WELDON B. STUTZMAN

DEPUTY ATTORNEY GENERAL

IDAHO PUBLIC UTILITIES COMMISSION

472 WEST WASHINGTON STREET

PO BOX 83720

BOISE,  IDAHO  83720-0074

(208) 334-0318

Street Address for Express Mail:

472 W WASHINGTON

BOISE ID  83702-5983

Attorney for the Commission Staff

BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE JOINT)

APPLICATION OF U S WEST COMMUN-)CASE  NO.  USW-S-95-5/ CATIONS, INC. AND FARMERS MUTUAL )               FMT-T-95-1

TELEPHONE COMPANY, INC. FOR)

TRANSFER OF A CERTIFICATE OF)COMMENTS OF

AUTHORITY.)THE COMMISSION

 )STAFF

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COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and    through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and     submits the following comments for the Commission’s consideration in Case                 Nos. USW-S-95-5/FMT-T-95-1.

BACKGROUND

On August 1, 1995, U S WEST Communications, Inc. (U S WEST) and Farmers Mutual Telephone Company (Farmers) filed a joint application for transfer of a certificate of authority.  In the application, the companies seek Commission approval of the sale of

U S WEST’s Idaho portion of its Nyssa, Oregon exchange known as NuAcres to Farmers.

NuAcres is an area directly east of the Snake River containing 176 customers with 165 residence lines and 24 business lines.  There is no town or school within its borders.  The area is primarily within Payette county with a small portion contained in Canyon county.  Most of the children attend schools in the Fruitland school district.  The northern border of this exchange is contiguous to Farmers’ Fruitland exchange.

The assets being sold in this sale are distribution (outside) plant.  There is no central office in this area and the NuAcres customers are served by the Nyssa switch.

CONSUMER ISSUES

Farmers has a business office located in Fruitland.  It can provide daily installation, repair and maintenance to NuAcres customers.  U S WEST currently provides repair and installation service in response to customers’ requests using personnel from the Payette and New Plymouth areas.  Even though Farmers does not plan to add any additional employees, its nine full-time employees should be able to provide adequate service to the additional 189 lines without any deterioration in the level of customer service.

U S WEST’s complaint record in the NuAcres exchange has been excellent.  The Commission received only three customer complaints and inquiries between January 1990 and September 1995 for this exchange.  Currently there are no held orders.  The Commission has not received any complaints from Farmers’ customers during this same time period.  Farmers also has no held orders.

NuAcres customers will experience an immediate rate increase as a result of this sale because the $1.60 rural zone charge credit they now receive as a benefit of U S WEST’s revenue sharing plan will no longer be available.  To obtain service from Farmers, each customer in the NuAcres exchange will be required to purchase a share of stock at a cost of $25 per access line.  The total revenue to be gained from these stock purchases is $4725.  Owning stock is a requirement for customers to continue receiving phone service according to Farmers’ By-Laws, Article No. 2.  Staff opposes this requirement unless the NuAcres customers’ rates are lowered to the rate charged by Farmers for its Fruitland customers.

The joint application by U S WEST and Farmers did not include verification of individual customer notice.  Pursuant to Idaho Code § 61-307, the public should be given   30 days in which to comment after receiving notice regarding the possible change of  its local telephone company.  On September 22, 1995 a copy of the individual notice to NuAcres customers was delivered to the Commission.  U S WEST has verbally assured Staff that notice was mailed to NuAcres customers on September 22, 1995.  To date the Commission has received one letter supporting the sale to Farmers.  Because the notice to individual customers was delayed, Staff recommends the Commission accept comments from customers until a public hearing is held.

In the event the sale of this exchange is approved, U S WEST should send each customer involved a final bill.  If a customer had good credit with U S WEST, the final bill must contain or be accompanied by a statement that the customer had good credit with the company as required by the Telephone Customer Relations Rules (IDAPA 31.41.01205) for customers who voluntarily terminate service with a local exchange company.  Customer deposits and the accrued interest on deposits must be credited to the final bill.  The balance of the deposit remaining, if any, must be returned promptly to the customer.  See IDAPA 31.41.01107.

The Applicants have requested the Joint Application be processed under Modified Procedure.  Staff does not oppose this process; however, we recommend that a public hearing be held in Fruitland so that customers in the NuAcres exchange have an opportunity to express their views on the proposed sale of this exchange.

CALCULATION OF GAIN

The calculation of the gain is shown in Exhibit 101.  First, it calculates a total gain of $100,622 on the sale of the assets utilizing the traditional calculation methodology.  Second, it allocates the total gain between the interstate and the intrastate jurisdictions utilizing the average separations factor for southern Idaho.  The Idaho intrastate share of the gain is $70,234.  Third, it calculates a $64,615 Idaho intrastate gain net of income tax utilizing the statutory income tax rate.  Finally, it allocates the Idaho intrastate gain between Title 61 and Title 62 regulatory oversight jurisdictions.

This sale is unique from other sales in that there is only one category of plant

in the NuAcres exchange that is being sold -- buried cable.  These facilities are almost entirely associated with local service, Title 61 type services, and point to a discrepancy with the allocation of gain based entirely on Title 61/62 revenues.  Splitting the gain based solely on revenues as recommended by the Staff in USW-S-94-4 too heavily favors Title 62 ratepayers and disadvantages Title 61 customers.  In this sale, Title 61 would receive only forty percent of the gain from the sale of buried plant if the Title 61/62 revenue allocation is used alone.  This demonstrates that the use of revenues alone may be insufficient as an allocator.

The allocation ratio used in Exhibit 101 is determined by two factors -- the ratio of the Title 61/62 revenue as determined by the revenue sharing plan, and the ratio of the

Title 61/62 access line count.  There are 183 Title 61 lines and six Title 62 lines in NuAcres.  Traditionally, allocation factors that do not have direct causal relationships are an average factor of more than one ratio.  For example, there are three ratios (revenue, payroll, and investment) averaged to calculate the allocation factor for the Multi-State tax compact.  In this case investment must be allocated, so it is not available as an allocator.  Also, payroll related to the area being sold is not available in the records, so it cannot be used as an allocator.  Thus the only ratios available to create a blended allocation factor are average revenue and the actual line counts.

FINANCIAL ANALYSIS

Staff has examined the balance sheet and income statements for Farmers for the years 1991 through 1994.  These all show that the company is in a strong financial position to acquire the NuAcres exchange.

Exhibit No. 102 is the 1994 balance sheet.  Calendar year 1994 is the most recent period for which Farmers has audited financial statements available.  The company’s witness, Jay Garrett, has stated that Farmers will pay for the NuAcres exchange with current operating reserve funds.  An examination of the balance sheets indicates that Farmers has the capital to do this.  In 1994, the company had funds in cash and temporary investments of $732,169, which should provide adequate capital for the purchase and the service improvements planned by Farmers.

The income statement for 1994 is shown in Exhibit No. 103.  This exhibit shows Farmers’ income statement for 1994 in the left column.  The other columns incorporate proforma adjustments to the income statements, including projected revenues and expenses from the NuAcres exchange.  One column shows revenues at U S WEST rates and the other at Farmers’ current rates.

Exhibit No. 103 shows that, using the current U S WEST rates, Farmers should see an increase in operating margins from the purchase.  If its current rates are used, it is possible Farmers could see a slight decrease in operating margins, but it is more likely even then that the company would see an increase.  Because no calling data is available, neither of the projections contain estimates for interstate switched access revenues from NuAcres.  If these revenues were included, increased revenues would result which would improve the operating margin for the company, even using Farmers’ current rates.

LOCAL RATES

Farmers has stated that it intends to charge the NuAcres customers the U S WEST rates that are in effect at the time the sale is completed.  Basic rates for U S WEST’s NuAcres customers are $11.07 for residence and $28.63 (including ITAP and USF surcharges) for business.  In addition, all NuAcres customers pay the $3.19 zone charge (less a $1.60 credit), and multi-line business customers are subject to an additional monthly charge of $8.00 per line for hunting service.  The U S WEST NuAcres rates are higher than rates for both residence and business customers of Farmers, who currently pay $6.75 per month for basic service.

In its response to Staff Interrogatory Question No. 2, Farmers stated that it does not have a set period of time that it intends to charge the NuAcres customers the higher

U S WEST rates.  Staff  believes that a time limit should be set for charging these higher rates.  Farmers stated it needs to recover its costs created by the purchase before it can lower the NuAcres rates.  Based upon the premium NuAcres is paying for the exchange and the increased revenue that Farmers will be receiving from this sale, Staff believes that three years is a reasonable period for Farmers to recover the premium amount by charging the higher U S WEST rates.  Exhibit No. 104 is a calculation of this payback period and a comparison of U S WEST and Farmers rates.

Staff is also concerned that the NuAcres customers will be losing the $1.60 zone charge credit when the sale is completed.  Staff believes the sale should be structured so that the NuAcres customers will be paying no more than they are currently paying; i.e., the net of the $3.19 zone increment and the $1.60 credit.

EXTENDED AREA SERVICE  (EAS)

NuAcres customers currently have local calling to Fruitland and to the Oregon exchanges of Nyssa, Ontario, and Vale.  Farmers’ customers have EAS between Fruitland, New Plymouth, Payette and Ontario, Oregon.  Farmers intends to grant the NuAcres customers EAS to New Plymouth and Payette.  U S WEST has also stated its intention to reciprocate by extending EAS from Payette and New Plymouth to the NuAcres exchange.

Staff believes this represents a significant improvement in the local calling area for the NuAcres customers.  This is an increase of more than 5000 lines in the local calling area.  Most of the NuAcres customers live in Payette County, and thus will have local calling to their county seat in Payette.

Staff’s sole concern on EAS is the current petition of the customers in the Parma - Wilder area who are asking for EAS to NuAcres and Caldwell in Case No. GNR-T-93-11.  If this sale is approved, NuAcres customers will no longer be under the jurisdiction of this Commission.  However, because the EAS petition was filed prior to the application by        U S WEST and Farmers in this case, Staff believes that Farmers should be required to abide by whatever the Commission decides in the EAS case.

USE OF GAIN

As Staff has previously stated, it believes that the NuAcres customers should not be required to pay the $25 stock purchase fee as part of the sale.  However, Staff also believes that this sale has long-term benefits to the NuAcres customers in the form of lower rates and improved services and would like to see it facilitated.  To that end, Staff recommends that a portion of the gain be used to offset this fee.  As stated before, this would amount to approximately $4725.  This amount should be taken from the intrastate portion of the gain prior to making the allocation between Title 61 and Title 62.

As to the remainder of the gain, Staff believes that it should be paid into the Idaho Universal Service Fund (IUSF).  The reason for this is a practical one.  Using Staff’s method of allocation, the gain attributable to Title 61 customers is approximately $44,000.  This amount would do little towards purchasing assets that would benefit Idaho ratepayers in general or the ratepayers of NuAcres.  Placing the gain in the IUSF, however, would allow the gain to be used in a manner that would benefit all Idaho ratepayers.

STAFF RECOMMENDATION

After an examination of this case, Staff believes this sale is in the public’s interest and should be approved when four stipulations are met.  First, Farmers should agree to maintain U S WEST rates for a maximum period of three years from the date of the sale.  Second, Farmers should stipulate to abide by the findings of any EAS case that was filed prior to the date of the application in the case.  Third, NuAcres customers should be charged no more than $1.59 ($3.19 less $1.60 credit) for zone charges.  Fourth, customers should not have to pay the $25 stock purchase fee upon sale of the exchange unless their rates are equal to Farmers’ rates.  Staff recommends that this requirement be waived or, as an alternative, paid for from the gain on the sale.

With these conditions, Staff believes the sale is in the public interest.  As a result of this sale, the NuAcres customers will gain 5000 lines in their local calling area, including toll-free service to their county seat, and can also expect a better grade of service.  NuAcres did not receive plant improvements under the Tech II plan.  However, Farmers has stated it will place a central office in this area connected to its Fruitland office by fiber optic cable.  This should provide the NuAcres customers with service at least as good as would have been available under the Tech II plan.  The sale of this exchange will also mean that the NuAcres customers will have a business office twelve miles away in Fruitland.

Finally, the sale eventually should result in lower rates for the current NuAcres customers.  Unlike the exchanges that were being sold in USW-S-94-4, Farmers has significantly lower local rates than U S WEST.  If Farmers continues U S WEST’s rates for no more than three years, the NuAcres customers could see their rates decrease dramatically after that period.

DATED  at Boise, Idaho, this            day of October, 1994.

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Weldon B. Stutzman

Deputy Attorney General

cc:jwc:sl/usws955.ws/cm/umisc