

P-407, 520, 426, 421, 430, 405/CP-93-1027

ORDER ESTABLISHING RATES FOR POLLING, APPROVING A LOWER COST
ALTERNATIVE, AND REQUIRING REPORT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs
Tom Burton
Marshall Johnson
Dee Knaak
Don Storm

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Petition for Extended Area
Service From Watertown Exchange of GTE
Telephone Operations to the Metropolitan
Calling Area

ISSUE DATE: November 8, 1995

DOCKET NO. P-407, 520, 426, 421, 430,
405/CP-93-1027

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PROCEDURAL HISTORY

In 1991, Watertown subscribers rejected extended area service (EAS) to the Minneapolis/St. Paul Metropolitan Calling Area (MCA) in polling conducted by the Commission. In an Order dated June 26, 1991,¹ the Commission dismissed the Watertown petition noting (among other things) that Commission rules required a two-year waiting period after an EAS ballot failed in a community before another EAS petition could be filed.

On October 12, 1993, Watertown subscribers filed another petition for EAS. Although the cover letter enclosed with the petition forms indicated that the petition was for EAS to the Minneapolis/St. Paul Metropolitan Calling Area, the petition forms themselves did not list the MCA as the petitioned area.

On November 3, 1993, after verifying the intent of approximately 10 percent of the petitioners, the Minnesota Department of Public Service (Department) filed a letter recommending that the petition be accepted as a petition to the MCA.

On November 9, 1993, GTE Minnesota (GTE), the local exchange company serving the

¹ See In the Matter of the Petition of Certain Subscribers in the Watertown Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421, 407/CP-87-536, et al., ORDER CERTIFYING ELECTION RESULTS, DIRECTING INSTALLATION OF EXTENDED AREA SERVICE IN CERTAIN EXCHANGES, REQUIRING IMPLEMENTATION PLANS, AND CLOSING CERTAIN DOCKETS (June 26, 1991).

Watertown exchange, filed a letter indicating that it accepted the petition as requesting EAS to the MCA.

On March 21, 1994, the Commission issued its ORDER REQUIRING TRAFFIC STUDIES.

On March 24, 1994, the Department filed a letter recommending that the Commission order the affected telephone companies to file cost studies and proposed rates for Watertown to the Metro Extended Area Service.

On June 23, 1994, the Commission issued its ORDER REQUIRING COST STUDIES AND PROPOSED RATES.

On August 18, 1994, GTE requested an extension of time to September 21, 1994, to file its traffic studies. On September 13, 1994, the Commission issued its ORDER GRANTING TIME EXTENSION. Between September 21, and September 29, 1994, the affected companies filed cost studies and proposed rates.

Between September 30, and October 26, 1994, Frontier (formerly Vista), Scott-Rice, Bridge Water and U S WEST filed revised cost studies due to a change in the percentage of usage between some petitioned MCA exchanges.

On December 1, 1994, the Department filed comments.

On December 21, 1994, GTE filed reply comments and revised cost studies and proposed rates.

Between December 27, 1994, and January 6, 1995, Frontier, Sherburne County Rural Telephone Company, U S WEST and United filed revised cost studies and proposed rates in response to GTE's December 21, 1994 filing.

On February 6, 1995, the Department informed the Commission that it was doing additional investigation of GTE's cost studies and proposed rates.

On February 8, 1995, GTE submitted a second, revised cost study and proposed rates. The Department notified the Commission that it would be conducting its own cost study based on GTE's February 8, 1995 filing.

On March 22, 1995, the Department submitted its first addendum.

On April 14, 1995, GTE and the City of Watertown submitted comments.

On May 23, and May 30, 1995, the Department submitted revisions to its cost study and proposed rates reflecting adjustments for lowered access charges and the lower cost alternative.

On June 9, 1995, GTE submitted a third, revised cost study and proposed rates.

On October 24, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. Cost Studies

The Commission has reviewed the affected companies' calculation of lost toll and access charge revenues, finds them reasonable, and will approve them.

With respect to GTE's cost study, however, there are four problem areas that require discussion: 1) administrative and maintenance costs; 2) facilities costs; 3) rate ratios; and 4) access costs.

1. Administrative and Maintenance Costs

The Department opposed the amount that GTE proposed to recover through administrative and maintenance costs and also to GTE's proposed facilities costs. The Department argued that GTE's administrative and maintenance costs were derived by a methodology not suitable for the calculation of the additional costs of providing EAS.

In Reply Comments, GTE disputed the Department's claim that the Company's method for deriving administrative and maintenance costs was unsuitable for the development of EAS rates. The Company stated that the methodology it used is an accepted standard throughout the industry and has been accepted by the Commission in all previous EAS filings.

The Department continued to maintain that GTE's proposed administrative costs were excessive. To illustrate the point, the Department compared the administrative costs, on a per line basis, for Watertown to those for the Delano, Lindstrom and Cannon Falls exchanges. GTE's proposed administrative costs resulted in a charge of approximately \$4.00 per line per month in Watertown compared to \$0.48 for Delano, \$0.30 for Cannon Falls and \$0.52 for Lindstrom.

Commission Analysis and Action

The Commission's Order in the Embarrass EAS case does not state, as GTE appears to imply, that the Commission will never vary from the precedents it has set with respect to methodologies to be used in calculating cost studies. This is not accurate. In the cited Order the Commission stated:

(T)he Commission will remain open to any further development of the Department's revenue requirement concept in other dockets. At the same time, the Commission notes that there is value in consistent treatment of regulatory issues. The Commission will weigh the merit of any proposed change to the revenue requirement component of EAS rates against the historical treatment of this issue.²

In the Embarrass Order, the Commission also explained its reluctance to depart from past methods at that time was based on the fact that the EAS process was undergoing major structural change.³ With the Commission's recent decision recommencing the EAS petitioning process⁴, that circumstance has changed and the Commission is more open to considering altering cost study methodologies and other issues related to EAS as warranted.

Therefore, the Commission will allow the parties additional time to review the Company's administrative expenses and to hopefully reach a consensus that can be presented to the Commission. See Ordering Paragraph 2.

2. Facilities Costs

In its initial comments, the Department noted that GTE had allocated 100 percent of the cost for a new switch in Watertown to the Company's revenue requirement for EAS in that exchange. Since this switch would also be used for regular local traffic as well as toll traffic, the Department argued that EAS rates should be designed to recover only the costs for the additional switching capacity required for EAS.

In Reply Comments, GTE agreed that the cost of the new switch in Watertown should be allocated based on the capacity required for EAS. The Company submitted revised cost studies and proposed rates reflecting a smaller allocation of the cost of the new switch to the EAS revenue requirement.

Subsequently, the Department expanded its recommended changes in the allocation of facilities costs. The Department noted that in response to a Department information request, the Company had stated that 85.5% of capacity of the following equipment was attributable to EAS: software, central office equipment and circuit digital equipment (non switching costs). Based on this response, the Department proposed that GTE allocate 85.5% of the costs of those items to EAS rather than 100 percent as originally claimed.

² Supra at page 2.

³ Supra at page 2.

⁴ In the Matter of an Investigation into the Appropriate Local Calling Scope, in Accordance With Minn. Stat. § 237.161 (1994), Docket No. P-999/CI-94-296, ORDER REACTIVATING THE PROCESSING OF EAS PETITIONS (October 24, 1995).

In response, GTE agreed with the Department's recommendation to lower the allocation of non switching costs to 85.5%. However, the Company noted that this allocation may not always be appropriate, citing, as an example, a situation in which these facilities may be used entirely for EAS.

Commission Analysis and Action

The Commission finds that the allocations of the cost of the new switch and of the non-switching costs used by GTE in its June 9, 1995 cost study are reasonable and will approve them.

3. Rate Ratios

The Department asserted that GTE's EAS additives should reflect a rate ratio of 2.09:1 rather than the 2:1 ratio that it proposed. According to the Department, the 2.09:1 ratio was a more accurate reflection of the ratio between GTE's base rates for business and residential service classes.

GTE noted that the issue of rate ratios was addressed by the Commission in the Embarrass EAS Docket No. P-407, 421/CP-93-401.⁵ The Company recalled that in its Order, the Commission had noted the value of consistent treatment of regulatory issues

Commission Analysis and Action

GTE has raised all its base rates by \$1.00 as part of its access charge settlement.⁶ Therefore, the rate ratio is now 2.016:1. Because this ratio has been significantly lowered by the recent increase in the base rates and since the Commission has consistently accepted GTE's 2:1 ratio for EAS additives, the Commission will approve GTE's proposed 2:1 rate ratio for Watertown.

4. Access Costs

The Department raised a concern stemming from the recent settlement of the Access Charge case (P-999/CI-93-90) about GTE's handling of its access charges, in particular, the CCL charge. The Department expressed the concern that if GTE's EAS cost studies are accepted by

⁵ In the Matter of a Petition for Extended Area Service from the Embarrass Exchange to the Virginia, Babbitt, Tower, and Aurora Exchanges, Docket No. P-407,421/CP-93-401, ORDER APPROVING COST STUDIES AND PROPOSED RATES (March 30, 1995) at page 2.

⁶ In the Matter of the Commission Solicitation of Comments Regarding Access Charges, Docket No. P-999/C-93-90, ORDER ACCEPTING SETTLEMENT (April 21, 1995). In that Order, the Commission approved the access charge settlement reached between U S West Communications, Inc. (USWC), the Minnesota Department of Public Service (the Department), AT&T, MCI, and the Interexchange Access Coalition (IAC).

the Commission, GTE may doubly recover these access charges depending on the specifics of the Company's access charge settlement.

GTE has not had an opportunity to respond to this concern.

Although it may not affect the rates for any of GTE's pending or existing EAS routes, the Commission finds that this issue does need further study. Therefore, the Commission will direct the Department and GTE to study this situation and report to the Commission with a recommendation for the proper treatment of this cost element. The report should address whether the amount in question should be removed as an EAS cost element or if it should be dealt with in a separate proceeding regarding access charge issues.

B. Proposed Rates

Normally, the Commission does not set EAS rates until cost studies are fully accepted and, as noted above, neither GTE's nor the Department's cost studies for the petitioning exchange (Watertown) have been fully accepted. However, in this case, a set of unusual circumstances allows the Commission to set Watertown's EAS rates without having fully accepted a cost study for that exchange. Those circumstances are as follows.

Minn. Stat. § 237.161, subd. 3 states in part:

Rates within the existing metropolitan local calling area may not be raised as a result of the addition of a local exchange under this subdivision until rates in the added exchange are at least equal to the highest rates in an adjacent exchange within the metropolitan local calling area, provided that the rates in the added exchange may not exceed the amount necessary to recover 100 percent of the costs and ensure that the rates are income neutral for the telephone company serving the added exchange.

Of the exchanges bordering on (adjacent to) Watertown, the Mayer exchange has the highest total monthly charges for local service. The highest cost allocation allowable under the statute *except when the cited provision applies* is 75 percent. Since rates set for Watertown allocating 75 percent of the costs are **lower** than Mayer's rates, the quoted provision requires that Watertown's EAS rates must be raised (irrespective of the exact EAS costs involved) to equal the rates in Mayer.

In these circumstances, then, the Commission can and will set Watertown's EAS rates not based on an allocation of a determined amount of EAS costs, but based on the goal of achieving total monthly charges for local service that are equal to or greater than Mayer's total monthly charges for monthly service. Those rates will be as follows:⁷

Metro EAS Residential:	\$27.75
Metro EAS Business:	\$55.50

⁷ As it turns out, Watertown's EAS rates will absorb only slightly more than 75 percent of the costs involved in establishing EAS between Watertown and the MCA.

Rate setting for the remainder of the MCA will be deferred until after the Watertown vote is tabulated and certified. If the vote is negative, the issue of rate additives for the MCA exchanges will be moot. If the vote favors installation of the Watertown EAS, the Commission will determine the corresponding rate additive for the MCA exchanges at that time. By then, the Commission will have the results of GTE's and the Department's additional study regarding GTE's administrative expenses and access costs.

C. Lower Cost Alternative

GTE filed its lower cost alternative, called Community Plus Plan, for customers who do not wish to subscribe to flat rate EAS. The Community Plus Plan consists of two rate components that are applied in addition to the current rates for local exchange for subscribers who choose this alternative. The Community Plus Plan alternative includes:

1. a flat monthly EAS additive of \$3.85 for residential subscribers and \$7.70 for business subscribers;
2. plus the following usage charges:
 - \$0.25 per minute between 8:00 a.m. and 10:00 p.m.
 - \$0.125 per minute between 10:00 p.m. and 8:00 a.m.

No party is opposed to GTE's proposed lower cost alternative. The Commission has approved this lower cost alternative for other GTE exchanges that have recently become part of the MCA⁸ and will do so in this Order for Watertown.

ORDER

1. GTE's June 9, 1995 cost studies are accepted with respect to the following issues:
 - the proposed allocation of the cost of the new switch;
 - the proposed 85.5% allocation of the non switching costs; and
 - the proposed 2:1 rate ratio for the EAS additives.
2. GTE and the Department shall attempt to resolve the issue of the Company's proposed administrative expenses and shall study the effect of GTE's access charge settlement on the access costs that GTE proposes to recover from the Watertown exchange. The parties shall report their results to the Commission within 30 days of this Order.

⁸ Lindstrom, Delano and Mayer.

3. The monthly flat EAS rates for the Watertown exchange is set as follows:

Metro EAS Residential:	\$27.75
Metro EAS Business:	\$55.50

4. GTE's lower cost alternative, the Community Plus Plan, is approved.

5. GTE shall cooperate fully with Commission Staff and contractors to conduct a poll of access lines in the Watertown exchange. Such cooperation shall include provision of

- ▶ usable, deliverable addresses for all access lines in a format and according to a schedule established by Commission staff;
- ▶ proof of the accuracy of the customer list as requested by Commission staff; and
- ▶ a list of Watertown subscribers as of the date specified by Commission staff for polling the Watertown exchange.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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