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CHAIRMAN

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August 27, 1999

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AUG 30 1999

OPLA

Honorable Richard J. Carey, Senate Chair
Honorable Thomas M. Davidson, House Chair
Joint Standing Committee on Utilities and Energy
115 State House Station
Augusta, Maine 04333-0015

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

Dear Sen. Carey and Rep. Davidson:

Pursuant to 35-A M.R.S.A. § 9105, enclosed please find the Commission's third 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
Maine Public Utilities Commission



PRINTED ON RECYCLED PAPER

1999 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. 1998 Annual Filing Under Alternative Form of Regulation

On September 1, 1998, Bell Atlantic made its third 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 -1.97%, resulting in a reduction of the PRI from 96.00 (on December 1, 1997) to 94.11 for the period December 1, 1998 through November 30, 1999. The change in the PRI was the result of an increase in the Gross Domestic Product – Price Index (GDP-PI) of 1.52%, an exogenous cost increase of 1.01% to account for the effects of the January 1998 ice storm, and the fixed productivity offset of - 4.5%.

At the beginning of the AFOR year, Bell Atlantic had reduced rates more than required. In addition, during the 1998 AFOR year it reduced intrastate access charges, as required by 35-A M.R.S.A. § 7101-B and pursuant to the Stipulation in Docket No. 94-123 (Reopened), although part of that reduction was offset by increases to basic exchange rates permitted by the same stipulation; the net reduction was \$2.643 million. Bell Atlantic, in effect, received credit for the excess prior-year and mid-year reductions so that it was not required to reduce rates further for the beginning of the 1999 AFOR year. Nevertheless, it increased some rates and reduced others, resulting in a net reduction of \$200,000, or 0.06% of its revenues.

While operating under the AFOR, Bell Atlantic's rates in Maine continue to compare favorably with other states. Basic rates have increased very little over the past decade and once inflation is taken into account, rates are less in 1999 than they were in 1986. In addition, a recent F.C.C. report shows Maine leading the nation in the percentage of households with telephone service. An estimated 97.7% of Maine households have telephone service.

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

2. New AFOR

The existing AFOR expires in December 1, 2000. The Commission will be opening a proceeding in early 2000 to look at whether the current AFOR should continue and what changes may be appropriate. The Commission continues to be concerned about the quality of service being offered by Bell Atlantic (e.g., responsiveness of customer representatives; timelines of repair service and new service installations). The Commission will consider adding additional Service Quality Indicators to the AFOR to ensure that incentives exist for high quality customer service.