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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OFU S WEST COMMUNICATIONS, INC.’S PROPOSAL TO DISCONTINUE ZONE CONNECTION CHARGES AND REVISE LINE EXTENSION AND CONSTRUCTION CHARGES  | )))       )))) | CASE NO. USW-T-98-6COMMENTS OF THECOMMISSION STAFF |

COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon Stutzman, Deputy Attorney General, in response to Order No. 27563, the Notice of Modified Procedure and Order of Suspension in Case No. USW-T-98-6, issued June 8, 1998, submits the following comments.

BACKGROUND

In the U S WEST rate case (Order No. 27100, page 59), the Commission ordered U S WEST to either update the zone maps used in determining the amount of any applicable zone connection charges or eliminate the charges.  On December 4, 1997, the Company filed the original Tariff Advice 97-15-S and the corresponding Transmittal 97-36-SC, to comply with that order.  On February 24, 1998, U S WEST requested the effective date of Advice No. 97-15-S be changed to May 1, 1998 to allow the Company and Staff additional time to discuss the issues

raised in this filing, and for the Company to work with the building community as it revised the land development agreement (LDA) portion of its tariff.  On April 30, 1998, the Company asked that the effective date be changed to June 15, 1998.  On May 14, 1998, U S WEST submitted a complete substitute for the original proposal, with a new effective date of June 15, 1998.  On June 8, 1998, the Commission issued Order No. 27563, suspending the filing, and providing notice of modified procedure.

The substitute proposal eliminates the zone connection charge, reduces the line extension allowance from the current $3,000 per line to $1,600 per line, and completely revises the land development portion of the tariff to make it simpler and easier to administer.

The Company claimed the original filing would result in a net revenue reduction of approximately $306,000, with over 4,100 customers seeing decreases due to the elimination of zone connection charges, and only 20 customers seeing an increase due to the reduction in the line extension allowance.  The Company indicated the replacement filing is expected to have a similar revenue impact.

STAFF DISCUSSION

Staff has reviewed the proposal and the supporting information the Company provided with its filing.  Staff does not dispute the Company’s claim of a net reduction in revenues as a result of this filing, and also accepts the Company’s explanation that this reduction is an acceptable alternative to the laborious task of redrawing and maintaining the zone maps for each of the Company’s exchanges.

Staff has reviewed the Company’s proposal to reduce the allowance for line extensions from the current level of a maximum of $3,000 to a maximum of $1,600 and believes that it represents a reasonable compromise between the conflicting goals of universal service and minimizing the cost to existing ratepayers of adding new customers.

The current allowance of $3,000 is nearly three times the Company’s average investment in loop facilities.  Any costs the Company incurs to add a new customer that exceed the average loop investment per customer embedded in rates has an inflationary impact upon rate base, and could result in rate increases for existing customers to cover the costs of adding the new customers.  The Commission Staff has consistently recommended that such utility rate impacts be discouraged.

If the allowance is set too low, however, potential customers may not be able to afford the cost of establishing service, and will go without telephone service.  This is contrary to the long standing universal service goals of the state as expressed in Section 62-610 of the Idaho Code, and of this Commission.

The Company’s proposal provides some clarification to an area of the Company’s tariff that was less than clear and has been the subject of recent complaints to the Commission.  If a potential customer’s request for service requires the Company to upgrade existing facilities in order to complete the provisioning of the requested service, the Company has recently been requiring the applicant to pay for the entire cost of providing the service, including the cost to upgrade existing facilities, minus any applicable allowance.  In one instance, a customer with an existing U S WEST pedestal located on the road bordering the vacant property he purchased, and within 100 yards of his new house, was asked to pay nearly $2,000 to cover the cost of upgrading the existing line because earlier customers, including those further down the line, had used all the available pairs within the existing cable.

The existing tariff language simply states “the total estimated costs of all additional facilities necessary to provide service to the applicant.”  Based upon the absence of any complaints on this subject prior to 1996, and informal conversations with former U S WEST personnel, Staff believes the interpretation of this language to require the applicant to cover the costs of upgrades to existing facilities is a change from earlier practices of the Company.

The proposed tariff language clarifies this somewhat by limiting line extension charges to locations “where facilities have never existed, and the Company must extend facilities in order to provide the requested service.”  Line extension charges will be “based upon the cost to the Company to place the facilities.”  Staff believes the proposed language would limit line extension charges to the costs of extending facilities to areas not previously served, and would not allow the Company to charge an applicant for upgrades to existing facilities as was the case in the example given above.

Staff has also reviewed the changes to the procedures and agreements that U S WEST uses for providing service to new subdivisions and other speculative developments.  These changes simplify and clarify the Company’s policies in this area.  The developer or builder of any subdivision of more than four lots is required to execute an agreement with the Company.  The builder/developer will provide the trenching and backfill for facilities.  The Company will

provide the facilities at no cost, providing the cost of the facilities is less than an “established cap, which shall equal the distribution and drop portion of the average exchange loop investment, times the number of lots in the development.”  In those cases where the Company has trench and backfill agreements with other utilities, the builder/developer is responsible for the Company’s share of trench and backfill costs.

In answer to questions from Staff, representatives of the Company indicated the “established cap,” would be based upon the output of the Company’s cost model, as filed with this Commission in Case No. GNR-T-97-22.  Staff believes the output from this model is a “forward looking” cost, which may be significantly different than the Company’s current imbedded cost for such facilities.  Staff therefore believes the “established cap” may be set above the level that would be necessary to prevent any upward pressure on rates from new developments.

Company representatives indicated they examined the data from the most recent year of operations and determined that U S WEST’s share of the costs under the proposed agreement would have exceeded the established cap less than 5% of the time.

The Company’s previous policy for land developments required the developer/builders to contribute $215 per lot, regardless of the Company’s costs, and included provisions for the refunds of the charges paid by builder/developers if 50% of the lots in the subdivision were provided with service within 5 years.

The Company did not identify a revenue impact from the changes to the land development policies.  Company representatives indicated they expected differences between the two approaches to balance out, and that the net revenue impact would be negligible.

Staff accepts the Company’s claim that the net revenue impact of the changes in the development agreements will be negligible.  Although the proposal may not completely eliminate the upward pressure on rates caused by new growth, it is expected to provide more protection than the existing LDAs.  The ratepayers are at risk if the lots do not become occupied and the Company does not provide service to the lot.  With the Company’s costs limited to the costs of facilities placed in the trench, Staff believes this risk to be no greater than, and possibly less than, the risk associated with the previous development agreements, as the Company frequently incurred costs for trenching and materials well in excess of the $215 developer contribution.  In addition, 100% refunds were provided with only 50% of the subdivision lots occupied.

Staff initially was concerned that the value of the “established cap” was not specified in the tariff.  U S WEST representatives provided Staff with a copy of the analysis used to determine the initial amount to be used in such agreements ($880.00), and also agreed to inform the Commission prior to implementing any changes in the value used as the “established cap.”  The Company indicated it would probably only change this value on an annual or biennial basis.  The Company also agreed to provide the Commission with a copy of the development agreement so that the Commission’s Consumer Staff would be able to address any inquiries they might receive about such agreements.

Although Staff believes such notice adequately addresses its initial concerns, Staff believes that specifying the period for which the “established cap” would be effective, rather than simply notifying the Commission when it changes, would provide developers with better and more useful information.  Subdivision development is a long-term process and developers would benefit from knowing in advance whether the “established cap” might change if an LDA is not executed before a certain date.  Staff suggests that making an “established cap” effective for a one or two calendar year period would provide developers with the information they need, and allow the Company to make changes to the “established cap” during the slow period of the construction year.

STAFF RECOMMENDATION

Based upon the commitment of the Company to keep the Commission advised of the value to be used as the “established cap” in Provisioning Agreements for Housing Developments, and Staff’s interpretation of the proposed language to preclude the inclusion of costs for upgrading existing facilities from Line Extension Costs or Construction Costs, Staff recommends the Commission approve Tariff Advice No. 97-15-S as proposed.  Staff also recommends the Commission direct the Company to update the established cap on a regular, fixed interval basis.

Respectfully submitted this               day of June 1998.

Weldon Stutzman

Deputy Attorney General

Technical Staff:Wayne Hart

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