BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of US West Communications, Inc. of Denver, Colorado, seeking authority to increase its residential basic local exchange rates pursuant to Nebraska Revised Statutes § 86-803(9).	)	Application No. C-1874 GRANTED Entered: January 20, 1999

APPEARANCES:

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For Protestants:
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BY THE COMMISSION

By application filed July 31, 1998, US West Communications, Inc. (US West) seeks authority to increase its first line residential basic local exchange rates pursuant to Nebraska Revised Statutes § 86-803(9). Notice of the application was published in The Daily Record Omaha, Nebraska, on August 3, 1998, pursuant to the rules of the Commission. A protest was filed by Americans for Sound Public Policy, Robert D. Wright and William F. Arendt (Protestants). Formal interventions were filed by MCI Telecommunications Corporation (MCI), AT&T Communications of the Midwest, Inc. (AT&T) and Sprint Communications Company, L.P. (Sprint). A prehearing conference was held in the Commission Hearing Room on November 9, 1998.

Applications filed pursuant to Neb. Rev. Stat. § 86-803(9) are given only a limited review by statute. Such review includes required filings by the Applicant and a public hearing. A public hearing on the application was held on December 17, 1998, in Room 702 of the Douglas County Civic Center, 1819 Farnam Street, Omaha, Nebraska. Appearances were made as shown above. The hearing was continued on December 18, 1998, in the Commission Library in Lincoln with video off-site locations in Grand Island and Ainsworth for the purpose of receiving public comment.

There are two requirements for approval of a rate increase under this subsection. First, the net increase to a company's aggregate annual revenues resulting from the combination of rate increases and decreases must be not more than one percent. Second, the proposed basic local exchange rates must not exceed the actual cost of providing the affected services to consumers.

E V I D E N C E

In support of the application, US West presented the testimony of four witnesses at the public hearing on December 17, 1998. Those witnesses were: Mr. Robert G. Lanphier, Manager-Nebraska Public Policy; Ms. Marti Gude, Cost Accounting Manager; Dr. Barbara M. Wilcox, Director for Product and Market Issues; and Mr. Robert L. McGinnis, Director-Markets/Regulatory Advocacy.

Mr. Lanphier testified as follows: US West filed this application in order to raise the rate of its first line basic residential local service, which is priced below cost, and to lower the prices of other services that are priced above cost. These changes have become necessary because of the introduction of competition at the local level by the Telecommunications Act of 1996. Competition drives prices closer to costs which means that the prices of services that have been traditionally priced above cost will go down as competition enters the market. As those prices fall, the subsidies they have provided so that residential local service can be priced below cost are lost, thereby driving up the price for residential local service.

The US West proposal would increase all first line residential basic local exchange rates by $1.80 per month. Reduced rates are proposed for intrastate interexchange long distance service, switched access service, and the bundle of features that US West markets under the name of Custom Choice. The net effect of the proposed rate changes is a rate rebalancing package that has a slight annual revenue loss for the company.

In response to questions by the Commission, Mr. Lanphier indicated that US West would continue to offer local measured service (LMS), which has been in existence for more than ten years. Under this rate proposal, the rates for LMS would also increase across all three LMS products (one-, three-, and six-hour packages) and for calls in all four rate areas (basic, and the three zonal areas).

Ms. Gude testified as follows: In accordance with the Commission's rules and in response to instructions received from the Commission staff, US West has presented a fully-allocated separations cost study for its basic exchange residential service. This cost study was prepared using the company's embedded cost accounting system which produces detailed, product-specific, cost reports based on US West's financial records of its 1997 actual Nebraska operating results, which conform to FCC CFR 47, Part 32 Uniform System of Accounting Rules. This study was conducted to demonstrate that the residential rates requested in this application will not exceed the actual cost of providing such service to affected subscribers.

Dr. Wilcox testified as follows: In this application, US West is implementing the switched access price structure adopted by the FCC for the interstate jurisdiction in 1994. The restructuring applies specifically to the local transport price elements that are a part of switched access charges. The proposed local transport restructure changes the current averaged per-minute-of-use transport charges to new charges that are specific to the type of transport a long distance carrier chooses to use. The restructure also allows long distance carriers to use expanded interconnection for switched access so that long distance carriers may provide their own local transport or purchase all or part of their local transport from other carriers.

In the past, local transport pricing elements have contained significant amounts of contribution over and above their direct costs. This contribution has been used to help keep residential rates low. With the restructuring, this excess contribution is being moved out of transport charges and into the Carrier Common Line (CCL) as a first step for removing the implicit subsidy currently contained in switched access charges. In the Commission's access reform docket, US West has already made a commitment that it will reduce and remove the implicit subsidy represented by the Carrier Common Line charge as universal service funds become available, however, under questioning, Dr. Wilcox stated that the CCL revenue to US West under the rate proposal will increase by approximately $9.2 million. The current application moves in that direction by reducing switched access charges by $1.5 million.

Mr. McGinnis testified as follows: US West is proposing to increase the monthly rate for first line residential flat and measured local exchange service by $1.80 in order to move those rates closer to their costs. The residential rates proposed in this application average $19.39 and are below the statewide average intrastate cost for residential local exchange service as demonstrated by the company's fully allocated separations cost study.

At the same time as the residential service increase, US West is proposing to reduce the prices and streamline the structure of its intraLATA long distance service. The pricing and structural changes in intraLATA long distance service produce a net annual reduction in US West's revenue of $4.9 million. US West is also proposing to reduce its monthly rate for the features portion of CustomChoice® by $1.80, which reduction will have an annual revenue impact of approximately $600,000. In response to questioning, Dr. Wilcox indicated this reduction reflects non-collection of revenue that could have been expected had US West not reduced the "features" component of the Custom Choice product. Because revenue will increase from the higher "phone service" component of Custom Choice, actual total US West revenue from Custom Choice will remain the same.

When the revenue impacts from the rate reductions in intraLATA long distance service and CustomChoice® features are combined with the impact from the proposed reduction in switched access service rates, the result is that US West's aggregate annual revenue is not increased by more than one percent which is the limit prescribed by § 86-803(9).

The Commission staffs produced one witness, Steven G. Stovall, staff accountant, who testified as follows: The staff used information requests and the statistical and financial records provided by the company to review the assumptions and the financial information which were utilized in the preparation of this application. The staff's analysis of the annual revenue impacts resulting from the rate changes requested in the application differs from that of US West on the issue of local access line repression. The company, in its study, reduced the basic exchange revenue impact to account for the repression of demand that it expects to occur in exchanges where competitive access lines are available. The staff, on the other hand, did not agree with US West's repression factor for three reasons. First, population demographics and changing consumer preferences will provide some stimulation in access lines. Second, US West customers who move from flat-rated service because of the rate increase can choose US West's local measured service. Third, the Lifeline/Linkup program offers assistance to eligible customers to maintain their current local service. Consequently, the staff did not make any adjustment for repression. The staff concluded that US West's aggregate annual revenue will be increased by one-tenth of one percent.

In reviewing US West's fully allocated separations cost study, the staff removed $.96 per line attributable to gross receipts/franchise taxes because the tax is a "flow through" cost that is collected from the customer. The staff also removed $.26 per line which represents the value of the telephone service which the company provides to itself. The staff does not consider this an out-of-pocket expense to the company nor a cost of residential service. The staff, however, concluded that when US West's first line basic residential rates are increased by the requested $1.80, US West's costs of providing basic residence still exceed the revenues that will result from the proposed rates.

No other parties introduced any testimony. No members of the public appeared at the hearings to make comments concerning the application.

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

The question in this case is whether the application meets the two-part test set out in Neb. Rev. Stat. § 86-803(9). Neb. Rev. Stat. § 86-803(9)(a) provides that the Commission will 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. US West calculated that the proposed rate changes would result in a slight annual revenue loss for the company. The staff concluded that US West's aggregate annual revenue would be increased by one-tenth of one percent as a result of the proposed rate changes. In spite of these differences, US West and the staff are in agreement that US West's application does not increase the company's annual revenues by more than one percent. Therefore, we find that Neb. Rev. Stat. 86-803(9)(a) has been satisfied.

Testimony was offered by both the Commission staff and US West regarding the actual cost of providing residential basic local exchange service. Although the Commission staff and US West calculated somewhat different costs for the service, both arrived at the conclusion that the proposed rates did not exceed the costs of providing the service. Therefore, we find that the requirement under Neb. Rev. Stat. § 86-803(9)(b) 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.

US West has proposed to adopt the local transport restructure (LTR) and to reduce access charges to IXCs by $1,512,655 in this application. The Commission decision in Docket No. C-1628 entered January 13, 1999, required ILECs to implement LTR by July 1, 1999. The Applicant's proposal is consistent with Docket No. C-1628 in that respect and should be adopted.

The Commission is concerned that the proposed rate increases, when combined with increases necessitated by regulatory decisions, may be a financial hardship for low-income and fixed-income consumers. As such, the Commission is determined to maintain as many alternatives and provide as much assistance to these households as is possible.

Two programs already exist. Link-Up assistance offers an offset of up to one-half the initial telephone connection charge for qualifying households. Lifeline provides a credit to eligible households toward the monthly cost of telephone service. Dissemination of information about these programs by US West is expected.

The Commission also feels that the local measured service (LMS) product offered by US West remains a positive alternative for financially pressed households. Because of this, the Commission expects US West to increase promotion of this service and to make consumers more aware of the availability of this service. We encourage US West to increase promotion of this product and other products which provide customers the opportunity to subscribe to the services that meet their individual needs.

We must, however, continue to point out that the federal Telecommunications Act of 1996 requires that the subsidy of local residential phone service, as has been past practice, must come to an end. Even though some rates increase under this order, other rates will remain the same and others will go down.

For example, the rates for residential second lines will remain at current levels. Rates for some features, such as call-waiting and call forwarding, will decrease in customer packages. The cost of making long-distance calls within the state using US West as a carrier will go down. Some customers, then, will experience a decrease in their total monthly phone bill. The federal law requires these changes as a step toward eliminating the subsidy that has kept residential phone rates artificially lower than cost. As explained, these changes do not result in any increased revenue to US West.

Upon consideration of the application, being fully advised, and under the limited review provided by statute, the Commission finds the application satisfies and complies with the requirements set forth in Neb. Rev. Stat. § 86-803(9) and that the residential basic local exchange rates proposed by US West as well as the other rate changes contained in the application should be approved.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-1874 filed by US West Communications, Inc. be, and it is hereby, approved.

IT IS FURTHER ORDERED that US West file updated and revised tariffs consistent with the findings herein.

IT IS FURTHER ORDERED that US West make available to customers information regarding the Link-Up and Lifeline programs and the availability of local measured service.

MADE AND ENTERED in Lincoln, Nebraska, this 20th day of January, 1999.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING

Chairman

//s//Lowell C. Johnson
//s//Frank E. Landis
//s//Daniel G. Urwiller

ATTEST:

Executive Director