2000 Report on the Alternative Form of Regulation of Telephone Utilities
Report to the Joint Standing Committee of the Legislature on Actions Taken by The Commission Pursuant to 35-A Chapter 91

In 1994, the Maine Legislature enacted Title 35-A Chapter 91, which authorizes the Public Utilities Commission to adopt an alternative form of regulation (AFOR) for any telephone utility in the State. By order dated May 15, 1995, the Commission adopted an AFOR for the New England Telephone and Telegraph Company d/b/a NYNEX.[1] Pursuant to 35-A M.R.S.A. § 9105, the Commission is required to provide the Utilities and Energy Committee with an annual report describing the Commission's activities under Chapter 91 and the effectiveness of the AFOR in achieving the objectives of Chapter 91. This report is provided to Committee members pursuant to that requirement.

1. 1999 Annual Filing Under Alternative Form of Regulation

On September 8, 1999, Bell Atlantic made its fourth annual rate filing, as required by the Order issued on May 15, 1995 in Docket No. 94-123. That Order required Bell Atlantic to file proposed changes in rates that are designed to meet the overall change in the Price Regulation Index (PRI). In the 1999 filing, the change in the PRI was calculated to be -3.63%, resulting in a reduction of the PRI from 94.11 to 90.69 for the period December 1, 1999 through November 30, 2000. The change in the PRI was the result of an increase in the Gross Domestic Product – Price Index (GDP–PI) of 1.76%, a fixed Productivity Offset of -4.5%, and an adjustment of -.89% to eliminate most of the exogenous adjustment that had been implemented for the 1998/1999 AFOR period.

For the annual period beginning December 1, 1998, Bell Atlantic had reduced its Actual Price Index (API) to 94.00, slightly below the PRI level required under the AFOR. For the period beginning December 1, 1999, Bell Atlantic reduced its API by approximately 3.53%, or about $12.16 million, to 90.68. The net revenue reduction included the effects of a local rate increase and an access rate reduction that went into effect during 1999.[2] In addition, as part of its 1999 AFOR filing, the Company proposed

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[1] In 1997, NYNEX merged with Bell Atlantic and is providing service under the name Bell Atlantic. Bell Atlantic recently merged with GTE Corp., and on August 1, 2000 the resulting entity began doing business as Verizon, which apparently is the name under which the Company will provide service.

[2] On May 30, 1999, Bell Atlantic was required to reduce the intrastate access rates that it charges to long-distance carriers to the level of its interstate access rates, in accordance with 35-A M.R.S.A. § 7101-B. Pursuant to a Stipulation approved by the Commission in Docket Nos. 94-123 (Reopened) and 97-319, the Company was allowed to offset a portion of the access rate reduction by increasing its basic local service rates by a total of $3.50. The final $2.00 step of the basic local service increase went into effect simultaneously with the 1999 access rate decrease.

rate reductions for certain non-discretionary toll services and adjusted several discretionary rates, producing an overall rate decrease of $12.16 million.

In the five years since the inception of the AFOR, Bell Atlantic's prices for services covered by the AFOR price cap have decreased nearly 10%. Local service rates in Maine typically are lower than comparable rates in the region, even after accounting for the basic rate increase that allowed the Company to recover a portion of the access rate reduction required by statute. In addition, according to F.C.C. statistics through March 2000, Maine's penetration ratio of households with telephone service continues to lead the nation at 98.5%.

When the Commission initiated the current AFOR for Bell Atlantic in 1995, it simultaneously conducted a rate case proceeding to determine a fair "starting point" for rates under the incentive mechanism. As part of the rate case decision in Docket No. 94-254, the Commission ordered Bell Atlantic to put $4 million annually for the five years of the AFOR (for a total amount of $20 million) into a fund which has been used to provide advanced telecommunications services, equipment and training for Maine's schools and libraries. Because the rates resulting from Docket No. 94-254 went into effect on June 1, 1995, the 5-year period during which the total amount of funds were to be accrued ended on May 31, 2000. Bell Atlantic's rates thus had to be adjusted to prevent the Company from charging rates that would otherwise exceed the PRI cap for the remaining six months of the current AFOR period. The effect of removing the school and library fund accrual from the Company's revenue requirement is to reduce the PRI to 89.59.

The Commission required Bell Atlantic to submit a proposal for adjusting its rates in order that the Company's API be less than or equal to the recalculated PRI level for the remainder of the 1999/2000 AFOR period. In response, the Company indicated that it had already reduced the effective rates for its optional long-distance calling plan known as Pine Tree by eliminating the time-of-day restrictions that previously had been part of the plan. The Company had instituted this change in October 1999, but for unexplained reasons had not included its effects in the 1999 AFOR filing, even though under the AFOR rules the Company would have been able to take credit for the rate reduction. Because customers had been receiving the benefit of the reduced Pine Tree rates even before the start of the current AFOR period, the Commission allowed the Company to recalculate its API to recognize the effect of the Pine Tree reductions, resulting in a revised API of 89.02, which brought the Company into compliance with the AFOR requirements.

2. Service Quality

The PUC monitors the quality of Bell Atlantic service delivered under the AFOR through12 service quality indices (SQIs): three measure customer service, five measure service reliability, and four measure customer satisfaction with Bell Atlantic service in Maine. The Company's performance is compared to a baseline reflecting the Company's lowest service levels during the 3-year period prior to the AFOR. The SQI results for the 12 months ended June 30, 1999, reported in the company's 1999 filing, showed that the Company met or exceeded nine of the service measures but failed to meet the other three. Using a scale that takes into account the relative degree of failure, the Company was required to provide a rebate of $455,244, or approximately $.67 per access line. The three indices which the Company did not meet were: 1) percentage of installation appointments not met on time due to company reasons; 2) percentage of residence trouble reports not cleared within 24 hours; and 3) percentage of business trouble report not cleared within 24 hours.

For the reporting period ended on June 30, 2000, the Company's initial report shows that it met or exceeded each of the 12 service quality indices, and thus no additional rebate is due customers.

3. New AFOR

The existing AFOR expires on December 1, 2000. On December 27, 1999, the Commission issued a Notice of Investigation articulating a preliminary list of issues that it planned to consider and seeking input from interested parties about the issues and the procedures to be followed in evaluating the status and future direction of the Bell Atlantic AFOR. After reviewing the comments, the Commission issued, on June 26, 2000, a Further Notice of Investigation in which it presented its preliminary analysis of the current AFOR and described its proposal for modifications of the future AFOR. The Commission's proposal simplifies the AFOR mechanism by allowing the Company pricing flexibility for most of its services, with the important exception of local rates, which would be capped for the term of the plan, and access rates, which would continue to be set in accordance with 35-A M.R.S.A. § 7101-B.

In addition, per TELACT requirements the Commission will continue to regulate the wholesale rates paid by competitive LECs for use of all or parts of the incumbent LEC's network. Access rates will most likely be reduced substantially from their current levels during the term of the new AFOR because of a proposal to lower interstate access rates filed by a coalition of large local exchange and long distance carriers. That proposal has been accepted by the F.C.C., and because of the mirroring provision in section 7101-B, intrastate access rates will follow the interstate rates to the lower levels. The reduction in intrastate access rates should lead to substantial reductions in charges for in-state toll service.

For the future AFOR, the Commission has tentatively proposed that the service quality measures be revised and the tracking mechanism modified to make the SQIs more meaningful in measuring the factors that are most important to customers. The Commission has identified several specific areas that should be modified and improved, and has asked interested parties to provide comment.

The Commission has set a schedule for interested parties to provide initial comments and responses on the service quality and other issues raised on the Further Notice of Investigation.