

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF) CASE NO. GTE-T-98-2
GTE NORTHWEST INCORPORATED TO)
REDUCE ITS ACCESS CHARGES AND)
REBALANCE LOCAL RATES FOR TELE-) ORDER NO. 27728
COMMUNICATIONS SERVICES.)
_____)

On May 29, 1998, GTE Northwest filed an Application to reduce its access rates and “rebalance” its local service rates. GTE is a fully regulated, Title 61 company offering both local and intrastate long-distance services to more than 100,000 access lines in northern Idaho. This Application represents “the second phase of an overall reduction in [the Company’s intrastate] access charges of nearly 50%, from . . . \$0.1133 cents per minute to the proposed effective composition rate of \$0.0590 cents per minute.” Application at 1. The Company implemented the first phase of the access charge reduction (\$0.01 reduction) on April 27, 1998. The Phase 1 and Phase 2 access charge reductions will total approximately \$4.42 million (\$820,000 in Phase 1 and \$3.6 million in Phase 2).

On July 7, 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 July 28, 1998. The Commission also held public hearings in Sandpoint and Moscow on August 19 and 20, 1998. 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 local exchange companies (LECs such as GTE) for the use of the LECs’ local network facilities when customers make toll calls. Toll carriers 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 predominant portion of the cost of providing a toll call. Lowering GTE’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 of 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 cover a LEC’s fixed costs of providing local exchange access.

THE APPLICATION

A. Access Charges

GTE proposed two primary changes to its access rate structure. First, the intrastate end-office switching rate for the peak period of calling would be reduced to GTE’s current interstate rate. The Company also proposed to adjust the off-peak intrastate rate for end-office switching to maintain the existing ratio between peak and off-peak rates. Off-peak access rates are 60% of peak rates. The second rate change would be to reduce the intrastate originating and terminating carrier common line charges (CCLC) to a level “in line with the Company’s current interstate access composition rate.” These two changes would result in a composition access rate of \$0.059 per minute of use which is a decrease of almost 50% from the Company’s composition rate of \$0.1133 per minute in effect prior to the Phase 1 filing.

GTE stated it has two goals in proposing these access charge reductions. First, the Company desires to develop a rate design for intrastate access charges that “substantially reduce the amount of implicit subsidies that existed in the current access charge rate structure.” Second, GTE wants to bring its intrastate access charge rates in line with its interstate access charge rates. The Company expects long-distance carriers will reduce the rates they charge customers in northern Idaho to reflect the reduction of access charges. The “savings” that individual customers may receive is dependent upon their long-distance usage and whether their long-distance carriers “pass through” the rate reductions. Pursuant to *Idaho Code* § 62-604, the Commission does not regulate long-distance rates for the carriers who pay access charges to GTE.

B. Local Rate Rebalancing

To offset the lower revenues caused by the reduction in access charges, GTE proposed to rebalance its monthly local service rates for residential and business customers. The rate rebalancing has several steps. First, the Company proposed to eliminate its \$1.00 per line monthly charge for “Touchcall” (touchtone) service. Approximately 60% of all residential customers and 70% of all business customers subscribe to touchtone service. To maintain revenue neutrality, the Company recommended eliminating the Touchcall charge of \$1.00 per month and instead recover \$0.62 per month from all access lines (except CentraNet and business trunk lines).

The Company proposed next to decrease its current business to residential rate ratio from approximately 2.28:1 to 1.9:1. (The monthly local business rate is 2.28 times the single-line residential rate). The Company maintained that reducing the business-residential ratio more accurately reflects the “true” costs of providing the two services. In addition, this business-residential ratio approximates the 1.88:1 ratio recently adopted in the U S WEST rate case in southern Idaho. Third, the Company proposed to only increase the monthly rates for its “premium” business and residential local service and business trunks by \$0.62, to reflect the change in touchtone service. After making these three adjustments, the monthly increase for residential customers currently subscribing to touchtone service would be \$2.85, while the increase for a touchtone single-line business customer would be \$1.35 per month. Again, GTE hopes that the local rate increase will be offset by the reduction in long-distance rates.

The Company asserted that the proposed rates are fair, just, and reasonable and provide a “substantial movement in the direction of eliminating implicit subsidies” as required by *Idaho Code* § 62-623. This statute, enacted in 1997, requires the Commission to identify implicit subsidies and to “[d]etermine a mechanism for removal of the [implicit] subsidies from the rates of incumbent telephone corporations. . . .” *Idaho Code* § 62-623(2).

The Company stated that it is not seeking any increase in its over-all revenues. Except for implementation of the current local calling plans (LCP) in 1993, GTE insisted that there has been no increase in local service rates since 1989. LCP offers customers an option of four, 7-digit dialing, local calling plans which are: (1) basic calling; (2) community calling; (3) community plus; and (4) premium calling.¹

¹ For basic calling, all calls within the broad local calling radius are billed on a measured usage basis. Community calling customers are charged a flat monthly rate for calls made within their local exchange. All other calls up to approximately 23 miles away are charged on a measured local usage basis. Community plus customers calling within their

GTE requested that the Commission process this Application under Modified Procedure because the Application is a revenue-neutral, rate rebalancing proceeding based in part upon a Commission Staff audit of the Company's earnings. Approximately \$600,000 of the Phase 1 reduction was attributable to Staff's audit findings of excess Company earnings. The Company and the Staff agree on the appropriateness of this adjustment.

THE COMMENTS

1. Commission Staff. The Staff supported the Company's Application and urged the Commission to approve it. The Staff noted that GTE's access rates are among the highest in the state and the proposed reduction is "a move in the right direction." Staff Comments at 4. Staff maintained that the proposed reduction in access charges complies with the Legislature's mandate to identify and remove implicit subsidies from local exchange rates.² Staff expressed hope that

long-distance carriers will 'pass through' the reduction in access charges to the long-distance customers. Some long-distance carriers have pledged in the past to pass through access charge reductions. The 'savings' that individual customers may receive will depend on their long-distance usage and the extent to which carriers pass through the rate reductions.

Staff Comments at 4.

Staff also supported the reduction in the residential-business rate ratio. Although the Staff disagreed with the Company's characterization that the difference between residential and business rates constitutes a subsidy, the Staff stated that reducing the differential is reasonable. Staff noted that the reduction in the ratio mirrors that recently approved for U S WEST Communications in southern Idaho.

Staff also supported the Company's proposed local rate rebalancing. The Staff calculated that the local service proposal represents an average overall increase of 17% in local service rates, although the actual percentage increase applicable to customers would depend upon the customer's exchange, the calling option, the class of service, and whether the customer is currently paying for Touchcall service. Staff noted that the majority of residential and business customers currently

own local exchanges and to certain nearby exchanges are charged a flat monthly rate. All other calls up to 23 miles away are billed on a measured usage basis. Finally, premium calling (where available) allows customers unlimited local calling to exchanges up to approximately 23 miles away. See Order Nos. 24877 and 26330.

²*Idaho Code* § 62-623 provides that the Commission is to identify and quantify implicit subsidies within the rates of incumbent telephone corporation including access charges and all of the carrier common line charge.

subscribe to Touchcall service. The monthly increase for residential local service would be \$2.85, while the monthly increase for business local service would be \$1.35. Residential and business premium customers with Touchcall service would receive a \$0.38 per month decrease.

Although some residential customers without touchtone service would receive a rate increase of approximately 50%, the Staff noted that recent revisions to the Idaho Telephone Service Assistance Program (ITSAP) could mitigate the rate increases for eligible low-income customers. Eligible ITSAP customers can receive a credit of \$10.50 per month for their local exchange service. Staff also examined a number of other pricing alternatives that would reduce the increase for the basic residential service, but found that the resulting impact upon other options to be excessive. Staff Comments at 6. Staff concluded that the Company's rate rebalancing proposal is "revenue neutral" to GTE and recommended the Commission approve the Application.

2. AT&T. AT&T maintained that the Company's current access rates are excessive and "are the highest of any GTE service area in the United States and approximately double GTE's intrastate rates in the neighboring states of Washington and Oregon." AT&T Comments at 2. The Company asserted that reducing GTE's access charges "is an appropriate interim step on the journey to setting rates that contain no subsidies." *Id.*

AT&T suggested that GTE's customers will benefit from the access rate reductions because the reductions will encourage more long-distance competition. In supporting the Application, AT&T stated that it "will continue to share the [access charge] reductions with customers" in Idaho. *Id.* at 3.

3. MCI. MCI also supported GTE's Application. MCI stated that reducing GTE's access charges will remove implicit subsidies and move rates to costs. MCI recognized that GTE's Application represents an appropriate first step in reforming access charges. MCI Comments at 2. The Company noted that the concepts of "revenue neutrality" and "rebalancing" are incompatible with the idea of competition and the movement toward cost-based rates. *Id.*

To guarantee the ILECs their revenue stream would discourage competitive entry, along with its inherent benefits: greater service quality, increased innovation and product development, lower cost, etc. Instead, GTE and the other ILECs should be required to demonstrate a need for the recovery through basic local service increases of revenues lost to access reduction, as opposed to keeping existing revenue levels. This is absolutely necessary to prevent Idaho consumers from overpaying, once through (inflated) access charges and again through basic local service rate increases.

MCI Comments at 2-3.

4. Public Comments. The Commission received approximately 10 written comments from customers and the Mayor of Coeur d'Alene. These written comments uniformly opposed the local rate increases and generally did not address the proposed access charge reductions. The Mayor questioned whether long-distance customers would actually see the benefit of the reduced access charges. He estimated that any actual benefit from the access charge reductions "will most likely be many years in the future at the expense of current customers."

5. Public Testimony. The Commission also convened public hearings in Sandpoint and Moscow for the purpose of receiving public testimony. Three members of the public appeared at the two public hearings. Two customers generally opposed the local rate increases. In particular, one Sandpoint customer testified that GTE should not receive any local rate increases until the Company provides its customers with state-of-the-art data transmission capabilities. The public witness who spoke in favor of the Application indicated that the reduction in access charges would promote long-distance competition within Idaho and result in lower rates for long-distance calling.

FINDINGS

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

As GTE and the Staff noted, long-distance carriers have suggested that they will pass on the "savings" to customers. Indeed, AT&T indicated that it will "share" the reduction with its customers. The Commission has no authority to establish the rates for long-distance carriers; the most we can do is hope that the toll carriers will pass through the rate reductions to their customers. To determine whether toll carriers pass through the access charge reductions, we direct that the commenters in this case, AT&T and MCI, advise the Commission no later than December 1, 1998 of the actual amount of access charge reductions that they implemented by lowering long-distance rates.

We further find that it is reasonable to eliminate the specific charge for Touchcall service. Approximately 60% of all residential customers and 70% of all business customers subscribe to Touchcall service. We find Touchcall service is universally provided to all GTE telephone customers whether customers subscribe to the service or not. As we have done with other companies, we authorize the Company to eliminate the separate Touchcall charge and to include it as an element of basic local exchange service. We also find that it is reasonable to reduce the current business-residential rate ratio from 2.28:1 to 1.9:1. We believe this action is reasonable to reduce the appearance of a subsidy between residential and business rates and to more accurately reflect the relative costs of providing the two services.

We conclude that the rebalancing of GTE's local service rates is necessary and that the proposed local service rates are fair and just. Although we recognize that most residential customers will receive 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 agree with MCI that the need for recovery of the revenue reduction must be demonstrated. This was accomplished through the audit process that resulted in a \$600,000 access charge reduction this April with no corresponding rate increase. We further find that recent changes to the ITSAP can mitigate these residential rate increases for eligible low-income customers. ITSAP now provides a monthly credit for eligible residential customers of \$10.50. We encourage those customers who may be eligible for this monthly credit to take advantage of the program.

ORDER

IT IS HEREBY ORDERED that GTE'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 advising customers of their opportunity to review and/or change their current level of local service and the availability of ITSAP assistance to eligible low-income customers.

IT IS FURTHER ORDERED that AT&T and MCI file reports no later than December 1, 1998, indicating the amounts they have reduced toll rates in response to this and other Orders reducing access charges in Idaho.

IT IS FURTHER ORDERED that GTE implement the proposed rates included in its Application no later than thirty (30) days from the service date of this Order.

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. GTE-T-98-2 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. GTE-T-98-2. 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 September 1998.

DENNIS S. HANSEN, PRESIDENT

RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters
Commission Secretary

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