P-421/EM-91-190 ORDER GRANTING INTERVENTION PETITION, APPROVING CHANGES IN NONRECURRING CHARGES, REQUIRING CUSTOMER NOTICE, AND REQUIRING FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of a Petition to Restructure Nonrecurring Charges by Replacing Service Charges with Product Specific Charges

ISSUE DATE: March 26, 1992

DOCKET NO. P-421/EM-91-190

ORDER GRANTING INTERVENTION PETITION, APPROVING CHANGES IN NONRECURRING CHARGES, REQUIRING CUSTOMER NOTICE, AND REQUIRING FURTHER FILINGS

PROCEDURAL HISTORY

I. Proceedings to Date

On March 13, 1991, U S WEST Communications, Inc. (U S WEST or the Company) filed a petition to change its rate structure for nonrecurring charges. The Company proposed to introduce product-specific charges in place of the general charges currently in use. The Company claimed the financial effects of the proposal were revenue neutral and that the restructuring was necessary to comply with statutory accounting requirements. On June 13, 1991 U S WEST filed corrections to its March 13 filing.

On July 30, 1991, the Department of Public Service (the Department) filed a report and recommendation on the Company's proposal. In that filing, the Department supported the rate decreases that would result from the proposal and opposed the rate increases. The Department also recommended requiring the Company to file further information and to notify all parties to its last general rate case of the proposal.

The Company modified its proposal in response to Department concerns, and on October 3, 1991 the Department filed a supplementary report recommending approval of the Company's modified proposal.

On October 31, 1991, the Minnesota Independent Payphone Association (the Association) filed a petition to intervene in the proceeding. The Association opposed the rate restructuring as applied to customer-owned payphones, claiming the proposed charges were excessive and discriminatory.

On November 8, 1991, the Commission issued a Notice of Comment Period, establishing a comment period on the proposal expiring November 25, 1991. The notice was served on all parties to the Company's last general rate case and last earnings investigation.

The matter came before the Commission on February 5, 1992.

FINDINGS AND CONCLUSIONS

II. The Company's Proposal

At present, U S WEST has three categories of nonrecurring charges for most services not provided on an ongoing monthly basis: central office line charges, service order charges, and record change charges. The most common examples of services subject to these charges are new service installations, changes in directory listings, installation or removal of custom calling features, and installation or removal of additional lines.

Briefly, central office line charges are intended to cover the costs of changing the network configuration, service order charges to cover processing costs, and record change charges to cover record-keeping costs. The service order and record change charges are higher for new service than existing service. They are also higher for business customers than residential customers. The central office line charge is the same for new and existing service and for residential and business customers.

Currently, nonrecurring charges recover nonrecurring costs in the aggregate, but have fairly tenuous links with actual costs in individual cases. In preparing this filing, the Company conducted cost studies to determine the costs of installing, removing, and changing particular service features, or products. The Company now proposes to establish product-specific charges reflecting the actual nonrecurring costs associated with individual products. Nonrecurring charges associated with some products would increase; those associated with others would decrease. For example, the charge to residential customers for adding touchtone would drop from $12.25 to $2.00, while the charge for adding a new business line would increase from $34 to $45. All rate increases proposed under the filing are to business and customer-owned coin telephone rates.

The stated purpose of the filing is to allow the Company to comply with the statutory directive to account separately for costs and revenues associated with competitive and noncompetitive services. Minn. Stat. § 237.62 (1990). Under the statute, it can no longer group together nonrecurring costs and charges for competitive and noncompetitive services.

Although the Company expects the rate restructuring to be revenue neutral, it proposes to track revenues from nonrecurring charges for one year after implementation and to refund any increase in revenues attributable to the restructuring.

III. Comments of the Parties

The Department recommended approving the Company's proposal, which had been modified in response to earlier Department concerns.

The Minnesota Independent Payphone Association (the Association) challenged the proposal to increase installation charges for customer-owned coin-operated telephones (COCOTS) from approximately $34 to $60 as excessive and discriminatory. The Association advocated setting COCOT installation charges at the $45 level proposed for business lines and asked the Commission to initiate a comprehensive investigation into U S WEST's COCOT pricing policies and practices.

IV. Commission Action

A. Appropriateness of Restructuring in General

The Commission agrees with the Company that it was obligated to separate nonrecurring charges for competitive and noncompetitive services after electing streamlined regulation under Minn. Stat. § 237.58 (1990). The Commission finds that the rate restructuring proposed by the Company is just and reasonable, promotes the statutory objective of separating competitive and noncompetitive costs and revenues, and should be approved, subject to safeguards set forth below.

B. Revenue Neutrality

The Company maintained from the start that this rate restructuring was, and was intended to be, revenue neutral. That means the Company would collect the same total revenues it would have collected under the old rate schedule; it would just collect them in different amounts from different customers. Revenue neutrality is important because U S WEST is operating under an incentive plan that, reduced to its simplest terms, gives the Company a chance to earn more than its authorized rate of return in exchange for rate stability over the life of the plan. Although the need to bring nonrecurring rates into conformity with costs and statutory accounting requirements must take precedence over rate stability in this case, it would defeat the purpose of incentive regulation and thwart public expectations for Company earnings to increase by reason of this rate change.

The cost studies, market data, and financial projections filed by the Company support its contention that the proposed rate restructuring will be revenue neutral. Any rate restructuring, however, carries with it the potential for unpredicted, and unpredictable, outcomes. Therefore, the Commission agrees with the Company and the Department on the need for careful tracking of nonrecurring charge revenues for a year after restructuring, to allow early detection of any untoward effects and prompt refund of any increase in nonrecurring charge revenues due to the restructuring.

The Commission will require the Company and the Department to work together to develop a procedure for comparing nonrecurring charge revenues before and after the restructuring. The parties shall consider developing a procedure incorporating three years of data, and shall control for changes in demographics and general economic conditions as far as possible.

The Commission agrees with the Company that any overcollection of nonrecurring charges should be refunded pro rata to all regular business and COCOT customers. Although it would be more accurate and equitable to make exact refunds to individual customers, the cost of that method would be prohibitive.

C. Customer Notice

The Commission will require that customers be notified of the changes in nonrecurring charges at least 30 days before they appear on their bills. The Company will be required to submit a billing insert or other customer notice for approval by Commission staff.

D. Customer-Owned Coin Operated Telephone Issues

1. Intervention

Minn. Rules, part 7830.0600 provides that persons or associations may intervene in a Commission proceeding if they will be affected by the outcome differently than members of the general public or the general body of ratepayers. Clearly, members of the Minnesota Independent Payphone Association (the Association) will be affected by this rate restructuring in a different way than members of the general public. They should be granted party status to assert their particular interests. Their petition to intervene will be granted.

2. Reasonableness of Proposed COCOT Installation Rates

The Association challenged the Company's assertion that the costs of installing customer-owned coin-operated telephones (COCOTS) exceed the costs of installing standard business lines. The Association therefore challenged proposed COCOT installation rates as excessive and discriminatory and asked that COCOT installation rates be set at the same level as installation rates for standard business lines. The Commission disagrees.

The Company used the same procedure to determine the cost of installing a COCOT and the cost of installing a standard business line; the cost of installing a COCOT was determined to be substantially higher. The Company identified the tasks required for each installation, determined the average time needed to perform each task,[1] and applied the labor rate for the personnel assigned to each task. This is a reasonable method for determining the cost of a labor-intensive procedure and an adequate factual basis for a finding of just and reasonable rates. The record demonstrates that Company costs for installing COCOTs exceed Company costs for installing standard business lines and supports the proposed COCOT installation rate of $60.

3. Comprehensive Examination of COCOT Rates

The Association also asked the Commission to expand this docket to include a comprehensive investigation of U S WEST's COCOT pricing policies. The Commission considers this inadvisable. The scope of this proceeding is already broad; expanding it to include general COCOT pricing policies could make it completely unwieldy. Furthermore, the Commission is not convinced there is an immediate need to investigate the Company's COCOT pricing policies. The evidence in this record, which relates to nonrecurring charges, does not support the claim that those policies are discriminatory or anticompetitive.

Finally, the Commission believes that if it were appropriate to examine COCOT pricing policies in general, it would be more productive to do that after the Company has completed an internal long run incremental cost study on public telephone service now underway. The Company expects to finish the study in late spring of this year. The Commission will require the Company to file the completed study with the Commission and to serve it on the parties to this proceeding. This will ensure an additional opportunity to examine overall COCOT pricing practices, should such an examination be warranted.

ORDER

1. The intervention petition of the Minnesota Independent Payphone Association is granted.

2. The restructuring of nonrecurring charges proposed by the Company is approved, with an effective rate change date of May 7, 1992.

3. On or before May 7, 1992 the Company shall file new tariff and price list pages reflecting the rate restructuring.

4. If the Company decides to delay implementation of the rate restructuring for any reason, it shall file notice with the

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[1] The Company used employee surveys to determine the average time required to perform each task.

Commission and propose a new effective date.

5. The Company shall notify all customers of the rate restructuring at least 30 days before implementation. The Company shall submit for approval by Commission staff a proposed customer notice.

6. For one year following implementation, the Company shall maintain records sufficient to allow it to refund any increase in nonrecurring charge revenues resulting from this rate restructuring.

7. The Company shall work with the Department to develop a procedure and format for comparing nonrecurring charge revenues before and after implementation of this rate restructuring. By August 7, 1992 the Company and the Department shall file a status report on these discussions. By November 7, 1992 they shall file a proposed procedure and format for making that comparison.

8. In complying with paragraph 6, the Department and the Company shall consider using three years of data and incorporating the following factors into their final procedure for comparison: demographic changes, general economic climate, and the effects of other price changes or promotions on nonrecurring charges.

9. On or before August 7, 1993 the Company shall file a report on the effects of the rate restructuring on Company revenues, including a comparison between revenues from nonrecurring charges before and after the restructuring. The filing shall include a plan for refunding any revenue increase resulting from the rate restructuring, which refund may be distributed on a pro rata basis to all business and COCOT subscribers.

10. On or before October 7, 1993 the Department shall its report and recommendation on the Company's August 7, 1993 filing, including the Department's recommendation on refund issues.

11. On or before September 30, 1992 the Company shall file with the Commission and serve on all parties to this proceeding its 1992 Public Telephone Service Long Run Incremental Cost Study currently in progress. This filing shall state the monthly and nonrecurring costs of providing public, semi-public, and COCOT service; shall list the imputed costs included in the rates for each service; and shall clearly set forth and explain any rate changes proposed as a result of the study.

12. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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