(Decision No. C89-178)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * *

INVESTIGATION AND SUSPENSION OF PROPOSED CHANGES AND ADDITIONS TO EXCHANGE AND NETWORK SERVICES TARIFF-TELEPHONE, MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY, DENVER, COLORADO 80202, PURSUANT TO ADVICE LETTER NO. 2092.	)	INVESTIGATION AND SUSPENSION DOCKET NO. 1766 DECISION AND ORDER OF THE COMMISSION AUTHORIZING EXPANDED LOCAL CALLING AREAS

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February 10, 1989
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PRECIS

TARIFF SHEETS FILED BY THE MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY (U S WEST COMMUNICATIONS, INC., OR USWC) ON JUNE 14, 1988, ARE SUSPENDED PERMANENTLY; USWC AUTHORIZED TO EXPAND LOCAL CALLING AREAS TO B ZONES IN NON-METROPOLITAN DENVER AREAS OF COLORADO; RATE GROUP 3 CALLING AREA EXPANDED.

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Bijou Telephone Cooperative Association, Inc.;
Columbine Telephone Company;
Delta County Telecommunications, Inc.;
Eastern Slope Rural Telephone Association, Inc.;
Farmers Telephone Company, Inc.;
Nucla-Naturita Telephone Company;
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(Denver Metro).

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Appearances cont'd.:

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Plains Telephone Cooperative,
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Pine Drive Telephone Company
(**Strasburg, et al.**).

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Rebecca S. Weeks, Esq., for
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(**Otero**).

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Commission (**Staff**).

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Assistant State Solicitor General
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the Commission (**Commission**).

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STATEMENT, FINDINGS OF FACT, AND CONCLUSIONS OF LAW BY THE COMMISSION:

I

INTRODUCTION AND SUMMARY

Investigation and Suspension Docket No. 1766 (I&S 1766) involves the proposal by The Mountain States Telephone and Telegraph Company[1] filed in Advice Letter No. 2092 on June 14, 1988, to introduce a state-wide, optional, local calling area plan (LCAP). USWC says the plan will enable single-party customers in each of its exchange areas to select a calling plan that will better serve the customers' needs while, at the same time, offering greater equity among all of the wire centers than currently exist today. USWC states that its filing addresses a demand for wider flat-rate exchange areas expressed by many of its customers outside of the metropolitan Denver area. However, USWC further states that its plan will retain, at a higher rate, the existing boundary of the metropolitan calling area established in 1965. USWC has also proposed that its customers be afforded certain measured options into the proposed A, B, and C calling zones based upon blocks of time and per-minute rates for calls in excess of the blocks of time.

Certain modifications to the proposal made by USWC were suggested by some intervenors in I&S 1766. The most notable modifications proposed to USWC's LCAP plan were those of the Staff and the OCC. The Staff basically agreed with USWC's LCAP proposal, although it did propose to eliminate the blocks-of-time measured options to the A, B, and C calling areas within Rate Groups 1, 2, and 3. A different modification was proposed by the OCC which left Rate Group 3 (for the Denver metropolitan area) essentially intact as it exists today, but expanded local calling areas in rural Colorado to the B zones. The OCC gave the name "Colorado 90" to its plan.

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[1] On July 1, 1988, The Mountain States Telephone and Telegraph Company formally changed its name to U S WEST Communications, Inc. In the testimony and throughout these proceedings, The Mountain States Telephone and Telegraph Company was referred to variously as "Mountain Bell" and "U S WEST" and "the Company." In this decision, we shall use the name "USWC," except that in certain historical sections, the name "Mountain Bell" is used.

A number of independent telephone companies intervened in I&S 1766 and suggested, for the most part, that no local calling area expansion for USWC be adopted until the Commission institutes a rulemaking docket dealing with local calling area expansion on a state-wide basis, to include the independent telephone companies. The Commission, as will be explained below, does not believe it is wise to delay the expansion of USWC local calling areas in the outlying areas of Colorado, especially in view of the fact that USWC provides approximately 98 percent of local calling service in the state.

The Commission in this decision and the other parties in this docket have built their views of the issues upon the foundation provided by USWC. By addressing the issue of equity, USWC has highlighted fair treatment of all ratepayers as a goal for USWC as a regulated utility, as well as an important consideration for the Commission and all the parties.

The Staff of the Commission displayed professional skill in its auditing and monitoring procedures, which presented the Commission with much more accurate and useful information in this docket. The OCC performed an outstanding job, in accordance with its legislative mandate to represent residential and agricultural consumers and small businesses, by proposing an alternative plan, building upon the original concepts applied by USWC, an alternative which the Commission believes will improve telephone service in rural Colorado without dislocations in the Denver area, and without the larger rate increases which would have been required by USWC's proposal.

The results adopted by the Commission in I&S 1766 are based on the work of all the parties who expended much time and intellectual effort in this docket. USWC is to be commended for initiating a proposal for the expansion of local calling areas in rural Colorado. We thank USWC, the Staff, the OCC, the interexchange carriers, the independent telephone companies, and the other participating intervenors for the cooperative and professional manner in which they helped the Commission move this docket to its conclusion.

II

HISTORY OF THE PROCEEDINGS

A. Tariff Filing by USWC

On June 14, 1988, USWC filed Advice Letter No. 2092 and 281 tariff sheets with the Commission. In its advice letter, USWC

requested the accompanying tariffs become effective on July 15, 1988, on 30-days' statutory notice. However, USWC requested that in the event the Commission were to suspend the filing and set it for hearing, a final decision be reached by December 31, 1988. This schedule, according to USWC, would enable it to begin planning for implementation by January 1, 1989, and to implement the proposed calling area plan for its 205 wire centers on January 1, 1990.

On June 15, 1988, the day after the filing, the Commission entered Decision No. C88-767 setting the tariffs for hearings on dates to be established later. That order also suspended the effective date of the tariffs until October 15, 1988; established July 12, 1988, as the date by which interested persons and entities could file pleadings to intervene; and also announced that further procedural directives would be issued.

B. Exchange Area Rearrangement

USWC's Advice Letter No. 2092 involves the rearrangement of exchange areas which are different from those in existence on July 2, 1987. Section 40-15-206(2), C.R.S., requires that such proposals be the subject of a determination by the Commission that exchange area rearrangement will promote the public interest and welfare, and will not adversely impact the public switched network of the affected local exchange provider or the provider's financial integrity. The phrase "exchange area" has been defined by § 40-15-102(8), C.R.S., as "a geographic area established by the Commission, which consists of one or more central offices together with associated facilities which are used in providing basic local exchange service." Accordingly, the phrase "exchange area" is the statutory term for what is known, in common parlance, as a local calling area. The public hearing requirement of § 40-15-206(2), C.R.S., has been satisfied in I&S 1766 by the conduct of public hearings for the reception of public testimony as well as evidentiary hearings for the reception of technical testimony and exhibits. Thus, to the extent exchange areas of USWC are rearranged as a result of this decision, there has been procedural compliance with the requirements of § 40-15-206(2), C.R.S. The substantive requirements of a determination that the rearrangement of exchange areas will not adversely impact the public switched network of USWC or its financial integrity are addressed subsequently in this decision.

C. Parties

USWC is the Respondent in I&S 1766. On July 13, 1988, the Commission entered Decision No. C88-841 stating procedural directives to be followed in this docket and also granting intervenor status to

a number of those who had previously filed to intervene. These Intervenors were listed in Appendix A to that decision and, as a convenience, are listed here in Appendix A. On December 7, 1988, the Cherry Creek School District No. 5 filed a petition to intervene. USWC objected to the petition to intervene of the Cherry Creek School District No. 5 which was filed after the close of hearings in I&S 1766. The Commission generally has been liberal in allowing intervention on the condition that one who files to intervene late must take the docket as it exists on that date. We do not believe that the parties in I&S 1766 will be prejudiced in any way by the late intervention of the Cherry Creek School District and, accordingly, its petition to intervene will be granted.

USWC also objected to the filing by the Colorado Chapter of the Telecommunications Association (TCA) of an amicus curiae petition and statement and on December 15, 1988, USWC filed a motion to strike. USWC indicates that the TCA's filing is not an amicus curiae brief since it allegedly contains no legal argument but, rather, that it is merely a statement of the opinions, conjectures, and suppositions adopted by the Board of Directors for the TCA. The Commission finds that the TCA's petition and position statement will be admitted in the same manner as other written comments to the Commission by the interested public with the Commission and will be permitted for whatever assistance it may render.

D. Prehearing Activity

The procedural order (Decision No. C88-841) set the USWC tariffs for hearing to begin on October 17, 1988, which was subsequently reset for November 14, 1988. The procedural order also gave directives for the filing of testimony and exhibits, discovery, the prehearing and settlement conference, the post-hearing statements of position and dates for the reception of public testimony. The procedural order also stated the protective provisions relating to confidential information. The Commission assigned Hearings Examiner William J. Fritzel to conduct a prehearing and settlement conference and to also deal with any procedural motions that might be filed in connection with I&S 1766. Appendix B contains a more detailed description of prehearing activity.

E. Hearings

In accordance with the usual practice of the Commission, the Commission held public witness hearings as well as technical

evidentiary hearings. The public hearings were held on nine days in September and October of 1988 in the following communities: Denver, Fort Collins, Boulder, Aurora, Alamosa, Grand Junction, Colorado Springs, Granby, Lakewood, Pueblo, and Lamar. A summary of the testimony obtained from public witnesses is appended to this decision and order as Appendix C.

The technical evidentiary hearings began in Denver on November 14, 1988, and continued on November 15, 16, 17, 18, 21, 22, 23, 28, 29, and 30, and December 1, and 2, 1988, presided over by the Commissioners. Daily transcripts of the hearings have been prepared and have been made available to all the Commissioners, as well as the parties in I&S 1766.

The Commission announced that the parties, at their option, could file statements of position by 5 p.m. on December 23, 1988, and reply statements of position by 5 p.m. on January 6, 1989.

Statements of position were filed by 5 p.m. on December 23, 1988, by the following: Agate, et al., AT&T, CoPIRG, Denver Metro, DOD, Eagle, Haxtun, MCI, OCC, Otero, Rye, Staff, Strasburg, et al., Seniors, and USWC. On December 27, 1988, Aurora filed an untimely statement of position together with a motion to permit its late filing. That motion will be granted. Reply statements of position were filed by 5 p.m., January 6, 1989, by the following: AT&T, Aurora, COPIRG, Denver Metro, Eagle, Haxtun, MCI, OCC, Otero, Rye, Staff, and USWC.

F. Testimony and Exhibits

A listing of the witnesses and exhibits introduced into evidence during the technical evidentiary hearings is attached as Appendix D. Prefiled testimony of whatever nature was given capital letter designations and exhibits were given numerical designations.

G. Submission

USWC's proposed LCAP, the various modifications proposed by other parties, together with all attendant issues in this docket have been submitted to the Commission for decision. In accordance with the provisions of the Colorado Sunshine Act of 1986, § 24-6-401, et seq., C.R.S., and Rule 10 of the Commission's Rules of Practice and Procedure, the docket was discussed at a special open meeting on January 19, 1989, a regular open meeting on February 1, 1989, and

was placed on the agenda for a special open meeting of the Commission for discussion and decision on February 10, 1989. In the special open meeting on February 10, 1989, this decision was entered by the Commission. The effective date of this decision is February 10, 1989.

III

GENERAL REMARKS

A. The Current Telecommunications Environment

In 1977, the American Telephone and Telegraph Company (AT&T) and its 22 subsidiary operating companies, known collectively as the Bell System, ubiquitously provided both long distance and local telephone service throughout the United States, employed over one million people, and it was the largest corporation and single employer in the United States with the exception of the federal government.

On October 24, 1982, United States District Court Judge Harold H. Greene entered what has come to be known as the Modification of Final Judgment (MFJ) in what was probably the largest antitrust case in the history of the United States, denominated as United States of America v. Western Electric Company and American Telephone and Telegraph Company, 552 F.Supp. 131 (D.D.C., 1982). The MFJ ordered a structural reorganization of the Bell System, which purported to achieve what were then the antitrust objectives sought by the United States Department of Justice in over three decades of antitrust litigation involving the Bell System.

Throughout the twentieth century, the Bell System had provided integrated end-to-end telephone service. The Bell System's wholly owned Bell operating companies (BOCs) had franchise monopolies that provided local exchange telecommunications services for approximately 80 percent of the nation's telephone subscribers under state public utility regulation. The BOCs' local exchange facilities also originated and terminated both local and intrastate toll regulated by the states, and interstate toll calls regulated by the Federal Communications Commission (FCC) under the Communications Act of 1934, 47 USC 151, et seq. The BOCs also owned interexchange facilities that provided transmission for both intrastate and interstate calls, whereas AT&T's Long Lines Department owned portions of the network used exclusively for interstate transmissions.

As a result of the MFJ, the 22 BOCs, former subsidiaries of AT&T, were regrouped into seven regional holding companies, which legally were separated from AT&T. Judge Greene has retained continuing jurisdiction over the Bell System divestiture, and the

various proposed changes to the MFJ have been submitted from time to time by the parties to the litigation.[2] The divestiture of the 22 BOCs from AT&T have had legal and economic effects in Colorado.

A term term as a result of the MFJ litigation is local access and transport area which was given the acronym LATA On April 20, 1983, Judge Greene approved the two LATAs submitted by USWC for Colorado. Roughly speaking, the Colorado Springs LATA includes Colorado Springs, Pueblo, and the southeastern portion of Colorado, which has Area Code 719. The Denver LATA includes Denver, northeastern Colorado in general, and virtually all of western Colorado, including Grand Junction and Durango, and has Area Code 303.

In 1984, the Colorado General Assembly passed House Bill 1264, codified as Article 15 of Title 40, C.R.S., to deal with the provisions of intrastate telecommunications services. House Bill 1264 generally provided that intrastate, interLATA telecommunications services would be governed under the doctrine of regulated competition, whereas intraLATA telephone service was to be governed by the doctrine of regulated monopoly.

In 1987, the Colorado General Assembly passed House Bill 1336 which substantially rewrote the provisions of Article 15 dealing with intrastate telecommunications services. House Bill 1336 (referred to in this decision as the Telecommunications Act), codified as Article 15 of Title 40, C.R.S., was in four parts. Part 1 is a general provisions section. In Part 1 the General Assembly states in its legislative declaration that it is the policy of the State of Colorado to promote a competitive telecommunications marketplace while protecting and maintaining the wide availability of high-quality telecommunications services. The General Assembly states that these goals are best achieved by legislation that brings telecommunications regulation into the modern era by guaranteeing the

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[2]On September 10, 1987, Judge Harold H. Greene of the U.S. District Court for the District of Columbia released a 224-page opinion dealing with the issues raised in the First Triennial Review of the line-of-business restrictions imposed by MFJ, which bars entry by BOCs into interexchange, information services, manufacture and provision of telecommuications equipment, and manufacture of customer-premises equipment, and non-telecommunications business. The Court denied the motions seeking removal of the interexchange and manufacturing and provision restrictions. It also refused to remove restrictions relating to provision of information content, but indicated its intention to permit provision of certain information transmission services.

affordability of basic telephone service while fostering free market competition within the telecommunications industry. The General Assembly found that technological advancements and increased customer choices for telecommunications services generated by market competition will enhance Colorado's economic development and play a critical role in Colorado's economic future. The General Assembly recognized that the strength of competitive force varies widely between markets and products and services. To foster, encourage, and accelerate the continuing emergence of a competitive telecommunications environment, flexible regulatory treatments are appropriate for different telecommunications services.

Parts 2, 3, and 4 of the Telecommunications Act deal, respectively, with what the General Assembly described as regulated telecommunications services, emerging competitive telecommunications services, and deregulated services. Basic local exchange service, defined as telecommunications service which provides a local dial tone line and local usage necessary to place or receive a call within an exchange area are defined as Part 2 regulated services. It should also be noted that the Telecommunications Act now provides that intraLATA toll service is no longer a regulated monopoly service, but is a Part 3 emerging competitive telecommunications service which shall be regulated in accordance with the provisions of Part 3, and that no interexchange provider shall market intraLATA interexchange telecommunications services without obtaining prior approval of the Commission. See § 40-15-306, C.R.S. Thus, intraLATA toll service is no longer regulated under the doctrine of regulated monopoly.

B. Background of Metro 65

Prior to 1965, a substantial portion of telephone calling in Colorado consisted of toll calling between most of the exchanges in the state. However, in the core metropolitan Denver area, interzone calling plan was in effect, using a method of message-unit pricing of local calls between metropolitan exchanges. On April 23, 1964, USWC filed proposed rates which increased rates for local exchange service for both residence and business service. These proposed changes related to what became designated and publicized as then-Mountain Bell's "Metro 65" calling area. Under Metro 65, Mountain Bell proposed to eliminate the interzone charges in the Denver metropolitan area and to eliminate toll charges between 20 telephone exchanges where toll charges then applied. The effect of Metro 65 was to consolidate all of the 20 exchanges into a uniform exchange rate area to be designated as the Denver metropolitan area. The area to be covered approximated 2,200 square miles around Denver and its suburbs. Any customer receiving service from one of the exchanges included in Mountain Bell's proposed Metro 65 would be subject to its proposed metro telephone rates. Toll charges or interzone charges would be eliminated, thereby enabling a customer to call any number of approximately 327,000 telephones in the Metro 65 area at a flat rate.

On April 24, 1964, the Commission suspended the proposed rates of Mountain Bell encompassed in its Metro 65 offering and set the matter for hearing. Business customer witnesses were unanimous in their support in Mountain Bell's Metro 65 offering. Residential customer witnesses were also generally in favor of Metro 65, although residential witnesses from Boulder were generally opposed.

On June 26, 1964, in I&S 533, the Commission entered Decision No. 63186 which approved Mountain Bell's Metro 65 concept with the exception that the Commission did not include the Boulder exchange. Thus Metro 65, as approved by the Commission, permitted customers outside the Boulder exchange to call into the Boulder exchange toll free, and conversely Boulder customers, both business and residential, were charged for toll calls beyond the Boulder exchange. The Commission also determined that the financial position of the company and the value of residential service in the Metro 65 area (excluding the Boulder exchange) did not justify an increase in rates for residential service. The Commission recognized that there would be additional investment and the elimination of certain toll and interexchange revenues.

However, the Commission did recognize the need to adjust the residential rates for those exchanges outside of what was then metropolitan Denver to the level of the Denver metro rates that were in effect in 1964, because the outlying exchanges would begin having the same calling privileges as Denver metro customers and their value of service was at least equal to that of the then present Denver metro area. Although the decision in I&S 533 was issued on June 26, 1964, Metro 65 did not go into effect until January 1, 1965.

Metro 65 has continued, with several rate changes, from 1965 until today. Metro 65 is now synonymous with Rate Group 3. One of the exceptions was the January 1971 implementation of Metropolitan Preferred Area Calling (METROPAC), a discounted, optional, flat monthly toll-calling plan for calling within a 30-mile radius of certain exchanges. Customers in exchanges in Bailey, Elizabeth, Erie, Fort Collins, Fort Lupton, Frederick, Hudson, Keenesburg, Longmont, Loveland, and Nederland were offered the METROPAC service. Modifications have been made to the METROPAC offering since 1971 to make it usage-sensitive.

Another exception were toll routes implemented initially in January 1969 to meet the needs of calling between exchange pairs with high communities of interest, namely, Brighton and Hudson; Alamosa and La Jara; Bayfield and Durango; Durango and Ignacio; Alamosa and Monte Vista; Springfield and Campo; Springfield and Two Buttes; Springfield and Walsh; Akron and Otis; Craig and Hayden; Craig and Maybell; Buena Vista and Salida; Hot Sulphur Springs and Kremmling; Hot Sulphur Springs and Granby; Fraser and Granby; Granby and Grand Lake; Fraser and Hot Sulphur Springs; and Aspen and Basalt. This service provides for a reduced price from the regular toll rate schedule for the initial three minutes. Since its inception, this service has increased in the number of exchange pairs

where it is offered, and in its price. Another major change in the state's calling areas since 1965 was the contested complaint case, Case No. 6415, Otero County Farm Bureau v. The Mountain States Telephone and Telegraph Company (Otero case).

C. The Otero Case and Rural Upgrade

On September 10, 1984, the Otero County Farm Bureau (Otero Farm Bureau) filed a complaint against USWC, which was docketed as Case No. 6415. The Otero Farm Bureau's complaint alleged that USWC unduly discriminated against the residents of Otero County because calls between Otero County municipalities were toll calls, whereas other areas of the state had local calling between municipalities in the same county. The Otero Farm Bureau requested that USWC make all of Otero County one exchange. On May 5, 1985, the Otero Farm Bureau filed an amended complaint alleging that telephone service in Otero County was inadequate, that USWC had failed to provide local service to the Otero County community of interest, and that USWC's failure to provide adequate local service constituted an unjustly discriminatory treatment of Otero County phone subscribers. The amended complaint requested the Commission to order USWC to provide toll-free calling within Otero County, whether by combining exchanges or by providing extended area service (EAS).

Case No. 6415 originally came before Hearings Examiner Ken F. Kirkpatrick who, on January 31, 1986, entered Recommended Decision No. R86-123 which dismissed the complaint of the Otero Farm Bureau against USWC. The Otero Farm Bureau filed exceptions to the Recommended Decision, which were granted, in part, by the Commission. Thereafter, USWC and the Otero Farm Bureau each filed applications for rehearing, reargument, and reconsideration. On October 14, 1986, the Commission entered Decision No. C86-1368 granting Otero Farm Bureau's application for rehearing, reargument, and reconsideration, and concluded that Otero County was a community of interest, and that telephone service provided by USWC to Otero County phone subscribers was inadequate because toll calls had to be made as a matter of course within the Otero County community of interest. The Commission further concluded that the inadequacy of service should be rectified by USWC through the provision of local calling among the five Otero County exchanges. The Commission found that local calling was to be provided by USWC in the least expensive method discussed on the record, that is, one-plus dialing, but that the Commission's decision did not preclude further upgrades to local service in Otero County as a result of further Commission investigation in other dockets. The Otero case was the first successful attempt by USWC subscribers to obtain a Commission order finding that the community of interest standard required that local service be provided in a calling area which previously necessitated, to a large degree, toll calling.

In the Otero case, the Commission stated that the normal conduct of daily affairs for almost all enterprises in Otero County, including calls for health and safety, business, community, social, and governmental activities required toll calling as a matter of course. The Commission concluded that the community of interest embraced all of Otero County, and that local exchange service should generally be offered to meet the primary communications needs of subscribers within a local community of interest. The Commission further concluded that secondary communication needs, beyond the borders of the community, are normally provided for by toll service. Since the Commission found that in Otero County the local calling areas were not broad enough to encompass the local community of interest, we concluded that this fact constituted inadequate telephone service. The Commission found that the least expensive remedy--one-plus dialing--should be provided immediately to the subscribers of Otero County. The Commission viewed this remedy as an interim solution pending generic investigation into adequacy of service outside the major metropolitan areas of the state. See Decision No. C86-1368, page 9.

In 1986, the Commission identified the improvement of Colorado's rural telephone service as an issue of major importance to the State of Colorado. The Commission's 1986 management audit of USWC, conducted by Theodore Barry and Associates, identified the need for USWC to develop a better understanding of the concerns of rural customers. The audit recommended that USWC perform a market study and general analysis of rural areas in order to identify telephone service problems properly. The Theodore Barry audit led, in turn, to the creation of a task force consisting of the Staff of the Commission, USWC, and the OCC to identify rural telephone problems and propose solutions to those problems. Meetings of the task force were held and the Commission itself held two special open meetings to discuss the information that had been gathered by the task force. A preliminary report produced by the Commission Staff regarding telephone service dated June 27, 1986, contained a substantial amount of information which is detailed on pages 2 and 3 of Decision No. R87-663, dated May 15, 1987.

On July 22, 1986, USWC filed a rural facilities telephone improvement program proposal in Application No. 37788. Once the application was filed, the informal task force was disbanded, as it had been supplanted by USWC's unilateral decision to move rural telephone improvement issues into the Commission's formal legal processes. The application for a rural telephone facilities improvement program requested that the Commission approve the rural program as a separate, extraordinary program; that the Commission concur in a capital expenditure of $100 million and associated expenses for the program over a five-year period; that the Commission approve a method for calculating the program revenue requirement using accelerated capital recovery with a ten-year life for the capital investment required by the program; and

that the revenue requirement used to recover the rural program capital investment and associated expenses be spread uniformly to all basic exchange customers in Colorado over a 15-year period.

On May 15, 1987, Commissioner Ronald L. Lehr, acting in the capacity of a Hearings Commissioner, entered Recommended Decision No. R87-663, finding that a rural improvement program was in the public interest. On June 30, 1987, by Decision No. C87-905, the full Commission, acting upon exceptions to Recommended Decision No. R87-6663, granted certain technical exceptions, but agreed with the thrust of Recommended Decision No. R87-663.

IV

THE VARIOUS PLANS FOR EXCHANGE AREA REARRANGEMENTS

A. USWC LCAP

USWC's LCAP proposal was set out in Advice Letter No. 2092 and in the testimony of its witnesses. Essentially, LCAP would restructure intraLATA services in Colorado. LCAP would offer local calling area options to both business and residential subscribers. Each single-party subscriber would have the opportunity to select one of three flat-rate calling zones known as Zone A, Zone B, or Zone C. Zone A would include the customer's serving central office area and possibly one or two central office areas adjacent to it. Zone B would include up to a half dozen central office areas adjacent to the central office serving the customer. Through Zone C, LCAP would make EAS-like calling available to customers throughout the state. LCAP, however, does not offer larger calling areas to multi-party subscribers.

Mr. James A. Heinze, USWC's Director of Colorado Regulatory Affairs, testified that Zone A was designed to accommodate approximately 50 percent, Zone B 80 percent, and Zone C 90 percent of local and intraLATA toll calling. In fact, as proposed, Zone C generally would accommodate even more than 90 percent of all local and intraLATA toll calling. USWC submitted 205 maps showing the exchange area rearrangements for each central office in the state (pp. 4-208 of USWC Heinze Exhibit 2).

Colorado USWC customers are divided into three rate groups. These rate groups historically have been based on the number of telephones in a given wire center (central office). Customers in the Denver metropolitan area are classified as Rate Group 3 customers. Those in Colorado Springs, Pueblo, Grand Junction, Fort Collins, and Greeley are Rate Group 2 customers. All other customers are in Rate Group 1 and are normally found in the rural areas of the state. These rate groups would be retained under USWC's LCAP proposal.

In order to retain their present flat-rate calling area, customers in rural areas would be required to subscribe to the proposed Zone A under LCAP; customers in Colorado Springs, Pueblo, Grand Junction, Fort Collins, and Greeley would be required to subscribe to the proposed Zone B; and customers in the Denver metropolitan area would be required to subscribe to the proposed Zone C.

In addition to purchasing flat-rate local calling within a particular zone, LCAP would give single-party customers the option of purchasing usage packages of 6 or 12 hours in Rate Groups 2 and 3, and 1 or 2 hours in the B and C zones for Rate Group 1. Customers also could choose completely measured service. For those customers who choose one of the usage packages, calls beyond the hourly package chosen would be charged at an additional per-minute rate of 2¢ per minute into the A zone, 4¢ per minute into the B zone, and 6¢ per minute into the C zone. Due to the inability to identify the originating caller, multi-party customers would not have these options.

USWC's current residential monthly rates and its proposed residential monthly rates for single-party service under its LCAP proposal are as follows:

RATE GROUP 3

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$ 5.55 - $ 5.87	$5.55	-	-
6 HOURS	-	$6.90	$ 7.37	$ 7.83
12 HOURS	-	$8.25	$ 9.18	$10.12
FLAT	$10.74 - $11.06	$9.60	$11.00	$12.40
PER ADDITIONAL MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

RATE GROUP 2

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$ 5.34	$5.55	-	-
6 HOURS	-	$6.97	$ 7.48	$ 8.97
12 HOURS	-	$8.38	$ 9.40	$12.38
FLAT	$10.08 - $10.32	$9.80	$11.33	$15.80
PER ADDITIONAL MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

RATE GROUP 1

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$ 4.16 - $ 4.34	$5.55	-	-
1 HOUR*	-	NA	$ 9.62	$10.95
2 HOURS*	-	NA	$11.23	$13.90
FLAT	$ 7.82 - $ 8.14	$8.00	$12.85	$16.85
PER ADDITIONAL MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

* Usage limit is for calling into Areas B and C only. Customer also gets unlimited calling in Area A.

The proposed residential multi-party service monthly rates are as follows:

RATE GROUP 3: CALLING AREA C

	PROPOSED MONTHLY RATES
2-Party Service	$9.60
4-Party Service	8.36
8-Party Service	8.36

RATE GROUP 2: CALLING AREA B

	PROPOSED MONTHLY RATES
2-Party Service	$8.77
4-Party Service	7.64
8-Party Service	7.64

RATE GROUP 1: CALLING AREA A

	PROPOSED MONTHLY RATES
2-Party Service	$6.19
4-Party Service	5.39
8-Party Service	5.39

USWC's current rate and its proposed business rates under LCAP are as follows:

RATE GROUP 3

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$13.37 - $14.16	$13.37	-	-
9 HOURS	-	$24.00	$26.50	$27.50
12 HOURS	-	$26.50	$29.00	$31.50
FLAT	$30.78 - $31.57	$29.00	$31.99	$35.50
PER ADDITIONAL MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

RATE GROUP 2

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$11.95	$13.37	-	-
9 HOURS	-	$24.00	$26.50	$27.50
12 HOURS	-	$26.50	$29.00	$31.50
FLAT	$25.90 - $26.52	$29.00	$31.99	$35.50
PER ADDITIONAL MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

RATE GROUP 1

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$11.95 - $12.39	$13.37	-	-
3 HOURS*	-	-	$26.00	$27.50
6 HOURS*	-	-	$29.00	$31.50
FLAT	$19.20 - $19.99	$20.28	$31.99	$35.50
PER ADDITIONAL MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

* Usage limit is for calling into Areas B and C only. Customers also receive unlimited calling within Area A.

USWC witness Marcia Rounds testified that as a result of implementation of LCAP, there would be a zero earnings impact on the company. USWC would have fewer revenues because LCAP eliminates or converts current service offerings. For example, elimination of base rate area charges would reduce revenues by approximately $2.8 million annually. Elimination of EAS charges would result in a reduction of approximately $1.9 million annually. The elimination of foreign exchange in areas which were previously toll routes would reduce revenues by approximately $3.8 million annually. A decrease in toll calling would reduce revenues by approximately $38.8 million annually.

Increased billing requirements would increase expenses by approximately $465,000, network implementation would cost an additional $8.3 million, and increased expenses resulting from increased service representative costs would approximate $240,000. The overall negative revenue impact would be approximately $56.5 million annually. These costs would be offset by a residential rate increase of $21.9 million, a business rate increase of $20.6 million and a repricing of toll-to-local usage of $6.9 million, for a total of $49.5 million. The excess of costs over revenues in the USWC proposal would result in an overall negative earnings impact on USWC of $6.7 million. (The details are contained in Rounds' Exhibit No. 8.)

B. Staff Variation of LCAP

The Staff proposal in I&S 1766 was similar to the LCAP proposal of USWC. The Staff proposed a number of modifications, including revision of USWC's revenue requirement items, to reprice basic exchange services for business and residential customers using its own assumptions and calculations. The Staff proposal also retained USWC's A, B, and C calling zones but simplified the options by retaining only the basic measured service option and the A, B, and C zone options. This resulted in the elimination of the hourly block-of-time proposals for measured usage proposed by USWC. The Staff proposal also modified the dial-tone line rates to be more consistent with costs for all rate groups as proposed by USWC. It adjusted the relationships between rate groups and classes of customers. Finally, the Staff proposal embodied specific rate elements based upon costing and pricing philosophy consistent with I&S 1720, the latest spread of the rates docket involving USWC. Staff's proposed monthly rates are:

STAFF PROPOSED BUSINESS MONTHLY RATES
RATE GROUP 3

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$13.37 - $14.16	$15.22	-	-
FLAT - 1PTY	$30.78 - $31.57	$25.10	$29.10	$33.65
FLAT - 4PTY	$19.06	-	-	$19.35
FLAT - 8PTY	$19.06	-	-	$19.35
PER ADD'L MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

STAFF PROPOSED BUSINESS MONTHLY RATES
RATE GROUP 2

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$11.95	$15.22	-	-
FLAT - 1PTY	$25.90 - $26.52	$25.10	$29.10	$33.65
FLAT - 4PTY	$16.38	-	$16.74	-
FLAT - 8PTY	$13.68	-	$16.74	-
PER ADD'L MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

STAFF PROPOSED BUSINESS MONTHLY RATES
RATE GROUP 1

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$11.95 - $12.39	$15.22	-	-
FLAT - 1PTY	$19.20 - $19.99	$23.17	$29.10	$33.65
FLAT - 4PTY	$12.19	$13.33	-	-
FLAT - 8PTY	$ 8.08	$13.33	-	-
PER ADD'L MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

STAFF PROPOSED RESIDENCE MONTHLY RATES
RATE GROUP 3

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$ 5.55 - $ 5.87	$ 6.55	-	-
FLAT - 1PTY	$10.74 - $11.06	$ 9.51	$10.51	$11.75
FLAT - 2PTY	$ 6.27	-	-	$ 7.64
FLAT - 4PTY	$ 5.57	-	-	$ 6.76
FLAT - 8PTY	$ 3.49	-	-	$ 6.76
PER ADD'L MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

STAFF PROPOSED RESIDENCE MONTHLY RATES
RATE GROUP 2

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$5.34	$ 6.55	-	-
FLAT - 1PTY	$10.08 - $10.32	$ 9.25	$10.50	$13.00
FLAT - 2PTY	$ 5.58	-	6.83	-
FLAT - 4PTY	$ 4.89	-	6.04	-
FLAT - 8PTY	$ 3.03	-	6.04	-
PER ADD'L MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

STAFF PROPOSED RESIDENCE MONTHLY RATES
RATE GROUP 1

OPTIONS	PRESENT MONTHLY RATES	PROPOSED MONTHLY RATES		
		A	B	C
MEASURED	$ 4.16 - $ 4.34	$ 6.55	-	-
FLAT - 1PTY	$ 7.82 - $ 8.14	$ 8.54	$10.50	$13.50
FLAT - 2PTY	$ 3.92	$ 5.55	-	-
FLAT - 4PTY	$ 3.24	$ 4.91	-	-
FLAT - 8PTY	$ 1.95	$ 4.91	-	-
PER ADD'L MINUTE	.06 INITIAL MIN. .02 ADD'L MIN.	.02	.04	.06

C. Office of Consumer Counsel: Colorado 90

A third major proposal in I&S 1766 was the Colorado 90 Plan proposed by the OCC, which it believes accomplishes for all of Colorado what the Metro 65 plan accomplished for the Denver metropolitan area. The OCC proposal significantly expands local calling areas in the State's Rate Group 1 exchanges without breaking up the Rate Group 3 calling area (by the introduction of A, B, and C calling zones) and without additional reliance on local measured service. The key elements of the Colorado 90 proposal are:

1. Rate Groups 1 and 2 exchange areas are expanded to the B zones of USWC's LCAP proposal. Rate Group 3 (Metro 65) is unchanged except for certain perimeter exchanges whose local calling areas are expanded by the addition of the new exchanges contained in the USWC LCAP B zone.

2. The revenue deficiency caused by new facilities and toll offices is spread statewide.

3. The LCAP geographic zones and the measured usage packages are eliminated.

4. Colorado 90 incorporates all the rate area changes proposed in LCAP.

5. Colorado 90 would be available uniformly to multi-party and single-party service. The monthly Colorado 90 flat rates are lower than comparable proposed monthly rates under LCAP:

	Present	COLORADO 90 RATE	LCAP Similar Rate (RG's 1&2:Flat B) (RG 3:Flat C)
Residential			
1	$ 7.84	$ 9.38	$12.85
2	10.09	10.84	11.33
3	10.86	11.50	12.40
Business			
1	$19.24	$23.04	$31.99
2	25.91	27.29	31.99
3	30.79	31.91	35.50

Under Colorado 90, both residential and business customers would have the option of selecting flat rate and measured service, the latter being available in certain areas presently as a viable low-cost option for consumers. OCC expects that, as additional telephone equipment is upgraded in the future, measured service will be more widely available in the Rate Group 1 area. However, the OCC did not include in Colorado 90 the cost of changing central equipment or accelerating central office replacements simply to make measured service available to additional customers. Under Colorado 90, the measured service optional usage rates are the same as the present measured usage rates. The usage charges are 6¢ for the first minute or fraction and 2¢ for additional minute or fraction. Under the OCC's Colorado 90 proposal a 35 percent intraLATA toll discount continues to apply during the evening and a 60 percent

discount remains during the night. In addition, under Colorado 90, METROPAC would continue to be an option for all areas in which it is now offered while EAS would be eliminated.

D. The Independent Telephone Companies' Rulemaking Proposal

A large number of independent telephone companies intervened in I&S 1766 and presented various witnesses who testified on their behalf. Generally, the independent telephone company witnesses advocated the proposition that the Commission should defer acting upon any LCAP proposal until it could be implemented on a statewide rulemaking basis which would include not only USWC, but also the independent telephone companies. The independent telephone company witnesses stated that their customers would demand larger exchange areas if larger areas were granted to USWC customers under LCAP. Accordingly, the independent telephone companies generally opposed LCAP because they were not included in the plan and because no acceptable compensation arrangement had been made by USWC to cover the revenue short-fall that the independent companies contend they would experience by the implementation of LCAP. Concerns were also raised about calls that were formerly toll calls which would become local calls, thereby reducing the financial flow of separations revenues to the independent telephone companies. Independent telephone companies also argued they would be under pressure from their own subscribers to offer a plan similar to LCAP in their own territory, and, finally, that LCAP contravened the legislative intent of free market competition in the intraLATA toll market place as mandated by Telecommunications Act and the industry Unity 1 agreement by reclassifying intraLATA toll service to local service.

We recognize that the independent telephone companies serve approximately 25 percent of the geographic area of the state and approximately 2 percent of the telephone access lines. We do not believe that it would be in the public interest to defer making a determination of what local calling area plan is best suited to the needs of Colorado telephone subscribers pending a statewide rulemaking proceeding as proposed by the independent telephone companies. Once the Commission adopts a local calling area plan for USWC, it will take approximately one year for USWC to make the necessary reconfigurations for implementation. During that almost one-year interval, there should be sufficient time to work out a solution that will be appropriate to the concerns raised by the independent telephone companies.

It should also be noted that the independent telephone companies are not directly affected by USWC's proposed LCAP, nor would they be affected by Colorado 90. It remains to be seen whether independent telephone company customers will demand larger calling areas. We do not believe it is fair to delay improved service to those customers of USWC in the rural areas of Colorado just to accommodate the unknown potential

demand for exchange area modifications among the 2 percent of the telephone customers in the state that are served by the independent telephone companies. We believe that the more sensible approach is to consider and adopt the appropriate calling area plan for USWC. While USWC is in the process of planning for the implementation of that plan, the independent telephone companies can submit whatever proposals they believe are appropriate for them.

V

ELEMENTS OF LCAP AS MODIFIED BY THE OCC ADVANCE THE PUBLIC INTEREST BUT CERTAIN CONCERNS RENDER ADOPTION OF LCAP, ASC, AS PROPOSED BY USWC CONTRARY TO THE PUBLIC INTEREST

A. Consideration of Certain LCAP Elements

LCAP included the following concepts:

(1) Rural Colorado customers of USWC should have larger calling areas.

(2) These enlarged calling areas should reflect communities of interest, as defined by USWC.

(3) These communities of interest should be defined primarily, but not exclusively, by study of existing calling patterns of individual telephone customers.

(4) Telephone customers should be able to make choices to help them control the cost of their telephone service.

(5) These choices should include options to choose from various levels of service.

While not adopting the entire USWC proposal, the Commission agrees with some of the proposal. The concepts enumerated above formed the core of the LCAP filing. The Commission has recently, in I&S 1720, reiterated its policy of promoting low-cost options and consumer choices. For reasons we will address below, we agree with continued use of these concepts, but not as proposed by USWC. Insofar as we do not adopt LCAP in its entirety, our concerns with it are enumerated next.

B. Uncertainty of Financial Impacts of Implementing LCAP

1. USWC's Changing Figures

In its initial filing USWC estimated that it would incur $6,530,000 in network implementation costs. This network expense figure changed several times between the initial filing in July 1988 and the hearings. In the hearing, Mr. Garcia adopted the network cost figure of $2,456,000 that had been developed by the Staff. The net earnings impact figure changed from an initial earnings short-fall of $4,317,000 to $6,998,000 to $3,721,000. When compared with the figures Mr. Garcia produced at the hearing, the original network expenses were greatly reduced.

AT&T witness John Sumpter testified that the network cost as originally filed by USWC was underestimated and could produce blocking. The inability of USWC to articulate and calculate a relatively solid estimate of network expenses seriously undermines the credibility of its LCAP proposal and its ability to implement it, particularly as it goes to the issues of expanded measured service and calling zone options.

Staff witness Armstrong testified that "virtually every point in which Staff examined LCAP, the filing proved to be based upon erroneous assumptions, questionable calculations, unsatisfactory data, typographical errors, or miscommunications between USWC's own personnel." The fluctuation in USWC's estimates illustrates the difficulty that it had in telling the Commission just what LCAP would cost. Perhaps supporting the proposition that USWC is not all that confident of its own figures is USWC's proposal for an after-the-fact "true-up" to insure what USWC describes as "earnings neutrality." We shall discuss USWC's proposal for true-up below, but at this juncture it is appropriate to observe that USWC's revenue and expense projections as they relate to LCAP do not rest upon a solid factual foundation.

The difficulty of estimating the cost of LCAP leads the Commission to conclude that a less complex reform of calling patterns is called for several reasons, including the need to limit the risk in the event that the LCAP cost figures are seriously incorrect. While USWC had difficulty in estimating costs, the Commission Staff, and some of the other parties, added some certainty to the process. Through the adversary process, USWC's figures were substantially refined. For purposes of our conclusions in this docket, we are adopting the OCC's cost figures, as contained in Exhibit 40. We find these costs to be reasonable and supported in the record, and to demonstrate that the rearrangement of the exchange areas, as proposed in Colorado 90, will not adversely affect USWC's switched network or its financial integrity.

2. Cost Studies

USWC submitted incremental cost studies. It did not prepare or submit a fully distributed cost study for LCAP. USWC's proposed LCAP prices were not primarily based upon embedded cost studies, but rather upon the value of service which USWC perceived was properly assignable to each of the services proposed to be offered. Another proposed rationale for USWC's pricing of its various services was to promote equity among the three rate groups in Colorado. USWC did not conduct any rate group cost studies. According to its own estimates, over $18,000,000 in additional revenue would be raised from subscribers in Rate Group 3 in the first year of its plan in order to support the reductions in charges to rural and small town customers in Rate Group 1.

Both USWC witnesses Smith and Heinze testified that rural customers pay too much to call within their communities of interest. They noted a disparity between the average monthly telephone charges paid by customers in the non-metropolitan areas and those in the Denver metropolitan area. However, we find that USWC's equity argument is overstated. For example, Mr. Heinze bases his assertion on his Exhibit 2, page 2, which contains a comparison of average monthly telephone charges desegregated into local service and intraLATA toll, for business and residential customers in each rate group. He suggests that customers in Rate Group 1 pay more than customers in Rate Groups 2 and 3 for their total intraLATA calling. Specifically, he claims that Rate Group 1 residential customers pay, on average, $20.82 per month in total intraLATA charges while Denver area subscribers pay, on average, $13.59. In Mr. Heinze's study, Rate Group 1 business subscribers pay, on average, $39.75 per month while the Denver area business users pay, on average, $34.74. Mr. Heinze asserts that LCAP would mitigate this inequity by reducing the burden of toll charges on Rate Group 1 customers.

DOD witness Kalver established that the inequities claimed by USWC in calling within the community of interest are not so serious as USWC asserts and in some cases do not exist at all. For example, Ms. Kalver discovered that Mr. Heinze's Exhibit 2, page 2, reflects all intraLATA toll calls, not just those addressed by LCAP. We find that the only toll charges that would be relevant in this assessment of equity are those that relate to calls in the areas that would be affected by LCAP, specifically, those made into zones B and C. In rebutting Mr. Heinze's analysis, Ms. Kalver developed an average LCAP bill for each rate group and customer class using USWC's toll data shown in Exhibit 61. Her LCAP bill consisted of local charges and those intraLATA toll charges arising from calls into the proposed B and C zones. Her exhibit clearly revealed, and the Commission finds, the disparities among rate groups are not nearly so severe as stated by Mr. Heinze and other USWC witnesses.

Rate Group 1 residential customers, on average, pay more for total intraLATA calling than residential customers in Rate Group 3, but the difference is only 20 percent as compared with over 50 percent implied by Mr. Heinze's exhibit. Moreover, the business differential is absent. Rate Group 1 businesses would actually pay 15 percent less than LCAP charges in Rate Group 3, not more, as Mr. Heinze concludes. The disparity between rate groups cited by USWC arises from intraLATA toll calling beyond the area which LCAP would address. According to Exhibit 14, under LCAP, Rate Group 1 customers would continue to pay $7.53 for calls that would remain classified as intraLATA toll calls, while Rate Groups 2 and 3 customers would pay $4.32 and $2.29, respectively. Thus, it appears that customers in the three rate groups already pay comparable monthly amounts, at current rates, for essential calling within their communities of interest, despite the fact that the rural rate group is charged toll rates for a greater proportion of their calls than are the urban groups. Thus LCAP, and the increase in rates it would bring to customers in Rate Groups 2 and 3, cannot be supported solely on equity grounds.

Equity, of course, has both rate and cost aspects. Although equity may not be based entirely upon cost, it cannot be doubted that cost is a major consideration in determining what a just and reasonable rate is. In I&S No. 1720, the last major USWC rate case involving spread-of-the-rates, this Commission endorsed the concept of cost-based pricing based on fully-distributed cost. Dr. Selwyn's testimony reinforced the Commission's belief that cost is the best measure of equity in setting rates. We believe that costs can be determined, should be known, and should be the most important of several considerations in setting rates.

USWC did not undertake cost studies to show the differentials in cost, not only among the three rate groups in Colorado, but also among the various options which it was proposing to the Commission. The relationship between actual costs of service and the prices that USWC proposes in its various LCAP options has been determined on bases other than cost. We therefore are adopting a modified proposal, which puts most costs of expanded calling areas on those customers who benefit most. Less cost is spread to those customers who benefit to a lesser degree. This modification of LCAP will improve equity among customers and reflect the Commission's concern with cost based rates, while protecting USWC's financial integrity.

3. The Demand Analysis for LCAP Options

The reliability of the estimates of revenues that USWC may receive and the cost it may incur under LCAP hinge on the demand analyses, "take" percentages, elasticity factors, and stimulation factors developed by USWC witness Keith Wallin, a demand and market analyst for

USWC. Mr. Wallin's demand analysis was discussed by DOD witness Kalver and MCI witness Cornell. Mr. Wallin estimated the number of customer purchases of the various options to be offered under LCAP, the "take" percentages. These estimates were used in setting the business and residential prices under LCAP. Mr. Wallin predicts that few customers will take advantage of the opportunity to tailor their rate options to their calling patterns. He projected that in Rate Groups 2 and 3 only 2 percent of residential customers would take the 6-hour calling option, even though 40 percent would save money by doing so. Only 3 to 4 percent would choose either the 6-hour option or the 12-hour option, even though 74 percent of these customers would benefit economically from them. In Rate Group 1, less than 0.2 percent of residential customers were predicted to select a usage option, although 87 percent would economically benefit from doing so. These take percentages were projections, not supported by actual data.

USWC claims a key benefit of LCAP flows from the ability of customers to tailor their service to their calling needs. If this were true, the take percentages should be a function of price and subsequent economic distribution of the customers' average monthly calling into each zone. However, Mr. Wallin claimed that customers would select flat-rate local calling areas which corresponded to their present calling areas, rather than making choices based on the lowest cost option. When asked to provide the number of subscribers and the resulting revenue effect if choice were indeed determined by the efforts of customers to minimize their costs, USWC replied that it would require a special study of two to four weeks' duration, clearly indicating that Mr. Wallin's projections were not based on cost minimization by customers.

If Mr. Wallin is correct that some 80 to 90 percent of the customers would stay with their existing service, then it seems the cost of LCAP should not be borne by the vast body of Colorado ratepayers. In other words, redesigning calling areas and rates merely to give a very few customers additional options is not an economic use of resources. If, on the other hand, Mr. Wallin is wrong and customers were to choose options that in fact minimize their costs, then the projected revenues from LCAP will have been seriously overstated by USWC.

Mr. Wallin's demand analysis study was based, in part, upon competitively sensitive toll data originally provided in response to data request OCC-9. These data were revised on August 16, 1988, but Mr. Wallin did not choose to revise his demand analysis study. Consequently, the demand shifts and revenue shifts reflected in USWC's final revision were based upon data which were obsolete and inconsistent with the latest available data.

USWC's estimated change in calling volume resulting from the substitution of per-minute charges in place of toll charges was also

based upon Mr. Wallin's calculations. Mr. Wallin assumed a coefficient of minus 0.5 as the price elasticity associated with toll calls repriced to the much lower per-minute charges. This means that for a one percent drop in prices there is one-half percent stimulation in demand. The only support that Mr. Wallin provided for this elasticity factor consisted of a tabulation of preliminary message toll service (MTS) price elasticity estimates for states in which USWC operates. This was proprietary Exhibit No. 66. There is no evidence that these coefficients were developed from actual price change experience and, as noted by Dr. Cornell, a witness for MCI, elasticity values have been derived from and used for calculating customer response to small changes in toll prices, not the very large drop in per-minute charges associated with LCAP. Mr. Wallin admitted that the estimates of toll price elasticity do not include price changes of the magnitude contemplated by LCAP. Nowhere in the record did any elasticity data appear. Accordingly, the Commission finds that there is simply no way to tell whether minus 0.5 is an accurate prediction of elasticity.

Mr. Wallin also estimated that the volume of former toll calls in the newly flat-rated areas would increase five times from the level experienced when the calling was rated as toll, that is, a stimulation factor of 5.0. The basis for Mr. Wallin's assumption was a summary showing all "stimulation factors" that were estimated in U S WEST states where there was a conversion from toll calling to EAS. The range of values in this summary was very large, with an average of these numbers equaling 8.87. The two actual stimulation factors included in this table, which are in Exhibit 67, are 0.8 and 2.35. Both of these actual stimulation factors were significantly lower than Mr. Wallin's stimulation factor of 5.0. Several months before the hearing, Mr. Wallin received actual stimulation data of 1.29 from the recent EAS in Otero County. He indicated that these data did not cause him to reassess his stimulation factor, even though they are actual Colorado data. While there was some controversy about the amount of stimulation in Otero County, it was notable that Mr. Wallin had actual data from Colorado available and chose not to use them.

There was a paucity of information on the effect of LCAP on Centron and PBX trunks. Rates for these services would be changed in the same manner and the same degree as rates for single line services. Although the effect of repricing existing trunks and Centron lines was included in USWC witness Rounds' summary of repricing testimony, the specific effects were not enumerated. Mr. Wallin stated he did no demand analysis for either the usage or calling zone options for PBX trunks and Centron. His demand analysis refers only to single-line business customers. He presented no estimates of the "take percentages for trunk and Centron customers." USWC did not present actual toll data for trunks or Centron comparable to the proprietary data it submitted for residential and single-line business customers from which to estimate the toll loss for these customers as a result of LCAP. Since PBX trunks

experienced high usage, it would seem that customers for these trunks would be unlikely to subscribe to blocks-of-time usage packages. If customers for PBX trunks or Centron do not subscribe to usage packages or buy down to smaller zone coverage, then the average rate paid by Centron and PBX customers would increase substantially under LCAP. This may suggest a further revenue shift of revenue coverage from single-line customers who buy down to multiple-line customers who do not. In any event, USWC did not furnish data to quantify this shift.

In summary, the Commission finds that Mr. Wallin's demand analyses for USWC are insufficient to sustain LCAP, particularly as to the measured service options. Given the uncertainty associated with the demand estimates, we believe that the adoption of a proposal without costs based on take projections would reduce the risks associated with the demand analysis. This reduction is necessary to help preserve the integrity of USWC's switched network and its financial integrity. The Commission must allow changes only insofar as we can find that they are in the public interest, do not harm USWC's financial integrity, and do not have negative impacts on the USWC network. This is not to say the Commission is opposed to more customer options. However, the customer needs and desires must be demonstrated and the network and financial effects must be clearly identified and substantiated.

4. Traffic Study

Dr. Daniel Hagen and USWC's witness Dr. James Vincent conducted an analysis of the preliminary version of USWC's LCAP. This analysis used wire center-specific traffic and line data which are considered proprietary and have been referred to as the traffic study. The traffic study was premised upon an earlier point-to-point study of USWC. At the request of the Commission, the point-to-point study was admitted as a late-filed exhibit (Exhibit 132). To perform their analysis of USWC's preliminary LCAP, Dr. Vincent and Dr. Hagen selected specific criteria which formed the basis for the value of telephone service. Using these indicators of value, they derived numerical scores. These scores were then used to judge the general equity with respect to the value of service of the plan's calling areas and relative prices charged for service to each zone.

Dr. Vincent and Dr. Hagen examined the number of lines to which a customer would have access in each zone, the percentage of traffic going to each zone, access to hospitals and medical clinics, to emergency services, to schools, to government offices (at the federal, state, county, and municipal levels), to business districts, to transportation services and finally to one's immediate neighborhood, defined as a two-mile radius around a place of residence or business.

It is instructive to note that one of Dr. Vincent's exhibits (Exhibit No. 3, page 16) set forth the overall scores that were developed on a wire center by wire center basis. The overall scores were weighted averages of the scores received for each of the specific criteria. There was one weighted average per zone; therefore, each wire center had one score for each of its zones. Of the nine factors that were weighted (lines, traffic, medical, schools, government, municipal, business districts, transportation, and neighborhoods), it is clear that the overall scores were heavily weighted by the traffic criterion to the extent that the traffic factor outweighed all of the other factors combined. The only exception to this was one business score, where the traffic factor was weighted to a lesser extent than the factor representing the number of lines that would be called.

The Commission agrees that the traffic and point-to-point studies are excellent tools in constructing preliminary estimates of the appropriate communities of interest. However, we also find that USWC placed too much emphasis upon the traffic study in determining what the appropriate communities of interest are by the excessive weight given to the traffic factor alone. Nevertheless, the traffic study was used by various parties in this docket in assisting them in constructing their alternative proposals to LCAP.

Another difficulty with the matter in which Dr. Vincent and Dr. Hagen used the traffic study was the fact that they only measured the percentage of calls between exchanges in gross numbers. They did not measure the number of customer calls per month (CCM) which the Commission believes is a better method for capturing an indication of the community of interest. The CCM measurement was one of the principle factors utilized by the Commission in the Otero case, and we recommend a three CCM standard to trigger an examination of the appropriateness of a local calling area.

5. **The Uncertain Impact on Separations**

Separations is the process of allocating the cost of telephone plant between interstate and intrastate telephone service. Generally speaking, the allocation of plant costs between interstate service and intrastate service is based upon relative usage. MCI witness Cornell and AT&T witness Zahn explained that an increase in local traffic generated by LCAP will change the separations factors and likely increase the proportion of plant allocated to USWC's intrastate revenue requirement. This, in turn, increases, the revenue requirement for intrastate services.

On rebuttal, USWC witness Thompson presented estimates of separations changes. They were substantial amounts of revenue, but only estimates. The uncertain impact on separations is another factor in the overall uncertainty concerning what the likely results of full LCAP implementation might be.

6. The USWC Proposal for True-up

USWC has proposed that the Commission adopt some mechanism to insure earnings neutrality in the implementation of LCAP. Neither the Staff nor the OCC opposed USWC's concept of a true-up although there was some disagreement as to the precise mechanics of what would be included in a true-up. Most of the other intervening parties opposed the USWC proposal for true-up on the basis of its being not only illegal, but bad policy. USWC witness Fleming stated he was proposing that the Commission establish procedures "to review the impacts of the [LCAP] plan after it has been implemented and use the results of that review to adjust the rates to insure that the plan is in fact revenue requirement neutral." Mr. Fleming stated that "a true-up statement subsequent to the implementation of the program will provide the Commission with the means to insure that the plan neither improves nor impairs the company's financial position."

The Commission finds that the only way to bring about an earnings neutrality, after the fact, is to order a refund in the event of overearning, or to engage in retroactive ratemaking to make up the difference if there is underearning. Article 2, Section 11, of the Colorado State Constitution states that "no...law...retrospective in its operation...shall be passed by the General Assembly." The Colorado Constitutional prohibition against retrospective laws being passed by the General Assembly is equally applicable to the Public Utilities Commission. Miller Brothers v. Public Utilities Commission, 185 Colo. 414, 525 P.2d, 443 (1974). Accordingly, retroactive ratemaking is constitutionally prohibited.

The Colorado Supreme Court has had the occasion to interpret the constitutional prohibition against retrospective laws as it applies to the Public Utilities Commission. In the case of Peoples Natural Gas Company v. Public Utilities Commission, 590 P.2d 960 (1979), the Commission suspended a proposed pass-on increase requested by Peoples Natural Gas Company (Peoples). When the Commission subsequently entered its order granting the rate increase, it also added a surcharge so that Peoples could collect the revenues which it lost during the suspension period, that is, between the time it filed its request for a rate increase and the time of the Commission's decision. Although the surcharge was attacked as constituting unconstitutionally retroactive ratemaking under Article 2, Section 11, of the Colorado Constitution, the Colorado Supreme Court held that the surcharge requested by Peoples was not connected with the past performance of the utility, and related only to a period of suspension during which the Commission was considering whether to grant the pass-on rate increase or not. The Court held the fact that there was some lag between the request for a rate increase and the Commission's decision did not render the Commission's action

retrospective within the meaning of Colorado Constitution Article 2, Section 11. However, the Colorado Supreme Court stated that had Peoples sought an increased rate in order to recoup operating expenses incurred prior to any filing for new tariffs, its activities arguably might fall within the constitutional prohibition against retroactive ratemaking.

In Re: New York Telephone Company, 20 PUR 3d 129, 155-156, the New York Public Service Commission stated it could not, under the law, increase rates to make up a past deficiency even though there was a regulatory lag between the beginning and end of a rate case. Thus, it appears that the somewhat more liberal view of the Colorado Supreme Court, which would allow a surcharge to recover revenues lost because of the regulatory lag between the time a rate case was filed and the time it was decided, represents the outer limit of what will be permitted in recovering lost revenues without coming up against the prohibition of retroactive ratemaking.

The prohibition against retroactively recapturing increased expenses or lost profits is not unique to the State of Colorado.[3]

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[3]The Maryland Public Service Commission stated that operating losses incurred in prior years may not be reflected in rates through either capitalization or amortization since the Commission necessarily sets rates for the future. That objective would not be met if rates were designed to recoup operating losses incurred in the past. Re: Lakespring Water Company, 70 Md. PSC 259, Case No. 7244, Order No. 63927, 63831, August 29, 1979. Similarly, the United States Court of Appeals for the District of Columbia stated that a utility may not set rates to recoup past losses... Nor may the Federal Communications Commission prescribe rates on that principle. Nader v. Federal Communications Commission, 520 F.2d 182 (1975).

The Louisiana Supreme Court stated that utility rates are exclusively prospective in application. Future rates may not be designed to recoup past losses. Louisiana Power and Light Company v. Louisiana Public Service Commission, 377 So.2d 1023 (1979). To the same effect is the decision of the Illinois Court of Appeals, which stated that the fact that a utility has past deficits or has otherwise failed to earn the allowable return from past operations is irrelevant to the determinations of just and reasonable rates. Illinois Bell Telephone Company v. Allphin, 419 N.E.2d 1188 (1981). Likewise, the Maryland Public Service Commission was without authority to establish increased rates for utilities to recover any revenue deficiency that may have resulted when previously approved rates produced less net operating income than was anticipated. Re: Chesapeake and Potomac Telephone Company of Maryland 32 PUR 3d 470 (1960). The Rhode Island Supreme Court in New England Telephone Telegraph Company v. Rhode Island Public Utilities Commission stated that a fundamental rule of ratemaking is that rates are exclusively prospective in nature and future rates may not be designed to recoup past losses 358 A.2d 1, 15 PUR 4th 249 (1976).

The cases are legion, to the effect that a utility is not permitted to increase rates in the future in order to recoup past losses. A typical case is Public Service Commission v. City of Indianapolis, 235 Indiana 70, 12 PUR 3d 320, 131 N.E.2d, 308 (1956). In that case, the Indiana Supreme Court said,

> Past losses of a utility cannot be recovered from consumers nor can consumers claim a return of profits and earnings which may appear excessive. 73 CJS, Public Utilities, Section 25 (d), p. 1045; 43 Am Jur, Public Utilities and Services, §§ 162, 163 page 678.
>
> The chances of a loss or profit from operations are one of the risks a business enterprise must take. The Company must bear the loss and is entitled to the gain depending upon the efficiency of its management and the economic uncertainties of the future after a rate is fixed. Were it not so, a premium would be placed upon inefficiency, waste and negligence in management. It is better policy to encourage thriftiness, saving and frugality on the part of a utility management. Such incentive inures eventually to the benefit of the consumers in succeeding rate hearings. 12 PUR 3rd at 329.

In contradistinction to a true-up is a make-whole case. A make-whole case presumes there are regulatory principles already in place, previously decided by the Commission, which currently are applicable to a particular utility. A make-whole case is a fast track case to increase rates which uses the regulatory principles already established, rather than going through a full-blown rate case to establish new regulatory principles applicable to the utility or modifying or changing old principles. Since the divestiture of American Telephone and Telegraph Company, USWC has not had an adjudicated spread of the rates case before this Commission. It is true that I&S 1720 was a spread-of-the-rates case, but since it was settled by stipulation, rather than by Commission adjudication, there are few established Commission regulatory principles by which to conduct a fast track, make-whole case for USWC.

Finally, in a case involving USWC itself, Re: Mountain States Telephone Telegraph Company, 7 PUR 3d 115, (1954) the Arizona Corporation Commission stated that rates are made for at least a reasonable period in the future and that the amount by which USWC's earnings fell short of a fair rate of return is not to be recouped through rates higher than necessary to produce a fair return in the future (7 PUR 3d at 119).

Fuel cost adjustment (FCA), gas cost adjustment (GCA) and purchase gas adjustment (PGA) clauses bear no reasonable relationship to what is being proposed by USWC as a true-up. The cost adjustment concept had its origin as early as 1923. The concept arose during the 1970s in response to rapidly increased fuel prices charged to suppliers to gas utilities and electric utilities. The overall justification for adjustment clauses was to effect timely rate changes in response to rapidly increased costs beyond the control of gas utilities. The pass-on of increased fuel expenses has never been automatic in Colorado. The Commission also has not permitted the recovery of past losses or expenses consistent with the bar on retroactive ratemaking already discussed at length.

A true-up also must be distinguished from reparations. Section 40-6-119, C.R.S., provides that the Commission has the authority to order reparations for an excessive or discriminatory amount collected after a complaint has been made. Reparations in § 40-6-119, C.R.S., can only apply in those situations where the Commission has not, by order, previously established the rates, but rather where the rates were established by the utility filing rates which became effective without Commission action. The landmark case of Arizona Grocery Company v. Atchison Topeka and Santa Fe Railway Company, 284 U.S. 370, 52 S.Ct. 183 (1931) makes it clear that this Commission is bound to recognize the validity of a rule of conduct prescribed by it and is not permitted to retroactively repeal its own enactment. Where rates have been prescribed by the Commission, no reparations are permitted.

It is a well established principle of regulatory law and a well nigh universal public policy that state regulatory commissions do not guarantee rates of return. A utility is authorized an opportunity to earn its authorized rate of return through efficient operations. As noted in Nantahala Power and Light Company, 57 PUR 4324, 345 (N.C.P.U.C., 1983), a guarantee of a rate of return would remove incentives necessary for a utility to achieve the utmost in operational and managerial efficiency.[4]

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[4] United Telephone Co. v. Mann, 403 So. 2d 962 (Fla. 181); Detroit Edison Co. v. Public Service Comm., 342 NW 2d 273 (Mich. App. 1983); Michaelson v. New England Tel. & Tel. Co., 404 A.2d 799 (R* 1979); Railroad Comm'n of Texas v. Lone Star Gas Co., 599 SW 2d 659 (Tex. App. 1980); Citizens Co. of California, 1 PUR 3d 24 (Cal. PSC 1953); Connecticut Light & Power Co. 41 PUR 4th 1 (Conn. PUC 1980); Ex parte Reserve Telephone Co., 16 PUR 3d 197 (LA PUC 1956) (specifically indicated that public utilities are not permitted to operate on a "cost plus" basis); Lea County Gas Co., 22 PUR 3d 212 (N.M. PSC 1958); Jamaica Water Supply Co., 89 PUR 3d 119 (N.Y. PSC 1971); Northwestern Bell Telephone Co., 23 PUR 3d 321 (SD PUC 1958); Virginia Electric and Power Co., 83 PUR 3d 417 (VA PUC 1970). See also Priest Principles of Public Utility Regulation (1969) ("The enterprise will be given an opportunity (no guarantees, no promises) to earn a return...." at p. 191). Colorado also adheres to this doctrine. South Suburban Water Co., 32 PUR 3d 178 (CO PUC 1960).

Unless a utility bears some risk, it lacks the proper incentive to project the costs of its proposals with due care. Finally, even if the legal and public policy difficulties with a true-up could be disregarded, the proposed true-up lacks any mechanism which would include the effects of separations changes, tax changes, and growth in sales of various optional services as central offices are upgraded throughout the state. The Commission could not make true-up decisions based upon filings submitted by USWC alone. It would be necessary to open up the hearing process as would be the case for a major rate case, likely a lengthy and expensive process.

It is clear under Colorado law that a retroactive true-up to recapture underearning on rate base is not permitted. Even if this Commission were not precluded from retroactive ratemaking by the Colorado Constitution, as well as case law, we find that an earnings-neutral true-up, as proposed by USWC, should be rejected as constituting bad public policy. The practical effect of an earnings-neutral true-up would be to guarantee that USWC would achieve, if not earn, its authorized rate of return insofar as it relates to LCAP. An earnings-neutrality guarantee would shift the business risk of LCAP from USWC and its shareholders entirely to the ratepayers. A shifting of the risk of LCAP is inappropriate. For all of these legal, policy, and practical considerations, the Commission finds that the true-up proposal is not in the public interest, and it will be rejected.

C. The LCAP Proposal to Introduce Zone Calling in Rate Group 3

1. Zone Calling and the Community of Interest Standard of the Otero Case

USWC proposes zone calling in Rate Group 3. The proposed A and B zones are low-cost options to the premium-priced Zone C, which contains the current flat-rate Rate Group 3 calling area. The zone proposal for Rate Group 3 was made, according to USWC, to offer low-cost options to customers so that they could tailor their calling area to their budget and to their calling needs.

The proposal raises an important issue about the notion of a community. It suggests that each individual should chose his or her own idea of a community, at a price he or she can afford. While the pricing options are potentially attractive individual benefits, they do not comport with the public interest we find in maintaining a community-based definition of community of interest. Some individuals, seeing only their own short-range economic benefit, appeared in support of the zone options at our public hearings. Most telephone subscribers supported maintenance of a community-oriented definition of exchange areas, and we therefore find that zone calling in Rate Group 3 is not in the public interest.

We recognize the statutory mandate, stated in § 40-3-101, C.R.S., that this Commission assure that public utilities provide adequate, efficient, just, and reasonable service. Specifically, § 40-3-101(2), C.R.S., provides:

> Every public utility shall furnish, provide, and maintain such service, instrumentalities, equipment, and facilities as shall promote the safety, health, comfort, and convenience of its patrons, employees, and the public, and as shall in all respects be adequate, efficient, just, and reasonable.

Approximately two years ago, in the Otero case, the Commission determined that USWC had not been providing adequate service in Otero County because it was necessary for Otero residents to make toll calls as a matter of course among the local exchanges within the Otero County community of interest. None of the parties in I&S 1766 has disagreed with the fundamental proposition that the community of interest should define an appropriate exchange area as defined in § 40-15-102(8), C.R.S. A community of interest is measured, in part, by the destination and frequency of calls between and among various telephone exchanges. This is basically a traffic study--where have calls originated? where have they terminated? and what is their frequency? USWC analyzed calling patterns to determine what options could be offered which would suit customers' present needs. A study of historical calling patterns is but one indication of the community of interest. According to the Commission's community of interest standard in the Otero case, an exchange area may be larger or smaller than indicated solely by historical calling patterns.

USWC criticizes the Commission's analysis of exchange areas in the Otero case on the basis that it would require each wire center to be reviewed in depth to determine the location of the county seat, schools, fire departments, police departments, other special districts and political subdivisions, churches, businesses, hospitals, etc. The Commission disagrees. We find that the factors enumerated in the Otero case are proper criteria in making a determination as to the geographic extent of a community of interest.

USWC has proposed the institution of A, B, and C optional calling zones within Rate Group 3. USWC claims that one of the principal benefits of LCAP would be the ability of customers to tailor their service to their calling needs, not only in Rate Group 3, but throughout the state. USWC did not convince this Commission that customers in Rate Group 3 wanted the option of a smaller local calling area. Public witnesses from Rate Group 3 were overwhelmingly opposed. Moreover, the philosophy of USWC, apparently concurred in by the Staff, of allowing each individual to choose his or her own community of interest is at least inconsistent with ratemaking conducted in the overall public interest, if not a contradiction in terms.

It is instructive to recognize that in deciding to make Boulder a part of Metro 65, almost 24 years ago, the Commission rejected several thousand protests. These protestants testified against mandatory inclusion of Boulder in Metro 65, since they would experience a rate increase with no consonant benefit--they neither needed nor desired to make calls in the Rate Group 3 area (Decision No. 64249, at page 6). The Commission reasoned (at page 11):

> The principle advocated by the protestants of "let those pay who want the service," if carried to its logical conclusion, would mean that those citizens without children should be exempt from school taxes, citizens who have no use for, or who would not desire, public parks, or libraries, or other public improvements, would be permitted to share a commensurate and lesser burden of taxation. Progress, or course, would be reduced to a stand still. In this type of thinking, sight is lost of the fact that without all of the other users to share the costs no service at all might be available to the protestants, for the availability of service is predicated on an integrated system as a whole.

This principle is as applicable today as it was in 1965.

Doctor Selwyn, testifying on behalf of the Denver Metro, also testified that the goal of efficient telephone service at the lowest cost to the community is best served by non-optional calling areas. Even customers who do not place calls to other areas of a large exchange area may receive calls from those areas, and will benefit from the economic and social activities made possible by local telephone service.

We find that zone calling would artificially segment the community of interest in the Denver metropolitan area with regard to commercial activities. Local calling areas that are more restrictive than the economic community of interest (even if provided by option) would have an adverse economic impact. They would shrink marketing territory and deprive customers of ready and inexpensive telephone access to higher quality goods and services. They would render the business environment less competitive. It defies logic to suggest that public policy fostering economic development requires expansion of local calling areas in rural Colorado while at the same time justifying a de facto restriction of local calling areas in the state's largest metropolitan area. It also cannot be doubted that new businesses would have less incentive to locate in the Denver metropolitan area if they understood that a number of potential customers would restrict the areas within which they may choose to do business because they have chosen smaller calling zones under LCAP, as compared to the community-wide calling that is currently available in Rate Group 3.

It cannot be doubted that the zone calling which would be more restrictive than area-wide calling that is presently available under Rate

Group 3 would adversely affect low-income and elderly customers, as well as dampen the use of the telephone for carrying on volunteer activities, as asserted by United Seniors. Public testimony established that for many elderly, low-income, or handicapped customers, the telephone is one of the principal means of staying in touch with doctors, governmental agencies, relatives, and friends. Zone calling is likely to inhibit telephone usage for these purposes. Likewise, many volunteer organizations and individual volunteers use the telephone to carry out their fund-raising and other activities. Zone calling is likely to have a dampening effect on these activities.

Although the provision of options may benefit a few individual customers, we find that the local community of interest in Rate Group 3 would be seriously and unfavorably affected by the adoption of the A, B, and C optional zones in the metropolitan Denver area, as proposed by USWC.

2. Zone Calling Costs And Benefits

In the context of local telephone service it must be recognized that the introduction of A, B, and C zone calling options will entail additional costs. We find that the additional costs are not justified by corresponding benefits.

Under LCAP, Rate Group 3 ratepayers who desire to maintain their present local service will be unable to do so without a substantial rate increase. Maintaining the present level of local service under USWC's LCAP would entail the selection of the C calling zone on a flat, unmeasured basis. The monthly rate for the vast majority of Rate Group 3 residential customers is $10.74. Some Rate Group 3 residential customers, such as Boulder residents, pay a mileage increment that increases their bill to as much as $11.06 per month. The LCAP Zone C option charge would be $12.40. This entails a 10.8 to 14.18 percent increase over existing rates.

For the business customers in Rate Group 3, the present rate of $30.79 would increase to a Zone C flat-rate monthly charge of $35.50, or a 15.3 percent increase. There are no corresponding benefits received by the residential and business Rate Group 3 subscriber as a result of these proposed rate increases by USWC. In fact, the benefits obtained by Rate Group 3 business and residential customers would be reduced since telephone subscribers may need to purchase service not only to originate, but also to receive, telephone calls. Even if a residential or business customer were to choose the Zone C flat-rate service, under LCAP they would receive less service than presently, given the near universal subscribership to the flat-rate in Rate Group 3 at the present time. In order to guarantee the same ability to receive calls (at no incremental charge to anyone), the Rate Group 3 customer would have to purchase local reverse billing service, which is the functional equivalent, on the local level, of the familiar 800 toll service. Generally, of course, it would

be the business customer in Rate Group 3 who, desiring to retain the business calls from customers throughout the Denver metro area, would subscribe to local reverse billing.

The business necessity for local reverse billing arises because USWC's LCAP would permit people to buy down in Rate Group 3 to Zones A or B. As Staff witness Armstrong pointed out, with this possibility, business customers in Rate Group 3 are not going to have the same access under LCAP to the same clientele that they had before. The rate increases for Rate Group 3 customers desiring to maintain their present local calling areas do not reflect the extra charges that would be entailed for local reverse-billing which, for business customers, would likely be a necessity simply to maintain present local telephone service enjoyed in Rate Group 3. Armstrong estimated that it might cost $35 a month for local reverse billing services. If this were the rate, business customers in Rate Group 3 would experience more than a 100 percent rate increase. The fact is that we do not know the rate for local reverse-billing because USWC has filed no tariffs for it. To approve LCAP without knowing the cost of this essential element would be a mistake.

3. The Interzone Subsidy of A and B Zones by the C Zone

In his rebuttal testimony, OCC witness Dunkel explained that the LCAP A and B zone option rates do not recover incremental usage costs, and are subsidized by the C flat-rate customers which is the equivalent of present Rate Group 3 service. The exact figures reflecting the extent to which the A and B zone options are priced below cost are proprietary. The figures are substantial. USWC and the Staff were of the opinion that a customer who selected Zone A or Zone B is likely to have less usage than a C Zone option subscriber. It was alleged that the cost figures on page 7 of Mr. Dunkel's rebuttal testimony did not represent the average usage for A or B flat-rate customers.

We find this response is unavailing. First of all, there was no evidence placed into the record to support speculation that Zone A and Zone B customers would place fewer monthly calls than Zone C customers. In any event, Mr. Dunkel anticipated this contention and performed a sensitivity analysis. In this analysis, Mr. Dunkel assumed that Zone A customers would make fewer monthly calls than Zone B subscribers and that Zone B subscribers would make fewer calls than Zone C subscribers. Even after assuming that A and B consumers would make fewer calls, the proprietary evidence still indicated that the Zone A option and the Zone B option are priced under cost and that the Zone C option is priced over cost. Whether the comparison is made between USWC's proposed prices, or the Staff's proposed prices, the ultimate conclusion is identical, that is, that Zone C customers would subsidize Zone A and Zone B customers in Rate Group 3 to a substantial degree since the Zone A and Zone B prices, whether USWC's or the Staff's, are priced below costs whereas Zone C is

priced above costs. This gives credence to the contention made by several parties in this docket that USWC is serious about implementing its policy of pricing the C flat rate in Rate Group 3 at a premium level. Whatever the motivation, however, USWC has not presented the Commission with a clear justification for pricing Zone C flat rates above cost while pricing zones A and B below cost.

4. Public Comments on Zone Calling in Rate Group 3

It is the near unanimous view of the general public in the Denver metropolitan area that it does not want and does not understand the LCAP proposal of USWC, not only the three optional calling zones, but also measured service. The USWC LCAP proposal, as evidenced by the general public's substantial correspondence and testimony before the Commission, is a costly and confusing array of zone calling options and measured service options that are neither necessary nor desired. Even USWC witness Heinze acknowledged that no one had asked USWC for zone calling options within Rate Group 3. Frankly, this should come as no surprise. Segmenting the Rate Group 3 calling area into zones will cause significant confusion and disruption in the minds of the public. Assuming price makes a difference, customers would need to consult a list of prefixes every time they use their telephones to determine into which zones they are placing calls. Rate Group 3 area has enjoyed toll-free calling within the entire Denver metropolitan area for over 20 years and such an array of options is bound to cause customer confusion and dissatisfaction.

It is well settled regulatory policy that rates developed by a regulatory body should be simple and understandable to the customers of the utility. Southern Bell Telephone Telegraph Company, 18 PUR 3rd 113, (KY#PUC 1957); Southern Union Gas Company, 53 PUR 3rd 678, (NM PUC 1964); by Aggara White & Power Company 6 PUR (NS) 321, (NY PUC, 1934). USWC's LCAP proposal creates the potential for excessive bills for customers who fail to monitor their phone usage adequately. This could lead to disputes between customers and USWC. Another phenomenon which is likely to occur if zone calling is introduced to Rate Group 3 is inefficient code calling. For example, a Zone A customer makes a code call to friend or relative who is a Zone C customer by calling the Zone C customer's number, letting it ring twice, and then hanging up. The Zone C customer, who has a wider calling area and has chosen the flat rate option, calls back the Zone A customer as a free call. This, of course, would result in network inefficiencies as well as a loss of revenue to USWC which otherwise would have been paid by the Zone A customer making a measured rate call.

With regard to low-income customers, only flat rate service provides predictability and stability to those who are on a limited budget. Many low income persons, particularly the elderly, receive fixed

incomes. They testified that a sudden spurt in their monthly telephone bills could negatively affect their budgets. It is clear that for low-income customers with moderate or high usage the best telephone service option is flat rate service. For Rate Group 3 customers, this would require, under LCAP, a rate increase of almost 15 percent. Therefore, either those with less money will be forced to absorb this increase in flat rates or will be forced off the telephone network or driven into measured service. Although USWC witness Dr. Vincent alleged that low-income customers prefer measured services, we find that this observation was not substantiated by evidence presented by USWC. In fact, USWC's evidence showed a less than one percent take rate for measured service at present.

Even though USWC proposed to make a detailed listing of bills available to customers at an extra charge, any charge for bill detail to low income customers would be detrimental because it would require them to pay additional unanticipated charges in order to determine how to lower their formerly flat-rate telephone bills. Even if USWC were to provide this service at no charge, a detailed billing statement would not be useful for low-income customers unless this detailed bill listing were provided over several months. Even the detailed billing statement, as proposed by USWC, would not present the customers with comparative rates under each of the various LCAP options. It would seem a matter of common sense that the cost of such a comparison, if billed to the low income customer, would be beyond the ability of many of these customers to pay.

If, over time, the take rate increases for existing measured service, and if USWC can demonstrate the advantages of using comparative billings, pilot groups, and system mapping and can demonstrate increased consumer desire for options, through consumer education, these issues may be brought to the Commission for further consideration. Although the lack of public support for a particular proposal such as zone calling in Rate Group 3 may not be, by itself, a sufficient reason to reject it, nevertheless, the lack of public support, when coupled with other factors leads us to conclude that adoption of zone calling in Rate Group 3 is not in the public interest.

5. Zone Calling in Rate Group 3

USWC contends that the offering of Zones A, B, and C in Rate Group 3 would provide calling area options for customers. USWC also advances the proposition that equity, among other reasons, requires segmenting Rate Group 3 into three calling zones. From the point of view of the telephone network, it can hardly be argued that in order to expand rural calling areas, it it necessary from a network standpoint to provide zone calling within Rate Group 3.

The justification for expanding the rural calling areas is to achieve the benefits inherent in having a local calling area reflect the

community of interest. As USWC's Chief Executive Officer in Colorado, James Smith, testified, unless local calling is provided within a community of interest, the calling area "inhibits its citizens' ability to complete necessary tasks and functions." We agree with this assessment. This militates against a local calling area plan that would segment the community of interest in the Denver metropolitan area. A public policy to foster economic development by expansion of local calling areas in rural Colorado does not justify the restriction of telephone exchange areas in the state's metropolitan area. We certainly find no regulatory equity concept that requires such an inconsistent result.

Zone calling options in Rate Group 3 do not improve local calling service in out-state areas. The two actions are independent of one another. Equity does not require that local calling areas, in the geographic sense, be the same or even similar. Dr. Selwyn testified that many other states have local calling area plans that are different for major metropolitan areas and for rural areas. He pointed out the examples of New York and Minnesota which reflect this phenomenon. Local calling areas properly are defined by the respective communities of interest throughout the state, not by similarity of geographic area. That equity requires all exchanges in the state to be nearly identical in size without regard for other differences, is a notion we decline to adopt. In fact, such a standard would be a practical repudiation of our decision on the Otero case in which we recognized that the setting of local telephone exchange area boundaries is defined by the local community of interest.

According to USWC, the equity objective establishing Zone A throughout the state, including in Rate Group 3, was to provide at least 50 percent of intraLATA calling in each wire center; Zone B was developed to include 80 percent; Zone C was to accommodate 90 percent. As already indicated, in addition to the 50-80-90 percent criteria, USWC also considered the geographic size of the calling area for each wire center.

We find, based upon the testimony of OCC witness Dunkel, that LCAP's B and C zone proposals in Rate Group 1 discriminate against Rate Group 3 exchanges. The Rate Group 3 wire centers under LCAP are given smaller percentages of intraLATA calling in Zone B, the most unfavorable treatment of all rate groups in LCAP. These results do not even account for stimulation of calling in Rate Group 1. Since almost all Rate Group 3 exchanges have the B zone within their present local exchange area, little stimulation can be expected in Rate Group 3 from LCAP. If anything, splitting up Rate Group 3 will likely result in the repression of calling rather than its stimulation. On the contrary, the expansion of calling areas in Rate Group 1, as proposed in LCAP, together with the breakup of Rate Group 3, will likely reverse the inequity between out-state B zones and Rate Group 3. In short, even using USWC's own criteria (the 50-80-90 percent criteria for equity) Rate Group 3 will suffer unfairly by the implementation of the A, B, and C zones.

Finally, the Commission notes that the cost of implementation of USWC's LCAP, which would involve toll losses and new construction costs, would be recovered primarily from Rate Group 3 customers. LCAP would impose a rate increase of some $18.4 million with no new benefit for Rate Group 3, while the rates in Rate Group 1 would decline by $11.7 million with some increased benefits. All of this shift in cost would occur under LCAP, without the benefit of a rate group cost analysis. In the absence of comparable rate-group cost studies, it is not possible for the Commission, under its mandate, to prescribe just and reasonable rates to justify the shifting of $18.4 million of revenue responsibility to Rate Group 3 subscribers.

D. Expansion of the Local Calling Area in Rate Groups 1 and 2 to the C Zone

1. Zone C Involves Secondary Calling

USWC, under LCAP, also has proposed to expand local exchange areas in the rural exchanges to include local calling Zones A, B, and C. USWC's justification under its LCAP proposal to expand local exchange areas in the rural parts of the State is that local calling is presently too restrictive. We agree with that contention, and here adopt the expansion of local exchange areas in Rate Group 1 and Rate Group 2 where the current local exchange area fails to serve the community of interest. But USWC's plan to expand exchange areas to Zone C goes beyond the community of interest standard, and requires excess implementation costs and toll revenue loss to be recovered through Rate Group 3 rates.

Traditionally, this Commission and other state commissions considered expansion of exchange areas, or the provision of EAS, on a case-by-case basis. Several states have adopted rules or standards by which an individual community of interest requests can be judged. When the Commission determined the local community of interest in the Otero case, the Commission also examined a standard measure of the current telephone interaction between exchanges, the number of customer calls per month (CCM). CCM is the ratio of total monthly calls from one exchange to another exchange divided by the number of subscribers in the originating exchange. If the average customer in the exchange is making several toll calls to and from an exchange on a regular basis, this calling establishes the need for expanded local calling. We acknowledge that CCM does not provide information about individual customers. It can be used, however, as an indication that a community of interest may exist and ought to be investigated.

USWC's analysis of the communities of interest in Rate Group 1 exchanges appears on the surface to follow the Otero case model, but it falls short of the Otero case analysis and is heavily weighted by additional factors. Although the studies conducted by Hagen and Vincent

looked at the locations of hospitals, schools, government centers, business districts, etc., the overall scores used to rank service quality are heavily weighted by a single factor: traffic. Page 14 of Dr. Vincent's exhibit 3 demonstrates the traffic is weighted five to seven times greater than any other factor.

The traffic factor used in the Hagen and Vincent study is not the same as the call volume measure used by the Commission in examining Otero County. Hagen and Vincent looked at the percentage of the intraLATA traffic carried by USWC that originates in one exchange and terminates in another. They did not use the call volume measure generally used by state commissions which expresses the frequency of calling between two exchanges of the average phone subscriber. For example, Exchange 1 may have 100 calls to Exchange 2 during one month and these calls, plus calls within Exchange 1, may constitute 90 percent of intraLATA calls. Does this 90 percent figure mean that there is a demonstrated community of interest between Exchange 1 and Exchange 2 under the traditional CCM standard? If Exchange 1 has 25 subscribers, this level of monthly calling would represent four calls per customer during the month between the two exchanges and would be a significant measure under most state commission CCM standards. However, if Exchange 1 has 100 subscribers, this calling level would represent only one call per customer per month and would not be enough in most states to establish, in and of itself, a community of interest between the two exchanges.

Because the percentage of traffic measure is considered by the Commission to reflect a part of the analysis of a community of interest, we find that expanded exchange areas would be able to provide on average over 90 percent of intraLATA calling within an exchange area through expansion to Zones B in Rate Groups 1 and 2. It is only Rate Group 3 that requires Zone C to achieve 90 percent of intraLATA calling. This, of course, suggests that the Zone Bs were drawn too narrowly for Rate Group 3 in comparison with the other rate groups. It also argues against expansion to Zone C as necessary to reflect the communities of interest in Rate Groups 1 and 2. We find that exchange areas should be expanded to the B zones in Rate Groups 1 and 2.

2. Expansion of Local Calling Area to Zone C Would Involve Large Loss of Toll Revenue

Since we have found that the C zones in Rate Groups 1 and 2 include secondary calling outside the appropriate communities of interest for Rate Groups 1 and 2, the expansions of local calling areas to the C zones would represent a costly and unnecessary expansion, with attendant loss of toll revenues. As OCC witness Dunkel stated, the expansion of local calling to the C zone generates the greatest portion of toll loss in Rate Groups 1 and 2, in excess of $17 million. (P. 28, Dunkel Direct Testimony).

USWC's projected take rates in Zone C in Rate Group 1 involve a very small percentage of residential customers. OCC witness Dunkel noted that this small percentage probably represents customers who have the highest toll calling volumes. Although a small percentage of the customers are expected to pay the Zone C rate, a substantial percentage of the traffic to the Zone C will be removed from any toll usage.

High users, as a result, would subscribe to the Zone C flat rates, thereby producing large toll or usage revenue loss. However, since it is likely that only a few customers will pay the LCAP Zone C rate, relatively little revenue will be recovered by USWC from the Zone C monthly rates. All customers will have to support the revenue requirement loss which would result from including the large Zone C areas as local calling in Rate Groups 1 and 2. In addition, there would be an equipment expense from the expansion of local calling into Zone C for Rate Groups 1 and 2, which would impose an additional revenue requirement for all customers. For all of these reasons, the Commission finds that the expansion of local calling areas in Rate Groups 1 and 2 to the Zone C is not in the public interest.

3. Expansion of the Local Calling Area to Zone C and Its Effect Upon the Competitive Aspect of the Telecommunications Act

Since the enactment of § 40-15-101, C.R.S., this Commission has taken very seriously the obligation "to foster, encourage, and accelerate the development of competitive telecommunications" markets in the state. The Commission recognizes that the language that strongly encourages competition which is contained in the Telecommunications Act is made even more obvious when compared with the previous statute which reserved the intraLATA market as a statutory monopoly for USWC.

USWC's principal intraLATA competitors in Colorado, AT&T and MCI, have suggested that certain effects of LCAP are anti-competitive: namely, (1) an unjustified expansion of USWC's local exchange areas and (2) the exacerbation of an existing discriminatory price squeeze by USWC on its competitors. We agree that expansion of local calling, not justified by the community of interest standard, would be anti-competitive as far as toll calling is concerned.

AT&T and MCI suggest that the Commission has authority to expand exchange area boundaries, thereby increasing the monopoly service areas of USWC, but only in a proceeding where those changed boundaries are properly before the Commission, and that such a situation does not exist in this docket. MCI also seems to suggest that the phrase "exchange area" is different than "local calling area" and that, accordingly, the Commission is without authority to expand USWC's monopoly areas because USWC did not propose any change to its exchange areas or offer any evidence supporting such a change.

Section 40-15-206(2), C.R.S., states that"

> rearrangements of exchange areas different from those in existence on July 2, 1987, shall require a public hearing and a determination by the Commission that such rearrangement will promote the public interest and welfare and will not adversely impact the public switched network of the affected local exchange provider or such provider's financial integrity.

Under this authority, the Commission can rearrange USWC's exchange areas. We consider exchange areas to be the statutory equivalent of what is popularly called a local calling area. Section 40-15-102(8), C.R.S., defines an exchange area as a geographic area established by the Commission, which consists of one or more central offices together with associated facilities which are used in providing basic local exchange service. Basic local exchange service is defined by § 40-15-102(3), C.R.S., as the telecommunications service which provides a local dial tone line and local usage necessary to place or receive a call within an exchange area regulated pursuant to Part 2 of Article 15 of Title 40. Section 40-15-203, C.R.S., provides that the provision of local exchange service shall be deemed an exclusive grant of monopoly. Accordingly, when the Commission expands an exchange area, which is the statutory equivalent of a local calling area, we find that the monopoly of the basic local exchange service provider expands with it. IntraLATA toll providers who have been previously certificated to provide toll service do not lose their right to provide toll service.

USWC attacks the "anti-competitive" label given to the Zone C expansion of the local calling areas in Rate Groups 1 and 2 by AT&T and MCI on the basis that these latter carriers have little, if any, interest in providing service on the converted toll-to-local routes and that those routes are the least profitable in the State. Whether the Zone C routes in Rate Groups 1 and 2 are profitable, or the interest, if any, AT&T and MCI have in serving them, are irrelevant. If an expansion of local area calling to include secondary calling, not calling within the community of interest, extends the exchange area into territory which is justifiably served by toll calling, and there are carriers certificated and authorized to provide that intraLATA toll service, then that expansion is clearly at odds with the pro-competitive stance of the Telecommunications Act.

E. LCAP Measured Service

1. Prior Commission Policy Concerning Measured Service

LCAP is not the first time that USWC has proposed an optional local measured service plan for the Denver metropolitan area. In Decision No. C83-1385 (September 2, 1983) in I&S No. 1620 (admitted into

evidence in this docket as Exhibit 11) the Commission rejected USWC's optional local measured service plan for a number of reasons including:

a. The overwhelming majority of public witnesses appearing at the hearing opposed local measured service. Id. at 9.

b. Not all usage-sensitive factors were equally significant in determining phone company costs. The Commission specifically found that "distance is the least related to usage costs." Id. at 9.

c. Testimony established that distance-sensitive rates would tend to "fragment the community into numerous smaller groups." Id. at 10.

d. The distance element proposed would also tend to restrict commercial activities to areas within the exchange in order to avoid large telephone charges. That development almost certainly would have an undesirable impact on businesses which appeal to the entire metropolitan area as their market. Id. at 10.

e. The distance element would "do away with the Rate Group 3 concept"--an endorsement by the Commission of the value of reflecting the community of interest through flat rate service in the Denver metropolitan area. Id. at 10.

f. Bills would be complex, billing errors would occur, and it would be difficult for callers to know the charge they would be incurring. Id. at 10.

g. Local measured service would adversely affect charitable and volunteer activities. Elderly persons would be hampered. "To the extent individuals and organizations are moved into a measured service environment by USWC's LMS implementation plan, those individuals and organizations would be forced by financial constraints to curtail their activities. In such an environment, volunteers would have to rethink whether they wished to telephone on behalf of others; social and business intercourse for those whose principal means of conducting the same is the telephone may well be adversely affected." Id. at 10-11.

h. USWC's measured service options were unpopular and had been subscribed to by less than one percent of the customers to whom they were made available. Id. at 9.

i. USWC submitted cost studies based upon "prospective direct cost," i.e., long-run incremental costs, rather than embedded costs. The Commission ruled that since the local measured service offering was being made to existing customers, primarily over embedded plant, prices must be developed on the basis of a fully distributed cost study to avoid underpricing the local measured service option

relative to other services. Only the cost of new investment, such as measuring devices, should be based on incremental costs. Id. at 11-15.

j. The implementation cost was projected to be at least $17.5 million. The Commission stated: "We cannot endorse such a huge expenditure of funds by Mountain Bell when the desire of Mountain Bell's Colorado ratepayers for local measured service has yet to be demonstrated." Id. at 16.

USWC's LCAP proposal suffers from all ten defects which doomed its last local measured service proposal. LCAP's zone pricing is primarily differentiated on a distance basis, whether a customer subscribes to zone flat calling or zone measured calling.

The public witness testimony in this case clearly shows overwhelming public opposition to LCAP and local measured service in the Denver metro area for the same reasons expressed in I&S 1620. Moreover, USWC has offered again in this docket an incremental cost study and has failed to produce a fully distributed cost study. Incremental cost studies were soundly rejected by the Commission in I&S 1620. Finally, and perhaps most importantly, the Commission clearly indicated in I&S 1620 that it could not justify an expenditure in excess of $17.5 million without some indication that ratepayers desired the local measured service options. Today, over 5 years later, the subscription rate to measured service is about the same as it was in 1983. A portion of USWC's rate increase request is associated with the expansion of local measured service. Nevertheless, USWC offered nothing new in this docket to justify its local measured service options that would justify USWC's proposal.

2. Impact of Measured Service Options

Although the Staff generally supported the concept of USWC's LCAP proposal, it parted company when it came to the local measured-service options, that is, the hourly blocks of usage described above. The Staff and the OCC, together with a number of intervenors, including Denver Metro, agree that the measured service options should be rejected.

One of the primary objections to USWC's proposed measured services under LCAP is that they are likely to be priced below incremental costs for the usage components. The concern expressed by the parties was that they would be subsidized by intentional premium pricing of flat-rated C zone service. We agree with OCC witness Dunkel who pointed out that measured service options, including the hourly blocks of usage, are more costly to provide than equivalent usage under a flat rate. Measured service incurs costs which are not incurred for flat-rated service.

Mr. Dunkel gave an example where this pricing philosophy results in below-cost rates for usage for one of the hourly packages. He demonstrated that for the residential subscriber with average usage in Rate Group 3, USWC's proposed 12-hour package would be priced significantly below the incremental use costs, while the Zone C flat option would be priced significantly over cost. Without disclosing a precise figure, which is proprietary, the Commission would note that the flat-rate price is significantly above its cost.

We further find that such pricing sends wrong economic signals to customers and would have the tendency to steer them toward services that are more costly to provide even though the prices they pay will not cover those costs. Such a rate-making philosophy contravenes this Commission's previous holding in I&S 1720 that rates should be based to the extent possible, upon fully embedded costs. This Commission does not believe that the introduction of new pricing options which have the tendency to lead consumers to select more costly options which are also underpriced, is in the public interest. Without disclosing the proprietary number, the Commission can state that measuring local calls would require millions of dollars in additional costs per year with no additional benefits, since the same service could be provided more efficiently under flat rate service. The Commission cannot imagine that USWC would offer these options if it were not permitted to recover these expenses in rates charged to other ratepayers. We find that USWC is only able to propose attractive rates for measured service because of excessive rates it would charge for flat-rate service.

Mr. Dunkel raised the possibility of what he termed a "death spiral" for flat-rate service. This possibility was based on the common sense observation that as flat-rate services are priced above cost, and measured services are priced below cost, more customers will migrate, out of economic necessity, from over-priced flat-rate service to underpriced measured service. When low- and medium-use customers first leave the flat rate, the customers who remain on flat-rate service have an even higher average usage. This higher flat-rate average use justifies yet another increase in flat rate service which drives more medium- and low-use customers off flat rates. Thus, according to Mr. Dunkel, if USWC is allowed to force a significant percentage of its customers off flat rates and onto measured service it can start this death spiral for flat rate service which, once begun, ultimately ends in the extreme overpricing or practical elimination of flat-rate service. Mr. Dunkel pointed out an historical occurrence of this death spiral in the Chicago metropolitan area. Illinois Bell Telephone Company pushed the Chicago flat-rate service prices to premium levels ($63.10 a month for unlimited III service in the Chicago metropolitan area). Even in the medium-sized zone, the residential flat-rate service went up to $47.88 per month. Finally, the flat-rate options were dropped entirely, and measured service became mandatory in the Chicago area.

USWC disputes the death spiral theory of Mr. Dunkel with the suggestion that the Commission has the legal authority, at any time, to stop the death spiral by declaring what the flat rates shall be. However, if increasingly smaller numbers of customers subscribe to flat rates, with its attendant costs being spread over a smaller and smaller base, the Commission would not be well positioned to reject a demand that flat-rate pricing increase in order to cover the costs that remain. We agree with Mr. Dunkel that the best way to prevent the weakening or elimination of flat-rate service is to not let measured pricing erode flat-rate service in the first instance.

3. Public Perception of Measured Service

Staff witness Armstrong, in recommending that LCAP's block-of-time options be eliminated, agreed that too many choices simply can cause confusion, and that customers would be at the mercy of USWC's sales representatives. Mr. Armstrong stated that in addition to customer confusion, the proposed LCAP pricing gives support to the argument that the measured service portion of LCAP could be used as a vehicle for migrating people to measured service, depending upon the intentions of USWC concerning its implementation of local measured service. USWC claims that the offering of local measured service options provides customers with additional choices by which they can tailor their desired service configurations. Other parties in this docket, on the other hand, argue that USWC's real motivation is to generate additional profitability by developing new measured service plans, as evidenced by its own policy statement (Exhibit 24) for usage-sensitive pricing which articulates its intention to "generate additional profitability" by developing new measured service plans.

USWC agreed that its measured packages were priced so that the vast majority of residential and business customers in Rate Group 3 would benefit economically by taking one of the measured options rather than Zone C service. The overwhelming majority of USWC's customers have already voted with their dollars, rejecting the measured service option which presently exists. For these reasons, we decline to expand existing measured service as proposed by USWC in its LCAP proposal. Notwithstanding this, if USWC can demonstrate the viability of changes in its measured service offerings, and can demonstrate customer desire for options, these matters may be brought to the Commission at some future date. These issues may be demonstrated through use of comparative billing, pilot groups for different offerings, and calling area mapping by reference to commonly recognized boundaries such as county boundaries, highways, streets, rivers, etc.

VI.

COLORADO 90 IS THE MOST APPROPRIATE PROPOSAL FOR EXPANSION OF LOCAL CALLING IN RATE GROUPS 1 AND 2

A. Retention and Expansion of Rate Group 3

In the previous section of this decision, the Commission has delineated the reasons why we believe it would be in the public interest to adopt some elements of the USWC's LCAP proposal in this docket. Without in any way minimizing the substantial contributions made by all of the parties to the development of the record in this docket, the Commission must recognize that the major alternative proposals were those of the Staff and the OCC. We will not address the Staff proposal since Colorado 90 incorporates the Staff's in deletion of measured service options.

Colorado 90 has proposed the retention of the Rate Group 3 calling area (Metro 65). In addition, the OCC Colorado 90 proposal has recommended that the Rate Group 3 calling area be slightly expanded, to add the following perimeter areas: the Boulder exchange will be enabled to call Erie, Longmont, Lyons, Allenspark, Ward, and Nederland; the Brighton exchange will be enabled to call Frederick, Fort Lupton, Hudson, and Keenesburg; the Castle Rock exchange will be enabled to call Deckers, Elizabeth, and Elbert; the Coal Creek Canyon exchange will be enabled to call Central City and Nederland; the Cottonwood exchange will be enabled to call Erie, Frederick, and Fort Lupton; the Evergreen exchange will be enabled to call Central City, Idaho Springs, and Bailey; the Golden exchange will be enabled to call Central City; the Gunbarrel exchange will be enabled to call Longmont, Lyons, Allenspark, Ward, and Nederland; the Larkspur exchange will be enabled to call Deckers and Elbert; the Morrison exchange will be enabled to call Bailey; the Northglenn exchange will be enabled to call Erie and Frederick; the Parker exchange will be enabled to call Elizabeth; and the Table Mesa exchange will be enabled to call Nederland, Ward, Allenspark, Lyons, and Longmont.

Extended discussion by the Commission of Colorado 90's treatment of Rate Group 3 in this decision is not necessary since the basic thrust of the OCC's position is that (1) Rate Group 3 should be retained and (2) USWC's proposed zone calling options for Rate Group 3 and measured service options are not justified and should not be adopted. We agree, for the reasons already articulated in this decision. In the absence of a compelling justification for reconfiguring Rate Group 3, which does not exist in this docket, we find that Rate Group 3 should be continued together with the modifications to the Rate Group 3 calling area as proposed by the OCC and described above.

B. Expansion of Local Calling Areas to the B Zones in Rate Groups 1 and 2

The Colorado 90 plan includes the B zone as the expanded local calling area for Rate Groups 1 and 2 to provide local calling to the appropriate communities of interest in those rate groups. The OCC used the community of interest standard expounded by the Commission in the Otero case (Decision No. C86-1368 at page 9). OCC witness Dunkel noted that approximately a dozen exchanges in Colorado currently include fewer than 500 lines in local calling areas and that a large number of exchanges include only a few thousand lines. He relied on these data, in part, to argue that the expansion of local calling areas in rural exchanges is necessary and supported by the evidence.

Mr. Dunkel also relied upon USWC's point-to-point toll study (Exhibit 132) to establish that the B zone is the appropriate community of interest. As already indicated, this study indicates that the C zones of Rate Groups 1 and 2 would encompass secondary calling outside the local community of interest. An additional indication of the appropriateness of the B zones as local calling areas is that all existing EAS service falls within Colorado 90's B zones, including the Otero 1+ dialing that was ordered in Case No. 6415. Accordingly, we find that the B zones in Rate Groups 1 and 2 encompass appropriate communities of interest and that local calling should be expanded to include those zones in Rate Groups 1 and 2.

Since the determination of appropriate exchange areas is fundamentally premised upon the identification of the appropriate communities of interest, we find that Colorado 90 should be adopted because it more closely reflects the community of interest standards that the Commission adopted in the Otero case. Thus, Colorado 90 does not extend local calling beyond the community of interest and, accordingly, is consistent with previous actions of the Commission as exemplified in the Otero case.

In addition, there are also other aspects of Colorado 90 which we find to be attractive from a regulatory and consumer point of view. Since Colorado 90 is based upon a clearly defined toll loss rather than on conjecture, and that this lower toll loss is likely to result in a lower revenue requirement for USWC. This will be less onerous for the independent telephone companies, and will have less anti-competitive impact on intraLATA calling in Colorado. Colorado 90 is attractive from the consumers' view because it eliminates complexity of the multitude of options, thus decreasing customer dependence upon USWC service representatives to suggest economic decisions for the customers.

One of the most deleterious aspects of LCAP was its pervasive expansion of measured service options beyond what is already presently

available. The public does not like nor desire the vast array of measured service options in LCAP. Colorado 90 undoubtedly received more public support than LCAP for this very reason. When rates are more understandable, as we believe them to be under Colorado 90 as compared to LCAP, public support increases. Another significant aspect of Colorado 90 which received public support was its retention of Rate Group 3 as a viable exchange area rather than placing Rate Group 3 in jeopardy through the three zone options and the possibility of a measured service death spiral. Finally, Colorado 90 does not interfere with the availability of USWC's present measured service option, will benefit both single- and multi-party customers equally, and does not rest upon a perceived and subjective value of service. Accordingly, in our view, Colorado 90 is the plan to accommodate the expansion of exchange areas in the areas outside Denver.

C. Merger of Rate Group 1 and Rate Group 2

USWC witness Wallin, in his exhibit 6, estimates that the acceptance of residential residential measured options for Rate Group 1 will be less than one percent. He estimates 82.25 percent will choose flat rate A calling Zone, 6.07 percent will choose flat rate B calling Zone, and 11.50 percent will choose the flat rate Zone C. (Wallin Exhibit 6).

Acceptance of measured service by residential customers in Rate Group 2 are estimated by Mr. Wallin to be 3 percent. He estimates flat-rate buy-down to calling area A to be 9.70 percent and buy up to area C to be 14.23 percent; 73.07 percent of residential customers in Rate Group 2 are expected to purchase the flat-rate B calling Zone option. He expects 97 percent of the Rate Group 2 residential customers to take a flat-rate option. Mr. Wallin estimates 4 percent of the Rate Group 3 residential customers to take a measured service option. He expects 90.24 percent of Rate Group 3 residential customers to choose the calling area C flat-rate option.

An economic principle is that the marginal cost of a change should not exceed the marginal benefits. USWC's LCAP anticipates small changes in calling choices even though a large number of choices are available. Attached to LCAP is a considerable cost. The minimal benefit expected based on Mr. Wallin's estimated changes in buying habits do not appear to be worth the substantial increase in costs and consequent increase in rates.

At hearing, the concept of the merger of Rate Groups 1 and 2 was explored by witnesses Dunkel and Selwyn. The Commission finds that with the adoption of the Colorado 90 proposal, it is also appropriate to merge Rate Groups 1 and 2 into a single rate group with rates based upon the

benefit derived by all exchanges in each rate group. At one time, USWC had ten rate groups in Colorado. Subsequently, this number of rate groups was reduced to five and then later reduced to the three rate groups that are presently in existence. We find that it is now appropriate, in this docket, to merge Rate Groups 1 and 2 into one rate group which will cover the entire State of Colorado except for metropolitan Denver. The number of access lines in Rate Groups 1 and 2 today are nearing the level of parity. The B calling zones, as filed in this docket by USWC, for Rate Groups 1 and 2 cover their communities of interest. Rate Groups 1 and 2, although similar to each other, are each distinct from what is now Rate Group 3 or the Denver metropolitan area. The Denver metropolitan area, in the breadth of its community of interest, is unique in the State of Colorado and, accordingly, should be considered as a distinct rate group. For ease of future reference, the merged Rate Group 1 and Rate Group 2 shall be referred to as Rate Group I and Rate Group 3 Metro 65, as expanded, will be referred to as Rate Group II.

In addition, under the plan adopted in this decision, customers in Rate Group 1 will have local service access to their entire community of interest, in some instances for the first time. We find that this puts Rate Group 1 on a parity with Rate Group 2 and, therefore, its rates should reflect this parity. We do not believe it would be reasonable to charge Rate Group 2 customers substantially more than Rate Group 1 customers, when each rate group has access to its community of interest. Moreover, we find it is appropriate for Rate Group 1 to contribute to Colorado 90's revenue requirement to a greater degree than the ratepayers in Rate Groups 2 or 3, since the ratepayers in Rate Group 1 will receive the most benefits by the adoption of the Colorado 90 plan.

VII

THE ADOPTED RATE STRUCTURE FOR EXPANDED LOCAL CALLING IN COLORADO

A. Local Calling Area Rate Structure

The three major elements of local calling expansion in Colorado, as adopted by the Commission, are: (1) the retention and slight expansion of Rate Group 3; (2) the expansion of local calling areas to the B zones, delineated by USWC in its filing, in Rate Groups 1 and 2; and (3) the merger of Rate Groups 1 and 2.

Using the fundamental pricing principles previously adopted by the Commission, and adjusting for the modifications necessitated by the

expansion of local calling areas in the three rate groups, the Commission finds that the appropriate prices for various services should be the business and residential rates for Rate Groups 1, 2, and 3. This finding is derived from exhibits and testimony in the record. (Specific exhibits used were USWC M.K. Rounds Exhibit 8, USWC B. M. Wilcox Exhibit 9, and OCC R. J. Hix exhibit.)

The Commission finds that the OCC's Colorado 90 annualized cost estimation of $21,310,290 should be accepted. That is not to say we think that each element of the Colorado 90 estimate is precise. For instance, we accept Staff witness Mitchell's Base Rate Area (BRA) cost estimate which is less than Colorado 90's BRA cost estimate; on the other hand, we think the evidence demonstrated that Colorado 90 cost estimates underestimated toll loss and network implementation. These adjustments are offsetting and leave the aggregate Colorado 90 cost estimate intact.

Since the Commission adopted a modified version of the Colorado 90 plan, the appropriate costs are those associated with that plan. OCC witnesses Dunkel and Hix clearly set out the costs of the Colorado 90 plan in testimony and exhibits. The costs represent a substantial reduction of costs of LCAP as proposed by USWC or the Staff. The cost reduction is due primarily to the elimination of measured options, the adoption of a single calling area (B zones) for all areas except Rate Group 3, and the retention of Rate Group 3.

The elimination of new measured options in Rate Groups 1, 2, and 3 eliminated the need for increased investment in measuring equipment. Establishing the B zone as the appropriate local calling area eliminates the substantial toll loss associated with the C Zones. Adoption of a modified version of Colorado 90 also reduces trunking investment. The retention of Rate Group 3 eliminates buy-down in Rate Group 3, thus eliminating associated revenue losses.

We begin to design rates with the acceptance of a cost estimate of $21,310,290 to implement Colorado 90. We have attempted to distribute the cost of implementation according to the benefits received. We recognize that no rate design can universally attain that goal. We combine Rate Groups 1 and 2 into a single rate group. This is allows for equitable recovery of the revenue requirement. Since the rates currently in effect were derived from I&S 1720, they are cost-based rates to the extent allowed by the current state of the art of costing in telephony.

Consequently, we find that the following monthly rates are cost-based, recover the $21,310,290 revenue requirement, reflect the

benefits of redefined exchange areas, and improve the equity of exchange areas and prices for all Colorado subscribers, to the extent possible, and are:

Residence	Rate/Month	Absolute Increase/Month	Percentage Increase
Rate Group 1	$10.50	$ 2.68	34%
Rate Group 2	10.50	0.42	4
Rate Group 3	11.00	0.26	2
Business			
Rate Group 1	$28.00	$ 8.80	46%
Rate Group 2	28.00	2.10	8
Rate Group 3	31.78	1.00	3

The revenue requirement is met by:

Residence	Rate Change/ Month	No. of Lines	Dollar Change/ Month
Rate Group 1	$ 2.68	230,000	$616,400
Rate Group 2	.42	286,000	120,120
Rate Group 3	.26	687,000	178,620
Business			
Rate Group 1	$ 8.80	59,586	524,357
Rate Group 2	$ 2.10	76,278	160,184
Rate Group 3	$ 1.00	254,112	254,112
		Total	$1,853,811
		(Months)	x 12
			$22,245,732[5]

[5] The difference between $22,245,732 and $21,310,290 is due to rounding the rates to the nearest penny.

USWC shall file tariffs to reflect the flat rates above for residential and business customers for Rate Groups 1, 2, and 3 and the collapse of Rate Groups 1 and 2 above. Rate Groups 1 and 2 shall become Rate Group I; Rate Group 3 shall be designated Rate Group II. The tariffs may show a single flat rate, or be disaggregated into a usage rate and access rate as currently done. If the company chooses to aggregate the elements into a whole, the increases for each element shall be proportional to the total increase, and in no case will the sum of usage exceed the flat rate prescribed here.

B. Continuation of METROPAC, Telechoice, and Exceptions to First Four-Mile Calling Bands

The expansion of local calling areas as authorized in this decision goes a long way toward remedying the inadequacy of local calling areas in Colorado. Accordingly, the need for certain special offerings such as METROPAC, Telechoice, and exceptions to the first four mileage bands which have enabled customers to lower their toll bills will substantially diminish, but not completely vanish. Accordingly, METROPAC, Telechoice, and the exceptions to the first four calling bands should be continued in those situations where the expansion of local calling areas in this decision will not otherwise eliminate the necessity for toll calling.

C. Other Tariff Matters

The implementation of expanded calling areas in Colorado, requires revision of tariff sheets of USWC to conform with the local calling area tariffs ordered in this decision. Accordingly, USWC should file tariffs, in addition to those dealing with expanded local calling areas, as follows:

Other existing tariffed rates such as measured service, four-party service, Centron and so forth shall maintain the proportional difference between the appropriate rate. For example, the current residential four-party flat-rate service in Rate Group 2 is $4.89 compared to $10.08 for single-party flat-rate service. This is a ratio of 1 to 2.06135. The ratio should be maintained so that the new four-party rate will be $5.06. Other tariffed rates should be set proportionally to maintain the current ratios.

The Commission also will accept the revised direct testimony of USWC witness Heinze in the resolution of the following issues: FX or FCO should not be restricted in conjunction with the new calling areas. Likewise, billing detail for message or measured service shall remain at 1¢ per line. Tariff provisions for basic exchange rates for lodge halls

and ditch riders are grandfathered to existing customers at existing locations. USWC should justify these two rates in the next rate case. USWC shall continue the restriction of service prohibiting the furnishing of flat, measured and message rate service on the same premises as found in its tariff A2.2.1.D.

USWC should refile its tariff pages to agree with the determinations of local calling areas as stated in this decision. USWC shall file tariff pages defining its local calling areas by listing the exchanges included in its various local calling areas and not on the basis of wire centers. This method of definition will then be in conformity with the exchange area maps currently on file with the Commission.

USWC shall also file a response to the suggestion that it file maps with the Commission delineating and describing its exchange areas in a manner understandable to the general public, as well as spelling out what its geographic information systems are, in terms of directories, prefixes, boundaries, etc. At a minimum, all rearranged exchange areas should be diagrammed on exchange maps that are understandable to the public, such as proximity to roads, streets, highways, county lines, etc.

VIII

OTHER ISSUES RELATED TO LOCAL CALLING

A. Future Determinations of Communities of Interest

This docket involved the first comprehensive examination of local calling areas throughout the state of Colorado. It should be remembered that I&S 533, which was decided on June 26, 1964, by Decision No. 63186 only involved the Denver metropolitan area. Since the Metro 65 decision of almost nearly 25 years ago, the Commission has substantially expanded local calling only in the Otero case. The public's social and economic life makes the permanent configuration of local calling areas in a single docket impossible. This docket, of course, was complex and involved in part because the Commission, USWC, and other parties were addressing local calling area changes that had developed over a considerable period of time. The Commission believes that a better way of handling local calling area issues and problems is to keep as current as possible as these changes develop. We believe that one effective way to do this is to establish a biennial review of local calling areas and make adjustments as necessary.

The community of interest is the standard by which to judge whether a local calling area is adequate or inadequate. To a certain extent, the evaluation of local communities of interest will be

in the judgment of the Commission. However, there are certain objective criteria which can assist the Commission in making this determination. For example, the number of calls per month between exchanges is one measure of the level of calling activity between exchanges which may indicate a community of interest. We believe that an average of three calls per customer per month between exchanges may well be an appropriate indicator. And, as indicated in the Otero case, the locations of significant social and economic entities, such as government offices (and particularly the county seat), businesses, churches, schools, health facilities, etc., also are indications of a community of interest. An additional factor is the inclusion of entire exchanges that have multiple wire centers. Customer preferences, together with the willingness to pay for different or expanded local calling areas, can be determined by well designed and conducted surveys of customers. Another alternative measure of customer preference is direct balloting.

The expansion of local calling in Otero County came about as a result of a complaint filed by interested parties in Otero County. The complaint process is available to those persons and entities who wish to avail themselves of it. Of course, a telephone utility itself can make application to the Commission to expand or contract a local calling area in those situations in which the telephone utility believes it is justified. In other words, there are various methods to change local calling areas. But rather than letting these problems come to the Commission for resolution after the fact, the Commission believes that the most appropriate course of action is for the utility to submit its review of the need for exchange area changes for the Commission's review every two years.

Adjustments that consumers or USWC believe may be required for exchange areas in the future will be referred to a telecommunications task force, which may recommend adjustments to the Commission. Of course any rearrangements of exchange areas will need to be in compliance with the requirements of § 40-15-206(2), C.R.S., which requires a public hearing, and a determination by the Commission that any rearrangement of exchange areas will promote the public interest and welfare, and would not adversely impact the public utility's switched network, or its financial integrity.

B. Imputation of Access and One-Plus Dialing

One of the other significant issues that grew out of USWC's proposed LCAP in this docket was the contention by AT&T and MCI that USWC should be required to impute to itself access charges with respect to its intraLATA services. It was argued that § 40-15-105(1), C.R.S., requires a local exchange provider, such as USWC, to price and provide access, without the grant of any preference or advantage to any person providing telecommunications service between exchanges. Neither should the local

exchange carrier subject any person to competitive disadvantage for providing access to the local exchange network. It was further contended that USWC does not charge or impute to its own interexchange services the access charges which it levies on its competitors, notwithstanding the fact that the access USWC provides to itself uses the same network facilities as access provided to its competitors. This, according to AT&T and MCI, permits USWC to create for itself a substantial competitive advantage for its own interexchange services which is not related to differences in cost, reliability, or service .

USWC appears to believe that it is not appropriate to impute access charges to LCAP rates because they are local, not toll rates. We believe that this argument is circular and may very well ignore a substantive case for imputation. In other words, it assumes toll routes will be reclassified so that imputation of access becomes inappropriate. The evidence in this docket seems to substantiate the proposition that even with local calling areas expanded, telephone calls will continue to be routed in the same manner as other toll calls, that is, many of them will pass through a toll tandem switch. Although USWC witness Hatzenbuehler claimed in his rebuttal and surrebuttal testimony that imputation of access charges would result in higher toll rates, diminished market share for USWC, and then upward pressure on local rates, there is no substantial evidence in this record which would either support or refute such a claim.

Imputation of access is a principle which we endorse. We agree with AT&T and MCI that the imputation of access, including concerns about methods and formulas of implementation, properly belongs in another proceeding. In fact, imputation of access is but one topic of a broader set of concerns which this Commission has concerning the entire subject of intraLATA competition in Colorado. The Commission will establish a separate docket to include imputation of access and intraLATA competition generally. In addition, the issue of one-plus dialing in Colorado, and its interrelationship with the FCC's mandatory provision for one-plus interLATA dialing by 1992, also should be considered.

IX

USWC's PROPOSED BOUNDARY ADJUSTMENTS FOR BASIC LOCAL EXCHANGE SERVICE ARE ADOPTED IN PART

As part of its filing pursuant to Advice Letter No. 2092, USWC proposed changes to 32 base rate areas (BRAs) and 12 locality rate areas (LRAs) and suburban rate areas (SRAs). These changes grew out of a settlement agreement between the Staff and USWC in the consolidated docket of Application No. 37788 and Case No. 6532, otherwise known as the rural telephone improvement case. In proposing these changes, USWC

employed criteria reflecting its present policy. In this docket the only party which criticized the changes was the Staff through its witness, Bruce Mitchell. He expressed concern over the access line density of a number of the BRAs, LRAs, and SRAs. The Staff did not agree with USWC's current policy regarding boundary modifications on two major points. First, there is no difference between the criteria applied to the boundary modifications for BRAs, LRAS, and SRAs notwithstanding the fact that these boundaries determine which customers pay the lowest rates or additional rate increments for their basic exchange service. We agree with the Staff that if the same criteria are applied, then either there would be no difference between each of these types of areas, or the criteria will be applied subjectively to distinguish between each area. In the Staff's view, with which we concur, it is not appropriate to apply the same criteria subjectively to three different types of areas.

The Staff also disagreed with USWC's new criteria in that the new criteria have abandoned as the primary criterion a comparison of the density of access lines per square mile between the existing area and the proposed area addition. Rather, USWC appears to have substituted the criteria of a requirement for the availability of single-party service in consideration of known or forecasted housing and other development patterns. In the Staff's view, the criterion of access lines per square mile is the simplest, most objective, and equitable manner of determining whether areas should be added to existing BRAs, LRAs, and SRAs. We agree that using forecasted development injects an element of uncertainty into the process of BRA, LRA, and SRA expansion which has not existed under previous criteria.

Using the density criterion, the Staff has recommended, and we agree, that it is appropriate to expand the BRAs for Carbondale, Ft. Lupton, Glenwood Springs, Longmont, Rifle, and Boulder; the SRA for Loveland; the LRA for Loveland, as proposed by USWC. The Commission will also accept as SRAs the following areas which USWC proposed as expansion of BRAs: Cortez, Parachute, Pikeview, Grand Junction, Castle Rock, and Lafayette. The following areas should be modified: it is appropriate to include in the existing Fraser BRA the area that encloses the current BRA but which lies outside of the existing LRA. The Commission finds that it is appropriate to accept as an expansion of the Estes Park BRA the area proposed as an expansion of the SRA. The Staff also has recommended, and we concur, that the Commission order USWC to review potential areas for addition to existing BRAs at least on a biennial basis. The criterion of density of access lines per square mile is the most objective and equitable manner of determining whether areas should be added to BRAs, LRAs, and SRAs, and should be used by USWC.

X

CONCLUSIONS

This docket has been a complex and important one since it involves some of the most fundamental aspects of telephone service to Colorado consumers. The delineation of appropriate local exchange areas is never an easy task to accomplish. The Commission believes that it has come to a decision which is reflective of the responsibilities not only of this Commission, but also of USWC, as stated in the Public Utilities Law of Colorado. Section 40-3-101, C.R.S., not only provides that rates shall be just and reasonable but that service shall promote the safety, health, comfort, and convenience of patrons, and the public. Service shall in all respects be adequate, efficient, just, and reasonable.

There were a number of significant issues raised by the parties in this docket, and the Commission has endeavored to address most of them in this decision. To the extent that there have been issues which were raised by parties which are not addressed specifically in this decision, the Commission finds that the proposal did not merit adoption by the Commission in this docket. Having found that the LCAP proposal of USWC requires the modifications which we have discussed in this decision, it is necessary to conclude that the tariffs filed by USWC on June 15, 1988, with its Advice Letter No. 2092 should be suspended permanently. The Commission also finds, based upon the findings above, that the rearrangements of exchange areas of USWC, as ordered in this decision, will not adversely impact the public switched network of USWC, or its financial integrity.

The parties in this docket should consider that this decision is the decision referenced in § 40-6-111(1)(b), C.R.S., and the parties should also consider this decision to be a final one, subject to the procedural provisions §§ 40-6-114 and 40-6-115, C.R.S.

THEREFORE THE COMMISSION ORDERS THAT:

1. The tariff sheets filed on June 14, 1988, by The Mountain States Telephone and Telegraph Company with Advice Letter No. 2091 are suspended permanently.

2. The Mountain States Telephone and Telegraph Company shall file appropriate tariffs, on or before April 17, 1989, to be effective on January 1, 1990, which shall implement the local calling areas and rates and other tariff changes adopted by the Commission in the findings of fact above. The Mountain States Telephone and Telegraph Company shall effect these tariff changes ordered by this ordering paragraph by filing an appropriate advice letter, accompanied by the tariffs as ordered in

this Decision. The tariffs shall state the decision number of this Decision and shall state on each tariff an effective date of January 1, 1990. The tariffs shall be filed without further notice ordered, and shall be self-executing in all respects, but shall be subject to suspension by the Commission as may be appropriate.

3. The Mountain States Telephone and Telegraph Company shall comply with all directives of the Commission stated in the findings of fact above and all of these directives are incorporated in this ordering paragraph by reference.

4. The Motion to Permit the Late Filing of a Statement of Position filed by the City of Aurora on December 27, 1988, is granted.

5. The Petition to Intervene filed by the Cherry Creek School District No. 5 on December 7, 1988, is granted on condition that it takes this docket as it finds it, as of the date of this decision.

6. Any pending motions or other requests made by other pleadings including, but not limited, to statements of position and reply statements of position which are not otherwise disposed of by this decision are denied.

7. Any party who intends to file a motion for reimbursement of attorneys fees or expert witness fees in this docket shall do so on or before March 31, 1989. Any motions so filed shall state in specific detail, by subject matter, areas for which reimbursement is sought, the associated time and expense, and how reimbursement meets the established criteria of the Commission for the reimbursement of attorneys or expert witness fees.

8. For purposes of acting upon motions for reimbursement which may be filed, the Commission shall retain jurisdiction and enter further orders as necessary.

9. This Decision shall be considered a final decision subject to the procedural provisions of §§ 40-6-114, and 40-6-115, C.R.S.

10. The 20-day time period provided for in § 40-6-114, C.R.S., within which to file an application for rehearing, reargument, or reconsideration shall begin on the first day after the mailing or service by the Commission of this Decision.

This Decision shall be effective on February 10, 1989.

DONE IN OPEN MEETING the 10th day of February 1989.

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

Commissioners

JEA:srs:7790J

INTERVENORS
I&S 1766

DATE FILED	PARTY	REPRESENTATIVE	PLEADING
6/21/88	OFFICE OF CONSUMER COUNSEL	Anthony Marquez, Esq.	Entry of Appearance & Notice of Intervention as a matter of right
6/22/88	STAFF OF THE COMMISSION	Peter J. Stapp, Esq. Jeffrey A. Froeschle, Esq.	Entry of Appearance & Notice of Intervention of right
6/30/88 and 7/12/88	MCI	William Levis, Esq. Mark N. Jason, Esq.	Entry of Appearance & Petition to Intervene Entry of Appearance & Petition to Intervene
6/30/88	COLORADO MUNICIPAL LEAGUE	Dudley P. Spiller, Jr., Esq.	Petition to Intervene
7/01/88	US DEPARTMENT OF DEFENSE and THE OTHER EXECUTIVE AGENCIES OF THE UNITED STATES	Paul R. Schwedler, Esq.	Petition for Intervention
7/06/88	RYE TELEPHONE COMPANY	John J. Conway, Esq.	Entry of Appearance & Notice of Intervention
7/07/88	BOARD OF COUNTY COMMISSIONERS OF OTERO COUNTY	Rexford L. Mitchell, Esq.	Entry of Appearance & Request to Intervene
7/08/88	STRASBURG TELEPHONE COMPANY	Mark A. Davidson, Esq.	Entry of Appearance
7/08/88	CELLULAR, INC.	Randall G. Alt, Esq.	Notice of Intervention & Entry of Appearance

DATE FILED	PARTY	REPRESENTATIVE	PLEADING
7/07/88	PHILLIPS COUNTY TELEPHONE COMPANY; PLAINS TELEPHONE COOPERATIVE; PEETZ TELEPHONE COOPERATIVE; AND PINE DRIVE TELEPHONE COMPANY	Mark A. Davidson, Esq.	Entry of Appearance & Notice of Intervention
7/08/88	AGATE MUTUAL TELE. EXCHANGE; BIG SANDY TELECOMM., INC.; BIJOU TELEPHONE COOP. ASSN.; INC.; COLUMBINE TELEPHONE CO.; DELTA COUNTY TELECOMM., INC.; EASTERN SLOPE RURAL TELEPHONE ASSN., INC.: FARMERS TELEPHONE CO., INC.; NUCLA-NATURITA TELEPHONE CO.; SUNFLOWER TELEPHONE CO., INC.; WIGGINS TELEPHONE ASSN.	Randall G. Alt, Esq.	Notice of Intervention & Entry of Appearance
7/11/88	HAXTUN TELEPHONE COMPANY	Frederic J. Zeigler	Notice of Intervention
7/12/88	CITY OF BROOMFIELD	Laura A. Ditges, Esq.	Petition for Leave to Intervene
7/12/88	EAGLE COMMUNICATIONS	Michael L. Glaser, Esq.	Entry of Appearance & Petition to Intervene
7/12/88	CITY OF AURORA	Norman B. Beecher, Esq.	Petition to Intervene
7/12/88	JEFFERSON COUNTY BOARD OF REALTORS	Shayne M. Madsen, Esq.	Petition for Intervention

DATE FILED	PARTY	REPRESENTATIVE	PLEADING
7/12/88	COMMUNICATIONS TECHNOLOGY MGT.	Terry Parrish	Entry of Appearance & Notice of Intervention
7/12/88		Herbert A. Lindsay	Intervention
7/12/88		James D. Watkins	Entry of Appearance & Petition to Intervene
7/12/88	COMMUNICATIONS PLANNING SERVICE	John H. Burbank	Entry of Appearance & Petition to Intervene
7/12/88	CITY OF THORNTON	Paula Connelly, Esq.	Petition to Intervene
7/12/88	CITY OF BOULDER	Paula Connelly, Esq.	Petition to Intervene
7/12/88	CITY AND COUNTY OF DENVER	Paula Connelly, Esq.	Petition to Intervene
7/12/88	CITY OF FEDERAL HEIGHTS	Paula Connelly, Esq.	Petition to Intervene
7/12/88	CITY OF ARVADA	Paula Connelly, Esq.	Petition to Intervene
7/12/88	COLORADO ASSOC. OF REALTORS	Paula Connelly, Esq.	Petition to Intervene
7/12/88	UNITED SENIORS OF COLORADO	Deidre B. Smith, Esq.	Petition to Intervene
7/12/88	CITY OF COMMERCE CITY	Paula Connelly, Esq.	Petition to Intervene
7/12/88	COLORADO PUBLIC RESEARCH GROUP	Thomas Patrick Quinn, Esq.	Petition to Intervene
7/12/88	ANDERSON & COMPANY	Lyle Anderson	Petition to Intervene & letter
7/12/88	COLONY REALTY	Mark Cooney	Petition to Intervene & letter

DATE FILED	PARTY	REPRESENTATIVE	PLEADING
7/12/88	KLAVER & CO.	Barb Klaver	Petition to Intervene & letter
7/12/88	FABER & ASSOC.	Ann Faber	Petition to Intervene & letter
7/12/88	RON STAADT ASSOC.	Ron Staadt	Petition to Intervene & letter
7/12/88	WYMAN & ASSOC.	Bob Wyman	Petition to Intervene & letter
7/12/88	SCHOENECKE & CO.	John Schoenecke	Petition to Intervene & letter
7/12/88	EDWARDS & CO.	Roger Edwards	Petition to Intervene & letter
7/12/88	Le VALLEY & CO.	Jim Le Valley	Petition to Intervene & letter
7/12/88	ROCK & CO.	Rick Phillips	Petition to Intervene
7/12/88	JULIE McKENDRY & ASSOCIATES	Mary Schroeder	Petition to Intervene & letter
7/12/88	DOLLAR & CO.	Cliff Dollar	Petition to Intervene & letter
7/12/88		Norman E. Waugh	Petition to Intervene
7/12/88	RW EXCHANGE	Gordon Sanders Rick Wilder	Petition to Intervene & letter
7/12/88		Georgia Laniewicz	Petition to Intervene
7/12/88	AT&T COMMUNICATIONS	Rebecca DeCook	Entry of Appearance & Notice of Intervention

DATE FILED	PARTY	REPRESENTATIVE	PLEADING
7/12/88	ROCK & COMPANY	Rick Phillips	Letter
7/12/88	GEORGIA LANIEWICZ & ASSOCIATES	Georgia Laniewicz	Letter
7/12/88	COLORADO ASSOCIATION OF REALTORS	Paula Connelly, Esq. Dudley P. Spiller, Jr., Esq.	Petition to Intervene Petition to Intervene
7/12/88	CITY OF LAKEWOOD	Paula Connelly, Esq. Dudley P. Spiller, Jr., Esq.	Petition to Intervene Petition to Intervene

PREHEARING ACTIVITY ADDITIONAL DETAIL

In Decision No. C88-841, the Commission set motion hearing dates on August 19, 1988, and September 16, 1988. A prehearing and settlement conference was set on October 6, 1988, which was vacated and reset by subsequent order.

The parties filed numerous prehearing motions. Many of the motions related to discovery. Another subject of intense prehearing activity concerned the protective order entered by the Commission in this docket in Decision No. C88-841 (July 13, 1988). Paragraph 2 of the protective order, entitled Use of Confidential Information and Persons Entitled to Review, was modified in Interim Decision Nos. R88-982-I, and R88-1152-I. The modification of paragraph 2 of the protective order allowed the disclosure of confidential information to in-house employee experts who had signed a non-disclosure agreement, provided that those employees are not concerned with marketing, strategic planning, or directly competitive products or services. The original protective order had prohibited in-house employee experts from obtaining access to confidential information.

Another area of considerable prehearing activity concerned requests of the parties to adjust the procedural schedule and hearing dates. In Interim Decision No. R88-1290-I (September 26, 1988), the procedural schedule was moved forward from the times originally set; the prehearing conference originally scheduled for October 6, 1988, was vacated and reset to November 7, 1988, and the original evidentiary hearing dates of October 17-28, and November 7-18, 1988, were vacated and moved forward. The new evidentiary hearing dates were as follows: November 14-18, 21-23, 28-30, December 1-2, 1988.

Motion hearings were held on August 19, September 16, November 10, 16, and 23, 1988. All of the prehearing motions were addressed and ruled upon in the following interim decisions: Decision Nos. R88-982-I (August 3, 1988), R88-1042-I (August 10, 1988), C88-1069 (August 10, 1988), R88-1070-I (August 15, 1988), R88-1152-I (August 30, 1988), R88-1174-I (September 2, 1988), R88-1206-I (September 9, 1988), R88-1220-I (September 13, 1988), R88-1288-I (September 26, 1988), R88-1290-I (September 26, 1988), R88-1399-I (October 19, 1988), R88-1487-I (November 4, 1988), R88-1488-I (November 4, 1988), R88-1531-I (November 10, 1988), R88-1556-I (November 17, 1988), and R88-1641-I (December 5, 1988).

On November 7, 1988, a prehearing conference was held to establish time, the order of presentation and scheduling of witnesses, the order of cross-examination, and other procedural directives as shown in prehearing order R88-1531-I (November 10, 1988).

SUMMARY

PUBLIC HEARINGS ON U S WEST PROPOSAL TO RESTRUCTURE LOCAL CALLING AREAS IN COLORADO I&S 1766

The following public hearings were held to ascertain public opinion on the U S WEST Proposal to change local calling areas/ I&S 1766:

September 19, 1988	Denver
September 27, 1988	Fort Collins
September 28, 1988	Boulder
October 5, 1988	Aurora/Parker
October 6, 1988	Alamosa
October 7, 1988	Grand Junction and Colorado Springs
October 12, 1988	Granby
October 13, 1988	Lakewood
October 14, 1988	Pueblo and Lamar

DENVER

About 125 attendees. Of those testifying: 24 Opposed, 11 Supported, and 3 were Indeterminate.

Commissioners Attending: Chairman Cook and Commissioners Schmidt and Lehr. Representatives of U S WEST were James Smiley and James Heinze.

The first public hearing in the schedule, the Denver hearing, was held in Commission Hearing Room A. About 125 people attended, mostly from the Denver metropolitan area. Organized groups which were represented included United Seniors of Colorado, Equity 88 (a coalition of local governments, realtors, and intervenors), Colorado Public Interest Research Group (CoPIRG) and various boards of realtors.

Testimony: A small number of consumers from rural Colorado testified in support of the proposal but the majority testified against the plan. Among the reasons stated for opposition were:

Higher monthly flat rate for Metro-Denver
Complexity of the plan and choices
The institution of measured service
The curtailment of business for small businesses
Like the status quo
Dividing up the Denver area community of interest

This was the first hearing at which the observation was made that the U S WEST plan pits the interests of rural Colorado against the interests of Metropolitan Denver. A number of petitions opposing the plan were submitted for the record.

FORT COLLINS

About 75 attendees. Of those testifying, 9 Opposed, 6 Supported, and 1 Indeterminate.

Commissioners attending were Chairman Cook and Commissioner Schmidt. Representing U S WEST was James Heinze.

About 75 people attended the hearing held in the County Judicial Building. The group was about evenly divided between those opposed to the plan and those favoring it. Groups represented included Equity 88, CoPIRG, Ft. Collins and Greeley Economic Development Agencies.

Testimony:
Among the reasons stated in opposition were:
- Increased rates for fixed incomes
- Complexity of the plan
- Would hurt small businesses

Among the reasons stated in support were:
- Better for economic/business development
- Link up citizens within the community of interest
- Would make it easier to contact friends & relatives
- Would lower local long distance charges

BOULDER

About 60 attendees. Of those testifying, 10 Opposed, 8 Supported, and 1 Indeterminate.

Commissioners in attendance were Chairman Cook and Commissioners Schmidt and Lehr. Representing U S WEST was James Heinze.

About 60 people attended the hearing held in the auditorium of the National Bureau of Standards. Representatives of Equity 88, and CoPIRG attended.

Testimony: Residents and business owners from nearby mountain areas spoke in favor of the plan which would link them up to their community of interest, Boulder. Those opposing the plan were critical because of its perceived limits on inbound business calls.

AURORA/PARKER

About 40 attendees. Of those testifying, 7 Opposed, 5 Supported and 1 Indeterminate.

Commissioners attending were Chairman Cook and Commissioners Schmidt and Lehr. Representing U S WEST was James Heinze.

About 40 people attended the hearing at Eagle Crest High School, located at the eastern most edge of Aurora and near the Parker/Elizabeth area. Most were residents of the more rural parts of that area. Representatives of Equity 88 attended.

Testimony: Those from Elizabeth favor the proposal which they say would link them to their community of interest, Metropolitan Denver, and lower their local long distance bills.

ALAMOSA

About 50 attendees. Of those testifying, all 20 spoke in favor of the proposal.

Commissioners Andra Schmidt and Ron Lehr attended. James Heinze represented U S WEST.

The hearing was held in the Adams State College student center. State Representative Lewis Entz and Senator Robert Pastore attended. Representatives of local health providers, charitable organizations, local governments, economic development agencies, law enforcement agencies and the college spoke on behalf of the expanded calling areas, citing benefits to each of their respective agencies. Those testifying said that the entire San Luis Valley is their community of interest. Several representatives of Blanca Telephone Company spoke in favor of the plan and joint cooperation with independent telephone companies. The only negative comments were from those who have multi-party lines who could not take full advantage of the plan.

GRAND JUNCTION

About 35 attendees. Of those testifying, 1 Opposed the plan, and 9 Supported it.

Commissioners Andra Schmidt and Ron Lehr attended. U S WEST representative was James Heinze.

The hearing was held in the student center of Mesa State College. Residents and business leaders said the expanded calling areas would help economic development in Grand Junction and would help rural residents keep their bills down because of reduced local long distance charges. Two persons had problems with the new line extension policy. One motel owner said he was tired of the U S WEST billing of long distance calls which are not completed.

COLORADO SPRINGS

About 200 people attended. Of those testifying, 22 Opposed, 13 Supported, and 2 Indeterminate.

Commissioners Andra Schmidt and Ron Lehr attended. U S WEST representative was James Heinze.

The hearing was held in Council Chambers in the Colorado Springs City Hall. The majority of those attending were senior citizens and supporters of Equity 88. Those favoring the plan were residents of more remote parts of the area where they now have to pay long distance to reach Colorado Springs businesses and government. The manager of El Paso Telephone Company said that when the LCAP plan is approved, they will offer a compatible plan for their customers.

GRANBY

About 100 attendees. Of those testifying, all 22 Supported the proposal.

Commissioners Arnold Cook and Ron Lehr attended. Representing U S WEST was James Heinze.

The hearing was held in the Granby community center. State Senator Dave Wattenberg attended the hearing. Testimony covered the issue of community of interest, business development, and public safety for Grand County and Routt County. County governments have to pay for toll free lines from communities within the counties they serve. Several spoke in favor of the proposal on behalf of the tourism industry in the area. Most testifying had facts and figures supporting the cost-savings of the proposal. Two individuals offered complaints and petitions opposing the new U S WEST line extension charges.

LAKEWOOD

About 150 people attended. Of those testifying, 21 Opposed, and 4 Supported the plan.

Commissioners Arnold Cook and Ron Lehr attended. Representing U S WEST was James Heinze.

The Lakewood hearing was held in the Lakewood Municipal Center. The hearing was similar in content to the Denver hearing. Senior citizens and representatives of Equity 88 opposed the plan. Residents of nearby Jefferson and Clear Creek Counties who are not now in Metro 65 spoke in favor of including them in the metropolitan Denver calling area.

PUEBLO

About 250 attendees. Of those testifying, 28 Opposed, 6 Supported, and 1 Indeterminate.

Commissioner Ron Lehr conducted the hearing. Representing U S WEST was James Heinze and James Smiley.

The hearing was held in the Sangre de Cristo Arts Center. The largest number of any one group in attendance was from the United Seniors organization, all of whom opposed the plan because of increased rates. About 30 people attended from communities in Otero County. They oppose the plan because they believe it limits their calling area. A petition with more than 4500 signatures from Otero County residents was presented. Otero was successful in 1987 in having the entire county declared a single calling area. Those who supported the plan were representatives of the area's larger businesses and also the more remote parts of the service area.

LAMAR

About 100 attendees. Of the 30 persons testifying, 30 Supported the plan.

Commissioner Arnold Cook attended. Representing U S WEST was Sue DeMuth.

The hearing was held in the First Baptist Church. Commissioners Schmidt and Lehr were originally scheduled to hear the case the previous Friday but were unable to attend because of bad weather. Most of those attending the hearing were also present the week before. County Commissioners, local elected officials from various communities, and residents spoke in favor of the plan, citing a need for expanded calling areas. All identified the county as being the "community of interest."

I&S 1766 EXHIBITS

Exhibit A	Smith (U S WEST)	Direct Testimony Exh. 1--Case No. U-1000-9 Mountain Bell Motion Exh. 11--Dec. C83-1385 (9/2/83)
Exhibit B Exhibit B-1 Exhibit B-2 Exhibit 2	Heinze (U S WEST)	Direct Testimony Supplemental Testimony Rebuttal Testimony (11/10/88) Exhibits
Exhibit C Exhibit 3	Vincent (U S WEST)	Direct Testimony Exhibit--Study (Proprietary pages in sealed envelope)
Exhibit D Exhibit 4	Carnes (U S WEST)	Direct Testimony Exhibit (all proprietary)
Exhibit E Exhibit 5 Exhibit E-1 Exhibit 5-A	Garcia (U S WEST)	Direct Testimony Exhibit (first five pages proprietary) Direct Testimony--Supplemental 9/14/88 Supplemental Exhibit (Proprietary pages sealed)
Exhibit F Exhibit 6	Wallin (U S WEST)	Direct Testimony Exhibit
Exhibit G Exhibit 7 Exhibit G-1 Exhibit 7-A Exhibit G-2 Exhibit 7-B	Fleming (U S WEST)	Direst Testimony 7/18/88 Exhibits (8/15/88 pages substituted) Supplemental Direct Testimony 9/14/88 Supplemental Exhibits 9/14/88 Rebuttal Testimony (11/14/88) Rebuttal Exhibits
Exhibit H Exhibit 8 Exhibit H-1 Exhibit 8-A Exhibit H-2	Rounds (U S WEST)	Direct Testimony (8/15/88 pages substituted) Exhibit (8/15 pages substituted) (Proprietary pages sealed) Supplemental Testimony 9/14/88 Supplemental Exhibit 9/14/88 Rebuttal Testimony Substituted Page 1, Exh. 8

Exhibit I	Wilcox	Direct Testimony
Exhibit 9	(U S WEST)	Exhibit
Exhibit I-1		Rebuttal Testimony
Exhibit 9-A		Rebuttal Exhibit
Exhibit J	Hatzenbuehler	Direct Testimony
Exhibit 10	(U S WEST)	Exhibit (proprietary pages sealed)
Exhibit J-1		Rebuttal Testimony
Exhibit 10-A		Rebuttal Exhibits (partially sealed)
Exhibit 11	Smith (U S WEST)	Dec. C83-1385 (MB)
Exhibit 12	Heinze	MCI Request No. 008 (MCI)
Exhibit 13	(U S WEST)	SXS Line & Number Inventory (proprietary)
Exhibit 14		Average bill under LCAP Residence
Exhibit 15	Carnes (U S WEST)	MCI Data Request No. 074 (MCI)
Exhibit 16	Garcia U S WEST)	Letter to Perry Fox & reply (proprietary)
Exhibit 17		Office conversions (Debeque) (prop.) (OCC)
Exhibit 18		Denver Metro Intervenors Request No. 022 (MCI)
Exhibit 19	Wallin	OCC Request No. 099 (prop.) (OCC)
Exhibit 20	(U S WEST)	Demand Analysis Study (pages 3, 4, 10, 11, 12) (proprietary)
Exhibit 21		Otero County Conversion (Staff)
Exhibit 22	Fleming (U S WEST)	Portion of Fleming deposition (pg. 31) by Ettinger
Exhibit 43	Admin. Notice	Decision No. 63186, 6/2/64
Exhibit Y	Thompson (U S WEST)	Thompson Rebuttal
Exhibit K	Binz (OCC)	Direct Testimony

Exhibit L	Dunkel	Direct Testimony
Exhibit 23	(OCC)	
Exhibit 24		
Exhibit 25		
Exhibit 26		(Proprietary)
Exhibit 27		
Exhibit 28		
Exhibit 29		
Exhibit 30		(Proprietary)
Exhibit 31		
Exhibit 32		
Exhibit 33		
Exhibit 34		(Proprietary)
Exhibit 30-A		
Errata Sheet		
Exhibit M	McDaniel	Direct Testimony
Exhibit 35	(OCC)	
Exhibit 36		
Exhibit 37		
Exhibit 38		
Exhibit N	Hix	Direct Testimony
Exhibit 39	(OCC)	
Exhibit 40		
Exhibit 41		
Exhibit 42		
Exhibit 44	Binz	Letter to Cynthia Vahn, dated 7/11/88
Exhibit 45	(OCC)	OCC analysis of LCAP 8/5/88
Exhibit O	Zahn	Direct Testimony
Exhibit 46	(AT&T)	
Exhibit 47		
Exhibit 48		
Exhibit P	Sumpter	Direct Testimony
	(AT&T)	
Exhibit Q	Enright	Direct Testimony
Exhibit 49	(Staff)	
Exhibit 50		
Exhibit 51		
Exhibit R	Mitchell	Direct Testimony
Exhibit 52	(Staff)	
Exhibit 53		
Exhibit 54		

Exhibit S	Casebolt (Denver Metro)	
Exhibit T Exhibit 75	Selwyn (Denver Metro)	Exhibit with seven tables
		Mountain Bell Housekeeping
Exhibit 55		PUC Request 1
Exhibit 56		PUC Request 2
Exhibit 57		PUC Request 3
Exhibit 58		PUC Request 4 (proprietary)
Exhibit 59		PUC Req. 5
Exhibit 60		PUC Req. 6
Exhibit U Exhibit 61 Exhibit 62 Exhibit 63 Exhibit 64 Exhibit 65 Exhibit 66 Exhibit 67 Exhibit 68	Kalver (DOD)	Direct Testimony
Exhibit V	King (DOD)	Direct Testimony
Exhibit W Exhibit 69 Exhibit 70 Exhibit 71 Exhibit 72 Exhibit 73 Exhibit 74	Van Ruler (Agate, et al.)	Direct Testimony
Exhibit X	Van Ruler (Agate, et al.)	Surrebuttal
Exhibit Z Ehxibit ZZ	Newton (Aurora)	Direct Testimony Exhibits--12 pages
Exhibit AA Exhibit AA-1 Exhibit 78	Parrish (Aurora)	Direct Testimony Surrebuttal Testimony Exhibits--3 pages, attached to direct
Exhibit 79	Parrish (Aurora)	Exhibits--7 pages attached to Surrebuttal

Exhibit BB	Steele	Cross-rebuttal Testimony
Exhibit 80	(Staff)	Three-page exhibit
Exhibit DD	Gates	Gates, Timothy J.--Direct
	(MCI)	Testimony for MCI
Exhibit 100		NEL Letter to Randy Young, 10/14/88
Exhibit EE	Cornell	Cornell, Nina W.--Direct Testimony of
	(MCI)	I
Exhibit 84		Resume' (13 pages)
Exhibit 85		Revised LCAP Revenue Projection (3 pages) (proprietary)
Exhibit 86		Copy of Wallin Workpaper on Stimulation (1 page) (proprietary)
Exhibit 87		MCI Traffic Study (proprietary)
Exhibit FF	Gerler	Prefiled testimony of Bob Gerler
Exhibit 88	(Otero)	Otero Data Request 6 with USWC Response
Exhibit 89		Resolution of Cheraw
Exhibit 90		Resolution of Fowler
Exhibit 91		Resolution of Swink
Exhibit 92		Resolution of Manzanola
Exhibit 93		Resolution of La Junta
Exhibit 94		Resolution of Rocky Ford
Exhibit 95		Resolution of Otero County
Exhibit 96		Otero Data Request 5 with USWC Response
Exhibit GG	Ziegler	Direct Testimony
Ehibit GG-1	(Haxtun)	
Exhibit KK	Armstrong	Direct Testimony
Exhibit 104	(Staff)	Exhibit 1
Exhibit 105		Exhibit 2
Exhibit 106		Exhibit 3
Exhibit 107		Exhibit 4
Exhibit 108		Exhibit 5
Exhibit 109		Exhibit 6
Exhibit 110		Exhibit 7
Exhibit 111		Exhibit 8
Exhibit 112		Exhibit 9
Exhibit 113		Exhibit 10
Exhibit 114		Exhibit 11
Exhibit 115		Exhibit 12
Exhibit 116		Exhibit 13
Exhibit 117		Exhibit 14
Exhibit 118		June 27, 1983, OMB 83-20 Release

Exhibit KK-1	Armstrong (Staff)	Surrebuttal Testimony
Exhibit LL	Dunkel (OCC)	(Proprietary) Sur and Cross Rebuttal
Exhibit 119		No. 119, No. 120, No. 121, No. 122
Exhibit 120		
Exhibit 121		
Exhibit 122		
Exhibit 126		Request No. 144 (Proprietary) Public Copy (not marked as Exhibit)
Exhibit 127		Profile of Low Income Customers
Exhibit MM	Carnes	Rebuttal
Exhibit 123	(U S WEST)	Proprietary Rebuttal Testimony
Exhibit 124		Proprietary Rebuttal Exhibits
Exhibit 125	Staff	Survey PUC of Ohio
Exhibit NN	Hagen	Rebuttal
Exhibit 128	(U S WEST)	Hagen Exhibit
Exhibit 129		MCI Exhibit Metro State Areas
Exhibit 130		USWC Exhibit
Exhibit 132		USWC Exhibit
Exhibit R132		Point to point study
Exhibit 59		Balloting Costs (Question No. 5)
Exhibit 133	Hatzenbuehler	Residential Local Usage and Cost Considerations -Denver Metro
Exhibit 134		Averages