

1 **Miscellaneous General and Local Service Rates**

2
3 **Q. Next, would you please discuss the Company's proposed changes to its**
4 **miscellaneous general and local exchange services?**

5 A. As is true of other rate elements, the Company has proposed to merge tariffs
6 that deal with miscellaneous local and general services. There are eight specific
7 modifications that result in revenue changes. In its revised filing the Company
8 proposes to:

- 9
10 1) Eliminate Private Line charges and replace them with Special
11 Access Rates, resulting in an increase in revenue of \$300,818,
12 or 3.6%
- 13 2) Increase Directory Listings revenue by \$541,334, or 28%
- 14 3) Increase Custom Calling revenue by \$1,767,876, or 22%
- 15 4) Increase Coin Telephone Service revenue by \$547,517 or
16 19%
- 17 5) Increase Service Charges by \$1,160,547 or 29%
- 18 6) Increase Operator Services revenue by \$442,377, or 21%
- 19 7) Increase Directory Assistance revenue by \$844,252, or 38%,
20 and
- 21 8) Increase Direct Inward Dial revenue by \$288,366, or 27%.

22
23 **Q. In your opinion, how should the Commission view the rates for such**
24 **ancillary services?**

25 A. Essential or nearly essential services, such as basic local exchange service,
26 ought to be priced at a lower markup than purely optional services. This
27 approach furthers the goal of universal service, and it is consistent with pricing
28 patterns which often occur in competitive markets. By pricing discretionary
29 services at somewhat higher levels, it is feasible to price other, more basic,
30 services at lower levels.

1 **Q. Do you agree with the Company's proposed increases in these**
2 **miscellaneous general and local exchange services?**

3 A. For the most part I do not dispute these proposals. However, I do not
4 necessarily agree with all aspects of these proposals. I have not studied all of
5 these different proposals in detail, and am not necessarily endorsing them in
6 their entirety. Where I have not analyzed a proposal in detail, and/or I have
7 found no reason to dispute it, I have incorporated it into Schedule 5 attached to
8 my testimony.

9 Currently, the Company maintains two sets of tariffs for dedicated
10 circuits: private line rates and special access rates. The Company proposes to
11 eliminate the former tariff, thereby requiring all customers to purchase their
12 dedicated services from the special access tariff. The Company is making this
13 proposal because "the actual service is identical, as is the cost, whether it is a
14 line ordered by an interexchange carrier out of the access tariff or by an end
15 user out of the local tariff". [GTE, Carlson Direct Testimony, p. 43]. Although I
16 haven't studied it in detail, I see no reason to disagree with it, especially since
17 the resulting impact is relatively modest (an increase in revenues of
18 approximately 4%).

19 Under its current tariff, Contel's monthly charge is \$3.00 for a
20 customized number listing. An additional listing costs \$1.44, while all other
21 directory listings are currently priced at \$2.00. Under GTE Southwest's current
22 tariff, optional directory listings range from \$.95 to \$1.45. Under the
23 Company's proposed tariff, there is little distinction between listing services. All
24 optional directory services, with the exception of customized number (which
25 remains at \$3.00) will be priced at \$2.50. While I haven't studied these
26 proposals in detail, I find no reason to dispute them.

27 The Company proposes to increase custom calling charges in order to
28 "augment the local service revenue streams" and to "maintain a pricing structure
29 competitive within the industry" (Carlson Testimony, p. 46). The discretionary
30 nature of these services make it appropriate for their rates to include substantial
31 markups above cost, in order to recover a significant share of the Company's
32 overhead costs, and to minimize the rates for basic local exchange service.
33 None of the proposed increases appears extreme, and I have no reason to

1 dispute the Company's proposals, although I have not studied them in great
2 detail.

3 The Company proposes to merge the GTE South-Southwest VA and
4 GTE South-Contel VA service charge tariffs, for simplicity and ease of
5 administration. (Dominguez Testimony, p. 29). Although I have not studied
6 them in detail, I do not dispute any of the Company's proposals in this
7 category.
8

9 **Q. With which portions of the Company's miscellaneous local/general rate**
10 **design proposal do you not agree?**

11 A. I am troubled by some of the Company's proposals regarding Operator
12 Services, Directory Assistance, Direct Inward Dialing (DID), and Coin
13 Telephone Service. In all these cases, the Company has considerable market
14 power, if not a total monopoly, within its service area, and the absence of
15 competition will force consumers to pay what the Company demands or do
16 without the service, at least in the short term.

17 First, the Company proposes to increase Directory Assistance revenue
18 in order to cover costs, and encourage customers to use the published
19 directories. (Dominguez Testimony, p. 38). Although the proposed rate of
20 \$.50 per call is not out of line with industry norms, the complete elimination of
21 the free call allowance would be troubling. As Ms. Dominguez notes, "70.8%
22 of residential customers and 86.9% of business customers make no calls to
23 DA..."[Id.] While this may be true during any particular month, some
24 customers are forced to make an occasional call to DA, when a book isn't
25 readily available, or the number isn't included in the published directory. A
26 large fraction of the DA calls are made by a relatively few customers, who
27 routinely use this service in lieu of the printed directory. However, the presence
28 or absence of a free call allowance is unlikely to affect their calling patterns. It is
29 therefore gratifying that the Company has restored the three-call allowance in its
30 revised filing.

31 Mr. Dominguez indicates in his testimony that the Company's cost per
32 call is substantially less than the proposed rate. While I don't object to a
33 substantial markup on this service when it is applied to discretionary calls, this
34 markup seems less appropriate when it is applied to calls which cannot be

1 avoided (e.g., when the printed directory is incomplete or outdated). I
2 recommend that the per-call increase to \$.50 be allowed, and I support the
3 revised filing that maintains the free three-call allowance.

4 Second, the Company has proposed a substantial increase in its rates
5 for Direct Inward Dialing (DID) Service. DID is primarily an optional service
6 that enhances the value of PBX trunk service by allowing calls to be routed
7 directly to particular extensions. However, this service has also been mentioned
8 as an interim means of providing number portability during a transition to local
9 exchange competition. Also, DID is used by shared tenant service providers.
10 The effect of the proposed DID rates is to increase DID revenues by
11 \$288,366, or approximately 27%. Even though I am recommending that these
12 changes be approved, I would note that if local exchange competition is
13 approved in the Company's service territory, and if DID is to be used as an
14 interim means of providing number portability, it would be appropriate to
15 provide this service using a separate tariff with a lower wholesale rate.

16 Third, I disagree with certain portions of the Company's proposals for
17 coin telephone service. The Company originally proposed an increase in the
18 Local Message Charge for public and semi-public telephone service from \$.25
19 to \$.35. It has (happily) abandoned that change in its supplemental filing, but it
20 still maintains that the \$.25 rate is below cost and recommends the issue be
21 addressed in a separate generic docket. I would oppose such establishment of
22 such a docket. Nationwide, the \$.25 public telephone rate is the most widely
23 accepted rate in the market, and I see no reason for this Company, or this
24 Commission, to blaze the trail towards higher rates. If the Company is allowed
25 to increase its rate to \$.35, undoubtedly some other public telephone operators
26 would follow the Company's lead, resulting in substantially higher charges for
27 the consuming public. The current \$.25 rate exceeds the Company's marginal
28 cost of local calls placed from public phones. The Company also generates
29 access and toll revenues from these phones. An increase above the prevailing
30 market level does not seem justified now, nor should it be anticipated, in the
31 context of an overall downward trend in telephone costs and rates.

32 In addition, GTE has proposed a new rate element termed "Set Use
33 Fee." This fee would apply to users of the Company's public and semi-public
34 telephones when they place 1+ and 0+ calls, including calling-card, collect, or

1
2
3
4
5

third-party billed intraLATA toll calls. This proposal has not been adequately justified. It does not seem necessary or appropriate to impose an additional surcharge on long distance calls, which already generate a substantial markup above marginal cost. I therefore recommend rejection of this charge.