

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application     ) Application No. C-1683  
of Aliant Communications Company,     )  
Lincoln, Nebraska, seeking             )  
authority to increase its resi-         ) GRANTED  
dential basic local exchange rates     )  
pursuant to Neb. Rev. Stat. Sec.       )  
86-803(9).                               ) Entered: March 10, 1998

APPEARANCES:

Aliant Communications:	For the Commission Staff:
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Andrew S. Pollock	
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BY THE COMMISSION

By application filed November 18, 1997, Aliant Communications Company (Aliant) seeks to increase its residential basic local exchange rates pursuant to Neb. Rev. Stat. Sec. 86-803(9). On December 18, 1997, the Communications Department staff of the Nebraska Public Service Commission and applicant executed a Stipulation regarding the application. The Stipulation was approved by the Commission in its Order on Prehearing Conference entered on December 23, 1997. To conform to the terms of the Stipulation, Aliant amended its application on January 6, 1998.

Notice of the original and amended application (hereafter application) were published in The Daily Record, Omaha, Nebraska, on November 19, 1997, and January 8, 1998, respectively. A hearing was held on the application on February 4, 1998, in Lincoln, Nebraska, and on February 5, 1998, in Beatrice, Nebraska. Notices of the hearings were published in The Daily Record, The Beatrice Daily Sun, and The Lincoln Journal Star. Appearances were made as shown above.

EVIDENCE

In support of the application, Aliant presented the testimony of two witnesses at the public hearing on February 4, 1998. Mr. Jeffrey L. Pursley, government relations manager for Aliant, and Dr. Steve G. Parsons, general manager for regulatory and litigation support at INDETEC International, Inc.

Mr. Pursley testified as follows: The changes proposed in the application are (a) increasing residential basic local exchange rates from current levels which range between \$11.00 and \$13.75 per month to \$16.35 per month; (b) decreasing business local exchange rates from current levels which range between \$33.00 and \$39.00 per month to \$31.40 per month; (c) eliminating Touch Tone service charges which are now \$.50 and \$1.50 per line, per month, respectively, for residences and businesses; (d) reducing intraLATA day time toll rates within Aliant's service area from \$.18 per minute of use to \$.13 per minute of use; and (e) reducing access rates which long distance companies pay to Aliant by approximately \$900,000 per annum. The net effect of these changes is a reduction of Aliant's revenues by \$417,000 per year. Exhibit JLP-8 shows the proposed rate changes in the application do not increase Aliant's revenues by more than one percent, as required by Section 86-803(9)(a).

Notification was provided to customers and informational meetings were held by Aliant concerning the application and the proposed changes. Lifeline and Link-Up programs are available to assist low income customers with the cost of local service.

The primary purpose of the proposed changes is to remove implicit subsidies from Aliant's rates and to bring Aliant's rates closer to cost. Aliant needs to make these changes, as competition will commence in its local exchange area in the future. US West Communications has requested Aliant to negotiate the terms of interconnection for the provision of competitive local exchange service. Five additional companies have been authorized by the Commission to provide competitive local exchange services in Aliant's service area.

Dr. Parsons testified as follows: Economics and the Telecommunications Act of 1996 require that implicit subsidies be eliminated from Aliant's rate structure. Competition is the natural enemy of implicit subsidies. Existing prices for business services, toll services, switched access and vertical services are natural magnets for competitive entry.

Actual cost, from an economic perspective, should be interpreted as costs to be actually incurred in the future (forward-looking), rather than costs that were actually incurred to provide service in the past (historical).

Cost proxy models are being used to estimate forward-looking economic costs of basic local exchange service. Three such models are currently under extensive review: the Hatfield Model, the Benchmark Cost Proxy Model and the Hybrid Cost Proxy Model. Using default inputs rather than Aliant specific data, the models produced the following monthly basic local exchange cost estimates: (a) Hatfield, \$30.51; (b) Benchmark Cost Proxy Model, \$44.51; and (c) Hybrid Cost Proxy Model, \$43.18. These amounts reflect the average cost of providing residential and business local exchange service. Based upon this data, Aliant's proposed changes in basic local exchange rates satisfy the requirement of Section 86-803(9). The basic local exchange rates proposed by Aliant do not exceed the actual cost of providing such basic local exchange service to the affected subscribers.

The Commission staff produced one witness, Steven G. Stovall, staff accountant, who testified: The staff received information in response to data requests served on Aliant and examined Aliant's books and records. As a result thereof, the staff prepared Exhibit 13 setting forth a calculation of Aliant's revenue requirement concerning the affected services. After adjustments for elimination of Touch Tone revenues, decrease in intraLATA toll revenue and reduction of access charges proposed by Aliant, the staff computed a range of the monthly cost for Aliant to provide basic local exchange service between \$16.41 and \$15.22. Aliant's application satisfied the provisions of Section 86-803(9).

Dr. Howard Bell, senior policy witness for AT&T Communications of the Midwest, testified as follows: AT&T favored the access charge reduction proposed by Aliant; however, the reduction in the daytime intraLATA toll rate would subject AT&T to a price squeeze. Based upon a price imputation test, Aliant must further reduce its access charges in relation to the proposed intraLATA daytime toll rates. Aliant must further reduce its access charges and realign its access charge structure.

Testimony was received from two public witnesses during the Lincoln hearing. The witnesses generally objected to the increase in Aliant's residential basic local service rates citing concern for families on a fixed income. One witness appeared at the Beatrice hearing and testified that an enlarged toll-free calling area was needed. The witness stated that the reduced intraLATA toll rates would assist with his cost of monthly long distance service.

No other parties introduced testimony or evidence.

#### O P I N I O N   A N D   F I N D I N G S

Neb. Rev. Stat. Section 86-803(9) provides that the Commission shall determine whether the increase in basic local exchange rates, when considered with all other rate changes which the telecommunications company proposes to implement simultaneously, increases the telecommunications company's aggregate annual revenue resulting from such rate changes in this state by more than one percent. The parties herein stipulated that Aliant's proposal does not increase the company's revenues by more than one percent. Therefore, we find this aspect of Neb. Rev. Stat. Section 86-809(a) has been satisfied.

Second, testimony was offered by both the Commission staff and Aliant regarding the actual cost of providing service. While the Commission staff and Aliant calculated costs using different methodologies, both came to the agreement that the proposed rates did not exceed the actual costs of providing the proposed service. Therefore, we find that the requirement under Neb. Rev. Stat. Section 86-803(9) that the basic local exchange rates not exceed the telecommunications company's actual cost of providing basic local exchange service to the affected customers has been met.

We agree with Dr. Bell that the access charges proposed by Aliant in this application have a clear potential to result in a price

squeeze for AT&T and other interexchange carriers. Additionally, we note that the potential impact of such a pricing environment will be exacerbated when Nebraska carriers begin offering intraLATA equal access in the near future. However, the question here is whether the application meets the criteria set out in Neb. Rev. Stat. 86-803(9). While we acknowledge that the proposed access charge reduction could be greater, we find that it is outside the scope of this application to order a decrease in access charges or a change in the access charge structure.

Our current Docket C-1628 treats the subject of access charge reform in Nebraska. Comments are due in that docket on March 6, 1998, and reply comments are due April 27, 1998. Docket C-1628 is the vehicle by which this Commission will determine the proper structure of access charges for all local exchange carriers.

Aliant testified that its proposed residential rate mirrors the residential rate offered by US West. While this assertion is correct, we note that US West also offers a local measured service package which allows a subscriber to choose from three different usage levels at a reduced monthly rate. Fixed-income and low-income subscribers could potentially benefit from similar alternatives to the flat rate unlimited calling format of traditional residential service, and we urge Aliant to consider the provision of a measured plan once it becomes technically possible for Aliant to do so.

Upon consideration of the application and being fully advised, the Commission finds the application satisfies and complies with the requirements set forth in Neb. Rev. Stat. Section 86-803(9) and that the residential basic local exchange rates proposed by Aliant should be approved.

#### O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application C-1683 filed by Aliant Communications Company be, and it is hereby, approved.

IT IS FURTHER ORDERED that Aliant file an updated and revised tariff consistent with the findings herein.

MADE AND ENTERED in Lincoln, Nebraska, this 10th day of March, 1998.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Chairman

ATTEST:

Executive Director

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