Service Date: November 10, 1983

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

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IN THE MATTER of the Investigation Of INTRASTATE ACCESS CHARGES For Telecommunications.	)))	UTILITY DIVISION DOCKET NO. 83.6.47 FINAL ORDER NO. 5018a

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FINAL ORDER

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APPEARANCES

FOR THE MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY:

J. Walter Hyer, III, Attorney, P.O. Box 1716, Helena, Montana 59624

Dennis R. Lopach, Attorney, Hjort, Lopach and Tippy, Arcade Building, Helena, Montana 59624-0514

FOR THE GENERAL TELEPHONE COMPANY OF THE NORTHWEST, INC.:

Lester Loble, II, Attorney, P.O. Box 176, Helena, Montana 59624

C. Lee Coulter, Attorney, 1800 - 41st Street, Everett, Washington 98201

FOR THE RURAL MONTANA TELEPHONE SYSTEMS:

Stanley T. Kaleczyc, Attorney, P.O. Box 162, Helena, Montana 59624

R. Stephen Browning, Attorney, P.O. Box 162, Helena, Montana 59624

FOR THE NORTHWESTERN TELEPHONE SYSTEMS, INC.:

David L. Jackson, Attorney, 203 North Ewing, Helena, Montana 59601

Leonard A. Girard, Attorney, Stoel, Rives, Boley, Fraser & Wyse, 900 S.W. Fifth Avenue, Portland, Oregon 97204

FOR AT&T COMMUNICATIONS:

T. Larry Barnes, AT&T, 999 - 18th Street, 1000, Denver, Colorado 80202

Hathaway Watson, III, AT&T, 795 Folson, Room 560, San Francisco, California 94107

Donald A. Garrity, Attorney, 1313 Eleventh, Helena, Montana 59601

FOR THE MONTANA CONSUMER COUNSEL:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59620

FOR THE MONTANA PUBLIC SERVICE COMMISSION:

Calvin K. Simshaw, Attorney at Law, 1227 11th Avenue, Helena, Montana 59620

BEFORE:

THOMAS J. SCHNEIDER, Chairman
JOHN B. DRISCOLL, Commissioner
HOWARD L. ELLIS, Commissioner
CLYDE JARVIS, Commissioner
DANNY OBERG, Commissioner

INTRODUCTION

The Commission issued a proposed order in this docket on October 3, 1983. Comments or exceptions to the proposed order were due by October 18, 1983. The Commission received comments from only two parties.

The Montana Consumer Counsel recommended that further direction be given as to how intrastate NTS costs should be allocated between local exchange, intra-LATA toll, and inter-LATA toll. The separation between local exchange and intrastate toll was made in the MIC proposal. However, in focussing on the allocation between intra-LATA and inter-LATA toll it is apparent that the proposed order incorrectly assumed that Mountain Bell in calculating the first part of its state CALC proposal had included 10 percent

of only the intra-LATA NTS costs. Actually that calculation included 10 percent of total intrastate toll NTS costs including inter-LATA. Finding Nos. 34 through 41 and 44 through 49 of the proposed order have been either modified or omitted in this order to correct this mistake. The Commission has identified the method by which NTS cost recovery should be allocated between intra and inter-LATA toll in Finding No. 41.

AT&T Communications filed comments wherein they took exception to the Commission's assumption in Finding No. 49 of the proposed order that carrier access charges and divestitures would result in a shift of NTS cost recovery away from intrastate inter-LATA NTS and like services. AT&T Communications asserts in its comments that carrier access charges will actually result in more recovery of NTS costs from intrastate inter-LATA services than currently takes place (Comments of AT&T Communications on Proposed Order No. 5018, p. 4). Assumptions by either the Commission or AT&T Communications in this area are only speculation at this time. Only after AT&T Communications files proposed intrastate inter-LATA rates and the Commission reviews those rates based upon an established intrastate inter-LATA revenue requirement will it be known whether the rates will rise, decrease or remain the same. This final order makes no presumptions one way or the other but merely lays the groundwork for instituting a revenue requirement case.

Finally, action by the FCC since issuance of the proposed order in this case has caused certain modifications to implementation of state CALC's and carrier access charges in this final order as well as requiring that an interim mechanism be put in place. The Commission's response to the FCC's Memo-

randum Opinion and Order issued October 19, 1983 in CC Docket No. 83-1145 is contained in Part G of this final order.

Having fully examined the matters before it in Docket No. 83.6.47, the Commission enters the following Findings of Fact, Conclusions of Law and Order:

FINDINGS OF FACT

1. On August 24, 1982, the United States District Court for the District of Columbia entered a Modified Final Judgment (MFJ) in the case of U.S. v. Western Electric, Inc., and AT&T, Civil Action No. 82-0192. Pursuant to the Modified Final Judgment, all Basic Operating Companies (BOC's) of the Bell System are required to file tariffs for exchange access thereby replacing the division of revenues process used to allocate revenues to a BOC for exchange access provided for interexchange telecommunications, Modified Final Judgment, Appendix B, Paragraph (B)(1). The Proposed Plan of Reorganization contemplates such access charges being effective January 1, 1984.

2. On February 28, 1983 and on August 22, 1983, the FCC released its Third Report and Order and its Memorandum Opinion and Order, respectively, in its CC Docket No. 78-72, Phase I. Therein the FCC required that all basic exchange telephone companies file tariffs for the provision of exchange access for the purpose of completing interstate interexchange telecommunications. Such access charges were to be effective for service rendered on and after January 1, 1984.

3. On April 28, 1983 the Commission staff met with interested parties, in an informal meeting, to discuss the concept of access charges and the impacts that the MFJ and the Third Report and Order in CC Docket No. 78-72 might have on Montana telecommunications rate structure. A five member industry representative committee (the Montana Industry Committee or MIC) was formed to identify and recommend issues which the Commission should address relative to exchange access services. The Committee identified seven issues in its May 25, 1983 report to the Commission. These issues are identified in Finding No. 8.

4. On June 15, 1983 this Commission initiated Docket No. 83.6.47 for the purpose of examining the seven issues identified by the Montana Industry Committee.

5. On June 28, 1983 the Commission issued a Procedural Order in this docket setting forth dates for intervention, filing of comments and reply comments, and hearing on these issues.

6. Participants offering testimony in this docket are:

AT&T Communications (AT&T)
General Telephone of the Northwest, Inc. (GTNW)
Mid-Rivers Telephone Cooperative, Inc. (MRT)
Montana Consumer Counsel (MCC)
Mountain States Telephone & Telegraph, Inc. (Mountain Bell, MBT)
Northwestern Telephone Systems, Inc. (NWT)
Rural Montana Telephone Systems (RMTS) - Composed of:
- Blackfoot Telephone Cooperative, Inc.
- Hot Springs Telephone Company
- Interbel Telephone Cooperative, Inc.
- Lincoln Telephone Company, Inc.
- Mid-Rivers Telephone Cooperative, Inc.
- Nemont Telephone Cooperative, Inc.
- Northern Telephone Cooperative, Inc.
- Project Telephone Company
- Range Telephone Cooperative, Inc.
- Ronan Telephone Company
- Southern Montana Telephone Company

Three-Rivers Telephone Cooperative, Inc.
Triangle Telephone Cooperative Association, Inc.
Valley Rural Telephone Cooperative, Inc.

7. Pursuant to an appropriate Notice of Public Hearing, a hearing was held on August 23-25, 1983 in the auditorium in the Department of Highways Building, Helena, Montana. At the conclusion of the hearing, the parties and the Commission agreed that the Commission would issue a proposed order even though all members of the Commission had heard the case. The parties were allowed 15 days in which to file comments or exceptions to the proposed order.

8. The Procedural Order identified seven issues to be addressed in Docket No. 83.6.47:

A. Long-term rate structure,
B. Short-term, or transitional, rate structure,
C. Cost averaging,
D. Intra-LATA competition,
E. Separations and Settlements,
F. Basic Service subsidy mechanisms, and
G. Procedure.

A. Long-Term Rate Structure

9. Traditionally, regulated telephone rate design has consisted of a process whereby embedded revenue requirement has been allocated to various services by means of a jurisdictional separations process. This allocation consists of a formal interstate/intrastate allocation as well as a Montana rate case-related state/local[1] allocation. The end result has been "Local Exchange," "State Toll," and "Interstate Toll" rates which only coincidentally

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1 For example, see Order No. 4948, Docket No. 82.2.8, pp. 38-52.

could resemble the true economic cost of producing network access and network usage.

10. The separations or allocation process at both the federal and state level has resulted in usage-related rate elements (i.e., "State Toll") which reflect arbitrary proportions of various embedded revenue requirement accounts which have no analytical correlation with the true costs associated with the production or consumption of network usage.[1]

11. The fundamental problem with the traditional rates is foregone benefits as a result of inefficient pricing. To the extent that "Local Exchange," "State Toll," and "Interstate Toll" are priced such that they do not properly reflect access and usage costs, and to the extent that the price elasticities of demand for these products is nonzero, the telephone industry (including competitors and competitive technologies) will be producing services which are of less total value per unit of cost than would otherwise be the case.

12. Although the fundamental problem with traditional telephone rates is foregone benefits in general, it is specifically the entry of competitors (and resulting usage price elasticity) which has lead to CC Docket No. 78-72 at the federal level and Docket No. 83.6.47 at the state level. As customers are presented with a wider variety of options from which to choose, the importance of providing the economic decision with properly structured price signals becomes of paramount importance. It is for this reason that the

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1 For example, at the federal level, on average, customer A's economic decision to consume usage is obscured by 45 percent of the revenue requirement associated with customer B's CPE (as well as inside wiring, station connections and certain obviously nonrecurring fixed costs of providing network access).

telephone utility industry has become adamant in proposing restructured utility rates. As customers are allowed (via bypass) the opportunity to pay the true cost of service, thus avoiding the arbitrary proportions of various embedded revenue requirement accounts, resulting consumption decisions will result in losses of net revenues.

13. At the federal level, the FCC[1] has found that interstate usage rates should reflect only traffic sensitive (TS) costs. The nontraffic sensitive (NTS) revenue requirement "allocated" to "interstate toll" would either be phased off the books or eventually reflected in flat monthly NTS rate elements.

14. At the state level, the Commission has previously indicated the importance of aligning rate elements with the true cost of service:

> It is essential that the problem of relating the categorized "State Toll" and "Local Exchange" costs to rates be addressed. If it is intended that "State Toll" is to represent monthly useage rates sensitive to useage of the regulated network and "Local Exchange" is intended to represent flat nontraffic sensitive charges, then the reason for including NTS costs in the former and TS costs in the latter must be established. (Finding No. 115, Order No. 4948, Docket No. 82.2.8)

15. The proposition that long-term rate structure goals include TS and NTS rate elements reflecting TS and NTS costs, respectively, has near unanimous support in Docket No. 83.6.47[2]. The RMTS (Exh. RMTS-1, p. 9) maintain that the economic well-being of the rural telephone companies is the primary concern and to the extent it is threatened by such a structure, the

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1 MTS and WATS Market Structure, Third Report and Order, CC Docket No. 78-72, February 28, 1983.

2 Exh. MBT-1, p. 7, Exh. NWT-1, pp. 1-2, Exh. GT-1, p. 1, and Exh. AT&T-1, p. 6.

structure is faulty. The MCC (Exh. MCC-1, p. 3) argues that the NTS/TS structure ignores subscriber externalities and in its reply comments (Exh. MCC-2) argues that what has traditionally been classified as NTS costs, in actuality, reflect some costs which are truly TS.

16. The Commission finds that it is not necessary to arrive at a specific long-term rate structure solution in Docket No. 83.6.47. Establishing a specific long-term rate structure requires a more elaborate examination of both cost of service and rate alternatives. For example, declining block usage rates could represent an opportunity to more closely align usage rates with costs while preserving affordable access. However, for purposes of defining a transitional goal, it is evident that traditional telephone rate design has resulted in network usage prices which reflect various amounts of embedded revenue requirement which have no correlation with costs[1]. Furthermore, it is evident that network usage services are the most price-elastic network service provided by the telephone industry.

17. As a transitional goal, the Commission finds that at least some transfer of recovery of embedded revenue requirement from network usage rate elements is both necessary and beneficial, as well as unopposed.

B. Short-Term or Transitional Rate Structure

18. In response to issue B, the participating parties submitted positions which generally reflected either a mirroring of the FCC transition (with the exception of premium access and percent NTS transfer; Exh. MB-1,

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1 No participating party maintains that existing usage rate elements do not reflect some NTS revenue requirement.

NWT-1, GT-1 and AT&T-1) or creation of a new MTS (and like) rate element (Exh. RMTS-1 and MCC-1).

19. Of immediate importance in this Docket, however, is a rate structure to be implemented on January 1, 1984. As such, the Commission chooses to not pursue a transition plan, beyond 1984.

20. In its simplest form, the issue to be resolved is what combination of MTS (and like services)[1] rates, carrier access charges, and a state customer access line charge (State CALC) will be structured to reflect NTS revenue requirement now recovered through MTS rates, for purposes of 1984.

21. It is this short-term or transitional structure which is a subject of the Montana Industry Committee's proposal (Exh. MIC-1). The MIC proposal consists of three primary elements:

1) carrier access charges which mirror the federal charges,
2) carrier access charges for competitive carriers equal to those for AT&T Communications, and
3) a 10% shift of NTS revenue requirement from MTS rates to a state CALC capped at $2.00 per month per line for both business and residential customers. (Exh. MIC-1, p. 3)

22. The MIC proposal has the endorsement of every participating party.

23. The arguments in support of state carrier access charges mirroring the federal charges are three-fold:

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1 Hereafter, all references to MTS are deemed to include "and like services."

1) establishing federal access charge tariffs by January 1, 1984 will be difficult; establishing a second state-level set of tariffs would be even more administratively difficult, if not physically impossible[1];

2) the identical costs are incurred whether an exchange carrier is handling an intrastate or interstate message; and

3) it is not evident that the exchange carriers have the technical capability to detect whether a message is intrastate or interstate for billing purposes.

24. In light of the supporting arguments and the consensus of all participating parties, the Commission finds that for purposes of 1984 the state carrier's access charges should mirror the federal charges. The Commission also accepts the MIC proposal that carrier's access charges for competitive carriers "match charges determined for AT&T Communications, assuming comparable technical connections are available." (Exh. MIC-1, p. 3). Access charges paid by AT&T Communications to Mountain Bell or any other basic exchange company for intrastate access will equal the federal charge including provisions for premium access. Other interexchange carriers will pay the same charges for intrastate access unless they make a showing that their access is not comparable to that received by AT&T Communications. Upon such a showing, the other interexchange carrier will not be required to pay the premium access element of the charge.

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1 The access tariff includes dozens of rate elements reflecting various services provided by the exchange carrier to inter-city carriers.

25. The MIC proposal featuring a 10 percent shift of NTS revenue requirement to a state CALC capped at $2.00 per month per line is uncontested.

26. The MCC does object to the NTS basis utilized by MBT to which the 10 percent factor is applied. The MCC argues that MBT's NTS base includes embedded accounts which are truly TS, and as such, should be excluded from the calculation. MBT maintains that the NTS basis reflects the FCC's Part 67 rules, is used uniformly by all 14 companies, and properly reflects the NTS basis.

27. The Commission would observe that it is not clear whether all companies have accounting formats which uniformly allow them to make revisions to the Part 67 NTS basis. It is also not clear whether having one company deviate leaves the other 13 companies unaffected.

28. The Commission would also point out that it does not appear to be contested that at least 10 percent of the total Part 67 basis currently reflected in usage rates is truly not related to incremental consumption of usage. For these reasons, the Commission accepts the 10 percent transfer, the Part 67 basis, and the state CALC capped at $2 per line. The Commission would indicate that identification of cost components, now classified as NTS, which are truly TS remains an issue that warrants examination in the future.

29. The MIC proposal included two calculations of state CALC (Exh. MIC-2 and MIC-3) -- with and without CPE revenue requirement. The Commission finds that the state CALC should not include CPE requirements.

30. The Commission further finds that implementation of the MIC proposal necessitates that offsetting rate adjustments be considered.

31. This proceeding has been characterized throughout as a consideration of rate structure rather than of consideration of proposed rate increases to provide rate relief. For example, Mountain Bell described its access charge proposal as follows:

> These access charge proposals will not result in an increase in Mountain Bell's revenues nor will they increase our earnings. While much has been written lately concerning possible increases in the price of telephone service as a result of access charges, it is important to realize that any increase in the bills of some customers will be offset by decreases in the bills of others. Thus access charges do not represent an increase in rates but rather accomplish a redistribution of our prices to recover our costs on a cost sensitive basis. (Initial Comments of Mountain Bell, Volume 1 of 2, p. 4)

32. At the heart of the Montana Industry Committee (MIC) proposal (Exh. MIC-1) is the provision that 10 percent of NTS costs which had historically been recovered through MTS usage charges, be recovered in the future through state CALC charges. This aspect of the plan creates a new source of revenues for the local operating companies. In order for this proceeding to retain its rate-structure-only character, it is therefore necessary to make offsetting rate adjustments to avoid granting additional overall revenues to the companies.

33. In this case the new source of revenues (state CALC) has not been associated with any increased revenue requirement due to either an increase in costs or a decrease in revenues. The state CALC revenues are not generated by introducing some new service offering supported by new plant and expenses. Nor are the state CALC revenues related to any associated decrease in other company revenues. As will be discussed later, the Commission rejects Mountain Bell's contention that any net decrease in

revenues due to divestiture should be considered in this docket and recovered through state CALC charges.

34. In the case of Mountain Bell, the introduction of state CALC revenues without any further rate adjustment would result in increased revenues for the Company. Mountain Bell's proposed state CALC is made up of two elements (TR. Vol. 4, p. 455). The first element, encompassed in the MIC proposal, involves a shift of the recovery of 10 percent of the NTS costs associated with customer access to the intrastate MTS network[1]. Mountain Bell currently recovers those costs from revenues received from intrastate MTS services net of settlement payments. If there were no off-setting downward adjustment to intrastate MTS rates, Mountain Bell would continue to recover the NTS costs in question both through intrastate MTS rates and again through this first element of a state CALC.

35. Mountain Bell would realize even further increased revenues due to the effect of the MIC proposal on the settlements process. Currently the payments to independent companies out of the settlements pool is based in part upon 100 percent of the independents' NTS costs associated with access to the toll network. Under the MIC proposal, those settlement payments would be based on only 90 percent of the independent's NTS costs. (Exh. MIC-1, p. 5, paragraph E) Consequently, the amount Mountain Bell pays for settlements out of the settlement pool would go down while the amount flowing into the pool would remain the same if there were no offsetting

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1 The second element of Mountain Bell's proposed CALC concerned recovery of a perceived revenue deficiency brought on by divestiture. This element is discussed and rejected in Finding Nos. 44 to 47.

downward adjustment to intrastate MTS rates. This would result in increased revenues to Mountain Bell.

36. Independent companies who opt to participate in the settlements pool pursuant to the MIC proposal would see a new source of revenue (state CALC charges) equal to 10 percent of their NTS costs associated with customer access to the toll network. However, at the same time, they would realize an offsetting decrease in the revenues that they receive from the settlements pool (formerly 100 percent of NTS costs, now only 90 percent of NTS costs).

37. In order to retain the rate-structure-only character of this docket, the Commission deems it appropriate to make the following directive. As the independent companies' and Mountain Bell's state CALC's are impelemented there must be a simultaneous reduction in intrastate MTS rates. The decrease in intrastate MTS rates should be at the level necessary to generate a revenue reduction equal to the total revenue generated by all of the state CALC's. Such a reduction in intrastate MTS rates will serve to offset the revenue Mountain Bell will generate from its state CALC's as well as to keep the settlements pool in balance.

38. The reduction in intrastate MTS rates is further necessary in order to carry out one of the articulated purposes of adopting access charges. That is, to begin shifting the recovery of NTS costs from usage charges to end user flat charges. A "shift" implies movement from one place to another. Without a decrease in intrastate MTS rates there would be no movement of the recovery of 10 percent of NTS costs <u>from</u> MTS usage rates <u>to</u> end user CALC's.

39. The reduction in intrastate MTS rates is consistent with Mountain Bell's statement that "any increase in the bills of some customers will be offset by decreases in the bills of others."

40. The process of offsetting Mountain Bell's new revenues from state CALC's by reducing rates for intrastate MTS is complicated by the fact that Mountain Bell after divestiture will retain only revenues from intra-LATA MTS. AT&T Communications and potentially other interexchange carriers will provide inter-LATA MTS. Therefore, a reduction in inter-LATA MTS rates will not in and of itself offset new revenues Mountain Bell receives from implementation of State CALC's. A direct offset is, however, possible with regard to intra-LATA MTS rates.

41. Because the offset must be handled differently as between intra-LATA and inter-LATA intrastate MTS, it is necessary to determine what portion of the 10 percent of NTS costs to be shifted through the implementation of state CALC's are the responsibility of each service. The Commission determines that it would be most appropriate to apportion the 10 percent of NTS costs identified in the MIC proposal between intra-LATA and inter-LATA on the basis of gross revenues received from each service. It is the revenues received from each service that has historically covered the NTS costs to be shifted. Therefore, an allocation based on revenues will maintain the existing relationship between the services as concerns the recovery of NTS costs.

42. At the time state CALC's are implemented, intra-LATA MTS rates should be reduced such that the reduction in intra-LATA MTS revenues is equal to that portion of new revenues from state CALC's that has been identified as intra-LATA pursuant to Finding No. 41.

43. Because Mountain Bell will not be providing inter-LATA MTS after divestiture offsetting the revenues generated by that portion of the State CALC's identified as shifting inter-LATA NTS costs is more difficult. Nonetheless, there must be some offset in some area of Mountain Bell's revenues to compensate for the generation of inter-LATA state CALC revenues. As is further discussed in Part G of this order; the Commission finds that the offset should occur by reducing Mountain Bell's "divestiture" revenue requirement at the time state CALC's are implemented.

44. The second element of Mountain Bell's proposed state CALC is based upon a perceived revenue deficiency caused by the removal of inter-LATA and other operations at divestiture (Exh. MB-1, Attachment C). Mountain Bell points out that at the time of divestiture it will relinquish, inter alia, revenues it has historically received from intrastate inter-LATA MTS services. At the same time, Mountain Bell will be relieved of all of the costs of its inter-LATA operations. However, the Company maintains that the lost revenues will greatly exceed the lost costs. In other words, intrastate inter-LATA revenues have exceeded intrastate inter-LATA costs and have historically provided a contribution to the overall operations of Mountain Bell. The Company proposes that the amount by which the lost revenues exceeds the lost costs (net of carrier's access charge revenues) should be quantified in a Phase II of this docket and recovered through a second state CALC element. It appears that Mountain Bell would further propose to recover any losses associated with the transfer of embedded CPE at divestiture in this manner.

45. The Commission rejects Mountain Bell's method of arriving at the second state CALC element. In doing so it is not necessary for the Com-

mission to dispute Mountain Bell's contention that lost revenues at divestiture will exceed lost costs. Rather, the Commission rejects the proposal because it is premised upon the recognition of a projected revenue deficiency. As was discussed earlier, this docket has been created and conducted as addressing rate structure only. The Commission agrees with Consumer Counsel's assessment that Mountain Bell's proposal in this regard is tantamount to a request for rate relief. Nowhere in the Order Initiating Docket or more importantly, the Notice of Public Hearing, is there any indication that this docket would consider requests for rate relief.

46. To the extent that Mountain Bell wishes to seek rate relief to recover any revenue deficiency caused by divestiture it should apply for such relief in a separate docket. The issues associated with divestiture are much broader than the narrow confines of this docket which focussed primarily upon the recovery of NTS costs involved in providing access to the intrastate toll network. A separate docket would allow the Commission and all interested parties to more clearly focus upon divestiture-related issues. Any such filing shall contain a detailed listing of costs that will be transferred to AT&T. Both companies should agree to the items and costs transferred so that any chance of double recovery is eliminated.

47. The Commission recognizes that the time of divestiture is fast approaching. It appears unlikely that final consideration of a divestiture-related revenue deficiency case could be completed by January 1, 1984. Therefore it appears that such a case might appropriately include consideration of interim relief to be in place on January 1, 1984.

C. Cost Averaging and D. Intra-LATA Competition

48. Although initially identified as separate issues, upon examination, cost averaging and the desirability of intra-LATA competition appear to be the same issue.

49. The arguments fall into three general categories. The telephone utilities, with the exception of the RMTS, are of the position that competition cannot be prevented and, to the extent that the utilities are allowed the flexibility to compete, it should not be prevented. However, regulated, averaged rates featuring geographic areas priced above cost will not survive in a competitive arena and therefore require protective constraints on competitive pressures (Exh. MBT-1, p. 27, NWT-1, p. 3, GT-1, p. 2).

50. The RMTS maintain that cost averaging is necessary to keep rural service affordable and, to that extent, competition must be effectively constrained (Exh. RMTS-1, p. 17). In contrast, the MCC's position is that competition results in a healthy influx of lower cost technology and, as such, should be pursued, not constrained (Exh. MCC-1, p. 16, TR. pp. 333-334, 390-392).

51. The Commission recognizes the importance of this issue and chooses to defer treatment until such time as a more comprehensive examination is provided.

E. Separations and Settlements

52. In the Procedural Order the Commission requested that all parties comment on the appropriate structure to replace the separations and settlements procedures currently in place. All parties commenting on separations agreed that the separations procedures used to determine access charges

should be based on the separations process decided on by the "Joint Board," currently undergoing revision in CC Docket No. 80-286.

53. MBT stated that settlements procedures should be a matter negotiated between the telephone companies. MBT submitted a proposed settlement process whereby intra-LATA toll revenues and costs (excluding any NTS costs recovered through end-user charges) would be pooled. Net revenues would be distributed based on the pool's achieved rate of return. (Exh. MBT-1).

54. All other parties suggested replacing the current settlements procedures with an access charge system or a combination of access charges and a universal service fund.

55. The MIC proposal included a recommendation for 1984 settlements procedures. The MIC recommendation included creating an intrastate toll pool. Exchange carrier participation in the pool would be optional. Revenues from intrastate toll and carrier's carrier access charges would be pooled. Each member would receive its intrastate toll traffic sensitive revenue requirement and 90 percent of its toll nontraffic sensitive revenue requirement from the pool. Ten percent of the NTS revenue requirement for each member would be recovered through end user charges on a "bill and keep" basis. Part 67 and Part 69 of the FCC Rules would be used to define costs and the frozen subscriber plant factor would be used to determine the intrastate portion of those costs. The return component of the pool members' intrastate toll revenue requirement would be based on the Mountain Bell's achieved return on the intrastate rate base of its Montana operations. Mountain Bell would administer the pool. (Exh. MIC-1)

56. Exchange carriers not wishing to participate in the pooling arrangement would be treated as intercity carriers and be assessed access charges on a terminating basis. These carriers would also assess other carriers access charges on a terminating basis. (Exh. MIC-1)

57. Average schedule exchange carriers could elect to participate in the pooling arrangement by contributing their revenues from intra-LATA toll services and intrastate toll access services and receiving a computed average settlement from the pool. (Exh. MIC-1) The RMTS testified that average schedule companies do not currently develop detailed cost studies and to do so may be very expensive. The needs of average schedule companies should be examined to avoid substantial adverse impacts on these companies. (Exh. RMTS-1)

58. There was no testimony submitted addressing the relative impacts on Montana telephone companies of various settlement procedures. In analyzing the initial comments of various companies, there seems to be fairly wide spread support for replacing settlements with a system of access charges. However, this would require all telephone companies to establish access charge tariffs. Small companies may not be able to do so by 1984.

59. All parties agreed that the MIC proposal was satisfactory for 1984. The Commission finds that the settlement arrangement contained in the MIC proposal is acceptable for 1984 and should be used until the Commission further investigates this area. However, the Commission intends to monitor the effects of this system and have further information submitted in future access charge filings. The Commission directs companies to calculate the impacts of replacing the MIC settlement proposal with an access charge system and submit that information in the next access charge proceeding.

F. Basic Service Subsidy Mechanisms

60. Parties offered varying viewpoints on the need for a basic service subsidy. Various parties supported no subsidies, targetted subsidies, and blanket subsidies. Viewpoints also differed on how any subsidy should be administrered. The MIC proposal included a $2 cap on state CALC's in 1984. Any amount in excess of the cap would be funded through a Montana Universal Service Fund (MUSF). The MUSF would be funded through a uniform flat surcharge (¢ per customer) on all exchange customers in the State of Montana. Glenn Brown testifying on behalf of the MIC stated that the anticipated need for such funding in 1984 would be small. Mr. Brown estimated the 1984 surcharge would be 3¢ per customer per month.

61. The Commission finds the MIC proposed MUSF desirable for 1984. By instigating a MUSF at this point, when the effects of increasing flat charges are unknown, it will be assured that no company's customers will be disproportionately burdened. Mountain Bell will administer the MUSF at least through 1984.

62. The Commission intends to closely monitor the effects of increasing flat rates on telephone subscribers. Each company is directed to track subscriber drop off and to the extent possible determine what portion is caused by increases in monthly flat rates and file this information in each access charge proceeding. Companies are also directed to submit the amount received through the FCC established USF.

G. Implementation Procedure

63. The adoption by the Commission of the MIC proposal in this docket changes the manner in which local exchange telephone companies will recover

their costs associated with intrastate MTS including NTS costs assigned to intrastate MTS. This docket creates two mechanisms to facilitate such recovery of costs: carrier access charges and state CALC's. It was originally contemplated that each of these mechanisms would be implemented beginning January 1, 1984, coincident with the AT&T divestiture. Developments since the issuance of the proposed order in this docket while not altering the appropriateness of adopting these changes, have caused the Commission to re-examine the timing of implementation.

64. As well as coinciding with divestiture, a January 1, 1984 effective date would also have coincided with implementation of interstate carrier access charges and federal CALC's by the FCC. However, by Memorandum Opinion and Order released October 19, 1983 in CC Docket No. 83-1145, the FCC suspended until April 3, 1984 implementation of interstate carrier access charges and federal CALC's.

65. The Commission concludes that carrier access charges and state CALC's are independent and therefore may be implemented at different times. The Commission is of the opinion that customer understanding would be furthered if state CALC's were implemented at the same time as federal CALC's. Therefore, the Commission directs that the state CALC's established herein are not to become effective until the date when the federal CALC's become effective, whether April 3, 1984 as contemplated in the October 19, 1983 FCC order or otherwise.

66. With regard to intrastate carrier access charges, the Commission will retain a January 1, 1984 effective date. The Commission believes that the date remains appropriate for the following reasons. In delaying implementation of interstate carrier access charges, the FCC assumed that

existing settlement agreements and division of revenue procedures would remain in effect during the interim period (Memorandum Opinion and Order CC Docket No. 83-1145, released October 19, 1983, paragraph 10). Such a mechanism does exist with regard to interstate MTS. However, there is no existing mechanisms by which AT&T Communications can compensate Mountain Bell for access relating to intrastate inter-LATA MTS because that service will not be transferred from Mountain Bell to AT&T Communications until January 1, 1984. Therefore, this Commission does not have the luxury the FCC has in being able to maintain the status quo until April 3, 1984. Some mechanism must be implemented that will allow Mountain Bell to begin recovering on January 1, 1984 its costs associated with intrastate inter-LATA MTS. Mountain Bell will no longer be able to recover those costs directly from MTS revenues. The Commission finds that carrier access charges as developed by the Exchange Carrier Association, filed with the FCC and mirrored by the MIC proposal, should form the foundation for that cost recovery.

67. By implementing intrastate carrier access charges on January 1, 1984, the Commission recognizes that it will be mirroring charges and tariffs that have not yet been finally approved by the FCC. The Commission nonetheless views this action as being preferable to attempting between now and January 1, 1984 to devise an entirely new method of cost recovery. Much careful planning and deliberation has gone into developing the carrier access charge mechanism. (SEE MTS and WATS Market Structure, Third Report and Order, CC Docket No. 78-72). It is the Commission's understanding that the accounting and computer programs necessary to implement carrier access charges have already been developed. Until the FCC's action of

October 16, 1983, all parties were operating under the assumption that such charges would in fact go into place on January 1, 1984.

68. Nor is it clear that the concerns expressed by the FCC are particularly relevant to the imposition of intrastate carrier access charges. The FCC's primary concern was with AT&T's proposed rate decreases for interstate MTS to offset implementation of federal CALC's. This Commission is developing its own strict rate reduction mechanisms to offset the implementation of state CALC's. Another area of concern to the FCC was the nonrecurring charges to be applied to new interexchange carriers desiring to hook up to the local network for the first time. It is doubtful that a new interexchange carrier will seek intrastate inter-LATA access to the local network between now and April 3, 1984.

69. Therefore, carrier access charges contemplated in the MIC proposal are to be implemented on January 1, 1984. Should the FCC ultimately modify the interstate carrier access charges now on file, this Commission reserves the right to adopt similar modifications to intrastate carrier access charges, and even to make retroactive adjustments if necessary. The local exchange companies are directed to make a separate accounting of all intrastate carrier access charges collected between January 1, 1984 and the effective date of interstate carriers access charges.

70. Mountain Bell has already alleged in this docket that it will transfer more revenues than costs at the time of divestiture. As has been discussed earlier, Mountain Bell is expected to make a separate filing to identify and propose recovery of any revenue deficiency caused by divestiture. The Commission directs that such a filing should be made by November 22, 1983 in order to allow the Commission time to make a pre-

liminary review prepatory to issuing an interim order before January 1, 1984. Such filing must be fully supported by appropriate work papers.

71. The Commission further finds that Mountain Bell's divestiture filing must be broken down between that revenue deficiency caused by the transfer of intrastate inter-LATA MTS and the remaining revenue deficiency caused by the transfer of CPE and other operations. It is the intent of the Commission that the support that MTS revenues have provided toward local network NTS costs should continue at the same level on January 1, 1984 as existed immediately prior thereto. This should continue to be the case until state CALC's are implemented at which time some of the NTS costs recovered through MTS rates will be shifted to flat end user charges.

72. In order that the MTS contribution toward local network NTS costs remain at the pre-divestiture level, it is necessary that the revenues Mountain Bell receives from AT&T Communications for intrastate inter-LATA access equal pre-divestiture intrastate inter-LATA MTS revenues minus the intrastate inter-LATA MTS costs transferred at divestiture. If the revenues generated by implementation of carrier access charges on January 1, 1984 are not sufficient to maintain the pre-divestiture level of NTS costs support, Mountain Bell will need to collect additional revenues from AT&T Communications beyond the intrastate inter-LATA carrier access charge. Any additional revenues necessary to maintain the pre-divestiture level of support should be identified by Mountain Bell in its divestiture filing and be incorporated in any requested interim relief. To the extent the need for such additional revenues is identified and justified, they should be collected by Mountain Bell from AT&T Communications by a bulk billing on a monthly

basis. Mountain Bell is directed to file a plan for such bulk billing in its November 22, 1983 divestiture filing.

73. The foregoing bulk-billing mechanism will be for interim purposes only. At the time state CALC's are implemented Mountain Bell will cease bulk-billing AT&T Communications for its intrastate inter-LATA MTS divestiture deficiency. From that point forward Mountain Bell will collect any divestiture related intrastate inter-LATA MTS deficiency in part from the inter-LATA portion of state CALC's. If the inter-LATA portion of state CALC revenues exceeds the intrastate inter-LATA MTS divestiture deficiency, a corresponding rate reduction will be appropriate. If the inter-LATA portion of the state CALC revenues is less than the intrastate inter-LATA MTS divestiture deficiency, then additional rate relief would be required. Mountain Bell is expected to identify in its November 22, 1983 filing, the intrastate inter-LATA MTS divestiture deficiency, the total revenues that will be collected from the inter-LATA portion of state CALC's, the difference between the two and a proposal for rate adjustments (either increases or decreases) to cover or offset the difference.

74. The amount Mountain Bell is authorized to bulk-bill AT&T Communications from January 1, 1984 until state CALC's are implemented will be the intrastate inter-LATA MTS divestiture deficiency identified on an interim basis. The final intrastate inter-LATA MTS divestiture deficiency as well as the final CPE and other divestiture deficiency will of course be determined after full review by the Commission after public hearing.

75. It will also be necessary for AT&T Communications to make a filing before the Commission in order that intrastate inter-LATA MTS tariffs are in place when those services are transferred from Mountain Bell to AT&T Com-

munications on January 1, 1984. AT&T Communications is expected to file for approval of such rates on both an interim and final basis. Again it is directed that such filing be made by November 22, 1983 in order that the Commission will have sufficient time to make a preliminary review prepatory to issuing an interim order before January 1, 1984. AT&T Communications is directed that its filing must include the calculation of an intrastate inter-LATA MTS revenue requirement supported by appropriate work papers.

76. AT&T Communication's interim request should be based in part upon the carrier access charges plus any bulk-billing that it will be required to pay Mountain Bell commencing January 1, 1984 pursuant to this order. For purposes of final approval, AT&T Communication's intrastate inter-LATA MTS tariffs should be based upon the carrier access charges only. The bulk-billing mechanism will cease at the time state CALC's are implemented which will likely precede final approval of AT&T Communication's tariffs.

77. At the time state CALC's are implemented, the amount AT&T Communications is required to pay Mountain Bell for intrastate inter-LATA access will decrease with the elimination of the bulk-billing element. As AT&T Communication's MTS rates will be dependent in large part on the amount AT&T Communications must pay Mountain Bell for access, inter-LATA rates should go down at the time state CALC's are implemented, all other things remaining equal. This will accomplish the shift of NTS cost recovery from MTS usage rates to flat end-user charges.

78. It is anticipated that both the Mountain Bell divestiture deficiency filing and the AT&T Communications intrastate inter-LATA MTS filing will contain information concerning the transfer of assets, costs and revenues at divestiture. Both companies are directed to provide such information in

comparable formats that will facilitate an integrated analysis by the Commission. That is, the filings should constitute apples and apples rather than apples and oranges.

79. In summary, the MIC and any nonparticipating jurisdictional exchange carriers are required to file by November 22, 1983 state CALC's pursuant to the MIC proposal. The state CALC's are to have an identified intra and inter-LATA portion quantified pursuant to Finding No. 41. Upon approval the state CALC's will become effective coincident with implementation of federal CALC's in CC Docket No. 83-1145, tentatively scheduled for April 3, 1984.

80. Pursuant to Finding No. 37, Mountain Bell is required to file revised intrastate intra-LATA MTS rates that will offset increased revenues realized from implementation of the intra-LATA portion of state CALC's. Such reduced intra-LATA MTS rates are to be filed by November 22, 1983 and will be effective coincident with implementation of state CALC's.

81. All jurisdictional exchange carriers are required to file through the MIC or otherwise intrastate carrier access charges which mirror the interstate carrier charge filed by each company with the FCC pursuant to CC Docket No. 78-72. Such filings are due by November 22, 1983. The intrastate carrier access charges will be effective January 1, 1984.

82. Mountain Bell is required to file a divestiture revenue deficiency case by Novmeber 22, 1983. Such filing shall include proposals for both interim and final relief. Any alleged divestiture revenue deficiency is to be broken down between that portion relating to the transfer of intrastate inter-LATA MTS operations and that portion relating to the transfer of CPE and other operations. The filing is to include a proposal to retain the

current level of intrastate inter-LATA MTS support of local network NTS costs through a carrier access plus bulk-billing charges pending implementation of state CALC's. The filing should also include a proposal for recovery or offsetting the difference between the intrastate inter-LATA MTS portion of the divestiture revenue deficiency and the revenue realized from the intrastate inter-LATA portion of state CALC's. The filing should also include a proposal for recovery of any "CPE and other" divestiture revenue deficiency.

83. AT&T Communications is directed to file by November 12, 1983, proposed intrastate inter-LATA MTS rates. Such filing should include a proposal for interim rates assuming the existence of carriers' access charges and bulk-billing charges described in this order. The filing is to be based upon an identified and fully supported intrastate revenue requirement.

84. The findings and conclusions expressed in this order relate only to implementation for 1984. The Commission anticipates addressing access charge issues again in 1984. Hopefully, conditions will allow for a less hurried examination at that time.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the investor-owned telephone companies providing telephone service in Montana pursuant to Title 69, Chapter 3, MCA. The telephone cooperative companies who participated in this docket have done so voluntarily with the understanding that such participation in no way confers jurisdiction over their operations.

2. The rates resulting from the rate restructuring contained herein are just reasonable and not unjustly discriminatory, 69-3-201, MCA.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Jurisdictional exchange carriers file by November 22, 1983, state CALC's pursuant to Finding No. 79. Said charges to be effective coincident with implementation of federal CALC's.

2. Mountain Bell file by November 22, 1983 revised intrastate intra-LATA MTS rates pursuant to Finding No. 80. Said revised rates to be effective coincident with implementation of state CALC's.

3. Jurisdictional exchange carriers file by November 22, 1983, carrier access charges pursuant to Finding No. 81. Said charges to be effective January 1, 1984.

4. Mountain Bell file by November 22, 1983, a divestiture revenue deficiency case pursuant to Finding No. 82.

5. AT&T Communications file by November 22, 1983, proposed rates for intrastate inter-LATA MTS pursuant to Finding No. 83.

DONE AND DATED this 7th day of November, 1983 by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:
Madeline L. Cottrill
Madeline L. Cottrill
Secretary

(SEAL)

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