P-421/CP-92-140 ORDER ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

In the Matter of a Petition for Extended Area Service From the Moose Lake Exchange to the Duluth, Cloquet, and Carlton Exchanges	ISSUE DATE: April 13, 1993 DOCKET NO. P-421/CP-92-140 ORDER ADOPTING RATES FOR POLLING

PROCEDURAL HISTORY

On February 18, 1992, subscribers in the Moose Lake exchange filed a petition for extended area service (EAS) from Moose Lake to the Duluth, Cloquet, and Carlton exchanges.

On May 21, 1992, the Commission issued its ORDER REQUIRING COST STUDIES AND PROPOSED RATES.

On July 1, 1992, U S West Communications, Inc. (USWC) filed proposed rates and cost study.

On August 31, 1992, the Minnesota Department of Public Service (the Department) filed its report and recommendations in this matter.

On September 21, 1992, USWC filed comments in response to the Department's report.

On October 5, 1992 and November 2, 1992 respectively, USWC and the Department filed responses to Commission Staff information requests.

On January 21, 1993, the Department supplemented its report.

FINDINGS AND CONCLUSIONS

In this Order the Commission will determine the rates that will appear on the EAS ballots distributed to Moose Lake customers. Calculation of those rates depends on 1) the amount of revenue that must be raised to defray the costs of installing and providing EAS over the proposed EAS route: Moose Lake to the local calling area (LCA) composed of the Duluth, Carlton, and Cloquet exchanges (herein referred to as the Duluth LCA), and 2) the split in the revenue amount between Moose Lake and the LCA. In addition, the Commission will determine how the revenue amount allocated to the LCA will be split between the three exchanges comprising the Duluth LCA.

Revenue Amount

The Commission has reviewed the cost estimates used by USWC in projecting its revenue requirement to install and provide the requested EAS and finds that these costs are reasonable. Accordingly, the Commission will approve USWC's proposed revenue requirement.

The Department objected to the figure USWC used for its cost of money in calculating its revenue requirement. The Department's argument on this point has been addressed and dismissed in previous dockets. See, e.g. In the Matter of the Petition of Certain Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/CP-86-272, ORDER DENYING PETITION FOR RECONSIDERATION AND REHEARING (August 18, 1992), pp. 2-3 and In the Matter of a Petition for Extended Area Service Between the Monticello Exchange and the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-404, 421, 430, 407, 405, 520, 426/CP-89-1039, ORDER REQUIRING REFILED COST STUDIES AND PROPOSED RATES (December 4, 1992), pp. 9-11.

Allocation of EAS Costs Between the Petitioning Moose Lake Exchange and the Petitioned Duluth LCA

On this issue, the EAS statute divides EAS petitions into two groups: petitions for EAS to the metropolitan calling area and all other EAS petitions. For petitions to the metropolitan calling area (MCA) the statute mandates that the petitioning exchange rates defray 75% of the costs of providing EAS. For other petitions, however, the statute leaves to the sound discretion of the Commission what percentage (between 50 and 75%) of EAS costs the petitioning exchange will be required to defray in its rates. Minn. Stat. § 237.161, subd. 3 (a) (1990).

The Department and USWC argued that because the EAS implementation process allows Moose Lake subscribers to vote whether EAS will be installed but denies the same opportunity to subscribers in the petitioned local calling area, it is fair that Moose Lake defray the maximum statutory amount of EAS costs, i.e. 75% of those costs.

As indicated in previous dockets where the Department has made this argument, the Commission does not find this consideration dispositive.[1] The legislature did not establish a presumption that the petitioning exchange, because it gets to vote, must pay 75% of the costs. According to the statutory process, subscribers in the petitioning exchange are always the only subscribers polled in all cases. Knowing this, the legislature clearly stated that rates for non-metro petitions could be set

[1] For a similar discussion and analysis see: In the Matter of a Petition for Extended Area Service From the Loman Exchange to the International Falls, Ericsburg, and Ranier Exchanges, Docket No. P-407/CP-90-547, ORDER ADOPTING RATES FOR POLLING (March 25, 1992).

between 50 and 75 percent, thereby indicating that other factors must be considered in deciding what percentage of cost to be allocated to the petitioning exchange.

In choosing what percentage (between 75 and 50 percent) of EAS costs it will impose on the petitioning exchange, the Commission's discretion is guided by Minn. Stat. § 237.161, subd. 3 (b) (1990). That statute requires the Commission to consider the interests of all parties when determining a fair and equitable EAS rate. The Commission's ultimate goal, then, is to select a cost allocation that results in fair and equitable rates for both the petitioning and petitioned exchanges.

In this case, the Commission is concerned about the potential cumulative effect of EAS additives on subscribers whose exchanges are already part of the Duluth LCA. As more and more exchanges join the Duluth LCA, those additives could become unduly burdensome, especially if they are set at the high end of the authorized range, 50 percent. In that light, the Duluth LCA is similar to the Minneapolis/St. Paul metropolitan calling area (MCA) which by statute may only be assessed 25 percent of the EAS costs occasioned by additional exchanges joining the Minneapolis/St. Paul MCA. Moreover, since the law requires the Commission to assess at least 25 percent of new EAS route costs to the LCA exchanges, the Commission will have little recourse if it finds that the cumulative effect of these additives is unduly burdening subscribers in the LCA exchanges. In these circumstances, the Commission finds that it is more prudent and fairer to allocate at the lower end of the discretionary range, i.e. 25 percent of the costs of installing and providing the requested EAS.

<u>Cost Allocation Between the Exchanges Comprising the Duluth LCA</u>

The EAS statute is silent regarding how the portion of the revenue requirement allocated to a local calling area (25 percent in this case) should be allocated between its constituent exchanges. The Commission has stated that methods for apportioning EAS costs between exchanges in local calling areas will be decided on a case by case basis. <u>In the Matter of a Petition for Extended Area Service from Cherry Grove to Preston and Harmony/Granger</u>, Docket No. P-407, 421, 401, 532/CP-91-237, ORDER ADOPTING RATES FOR POLLING (September 22, 1992), p. 6.

There are a number of possible intra-LCA cost allocation methods. For instance, the Relative Traffic Allocation Method totals the minutes of use (MOUs) between each LCA exchange and the petitioning exchange and determines what percentage of that total use calculated each LCA exchange has produced. The total revenue requirement allocated to the LCA is then split among the LCA exchanges on the basis of their percentage of total MOUs between the LCA and the petitioning exchange. To illustrate: if the revenue requirement allocated to the LCA was $100 and the total MOUs between the LCA and the petitioning exchange was 100 minutes, and the Duluth exchange generated 50 of those minutes (50%) and both Cloquet and Carlton generated 25 minutes (25%), the total LCA revenue requirement ($100) would be split between the three exchanges as follows: Duluth - $50; Cloquet - $25; and Carlton - $25.

Another approach is the Access Line Allocation Method. Under this method the revenue requirement allocated to the LCA is split between its three constituent exchanges on the basis of percentage of access lines that each exchange has of the total number of access lines in the three exchanges. To illustrate: if the total revenue requirement allocated to the LCA is $100 and the total lines in the LCA exchanges are 1,000, and the Duluth exchange had 900 (90%) of those lines, Cloquet had 70 (7%), and Carlton had 30 (3%) of those lines, the split of the LCA revenue requirement would be: Duluth-$90; Cloquet-$7; and Carlton-$3.[2]

In this case, the Department and USWC recommended another allocation method referred to in this Order as the Stand Alone Allocation Method. Under this method, the initial step taken in the two methods previously discussed is not taken. Costs of providing EAS between Moose Lake and the Duluth LCA as a whole are not totaled and then allocated between the Moose Lake exchange and the Duluth LCA as a whole on a 75/25 basis. Instead, the cost of providing EAS between Moose Lake and each exchange which is part of the Duluth LCA is calculated separately. The amount calculated for each of the three routes (Moose Lake-Duluth; Moose Lake-Cloquet; and Moose Lake-Carlton) is then split between Moose Lake and the particular exchange in question on 75/25 basis. In short, this allocation method treats each member of the Duluth LCA as if it were the only petitioned exchange. The revenue requirement for each route is calculated and split as follows: 75 percent of that cost to the petitioning Moose Lake exchange and 25 percent to the particular LCA exchange in question.[3]

The Commission finds that this is a reasonable approach and will approve it. Under this method, the allocated percentage of costs incurred to provide EAS between Moose Lake and each exchange will be borne by that exchange.

ORDER

1. The Commission hereby adopts extended area service (EAS) rates for the Moose Lake exchange that

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[2] This is the method used by the Commission for the Granger/Harmony LCA in the Order cited above.

[3] The converse of this individualized process, of course, is used to calculate the EAS rate for the petitioning exchange: the EAS rate for the petitioning exchange is based on the sum of the costs of providing EAS from the petitioning exchange to each exchange in the petitioned LCA.

a. are calculated using USWC's cost of money figure;

b. allocate to Moose Lake 75 percent of the costs of providing EAS to each of the three exchanges comprising the Duluth local calling area (LCA): Duluth, Cloquet, and Carlton; and

c. comply with Minn. Stat. § 237.161 (1990) in all other respects as well.

2. The EAS rates thus adopted for the Moose Lake exchange are as follows:

1 FR	$ 7.48
2 FR	5.73
1 FB	18.66
TRK	20.45
SemiPub	18.66

3. The EAS rate additives for each of the three exchanges comprising the Duluth LCA are calculated using the stand alone method described in the text and as follows:

Carlton

1 FR	$ .26
2 FR	.18
1 FB	.63
TRK	.74
SemiPub	.63

Cloquet

1 FR	$ .14
2 FR	.07
1 FB	.32
TRK	.37
SemiPub	.32

Duluth

1 FR	$ .05
2 FR	.01
1 FB	.10
TRK	.12
SemiPub	.10
1 MB	.29

4. U S West Communications, Inc. (USWC) shall cooperate fully with Commission Staff and Commission contractors to expedite the polling of Moose Lake subscribers. As part of this cooperation, USWC shall provide Commission Staff upon request with a complete and accurate customer list for the Moose Lake exchange and associated information in a timely fashion.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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