

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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Commissioner

In the Matter of a School District Extended
Area Service Petition Among the Exchanges of
Granger, Fountain, Cherry Grove, Harmony
and Preston

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ORDER SETTING EAS RATE ADDITIVES
AND REQUIRING POLLING

PROCEDURAL HISTORY

On January 7, 1999, telephone subscribers in the Granger, Fountain, Cherry Grove, Harmony, and Preston exchanges filed a petition for School District Extended Area Service (EAS) between these five exchanges. These exchanges make up Independent School District No. 2198.

The Granger exchange is served by Ace Telephone Association (ACE). The Fountain and Cherry Grove exchanges are served by Citizens Telecommunications of Minnesota (Citizens). The Harmony exchange is served by Harmony Telephone Company (Harmony). The Preston exchange is served by CenturyTel of Minnesota, Inc. (CenturyTel).

On July 19, 1999, the Commission issued its ORDER REQUIRING TRAFFIC STUDIES, COST STUDIES, AND PROPOSED RATES. Among other things, that Order found that the petition met threshold requirements of adjacency and school district residency. The Order required the incumbent local exchange carriers serving the five exchanges to determine the costs of installing and operating the proposed EAS route and to file proposed rate additives that would recover these costs.

Between January 13, 2000 and August 21, 2000, the companies filed EAS cost studies and EAS rate additives for the proposed EAS petition. However, the Commission did not proceed directly to polling. Instead, in a series of Orders issued between November 1998 and May 2001, the Commission addressed a series of new issues posed by the need to adapt EAS to the competitive telecommunications market mandated by state and federal law. On June 6, 2001, the Commission issued an Order requiring the companies to file new cost studies and proposed rates reflecting Commission determinations on these issues.

In its June 6, 2001, ORDER REQUIRING FURTHER FILINGS, the affected companies were directed to file new cost studies that included the net book value of any existing facilities that would be used to provide the School District EAS service.¹ Further, the affected companies were directed to file new EAS rate additives based on the new cost studies. These rate additives were to include lost access revenues and were to be apportioned to reflect the per-exchange allocation methodology proposed by the DOC.

Between July 26, 2001 and August 17, 2001, the affected companies filed their respective cost studies and EAS rate additives. Ace, Citizens and CenturyTel, instead of seeking rate recovery of the net book value of the facilities devoted to the existing EAS routes, however, sought rate recovery of the current EAS revenues from those routes. Harmony's revised cost study did not include a separate estimate of the cost of facilities currently used in its portion of the Harmony/Granger EAS route.

On August 14, 2001, the DOC filed comments and proposed rates that reflected updated access line counts for the Granger and Preston exchanges. Further, the DOC recommended that, if the proposed EAS was implemented, the Commission require the affected companies to file a compliance cost study six months after the EAS was installed.

On August 24, 2001 responsive comments were filed by MIC on behalf of Ace and Harmony. Among other things, MIC objected to the compliance filing recommended by the DOC.

On September 4, 2001, this matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Factual and Legal Background

Extended area service is a service arrangement permitting neighboring telephone exchanges to become a single local calling area with toll-free calling. There are two kinds of EAS: standard EAS and school district EAS. Among other differences, the two have different adjacency, traffic, and polling requirements.

The criteria for establishing school district EAS routes, and the procedures for determining and allocating their costs, are set by statute.² Briefly, these criteria and procedures are as follows.

- (1) A petition for School District EAS must be signed by at least 15% of the subscribers in each exchange, or 600 subscribers in each exchange, whichever is less.
- (2) At least 10% of the customers in each exchange must be residents of the school district for which EAS is sought.

¹ There are existing EAS arrangements between Granger and Harmony and between Preston and Fountain.

² Minnesota Laws 1997, Chapter 59.

- (3) Each exchange must be contiguous to at least one other exchange in the petition.
- (4) The companies serving the exchanges must conduct traffic studies and cost studies to determine the cost of installing and operating the proposed EAS route.
- (5) The Commission must set EAS rates that apportion the costs equally among the exchanges, that do not disturb existing inter-class rate relationships, and that leave affected telephone companies income-neutral.
- (6) The Commission must poll subscribers in all the exchanges on whether they want EAS at the rates adopted by the Commission.
- (7) A majority of the subscribers in each exchange who return their EAS ballots must vote in favor of the proposed route.

Further, the School District EAS statute requires rates to be based on the costs set forth below:

For a proposal to install extended area service under this section, proposed rates must be based on specific additional cost incurred, operating expenses, actual cost for new facilities constructed specifically to provide for extended area service, net book value of existing facilities transferred from another service to extended area service, and appropriate contributions to common overheads.

Minnesota Laws 1997, c.59, subd. 5.

II. Positions of the Parties On the issues of Facilities Costs and a Compliance Filing

A. Harmony

Harmony indicated that its facilities cost estimate was not affected by the existing EAS arrangement between Harmony and Granger as there was no identifiable EAS rate additive for this route. Harmony did not include the net book value of this existing EAS route because it was installed over 40 years ago and Harmony does not have direct cost information regarding facilities used in this route. Further, Harmony has included the EAS rate in the basic local rate. Because Harmony has neither direct information nor a reasonable surrogate (such as an existing EAS rate) Harmony left that element out of the calculation.

Harmony argued that a compliance filing would be costly and add another six months of uncertainty to the final rates in this proceeding.

B. Citizens

Citizens included the annual EAS revenue from the Preston/Fountain route as a proxy for the net book value of the existing facilities to be used in the combined School District EAS. Citizens indicated that it would be difficult to quantify the net book value of existing facilities that would

be transferred to the School District EAS route. Since the Commission approved EAS rate additives are presumed reasonable, Citizens argued that it should be allowed to fold the current EAS revenue from an existing EAS route into the EAS revenue requirement for the School District EAS.

C. CenturyTel

CenturyTel has also incorporated the annual EAS revenue from the Preston/Fountain EAS route into the facilities costs arguing that it was a reasonable proxy for the net book value of existing facilities to be used in the combined School District EAS.

D. Ace

Ace provided an estimate of the “net book value” of Ace’s facilities used in the Granger/Harmony route that will be used in the new School District EAS route. Ace argued that the use of those revenues was appropriate because those revenues represent the best available estimate of the value of those facilities. Further, Ace argued that to exclude the cost for these existing facilities would not meet the income neutral requirement of the School District EAS Statute.

E. The DOC

The DOC requested clarification as to whether it was acceptable for the companies to use the existing EAS revenue as a proxy for the net book value of existing facilities.

The DOC also stated that the estimated facilities cost were high in comparison to the current toll traffic and cost estimates filed in similar EAS cases. For this reason, the DOC recommended that the companies file revised costs six months after the School District EAS goes into effect.

III. Commission Action

The Commission finds that the cost studies filed by Citizens, Harmony and CenturyTel, including the estimates of lost access and the facilities costs, meet the requirements of the School District EAS statute. They reflect actual specific costs and sound accounting methods. Further, the Commission finds that the cost studies filed by Ace including estimates of lost access revenue provided by Ace and the facilities costs as adjusted by the Commission also meet the requirements of the School District EAS statute.

The Commission recognizes that there is no separate EAS charge for the Granger/Harmony route. The costs for the Granger/Harmony EAS route have been included in Ace’s overall revenue requirement and already recovered in the local rates and should not be included in the EAS rates. For this reason the facilities costs submitted by Ace will be adjusted.

The Commission also approves Citizen’s and CenturyTel’s using the EAS revenues from their existing Preston/Fountain EAS route as proxies for the net book value of the facilities that would be transferred from serving these routes to serving the proposed new route. Not only do these revenues directly reflect the facilities’ value - since rates for the existing routes were based entirely on their embedded costs - but including these revenues as costs of the new route is the most straightforward and reasonable way to implement the statutory requirement that School District EAS rates be income-neutral.

The Commission has adjusted the proposed rates filed by the companies and by the DOC to reflect (1) the inclusion of the lost EAS revenue in the facilities cost portion of the total EAS costs; (2) maintaining the exchange-specific rate differentials for both the facilities costs and lost access revenue; and (3) the statutory requirement to apportion EAS costs equally among the customers of all the exchanges, subject to preserving pre-existing inter-class rate relationships. These adjustments yield the rates set forth below:

Rates for Polling			
Ace Telephone: Granger			
	Facilities Charge	Access Recovery Charge	Total Monthly EAS Charge
Residence and Business	\$3.07	\$1.58	\$4.65
Citizens : Cherry Grove and Fountain			
Residence	\$3.07	\$1.58	\$4.65
Business	\$6.14	\$3.15	\$9.29
Harmony Telephone: Harmony			
Residence	\$3.07	\$1.58	\$4.65
Business	\$3.75	\$1.92	\$5.67
CenturyTel: Preston			
Residence	\$3.07	\$1.58	\$4.65
Business	\$7.61	\$3.91	\$11.52

The last step in the School District EAS decision-making process is to poll subscribers in the affected exchanges to determine if a majority in each exchange favors installing EAS at the rates proposed. The Commission will proceed to polling. It will also direct the companies to provide the information and cooperation required for a fair and efficient poll.

Further, the Commission will require that both the polling materials sent to subscribers and any tariffs ultimately filed separately itemize the portion of the EAS rate additive that recovers facilities costs and the portion that recovers lost access revenues. This information may be helpful in developing and implementing a universal service funding mechanism.

Finally, the Commission is not persuaded that there is a need to require a compliance filing six months after the EAS rate goes into effect. The Commission, by not requiring such a compliance filing, is furthering finalization of the EAS process at this time and is acting in a manner consistent with past practice in the other numerous EAS filings.

The Commission will so order.

ORDER

1. The estimates of lost access revenue filed by the affected telephone companies are hereby approved.
2. The facilities costs reported by Citizens, Harmony and CenturyTel are hereby approved.
3. The facilities costs estimate by ACE, as adjusted by the Commission, is hereby approved.
4. All subscribers in the Granger, Fountain, Cherry Grove, Harmony and Preston exchanges shall be polled on whether or not they favor installing the School District EAS route proposed at the rates approved herein and set forth below.

Rates for Polling			
Ace Telephone: Granger			
	Facilities Charge	Access Recovery Charge	Total Monthly EAS Charge
Residence and Business	\$3.07	\$1.58	\$4.65
Citizens : Cherry Grove and Fountain			
Residence	\$3.07	\$1.58	\$4.65
Business	\$6.14	\$3.15	\$9.29
Harmony Telephone: Harmony			
Residence	\$3.07	\$1.58	\$4.65
Business	\$3.75	\$1.92	\$5.67
CenturyTel: Preston			
Residence	\$3.07	\$1.58	\$4.65
Business	\$7.61	\$3.91	\$11.52

5. The affected telephone companies shall provide a single EAS number which reflects both the facilities costs (including the lost EAS revenues from pre-existing routes) and lost access revenues in customers' monthly bills, if the proposed EAS is implemented;
6. The EAS rate additives approved herein shall be itemized, in polling materials and in any tariffs ultimately filed, to show which portion of the rate additive will recover facilities costs (including the lost EAS revenues from pre-existing routes) and which portion will recover lost access revenues.

7. The affected telephone companies shall abolish the existing Preston/Fountain EAS route and the corresponding EAS rate additive, if the combined school district EAS is favored by the voters.
8. The affected telephone companies shall provide cooperation and assistance to the Commission staff and Commission contractors during the polling process by providing usable, deliverable addresses for all access lines in a format and under time frames set by the Commission staff, and providing proof of the accuracy of customer lists as requested by the Commission staff.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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