

P-421/CP-87-352 ORDER ESTABLISHING RATES FOR POLLING AND ADOPTING
LOWER PRICED ALTERNATIVE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
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In the Matter of the Petition of Certain
Subscribers in the Northfield Exchange for
Extended Area Service to the Minneapolis/St.
Paul Metropolitan Calling Area

ISSUE DATE: September 2, 1994

DOCKET NO. P-421/CP-87-352

ORDER ESTABLISHING RATES FOR
POLLING AND ADOPTING LOWER
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PROCEDURAL HISTORY

On December 14, 1993, the Commission issued its ORDER REQUIRING REVISED COST STUDIES AND PROPOSED RATES, adopting the Department's recommendations that the local exchange companies (LECs) involved in this matter be required to refile cost studies to reflect the lower, stipulated cost of money for USWC and the cost of money and access rates from the Vista rate case, Docket No. P-405/GR-93-2. The Commission's Order affected this and a companion matter, the Cannon Falls EAS petition (Docket No. P-407, 421/CP-87-216).

In January 1994, the LECs refiled their cost studies and proposed rates and on February 2, 1994, the Department submitted a recommendation that the companies refile using the lower stimulation factor of 4 that the Commission had recently approved for use in the settle-up filings in the Belle Plaine, Cologne, New Prague and Waconia EAS dockets and the pending Big Lake-Metropolitan Calling Area (MCA) EAS docket.

On March 23, 1994, the Commission issued its Order directing the use of the stimulation factor of 4 in the Northfield docket and requiring the refiling of cost studies and proposed rates.

Between April 25 and June 1, 1994, the LECs filed their revised cost studies and proposed rates to reflect the stimulation factor of 4.

On July 5, 1994, the Department submitted its comments to the Commission. No party submitted comments in response to the Department's report.

On August 23, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In this Order, the Commission will address several issues affecting the establishment of rates for EAS between Northfield and the metropolitan calling area (MCA). Then, the Commission will adopt rates consistent with its treatment of those issues.

Finally, the Commission will address USWC's lower priced alternative to the proposed EAS and other issues bearing on what information should be provided Northfield subscribers as part of the

balloting process.

1. Rate Impacts Due to the Addition of Zimmerman and Monticello to the MCA

For every toll call between the Northfield exchange and the MCA, the interexchange (long distance) carriers (IXCs) pay a toll access charge to USWC, the local exchange company (LEC) serving Northfield and to the LEC that serves the exchange where the call terminates. Access charges are payments to the LECs for the use of their facilities for originating and terminating such calls.

Due to polling results confirmed in recent months, the Zimmerman and Monticello exchanges have become a part of the MCA. If the current Northfield petition is likewise successful, that exchange will also join the MCA. As a consequence, calls from Northfield to Zimmerman and Monticello that were formerly toll calls will become local calls for which no toll access charge, of course, would be paid.

The LEC serving the Zimmerman exchange, Sherburne County Rural Telephone Company (SCRTC), has filed a request to recover the lost access contribution it claims it would experience for the loss of toll calling between the Zimmerman and Northfield exchanges. SCRTC submitted traffic data supporting its claim. In short, SCRTC is requesting that it receive a slice of the Northfield EAS revenue requirement adequate to offset its access charge loss, thereby maintaining it (SCRTC) income neutral as required by Minn. Stat. § 237.161, subd. 3 (b) (1992).

In its cost study, USWC did not include an amount to cover the lost toll contribution for the Zimmerman-Northfield route. Using the data supplied by SCRTC, however, the Department has calculated the amount of access contribution that SCRTC collects from IXCs for toll calling between the Zimmerman and Northfield exchanges. According to the Department's calculation, which the Commission finds valid, inclusion of this amount in the Northfield revenue requirement and reimbursement of SCRTC for its loss of Northfield-related access contribution can be done without increasing USWC's proposed rates for Northfield subscribers.

It is possible that the telephone company serving the Monticello exchange, Bridge Water Telephone Company (Bridge Water) similarly will experience some Northfield-related loss of toll access revenue if EAS is established between Northfield and the MCA (which now

includes Monticello). However, Bridge Water has not made that claim and has submitted no data to verify that potential.

In these circumstances, the Commission will allow the inclusion of the Zimmerman exchange in the calculation of the proposed rates but will not allow the inclusion of the Monticello exchange. Suspending the Northfield petition to await the filing of such information from Monticello and receive the Department's comments thereon would unreasonably delay the processing of this petition. The size of the MCA and the LECs' specific costs are in a state of flux. There has to be a cutoff point to use in calculating the proposed rates. In this case, the Department was able to calculate the effect of the Zimmerman-Northfield lost access contribution on the proposed rates for EAS because information was filed in a timely manner.

2. GTE and United Earnings Investigations

On April 18, 1994, the Department reached a settlement with GTE concerning the level of GTE's earnings for its Minnesota operations. The Commission approved the settlement in its July 11, 1994 ORDER ADOPTING SETTLEMENT AND REDUCING RATES AND REQUIRING NOTICE TO CUSTOMERS AND FILING OF TARIFFS in Docket No. P-407/CI-94-366. In the settlement, GTE agreed to a 9.42 percent overall rate of return and reductions to several of its access rates.

On May 24, 1994, the Department reached a settlement with United concerning the level of United's earnings. In the settlement, United agreed to a 10.05 percent overall rate of return and a reduction to its rate for local transport. The Commission approved the settlement in its July 19, 1994 ORDER ADOPTING SETTLEMENT REDUCING RATES AND REQUIRING NOTICE TO CUSTOMERS.

The question is whether these developments, which occurred *after* the companies had submitted their cost studies and proposed rates for the third time should be taken into account in adopting Northfield's EAS rates. And more specifically, do these changes warrant requiring the companies to refile their cost studies and proposed rates to reflect the lowering of GTE's rate of return and access rates and United's rate of return and local transport rate.

Minn. Stat. § 237.161, subd. 3 (b) 1992 requires that the Commission "establish rates that are income neutral for each affected telephone company at the time at which the Commission determines the extended area service rates." In addition, the statute requires that the Commission consider the interests of all parties when determining the EAS rates. Because the level of traffic, the size of the metro calling area, and the cost factors are not constants, rate revision could go on indefinitely. This is not what the statute contemplates. To prevent on-going delay in proceeding with the petitioners' petition, there must be a reasonable cutoff point after which EAS rates are set and changes potentially affecting the rates are not considered.

In this case, that cutoff point has been reached. The cost studies and proposed rates filed by the companies are the *third* set of revised studies and proposed rates filed in this matter.¹ The

¹ On August 31, 1993, the Department submitted its report and recommendations on the LECs' first set of cost studies and proposed rates. In its report, the Department recommended that the USWC and Vista cost studies be refiled to reflect the lower, stipulated cost of money for USWC and the cost of money and access rates from the Vista rate case, Docket No. P-405/GR-93-2.

On December 14, 1993, the Commission issued its Order, adopting the recommendations of the

Commission will not send the companies back to revise their cost studies and proposed rates a fourth time.

Fortunately, the changes resulting from resolution of the GTE and United earnings investigations can be reflected in the rates approved by the Commission without delaying the processing of this petition. In addition to noting the cited new developments, the Department substituted GTE's new rate of return (ROR) and access rates and United's new ROR and local transport rate in the cost studies filed by the companies and submitted revised rates based on those changes.

3. Rates for Polling

In addition to revising proposed rates to reflect the reduction in GTE's ROR and access charges and the reduction in United's ROR and local transport rates from their recent earnings investigations, the Department also recommended that the proposed rates for GTE's subscribers in the existing MCA be adjusted downward. The Department recommended that the residential EAS additive be \$0.015 instead of \$0.016 as proposed by GTE, and that the business EAS additive be reduced from \$0.032 to \$0.029. These reductions reflect the results of the GTE earnings investigation.

No party challenged to accuracy of the Department's calculations by filing comments in response to the Department's July 5, 1994 report.

The Commission finds that the Department's proposed rates are basically sound but should be further revised to subtract out the revenues from usage by local measured service (LMS) customers as corrected by USWC after the Department report had been filed. The resulting rates which the Commission will approve are as follows:

<u>Customer Class</u>	
Resident 1-Party	\$12.77
Resident 2-Party	\$ 9.97
Resident LMS	\$ 5.73
Business 1-Party	\$31.93
Trunk	\$33.67
Business LMS	\$ 9.52
Semi-Public	\$31.93

Department and requiring the refiling of cost studies and proposed rates.

In January 1994, the LECs refiled their cost studies and proposed rates (second set) and on February 2, 1994, the Department submitted a recommendation that the companies refile using the lower stimulation factor of 4 that the Commission had recently approved for use in the settle-up filings in the Belle Plaine, Cologne, New Prague and Waconia EAS dockets and the pending Big Lake-MCA EAS docket.

On March 23, 1994, the Commission issued its Order adopting the use of the stimulation factor of 4 in the Northfield docket and requiring the refiling of cost studies and proposed rates for the third time. The cost studies and proposed rates filed in response to that Order are the rates under consideration in this Order.

4. Telephone Numbers

The Northfield exchange (area code 507) has three prefixes: 663, 645 and 646. These three prefixes are also in use in the (612 area code) MCA: 663 is a downtown Minneapolis prefix and 645 and 646 are prefixes in the St. Paul Midway central office. Because Northfield and the MCA are in different LATAs and have different area codes, there is currently no confusion. However, since EAS calls are completed with 7-digit dialing, there cannot be two exchanges with the same prefix in the same local calling area.

The questions are: 1) which prefixes (Northfield's or the MCA's) should be changed to avoid this conflict and 2) when should this decision be made: at this time or later in this proceeding if the subscribers vote to have the EAS installed.

In the circumstance where a prefix would be held by subscribers in different exchanges within the same calling area, it is appropriate to change the prefix in the petitioning area. If EAS is established between Northfield and the MCA, therefore, the 663, 645 and 646 prefixes in the petitioning Northfield exchange will be changed to avoid conflict with the prefix numbers being used in the MCA.

In light of this analysis of the substance of the issue, the Commission finds that it is appropriate to announce its decision at this time so that subscribers being polled will be informed of one of the consequences of establishing the proposed EAS. Some subscribers in the Northfield exchange may view this circumstance as a material consideration in determining how they will vote on this matter. Accordingly, the Commission will require that Northfield subscribers be informed as part of the polling process that their telephone numbers will be changed (at least the prefix portion of those numbers) if the proposed Northfield-MCA EAS is approved.

5. Lower Priced Alternative

When the calling area sought is the MCA, Minn. Stat. § 237.161, subd. 1 (c) (1992) requires that the LEC serving the petitioning exchange must offer its subscribers local measured service or another lower cost alternative to flat-rate EAS service.

USWC proposed that the local measured service (LMS) it currently offers in Northfield serve as the lower priced alternative to EAS in that exchange. As currently tariffed, Northfield LMS customers are charged USWC's tariffed outstate rate for LMS:

- **monthly customer charges** of \$7.78 for residential and \$19.23 for business customers and
- **usage rates** of 5 cents for the first minute and one cent for each additional minute for calls within 10 miles, and 6 cents for the first minute and 2 cents for each additional minute for calls greater than 10 miles but still within the MCA; these per minute charges are discounted by 60 percent during the night/weekend rating period and 35 percent during the evening rating period. Residential customers receive 3 hours of usage per month before they must pay the per minute charges.

If EAS with the MCA is established, payment of a monthly LMS charge will entitle Northfield LMS subscribers to call anywhere in the expanded calling area (7-digit dialing to anywhere in the MCA) at the tariffed LMS rates. The *monthly charge* for the new EAS-augmented LMS, of course, would increase. The new LMS monthly customer charge would be the current monthly

customer charge (\$7.78 for residential and \$19.23 for business customers) *plus* monthly additives: \$5.75 for residential and \$9.52 for business customers. Residential usage in excess of the three hour block would continue to be charged at the current *usage rates* (cited above). In addition, the residential LMS rate would continue to be capped at 125 percent of the current one-party flat rate charge in that exchange.

The Commission has reviewed the Company's proposed rates for its lower priced alternative, finds them reasonable, and will approve them.

As part of the balloting process, Northfield subscribers should be informed that this lower priced alternative will be available if EAS is approved, including the specific rates at which this service would be available. The Commission will order that the ballots provided Northfield subscribers must contain this information.

6. Federal Contingency

The Northfield-MCA EAS route would be an interLATA route. The Modified Final Judgement (MFJ)² prohibits USWC from carrying interLATA traffic. Before the Commission could order USWC to provide the service, USWC will have to request and receive authority from the federal courts to carry such traffic. If Northfield subscribers vote in favor of the proposed EAS, the Commission will require USWC to seek a waiver from the federal courts.

To keep the Northfield subscribers fully aware of this factor, the Commission will require that the polling materials include a brief explanation that the EAS will be installed if a majority of voting subscribers are in favor of the EAS and USWC obtains a waiver from the federal courts.

ORDER

1. The cost studies and proposed rates filed by Eckles, Scott-Rice and Vista are approved.
2. The impact of the Zimmerman exchange becoming a part of the metro calling area (MCA) as calculated by the Department is approved.
3. The cost studies and proposed rates filed by GTE and United are approved as modified by the Department to reflect the results of the GTE and United earnings investigation and the inclusion of lost access contribution for the Zimmerman-Northfield route. The EAS rate additives and the lower cost alternative, therefore, for Northfield are as follows:

Customer Class

Resident 1-Party	\$12.77	
Resident 2-Party	\$ 9.97	
Resident LMS		\$ 5.73
Business 1-Party	\$31.93	
Trunk	\$33.67	

² United States v. Western Electric Co., Inc., 569 F. Supp.900, 1107-1108 (D.D.C. 1983), aff'd sub nom., Maryland v. United States, 460 U.S. 1001 (1983).

Business LMS \$ 9.52
Semi-Public \$31.93

4. The polling materials sent to subscribers in the Northfield exchange shall include the information that if EAS is approved, all subscribers in the Northfield exchange will have to change their telephone numbers.
5. The polling materials sent to subscribers in the Northfield exchange shall also include a statement to the effect that installation of the EAS is contingent on the approval of the service by a majority of those subscribers voting and the grant of a waiver of the consent decree requirements by the federal courts.
6. USWC shall cooperate with the Commission Staff and Commission contractor to provide a customer list (one deliverable address for each access line) and other information needed to poll the Northfield exchange.
7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)