Service Date: September 29, 2004

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

* * * * *

IN THE MATTER OF BLACKFOOT	)	UTILITY DIVISION
TELEPHONE COOPERATIVE, INC.,	)	
Application for Exchange to Exchange and Regional	)	DOCKET NO. D2003.1.8
Extended Area Service for the Missoula and	)	
Helena areas.	)	ORDER NO. 6502c

FINAL ORDER

Introduction

1. Telephone extended area service (EAS) means a calling service between two exchanges or among exchanges within a region. EAS is provided as local service at local exchange rates or with an increment to local exchange rates rather than at toll prices (*ARM 38.5.1305(1)*). Local rates increase to offset costs of EAS implementation, including increased calling volumes, and foregone Switched Access, and toll or Message Telecommunication Services (MTS) revenues.

2. In general, the net impact on individual customers depends on their particular calling patterns and their selection of available EAS local calling plans. Customers who frequently make long distance calls and select an EAS unlimited local calling plan will most likely benefit, as the increase in local exchange rates for the EAS unlimited local calling plan will likely be less than they would have otherwise paid in toll charges. Conversely, customers who make few, if any, long distance calls terminating in participating exchanges within their EAS region may not benefit, regardless of the EAS local calling plan selected. When implemented, on an exchange-to-exchange or on a regional basis, all of the customers in the affected exchanges of an EAS region must participate and are subject to the increased EAS local exchange rates (*ARM 38.5.1307(2)*).

3. EAS procedures involve two phases. Phase I (*ARM 38.5.1313*) serves to determine if a community of interest exists. Phase II (*ARM 38.5.1315*) serves to determine rate adjustments required to balance the costs to implement EAS.

Findings of Fact

General

4. On January 15, 2003, Blackfoot Telephone Cooperative, Inc. (Blackfoot) applied with the PSC for approval of exchange-to-exchange and regional EAS for the Missoula and Helena areas. The petitioned exchange company is Qwest Corporation (Qwest). The proposed exchange-to-exchange and regions are as follows:

a. Qwest's Missoula EAS region (Missoula, Darby, Frenchtown, Hamilton, Stevensville and Victor) will be expanded to include;
   i. Blackfoot exchanges located in Alberton, Alta, Arlee, Charlo, Clinton, Condon, Dixon, Drummond, Haugan, Noxon, Ovando, Philipsburg, Plains, Potomac, Seeley Lake, South Alberton, St. Ignatius, St. Regis, Superior, Thompson Falls, and Powell, Idaho.

b. Qwest's Helena EAS region (Helena, Boulder, Townsend and Wolf Creek) will be expanded to include;
   i. Blackfoot exchange in Avon.

5. Blackfoot mailed a letter to each of its members/customers explaining the EAS proposal, including a price comparison of Blackfoot's proposed EAS rates for residential and business unlimited and measured service options to similar EAS services offered by Qwest and other telephone companies in Montana. Enclosed with that mailing was a postage-paid postcard (customer survey/ballot) requesting that members indicate whether or not they supported the EAS proposal. The customer survey had a response rate of 28%, with 68% of the respondents supporting the EAS proposal.

6. Business Resource Group, Inc. (BRG), Ronan Telephone Company (RTC), Hot Springs Telephone Company (HST), Ronan Telephone Consumer Advisory Committee, , and the Confederated Salish and Kootenai Tribes filed with the PSC requests to intervene. BRG is concerned about the impact of the pending EAS docket on Public Access Line (PAL) rates and availability, while the other intervenors are primarily concerned with a broader community of interest area and economic impacts to the Flathead Indian Reservation.

7. On January 26, 2004 Blackfoot and the members of the Western Montana Local Calling Coalition (Coalition) filed a joint motion and stipulation approved by the PSC that

essentially resolved several pending disagreements and a withdrawal of objections among the parties. The stipulation contemplates best, good faith, efforts to simultaneously implement EAS between the Blackfoot, RTC (*Docket No. 2004.2.17*) and HST (*Docket No. D2004.2.22*) exchanges with Qwest's Missoula EAS region. The stipulation did not contemplate either a delay in processing the Blackfoot proceeding or consolidating hearings for the separately docketed EAS applications.

Community of Interest

8. On January 28, 2003, the PSC noticed the commencement of the community of interest phase of this proceeding by ordering both Blackfoot and Qwest to conduct call usage studies, as necessary, to determine relevant calling patterns between and among the affected exchanges. This phase was conducted in accordance with the EAS procedures governing the Phase I - Community of Interest Determination (*ARM 38.5.1313*). Blackfoot and Qwest completed and filed their call usage studies with the PSC on January 15, 2003 and January 31, 2003, respectively.

9. Based upon an analysis of the call usage studies submitted by the carriers involved, the PSC determined that a community of interest exists between the Blackfoot exchanges and the Qwest exchanges in the Missoula and Helena areas as proposed in the EAS application.

Cost Analysis and Rate Design

10. On August 20, 2003, the PSC noticed the action on community of interest and the commencement of the cost analysis and rate design phase of this proceeding by ordering both Blackfoot and Qwest to perform and submit a cost and revenue impact analysis along with rate design proposals for the affected exchanges. This phase was conducted in accordance with the EAS procedures governing the Phase II - Cost Analysis and Rate Design Determination (*ARM 38.5.1315*). Blackfoot and Qwest completed and filed their cost analysis and rate design proposals with the PSC on December 16, 2003 and January 9, 2004, respectively.

11. Blackfoot developed proposed EAS rates based on these studies and a review of Qwest's tariff rates within the proposed EAS regions. The proposed EAS rates are designed to offset costs of EAS implementation, including increased calling volumes, and foregone Switched Access, and toll or MTS revenues. Each subscriber will have a choice between an Unlimited Local Calling Plan and a Measured Local Calling Plan. In the case where a residence or business

has multiple telephone lines, the selected local calling plan will apply to all the lines located in these premises. Toll Restricted and Lifeline customers will not be offered the Measured Local Calling Plan option. Qualifying Lifeline customers will continue to be eligible for applicable Tier 1, Tier 2, Tier 3, and Tier 4 support mechanisms. Eligible customers on Tribal lands will continue to receive support reducing their monthly payment to $1.00 plus taxes for the Unlimited Local Calling Plan.

12. Blackfoot's rate design proposal will increase the monthly residential service rates for the Blackfoot and former Clark Fork exchange groups from $10.00 and $13.84, respectively, to $25.00 for the Unlimited Local Calling Plan and $19.00 for the Measured Local Calling Plan. For business customers the rate design proposal will increase the monthly service rates for the Blackfoot and former Clark Fork exchange groups from $13.00 and $34.58, respectively, to $45.90 for the Unlimited Local Calling Plan and $35.30 for the Measured Local Calling Plan. The proposed increases include a rebalancing of differences in various service rates that currently exist between the two Blackfoot exchange groups.

13. Blackfoot customers selecting the Measured Local Calling Plan will pay 5 cents per minute for outgoing calls terminating within their respective proposed expanded local calling areas. Per minute measured rates will not apply to calls within each exchange's local calling area (same first three digits). Blackfoot estimates an 87% take rate for the Unlimited Local Calling Plan.

14. Qwest calculates the EAS statewide increment increases using a "revenue requirements template" employing the following methodology:

a. The revenue requirements template includes the impacts listed in ARM 38.5.1315(2).
b. The amounts for these impacts are determined and allocated to the Montana jurisdiction.
c. The Montana jurisdictional amounts are adjusted for income taxes to arrive at the earnings required.
d. The earnings required are grossed-up by an income-to-revenue multiplier to arrive at the estimated revenue requirement from implementation of the proposed EAS routes. The income-to-revenue multiplier includes an uncollectible factor, in

addition to income tax rates and other local taxes on revenues rates (e.g. PSC and MCC funding taxes).

e. The estimated revenue requirements from implementation of the proposed EAS routes is then divided by the statewide EAS qualifying lines to arrive at the new EAS statewide incremental increases.

15. Qwest asserts that the revenue requirements calculation for each of the impacts is consistent with the intent of ARM 38.5.1315(3) to achieve a revenue-neutral EAS rate increment, and that this methodology is consistent with prior EAS applications that have been approved by the PSC.

16. For purposes of the cost study and rate design of each proposed EAS area, Qwest identified the number of statewide EAS qualifying lines at the time of the study for use as the divisor. Depending on the timing of the approval and implementation of this and other pending EAS applications, the divisor may need to be updated, at the direction of the PSC, in determining the actual EAS statewide increments going forward.

17. Qwest's rate design proposal will increase the current $2.44 statewide EAS increment by $0.15 to $2.59 ($0.01 and $0.14 statewide EAS incremental increases for Helena and Missoula, respectively). Qwest will apply the increased EAS increment to all Qwest EAS customers.

18. If the proposed EAS involves two or more companies, the companies shall propose interconnection and compensation arrangements (*ARM 38.5.1315(4)*). An interconnection and compensation arrangement has not been negotiated between Blackfoot and Qwest. These negotiations will commence immediately upon PSC approval of this EAS application. Preliminary indications are that both parties will propose a "central office bill and keep" arrangement to account for termination charges.

<u>Public Hearings</u>

19. Based upon an analysis of the cost and rate design proposals submitted by the carriers involved, the PSC publicly noticed and held several hearings within the affected areas (*ARM 38.5.1315(6)*). A wealth of public comment was received through those hearings, as well as through writings directed to the PSC.

20. At the designated technical hearing, held in Missoula on August 5, 2004,

Blackfoot, Qwest, and other participants who obtained formal party status submitted testimony, exhibits, and comments. At hearing, Blackfoot's EAS application along with all Phase I call usage data, Phase II cost analysis and rate design data, discovery and responses to discovery, and all other previously filed communications were admitted to the record without objections.

Conclusions of Law

21. Although factual and legal requirements must be met before EAS can be ordered, to a large extent EAS is a matter of policy. Resolution of EAS issues is dependent on a correct assessment of what is fair and equitable to all consumers and in the best public interest. When the community of interest criterion is met between exchanges or among exchanges in a region there is a strong indication that EAS may be appropriate. The PSC has compared and judged EAS applications from the standpoint that the public interest is related to community of interest (*Docket No. D95.10.146, Order No. 5889b*).

22. Qwest is a public utility subject to regulation by the PSC. Blackfoot is a cooperative and, except by necessity in regard to certain proceedings and as expressly set forth in MCA 69.3.831 through 69.3.849 of the "Montana Telecommunications Act", cooperatives transacting business in Montana pursuant to the "Rural Electric and Telephone Cooperative Act" are exempt in all respects from the jurisdiction and control of the PSC (*MCA 35.18.104(1)* and *MCA 69.3.823*). The PSC has jurisdiction over the Blackfoot application for expanded EAS with the existing EAS regions. Jurisdiction is as provided by Title 69, Ch. 3, MCA.

23. The PSC has fully considered the application of Blackfoot, the call usage studies, the cost analyses and rate design proposals, the proposed interconnection and compensation arrangements, and all evidence and comments filed or presented at hearing, including comments from the public. The PSC determines that the application, studies, and proposals comply with all applicable laws (*see, ARM 38.5.1305 through 38.5.1315*). The PSC determines that the existing EAS regions should be expanded to include additional exchanges. The PSC determines that Blackfoot and Qwest should implement the EAS arrangements within 180 days of the service date of this order.

Order

IT IS HEREBY ORDERED that Qwest's Missoula and Helena EAS regions shall be expanded to include the Blackfoot exchanges identified above (*at ¶ 4a and 4b*). The rates of Blackfoot shall be amended to reflect the rate designs referenced above (*at ¶ 12 and 13*). The rates of Qwest shall be amended to reflect the rate designs referenced above (*at ¶ 17*), and shall be adjusted to reflect the inclusion of Qwest's Havre and Lewistown EAS customers. Compliance tariffs reflecting the rates approved in this order must be filed by the regulated public utility (Qwest). The expansion of the Missoula and Helena EAS regions is approved, and shall be implemented subject to the following conditions;

1. Filing a proposed or estimated implementation plan with the PSC within 45 days of the service date of this order, to include the schedule for full implementation, a description of how EAS options will be presented to customers for selection, and a description of the agreed upon interconnection and compensation arrangement.
2. Implementation is to begin no later than 90 days, and be completed no later than 180 days, from the service date of this order. (Blackfoot's implementation is subject to the implementation provisions of the stipulation agreement between Blackfoot and members of the Coalition (RTC (*Docket No. 2004.2.17*) and HST (*Docket No. D2004.2.22*))).
3. Compliance tariffs reflecting the rates approved in this order must be filed by the regulated public utility (Qwest) within 20 days prior to implementation.
4. Customers shall be allowed to change their local service option without charge within 90 days after implementation of these EAS arrangements.

Done and dated this 21st day of September, 2004, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ROWE, Chairman

THOMAS J. SCHNEIDER, Vice-Chairman

MATT BRAINARD, Commissioner

GREG JERGESON, Commissioner

JAY STOVALL, Commissioner

ATTEST:

Commission Secretary

(SEAL)

NOTE: There is no reconsideration of the granting of a protective order. There is a procedure to challenge the provider's claim of confidentiality. See ARM 38.2.5008.