not Completed in Two Days From Date Taken:

DATED at Boise, Idaho this              day of December 1994.

Myrna J. Walters

Commission Secretary

JR\N-USW-S-94-3.LM

**FOOTNOTES**

1:

 The Commission’s traditional regulatory authority is found in Title 61 of the Idaho Code.  The Idaho Telecommunications Act of 1988 added a new chapter to Title 62 of the Code and created a modified form of regulation for telephone companies providing other than basic local exchange services in Idaho.  Basic local exchange service for residential and small business customers (five or fewer access lines) remains under the Commission’s Title 61 ratesetting authority.  In March 1989, U S WEST elected to remove its non-basic local services from the Commission’s Title 61 ratesetting authority.  U S WEST’s non-basic services provided in southern Idaho are now subject to the Commission’s Title 62 jurisdiction.

2:

The term “1+ equal access denotes the ability of a caller to have all interexchange calls automatically routed to the caller’s pre-selected long distance service provider when the caller dials “1” plus the area code and a seven digit telephone number.

3:

A few switches are analog technology; the rest are digital.