

ITEM NO. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 11, 2003

REGULAR CONSENT EFFECTIVE DATE September 12, 2003

DATE: August 27, 2003

TO: John Savage through Phil Nyegaard and Lance Ball

FROM: David Sloan

SUBJECT: SPRINT/UNITED TELEPHONE CO OF THE NORTHWEST: (Advice No. OR03-13) Reduces rates in compliance with the conditions of the May 12, 2003, stipulation between Sprint and the staff of the OPUC as approved by PUC Order No. 03-382, dated June 30, 2003.

STAFF RECOMMENDATION:

Staff recommends the filing be allowed to go into effect. Staff has reviewed the filing and agrees with the rate reductions proposed by the company. The filing is in compliance with the May 12, 2003 stipulation between staff and the company. It is timely submitted and it produces the stipulated \$585,000 reduction in annual intrastate revenues.

DISCUSSION:

History - On July 31, 2002, Sprint filed Advice No. OR02-16 significantly increasing rates for its price-listed Message Toll Service (MTS)¹ and its price-listed feature packages². MTS is the company's intrastate long distance service. The rate increases were effective August 1, 2002. In order 02-659, dated September 19, 2002, the Commission ordered an investigation into the Company's MTS rates, the continuation of the Company's authority to price list its MTS, and the Company's current earnings level. The investigation was bifurcated into two phases. Phase I was an investigation into the MTS rates and the continuation of the Company's authority to price list its MTS. Order 03-272, dated May 1, 2003, closed Phase I of the investigation. In this order the Commission found that a reversion to pre-August 2002 pricing for MTS, as

¹ The Company's petition to price list its intraLATA message toll services was granted by the Commission in Docket UD 5. See Order No. 98-239, in docket UD 5, dated June 12, 1998.

² The Company's petition to price list its Advantage, Call Manager, Sprint Essentials, In Touch With Call Forward, and Sprint Elite packaged services was granted by the Commission in Docket UD 12. See Order No. 99-662, in docket UD 12, dated October 26, 1999.

recommended by staff, was unwarranted. In the order, the Commission also affirmed its decision to give the Company the authority to price list MTS. As a condition to the continuation of such service price listing, the Company is required to revise its customers' monthly bills to include a Notice listing the name and current price of each price listed service.

Phase II was an investigation of the Company's current earnings level. On May 9, 2003, Sprint and staff executed an agreement in the form of a stipulation resolving all issues in Phase II. In order 03-382, dated June 30, 2003, the Commission adopted the stipulation, which included a provision for the Company to reduce its annual intrastate revenues by \$585,000. The order provided that Sprint would submit a rate design proposal to the Commission within 30 days of the order and noted that after reviewing Sprint's rate design proposal, staff would have the right to offer its own rate design proposal. Order 03-382 also closed Phase II of the investigation.

On July 30, 2003, Sprint filed Advice No. OR03-13. The filing proposes reductions in rates for specific services, which would result in a \$585,066.97 reduction in its annual intrastate revenues. The proposed rate reductions, outlined below, are summarized in the attached Exhibit 1.

WHOLESALE SERVICES TARIFF PUC OR. No. 6

Carrier Common Line (CCL) – Sprint proposes to reduce its CCL rates by 8.55 percent. The interexchange (long distance) carriers (IXCs) pay these access charges to originate and terminate long distance calls to and from Sprint's end user customers. In order 03-082 in docket UM 1017 dated February 3, 2003, the Commission stated its policy regarding implicit subsidies as it relates to intrastate access charges. Implicit subsidies (e.g., allowing access charges that are far above cost) are the traditional method for maintaining affordable local service rates. Federal law requires the replacement of implicit subsidies with specific and predictable support mechanisms, such as universal service funds, or their elimination. The CCL charge is widely recognized as an implicit subsidy.

In addition, a company's intrastate access charges are typically higher than its corresponding interstate access charges. Sprint is no exception. Its interstate CCL originating and terminating rates are zero. The Commission should allow Sprint's proposed intrastate access charge reductions to decrease arbitrage by long distance carriers. Carriers will declare their long distance traffic in the jurisdiction with the lower access charge price.

Sprint's filing uses the Commission-ordered revenue requirement reduction in docket UT 155 to begin the elimination of the CCL as an implicit subsidy. The revenue effect of the proposed rate reductions is a decrease in intrastate annual access charge revenues of \$243,029.74.

Switched Dedicated DS3 – Switched Dedicated Digital Service level 3 (DS3) is a 44.736 megabit per second (Mbps) Switched Access Service. DS3 is a digital transmission service that typically operates over fiber optic lines. This service is available to customers for their use in furnishing services to end-users. The Company proposes to reduce the Intrastate DS3 rates to the same level as the current interstate (i.e., federal) rates. The reduced rates should help prevent arbitrage between federal and state tariffs, improve the crossover rates between DS3 and Optical Carrier level 3 (OC3), and make the service more competitive with other providers. This should also make DS3 more attractive to remote areas and promote broadband services in rural areas. The related reduction in the Company's annual intrastate revenues is \$43,222.44.

Special Access High Capacity – The Company is proposing to reduce the rates for Special Access High Capacity service to be consistent with the proposed rates for Switched Dedicated DS3. However, the Company currently has no customers for this service and therefore there is no related reduction in the Company's annual intrastate revenues.

RETAIL SERVICES TARIFF PUC OR. No. 3

Extended Area Service (EAS) – Whereas local service contemplates telephone service within an exchange, many exchanges exist in which the Commission has authorized local service extended to neighboring exchanges, allowing calls between those exchanges without the application of toll charges. Such service is termed Extended Area Service and is generally referred to as simply EAS. Approximately 99 percent of Sprint's customers currently have EAS. Only the Company's Arlington, Diamond Lake and Fish Lake exchanges have no EAS. Sprint proposes a six percent reduction in retail and wholesale EAS rates for all business and residence EAS customers in the Company's serving area. The proposed reduction by exchange for residential customers is from zero to 72 cents per month, with an average reduction of 26 cents.³ The reduction by exchange for business customers ranges from zero to 80

³ The Company proposes a reduction of EAS rates for all levels. However, since the Carlton exchange EAS rates are currently capped at the prevailing local exchange rates and the proposed reductions do not bring Carlton's EAS rate below the cap, customers in the Carlton exchange will not see a reduction in their monthly EAS charge.

cents per month, with an average reduction by exchange of 27 cents. The annual intrastate revenue effect of the proposed EAS rate reductions is a decrease of \$256,172.88.⁴

Direct Inward Dial (DID) Telephone Numbers – Direct Inward Dialing (DID) Service is a Private Branch Exchange (PBX) service that provides PBX station users the ability to receive calls from outside the customer's premises without the assistance of an attendant. A PBX is switching equipment located on a customer's premises for their exclusive use. The Company proposes to reduce DID Telephone number rates by \$0.30. Blocks of 25 numbers will be reduced by \$7.50. The Company reports that the resulting rates will be more competitive with other provider's rates. The related reduction in the Company's annual intrastate revenues is \$33,957.00.

OREGON PRICE LIST

IntraLATA Toll – At the request of staff, the Company is reverting to a standard discount of 20 percent for MTS calls made in the evening and a standard 30 percent discount for MTS calls made at night or on the weekend. The related reduction in the Company's annual intrastate revenues is \$8,684.91. Sprint's MTS will, of course, remain price listed. This means that Sprint is able to change its MTS rates, under ORS 759.030(6), merely by making a filing with the Commission that becomes effective immediately.

PROPOSED COMMISSION MOTION:

The tariff sheets filed with Sprint/United Telephone Co of the Northwest Advice No. OR03-13 be allowed to go into effect for service rendered on or after September 12, 2003.

⁴ The \$256,172.88 reduction in EAS revenues includes a reduction of \$1,280.88 for Competitive local exchange carriers. This equates to an EAS rate reduction of approximately six percent.