

BELL ATLANTIC

Rate Reduction Proposal

Order Approving Rate Group Consolidation and EAS Expansion

O R D E R N O. 22,861

March 9, 1998

APPEARANCES: Victor D. Del Vecchio, Esq., for Bell Atlantic; Devine, Millimet & Branch by Frederick J. Coolbroth, Esq., for Granite State Telephone, et al.; James A. Sanborn for Union Telephone Company; John Lightbody, Esq., for the TDS Companies; William Homeyer for the Office of the Consumer Advocate; and, Barclay Jackson, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On October 31, 1997, New England Telephone and Telegraph Company d/b/a Bell Atlantic-New Hampshire (Bell Atlantic) filed with the New Hampshire Public Utilities Commission (Commission) a proposal to reduce its revenues by \$26,120,000. The revenue reduction proposal evolved from discussions with the Commission Staff (Staff) regarding Staff's determination that Bell Atlantic's recent financial performance had put the company in a position of overearning.

Bell Atlantic's proposal includes three components:

(1) various rate design adjustments to reduce rates and installation charges and to enhance the existing Call Around 603 Plan; (2) consolidating the 21 existing rate groups into five rate groups while expanding Extended Area Service (EAS) to include all contiguous exchanges as part of each exchange's local calling area (an EAS plan often referred to as Home and Contiguous); and, (3) offering schools and libraries either a new -rate business line or a 56kb Frame Relay circuit with no installation or monthly charge until the year 2000. The first and third components of the proposal are proceeding. The second component of the proposal is the subject of this order.

On January 29, 1998, pursuant to an Order of Notice issued on January 2, 1998, the Commission held a public hearing to consider the proposed consolidation of Rate Groups and expansion of EAS to the Home and Contiguous plan. At the hearing, the Commission granted intervenor status to Granite State Telephone, Inc., Merrimack County Telephone Company, Contoocook Valley Telephone Company, Inc., Wilton Telephone Company, Inc., Hollis Telephone Company, Inc., Dunbarton Telephone Company, Inc., Northland Telephone Company of Maine, Inc., Bretton Woods Telephone Company, Inc., Dixville Telephone Company, Sprint Communications Company, L.P., Union Telephone Company, Chichester Telephone Company, Kearsarge Telephone Company, and Meriden Telephone Company. Sprint did not actively participate in this docket; the other intervenors are all independent telephone companies (ICOs) which are incumbent local exchange carriers. The Office of the Consumer Advocate (OCA) appeared on behalf of residential customers as a statutorily mandated party.

At the hearing, the Commission heard comments from Bell Atlantic, the ICOs, members of the public, the OCA and Staff.

On February 5, 1998, Chichester Telephone Company, Kearsarge Telephone Company, and Meriden Telephone Company (which are three subsidiaries of the parent corporation TDS Telecom and hereinafter referred to collectively as TDS) submitted a

-way EAS expansion by Bell Atlantic. On February 9, 1998, Bell Atlantic objected to Commission consideration of TDS's Supplemental Offer of Proof.

II. HISTORY OF EAS IN NEW HAMPSHIRE

EAS was introduced in the 1950's, before which only the home exchange was considered local and all other calls were toll calls. The home exchanges dictated the engineering of the network of Central Offices which governs the manner in which telecommunications services are deployed in New Hampshire. Over the next three decades, EAS grew by request to include those towns with which the people in the home exchange had a community of interest at the time of the request. If the cost of increasing the number of lines a customer could reach by a local call was not offset by savings associated with eliminating

-distance operators for those calls, the cost was recovered by the increased rate paid by the customer as a result of being placed in a new rate group and, if necessary, a rate increase to the general body of ratepayers. As the exchange network evolved to service customers more efficiently, it created the problem of multiple exchanges within the same town, which was ameliorated by the introduction of Municipal Calling Service (MCS).

With the regulatory move toward cost-recovery of the costs of changes to EAS in the 1980's was accomplished through surcharges imposed upon the beneficiaries of the changes, i.e. those customers receiving increased local calling capabilities. In 1994 the Commission placed a moratorium on EAS changes while it investigated how a statewide EAS revision might be accomplished. The Commission concluded, in Order No. 22,107, Re Preliminary Investigation into Local Calling Areas, 81 NH PUC 288 (1996) that no statewide revision of EAS would correct all inequities and that the competitive forces contemplated by the Telecommunications Act of 1996 (the TAct) would best correct the situation.

Subsequently, by Order No. 22,204 Re Investigation into Extended Area Service, 81 NH 480 (1996), the Commission clarified Order No. 22,107 to state that it did not intend to foreclose consideration of individual petitions for EAS expansion. Since then, the Commission has heard several such petitions, evaluating them pursuant to the standards enumerated in the Federal Communications Commission's Order on Universal Service, in CC Docket No. 96-45, In the Matter of Federal State Joint Board on Universal Service, Order No. FCC 97-157, released May 8, 1997.

III. COMMENTS OF THE PARTIES, STAFF, AND PUBLIC

A. Bell Atlantic

Bell Atlantic initially proposed to implement two-way EAS between all home and contiguous Bell Atlantic exchanges and -way EAS between Bell Atlantic and the ICOs' exchanges. However, as a result of discussions with the ICOs, Bell Atlantic indicated at the hearing that two-way EAS between Bell Atlantic and ICO exchanges would be reasonable. Therefore, Bell Atlantic indicated its willingness to delay implementation of the EAS proposal until such time as the Commission completes the necessary deliberations on ICO EAS expansion.

Bell Atlantic supported its proposal by noting the Commission's preference for a uniform, statewide EAS policy creating equitable calling areas, as discussed in Commission Order No. 22,107. According to Bell Atlantic, its proposal will accomplish that goal while maintaining the competitive marketplace mandated by the TAct.

Because Bell Atlantic's proposal is made in response to Commission concerns about overearnings, Bell Atlantic will not raise basic rates to implement the EAS expansion. Rates will change as a result of rate group changes which occur because the number of lines customers can reach will increase. However, under Bell Atlantic's proposal, the rate group increases are minimized as a result of the rate group consolidation proposed in

conjunction with the EAS proposal. Bell Atlantic proposes to consolidate its existing 21 rate groups into five. Rates for each of the five consolidated groups will be the lowest rate of the several which were consolidated into that particular rate group. For example, the customers in current groups 6 through 9, when consolidated into new rate group 2, will all be charged the rate currently imposed on current group 6. Hence, the customers in current groups 7 through 9 will all experience a rate decrease. There will, of course, be some rate increases as a result of rate group changes. For instance, a customer in current group 7 may, by virtue of the addition of contiguous exchanges, find himself moved to current rate group 11, a higher priced rate group. Nevertheless, under Bell Atlantic's proposal, no increases will occur to any exchange that does not receive an increased calling area.

In addition to the benefit to the state of uniform, equitable, and easily understood EAS, Bell Atlantic argues that the need for MCS, while still present, will be greatly diminished, thus decreasing the problems of incorrect billing.

Bell Atlantic asserts that the Commission should permit no further expansion of EAS beyond Home and Contiguous. The marketplace, according to Bell Atlantic, can provide additional EAS through alternate rate plans such as off-peak pricing, route selection, etc.; to do otherwise would remove the uniformity brought by this proposal. Furthermore, Bell Atlantic argued that noncontiguous EAS expansion cannot be accomplished with adequate cost recovery because of the competitive forces now at work which preclude the quid pro quo trade-off of local revenues and toll revenues.

B. ICOs

1. Granite State Telephone, Inc., Contoocook Valley Telephone Company, Inc., Wilton Telephone Company, Inc., Hollis Telephone Company, Inc., Dunbarton Telephone Company, Inc., Merrimack County Telephone Company, Northland Telephone Company of Maine, Inc., Bretton Woods Telephone Company, Inc., and Dixville Telephone Company (collectively, the Independents)

The Independents argue that their customers in exchanges contiguous to Bell Atlantic exchanges will experience an EAS imbalance unless the Commission authorizes an equal EAS expansion for territories served by carriers other than Bell Atlantic. Their customers will perceive the Independents as providing less than adequate service. In addition, the imbalance will encourage selective calling, e.g. agreements among customers to avoid toll charges, which will cause traffic shifts affecting the Independents' revenues. Therefore, the Independents recommend that the Commission order statewide, two-Contiguous EAS. The rate impact on customers of the Independents will be different than that on Bell Atlantic customers, however, because the Independents require revenue neutrality since basic rates must increase to cover the cost of expanding EAS without an overearnings situation. The Independents request that technical discussions with Commission Staff proceed promptly to determine the necessary rate adjustments to achieve revenue neutrality. Any disagreement regarding the appropriate rate adjustment, the Independents aver, should be brought before the Commission for adjudication.

2. Union Telephone Company (Union)

Union does not object to Bell Atlantic's EAS expansion but urges the Commission to implement, concurrently, Home and Contiguous EAS in Union's and all ICO territories. Union argues

-way EAS into Union territory will distort traffic patterns and inhibit economic growth in non-territory. Union will experience revenue losses from the traffic diversions and also from reduced interstate settlements. Union also pointed out that the goal of uniform EAS cannot be met by

3. Chichester Telephone Company, Kearsarge Telephone Company, Meriden Telephone Company (collectively, TDS)

TDS requests home and contiguous EAS expansion in its territories concurrent with Bell Atlantic. To that end, TDS agreed with the Independents and Union that technical sessions with the Commission Staff should commence as soon as possible to address the revenue issues. In its Supplemental Offer of Proof, filed after the hearing, TDS provided information demonstrating current rates and access lines, a calculation of the additional cost per access line resulting from Bell Atlantic's proposal, and a calculation of the rate necessary for implementation of two-way EAS within its territories. In particular, TDS notes that Meriden Telephone Company's customers will experience a significant rate increase. TDS's filing suggested that one possibility to alleviate the revenue impact is to require Bell Atlantic to bear all the increased TDS costs of EAS expansion.

C. OCA

The OCA took no position regarding the Bell Atlantic

D. Members of the Public

Members of the public provided comments on Bell Atlantic's proposal, both as testimony at the hearing and as letters sent to the Executive Director. Both the New Hampshire Business and Industry Association (BIA), a trade association, and the North Country Council, a regional commission for economic development, support the Bell Atlantic proposal. The BIA recommended the proposal as a balance between the desire to extend local calling areas and the desire to stimulate investment in telecommunications infrastructure in New Hampshire. The North Country Council is in favor of the proposal, in particular because it provides major benefits to two isolated sub-the Colebrook area and the Lincoln-Woodstock area.

E. Commission Staff

The Staff supports uniform two-way Home and Contiguous EAS and consolidating Bell Atlantic's 21 rate groups into five. However, Staff proposed that the Commission set a date certain at which time two-way Home and Contiguous EAS can be implemented in -cut manner. If any of the ICOs are not able, on the date certain, to implement two-way home and contiguous EAS, then Staff recommends that Bell Atlantic proceed, along with whichever ICOs are prepared. Staff argued that such a procedure would provide an incentive for the ICOs to proceed quickly while not making Bell Atlantic's revenue reductions contingent on ICO actions.

IV. COMMISSION ANALYSIS

We have reviewed the record in this proceeding and considered the recommendations of all parties and Staff. We find that a reduction in Bell Atlantic's revenues is reasonable and in the public interest. Bell Atlantic can achieve a significant reduction in revenue under the proposal presented here, while creating equitable EAS within Bell Atlantic territory. We believe that as the era of telecommunications competition further unfolds and choices proliferate, New Hampshire customers will benefit from clear, easily understood, reasonably equitable EAS.

Consistent with the objectives we expressed in DRM 94-No. 22,107, uniform, equitable EAS is in the public good where it can be achieved (1) without increasing monthly rates for customers who receive no benefit from the EAS change and (2) without hindering the federally mandated objective of a competitive telecommunications market. Because the proposal meets those requirements, we will order Bell Atlantic to implement its proposal for Home and Contiguous EAS in accord with our discussion below.

We are not convinced by Bell Atlantic's arguments that no proposal for further expansion of EAS should ever be considered. While we do expect the marketplace to provide consumers with choices, we will not foreclose the regulatory avenue of change at this time of transition.

We find that consolidating Bell Atlantic's rate groups serves the public interest. First, administering fewer rate groups is more efficient for Bell Atlantic. Second, rate groups with a larger population range means that customers will be shifted from one rate group to another less frequently and therefore experience fewer rate changes. Third, consolidating the rate groups' rates downward to the lowest rate within the new group, as proposed, will reduce the rates of the largest number of customers.

Given the testimony in support of two-Contiguous EAS by the Independents, Union, TDS, the members of the public, and Staff, as well as our prior investigations in DRM -001, we will also order the ICOs to proceed with the studies necessary to implement statewide, two-way Home and Contiguous EAS as soon as possible. We direct the ICOs to hold technical discussions with Staff regarding rate impacts and with Bell Atlantic regarding EAS implementation before submitting proposals. Thereafter, the Commission will hold hearings to review the rate impacts of the proposals concerning two- and Contiguous EAS in the ICO territories.

With regard to rate impacts, we make no judgment at this time as to how revenue neutrality will be achieved for the ICOs. TDS's proposal that Bell Atlantic absorb all of an ICO's costs of implementing two-way Home and Contiguous EAS is unacceptable. Bell Atlantic is neither the causative agent nor the beneficiary of an ICO's implementation of EAS expansion. Rate impact and recovery issues will be decided individually for each carrier and we will consider all factors when making a decision, including possible overearnings. Furthermore, we recognize that factors of which we are currently unaware may appear in the course of the technical discussions with ICOs, which may bring into question whether any particular carrier, other than Dixville Telephone Company, should be exempt from the -way Home and Contiguous EAS requirement.

We prefer a single date for implementing statewide -way EAS over a piecemeal, multi-date implementation. The single date, flash-cut change would insure a unified approach to educating customers about the change, resulting in the least confusion. We utilized this approach effectively when implementing intraLATA presubscription. At the time of the hearing, however, Bell Atlantic was unable to declare a definite date upon which it will be capable of technically implementing Home and Contiguous EAS. As a result, we will reserve our judgement as to whether a flash-cut implementation is possible until after we hear from Bell Atlantic regarding a proposed implementation date and after the necessary technical discussions have occurred. At that time we can weigh the benefits of a -cut implementation against the benefits of reducing Bell Atlantic's revenues as soon as possible.

We note that the revenue reductions actually obtained from effecting Bell Atlantic's proposal may not take Bell Atlantic out of an overearnings situation. We will monitor Bell Atlantic's earnings and, should the overearnings continue, we

Douglas L. Patch
Chairman

Bruce B. Ellsworth
Commissioner

Susan S. Geiger
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary