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(Decision No. C93-1148)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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RE: THE INVESTIGATION AND SUSPENSION OF TARIFF SHEETS FILED BY U S WEST COMMUNICATIONS, INC., WITH ADVICE LETTER NO. 2247, WITH REGARD TO CENTRON MAIN STATION LINES.	DOCKET NO. 92S-229T RULING ON EXCEPTIONS

Mailed Date: September 22, 1993

STATEMENT

BY THE COMMISSION:

This matter comes before us for consideration of Exceptions to Recommended Decision No. R92-1236. In that Decision, entered on September 29, 1992, the Administrative Law Judge ("ALJ") recommended permanent suspension of rates proposed by U S WEST Communications, Inc. ("USW" or "Company") in its Advice Letter No. 2247. The Company and the Department of Defense representing all Federal Executive Agencies ("FEA") filed Exceptions to the Recommended Decision. Commission Staff ("Staff") filed responses to the Exceptions. Now being duly advised in the matter, we enter our order largely affirming the ALJ's decision.

The Company filed Advice Letter No. 2247, in part, to comply with its Commission-approved agreements in Docket No. 90S-544T, the Company's last Phase II rate case. In that case, the Company and various parties entered into a stipulation in which one of the provisions required USW to file "new tariffs for Centron Station

Line rates in a revenue neutral filing."[1] The Stipulation required filing of the new Centron rates within 30 days following entry of a final Commission order in Phase II. The Commission issued its final order in Phase II on September 25, 1991. In accordance with extensions of time granted by the Commission, the Company filed its new proposals on Centron rates, in Advice Letter No. 2247, on March 2, 1992.

The Commission suspended the proposed tariffs and set the matter for hearing before the ALJ. Staff, FEA, and USW actively participated in the hearings by filing testimony, cross-examining witnesses, and submitting statements of position. The ALJ, in Recommended Decision No. R92-1236, essentially rejected the rates suggested by the Company, and accepted those proposed by Staff. Exceptions followed.

Advice Letter No. 2247 Proposals. In Advice Letter No. 2247, the Company proposed to discontinue its existing Centron Custom Service, except to customers having a currently effective contract. Those customers would be "grandfathered" for the term of their agreement. The Company proposed to replace Centron Custom Service with its new Centrex Plus.

As explained by the Company's witnesses at hearing, Centrex Plus is a business communication system furnished only from a

[1] *See* ¶ 35 of the Stipulation approved by and appended to Decision C92-1128.

As explained by the Company's witnesses at hearing, Centrex Plus is a business communication system furnished only from a Stored Program Controlled Central Office. A group of station lines is translated for an individual customer and provides common access to a pre-determined group of system features (*i.e.*, as a Centron-like service, Centrex Plus provides the customer with intercommunications between individual station lines and with access to the network). Centrex Plus is comprised of station lines, line termination equipment, and a computer software partition in the central office known as a "common block" or "customer group." The dedicated software partition supplies the dialing pattern, code dialing access, and system features to the station lines. In addition, the common block supports direct inward dialed calls, originating calls, private network access, tieline access, and equal access long distance calls to the carrier of the customer's choice. As noted above, Centrex Plus also supports intercom dialing, allowing calls to be placed to other stations within the system via an abbreviated dialing pattern.

In the Advice Letter, the Company proposed a Centrex Plus rate structure with four components: station line, features, access/usage, and Customer Access Line Charge ("CALC"). The station line connects the customer premise to the serving central office, and includes the drop, the loop, the line termination, switching equipment, and a standard set of features. In consideration of pricing principles articulated by USW witness Merlin

Jenson, the Company proposed a "stair-stepped" rate tier for station line rates.[2] This "stair-stepped" approach would, in essence, offer discounts to customers based upon the number of lines, duration of the contract, and distance from central office. The specific station line rates proposed by USW were:

	Month-to Month	12-35 Months	36-59 Months	60 Months
1-20 Lines	$20.00	$20.00	$18.00	$15.00
21-50 Lines	$20.00	$16.00	$13.33	$12.00
50+ Lines	$20.00			
Airline Qtr Miles				
1	$20.00	$6.01	$5.01	$4.51
2	$20.00	$6.31	$5.26	$4.73
3	$20.00	$6.63	$5.52	$4.97
4	$20.00	$7.07	$5.89	$5.30
5	$20.00	$7.43	$6.19	$5.57
6	$20.00	$7.53	$6.28	$5.65
7	$20.00	$8.35	$6.96	$6.26
8	$20.00	$8.83	$7.36	$6.62
9	$20.00	$9.56	$7.97	$7.17
10	$20.00	$11.00	$9.17	$8.25
11	$20.00	$11.61	$9.66	$8.71
12	$20.00	$13.67	$11.39	$10.25
13	$20.00	$15.32	$12.77	$11.49
14	$20.00	$15.92	$13.27	$11.94
15	$20.00	$16.84	$14.03	$12.63
16	$20.00	$18.64	$15.53	$13.98
17	$20.00	$19.36	$16.13	$14.52
18	$20.00	$19.91	$16.59	$14.93
19	$20.00	$20.40	$17.00	$15.30
20	$20.00	$22.72	$18.93	$17.04

[2] The Company's principles, in part, included: First, that the Company sought to price the channel connection element of Centrex Plus (*i.e.*, connection to the network) the same as the channel connection element for Private Line and Private Branch Exchange trunking services. The Company suggested that since channel connection is fundamental to Centrex Plus, Private Line, and PBX trunk services, all three offerings should incorporate the same rate for this element. Second, the Company contended that Centrex Plus competes with PBX service since PBXs perform the same functions as Centrex Plus. As such, according to the Company, Centrex Plus must be priced to be competitive with PBXs.

The station line rate would include a standard package comprised of 27 features.[3] A customer could order optional features for additional charges. The charges for the optional features were not discussed at hearing.

As for access/usage, the Company proposed two options. The first option was a trunk-rated or Network Access Register ("NAR") version of access. Based upon the customer's choice, this option would limit the number of station lines which could make external calls at any given time. The Company stated that this offering was intended to mimic PBX customers' decisions regarding the number of trunks desired which likewise limits the capacity of external calling. Under this option, Centrex Plus customers would select the number of NARs desired.[4] The second access/usage option would provide 100 percent, non-blocked access to the public switched network for each Centrex Plus station line in that all lines would be able to make external calls at the same time. For this 100 percent access/usage, customers with 1 to 20 lines at a location would pay an additional line increment of $38.00; customers with 21 to 50 lines would pay an additional increment of $36.00; and customers with more than 50 lines would pay an additional line increment of $6.50.

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[3] USW stated that the standard feature package was designed to incorporate features found in the latest vintages of PBXs. At hearing, the parties apparently agreed that of these 27 features, only Direct Inward Dialing, Direct Outward Dialing, Hunting, and Touch-Tone are subject to regulation by the Commission. The other features are deregulated products.

[4] NAR rates are tariffed in the Exchange and Network Services Tariff and would not be available under contract or rate stability.

Finally, the Company's pricing proposals for Centrex Plus include a "CALC offset" based upon the number of station lines.[5] The Company reasoned that PBX users pay the federally-imposed CALC only for each trunk connected to the network, they do not pay a CALC for each station line. Since Centrex Plus is intended to be comparably priced to PBX service, the Company proposes that for pricing purposes only (*i.e.*, the CALC, in fact, would be collected and paid for each station line), Centrex customers with 20 or fewer lines would pay the CALC for each line; customers with 21 to 50 lines would receive an offset of 2 to 1; and customers with more than 50 lines would receive a pricing offset of 6 to 1 (*i.e.*, the largest Centrex Plus customers, in effect, would pay a $1 CALC).[6]

Although Advice Letter 2247 was primarily intended to be a repricing and restructuring of Centron products, the Company also proposed modifications to PBX and Private Line rates as a revenue neutral offset to changes in Centron/Centrex rates. The changes in Private Line and PBX rates were also intended to make these rates comparable to Centrex Plus charges. Month-to-month rates for Private Line and PBX trunks would remain the same under the Company's proposals. However, Private Line and PBX customers would be able to contract for rate stability and discounts on the Channel

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[5] The Customer Access Line Charge currently set by the Federal Communications Commission ("FCC") is $5.20 per business line.

[6] As noted, since the CALC is an FCC ordered rate, revenues reflecting the full CALC for each station line, in fact, would be collected and paid to the federal jurisdiction. The offset is merely a pricing discount for Centrex Plus customers.

portion of their service based upon the number of Network Access Connections ("NAC"). At locations with 1 to 20 and 21 to 50 lines, Private Line customers would be able to get rate stability for the Channel Connection by contracting for 12 or more months, if monthly billing is greater than $1,000 per month. At locations with more than 50 lines, both PBX and Private Line customers would be able to contract for distance-sensitive Channel Connection rates on the same basis as Centrex Plus subscribers. The Company's proposed Channel Connection rates for PBX and Private Line were:

	Month-to Month	12-35 Months	36-59 Months	60 Months
1-20 Lines	$6.32	$6.32	$6.32	$6.32
21-50 Lines	$6.32	$6.32	$6.32	$6.32
50+ Lines				
Airline Qtr Miles				
1	$6.32	$3.23	$2.69	$2.42
2	$6.32	$3.66	$3.05	$2.74
3	$6.32	$4.11	$3.42	$3.08
4	$6.32	$4.68	$3.90	$3.51
5	$6.32	$5.17	$4.31	$3.88
6	$6.32	$5.67	$4.73	$4.26
7	$6.32	$6.50	$5.42	$4.87
8	$6.32	$6.97	$5.81	$5.23
9	$6.32	$7.70	$6.42	$5.78
10	$6.32	$9.15	$7.63	$6.86
11	$6.32	$9.76	$8.14	$7.32
12	$6.32	$11.82	$9.85	$8.86
13	$6.32	$13.46	$11.22	$10.10
14	$6.32	$14.06	$11.72	$10.55
15	$6.32	$14.98	$12.48	$11.24
16	$6.32	$16.79	$13.99	$12.59
17	$6.32	$17.51	$14.59	$13.13
18	$6.32	$18.06	$15.05	$13.54
19	$6.32	$18.55	$15.46	$13.91
20	$6.32	$20.86	$17.93	$15.65

The Company finally suggested rate stability and discounts for other analog and digital Private Line rate elements under contract such as channel performance, transport, and other optional features and functions not common to PBX and Centrex Plus. Under these proposals, rate stability would be offered when monthly billing is greater than or equal to $1,000 per month for analog Private Line or $400 per month for digital. In addition, discounts from 3 to 20 percent would be offered depending upon length of contract, number of circuits, or billing amounts.

Staff's Proposals. The only other party to develop and offer a comprehensive rate proposal was Staff. Mr. Wendling, based in part upon assumed NAC rates, proposed certain distance-sensitive station line rates:[7]

Airline Quarter Miles	Rate (per month)
1	$9.43
2	9.70
3	9.98
4	10.33
5	10.64
6	10.95
7	11.27
8	11.76
9	12.22
10	13.13
11	13.51
12	14.80
13	15.82
14	16.20
15	16.77
16	17.90
17	18.35
18	18.70
19	19.00
20	20.45

[7] Staff's station line charges were calculated by beginning with the stated NAC rates, adding the cost of the Central Office nontraffic-sensitive signaling and performance capabilities, adding the costs or imputed rates for the standard features, and separating the intrastate from the interstate portion of the revenue requirement, pursuant to section 40-15-108(1), C.R.S. (local exchange providers which provide facilities for use by interstate users or providers shall separate all investments and expenses according to applicable federal separations procedures).

Mr. Wendling accepted the Company's proposed rate of $20.00 per month for all other Centrex Plus customers.[8] As stated above, the ALJ accepted the rates suggested by Staff in their entirety. The ALJ concluded, in part, that:

- The Company's proposals were not based upon reliable cost studies.
- The Company's methodology was inappropriate because it included in the price formula for Centrex main station line rates, the cost or price for deregulated features.
- The Company's costing methodology also failed to include costs and imputed elements that are common to other services that use the public switched network.

Ruling on Exceptions. USW first takes exception with the ALJ's rejection of Long Run Incremental Costs ("LRIC") in the setting of rates in this proceeding. As we understand the Exceptions, the Company is essentially requesting that we issue dicta endorsing LRIC as the appropriate costing method for rate-setting purposes. We further understand that a favorable ruling on the Company's cost arguments[9] would have little practical effect on the rates to be charged for Centrex Plus in that a holding that LRIC is the appropriate costing methodology would not

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[8] Staff rejected rate discounts based upon a length-of-contract criterion. This position accounts for some of the difference between Staff's and the Company's rate proposals.

[9] *See* USW Exceptions at 9-12.

dispose of the question of whether the Company's or Staff's rates should be charged.[10]

We decline the present invitation to approve the use of LRIC for costing and pricing of telephone services in general. Such language would be entirely gratuitous in this proceeding. As the Company pointed out, the Commission is currently considering the acceptability of LRIC principles for ratemaking purposes in a separate case, Docket No. 92R-596T. It would be improper for us to adopt the costing principles suggested by the Company in this proceeding.[11]

We observe that Staff's disagreements with the Company's proposal were largely based upon specific criticisms unrelated to whether LRIC is conceptually the correct costing approach. For example, Staff disputed the reasonableness of offering price discounts based upon the length of contract; Staff objected to the Company's inclusion of the costs of deregulated products in setting

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[10] The Commission notes that, on the one hand, the Company berates the ALJ and Staff for their "wrongheaded" views on LRIC, and the "knee-jerk" fashion in which the filing was rejected because it was based upon LRIC. On the other hand, the Company states that Staff's positions were, in fact, premised upon LRIC data.

[11] The Commission does note, however, that approval of LRIC, in principle, answers only part of the question as to what are appropriate costs to consider in setting rates for specific services. In the Costing and Pricing case, Docket No. 92R-596T, apparently all parties, including the Company, agreed that performing LRIC studies correctly is as important as establishing the principle that LRIC are the appropriate costs for pricing considerations. In this case, the record indicates that the LRIC studies upon which the Company relied employed the same methodology found to be flawed in the Company's last Phase II case. Therefore, the ALJ's rejection of these studies was correct, even if we were now inclined to issue <u>dicta</u> approving LRIC in principle.

regulated rates; Staff argued that the Company improperly failed to impute Direct Inward Dial ("DID") rates into its station line charges; Staff objected to the Company's use of objective fill rates and repression in its costing methodology; Staff contended that the Company misapplied federal separations procedures in its CALC offset; etc.

In brief, we reject the Company's arguments regarding LRIC, and find that the ALJ's rulings were proper. Moreover, we observe that the Company's exceptions regarding the theoretical correctness of LRIC has little, if any, relevance to the specific rate determinations to be made in this case.

Direct Inward Dial Imputation. According to the Company, Staff's imputation of a $4.15 DID charge into the station line rates, in substantial measure, accounts for the rate differentials between the two parties.[12] The Company's methodology used only $.15 per month cost for the telephone number. Mr. Wendling reasoned that a PBX customer desiring the same functionality as a Centrex Plus subscriber would subscribe to DID for a certain number of trunks. For purposes of imputation, similar PBX costs to the comparable Centrex functionality, Mr. Wendling assumed a 10:1 ratio of station lines to inward DID NARs. Since the monthly DID rate is $40 per trunk, Mr. Wendling imputed $4.15 into the station line charge. This amount represented $4.00 per line based upon the

[12] DID allows incoming callers to dial particular PBX stations directly.

DID rate and assumes a 10:1 ratio of station lines to inward-NARs, plus $.15 per month for the station telephone number.

The Company argues that Staff's DID imputation into the station line rate is unnecessary, and the resulting price makes Centrex Plus noncompetitive with PBX service. FEA also objects to such imputation, but for a different reason. In its Exceptions at page 3, FEA contends that the Company "has 'tilted' the competitive market in favor of its Centrex offering by failing to incorporate into its Centrex rates an imputation of the DID function which its Centrex systems provide, but which subscribers to PBX services must purchase as a separate rate element." FEA's assertion that the Company should impute a charge for DID into Centrex is consistent with Staff's position. However, FEA states that the station line rate is not the appropriate location for a DID imputation. Rather, FEA contends, the imputation should be made to the NAR which provides the same functionality as a PBX trunk.

In fact, Staff recognized that the NAR was the most appropriate location for the DID imputation. However, Staff pointed out that the NAR rate was not put at issue in this docket, even though the Company had indicated in Docket No. 90S-544T that it would include the cost of inward-DID in the Centron rate proposals. Since NAR rates were not subject to change in the present proceeding, Staff reasoned that the DID imputation in the station line rate could serve as a surrogate for its imputation in the NAR rate in order to avoid understating Centrex charges.

We find Staff's position to be reasonable. We agree with Staff and FEA that an imputation for DID within Centrex service is appropriate. Indeed one of the Company's rationales for the present filing was to treat PBX and Centrex service comparably. Failure to impute a DID charge to Centrex now by waiting for a future Company filing on NARs would leave the two services in unequal positions for the present. In these circumstances, imputation into the station line rate was acceptable.

Additionally, we find that Staff's assumption of a 10:1 ratio of NARs to station lines was reasonable. The Company's information indicated that, on average, there were 3.56 lines per NAR. Mr. Wendling recognized that some of these NARs would be "in-only." An assumption that one-half of the NARs were "in-only" would result in a 7:1 ratio of NARs to station lines for purposes of the DID imputation. Mr. Wendling then discounted this figure further and used a 10:1 ratio for his imputation. While this calculation is somewhat imprecise, we find it to be reasonable, especially since neither the Company's nor FEA's evidence indicates that the ratio of in-only NARs to station lines should be something different. We, therefore, affirm the ALJ's decision to accept Staff's DID imputation.

As for the Company's assertion that DID imputation will render Centrex Plus noncompetitive with PBXs, there is little evidence in the record to support the argument. The Company and FEA offered only general assertions, with no supporting analysis, that the resulting Centrex Plus price would cease to be competitive with PBXs. The Commission believes that one factor to be considered in setting rates is that the Company's products remain competitive with alternative services. However, the record here indicates that a DID imputation is reasonable given that the Company's largest customer, FEA, supports such an imputation to the NAR rate. The present record does not support the argument that the resulting Staff rates will "destroy" Centrex Plus as the Company asserts.[13]

<u>Customer Access Line Charge Offset</u>. Next, the Company takes issue with the Recommended Decision's disapproval of a CALC offset for Centrex Plus subscribers. We agree with the ALJ's adoption of Staff's position on this issue. In lieu of explicitly incorporating an offset for interstate charges on access lines, Staff instead separated the interstate revenue requirement associated with Centrex Plus facilities from equipment using federally mandated separations procedures. The Company argues that this calculation was, in effect, an interstate offset like its own CALC adjustment.

[13] We note that DID imputation was merely one element which Staff considered in proposing its rates. For example, Staff's disagreement with term discounts, in some measure, accounted for the differences between the Company's and Staff's proposals. The point is that a DID imputation and Staff's suggested level of imputation are reasonable. To argue that this one factor will be "fatal" to Centrex Plus, especially in the absence of analysis, strikes us as insupportable and hyperbolic.

According to the Company, Staff's offset of $4.70 using separations procedures was even greater that its own offset of $4.33 for customers with more than 50 lines.[14]

We conclude that Staff's method of accounting for interstate charges associated with Centrex Plus station lines is correct. In particular, we believe that Staff's methodology is consistent with the requirements of Section 40-15-108(1), C.R.S. As such, the Recommended Decision is correct to the extent it relied on Staff's position regarding the CALC offset in reaching its rate determinations.

Listing of Deregulated Features in Tariff. In its Exceptions, the Company requests that it be allowed to list in its tariff both regulated and deregulated features associated with its standard Centrex Plus package. Only 4 of the 27 features included in the standard features are regulated by the Commission.[15] We agree with Staff's position that only regulated services should be included in the Company's tariff. In the first place, the purpose of a regulated utility's tariff is to list rates, rules, regulations, practices, terms, etc., for services and products subject to the Commission's jurisdiction. The listing of deregulated services in the regulated tariff is inappropriate. Such a practice would

[14] In view of the Company's argument, the decision on the permissibility of the CALC offset is, apparently, strictly academic, and will have little effect on actual rate levels.

[15] *See* n.3 at 5.

also likely cause customer confusion in that telephone subscribers may be led to believe that the Commission regulates the offering of deregulated products).

Moreover, we do not accept that a dual listing of Centrex Plus features (regulated features listed in the tariff, and deregulated features in the Company's service catalogue) will constrain the Company in the offering of these services. We note that, as a business product, Centrex Plus is likely to be ordered by relatively sophisticated telephone users. We find it unlikely that such customers will be confused by a dual listing of features. We are also confident that, to the extent necessary, the Company's service representatives will be more than able to adequately assist potential customers in understanding their service options under Centrex Plus, wherever those features are listed. In brief, then, we remain unconvinced that failure to list deregulated features in the tariff will artificially constrain the Company's efforts to market this service. The Company has offered no evidence, or convincing rationale, to support its claims.

<u>Contract Term Discounts</u>. FEA and the Company[16] take exception to the Recommended Decision's implicit rejection of contract term discounts. As indicated on the table on page 4, the Company proposed substantial rate discounts for customers subscribing to

[16] *See* USW's Exceptions, footnote 12.

Centrex Plus for 12 to 60 months.[17] Staff opposed contract term discounts because such discounts are not cost-based. We accept Staff's position in this case.

While we acknowledge that there is some value to longer term arrangements (as opposed to month-to-month service), the particular stair-stepped approach proposed by the Company contains great discontinuities which clearly have little or no relation to cost.[18] A cursory examination of the Company's proposed rates reveals these great differences. For example, at the one-quarter mile step, a Centrex Plus customer with 50+ lines would pay $4.51 per line; the month-to-month subscriber would pay $20.00 per line. In light of the obvious and substantial deviations from cost of service pricing, we cannot accept the particular term discounts advocated by the Company here.

While cost of service is an important consideration in pricing decisions--indeed, in many instances the Commission has considered cost of service to be the most important factor--we do not imply

[17] The Company's stair-step approach for station lines sets certain rates for subscribers selecting a 60-month contract, then marks-up those rates 11 percent for 36- to 59-month contracts and 33 percent for 12- to 35-month contracts. With few exceptions, contract term rates are below month-to-month rates.

[18] In this case, Staff presented a hypothetical situation which demonstrates that similarly situated customers would be charged vastly different rates based solely upon the term arrangement with the Company (*i.e.*, a month-to-month customer whose cost of service would be identical to a 60-month customer would pay substantially more for service). *See* Staff's Response to Exceptions at 9-11.

that cost is the sole consideration in setting rates. Therefore, we do not reject the concept of term discounts, but simply rule that the Company did not offer sufficient evidence or reasoning for these specific discounts (especially in light of the significant divergence from cost of service).

FEA Criticisms of Staff's Rates. In its exceptions, FEA also argues that Staff's station line rates were not based upon costs, and, in fact, are excessive relative to costs. Staff's pricing methodology for Centrex Plus began with the existing tariff rate for the Private Line NAC ($6.32 for USW's average NAC loop length of five airline quarter miles).[19] In the absence of evidence disputing the reasonableness of a rate previously approved by the Commission, this was an acceptable starting point. Staff then added to the NAC rate the central office non-traffic sensitive signaling and performance capability costs derived in Docket No. 90S-544T, applied federally mandated separations procedures, and imputed the DID charges discussed above.[20]

This methodology is based, not only upon cost of service, but also upon imputation DID charges into station line rates under the theory that Centrex should be placed upon comparable footing with PBX service. Our discussion in this decision points out that the

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[19] *See* n.7 at 8.

[20] Mr. Wendling rejected term discounts, but accepted distance-sensitive discounts.

individual elements of Staff's pricing methodology were reasonable--those based upon costs as well as the DID imputation.[21] Therefore, we conclude that the final prices derived by Staff were reasonable, and reject FEA's contentions that these station line rates were improperly excessive relative to costs.

FEA also argues that Staff's PBX trunk rates were excessive relative to costs. With respect to PBX rates, Staff apparently accepted the Company's formula for setting trunk charges, except for the suggestion that term discounts be offered. For the reasons stated in Staff's testimony and in this decision, we find these recommendations to be acceptable.

Grandfathering of Existing Centron Contracts. Under the Company's proposals in this case, all existing Centron products would eventually be terminated and replaced by Centrex Plus. However, in order to avoid customer confusion and alienation, the Company suggested that all existing contracts be grandfathered. All existing Centron contracts, under this suggestion, would continue until their expiration date at the election of the customer. After the contracts' expiration, Centron customers would have 90 days to move to Centrex Plus or purchase a competitive system. Staff flatly opposed all grandfathering.

[21] Indeed, even FEA agreed that a DID imputation for Centrex should be made, although FEA believed the imputation should be in the NAR.

We believe the Company's concern with customer confusion and alienation by the immediate abrogation of existing contracts is well-taken. Therefore, we approve a one-year grandfathering period. Existing Centron contracts may continue in effect for up to one year following a final Commission decision in this docket or until expiration of present contract terms, whichever is first, at the customer's election. If the customer elects to continue to receive Centron-like service from the Company after the specified grandfathering period or expiration of the contract, the customer shall be moved to Centrex Plus.

Revenue Neutrality. We agree with the contentions of Staff and FEA that the Company's filing is not revenue neutral as required by the Stipulation in Docket No. 90S-544T.[22] In the first place, the Company inappropriately used repression in calculating the revenue effects associated with its rate proposals. We agree with Staff and FEA that there is little reason to believe that repression would result from an increase in Centrex rates. For example, Staff argued persuasively that NAR rates were recently increased with no resulting decrease in demand.

Second, Staff pointed out that the Company did not provide an inventory of main station lines by distance and current rate. Since the existing and the proposed tariffs price in this manner,

[22] By "revenue neutral" we mean that rate and revenue increases for certain services must be offset by rate and revenue reductions for other services.

such an inventory is necessary in order to reasonably estimate the revenue effects of any rate changes.

We now rule that the Company must provide the necessary information to enable us to reasonably estimate the revenue effects of our approved rate changes. Revenue neutral calculations must account for the new rate structure actually adopted. For example, the Company must account for the fact that customers with fewer than 20 lines could not subscribe to Centrex Plus. Based upon those estimated effects, the increased revenues associated with the increased Centrex rates will be offset by decreased rates (and revenues) in related services (*i.e.*, as Staff suggested, the offset to increased Centrex rates and revenues should occur within Centrex related services such as DID, Hunting, and measured rates for Centrex and Centron). In order to avoid a number of rate changes within a brief period of time and the resulting customer confusion, we will delay implementation of the rates approved in this decision pending receipt of the required inventory. The Company will be directed to provide the information necessary to estimate the revenue effects associated with the approved rate changes within 60 days of a final Commission decision herein. Pending the provision of that information, the rates that were in effect just prior to the filing of Advice Letter 2247 shall remain in effect.

<u>THEREFORE, THE COMMISSION ORDERS THAT</u>:

1. The Exceptions to Recommended Decision No. R92-1236 filed by U S WEST Communications, Inc., and the Department of Defense

representing all Federal Executive Agencies are granted to the extent that they are consistent with the above discussion, and in all other respects are denied.

2. The tariffs proposed by U S WEST Communications, Inc., in Advice Letter No. 2247 are permanently suspended.

3. U S WEST Communications, Inc., within 60 days following a final Commission order in this proceeding, shall provide a complete inventory of existing Centron services (*i.e.*, quantity of existing services by mileage band) and other necessary information which will enable the Commission to reasonably estimate the revenue effects of the rate proposals approved in this Decision.

4. Along with the information required in ordering ¶ 2, U S WEST Communications, Inc., shall submit, in Advice Letter form, its rate proposals to offset in a revenue neutral fashion the revenue effects of the rates approved herein. Such rate proposals shall be consistent with the above discussion, and shall be based upon the information provided pursuant to ordering ¶ 2. All rate proposals other than those ordered in this docket must be fully supported with necessary information to allow the Commission to make a determination that the rates are just and reasonable.

5. At the time it submits the information and rate proposals mandated by ordering ¶¶ 2 and 3, U S WEST Communications, Inc.,

shall also submit a new advice letter with proposed tariff sheets incorporating the rates approved in this decision.

6. The 20-day period provided for in Section 40-6-114(1), C.R.S. (1993), to file applications for rehearing, reargument, or reconsideration begins on the first day following the mailing of this decision.

This decision is effective upon its Mailed Date.

ADOPTED IN OPEN MEETING ON February 17, 1993.

(S E A L)

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

ROBERT E. TEMMER

CHRISTINE E. M. ALVAREZ

Commissioners

ATTEST: A TRUE COPY

Bruce N. Smith
Executive Secretary

TM:srs