DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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WORKING FILE

FROM:JOE CUSICK

DON HOWELL

DATE:APRIL 23, 1996

SUBJECT:COMMENTS ON CASE NO. USW-S-95-4.

BACKGROUND

In March 1995, the Commission initiated Case No. USW-S-95-4 directing the Staff and U S WEST to modify the Revenue Sharing Plan or to suggest an appropriate replacement to the Plan.  In October 1995, the Staff and U S WEST submitted a joint proposal in which they urged the Commission to adopt a new regulatory plan (New Plan) to replace the Revenue Sharing Plan.  The New Plan proposal contained service quality standards for               U S WEST.  It also provided that U S WEST could increase its monthly one-party residential rate by $1.00 each year over a three-year period if the Company met escalating measurements for service quality standards.  The increase in the  residential rate would be offset by reduced long-distance (MTS) rates.  Adoption of the New Plan would also eliminate rural mileage charges and continue the service guarantee program recently implemented by U S WEST.  The Staff and the Company discussed alternatives to the Revenue Sharing Plan EAS compensation component in their negotiations, but that issue was not addressed the New Plan.

On February 7, 1996, MCI Telecommunications requested that the Commission issue an order rejecting the New Plan submitted by the Staff and U S WEST.  MCI maintained that various provisions of the New Plan were inconsistent with the subsequently enacted federal Telecommunications Act of 1996.  Rather than responding to MCI’s motion, U S WEST requested the Commission authorize the Company to voluntarily withdraw the New Plan.  Given enactment of the Federal Telecommunications Act, U S WEST insisted that implementation of the New Plan was no longer appropriate.  U S WEST asserted that if allowed to withdraw the New Plan, it would take the necessary steps to file a general rate case.

In Order No. 26395 issued April 2, 1996, the Commission authorized the withdrawal of the New Plan.  Given U S WEST’s declaration that it would file a general rate case, the Commission questioned whether there was a need to continue efforts to modify or replace the Revenue Sharing Plan.  The Commission also invited the parties to submit written comments on how the issues of service quality and EAS compensation can be addressed.  The Commission requested that interested parties file comments no later than April 16, 1996.

COMMENTS

Comments were received from MCI Telecommunications on April 17 and GTE Northwest Incorporated on April 22.

MCI suggested that the Commission “adopt a comprehensive strategy for addressing the many policy and related issues that are unresolved in Idaho.”  In its comments, MCI suggested seven specific measures to be undertaken.  These measures are as follows:

1.Take steps to bring Case No. GNR-T-94-5, In the Matter of Provision of IntraLATA Equal Access and Carrier Presubscription in Idaho, to a speedy conclusion.

2.Approve AT&T’s application to provide local service (Case No.  ATT-T-96-1).

3.Require interconnection agreements to be filed with the Commission.

4.Use the anticipated U S WEST rate case as the vehicle to address quality of service issues.

5.Prepare to implement FCC interconnection guidelines.

6.Create a process to receive interested parties’ suggestions for legislation.

7.Examine requests for Extended Area Service (EAS) in the context of the Telecommunications Act of 1996.

GTE Northwest’s comments focused on service quality and toll compensation.  On the subject of service quality, GTE stated its belief that the emerging competitive marketplace will take care of the issue of service quality.  The company suggests that, “[i]n the new competitive arena, customers will have optional carriers from which to choose.  Accordingly, if a telecommunications company provides questionable service, the customer will leave and obtain services from a competitor.”

On the subject of toll compensation, GTE believes that when an EAS is granted, the LEC should recover all of its appropriate costs including lost toll revenue.  It further states that if full recovery is not allowed in EAS conversions, a taking or confiscation or property argument can arise.

STIPULATION

On April 17, 1996, a stipulation was submitted by the Commission Staff and U S WEST in response to Order No. 26395.  In general, the stipulation covered the disbursement of revenue sharing funds and a proposal for implementing EAS calling regions in U S WEST’s southern Idaho territory.  The main points of the stipulation are as follows:

∙The Revenue Sharing Plan is terminated as of the date of the agreement.

∙U S WEST notifies the Commission of its intent to file a general rate case by September 30, 1996.

∙The Staff and U S WEST urge closure of Case No. USW-S-95-4.

∙The Staff and U S WEST agree that the 1995 Revenue Sharing funds will include the following elements:

Title 61 growth over the base year in the amount of $7,500,000.

$652,000 in Tech II funds from the exchanges that were sold in          USW-S-94-4.

$1,228,215 NPV of Tech II funds which were assigned to the interstate jurisdiction.

∙Agreement on the amount of $1,500,000 for 1996 Revenue Sharing funds

∙U S WEST agrees to pay interest on 1995 Revenues Sharing funds at the rate of 5.44% until September 30, 1996.

∙Continued funding of the $1.60 zone credit.

∙Elimination of monthly zone charges as EAS is implemented in each region.

∙$105,000 to U S WEST for those routes granted EAS during the Revenue Sharing Plan.

∙Implementation of the following EAS regions in U S WEST’s southern Idaho area:

Boise region - Boise, Eagle, Idaho City, Middleton, Emmett, Caldwell, Melba, Nampa, Star, Kuna, and Meridian.

Twin Falls region - Twin Falls, Jerome, Buhl, Castleford, Hagerman, Dietrich, Shoshone, Gooding, Bliss, Kimberly, Hazelton, Eden, Murtaugh, and Wendell

Pocatello region - Pocatello, Inkom, American Falls, Lava Hot Springs, McCammon, Downey, Grace, Bancroft, and Soda Springs

Idaho Falls region - Idaho Falls, Rigby, Ririe, Roberts, Blackfoot, Shelley, Firth, and Rexburg

∙Compensation for EAS implementation based on rate of $.082 per minute for each originating and terminating toll minute in the affected exchanges.

∙Reimbursement to U S WEST of the capital costs of implementing the EAS regions up to $1,500,000.

∙Establish a new Rate Group 3 for the EAS regions.

∙All monies not required for zone credits and capital costs will be put towards offsetting the new Rate Group 3 rates as EAS is implemented in a region.

∙U S WEST agrees to voluntarily continue its Service Guarantee Program.

∙Complete EAS hearing by June 1996.

QUALITY OF SERVICE COMMENTS BY STAFF AND U S WEST

The Commission Staff and U S WEST could not reach agreement on service quality issues and filed separate comments.  In its comments, the Staff contends that, although it believes that U S WEST still has service quality problems, the best course of action at this time would be to open a rulemaking docket to develop service quality standards for all local exchange providers.  This would allow incumbents, new entrants and the public to effectively participate.

The Staff also stated that if standards are examined for all LECs, then the existing service quality USW-S-95-2 (on hold since the filing of the “New Plan”) could be closed.

U S WEST, like GTE Northwest, believes that Commission-dictated standards are inappropriate in the new telecommunications environment and that competition will dictate what service quality standards the public desires.

PROPOSED TIMETABLE

In order to address the comments of MCI and GTE Northwest and the stipulation between the Staff and U S WEST, Staff proposes the following timetable:

Prefile Direct Testimony (Staff & USW)May 6, 1996

Intervenor TestimonyMay 31, 1996

Public Hearings (Twin, Pocatello, Id Falls)June 13,14, 1996

Public Hearing (Treasure Valley)June 19, 1996

Technical HearingJune 21, 1996

The scope of this hearing would be to examine the termination of the Revenue Sharing case (USW-S-95-4); the EAS routes/regions; the EAS cost recovery mechanism; and rate group adjustments ((USW-S-96-4).  The Staff contemplates that the disposition of the 1995 revenue sharing funds (USW-S-96-3) would coincide with this schedule.

COMMISSION DECISION

Does the Commission wish to close USW-S-95-2 at this time?

Does the Commission wish to close USW-S-95-4 at this time?

Does the Commission wish to adopt the proposed timetable?

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Joe Cusick

jwc:gdk/usws954.dmj/utelcomm