

1 **RATE DESIGN**

2

3 ***Toll Service Rates***

4

5 **Q. What have the Companies proposed regarding message toll service?**

6 A. They propose to cut MTS revenue by a total of \$3.25 million, a reduction of around

7 25%. As the Companies describe, there are six major categories of change that have

8 been proposed:

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- 10 1) establishing a single MTS tariff for both GTESW and Contel;
  - 11 2) the discontinuance of Contel's existing OCP's;
  - 12 3) introducing new Discounted Calling Plans (DCPs);
  - 13 4) changing from Day/Evening/Night/Weekend to Peak/OffPeak;
  - 14 5) establishing new Extended Area Service (EAS) Arrangements;
  - 15 6) repricing Operator Services' Surcharges. [Graham Testimony, p. 4.]

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17 **Q. Have the Companies' separately calculated the impacts of each portion of their**

18 **proposal?**

19 A. No, they have not. Mr. Graham states, "the proposed changes to MTS are not

20 mutually exclusive." [Graham Testimony, p. 19.] But, Mr. Graham has categorized the

21 revenue impacts to some degree on his Exhibit 1. A combination of the general

22 decrease in two-point MTS rates and the introduction of attractive discount calling

23 plans cause a \$7.4 million, or 60.5% reduction in Two-Point Service. This, though, is

24 paired with \$4.1 million in new Discounted Calling Plan revenue. The elimination of

25 Optional Calling plans reduces revenue by about \$34,000. The Companies' have

26 proposed roughly a \$44,000 increase in Toll Operator Services Surcharges.

1 **Q. Would you please briefly describe the mechanics of this reduction?**

2 A. Certainly. Contel currently offers Thrifty Talk, a wide variety of optional calling plans  
3 targeted toward residential consumers that offer discounts on qualifying calls. GTE  
4 Witness Graham explains that contained in these plans are "numerous options that are  
5 somewhat confusing and which are limited to specified time periods and calling scopes."  
6 [Graham, Testimony, pp. 7-8.] Business customers can select only the Volume  
7 Discount Plan which discounts volume from \$100 to \$200 per month by 5% and any  
8 volume exceeding \$200 per month by 10%. GTE has no optional calling plans. The  
9 merged Companies have proposed to abandon Contel's plans because of their  
10 limitations and offer new, more easily understood Discount Calling Plans (DCPs). For  
11 residences, the new plan offers a 25% discount on all usage if volume exceeds \$20 in a  
12 month. There is no subscription or monthly fee. Businesses select a contract length  
13 (month to month, one-year or three-year.) A matrix pairing contract term and monthly  
14 volume is used to determine the amount of the discount. An early termination penalty  
15 applies to these contracts.

16  
17 For Two-point service, the merged Companies have proposed to eliminate the current  
18 evening/night/weekend structure and replace it with an on-peak/off-peak structure. This  
19 simplified schedule includes a non-distance sensitive flat rate of \$.21 on-peak and \$.16  
20 off-peak replacing the current mileage band rate structure. The merged Companies  
21 have also eliminated charging different rates for the first and each additional minute.

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23 **Q. Do you have any comments concerning the proposal to reduce MTS revenue  
24 by 25%?**

25 A. Yes. Competition in the retail toll market is increasing and some reductions are  
26 warranted as the overall level of costs (and access rates) trends downward, particularly  
27 in the highest mileage bands.

1           However, it should be noted that the merged Companies continue to dominate the  
2           intraLATA market within the service territory--a condition which is likely to continue  
3           for the near future, as a result of the 1+ dialing advantage which they enjoy, among  
4           other factors.

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6           Most of the support of their proposal is existing and impending competition. Mr.  
7           Graham states: "Although the effect of full facility bypass has not [been] quantified, there  
8           is intraLATA toll competition in the form of 10XXX dialing [Graham Testimony, p.16.]

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10          When asked by the Attorney General to provide numerical support or sources for the  
11          thresholds, terms and related discounts proposed, or in lieu thereof, to provide the  
12          applicant's reasoning, GTE responded:

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14                 GTE's proposed rate structure is based on an evaluation of similar strategic  
15                 moves by AT&T, Sprint and MCI. The Company's MTS service is coming  
16                 under increasing pressure from 10XXX dialing and the national advertising that  
17                 these competitors use to influence this dialing pattern.

18  
19                 GTE, in an attempt to preserve their perception in the market, chose the  
20                 proposed rate structure and rate levels. [GTE, Response to Attorney General's  
21                 First Interrogatories and Request for Production of Documents, AG 1-4.]

22  
23          Mere references to the existence of other competitors in the intraLATA toll market is  
24          not a very strong basis for changing rates. The Companies' have, though, attempted to  
25          quantify the emerging competition. Mr. Graham references an example in Ms.  
26          Robinson's testimony. He states that the 7.1 million Originating Carrier Common Line  
27          intrastate intraLATA switched access minutes purchased by IXCs during the test year

1 could have only come about from toll customers placing 10XXX calls within the  
2 GTE/Contel area. Adding these "lost" minutes to the current Two-Point Service  
3 Minutes suggests the total in a LATA toll market for GTE/Contel end users in New  
4 Mexico, according to Graham. Since those 7.1 million minutes represent 10.5% of the  
5 total market, Mr. Graham claims this is the amount of the market that has been lost to  
6 competition. If so, GTE/Contel still command 89.5% of the market.

7  
8 **Q. What is the relationship between the merged Companies' proposed toll and**  
9 **access rates?**

10 A. Recalling my earlier testimony, the Companies have proposed a composite access rate  
11 of \$0.0545 in this proceeding. According to the exhibits of Witness Graham, the  
12 Companies' proposal will result in 25,25,680,067 Two-Point MTS minutes that  
13 generate \$4,842,475 in revenue. Additionally, the proposed new Discounted Calling  
14 Plans will involve 28,824,320 minutes and generate \$4,149,052 in revenue for a total  
15 of 54,504,387 minutes billed for \$8,991,527. [Graham Exhibits 1 A and 1D.] The  
16 resulting average revenue per minute is \$0.1650.

17  
18 Access minutes cannot be directly compared to billed MTS minutes. In response to  
19 Staff's Request STF 13-7, GTE provided a formula for converting billed toll minutes to  
20 access minutes. After applying this formula, it is apparent that GTE/Contel has  
21 proposed toll revenues per minute that are about one and a half times their proposed  
22 access revenues per minute. Logically, toll revenues should be higher than access  
23 revenues, since toll service involves additional retail functions and costs which are not  
24 included in access service.

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26 Additionally, recalling my testimony concerning access rates, I have recommended a  
27 more modest reduction in the access category. I recommend that a reasonable balance

1 be maintained between the retail toll and wholesale access rates. As discussed earlier, I  
2 have recommended a 17.16% overall reduction in access rates. Given this  
3 recommendation, I believe a toll rate reduction of approximately 20% would be  
4 reasonable and appropriate.

5  
6 **Q. Do you have any comments on the elements of the Companies' proposal and**  
7 **how this roughly 20% revenue decrease should be implemented?**

8 A. Yes. In general I agree with a move toward the merger of toll rates into a flat rate.  
9 However, the combination of the proposal to eliminate distance sensitive pricing and to  
10 eliminate the pricing distinction between first and additional minutes creates an increase  
11 in the rate for four minute toll calls over the shorter mileage bands. I recommend that  
12 there continue to be a graduation of rates with calling distances, but that the number of  
13 mileage bands be reduced. Calls beyond the 30 mile band can be grouped together into  
14 a single rate, while calls to shorter distances should be priced at a lower rate. I do not  
15 object to the elimination of first and additional minute rate elements nor to the  
16 introduction of on and off-peak pricing

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18 The introduction of the new Discount Calling Plan will result in a disproportionate share  
19 of the revenue reduction being allocated to heavy toll users. I am not opposed to the  
20 introduction of such a plan, rather that the thresholds for which discounts begin are  
21 lowered and the applied discounts for the heavier users are decreased.

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23 In the compliance phase of this docket, the Commission should order that the  
24 Companies determine a new set of rates that result in a reduction of approximately 20%  
25 to overall MTS revenue with a greater share of the reduction going to the lower to  
26 moderate users of toll service.

1       **Q.     Please comment on the Companies' proposal to add Extended Area Service**  
2       **arrangements.**

3       A.     Certainly. The Companies have proposed eleven new two-way, non-optional EAS  
4       arrangements. GTE/Contel believes that, "the Instant Case is the appropriate time for  
5       the establishment of these new EAS routes within the GTE Companies' operating area.  
6       Appropriate service costs can be stated and proper rate treatment can be decided in  
7       this Docket. [Graham Testimony, p. 6.]

8  
9       **Q.     What is the expected cost of the new arrangements?**

10      A.     GTE expects to invest around \$440,000 in additional central office equipment and  
11      interexchange facilities. Based on current annual charge factors, this would create a  
12      \$143,080 annual revenue requirement. In addition, \$2,523 in additional labor costs are  
13      expected.

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15      **Q.     How do the Companies propose to recover these costs?**

16      A.     As discussed previously, the Commission ordered a \$8.3 million reduction in revenue in  
17      this proceeding. The Companies have proposed to subtract the costs of the EAS  
18      arrangements from this amount, resulting in a revenue reduction of \$8.15 million that is  
19      then applied to the local, access, toll and miscellaneous categories.

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21      **Q.     Do you agree with the companies' EAS proposal?**

22      A.     No, I do not. It is my understanding that in Docket No. 93-334-TC, the Commission  
23      decided to place applications for new EAS arrangements on hold. According to the  
24      Order following that case: The Commission hereby declares and orders a moratorium  
25      on the filing of further applications and petitions for EAS or for expansion of any local  
26      calling areas pending the conclusion of an EAS rulemaking in this docket. [Order,

1 Docket 93-334-TC, p.2.] Because of this moratorium, I recommend this proposal be  
2 denied.

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4 **Q. Have you analyzed the Companies' proposal to reprice operator surcharges?**

5 A. To a limited degree. The Companies have merged rates and have proposed to move  
6 toward nationwide prices that reflect prevailing national market conditions. The  
7 proposed rates are GTE's national target rates. Currently, GTE charges \$.50 for calling  
8 card calls, \$1.10 for station-to-station, and \$3.14 for person-to-person. Contel's rates  
9 for the same services are \$.58, \$1.27, and \$3.62, respectively. The merged tariff  
10 consists of a \$.60, \$1.25, and \$3.50 charge for each of the three services. Mr. Graham  
11 points to the \$.60, \$1.30, and \$3.42 rates of US West within New Mexico for  
12 comparison. The proposed rates for these services seem reasonable, for use in a  
13 merged tariff, and thus I agree with this portion of the Companies' proposal.

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