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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION)

OF U S WEST COMMUNICATIONS, INC.)CASE  NO.  USW-T-97-3

TARIFF ADVICE NO. 96-10-N TO )

RESTRUCTURE LOCAL TRANSPORT)COMMENTS OF THE

CHARGES.)COMMISSION STAFF

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PURSUANT tothe Commission's Amended Notice of Modified Procedure issued in this case on February 19, 1997, the Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Brad Purdy, Deputy Attorney General, hereby submits the following comments in response to U S WEST Communications, Inc.’s proposed tariff revisions restructuring local transport charges.

BACKGROUND

On December 18, 1996, U S WEST filed Tariff Advice 96-10-N to completely restructure its Northern Idaho Access Service Tariff.  The proposed tariff effectively unbundles that portion of Access Service known as “local transport.”  The result is that the Transport rates are generally reduced, the Local Switching (LS) portion remains generally the same and Carrier Common Line (CCL) rates are increased.  The proposed restructure is intended to completely replace the existing Access Service Tariff and is comparable to a Southern Idaho Access Tariff revision made under Title 62 earlier in 1996.  On January 15, 1997 the Commission issued Order No. 26770 suspending the effective date of U S WEST’s proposed tariff and issued a Notice of Modified Procedure and an Amended notice soliciting comments in response to the Company’s filing.  Staff’s comments in response to the filing follow.

ACCESS SERVICES

Access Services are provided by U S WEST to customers (e.g., interexchange carriers) for provision of long distance telecommunication services to others and for nonresale use of some services.  Switched Access Service provides for the use of facilities for originating and terminating calls, switching and transport facilities and common subscriber plant of the Company.  The service is composed of three rate elements: switching, transport and carrier common line.  A drawing showing examples of present and proposed configurations and rate elements is attached as Attachment A.

Local Switching

Local Switching provides the local end office switching, end user line termination and intercept functions.  It is available in two classes: LS1 for Feature Group A and B switching and LS2 for Feature Group C and D use.  Currently, the rates are:

     Peak Rates   Off-Peak Rates

Per Access MinutePer Access Minute

LS1 and LS2$0.0177$0.01062

U S WEST proposes to change this rate to $0.014308 per access minute for both classes and proposes to discontinue the off-peak discount.  U S WEST provided Staff with proprietary detailed analyses of each of its five largest customers in northern Idaho and these analyses show that this change of rate generally results in a decrease to the customers of less than 1% on their local switching costs.

Transport Facilities

Transport Facilities are that part of access that connects two wire centers.  In the existing tariff, local transport charges are distance-sensitive and are as follows:

Peak Period RatesOff-Peak Period Rates

Call MilesPer Access MinutePer Access Minute

0 to 1 mile$0.0070$0.0042

over 1 to 8  0.0188  0.0113

over 8 to 16  0.0305  0.0183

over 16 to 25  0.0423  0.0254

over 25 to 50  0.0540  0.0324

over 50 to 100  0.0657  0.0394

Over 100  0.0775  0.0465

The weighted average rate per minute using these rates, according to the information provided by U S WEST, is $0.0370.

U S WEST contemplates “unbundling” these rates and proposes three components of the transport element:  Entrance Facility (EF), Direct-Trunked Transport (DTT), and/or Tandem-Switched Transport (TST) facility which permits the transport of originating and terminating calls.

Entrance Facility provides the communication path between an Interexchange Carrier’s (IXC) premises and the switching center for the sole use of the IXC.  The Entrance Facility would be one of the following:

Monthly Rate

Voice Grade (per point of termination)$    35.20

DS1     125.00

DS3  1,350.00

Optical Interface (per DS3)     943.50

Direct Trunked Transport provides transport on circuits dedicated to the use of a single IXC.  No tandem switching is provided.  The Direct-Trunked Transport element is composed of a monthly fixed rate, which provides the circuit equipment at the ends of the transmission paths, and a per-mile rate, which provides the transmission facilities between end points of the circuit.

Mileage BandsFixedPer Mile

1.Voice Grade

0 to 50 miles$26.00$ 0.17

over 50 miles$26.00$ 0.22

2.DS1

0 to 8 miles$  86.50$13.55

over 8 to 25 miles$111.21$14.38

over 25 to 50 miles$116.35$14.51

over 50 miles$130.00$15.05

3.DS3

0 to 25 miles$724.84$78.90

over 25 to 50 miles$724.84$80.73

over 50 miles$815.44$91.74

Tandem-Switched Transport provides transmission facilities between the IXC and end office switch via the LEC’s access tandems.  It consists of dedicated circuits and circuits used in common by multiple customers.  Its rate elements are composed of a fixed minute-of-use rate to provide the circuit equipment at the end of the interoffice transmission paths; a per-mile/per minute-of-use rate which provides the transmission facilities between the end points of the interoffice circuits, and a tandem switching minute of use.

Mileage BandsFixedPer Mile

0 to 8 miles$0.000431$0.000022

over 8 to 25 miles$0.000480$0.000023

over 25 to 50 miles$0.000490$0.000023

over 50 miles$0.000551$0.000024

Tandem Switching Charge$0.0030/minute

A review of the proprietary data provided by U S WEST indicates that each of the five largest northern Idaho customers would see an approximate 90% reduction in transport rates under

U S WEST’s proposed plan.

Carrier Common Line Access

Carrier Common Line Access is the “local loop” access from the IXC to the end user’s home or business premises.  Current and proposed CCL rates are:

 Current Proposed

Per MinutePer Minute

Terminating  $0.0407$0.077589

Originating       0.0202  0.057089

U S WEST’s data regarding its five largest customers in northern Idaho indicates that customers may see an increase in CCL costs ranging from 104% to 128% as a result of these rate changes.

U S WEST submitted rates for Message Unit Credit although there are currently no customers for this credit.  It also priced DS2/DS3 and DS2/VG multiplexors.  These rates are included in the interexchange carrier’s access rates.  Additionally, the Company proposed some revised regulations regarding sent-paid pay telephone operations and Common Channel Signaling Network as well as miscellaneous billing and testing procedures.

DISCUSSION

U S WEST - Northern is a Title 61 company and is rate-of-return regulated.  As such, Staff’s main concerns are that U S WEST’s filing be revenue neutral so there is no increase or decrease in the revenue to meet the company’s requirement and that no customers are unjustly disadvantaged by this rate.

U S WEST submitted a worksheet showing the net effect these access rate changes would have on IXCs.  The worksheet assumptions were based on November 1996 traffic and configurations and it showed a company-by-company effect.  The worksheets showed that some companies’ costs would increase under the proposed tariff, while other companies’ costs would decrease; the overall revenue effect for U S WEST-Northern is one of revenue neutrality.

The nature of the access tariff structure makes the revenue neutrality assumption tenuous, however.  Companies will generally configure their networks in the way that is best for them.  If rates shift, it is likely that their network configurations will shift to adjust to the new rates.  Hypothetically, where it might have been advantageous under the current tariff to process many calls using switched access, if switched access rates increase, it may prove more economical for IXCs to consolidate their traffic on dedicated access facilities.  If  IXCs make this change to their configuration in order to save money, U S WEST’s revenue will reduce accordingly.  Since no one is able to predict how (or if) all interexchange providers will reconfigure their networks, there is no way to predict the neutrality that will result from U S WEST’s proposal.  It is likely that networks will become more efficient over time and they will spend less on transport facilities.  U S WEST’s revenue will decrease unless the difference is compensated by growth.

U S WEST has advised Staff that the proposed Local Switching and Transport rates are cost-based; the rates recover cost and provide a contribution to the Company.  The CCL rates were increased as necessary to maintain the Company’s revenue neutrality.  In other words, a decrease in transport rates resulted in a corresponding increase in CCL.  If IXCs choose to reconfigure their transport as discussed above, the Company will still recover its direct access costs, since transport rates are cost-based.

AT&T stated in the January 13 decision meeting that U S WEST’s proposal would cost AT&T $170,000.  However, Staff’s review of the combined charges which USW proposed would be incurred in both northern and southern Idaho showed a much smaller proposed increased cost for AT&T — less than 2% of AT&T’s total USW access cost — if the AT&T made no changes to its network.

U S WEST’s access rates in the northern LATA are the sixth highest in the state (excluding co-ops), being exceeded only by Century, Citizens, Gem State, GTE and Oregon-Idaho, according to the 1996 Universal Service Fund Report.  The level of revenue generated by access services was set by the Commission under rate-of-return regulation in U S WEST’s last rate case for the northern LATA in 1983.

The FCC Notice of Proposed Rulemaking (CC 96-262) is expected in April to set rules for interstate access reform for all incumbent local exchange carriers.  The industry has speculated that one of the FCC requirements will be that CCL be priced at a flat rate rather than minute-of-use rates to better reflect the static nature of CCL service.  In the Federal-State Joint Board recommendations to the FCC, the Joint Board concluded that the existing usage-sensitive CCL charge structure is economically inefficient and has specifically recommended that the FCC change the current CCL rate structure so that LECs are no longer required to recover the NTS cost of the loop from the interexchange carriers on a traffic-sensitive basis, but rather on a flat-rated basis.(footnote: 1)  In the same document, the Joint Board proposed that CCL be removed from the access charge regime and be recovered from the new federal universal service support mechanism.  Staff will encourage all Idaho companies to maintain intrastate access rates that parallel interstate access rates as far as possible.  Unequal rates or rate structures will encourage arbitrage and bypass which will hurt the local exchange companies.  Staff further anticipates that FCC actions will put a downward pressure on access rates at the state level.

Staff does not anticipate an effect on end users of the intrastate long distance service because of this proposed change for two reasons.  First, on a statewide basis (combining

U S WEST’s northern and southern LATA), the changes do not represent a significant amount of access cost for any known company.  Second, Staff does not expect IXCs to make significant changes in the short run pending the FCC order concerning access tariffs.  The proposed tariff does have a potentially significant effect on the interexchange carriers themselves, however.  Local switching and CCL costs cannot be avoided by the IXCs.  By shifting its “surplus” revenue to CCL, U S WEST ensures itself revenue for every minute that any carrier carries.  To the extent that these rates are fair for the service provided, U S WEST’s revenue for CCL services is justified.  If, however, U S WEST’s pricing philosophy is not sound (and it appears that shifting “leftover” revenue from its cost-based rates for switching and transport to a CCL bucket is not a sound pricing philosophy) then U S WEST’s proposed rates may not be appropriate and may be harmful to the IXCs.

RECOMMENDATION

There is no compelling reason for U S WEST to make this change at this time.  With the pending release of FCC rules regarding access rates and the subsequent restructure of interstate access rates, there is a strong possibility that intrastate access rates and rate structure will also be revised.  Staff believes that holding this tariff until the Commission, LECs and IXCs have all had the opportunity to review the FCC’s rules would be more efficient.  The FCC’s rules are anticipated in April; U S WEST’s proposed tariff has been suspended until July.  Staff recommends that a decision on this tariff be postponed until the Commission has had an opportunity to review the FCC decision.

DATED  at Boise, Idaho, this        day of March 1997.

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Brad Purdy

Deputy Attorney General

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Birdelle Brown

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**FOOTNOTES**

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  Recommended Decision, In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, ¶¶ 753-54 (released November 8, 1996), cited by the Public Service Commission of the State of Montana, Docket D96.4.70 Order No. 5925a, December 9, 1996.