(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC. TO REDUCE ACCESS AND TOLL PRICES AND RAISE LOCAL EXCHANGE PRICES. | ))))) | CASE NO. USW-T-98-20ORDER NO.  27912 |

On October 30, 1998, U S WEST Communications filed an Application to reduce its access rates and “rebalance” its local service rates in its northern Idaho service territory.  U S WEST is a fully regulated, Title 61 company offering both local and intrastate long-distance services to customers in eight exchanges located between Grangeville and Lewiston.  The Company proposed to reduce both its toll access charges and its in-state long distance rates by approximately 50%.  The reduction in access charges and long-distance rates will reduce the Company’s revenues by approximately $2.2 million annually.  To offset these reductions, the Company proposed to increase the rates for monthly local residential and business services by approximately $6.00 and $5.90 per month, respectively.

On December 1, 1998, the Commission issued a Notice of Application and Modified Procedure in this matter. The Commission requested that interested persons submit written comments on the Company’s Application no later than December 24, 1998.  The Commission also convened a hearing in Lewiston on January 19, 1999 to take public testimony.  After reviewing the Application, the written comments and the public testimony, we conclude that the Application should be approved as outlined in greater detail below.

BACKGROUND

Access charges are the fees long-distance (toll) carriers pay to local exchange companies (LECs, such as U S WEST) for the use of the LECs’ local network facilities when customers make toll calls.  Toll carriers (such as AT&T and MCI) pay originating access charges to the LEC where the toll call is originated and terminating access charges to the LEC where the toll call is terminated.  For many of Idaho’s LECs, revenues derived from access charges represent a significant portion of their authorized revenue requirement.  Conversely, the access charges paid by toll carriers represent a substantial portion of the costs of providing a toll call.  Lowering U S WEST’s access charges (with all other factors unchanged) will lower costs to the various long-distance carriers and, presumably, their rates for in-state, long-distance services.

In 1997, the Legislature enacted several amendments to the Idaho Telecommunications Act codified at Idaho Code §§ 62-601 et seq.  The Legislature directed the Commission to identify, quantify, and remove implicit subsidies existing in the rates of incumbent LECs.  In particular, the Legislature determined that access charges, “including all the carrier common line charge” (CCLC), subsidize local service rates.  Idaho Code §§ 62-623(1) and (2).  The CCLC is a component of the per-minute access charge and is intended to recover a LEC’s fixed costs of providing local exchange access.

THE APPLICATION

A.  Access and Toll Rate Reductions

1.  Access Charges.  In its Application, U S WEST proposed to reduce its composite access charges by nearly 50% from an effective composition rate of $0.085157 per minute to a proposed composition rate of $0.04402 per minute.  More specifically, the Company proposes to reduce its originating and terminating CCL charges from $0.05709 to $0.021533 and $0.07759 to $0.029265, respectively.  The Company also proposed to increase its tandem switching rate to $0.003 to $0.004.

2.  Toll Rates.  In addition to the reduction in its access charges, U S WEST requested that its long-distance rates (for intraLATA(footnote: 1) toll) be reduced by approximately 50%.  U S WEST recommended that its toll rates be reduced to $0.15 per minute for daytime calling and reduced to $0.10 per minute for evening, night and weekend calling.  If adopted, this results in a rate reduction of about 43%. The Company further proposed to revise its time of day structure from day/evening/night/weekend periods to peak and off-peak periods.  Peak or daytime rates would apply between the hours of 8:00 a.m. and 5:00 p.m., Monday thru Friday and all other times would be off-peak.

U S WEST next requested that the rates for its Business Daytime Connection Plus Calling Plan be decreased.  This toll plan for business customers currently provides up to 150 minutes of intraLATA calling for $34.50 per month and all minutes in excess of 150 minutes are billed at $.23 per minute.  Direct dial calling card calls receive a 30% discount.  U S WEST desired to continue its calling card discount and offer up to 60 minutes of intraLATA calling for $8.40 per month with all additional minutes being billed at $0.14 per minute.  These adjustments would result in a rate reduction of approximately 67%.

The Company next proposed to reduce its Volume Calling Connection Plan.  This toll plan bills calls at a special rate plus a usage discount applied to the customer’s total intraLATA monthly bill.  The current rate for this plan includes a monthly flat rate of $10.00 plus $0.22 per minute during peak periods (rounded in 6-second increments) and an off-peak effective rate of $0.19 per minute.  A discount of 5% applies to bills ranging from $200 to $500 per month and a 10% discount applies to bills in excess of $500.  In its Application, U S WEST proposed to provide all calls at an effective rate of $0.13 per minute and apply a 10% discount to monthly bills between $50 and $99.99, and a 20% discount to bills in excess of $100 per month.  The flat monthly rate would be decreased to $5.00.  These adjustments would result in a rate reduction of approximately 74%.

In its Value Calling Plan II, the Company currently charges $19.20 per month for 120 long-distance minutes.  In excess of the 120 minutes, the rate is $0.24 per minute for the peak period calls and $0.12 per minute for off-peak calls.  U S WEST proposed to reduce the monthly rate to $15.60 and reduce the rates for more than 120 minutes to the recommended long-distance rates of $0.15 per minute peak and $0.10 per minute for non-peak calling.  These changes would result in a rate reduction of approximately 25%.

Finally, the Company’s existing Simple Value Calling Plan allows business customers to make intraLATA station-to-station calls at $0.20 per minute while residential customers pay $.27 per minute for peak calling and $0.15 per minute for off-peak calling.  U S WEST proposed to reduce the business rate to $0.15 per minute and the residential rate to $0.15 per minute for peak calling and $0.09 per minute for off-peak calling.  These changes would result in a rate reduction of approximately 42%.(footnote: 2)

U S WEST calculated that the reduction in its access charges and long-distance rates total approximately $2.2 million annually.  The Company maintained that Idaho Code §§ 62-623 requires the Company to reduce its access charges, and consequently its own long-distance rates.  Application at 2.  The Company also noted that the Commission Staff had recently completed an audit of the Company’s operations.  The Staff concluded that U S WEST’s current earnings are not in excess of its authorized rate of return. Id. Consequently, the Company insisted that the reductions in access charges and long-distance rates should be offset by an increase in its local service rates.

B.  Local Access Rates

1.  Local Services.  To offset the rate reductions mentioned above, U S WEST proposed to increase the monthly rates for residential and business local exchange services.  The Company proposes to increase residential rates for a flat-rated service by $6.03 per month.  In other words, the monthly rates for residential Rate Group 2 customers would increase from $9.97 to $16.00 per month and Rate Group 1 residential customers’ rates would increase from $8.47 to $14.50 per month.(footnote: 3)  One-party flat business rates would increase by $5.91 per month for both Rate Group 1 and 2 business customers.  This would result in Rate Group 2 monthly local rates increasing from $24.49 to $30.40 and Rate Group 1 rates increasing from $21.49 to $27.40.

2.  Measured Local Service.  The Company also proposed to increase the rates for its measured local service customers.  The Company currently offers its residential customers two measured service plans.  The “basic” measured service plan includes $3.00 of local calling in the monthly rate.  Currently, residential customers in Rate Groups 1 and 2 pay monthly rates of $6.72 and $7.22, respectively.  U S WEST recommends that the basic measured service rate for both rate groups be set at $11.40 per month.  The “budget” measured service plan does not include any local calling in the monthly rate.  Currently residential customers of budget measured service in Rate Groups 1 and 2 pay $4.72 and $5.22 per month, respectively.  The Company proposed to increase these monthly flat rates to a uniform $9.40.  Finally, the Company also requested an increase in its business measured service from the current monthly flat rates of $14.99 and $16.84 per month for Rate Group 1 and 2, respectively, to a uniform rate of $20.00 per month.  Usage charges for both residential and business measured service are $0.04 for the first minute and $0.015 for each additional minute.

3.  Business-Residential Rate Ratio.  If the Commission adopts the recommended rate design, the ratio between business flat rates will be reduced from approximately 2.5 times the monthly residential flat rate to about 2.1 times.  Application at 2.  The Company stated that local service rates have not increased since 1993.  The Company maintains that these rate adjustments are “consistent with the policy objectives of moving all rates closer to costs.  U S WEST’s rate rebalancing proposal is a substantial step towards achieving the goal of removing implicit subsidies from intrastate access and toll charges and moving local exchange rates closer to their true costs.”  Id. at 5.

THE WRITTEN PUBLIC HEARING COMMENTS

1.  Written Comments.  In response to its Notice of Modified Procedure, the Commission received written comments from the Staff, U S WEST, and about 15 customers.  The Staff supported the Company’s rebalancing proposal.  The only exception was that the Staff suggested that the recurring rates for toll restriction or blocking service in northern Idaho match the rates recently adopted by the Commission in southern Idaho.  Toll restriction prohibits a customer from gaining access to a long-distance carrier or, in other words, from making long-distance calls.  Order No. 27659.  Currently residential and business customers pay $2.00 per month for the service.  The monthly rates for toll restriction in southern Idaho for business and residential customers are $1.00 and $0.25, respectively.

In its comments, U S WEST urged the Commission to approve its Application.  Because comments were submitted simultaneously, the Company requested an opportunity to submit additional comments after it had a chance to review all the filed comments.  U S WEST did not file any subsequent reply comments.

The written comments received from customers uniformly oppose the local rate increases but do not address the toll or access charge reductions.  Seven customers complained that the local rate increase would adversely affect low-income customers who can least afford the proposed increases.  Three other customers opposed the increase arguing that the Company does not deserve an increase because U S WEST is providing poor service to its customers.

2.  Public Hearing Comments.  Six public witnesses testified at the January 19, 1999, public hearing in Lewiston.  Three customers objected to the increase of local rates due to the Company’s poor service.  One customer requested that the Commission hold another meeting due to the poor turnout at that the public hearing and another customer opposed the rate increase testifying that she could not afford the rate increase.  Finally, one customer suggested that the rate increases be postponed until the eight U S WEST exchanges are sold to another company.

FINDINGS

After reviewing the Application, written comments and public testimony, we find that U S WEST’s Application should be approved.  As U S WEST and our Staff observed, Idaho Code § 62-623 requires that implicit subsidies be removed from the rates of incumbent telephone corporations such as U S WEST.  More specifically, the Legislature has identified the carrier common line component (CCLC) of access charges as an implicit subsidy that must be reduced and/or made explicit.  Reducing U S WEST’s access charges represents a decrease of almost 50% from the Company’s composite access charge rate.

The Staff noted reducing access charges will reduce the costs of long-distance companies, including U S WEST’s intraLATA toll services. The Staff stated that it hopes other long-distance carriers will pass on this “savings” to customers.  Comments at 7.  “Some long-distance carriers have pledged in the past to pass through access charge reductions.”  Id.  To determine whether toll carriers pass through the access charge reductions, the Commission has in other proceedings directed that AT&T and MCI advise the Commission of the actual amount of access charge reductions that they implemented by lowering long-distance rates.  We expect these reports to be filed shortly.

The Commission recognizes that the increases in local rates are substantial but we are hopeful that customers will benefit from lower long-distance rates.  The local rate increases are mitigated by two options for customers.  First, the Idaho Telephone Service Assistance Program (ITSAP) is available for eligible low-income customers.  ITSAP provides eligible residential customers with a credit for local monthly service of $10.50.  In other words, flat-rate local service for an ITSAP customer would be $5.50 per month or basic measured service would be $0.90 per month.  This represents a significant savings for eligible customers.

Second, as mentioned above, U S WEST offers both residential and business customers measured service packages.  For customers who are able to limit their local calling, measured service also offers substantial savings.  Under the rates approved today, basic measured residential customers would pay a monthly rate of $11.40 that includes approximately an hour and one-half of local calling per month.  In addition, the budget measured service (with no allowance for local calling) is available at a monthly rate of $9.40 plus usage charges.  Business customers can receive measured service for $20.00 per month plus usage charges.  We encourage those customers who may be eligible for the ITSAP credit or desire to subscribe to measured local service to take advantage of these lower cost services.  To facilitate customers moving from flat-rate to measured-local service, we shall direct the Company to waive the charge from switching from flat-rate to measured service for 60 days after the Company notifies customers of the rate changes.  In addition, we shall also direct the Company to advise all of its customers of the impending rate changes and the availability of both ITSAP and measured service options.

We also find that it is reasonable to reduce the current business-residential rate ratio from 2.5 to 2.1 times.  Reducing the ratio more accurately reflects the relative costs of providing the two services.

We next turn to the Staff’s recommendation concerning toll restriction service.  We find that it is appropriate to adopt Staff’s proposal.  As was the case with access charges and toll rates, we find it is reasonable to reduce the monthly rates for toll restriction to reflect the true cost of providing this service and to provide rate symmetry between the Company’s northern and southern territories.  This service provides customers with a useful method of control of their monthly telephone charges by voluntarily restricting toll calls.  The nonrecurring charge for the service shall remain at its current level.

We conclude that the rebalancing of U S WEST’s local service rates in northern Idaho is necessary and that the proposed local service rates are fair and just.  Although we recognize that residential customers will experience significant rate increases, we find these increases are required by the amendments to the Idaho Telecommunications Act.  Idaho Code § 62-623.  The rebalanced rates will allow the Company to recover its authorized revenue requirement.  We encourage eligible customers to participate in the ITSAP program.  We also suggest that customers examine the advantages offered by the measured service plans.

O R D E R

IT IS HEREBY ORDERED that U S WEST’s Application to reduce its access charges and to rebalance its local service rates is approved.  We direct the Company to issue notices to media outlets and to individually advise customers of the rate changes.  The customer notice shall also advise customers of the availability of ITSAP and measured service options.  Finally, the notice must state that customers may switch to measured service without charge for a period of 60 days.

IT IS FURTHER ORDERED that U S WEST implement the rates approved in this Order no later than April 13, 1999.

IT IS FURTHER ORDERED that U S WEST waive its nonrecurring charges for subscribing to measured service for a period of 60 days after customers receive notice of the rate changes.

THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. USW-T-98-20 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. USW-T-98-20.  Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration.  See Idaho Code § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of February 1999.

                                                                                                                                       DENNIS S. HANSEN, PRESIDENT

                                                                                            RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**FOOTNOTES**

1:

IntraLATA long-distance calling means in-state calls between and among the eight northern U S WEST exchanges (excluding established toll-free EAS routes) of Cottonwood, Craigmont, Grangeville, Kamiah, Kooskia, Lapwai, Lewiston, and Nez Perce.  The exchanges of Lewiston and Lapwai are classified as Rate Group 2 exchanges while the remaining exchanges are classified in Rate Group 1.

2:

U S WEST also proposes to discontinue its business Daytime Connection Calling Plan and its outward WATS service plan.

3:

The exchanges of Lewiston and Lapwai are classified as Rate Group 2 exchanges while the other six exchanges are Rate Group 1 exchanges.

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

February 12, 1999