DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

MYRNA WALTERS

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STEPHANIE MILLER

DAVE SCHUNKE

JOE CUSICK

BILL EASTLAKE

WAYNE HART

CAROLEE HALL

TONYA CLARK

DAVID SCOTT

BEV BARKER

WORKING FILE

FROM:BIRDELLE BROWN

DATE:MAY 5, 1997

RE:CASE NO. U S WEST-T-97-3; IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC. TARIFF ADVICE NO. 96-10-N TO RESTRUCTURE LOCAL TRANSPORT CHARGES.

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.”  On January 16, 1997, the Commission issued Order No. 26762 suspending the proposed effective date for a period of thirty days plus five months.  On January 31, the Commission issued a Notice of Modified Procedure soliciting comments in response to U S WEST’s tariff advice.  The Notice was amended on February 19.  Comments were submitted by U S WEST, the Commission Staff and AT&T Communications of the Mountain States, Inc. (AT&T).

The proposed tariff advice reduces transport rates and increases Carrier Common Line (CCL) rates.  Local Switching (LS) rates remain generally the same.  This tariff is intended to completely replace U S WEST’s existing Access Service Tariff and is comparable to the Southern Idaho Access Tariff revision made under Title 62 earlier in 1996.  For Local Switching U S WEST proposes to eliminate its peak and off-peak rates of $0.0177 and $0.01062 and replace them with a single rate of $0.014308.

U S WEST proposes to restructure its transport rates into three categories: Entrance Facility (EF), Direct Trunked Transport (DTT) and/or Tandem Switched Transport (TST).  Existing rates are assessed at peak and off-peak rates per access minute as follows:

Peak Period RatesOff-Peak Period Rates

Call MilesPer Access Minute   Per 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

Under U S WEST’s proposal, Entrance Facilities monthly rates would be:

Per Month

Voice Grade (per point of termination)$    35.20

DS1     125.00

DS3  1,350.00

Optical Interface (per DS3)     943.50

Direct Trunk Transport facilities would be billed at:

Mileage Bands  FixedPer 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 rates would be:

Mileage Bands   Fixed  Per 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

U S WEST finally proposed an increase in Carrier Common Line access as follows:

 Current Proposed

Per MinutePer Minute

Terminating  $0.0407$0.077589

Originating       0.0202  0.057089

U S WEST

U S WEST points out in its comments that the proposed filing was unopposed by affected carriers and by Staff until AT&T unexpectedly objected at the decision meeting on January 13, 1997.  U S WEST then requested the opportunity to provide comments in reply to the AT&T comments in this matter, thus providing the Commission with a more complete record upon which to determine whether a full hearing in this matter is required.

Additionally, U S WEST noted that the structure it proposes is identical to the structure already in place in its southern Idaho service area as well as throughout its fourteen-state territory.  This structure was unchallenged by AT&T or any other carrier when it was implemented in southern Idaho, according to U S WEST.

Finally, U S WEST disagrees with AT&T that it failed to provide adequate notice.  U S WEST notes that it has provided the Commission Staff with copies of the notice and a report confirming receipt of this notice by AT&T twenty-nine days in advance of the northern Idaho filing.

AT&T

AT&T filed comments opposing U S WEST’s Advice No. 96-10-N and requesting a hearing in this matter.

First, AT&T pointed out that U S WEST Communications, Inc. - North has not had a general rate case involving cost of service in at least twelve years and its proposed filing moves in the opposite direction of the expected FCC access charge reform, which will intend to remove implicit subsidies from access payments.  AT&T asserted that U S WEST should be required to justify its arbitrary increase in Carrier Common Line Charge (CCLC) to achieve a revenue neutral filing. AT&T proposes a public hearing as the proper forum to address the ramifications of this incorrect filing because it affects all ratepayers, not just interexchange carriers.

Second, AT&T opposed the tariff advice because 1) AT&T’s access rate and expense will increase significantly, 2) Local Transport Restructure filings by U S WEST typically cause a reduction in overall access rates for AT&T, 3) a CCLC is not cost justified and is unwarranted, 4) the effect of this filing is contrary to expected FCC reform, 5) the disparity between U S WEST’s intrastate and interstate access rates will be over 330%, 6) U S WEST’s proposed rates are different from the rates it filed in arbitration with AT&T, 7) U S WEST’s intrastate toll rates should not be reduced until access rates are based on cost.

AT&T alleges that, contrary to U S WEST’s “revenue neutral” characterizations, AT&T’s access rate and access expense will increase 22% and 12% respectively.  AT&T approves the restructure that allows transport charges to decrease by about 90% but opposes the offsetting increases in other access rate elements without cost justification.  AT&T points to CCL rates, which recover non usage-sensitive local loop costs, stating that these rates increase as shown below.

NorthSouth

Originating 183% 72%

Terminating    91% 45%

AT&T expects CCL rates to be phased out by the FCC in its access reform rulemaking because the local loop has nothing to do with transport charges and suggests that

U S WEST’s proposal is untimely.

AT&T noted that the Commission’s Amended Notice of Modified Procedure contained an error that summed existing access charges for a short-haul call at $0.0525 per minute, stating that current rates are approximately $0.068/minute within a 10-mile band.  The proposed rates, assuming all transport is tandem switched, would increase to $0.086/minute, representing a 26% increase in intrastate rates and increases the disparity over U S WEST’s current interstate access rates from 260% to 332% according to AT&T.  AT&T suggests this disparity will increase further when access reform is completed by the FCC.  AT&T proposes that U S WEST’s access rates be the same as those filed for unbundled transport in the Idaho arbitration proceeding (USW-T-96-15, ATT-T-96-10)

AT&T further alleges that comparable transport restructuring in other states has resulted in reductions for AT&T and the filing in Northern Idaho is the only one resulting in an increase in overall access expense (for AT&T).

Finally, AT&T proposes a moratorium on U S WEST’s intrastate toll rates until its access charges are based on cost to avoid any potential price squeeze situations.  AT&T proposes that, as a direct consequence of this proceeding,  U S WEST be required to show how its current and proposed toll rates satisfy Idaho imputation requirements.  AT&T concludes that U S WEST’s application demonstrates the monopoly power that U S WEST still has in the state of Idaho and recommends a public hearing and ultimately rejection of this application.

STAFF

Staff’s comments outlined U S WEST’s proposed rates and summarized the effects as they were calculated for U S WEST-North’s five largest customers:  Local Switching would decrease about 1%, transport charges would reduce approximately 90%, and CCLA charges would increase between 104 and 128%.

Staff emphasized that U S WEST-North is a Title 61 company and is regulated by the rate-of-return method.  Consequently, U S WEST’s filing must be revenue neutral so that there is no increase or decrease in the revenue to meet the company’s established revenue requirement.  U S WEST submitted proprietary worksheets that showed the effect of this tariff on each company based on November 1996 traffic and configurations.  These worksheets showed that while some companies would see increases, others would see decreases because of

U S WEST’s proposal and the overall effect would be one of revenue neutrality, reports Staff.

Staff admitted that the revenue neutrality assumption was tenuous because companies will tend to configure their networks in the most economical way possible.  Networks that rely on tandem access switching will generally see higher costs per minute than those that can economically use dedicated access facilities.  If companies reconfigured their networks because of U S WEST’s proposed tariff, U S WEST’s revenue might decrease.

Staff reported that according to U S WEST, the determination of rates for Local Switching and Transport were cost-based — that is, their rates recover costs and provide a contribution for the Company.  U S WEST admitted that CCL rates were increased significantly and the reason was to maintain revenue neutrality.

Staff pointed out that U S WEST - North’s revenue requirements have not been reviewed since its last rate case in 1983.  Furthermore, the FCC’s access reform may result in either flat rate CCL charges or their complete removal from access rates, perhaps to be recovered by the new federal universal service support mechanism.  Staff will encourage all Idaho companies to maintain intrastate access rates that parallel interstate rates as far as possible.

Staff does not anticipate U S WEST - North’s proposed tariff to have an effect on end users because of its revenue neutrality across all companies and because of impending FCC access reform.  However, Staff acknowledges a potentially significant effect on interexchange carriers.  Local switching and CCL costs cannot be avoided by IXCs.  Shifting “surplus” revenue to CCL, and thus to its captive customers, is not an appropriate pricing philosophy and may be harmful to the interexchange carriers.

Staff recommended that a decision on this tariff be postponed until the Commission has had an opportunity to review the FCC access reform proposal.

COMMISSION DECISION

1.  Should the Commission issue errata to correct Staff’s misstatement of current costs for a short-haul call?  (See AT&T’s Comments, footnote 4 and supra, page 4.)

2.  Should U S WEST be permitted to file reply comments?

3.  Does the Commission approve U S WEST’s tariff to restructure its access rates?

4.  Should the Commission defer its decision until the FCC issues its access reform proposal?  (The suspension period will expire July 21, 1997.)

5.  Should U S WEST be required in a proceeding  to show how its current and proposed toll rates satisfy Idaho imputation requirements as AT&T proposed?

6.  Should the Commission order a public hearing as AT&T proposed to address the ramifications of this filing because it affects all ratepayers, not just interexchange carriers?

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