

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application) Application No. C-1683
of Aliant Communications Company,)
Lincoln, Nebraska, seeking)
authority to increase its resi-) GRANTED
dential basic local exchange rates)
pursuant to Neb. Rev. Stat. Sec.)
86-803(9).) Entered: March 10, 1998

APPEARANCES:

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BY THE COMMISSION

By application filed November 18, 1997, Aliant Communications Company (Aliant) seeks to increase its residential basic local exchange rates pursuant to Neb. Rev. Stat. Sec. 86-803(9). On December 18, 1997, the Communications Department staff of the Nebraska Public Service Commission and applicant executed a Stipulation regarding the application. The Stipulation was approved by the Commission in its Order on Prehearing Conference entered on December 23, 1997. To conform to the terms of the Stipulation, Aliant amended its application on January 6, 1998.

Notice of the original and amended application (hereafter application) were published in The Daily Record, Omaha, Nebraska, on November 19, 1997, and January 8, 1998, respectively. A hearing was held on the application on February 4, 1998, in Lincoln, Nebraska, and on February 5, 1998, in Beatrice, Nebraska. Notices of the hearings were published in The Daily Record, The Beatrice Daily Sun, and The Lincoln Journal Star. Appearances were made as shown above.

EVIDENCE

In support of the application, Aliant presented the testimony of two witnesses at the public hearing on February 4, 1998. Mr. Jeffrey L. Pursley, government relations manager for Aliant, and Dr. Steve G. Parsons, general manager for regulatory and litigation support at INDETEC International, Inc.

Mr. Pursley testified as follows: The changes proposed in the application are (a) increasing residential basic local exchange rates from current levels which range between \$11.00 and \$13.75 per month to \$16.35 per month; (b) decreasing business local exchange rates from current levels which range between \$33.00 and \$39.00 per month to \$31.40 per month; (c) eliminating Touch Tone service charges which are now \$.50 and \$1.50 per line, per month, respectively, for residences and businesses; (d) reducing intraLATA day time toll rates within Aliant's service area from \$.18 per minute of use to \$.13 per minute of use; and (e) reducing access rates which long distance companies pay to Aliant by approximately \$900,000 per annum. The net effect of these changes is a reduction of Aliant's revenues by \$417,000 per year. Exhibit JLP-8 shows the proposed rate changes in the application do not increase Aliant's revenues by more than one percent, as required by Section 86-803(9) (a).

Notification was provided to customers and informational meetings were held by Aliant concerning the application and the proposed changes. Lifeline and Link-Up programs are available to assist low income customers with the cost of local service.

The primary purpose of the proposed changes is to remove implicit subsidies from Aliant's rates and to bring Aliant's rates closer to cost. Aliant needs to make these changes, as competition will commence in its local exchange area in the future. US West Communications has requested Aliant to negotiate the terms of interconnection for the provision of competitive local exchange service. Five additional companies have been authorized by the Commission to provide competitive local exchange services in Aliant's service area.

Dr. Parsons testified as follows: Economics and the Telecommunications Act of 1996 require that implicit subsidies be eliminated from Aliant's rate structure. Competition is the natural enemy of implicit subsidies. Existing prices for business services, toll services, switched access and vertical services are natural magnets for competitive entry.

Actual cost, from an economic perspective, should be interpreted as costs to be actually incurred in the future (forward-looking), rather than costs that were actually incurred to provide service in the past (historical).

Cost proxy models are being used to estimate forward-looking economic costs of basic local exchange service. Three such models are currently under extensive review: the Hatfield Model, the Benchmark Cost Proxy Model and the Hybrid Cost Proxy Model. Using default inputs rather than Aliant specific data, the models produced the following monthly basic local exchange cost estimates: (a) Hatfield, \$30.51; (b) Benchmark Cost Proxy Model, \$44.51; and (c) Hybrid Cost Proxy Model, \$43.18. These amounts reflect the average cost of providing residential and business local exchange service. Based upon this data, Aliant's proposed changes in basic local exchange rates satisfy the requirement of Section 86-803(9). The basic local exchange rates proposed by Aliant do not exceed the actual cost of providing such basic local exchange service to the affected subscribers.

The Commission staff produced one witness, Steven G. Stovall, staff accountant, who testified: The staff received information in response to data requests served on Aliant and examined Aliant's books and records. As a result thereof, the staff prepared Exhibit 13 setting forth a calculation of Aliant's revenue requirement concerning the affected services. After adjustments for elimination of Touch Tone revenues, decrease in intraLATA toll revenue and reduction of access charges proposed by Aliant, the staff computed a range of the monthly cost for Aliant to provide basic local exchange service between \$16.41 and \$15.22. Aliant's application satisfied the provisions of Section 86-803(9).

Dr. Howard Bell, senior policy witness for AT&T Communications of the Midwest, testified as follows: AT&T favored the access charge reduction proposed by Aliant; however, the reduction in the daytime intraLATA toll rate would subject AT&T to a price squeeze. Based upon a price imputation test, Aliant must further reduce its access charges in relation to the proposed intraLATA daytime toll rates. Aliant must further reduce its access charges and realign its access charge structure.

Testimony was received from two public witnesses during the Lincoln hearing. The witnesses generally objected to the increase in Aliant's residential basic local service rates citing concern for families on a fixed income. One witness appeared at the Beatrice hearing and testified that an enlarged toll-free calling area was needed. The witness stated that the reduced intraLATA toll rates would assist with his cost of monthly long distance service.

No other parties introduced testimony or evidence.

O P I N I O N A N D F I N D I N G S

Neb. Rev. Stat. Section 86-803(9) provides that the Commission shall determine whether the increase in basic local exchange rates, when considered with all other rate changes which the telecommunications company proposes to implement simultaneously, increases the telecommunications company's aggregate annual revenue resulting from such rate changes in this state by more than one percent. The parties herein stipulated that Aliant's proposal does not increase the company's revenues by more than one percent. Therefore, we find this aspect of Neb. Rev. Stat. Section 86-809(a) has been satisfied.

Second, testimony was offered by both the Commission staff and Aliant regarding the actual cost of providing service. While the Commission staff and Aliant calculated costs using different methodologies, both came to the agreement that the proposed rates did not exceed the actual costs of providing the proposed service. Therefore, we find that the requirement under Neb. Rev. Stat. Section 86-803(9) that the basic local exchange rates not exceed the telecommunications company's actual cost of providing basic local exchange service to the affected customers has been met.

We agree with Dr. Bell that the access charges proposed by Aliant in this application have a clear potential to result in a price squeeze for AT&T and other interexchange carriers. Additionally, we note that the potential impact of such a pricing environment will be exacerbated when Nebraska carriers begin offering intraLATA equal access in the near future. However, the question here is whether the application meets the criteria set out in Neb. Rev. Stat. 86-803(9). While we acknowledge that the proposed access charge reduction could be greater, we find that it is outside the scope of this application to order a decrease in access charges or a change in the access charge structure.

Our current Docket C-1628 treats the subject of access charge reform in Nebraska. Comments are due in that docket on March 6, 1998, and reply comments are due April 27, 1998. Docket C-1628 is the vehicle by which this Commission will determine the proper structure of access charges for all local exchange carriers.

Aliant testified that its proposed residential rate mirrors the residential rate offered by US West. While this assertion is correct, we note that US West also offers a local measured service package which allows a subscriber to choose from three different usage levels at a reduced monthly rate. Fixed-income and low-income subscribers could potentially benefit

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from similar alternatives to the flat rate unlimited calling format of traditional residential service, and we urge Aliant to consider the provision of a measured plan once it becomes technically possible for Aliant to do so.

Upon consideration of the application and being fully advised, the Commission finds the application satisfies and complies with the requirements set forth in Neb. Rev. Stat. Section 86-803(9) and that the residential basic local exchange rates proposed by Aliant should be approved.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application C-1683 filed by Aliant Communications Company be, and it is hereby, approved.

IT IS FURTHER ORDERED that Aliant file an updated and revised tariff consistent with the findings herein.

MADE AND ENTERED in Lincoln, Nebraska, this 10th day of March, 1998.

COMMISSIONERS CONCURRING:

//s//Lowell C. Johnson
//s//Frank E. Landis
//s//Daniel G. Urwiller

NEBRASKA PUBLIC SERVICE COMMISSION


Chairman

ATTEST:

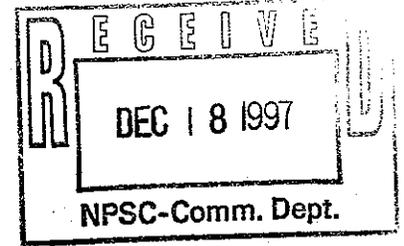

Executive Director

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application)
of Aliant Communications Co.)
for Authority to Increase Its)
Residential Basic Local Exchange)
Rates Pursuant to Neb.Rev.Stat.)
§ 86-803(9).)

Application No. C-1683

STIPULATION



The Communications Department (the "Department") of the Nebraska Public Service Commission (the "Commission") and Aliant Communications Co. ("Aliant") hereby jointly stipulate and agree as follows for the purpose of this Application:

1. The parties enter into this Stipulation for the purpose of providing the Commission with an agreed upon basis for proceeding with its consideration of this Application No. C-1683. The parties contemplate and agree that the provisions of this Stipulation shall be incorporated in a proposed Prehearing Conference Order to be submitted to the Commission for approval.

2. Assuming that the Commission enters the proposed Prehearing Order incorporating the terms hereof, the parties agree to be bound by the terms of this Stipulation, and further agree that neither party shall take any position in this matter contrary to the terms of this Stipulation. In the event that the Commission does not approve such proposed Prehearing Order, each party reserves its rights to take such actions as it may deem necessary or appropriate with regard to this Application.

3. On June 4, 1997, the Legislature enacted LB 660, amending Neb.Rev.Stat. Sec. 86-803(9) which provides:

(9) Notwithstanding any other provisions of this section providing procedures governing review of basic local exchange increases, when a telecommunications company files a rate list to increase its basic local exchange rates by more than ten percent within any consecutive twelve month period, the commission shall conduct only the limited review provided in this subsection if (a) such increase, when considered together with all other rate changes which the telecommunications company proposes to implement simultaneously with the basic local exchange rate increase, does not increase the telecommunications company's aggregate annual revenue resulting from such rate changes in this state by more than one percent and (b) the basic local exchange rates specified in the rate list do not exceed the telecommunications company's actual cost of providing basic local exchange service to the affected customers.

4. The Department and Aliant have differing views concerning the proper processing of an application pursuant to Sec. 86-803(9). To avoid inefficiencies or confusion which might otherwise arise in the processing of this Application, the Department and Aliant have executed this Stipulation. Any action taken by the Commission as a consequence of the terms of this Stipulation shall be in accordance with the Commission's authority pursuant to existing statutes and Commission Rules. This Stipulation is not intended, and shall not, extend or expand any aspect of the Commission's jurisdiction or authority to prescribe or regulate the rates for telecommunications services provided by Aliant.

5. The parties jointly recommend that the Commission incorporate the following terms in its Prehearing Conference Order:

(a) Aliant agrees to waive its rights to petition the Commission pursuant to 47 U.S.C. Sec. 251(f)(2) for a suspension or modification of the requirements of 47 U.S.C. Sec. 251(b) and (c) with respect only to resale and transport and termination. Aliant retains its rights to petition the Commission pursuant to 47 U.S.C. Sec. 251(f)(2) for a suspension or modification of the requirements of 47 U.S.C. Sec. 251(b) and (c) with respect to unbundled network elements (UNEs); provided that such suspension or modification shall not extend beyond such date that Aliant's local exchange service rates are rebalanced (such rate rebalancing will not be completed in this Application), or January 1, 2001, whichever is earlier, unless OSS requirements are not technically feasible or cost effective. Aliant does not waive, and expressly reserves, any and all rights that it otherwise possesses pursuant to 47 U.S.C. Sec. 251(f)(2), and Aliant acknowledges that such Section places the burden on Aliant to prove entitlement to a two percent suspension or modification.

(b) Aliant agrees to amend the LATA Toll Day rate and ELCA Day rate proposed in paragraph 8 of its Application filed herein to effectively equalize its intrastate access charge and intraLATA toll charge. The parties acknowledge that further review of access charges should be completed on or before December 31, 1998, concurrent with the implementation of dialing parity in Aliant's service area.

(c) Aliant agrees to respond to the Information Requests served by the Department and dated November 21, 1997, on or before December 31, 1997. Aliant will respond to a reasonable number of possible additional Department Information Requests relating to cost studies and revenue neutrality by January 19, 1998, provided that such additional Requests are served on Aliant not later than January 9, 1998. Aliant reserves its rights to object to Information Requests pursuant to Commission Rules, and Aliant's duty to respond to any such Requests shall be conditioned upon the Department's agreement to extend confidential and proprietary treatment to Aliant's responses to such Requests.

(d) The Department agrees that no Information Requests shall be served on Aliant after January 9, 1998. The Department and Aliant further agree that the direct testimony of all witnesses and copies of all exhibits shall be exchanged by not later than January 26, 1998.

(e) Department and Aliant recommend to the Commission that an initial public hearing be scheduled for this Application at 9:30 a.m. on February 4, 1998 at the Commission's Hearing Room in Lincoln, Nebraska, and that an additional public hearing be scheduled not later than February 11, 1998 at 7:00 p.m. at a location to be determined by the Commission.

(f) The Department agrees that the results of the Hatfield Cost Model, the Benchmark Cost Proxy Model (BCPM), the FCC Hybrid Proxy Model and the Telecom Economic Cost Model, together with an embedded cost study that may be adjusted to recognize forward-looking investments and expenses may be offered and received into evidence in this matter for the Commission's consideration.

(g) The Department agrees, for the purposes of this Application, that the definition of actual cost pursuant to Sec. 86-803(9) shall not separately apply to residential and business access lines. Rather, the Department agrees that actual cost should be determined on an Aliant company-wide basis averaged across Aliant's density zones and service types in the aggregate.

(h) The Department agrees that an exact measure of actual cost for the purposes of Sec. 86-803(9) cannot be calculated. The Department's position is that an embedded cost study will produce reliable costs of service in a non-competitive environment. However, the Department agrees that based upon the contents of this Stipulation, Aliant is transitioning to a competitive local exchange environment. Therefore, the determination of actual cost for basic local exchange service should transition as well.

(i) The Department agrees that information concerning Aliant's earned rate of return is not relevant to this Application, and therefore, shall not be offered into evidence in this matter.

Dated: December 18th, 1997.

**The Communications Department of the
Nebraska Public Service Commission**

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