

UTILITY OPERATIONS DIVISION ROUTING SLIP

File No. 200100493

To:	Initial	Assigned: 10/27/2000	Initial	Date	Revised
Chair Lumpe	<i>[Signature]</i>	From:	ALM	11/22/00	11/28/00
Vice Chair Drainer	<i>[Signature]</i>	Amonia Moore	<i>[Signature]</i>	11/28/00	
Commissioner Murray	<i>[Signature]</i>	Wm Voight Natella Dietrich	<i>[Signature]</i>	11/29/00	
Commissioner Schemenauer	<i>[Signature]</i>	Mr. VanEschen	<i>[Signature]</i>	11-29-00	
Commissioner Simmons	<i>[Signature]</i>	Mr. Henderson	<i>[Signature]</i>	11/30/00	
		Legal	<i>[Signature]</i>		
Agenda Date: 12/5/00					
Final Agenda: 12/07/00		Staff Deadline: 11/30/00		By 5pm	
Commission Action:		STAFF RECOMMENDS APPROVAL			
Approve: 5-OAS Suspend:					

Company: Sprint Missouri, Inc. d/b/a Sprint
 Effective Date: 12/11/2000
 Purpose: Change Rates Pursuant to Price Cap Regulation

I. INTRODUCTION

On October 27, 2000, Sprint Missouri, Inc., d/b/a Sprint (Sprint), an incumbent local exchange telecommunications carrier, submitted its annual price cap filing, which included tariff revisions proposing to make rate changes to basic local service, exchange (switched) access, and non-basic service rates. As part of these proposed rate changes, Sprint is eliminating separate touch tone and zone mileage charges. The tariffs that contain the rates and services affected by these proposed changes are: General Exchange Tariff, PSC Mo. No. 22; Message Telecommunications Services Tariff, PSC Mo. No. 23; Private Line Services Tariff, PSC Mo. No. 24; and Access Services Tariff, PSC Mo. No. 26.

Specifically, the tariff filing is proposing to make the following changes: (1) rebalance some switched access rates to basic local exchange rates; (2) reduce intraLATA toll rates; (3) reduce the rates for basic local and switched access services by applying the telephone services component of the consumer price index (CPI-TS); (4) eliminate touch tone and zone mileage as separate charges and combine the charges into the rates for basic local and non-basic services; (5) establish maximum allowable prices; and (6) increase certain non-basic service rates. The filing also includes several new, original tariff pages that list the updated maximum allowable prices for each of Sprint's tariffed services. Sprint's detailed workpapers provided supporting data as backup for the proposed rate changes. Lastly, Sprint included samples of its proposed customer notifications with the filing.

The Telecommunications Department Staff (Staff) analyzed Sprint's filing, including the supporting workpapers and prepared recalculations of the data on summary sheets, two of which are contained herein as Schedules 1 and 2. The following Sections II - VI discuss each of the proposed changes and their compliance with the applicable Missouri Revised Statutes for price cap regulated telecommunications carriers. The sections are arranged according to the steps followed in preparing and analyzing the price cap filing.

II. REBALANCE RATES (RSMo 392.245.8 and 392.245.9)

Sprint is proposing to reduce its access service rates by (1) reducing interLATA and intraLATA originating and terminating Carrier Common Line (CCL) charges and (2) eliminating the switched access information surcharge. In order to offset the switched access revenue losses, basic local service rates were increased by \$1.50. This was done in accordance with RSMo 392.245.8 and 392.245.9, which state:

8. An incumbent local exchange telecommunications company regulated under this section may reduce intrastate access rates, including carrier common line charges, subject to the provisions of subsection 9, to a level not to exceed one hundred fifty percent of the company's interstate rates for similar access services in effect as of December thirty-first of the year preceding the year in which the company is first subject to regulation under this section...

9. Other provisions of this section to the contrary notwithstanding and no earlier than January 1, 1997, the commission shall allow an incumbent local exchange telecommunications company regulated under this section which reduces its intrastate access service rates pursuant to subsection 8 of this section to offset the revenue loss resulting from the first year's access service rate reduction by increasing its monthly maximum allowable prices applicable to basic local exchange telecommunications services by an amount not to exceed one dollar fifty cents [\$1.50]. A large incumbent local exchange telecommunications company shall not increase its monthly rates applicable to basic local telecommunications service under this subsection unless it also reduces its rates for intraLATA interexchange telecommunications services by at least ten [10] percent

Step 1: Reduce Switched Access Carrier Common Line Rates

Sprint reduced its interLATA and intraLATA switched access (CCL) originating and terminating charges by 7.8% after eliminating the \$0.0004 information surcharge. The total annual switched access CCL rate rebalance *reduction* is \$3,713,796.

III. APPLY CPI-TS ADJUSTMENT TO SWITCHED ACCESS AND ESTABLISH MAXIMUM PRICES (RSMo 392.245.4(1) and RSMo 392.245.1)

Pursuant to RSMo 392.245.1, a price cap regulated incumbent local exchange telecommunications company [ILEC] shall establish "maximum allowable prices for telecommunications services offered by [the] ILEC, which maximum allowable prices shall not be subject to increase except as otherwise provided in this section." A large ILEC, such as Sprint, regulated under price caps is allowed to make reductions to the maximum allowable prices pursuant to RSMo 392.245.4(1), which stipulates that after January 1, 2000, the maximum allowable prices for exchange access and basic local telecommunications services of an incumbent local exchange telecommunications company shall be annually changed one of the following methods:

- (a) By the change in the telephone service component of the Consumer Price Index (CPI-TS), as published by the United States Department of Commerce or its successor agency for the preceding twelve months; or
- (b) Upon request by the company and approval by the commission, by the change in the Gross Domestic Product Price Index (GDP-PI), as published by the United States Department of Commerce or its successor agency for the preceding twelve

months, minus the productivity offset established for telecommunications service by the Federal Communication Commission and adjusted for exogenous factors.

In establishing its maximum allowable prices for exchange (switched) access and basic local services, Sprint used method (a) above. The CPI-TS was calculated using a twelve-month moving average to arrive at a -0.92% adjustment (reduction).

Step 2: Reduce Switched Access Carrier Common Line Rates by the CPI-TS Adjustment

Rather than applying the CPI-TS adjustment to all switched access services, Sprint further reduced the CCL originating and terminating rates by applying the CPI-TS adjustment just to the rebalanced CCL rates. This reduced the interLATA and intraLATA CCL originating and terminating rates by an additional 1.43% and results in the same amount of revenue change as applying the adjustment to all of the switched access components. The total annual CPI-TS *reduction* amount is \$580,066.

Step 3: Reduce IntraLATA Toll Rates

For its intraLATA toll services, Sprint reduced by 10 percent the following basic local toll services: (1) two-point service local toll service, (2) Sprint Sense local toll service, and (3) Business Sense local toll service. The total annual intraLATA toll *reduction* amount is \$574,884.

Step 4: Increase Basic Local Rates

To offset the revenue losses resulting from the reductions to switched access rates, Sprint added \$1.50 to the monthly rates for business and residential basic local services, including Access Line, Measured Access Line, 4-Party Access Line, and Access Line-Semi Public Telephone. The total annual basic service rate *rebalance increase* is \$3,713,796. These rebalanced/increased rates were then reduced by the CPI-TS adjustment.

IV. APPLY CPI-TS ADJUSTMENT TO BASIC LOCAL AND ESTABLISH MAXIMUM PRICES

Step 5: Apply CPI-TS Adjustment to Basic Local Services

Also pursuant to RSMo 392.245.4(1), The CPI-TS adjustment was applied to the rebalanced rates for Sprint's basic local service, local measured service, and local service charges. Additionally, the CPI-TS adjustment was applied to the current rates for touch tone and zone mileage charges. The total annual amount of the CPI-TS adjustment for basic local services is a *decrease* of \$268,719.

V. ELIMINATE SEPARATE TOUCH TONE AND ZONE MILEAGE CHARGES

Rather than reducing all components of basic local service (access lines, measured access, EAS, service charges, touch tone, and zone mileage) by the amount of the CPI-TS adjustment, Sprint is proposing to eliminate the separate touch tone and zone mileage charges and combine these charges into the basic access line rates for business and residential customers.

Sprint provided data and calculations to show that the amount of revenue change is the same regardless of whether the CPI-TS adjustment is applied to all the basic local service components (access lines, EAS, local measured, service charges, touch tone and zone milieage), or whether the separate touch tone charges are eliminated and then combined with the access line rates. The same results are obtained in both instances.

Steps 6 – 7: Determine per-customer price adjustment for adjusted revenue due to CPI-TS reduction

Sprint determined the price adjustment per customer for residential and business customers if the basic local CPI-TS reduction amount were applied just to the touch-tone service and the adjusted revenue recovered by just the current touch-tone customers. The price adjustments would be \$1.12 for residential and \$1.87 for business customers. Sprint then calculated the price adjustment per customer of spreading the adjusted revenue over *all* residential and business customers. In this case, the price adjustments for touch tone are \$0.86 and \$1.79 for residential and business customers, respectively. The resulting revenue changes are the same in both cases.

Steps 8 – 9: Effect of Eliminating Separate Touch Tone and Zone Mileage Charges

Eliminating the separate touch-tone charges and then combining touch tone with access lines rates *before* eliminating the separate zone mileage charges results in the same revenue change. The per-customer price adjustments for the elimination of the separate zone mileage charges, and then spreading the associated costs over all customers are \$0.83 for residential and \$0.32 for business customers.

Step 10: Eliminate Separate Touch Tone *and* Zone Mileage Charges and Combine with Access Line Rates

The per-customer price adjustments due to the CPI-TS reduction just to touch tone and then spread over all customers (\$0.86 for residential, \$1.79 for business) and the per-customer price adjustments from the elimination of zone mileage charges (\$0.83 for residential, \$0.32 for business) were added to the rebalanced rates to obtain the new, proposed prices for residential and business access line, measured access line, 4-party access line, access line-semi public telephone rates. The proposed new rates for basic local and access services are listed on the attached Schedule 1.

Impact of Rate Changes on Residential Basic Local Customers

Sprint's proposed filing seeks to simplify basic service rates by eliminating the separate charge for Touch Tone service, making Touch Tone an inseparable component of basic dial tone service, and including the price of Touch Tone service in the basic dial tone rate. Basic service rates will be further simplified by eliminating the zone mileage charge for customers who live outside a base rate area. The impact of these changes will be different for particular customers depending on whether they currently purchase Touch Tone service and pay zone mileage charges. Currently, 77% of Sprint's residential customers purchase the separate Touch Tone service (23% do not); and approximately ~~85%~~ ^{85%} of customers pay zone mileage charges (~~85%~~ ^{85%} do not). The impacts to residential basic local customers are detailed on Schedule 2 and summarized below. AK

Residential customers who currently purchase Touch Tone as a separate service and pay zone mileage—*approximately 27% of customers*—will realize a monthly savings of approximately 40 cents. Customers who currently purchase Touch Tone and do not pay zone mileage charges (50% of customers) will incur a monthly rate increase of \$1.95. Customers who currently do not purchase Touch Tone service and pay zone mileage charges (8% of customers) will see an 85-cent increase in their monthly dial tone rates. Customers who currently do not purchase Touch Tone and do not pay zone mileage charges (15% of customers) will incur the greatest monthly increase of approximately \$3.20. *Approximately 58% of residential basic local customers will receive, on average, an increase of \$1.04 per month.*

VI. INCREASE PRICES FOR BUNDLED NON-BASIC SERVICES (RSMo 392.245.11)

Steps 11 – 13: Eliminate Separate Touch Tone and Zone Mileage Charges from Non-Basic Services

Sprint is proposing to eliminate touch tone and zone mileage as separate charges not just from its basic local services, but also from its non-basic services (business solution bundles, residence solution bundles, switchlink access line, business trunk, business measured trunk, residence trunk, and residence measured trunk). Eliminating these charges and spreading the associated costs over all customers results in a total per-customer price adjustment of \$1.61 for residential customers and 2.08 for business customers; but doing this has no impact on Sprint's revenues – the current and adjusted revenues remain the same.

Step 14: Increase Prices on Bundled Non-Basic Services

Sprint is proposing to increase the monthly rates for its bundled Business Solutions and Residence Solutions non-basic services. These increases are being made in compliance with RSMo 392.245.11, which states:

[T]he maximum allowable prices for nonbasic telecommunications services of an incumbent local exchange telecommunications company may be annually increased by up to eight percent for each of the following twelve-month periods upon providing notice to the commission and filing tariffs establishing the rates for such services in such exchanges at such maximum allowable prices.

Residential and business bundled non-basic services will *increase* by a total annual amount of **\$555,995**.

Impact of Rate Changes on Residential Non-Basic Services

Although Sprint is allowed to increase its non-basic services by 8 percent, it is proposing to increase its bundled non-basic services by less than 8 percent, i.e., from 6.6 percent to 7.9 percent, depending on the particular bundle. These increases range from \$1.15 to \$1.92 over and above the adjusted prices resulting from the elimination of touch tone and zone mileage; but *approximately 35% of current residential customers will realize an average monthly savings of \$1.59* (those that currently pay zone mileage charges). In other words, these customers will pay \$1.59 less, on average, than if Sprint had maintained the separate touch tone and mileage charges and then increased the non-basic rates by 8 percent as allowed under RSMo 392.245.11. Approximately 50% of customers who currently use non-basic services will incur a monthly increase of 45 cents over and above what the "across-the-board-8-percent increase" would have been (without eliminating touch tone and zone mileage); and 15% of customers who currently use non-basic services will incur a monthly increase of \$1.70. In other words, *about 65% of current users of non-basic services will not have to pay more than \$1.70 over and above what they would have paid if Sprint had increased all non-basic services by 8 percent, but kept the separate touch tone and zone mileage charges*. Schedule 2 also illustrates these non-basic service rate changes and the impacts to residential customers.

VII. SUMMARY AND CONCLUSION

As allowed by the price cap regulations contained in the Missouri Revised Statutes, Sprint is proposing to reduce switched access charges by \$3.7 million annually and recover the revenue shortfall by increasing basic local service rates \$1.50 per month per access line. The statutes also require a price cap regulated company to reduce its intrastate long distance rates by 10 percent at the same time as rates are rebalanced for switched access and basic local services. This amounts to a \$574,884 reduction in Sprint's intraLATA toll revenues. The statutes also stipulate that price cap regulated telecommunications carriers shall annually change basic service rates by the change in the telephone services component of the Consumer Price Index (CPI-TS). This

amounts to a 0.92% reduction in Sprint's annual revenues for basic local services, or \$268,719 annually. The same stipulation applies to exchange (switched) access services, and Sprint is proposing to reduce switched access rates by \$580,066 annually to reflect the CPI-TS adjustment. Additionally, Sprint is proposing to increase certain non-basic services rates by \$555,995 annually, also pursuant to the price cap statutes; but Sprint is not proposing to increase non-basic services by the full eight percent as allowed by the statutes. The net effect to Sprint's revenues is a total reduction of \$867,674 annually.

As part of this price cap filing, Sprint is proposing to eliminate the separate Touch Tone service and zone mileage charges and combine the charges into basic access line rates. These changes will impact customers differently depending upon whether or not they currently purchase Touch Tone service and pay zone mileage charges. Since Sprint has more residential customers than business customers, listed below are a few statistics on Sprint's current residential customers:

Residential			
Basic Local Service		Non-Basic Service	
Total basic local customers	171,300	Total non-basic customers	27,390
Purchase touch tone	132,609	Purchase touch tone	21,204
Do not purchase touch tone	38,691	Do not purchase touch tone	6,186
Pay zone mileage	59,955	Pay zone mileage	17,804
Do not pay zone mileage	111,345	Do not pay zone mileage	9,586

The impacts to residential customers of the proposed rate changes can be summarized as follows:

Basic local customers –

- 27% will realize a monthly savings of 40 cents.
- 58% will see an average increase of \$1.04 in their monthly dial tone service.
- 15% will see a \$3.20 increase in their monthly dial tone service.

Non-basic customers –

- 35% will realize an average monthly savings of approximately \$1.59 due to Sprint eliminating touch tone and zone mileage charges and not increasing non-basic services by the full, allowable eight percent.
- 50% will realize a monthly increase that is 45 cents more than they would have incurred if Sprint had increased its non-basic services by a full eight percent.
- 15% will realize a monthly increase that is \$1.70 more than they would have incurred if Sprint had increased its non-basic services by a full eight percent.

Comparing the current rates to the proposed, for both basic local and non-basic services, the greatest impact will be on those customers who currently do not purchase Touch Tone service and do not pay zone mileage charges. In both cases, these customers represent 15% of Sprint's total residential customers. In the case of basic local services, these "high-impact" customers will incur a \$3.20 per month increase (including the \$1.50 rate rebalancing amount); and for non-basic services, they will pay \$3.30 more per month than they are currently paying for bundled non-basic services.

Overall, 27% of basic local residential customers will see a decrease in their monthly bill for basic local exchange service of about 40 cents; and 73% will incur increases. Of the customers receiving increases in their basic local rates, the monthly amount for most of them will be no more than \$1.95.

The greatest benefit of the proposed rate changes accrue to the interexchange telecommunications carriers, who will realize a total annual reduction of \$4,293,862 in switched access charges (\$3,713,796 due to rate rebalancing reduction and \$580,066 due to the CPI-TS reduction). Pursuant to RSMo 392.245.10, consumers will receive further decreases in their long distance rates, because interexchange telecommunications carriers will pass these reductions along to their end-user customer.

As noted above Sprint has prepared informative and explanatory customer notifications and press releases for its customers and the general public, copies of which are attached. Sprint's proposed tariff filing and its customer/public notifications emphasize the simplification of customer bills and other advantages of eliminating touch tone service as a separate service and including it in all customers' basic local service. For example, the Sample Customer Communication states "Touch Tone enhances basic service by allowing customers to more easily order by telephone, bank by telephone and take advantage of other conveniences. It also makes using certain optional calling features easier." Additionally, eliminating zone mileage charges will further simplify customers' bills.

RECOMMENDATION

Staff has analyzed Sprint's proposed price cap filing and finds that it meets the requirements of the price cap regulations as set forth in RSMo 392.245. Staff has no objections to the rate changes going into effect, including the elimination of separate Touch Tone and zone mileage charges. Staff recommends that the Commission approve tariff revisions to Sprint's PSC Mo. Tariffs Nos. 22, 23, 24, and 26 with an effective date of December 11, 2000.

Attachments:

- Schedule 1 – Listing of Basic Local Exchange and Access Service Rate Changes
- Schedule 2 – Residential Customer Impacts