Service Date: April 17, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER of the Application of the Regulated Members of TELEPHONE EXCHANGE CARRIERS OF MONTANA (TECOM) for Authority to Increase Rates for Intrastate Access Services.	)))))	UTILITY DIVISION DOCKET NO. 86.7.34 ORDER NO. 5225a

FINAL ORDER

APPEARANCES

FOR THE MONTANA TELEPHONE ASSOCIATION:

Calvin K. Simshaw, 750 Sixth Street S.W., P.O. Box 2166, Great Falls, MT 59403

FOR MOUNTAIN BELL:

Dennis Lopach, Mountain Bell, P.O. Box 1716, Helena, MT 59624

FOR AT&T COMMUNICATIONS:

Donald A. Garrity, 1313 Eleventh Avenue, Helena, MT 59601

FOR THE PUBLIC SERVICE COMMISSION:

Geralyn Driscoll, Staff Attorney, 2701 Prospect Avenue, Helena, MT 59620-2601

BEFORE:

HOWARD L. ELLIS, Commissioner & Hearing Examiner
TOM MONAHAN, Commissioner
DANNY OBERG, Commissioner

PROCEDURAL BACKGROUND

1. On July 18, 1986, Telephone Exchange Carriers of Montana (TECOM) requested authority to increase the charges for intrastate carrier access services. TECOM is an association of five small regulated independent telephone companies and thirteen rural telephone cooperatives set up to administer pooled carrier access rates. The regulated members of TECOM are Hot Springs Telephone Company, Lincoln Telephone Company, Project Telephone Company, Ronan Telephone Company, and Southern Montana Telephone Company. The tariffs filed would increase the pool's carrier access revenues by $3,482,817. Of this amount, $458,806 would be attributable to the regulated companies.

2. On September 23, 1986, the Commission issued Interim Order No. 5225. This order granted annual increases of $448,774 in carrier access revenues to TECOM's regulated members.

3. On December 15, 1986 TECOM filed rebuttal testimony that revised the exhibits to exclude inside wire, advertising, and CPE as the interim order required. TECOM also adjusted access minutes and removed approximately $600,000 in carrier common line revenues required by the stipulation between the Rural Montana Telephone Systems (RMTS), and Mountain Bell in Docket No. 84.4.15. The RMTS companies are the members of TECOM. The $600,000 revision was accepted by the Commission as a compliance filing in Docket No. 84.4.15.

4. Interim. The Commission entered Interim Order No. 5225 in this docket on September 23, 1986. The CAC prices resulting from the Commission's interim order are as follows:

INTERIM TECOM CAC PRICES
(c/MOA)

	Traffic Sensitive	Nontraffic Sensitive
CCLC		4.52
LNT	1.47	
LS	1.45	
LT:		
< 1 Mile	1.18	
1-8 "	2.47	
8-16 "	2.75	
16-25 "	2.95	
25-50 "	4.66	
50-100 "	6.64	
> 100 "	9.9	

Note the CCLC from the Commission's interim order was 5.12c. The above 4.52c figure reflects a further phase down to the CCLC in the amount of $600,000 effective January 1, 1987.

5. After proper notice, a public hearing was held January 6, 1987.

SUMMARY OF TESTIMONY

6. Because the TECOM filing stems, in part, from the Commission's recent intrastate access docket (Order No. 5055g),

the principle rate design issues involve carrier access charges (CACs). CACs in turn include nontraffic- and traffic-sensitive elements (NTS and TS). The NTS portion of CAC is the carrier common line charge (CCLC) element. The TS portions are: 1) local transport (LT), 2) line termination (LNT), and 3) local switching (LS).

7. Order No. 5055g in Docket 84.4.15, required a phase down of the NTS costs recovered from the CCLC portion of the CAC. The following reviews TECOM's proposals, intervening party positions and the Commission's decisions.

8. TECOM TESTIMONY. Willard Davies testified on the methodology used to provide cost support for intrastate carrier access services. The costs were calculated using methodologies set forth in the RMTS/Mountain Bell stipulation in Docket No. 84.4.15. TECOM developed the costs using FCC Part 67 and Part 69 procedures. Part 67 is used to separate interstate and intrastate costs. The independent companies have used these same procedures to arrive at an intrastate toll revenue requirement. Part 69 is used to further separate the jurisdictional costs into access rate elements.

9. Mr. Denis J. Felder testified about TECOM access tariff issues. TECOM's 13 members include 5 regulated companies and 8 unregulated Co-ops. TECOM's filing reflects the RMTS/MBT stipulation in Docket No. 84.4.15 to change from the settlements process to access charges.

10. Mr. Felder's testimony can be summarized as follows. The TECOM members propose a statewide average rate structure in lieu of individual Company access prices. The companies assert that it is desirable to maintain statewide average toll prices on noncompetitive routes and that this proposal will achieve this goal. TECOM's proposal bases access prices on Montana specific costs instead of the National Exchange Carriers Association tariffs that were used in the past. Furthermore, the average prices are for each element of the CAC (the carrier common line charge, the local transport, line termination and local switch), averaged for both regulated and Co-op members of TECOM. Each member would remit access revenues to TECOM and receive a share of the total revenues in proportion to its costs.

11. Because Ronan and Hot Springs telephone companies, two of the five regulated companies, have been "average settlements companies" (as opposed to "individual cost" companies), each Company's revenue requirement was allocated to access price elements based on the percent of revenue requirement the same price element comprised for the "individual cost" companies.

12. TECOM initially proposed a two-part CCLC, but later withdrew the proposal (TR p. 12). TECOM's final proposal includes a one (1) percent pool administration charge.

13. As discussed at pages 6 and 7 of in this order, the local transport portion of the CAC is contested by AT&T. TECOM proposed to average the local transport part relative to the cur-

rent mileage sensitive price structure. This issue in turn relates to the "meet point" billing issue in this docket.

14. TECOM made proposals pertaining to Special Access. Special Access is now a deregulated service. The Commission's interim order dismissed these issues from the docket.

15. Intervenor Testimony. Intervenors in this docket were Mountain Bell, AT&T Communications of the Mountain States, MCI and Montana Consumer Counsel. TECOM and Mountain Bell filed testimony. TECOM, Mountain Bell and AT&T participated in the hearing. Numerous parties intervened in this docket. Mr. Eugene Enebo testified for Mountain Bell. MBT's proposals follow. First, MBT had no major concerns with the costs proposed for access charges and recommended that the adjusted costs be accepted fo the purpose of establishing access rates. Second, MBT only concurs with TECOM's minutes of access (MOA), reserving the right to illuminate disparities after actual MOAs are known. Thirdly, MBT disapproved of TECOM's Bulk Bill in the CCLC.

FINDINGS, CONCLUSIONS AND ANALYSIS

16. Final Order No. 5055g of the access docket (Docket No. 84.4.15) is replete with reference to the need to use incremental costs (e.g., Finding Nos. 18, 22, 23 and 24). TECOM's filing and witness' testimony reflects an absense of discussion and interest in the relevance of incremental costs (e.g., TR 7) to efficient resource allocation. One possible use of marginal

cost information is discussed below with respect to local transport prices.

17. AT&T raises an issue concerning TECOM's proposed local transport (LT) price (TR 20-25). AT&T's position is that TECOM's LT price is too high and improperly computed. The Commission denies AT&T's request to revise TECOM's LT price in the present docket. Two comments are relevant in this regard. First, if TECOM's LT price were lowered to reflect AT&T's concern, assumedly other prices would increase to make TECOM whole. It is not at all clear how much the LT price can be lowered before it reaches marginal cost due to the absence of marginal cost information in this docket. Nor is it clear which other prices would be increased (e.g., other CAC prices or subscriber access charges).

18. Second, the Commission is not convinced by AT&T's argument that TECOM's method to compute LT prices is in error. The Commission recognizes the fact that TECOM's effective rates are high. What appears to be the basis of TECOM's relatively higer LT prices is relatively higher costs than Mountain Bell's. AT&T filed no testimony in this docket. If AT&T believes there is a double counting of costs in LT prices, then further supportive data will be needed by the Commission.

19. In its brief AT&T also raises the issue of a "windfall net revenue recovery" to Mountain Bell. At page 6 of its brief AT&T states:

> [I]ncreased MBT net revenue recovery from access charges is not neutralized by any offset of MBT or any other party. In fact, just the opposite is true. Mr. Enebo acknowledged during the hearing that as a result of the termination of settlements, MBT would have a net expense reduction... This windfall net revenue recovery is inconsistent with the requirement of Order No. 5055g ....

20. MBT's reply comments imply that the PSC did not intend Order No. 5055g to be revenue neutral. At page 3 of its brief MBT states:

> No directive was entered by the Commission with respect to any savings to be realized through the termination of the interLATA pool.... Mountain Bell received specific direction in the PSC's final order as to how to handle reduced costs with respect to a lowered contribution to support the independents' NTS costs. The PSC entered no directive with respect to the effect of elimination the interLATA pool.

21. The Commission wishes to take this opportunity to clarify to MBT that it intends that Order No. 5055g be revenue neutral. This was clearly stated in Finding of Fact 69:

> 69. It is not clear how and to what extent the RMTS/MBT stipulation affects MBT's settlement costs or AT&T's access payments. To the extent that the $900,000 RMTS reduction applies to MBT (and it is expected that approximately 80% of it will apply) the net revenue flow to MBT shall off-set the NTS/CCLC reduction(s) and corresponding increase in prices. The MPSC directs MBT to file a calculation of this effect in response to this Order. It is the intent of the MPSC to ensure that net revenue-neutrality is achieved for each company individually, and for the State, collectively.

22. The Commission is aware of a question concerning the effects of the MBT/RMTS stipulation of $900,000 in 1986 and $600,000 in 1987. The Commission will be reviewing MBT's May 1st filing in Docket No. 86.11.62 (II) and the compliance filings on May 15, 1987 in Docket No. 84.4.15 to ensure revenue neutrality for all companies.

23. Finally, the Commission finds that the additional revenue reduction in the amount of $51,542 due to finalization of the 1985 cost studies, must be a decrease to the CCLC price element.

CONCLUSIONS OF LAW

1. Applicants Hot Springs Telephone Company, Lincoln Telephone Company, Project Telephone Company, Ronan Telephone Company and Southern Montana Telephone Company are corporations providing regulated telecommunication servic in Montana and, as such, are public utilities within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over Hot Springs Telephone Company, Lincoln Telephone Company, Project Telephone Company, Ronan Telephone Company and Southern Montana Telephone Company pursuant to Title 69, Chapter 3, MCA.

3. The Commission has provided adequate public notice of all proceedings in this docket and an opportunity to be heard as required by Title 2, Chapter 4, MCA.

4. The rate level and rate structure approved herein are just, reasonable, and not unjustly discriminatory. §69-3-330, MCA.

ORDER

IT IS HEREBY ORDERED that TECOM shall file rate schedules which reflect a $397,232 increase in the charges for intrastate carrier access services. This net decrease will be in lieu of, rather than in addition to, interim rates. This $51,542 revenue decrease must be a decrease to the carrier common line charge element of carrier access charges.

IT IS FURTHER ORDERED that all motions and objections not ruled upon are denied.

Done and Dated this 15th day of April, 1987 by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell
Acting Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.