

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of an Investigation into
Northwestern Bell Telephone Company's
Optional Measured Service Trial Offerings

ISSUE DATE: March 14, 1988

DOCKET NO. P-421/CI-88-152

ORDER INITIATING INVESTIGATION

PROCEDURAL HISTORY

Optional Measured Service (OMS) is local exchange service furnished with rates for an exchange access line and usage. The rates for usage vary based on the number of calls placed, the duration, distance and time of day of each call. By tariff, Northwestern Bell Telephone Company (NWB or the Company) has agreed to cap the monthly residence billing for the exchange access line and usage at 125% of the current one-party residence flat rate charges in a particular exchange.

NWB established a 30-month trial of its OMS offering to comply with the Order of the Minnesota Public Utilities Commission (the Commission) in In the Matter of the Petition of Northwestern Bell Telephone Company, Minneapolis, Minnesota, for Authority to Change its Schedule of Telephone Rates for Customers within the State of Minnesota, Docket No. P-421/GR-80-911 (December 29, 1981).

The trial originally incorporated the exchanges of Brainerd, Rochester and all electronic central offices in the Minneapolis-St. Paul metropolitan area. The Commission approved expansion of the OMS trial to an additional fifteen metro and twelve outstate exchanges in separate filings. These are listed in Attachment I.

NWB filed reports on the trial on June 29, 1983, October 4, 1984, and March 19, 1985.

FINDINGS AND CONCLUSIONS

The Commission finds that NWB's trial of optional measured service has existed for a substantial time period. In its Order in In the Matter of the Petition of Northwestern Bell Telephone Company, Minneapolis, Minnesota, for Authority to Change Its Schedule of Telephone Rates for Customers Within the State of Minnesota, Docket No. P-421/GR-82-203 (September 1, 1983) at 2:

While the Commission believes that OMS may recover the Company's costs from customers in a more equitable manner, and may permit customers to exercise greater control over their expenditures for telephone service, and may allow customers with limited economic resources to remain on the telephone network, the Commission is aware that the uncontrolled indiscriminate expansion of OMS may be detrimental to interests of both the Company's customers and its shareholders.

The Commission notes that the Company is losing more than \$2.5 million per year on OMS in comparison to the same service charged at flat basic service rates and that OMS rates have not been thoroughly reviewed and determined to be reasonable in a general rate case. The Commission finds that OMS is structured to provide access rates which are lower than cost, and usage rates that are higher than cost. Clearly, only low usage customers choose OMS. High usage customers generally choose flat rates. A revenue shortfall is generated when low use customers take a below-cost service. This shortfall must be made up by other customers.

The Commission finds that NWB's OMS trial has generated sufficient data for the impacts and the rates of OMS to be evaluated. Pursuant to Minn. Stat. § 237.081, subd. 1 (1986), the Commission has the express authority to summarily investigate any matter relating to any telephone service for any reason. Further, Minn. Stat. § 237.06 (1986) requires the establishment of fair and reasonable rates. The Commission concludes that it will initiate a summary investigation into NWB's provision of OMS, the reasonableness of the rates, and the impact of the service on other rates and the Company's general body of ratepayers.

The Commission will direct NWB to submit a report within six months which addresses the following issues:

1. What are the costs of implementing OMS in a metro exchange?
2. What are the costs of implementing OMS in an outstate exchange?
3. What are NWB's current usage (switching and transport) costs?
4. What are NWB's current access (loop) costs? How are the loop costs allocated among the various services using the loop?
5. What is the relationship between OMS rates and flat rates?
6. What has been the effect of OMS on central office investment?
7. What has been the effect of OMS on customer traffic patterns?
8. What effect has OMS had on maintaining universal access to telephone service? Who is choosing OMS? What is the average length of time customers subscribe to OMS? When customers move, do they continue to subscribe to OMS at their new residence?
9. What is the impact of OMS on flat rates and Company revenues?

10. What are the revenues from OMS (residential, business, and total) for each exchange in the OMS trial?
11. What has been the impact of OMS on usage? NWB estimated that 4% of residential and 19% of business customers would subscribe to OMS. What have been the actual percentages of subscribers? What are the subscribership levels in the Minneapolis-St. Paul metro area? Outstate urban areas? Rural areas? What is the total number of residential measured service lines?
12. How many complaints has the Company received on OMS since the trial began? What have been the most common complaints?
13. What is the number of lines that exceed the monthly usage allowance? What is the percentage of lines that exceed the allowance?
14. What is the average number of local calls placed by a residential customer? A business customer? What is the average length of conversation time? What is the total of the average bill for residential customers? Business customers?
15. What is the local usage revenue not billed because of 125% cap?
16. What is the average local usage billing per line? What is the number of lines with the 125% cap involved? Percentage of lines with the 125% cap involved?
17. What is the distribution of lines by local usage revenue before the allowance and when the 125% capped rate is applied?
18. What is the distribution of calls by access lines?
19. What is the number of completed calls by time of day?

Parties will be given an opportunity to file comments on NWB's report.

The Commission does not intend to limit parties' ability to address other relevant issues. Interested parties are requested to clearly identify which issue(s) they are addressing and whether there is sufficient evidence in the revenue information filed by NWB, comments of other parties, and exhibits to allow the Commission to decide these issues. If not, the Commission urges interested parties to identify the specific evidence challenged or needed to be introduced for the Commission to resolve the questions.

ORDER

1. The Commission hereby initiates a summary investigation, pursuant to Minn. Stat. § 237.081 (1986) of Northwestern Bell Telephone Company's Optional Measured Service trial. The

exchanges in the trial are listed in Attachment I.

2. As part of the investigation, Northwestern Bell Telephone Company shall submit a report to the Commission and serve it on all parties addressing the issues described above within six months of the issue date of this Order.
3. Parties shall have 45 days to submit comments on the report.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)

**Northwestern Bell
Optional Measured Service Tariffs**

<u>Metropolitan Exchange</u>	<u>Docket Number</u>
24th Avenue	P421/M-83-148
Pillsbury	P421/M-83-570
Bryant	P421/M-83-652
Spring Lake Park	P421/M-84-7
Front	P421/M-84-103
Central	P421/M-84-126
Excelsior	P421/M-84-358
Hamel	P421/M-85-326
Hanover	P421/M-85-326
Navarre	P421/M-85-326
Eden Prairie	P421/M-85-326
Brooklyn Center	P421/M-87-118
Fort Snelling	P421/M-87-118
Lexington	P421/M-87-118
Burnsville	P421/M-87-561

<u>Outstate Exchanges</u>	<u>Docket Number</u>
Albert Lea	P421/M-83-651
Breckenridge	P421/M-83-651
Duluth (Melrose)	P421/M-83-651
Moorhead	P421/M-83-651
St. Cloud	P421/M-83-651
Austin	P421/M-87-118
Owatonna	P421/M-87-118
Bemidji	P421/M-87-561
E. Grand Forks	P421/M-87-561
Fergus Falls	P421/M-87-561
Wadena	P421/M-87-597
Windom	P421/M-87-619
Cold Spring	P421/M-87-674