

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)



THOMAS L. WELCH
CHAIRMAN

STATE OF MAINE
PUBLIC UTILITIES COMMISSION
242 STATE STREET
18 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0018

LAW & LEGISLATIVE
REFERENCE LIBRARY
43 STATE HOUSE STATION
AUGUSTA, ME 04333

WILLIAM M. NUGENT
COMMISSIONER

August 18 1998

Honorable Richard J. Carey, Senate Chair
Honorable Kyle W. Jones, House Chair
Joint Standing Committee on Utilities and Energy
115 State House Station
Augusta, Maine 04333-0115

Re: Annual Report on Alternative Form of Regulation for
Telephone Utilities

Dear Sen. Carey and Rep. Jones:

Pursuant to 35-A M.R.S.A. § 9105, enclosed please find the Commission's second annual report on an alternative form of regulation (AFOR) for telephone utilities. As the Committee knows, the Commission has approved an AFOR for NYNEX (now Bell Atlantic). This report describes recent developments regarding the implementation of the AFOR.

If you have any questions regarding the report or any other utility matter, please don't hesitate to contact the Commission.

Sincerely,

Thomas L. Welch
Chairman

William M. Nugent
Commissioner



1998 Report on the Alternative Form of Regulation of Telephone Utilities

In 1994, the Legislature enacted Title 35-A Chapter 91, which authorized 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 alternative form of regulation in achieving the objectives of Chapter 91. This report is provided to Committee members to satisfy that requirement.

1. 1997 Annual Filing Under Alternative Form of Regulation

In October 1997, Bell Atlantic filed its second annual AFOR 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). The change in the PRI was calculated to be -2.00%, resulting in a reduction of the PRI from 97.9 (on December 1, 1996) to 95.94 for the period December 1, 1997 through November 30, 1998. Bell Atlantic adjusted its rates for core services to reflect a required reduction of \$8,149,855 or 2.35% of its annual revenues. Because the proposed reduction exceeded the required reduction, Bell Atlantic was found to be in compliance with AFOR requirements.

2. Access Rate Reduction

Effective July 1, 1997, the Commission amended Chapter 280 of its rules to reduce originating intraLATA access rates by 20%. That reduction was an interim measure toward the long-term goal, required by 35-A M.R.S.A. §7101-B, of reducing intrastate access rates, pending a more comprehensive overhaul of the access rates to reflect the access charge reform occurring at the federal level.

Bell Atlantic contended that under the rules of the AFOR, the Commission could not require the access rate reduction and that the Commission could not reduce its rates through a rulemaking. Bell Atlantic appealed the Commission's order to the Law Court. The Law Court affirmed the Commission's Order on November 24, 1997.

¹NYNEX has since merged with Bell Atlantic and is now providing service in Maine under the name Bell Atlantic.

3. Access Parity

On December 3, 1997, in Docket No. 97-319, the Commission amended Chapter 280 of its rules to achieve inter- and intrastate access parity by May 30, 1999. Chapter 280 also requires LECs, to the greatest extent possible, to adopt the interstate access rate structure. That rulemaking was opened subsequent to the passage of Public Law 1997 Chapter 259, which enacted 35-A M.R.S.A. § 7101-B and directs the Commission to establish intrastate access rates that are equal to or lower than interstate levels. Because of the large revenue effects on Bell Atlantic caused by restructuring its access rates, the Commission granted parties a period of time to negotiate an integrated rate settlement prior to imposing the access cuts upon Bell Atlantic required by the legislative mandate and the adopted rule.

4. The integrated Settlement

On March 17, 1998, after seeking and obtaining extensive public inputs, the Commission approved a stipulation filed on November 7, 1997. The stipulation allows Bell Atlantic to increase its basic local exchange rates by a total of \$3.50 in three steps by May 30, 1999. The stipulation was negotiated in response to the Commission's rule, Chapter 280, that implements the Legislature's mandate that local exchange carriers, including Bell Atlantic, reduce intrastate access rate to interstate access rate levels or lower by May 30, 1999. The stipulation required the Commission to amend the AFOR Order to allow these basic rate increases not permitted by the pricing rules contained in the AFOR. The waiver or amendment to the previously adopted AFOR procedure was required because under the AFOR mechanism, local exchange rates could not be increased if the annual change in the Price Regulation Index is negative.

The stipulation also contained a number of other provisions that will affect Bell Atlantic's operations until the current AFOR expires on November 30, 2000. The most important change was the expansion of the term "exogenous"² to include changes in Bell Atlantic's rates required to comply with any actions by Congress, the State Legislature or the Federal Communications Commission.

5. Service Quality Waiver - Dial Tone Speed

In June 1997, Bell Atlantic requested a waiver of one of the service quality performance criteria in the Service Quality Index under the AFOR, claiming that substantially increased internet usage caused dial tone speed to deteriorate.³

²Prior to this change, "exogenous" (the AFOR's PRI formula includes an exogenous factor) applied only to Bell Atlantic's exogenous costs, not to exogenous events affecting revenues.

³In the AFOR's Service Quality Index, dial tone speed index measures the percentage of callers who do not obtain a dial tone within three seconds during their

Following considerable discovery and discussion, Bell Atlantic and the Commission's advocacy staff filed a stipulation addressing these issues in April 1998. Following discussions between the parties and Commission advisors, a stipulation amendment was filed to address certain concerns raised by the advisors. The agreement grants a waiver for half the required rebate for this service category that would otherwise be due (\$750,000), and provides that the remaining amount of the rebate be used to furnish some relief to the switched network related to traffic of internet service providers. The agreement changes the initial AFOR dial tone speed historical baseline of 0.04% to 0.12% for 1997-1998, to 0.24% for 1998-1999, and to 0.36% for 1999-2000, when the current AFOR expires. The Commission approved the stipulation in June 1998.

6. Service Quality Waiver - Ice Storm

In April 1998, Bell Atlantic requested a waiver of all service quality performance criteria for the months of January and February 1998 because of the January ice storm and other winter storms. The storms affected nearly 90% of Bell Atlantic's service territory, causing a loss of commercial power to almost half of the company's central office and digital loop carrier sites, thousands of downed service drop lines, and over a thousand broken poles. The Commission granted the requested waiver in July 1998.

In summary, we believe the AFOR continues to meet the Legislature's objectives in Chapter 91.

local switch's busy hour.