March 12, 1999

Ms. Nancy Keller

Valley Vision, Inc.

111 Main Street, Ste.  130

Lewiston, ID 83501

RE:  IPUC Case No. USW-T-98-20

Dear Ms. Keller:

The Commission has asked me to respond to your letter dated February 11, 1999, and the petitions received February 26, 1999.  First, the Commission received the facsimile of your February 11 letter  after the Order authorizing U S WEST to lower its long-distance rates and raise its local service rates was issued on the same day.  In other words, the Commission received your letter after it had already decided the case.  Notwithstanding the timing issue, let me respond to several points raised in your letter and the subsequent petitions.

As you are undoubtedly aware, the telecommunications industry is undergoing transition in many areas.  As a by-product of permitting competition in all segments of the telecommunications markets, both Congress and our Legislature have determined that the hidden or “implicit” subsidies contained in telephone rates (and in particular, long-distance access charges) must be removed.  Without getting too technical, it is generally perceived that some services (long-distance, custom calling features, and others) subsidize other services (most notably local service) so that these latter services can be priced lower.  The general assumption is that if subsidies on incumbent local service rates are lifted/removed, new local exchange companies would be encouraged to compete against the incumbent local provider.  As noted in Order No. 27912, the Legislature in Idaho Code § 62-623 directed the Commission to identify, quantify and remove implicit subsidies existing in the rates of incumbent telephone corporations such as U S WEST.  GTE Northwest, Citizens Telecommuni-cations, and U S WEST South have all had their rates rebalanced or adjusted to remove these implicit subsidies.

In addition to the need to remove implicit subsidies, the Legislature has also prohibited the Commission from continuing past practices which historically resulted in lower local rates.  In 1997 the Legislature prohibited the Commission from imputing revenues from U S WEST’s Yellow Page operations when calculating local service rates.  SeeIdaho Code §§ 62-613 and 62-622(1).  Consequently, the Commission did not have the option of putting off rebalancing or imputing other revenue sources.

Your letter also asks that the Commission become actively involved in any application where U S WEST seeks to sell its eight northern Idaho exchanges.  Under present law, this Commission must approve the transfer to a new purchaser of U S WEST’s Certificate of Public Convenience and Necessity to operate the eight exchanges.  In approving the sale of telephone exchanges to others, the Commission has traditionally evaluated whether: 1) the purchaser has the financial ability to meet the service needs of the customers; 2) the purchaser will improve the level of service; and 3) the transaction will adversely affect rates.  For example, when U S WEST sold several exchanges in southern Idaho, the Commission required that part of the sale proceeds to U S WEST be provided to the purchasers to facilitate the purchase of new digital switches.  Although I cannot speculate on the merits of any sales transaction, I am confident that the Commission will carefully scrutinize any proposal.

The petitions submitted express concern about the significant increase in local rates and about the effects of the increase on customers with fixed incomes.  The Commission recognized that the local rate increases approved in Order No. 27912 were signifi­cant and specifically addressed two alternatives to mitigate the local rate increase.  First, the Idaho Telephone Service Assistance Program (ITSAP) is available for eligible low-income customers.  ITSAP is administered by the Idaho Department of Health & Welfare and provides eligible residential customers with a credit for local monthly service of $10.50.  Customers eligible for this credit, would be able to obtain flat-rate local service at a rate of $5.50 per month or “measured” local service at less than $1.00 per month.

Second, U S WEST offers residential and business customers “measured” local service.  For customers who are able to limit their local calling, measured service offers substantial savings over flat-rate service.  For example, residential customers may select from two forms of measured service.  Customers selecting basic measured service receive approximately 1 ½ hours of local calling per month at a monthly rate of $11.40.  Residential customers subscribing to budget measured service pay a flat monthly rate of $9.40 plus a usage charge of $0.04 for the first minute of every call and $0.015 for each additional minute per call.  Both the ITSAP and Measured Service packages offer substantial savings to low-income customers.

I hope this letter addresses most of the concerns in your letter.  If you have further questions, please contact me at (208) 334-0312.

Sincerely yours,

Donald L.  Howell, II

Deputy Attorney General

DLH/vld/L:keller.dh

cc:Commissioners