

Bell Atlantic

Investigation into Rate Reductions

Order NISI Approving Petition to Introduce CallAround 603 Plus as a New Optional Intrastate Toll Calling plan and to Restructure the Existing CallAround 603 Plan

O R D E R N O. 22,869

March 16, 1998

I. PROCEDURAL HISTORY

On October 31, 1997, New England Telephone and Telegraph, d/b/a/ Bell Atlantic (Company, filed a notification detailing a proposal to reduce rates for residence, business and carrier access customers, establish expanded local calling areas on a "home and contiguous" basis throughout the State and implement a plan establishing network and Internet access for schools and libraries. The proposal is part of a comprehensive effort by the Company, as a result of Staff investigations, to reduce total intrastate revenues by \$26 million. As a part of its proposal, the Company filed on February 17, 1998, a petition to introduce CallAround 603 Plus and restructure the existing CallAround 603 plan. The total amount of the reduction related to this portion of the proposal is \$3.5 million.

II. POSITION OF BELL ATLANTIC AND STAFF

A. Bell Atlantic

CallAround 603 Plus (603 Plus) is a new optional intrastate toll calling plan for residence customers only. Subscribers to 603 Plus will be assessed no service establishment charge, pay \$6.00 per month for an initial period of 1 hour and 9 cents for each minute in excess of the initial period. In addition, subscribers will receive a 25% discount on customer dialed, in-state calling card calls and an anniversary discount waiving the \$6.00 monthly subscriber charge for one month after 12 full months on the 603 Plus plan. No restrictions apply to the anniversary discount.

The 603 Plus plan applies to all directly dialed intrastate toll calls. Per second timing of calls is applied. At the end of the subscriber's billing period, the sum of accumulated seconds are rounded to the next highest minute of use (MOU). All residence customers currently subscribed to CallAround 603 ("603 Plan") will automatically be subscribed to the 603 Plus plan upon approval.

Furthermore, CallAround 603 will be restructured by changing it from a residence and business customer plan to a business only customer plan. All terms and conditions remain the same.

As filed, 603 Plus is limited to New Hampshire residences; business customers are prohibited from subscribing. Limiting optional toll calling plans to a specific customer class departs from the Commission's decision in DR 89-010, Re NET, 76 NHPUC 150 (1992). In DR 89-010, Bell Atlantic's last rate design case, the Commission concluded there is no difference in the actual cost to provide residential versus non-residential toll services. As a result, Bell Atlantic has extended optional calling plans to both customer classes.

Bell Atlantic argues that this holding in DR 89-010 should not apply to 603 Plus because the Company needs additional

marketing flexibility in the newly competitive telecommunications market. Bell Atlantic contends that the same arguments the Company made in its Business Link filing apply equally to the 603 Plus plan. See, Order No. 22,794 at 4,5. As Bell Atlantic argued in Business Link, the Company contends it is at a similar competitive disadvantage in the residence toll market because other major toll competitors have the flexibility to "target market" optional calling plans to New Hampshire residence customers while Bell Atlantic is forced to provide optional calling plans to all customers. Because it must provide optional calling plans to all customers, Bell Atlantic claims it will incur additional costs and risk greater revenue erosion than anticipated.

Pursuant to DE 90-002, Re Generic Investigation Into IntraLATA Toll Competition Toll Rates, 78 NHPUC 365 (1992), Bell Atlantic has had the authority to adjust the retail rates of existing services and introduce new services provided it can demonstrate that the average revenue per minute of use (ARPM) generated from such services is equal to or greater than the relevant price floor. Accordingly, Bell Atlantic provided analyses in support of its petition.

Bell Atlantic's ARPM calculations are based upon proprietary March 1997 data indicating that the ARPM of the proposed 603 Plus plan exceeds the relevant MTS A toll service price floor. Price floor calculations are based upon the methodology established in DE 90-002. 78 NHPUC at 402. Adjustments to the price floor were made to reflect reductions in access rates since the conclusion of DE 90-002. The Bell Atlantic analysis does not, however, anticipate stimulation in toll usage by residence customers subscribing to 603 Plus. The ARPM calculations assume the level of toll traffic will not change after the introduction of 603 Plus. Further, the calculations do not anticipate increases in residence toll demand as a result of eliminating daytime calling restrictions under the current 603 plan, nor the migration of residence customers from other Bell Atlantic and non-Bell Atlantic toll services.

#### B. Commission Staff

Based on its review of the petition and supporting documentation, Staff recommends approval of the request to introduce 603 Plus, limit 603 Plus to residence customers and to restructure CallAround 603 from a business and residence customer plan to a business only plan.

In Staff's opinion, Bell Atlantic's analysis demonstrates that the proposed rate exceeds the incremental cost of providing 603 Plus and, therefore, the service is not subsidized by non-competitive Bell Atlantic services. This analysis also demonstrates that 603 Plus service rates are set at levels which yield ARPM results above the relevant price floor pursuant to the Commission's order in DE 90-002.

Staff notes that although Bell Atlantic did not project any stimulation in toll usage, the proposed rates are structured in a manner that prohibits ARPM from going below the relevant price floor. As stated, 603 Plus is rated at 10 cents per MOU assuming the subscriber utilizes the full amount of the initial 1 hour period. For each MOU after the initial period, subscribers will pay 9 cents per MOU. On average, therefore, higher volume subscribers pay between 9.1 cents per MOU and 10 cents per MOU depending on toll usage. The relevant MTS A price floor is currently 7.7 cents per MOU. Conversely, subscribers with toll usage of less than 1 hour per month will pay in excess of 10 cents per MOU. Thus, any increases or decreases in aggregate toll usage will not negatively impact the price floor test of 603 Plus.

Staff's concern with ascertaining demand levels focuses on anticipated revenue reductions. It is Staff's opinion that should demand for 603 Plus increase, then anticipated revenue reductions will fail to materialize as proposed price reductions

will be offset by increased revenue associated with higher MOU. Similarly, if demand for 603 Plus deteriorates, then revenue reductions will be greater than anticipated.

Because Bell Atlantic could not provide Staff with up-to-date MOU data in a timely manner, the impact of changes in MOU demand as a result of this filing on BA revenues. In making these projections, Staff tested its own concerns regarding toll rate reductions, MOU demand and revenue, by running various scenarios using the most recent customer counts (a/k/a Billing Telephone Numbers's or BTN) for the existing 603 Plan.

The tests indicate that rate reductions do not necessarily result in revenue reductions. However, because Bell Atlantic has lost a significant number of 603 subscribers, the demand for toll MOU by the remaining subscribers would have to increase substantially before the anticipated revenue reduction would be eliminated.

According to Staff, the conditions related to the pricing of toll services that were imposed on Bell Atlantic as a result of the Commission's Order in DE 90-002 have expired. Nevertheless, Staff believes the methodologies relied upon in that docket to establish ARPM and price floor calculations remain valid.

Although Bell Atlantic's request to limit 603 Plus to residence customers and restructure the current 603 plan is a departure from the Commission's past ruling on toll services, Staff supports the limitation. It is Staff's opinion that the arguments proffered by the Company in its Business Link filing regarding the conditions of the IntraLATA business toll market apply equally to the residence toll market. As Staff asserted in the Business Link filing, the intrastate toll market is becoming increasingly more competitive. Thus, Staff believes approval of the petition will provide Bell Atlantic the opportunity to respond to competitive pressures and retain customers by target marketing high volume residence customers with a more distinct and competitively priced service.

In Order No. 22,794, Staff also opined that a cost study in support of pricing a similar service differentially across customer classes was no longer necessary. In this particular situation, Staff does not believe that a cost study is necessary and that this requirement on Bell Atlantic should be waived. Conducting a cost study would cause unnecessary delay, prevent Bell Atlantic from responding to competitive pressures and postpone rate reductions indefinitely. Moreover, the standard by which the Commission now considers the prudence of tariff revisions is the price floor test. As discussed above, 603 Plus rates yield ARPM results in excess of the relevant price floor. Therefore, it is Staff's opinion that 603 Plus meets the aforementioned conditions and introduction of the service is in the public interest.

Staff notes, however, that departure from the principle of pricing telecommunication services on the basis of cost should be used with discretion. The movement away from the cost of service principle in this particular case is more indicative of changes in the competitive conditions of the intrastate toll market and should not be construed as a rejection of the principle of basing rates on costs.

### III. COMMISSION ANALYSIS

We find the proposed changes to the tariff just, reasonable and in the public interest. The analysis provided by Bell Atlantic demonstrates that 603 Plus service rates are appropriately set at levels which yield ARPM results above the relevant MTS A price floor. Therefore, the service rates exceed the incremental cost of providing 603 Plus service and are not subsidized by a non-competitive service.

Consistent with our decision in Order No. 22,794, we will not require Bell Atlantic to submit a cost study in support

of pricing toll services differentially across customer classes. Our decision is based on Bell Atlantic's analysis indicating that 603 Plus rates exceed incremental cost. Similarly, we again find that our prohibition in DR 89-010 against differential toll pricing among customer classes is not appropriate in this particular situation. Thus, we will depart from our previous ruling in DR 89-010 pertaining to the requirement of extending discounted calling plans to both residential and non-residential customers. Our decision is based on the premise that granting additional marketing flexibility will provide Bell Atlantic adequate opportunities to respond to changes in the intrastate toll market. The decision should not be interpreted as a rejection of cost-based principles used to develop rates for other telecommunications services.

Based upon the foregoing, it is hereby

ORDERED NISI, that the Bell Atlantic proposed tariff revisions to NHPUC No. 77 consisting of:

- Part A, Section 1, Revised page 4
- Part A, Section 9, third revision of page 10
- Part A, Section 10, second revision of page 24
- Part A, Section 10, original page 38 and 39
- Part M, Section 1, second revision of page 33
- Part M, Section 1, third revision of page 35 and it is APPROVED

FURTHER ORDERED, that pursuant to N.H. Admin. Rules, Puc 1604.03 or Puc 1605.03, the Petitioner shall cause a copy of this Order Nisi to be published once in a statewide newspaper of general circulation, such publication to be no later than March 23, 1998 and to be documented by affidavit filed with this office on or before March 30, 1998; and it is

FURTHER ORDERED, that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than April 6, 1998; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than April 13, 1998; and it is

FURTHER ORDERED, that this Order Nisi shall be effective April 16, 1998, unless the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file a compliance tariff with the Commission on or before April 16, 1998, in accordance with N.H. Admin. Rules, Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this sixteenth day of March, 1998.

Douglas L. Patch  
Chairman

Bruce B. Ellsworth  
Commissioner

Susan S. Geiger  
Commissioner

Attested by:

Thomas B. Getz  
Executive Director and Secretary