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DOCKET NO. P-404, 407, 520, 405, 413, 426, 427, 421, 430/CP-96-699

ORDER REQUIRING REVISED COST STUDIES AND PROPOSED RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey  
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Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Petition for Extended Area Service from the Maple Lake Exchange of Lakedale Telephone Co. to the Metropolitan Calling Area

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**PROCEDURAL HISTORY**

On June 18, 1996, subscribers in the Maple Lake telephone exchange filed a petition for extended area service (EAS) to the Minneapolis/St. Paul Metropolitan Calling Area (MCA). Lakedale Telephone Company (Lakedale) serves the Maple Lake exchange.

On August 5, 1996, Lakedale submitted a traffic study for the proposed EAS route.

On August 22, 1996, the Minnesota Department of Public Service (the Department) filed comments with the Commission. The Department stated that the number of signatures on the petition exceeded the 15 percent required by the Commission and recommended that the Commission direct the affected telephone companies to file cost studies and proposed rates.

On October 14, 1996, the Commission found that the Maple Lake petition met the Commission's adjacency and traffic volume criteria and issued its ORDER FINDING ADJACENCY AND TRAFFIC VOLUME AND REQUIRING COST STUDIES AND PROPOSED RATES.

Between February 13 and November 14, 1997, the affected telephone companies submitted cost studies and proposed rates.

On October 24, 1997, Lakedale submitted a request to include the exchanges of Montrose and Waverly as part of the MCA for the purposes of setting the rates for the present case.

On February 23 and 26, 1998, the Department filed comments Lakedale filed reply comments on March 16, 1998 and additional comments on April 2, 1998. The Department filed additional comments on March 17 and April 21, 1998.

On April 28, 1998, the Montrose and Waverly telephone exchanges became part of the MCA; the Montgomery and New Germany became part of the MCA on December 16, 1998.

The Commission met to consider this matter on December 8, 1998.

**FINDINGS AND CONCLUSIONS**

**I. INTRODUCTION**

The affected telephone companies filed their cost studies and proposed rates regarding the Maple Lake/MCA proposed EAS route between February 13 and November 14, 1997. Subsequent events have rendered these filings of questionable accuracy. In this Order, the Commission will address the several issues that have affected the accuracy of the companies' filings and the sufficiency and clarity of the record in this matter, in general. Sufficiency, accuracy, and clarity of the record are important because the Commission will be basing important rate decisions based on that record.

## **II. COMMISSION ANALYSIS**

### **A. Revised Cost Studies Submitted By USWC and United**

On March 6, 1997, and again on July 22, 1997 U S WEST Communications, Inc. filed revised cost studies in which that company's revenue requirement more than doubled due to an error in the calculations. On June 24, 1997, United Telephone Company filed revisions. The remaining MCA companies' cost studies include neither USWC's revisions nor United's in calculating their overall revenue requirement for the Maple Lake to the MCA route.

The failure of the companies' cost studies to reflect USWC and United's revised cost studies renders them substantially inaccurate. The Commission will direct the companies to file revised cost studies that reflect USWC and United's revised cost studies.

In addition, the usage studies and line counts of all the affected companies are close to two years old. In these circumstances alone, the Commission would be inclined to seriously consider requiring the companies to revise their cost studies and base them on current data. Since the companies will be refiling costs studies for other reasons as well, the Commission will direct the companies to base their revised studies and revised rates on more current data. Specifically, the companies will be directed to use access line counts and traffic data at least as current as of year-end 1997 as well as incorporating the other requirements of this Order.

### **B. Affect of Exchanges Subsequently Admitted to the MCA**

Four exchanges became part of the MCA after the cost studies and proposed rates for the proposed Maple Lake EAS route had been submitted in this matter: Lakedale's Montrose and Waverly exchanges and the Montgomery and New Germany exchanges.

In the past, the timing of EAS rate setting on some MCA routes has overlapped with the polling and implementation of other MCA routes. The newer MCA exchanges may not always have been included in the cost studies of subsequent EAS petitions. The issue of when to establish a "cutoff point" in adjusting rates to reflect the changing composition of the MCA surfaced in the Norwood to the MCA case, Docket No. P-430, et al./CP-92-1131. In its September 13, 1994 ORDER ADOPTING RATES FOR POLLING, the Commission stated that

those changes (in this case, the inclusion of recently balloted exchanges in the MCA) should be included if they are reasonable and can be made without undue delay in the proceedings.

In the current case, the affected telephone companies will be required to revise the cost studies and

proposed rates anyway, for other reasons cited above and below. In these circumstances also requiring the companies to reflect the four newly added exchanges is reasonable and will not cause undue delay. Another factor indicating the reasonableness of requiring this kind of updating is that Lakedale's cost study shows that the revenue requirement for the Montrose and Waverly exchanges alone is approximately 3 percent of the company's total Maple Lake revenue requirement. Left uncollected, the Montrose and Waverly costs could have a negative, financial impact on the Company.

### **C. Impact of Various Meetpoints**

The “meetpoint” is the point at which one company hands off its EAS traffic to another company. In this instance, the meetpoint is where Lakedale will hand its Maple Lake traffic to USWC for transport to the MCA. The two possible meetpoints for the Maple Lake/MCA route are: 1) at Maple Lake's boundary with USWC's Buffalo exchange and 2) at the MEANS switch in the Plymouth exchange.

There are different costs associated with each of the two possible meetpoints and it is not clear at this time which meetpoint will actually be used. The Commission has granted Lakedale an amended certificate of authority which will authorize Lakedale to use the MEANS switch in the Plymouth exchange as the meetpoint for this route if

- Lakedale establishes and the Commission approves interconnection agreements with USWC or any other telephone company that serves the MCA exchanges; and
- Lakedale secures the Commission's determination that Lakedale's use of the MEANS meetpoint is the most economical routing of the Maple Lake/MCA EAS traffic.

In this case, the second condition is met. Lakedale's cost study shows that the cost of routing Maple Lake EAS traffic through the MEANS switch in the Plymouth exchange is less than the cost of routing it via the Buffalo route. The second condition has not been met yet, however. Lakedale has not secured and obtained Commission approval of interconnection agreement associated with routing EAS traffic via the MEANS switch in Plymouth. On the basis of the current record, therefore, the Commission could decide that cost figures for the Buffalo meetpoint should be used since Lakedale has not met all the conditions that it must in order to be eligible to use the MEANS meetpoint.

At Lakedale's request, however, the Commission will allow the Company 60 additional days to establish and file with the Commission for approval, the necessary interconnection agreement(s) that would permit the company to route and deliver its Maple Lake EAS traffic through, to the MEANS switch in, USWC's Plymouth exchange.

As a practical matter, then, the Commission will also suspend the filing of revised cost studies found to be required by this Order during that 60 day period. If Lakedale establishes the appropriate interconnection agreement(s), the affected telephone companies will be required to base their respective costs on the Maple Lake/Plymouth EAS meetpoint. If not, the costs for the Buffalo meetpoint will be used.<sup>1</sup>

**D. Adjacent Exchange Rate Comparisons Impacted by Subsequent Inclusion of Waverly Into the MCA**

The Commission's February 23, 1996 ORDER AFTER RECONSIDERATION in Docket No. P-999/CI-94-296 (the Local Calling Scope case) states in Attachment A :

Rates within the existing metropolitan local calling area may not be raised as a result of the addition of a local exchange . . . until the 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 an adjacent exchange may not exceed the amount necessary to recover 100 percent of the costs . . . . .

Prior to Waverly's entry into the MCA, Monticello's composite rate was the highest rate in an MCA exchange adjacent to Maple Lake and, therefore, set the standard for the proposed rates for Maple Lake. Using year end 1997 access line counts, the Monticello blended rates (base rate plus EAS additive) was \$35.83.

Waverly is also adjacent to Maple Lake, however, and now that it has been admitted to the MCA, it is Waverly rather than Monticello whose rates are the highest and, hence, set the standard for comparison under the Commission's cited guideline. Waverly's digital access line rate plus the MCA EAS additive (\$10.50 plus \$42.20) is \$52.70.

The Commission realizes that in some instances it may be appropriate to stick with rates set based on the composition of the MCA at a given point and not revisit the rates every time a new exchange is admitted to the MCA. However, that point has not arrived in this proceeding and it is reasonable to revise proposed rates to take into account Waverly's admission to the MCA. The companies shall adjust their proposed rates accordingly.

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<sup>1</sup> The interconnection agreement condition is only fully met, of course, when the Commission has approved the interconnection agreement. However, for purposes of determining which meetpoint costs to use in the revised cost studies, the Commission finds it reasonable to proceed with the MEANS meetpoint costs as of the date (if any) that Lakedale files an interconnection agreement with the Commission, provided only that it do so within the 60 day grace period.

Further, to avoid confusion among the companies as to which meetpoint costs they should use in revising their cost studies, the Commission will require Lakedale to notify the companies, at the time it files its interconnection agreement with the Commission, that it has filed its interconnection agreement with the Commission for approval within the 60 day period and that the companies should, therefore, use the Plymouth meetpoint costs in preparing their cost studies, as directed in this Order.

### **E. Rate Development Issues: Take Rate and Stimulation Factor**

The **take rate** is the estimated number of subscribers who would take the lower cost alternative. The **stimulation factor** is the multiple of the current toll minutes used to estimate the increase in calling volume so that the affected companies can properly size their facilities. These two factors are used to estimate the revenues the company would receive from its proposed lower cost alternative.

The inverse percentage of the LCA take rate is the percentage of customers estimated to pay the flat rate EAS charge.<sup>2</sup> The number of subscribers calculated based on that percentage multiplied times the flat rate EAS charge results in the estimated monthly revenue from the Company's Maple Lake/MCA EAS.

Total company revenues from Maple Lake subscribers, then, would be the sum of the revenue it receives from 1) Maple Lake LCA subscribers and 2) Maple Lake flat rate EAS subscribers. Obviously, since the EAS flat rate is considerably higher than the LCA rate, the higher the Maple Lake LCA take rate, the lower the number of Maple Lake flat rate subscribers and, correspondingly, the lower the amount of revenue from Maple Lake.

In related dockets (Montrose and Waverly) the Commission approved an estimated LCA take rate of 55 percent and a stimulation factor of 2.5. In this case, Lakedale proposed to increase the estimated take rate from 55 percent to 59.3 percent for Maple Lake. The Company argued that this increase was justified in light of the actual LCA take rates experienced in the neighboring Montrose and Waverly exchanges.

The Commission has reviewed the take rate data for Montrose and Waverly cited by Lakedale and disagrees with the Company's conclusion. The Commission finds that the data shows that the take rates in both Montrose and Waverly have been declining over the past six months and that the average take rate for both exchanges is much more consistent with the take rates previously adopted by the Commission for these two exchanges (55 percent) than the 59.3 percent proposed here by Lakedale for Maple Lake.

Moreover, the Commission's experience in other dockets in which an LCA has been adopted shows that the slight but perceptible decline in LCA take rate in the Montrose and Waverly exchanges is not uncharacteristic and may well be anticipated in the Maple Lake exchange. In short, Lakedale has not shown the reasonableness of changing the take rate used in the Waverly and Montrose dockets.

The Commission concludes that the estimate of LCA revenues based on the 55 percent take rate and a stimulation factor of 2.5, as approved for the neighboring Montrose and Waverly exchanges, is reasonable and will approve it.

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<sup>2</sup> For example, if the LCA take rate for Maple Lake is estimated to be 55 percent, the inverse percentage (45%) of Maple Lake subscribers are assumed to subscribe to flat rate EAS.

### III. COMMISSION ACTION

The Commission will direct the affected telephone companies to revise their cost studies based on the foregoing decisions and coordinate their filings consistent with the timetable set forth in the Ordering Paragraphs.

#### ORDER

1. Lakedale Telephone Company (Lakedale or the Company) is hereby granted 60 days from the date of this Order to file any interconnection agreement(s) associated with its provision of Maple Lake EAS routing via the MEANS switch in USWC's Plymouth exchange.
  - If during the 60 day period, Lakedale files such interconnection agreements with the Commission, the Company shall send a notice to all the affected telephone companies in this docket notifying them of that fact, and reminding them that as a consequence of that filing, the companies are required to incorporate MEANS (Plymouth) meetpoint costs into the cost studies they are required to file pursuant to this Order. The Company shall also file with the Commission a copy of this notice when it files its interconnection agreement(s).
  - if Lakedale does not file interconnection agreements associated with its proposed Plymouth meetpoint within the 60 day period, the Company shall forthwith notify the affected telephone companies in this docket of that fact, reminding them of their obligation under this Order to incorporate the Buffalo meetpoint costs into the cost studies they are required to file pursuant to this Order. The Company shall also file with the Commission a copy of this notice within 70 days of this Order.
2. If Lakedale files any interconnection agreement(s) associated with its delivery of Maple Lake/MCA EAS via the MEANS switch in the Plymouth exchange within 60 days of this Order, the affected telephone companies in this docket shall have 90 days of that Lakedale filing to file revised cost studies which 1) incorporate the **Plymouth** meetpoint costs and 2) are in all other ways consistent with the decisions and directions of this Order. See Ordering Paragraphs 4, 5, 6, and 7.
3. In the event that Lakedale does **not** file any interconnection agreement(s) associated with its delivery of Maple Lake/MCA EAS via the MEANS switch in the Plymouth exchange within 60 days of this Order, all the affected telephone companies shall, within 150 days of this Order, file revised cost studies which 1) incorporate the **Buffalo** meetpoint costs and 2) are in all other ways consistent with the decisions and directions of this Order. See Ordering Paragraphs 4, 5, 6 and 7.
4. The revised cost studies filed by the affected telephone companies pursuant to the forgoing Ordering Paragraphs shall include the EAS costs they incur (if any) associated with the following four exchanges: Montrose, Waverly, Montgomery and Maple Lake.

5. The affected telephone companies shall also recognize that with the admission of the Waverly exchange to the MCA, Waverly's rates of \$52.70 per month (base rate plus EAS additive) set the adjacent rate comparison standard and shall calculate their and proposed rates for the Maple Lake EAS route accordingly.
6. In preparing their revised cost studies, the affected telephone companies shall also update their access line counts and traffic data, using access line counts and traffic data at least as current as of year-end 1997.
7. In preparing its revised cost studies, Lakedale shall calculate its estimated EAS revenues for the Maple Lake/MCA route using a take rate not exceeding 55 percent and a stimulation factor of 2.5.
8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)

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