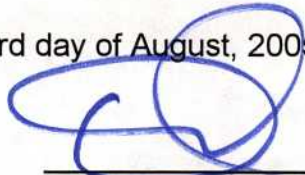


Also attached hereto are Commission Orders which are contained in Case Nos. 10,654 and 10,699 of October 8, 1985, including a Supplemental Order dated December 9, 1985; a Second Supplemental Order dated January 7, 1986; a Third Supplemental Order dated April 1, 1986; Supplemental Findings dated August 7, 1986; a Fourth Supplemental Order dated October 14, 1988; a Notice of Proposed Fourth Supplemental Order dated November 21, 1989; and Fifth Supplemental Order dated July 19, 1990.

Dated at Minot, North Dakota, this 23rd day of August, 2005.



Don Negaard

Subscribed and sworn to before me this 23rd day of August, 2005.

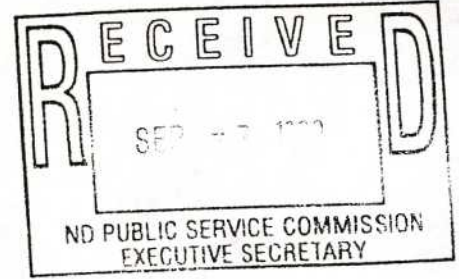


Notary Public
For the State of North Dakota
My commission expires: _____

JUDITH A. TOSSETT
Notary Public
State of North Dakota
My Commission Expires Jan. 8, 2010



Eagandale Corporate Center, Suite 310
1380 Corporate Center Curve, Eagan, Minnesota 55121
phone: 612-452-2660 fax: 612-452-1909



September 3, 1999

Mr. Jon Mielke
Executive Secretary
Public Service Commission
State Capitol
600 East Boulevard Avenue
Bismarck, ND 58505-0480

Dear Mr. Mielke:

On behalf of ~~Consolidated Telephone Cooperative~~ I am enclosing an original and eight copies of their revised North Dakota Intralata Access Rates. These revised access rates are being filed in accordance with the resolution of Case No. PU-418-99-207 to be effective on August 23, 1999.

Included in this package you will find an Intrastate Intralata access rate sheet, worksheets identifying the access charge rate development, and a Part 69 cost study based on the current separation rules applicable in North Dakota. We have only included three copies of the Part 69 study based on conversation with Pat Fahn. With this filing, the current Access Adjustment Rate (AAR) should be deleted from Consolidated Telephone Cooperative's Intrastate Tariff (Page 118). As agreed to by Pat Fahn, Consolidated Telephone Cooperative will be filing, within the next two to three weeks, the terms and conditions for their Intrastate Intralata Tariff.

If you have any questions concerning this information or would like further information, please call me at (651) 452-2660.

Sincerely,

James E. Howard, Jr.
Vice President Business Services
jhoward@jsitel.com

JEH:bw
Enclosure

cc: L. D. Wilhelmson, Consolidated Telephone Cooperative
JSI, Maryland

HEADQUARTERS:

6315 Seabrook Road, Seabrook, Maryland 20706
phone: 301-459-7590 fax: 301-577-5575
internet: www.jsitel.com e-mail: jsitel@jsitel.com

Echelon Building II, Suite 200
9430 Research Boulevard, Austin, Texas 78759
phone: 512-338-0473 fax: 512-346-0822

1 **PU-419-99-504**
09/07/1999
Consolidated Telephone Co-operative
Tariff filing

Pages: 17

CC: Comm Legal PUD (3)

CONSOLIDATED TELEPHONE COOPERATIVE
INTRALATA ACCESS SERVICE
PRICE SCHEDULE

State of North Dakota
Effective 8/23/99

Exhibit 1
Page 1

Access Rate Sheet

1. Carrier Common Line

	Rate Per <u>Access Minute</u>
Originating	\$0.098512
Terminating	\$0.098512

2. Local Transport

	Rate Per <u>Access Minute</u>
Termination	\$0.000933

	Rate Per <u>Access Minute Per Mile</u>
Facility	\$0.000390

3. End Offices

Switching

	Rate Per <u>Access Minute</u>
LS1	\$0.033152
LS2	\$0.033152

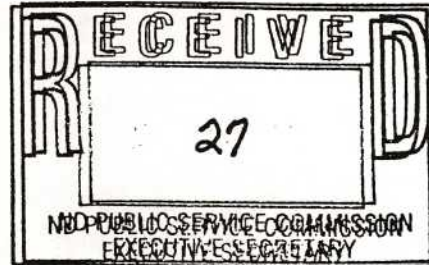
800 Data Base Service Queries

	<u>Rate Per Query</u>
Basic	.0080
Vertical Feature	.0084



OLSEN THIELEN & CO., LTD.

Certified Public Accountants & Consultants



September 23, 1999

Mr Jon Mielke
Executive Secretary
Public Service Commission
State Capital
600 East Boulevard Avenue
Bismark ND 58505-0480

Enclosed are eight copies of the North Dakota IntraLATA Switched Access Service Tariff for the Rural Telephone Company Group which is being filed pursuant to Item 6 of the stipulated agreement between US West and the Rural Telephone Company Group signed July 14, 1999 in Case No. PU-1540-99-222 to be effective August 23, 1999. Please contact me with any questions concerning this filing at (651) 481-1789.

Sincerely,

John W Coleman
Certified Public Accountant

cc: Jim Howard, JSI

2 **PU-419-99-504** Pages: 2
09/27/1999
Rural Telephone Company Group
IntraLATA Switched Access Service Tariff

CC: Comm Legal PUD (3)

IntraLATA

There are three rate categories which apply to Switched Access Service and include Local Transport, End Office and Common Line.

(A) Local Transport

The Local Transport rate category provides the transmission facilities between the customer designated premises and the end office switch(es) where the customer's traffic is switched to originate or terminate the customer's communications. For purposes of determining Transport Facility measurement, distance will be measured from the wire center that normally serves the customer designated premises to the end office switch(es). The Local Transport rate category includes Local Transport Termination and either Local Transport Termination or Tandem Switched Facility.

(1) Local Transport Termination

The Local Transport Termination rate element is accessed on a per access minute basis and recovers the portion of costs of circuit equipment.

(2) Local Transport Facility

The Local Transport Facility rate element is accessed on a per mile per access minute basis and recovers the costs of the transmission facilities.

(3) Tandem Switched Transport Facility

The Tandem Switched Transport Facility rate element is accessed on a per mile per access minute with distance measured from the wire center that normally serves the customer designated premises to the end office switch(es), which may be a Remote Switching Module(s).

(B) End Office

The End Office rate category establishes the charges related to the local end office switching and end user termination functions necessary to complete the transmission of Switched Access communications to and from the end users served by the local end office. The End Office rate category includes the Local Switching and Information Surcharge rate elements..

(1) Local Switching

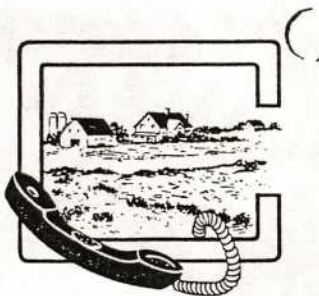
The Local Switching rate element establishes the charges related to the use of end office switching equipment and the terminations in the end office.

(2) Information Surcharge

Information Surcharge rates are assessed to a customer based on the total number of minutes.

(C) Carrier Common Line

Carrier Common Line Access provides for the use of Telephone Company common lines by customers for access to end users.



Consolidated Telephone Cooperative

"owned by those we serve"

BOX 1077 · DICKINSON, NORTH DAKOTA 58601 · AREA CODE 701 225-6061

December 30, 1983

Public Service Commission
State of North Dakota
Capitol Building
Bismarck, North Dakota 58501

Re: Concurrence in
Northwestern Bell's
Access Charge Tariff

Dear Sirs:

This letter will serve to notify the North Dakota Public Service Commission that Consolidated Telephone Cooperative of Dickinson, North Dakota does hereby concur in the filed Northwestern Bell Access Charge Tariff for the State of North Dakota.

This letter also verifies the request of Consolidated Telephone Cooperative for the Commission to adopt the "Memorandum of Recommendation" between Northwestern Bell and the Independent Exchange Carriers operating in the State of North Dakota.

We believe this letter then shows Consolidated Telephone Cooperative being in compliance with your order issued December 13, 1983 in Case Number 10,444. If this is not true, please notify us of the proper form for compliance and concurrence.

Yours truly,

CONSOLIDATED TELEPHONE COOPERATIVE

Thomas E. Harris
Manager

dw

*Common
Pat*



APPROVED PSC N. DAK.

JAN 4 1984

Case No. I. 6747
Formal Case No. _____

ACCESS SERVICE

3. Carrier Common Line Access Service (Cont'd)

3.7 Rate Regulations (Cont'd)

(F) When the IC reports interstate and intrastate use of in service Switched Access Service, the Carrier Common Line Access access minutes will be adjusted as follows. The Carrier Common Line Access access minutes developed by the billing entity will, after adjustment as set forth in (E) preceding, when necessary, be multiplied by the interstate percentage reported by the IC as set forth 2.3.14. The result will, after adjustment as set forth in (D) preceding, when necessary, be used to determine the Carrier Common Line Charges as set forth in (G) following.

(G) After the adjustments as set forth in (D), (E) and (F) preceding have been applied, when necessary, to the Carrier Common Line Access access minutes, the charges for the involved IC account will be determined as follows:

- (1) The access minutes for a Premium Access Carrier will be multiplied by the Transitional Charge as set for in 3.8 following to determine the charges.
- (2) The access minutes for a Non Premium Access Carrier will be multiplied by the Transitional Charge as set forth in 3.8 following and

0.65 for access minutes in 1984,
0.77 for access minutes in 1985,
0.88 for access minutes from January 1, 1986
thru August 31, 1986

to determine the charges.

3.8 Rates and Charges

The rate for Carrier Common Line Access is:

		<u>Rate</u>	<u>Case No</u>
<u>Transitional Charge</u>	APPROVED PSC N. DAK.	.0461	I-7106
<u>Access Minute, each</u>	JAN 6 1986	\$0.0349	
<u>IntraLATA Surcharge</u>	Case No. I 7278	.0473	PL-419-94
<u>Access Minute, each</u>	Formal Case No.	\$0.0251	(R)

Issued: ~~December 17, 1986~~

Effective: ~~January 1, 1987~~

ACCESS SERVICE TARIFF

CONSOLIDATED TELEPHONE COOPERATIVE
STATE OF NORTH DAKOTA

TARIFF NO. 52
1ST REVISED PAGE 182

ACCESS SERVICE

6. SWITCHED ACCESS SERVICE

6.1 GENERAL (cont.)

6.1.3 RATE CATEGORIES (cont.)

(C) END OFFICE (cont.)

(2) LINE TERMINATION

Line termination rates are applied on an access minutes basis, with no difference in rates for the various types of terminations. Line Termination rates are set forth in 8.8.3(B), 6.9.3(B), 6.11.3(B) and 6.12.3(B) following.

(3) INTERCEPT

The intercept rate element provides for the termination of a call at a Telephone Company intercept operator or recording. The operator or recording tells a caller why a call, as dialed, could not be completed, and if possible, provides the correct number.

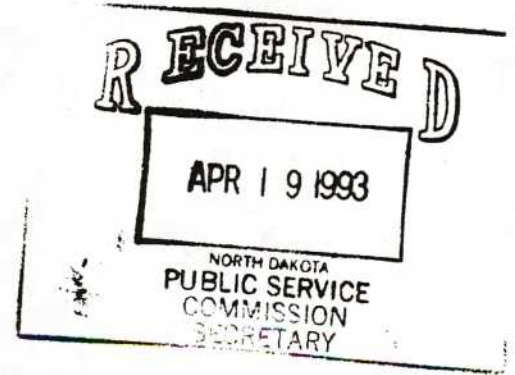
Intercept rates are applied on an access minutes basis and are assessed to an IC based on the total number of access minutes. Intercept rates are set forth in 6.8.3(C), 6.9.3(C), 6.10.3(C), 6.11.3(C) and 6.12.3(C) following.

The number of end office switching transmission paths provided will be determined by the Telephone Company based on the busy hour minutes of capacity to each end office specified by the IC in its order. The number of transmission paths will be determined as set forth in 6.5.5 following.

REVISED NORTH DAKOTA
PUBLIC SERVICE COMMISSION

MAY - 5 1993

D. PU-419-93-275



DATE ISSUED APRIL 16, 1993 EFFECTIVE DATE MAY 1, 1993

L. DAN WILHELMSON
GENERAL MANAGER

APR 20 1993

ACCESS SERVICE

6. Switched Access Service (Cont'd)

6.11 Rates and Charges for the State of North Dakota (Cont'd)

6.11.2 Local Transport

(A) Call Miles

Rates Per Access Minute

0 to 1	\$.0074
Over 1 to 8	\$.0130
Over 8 to 16	\$.0301
Over 16 to 25	\$.0558
Over 25 to 50	\$.0602
Over 50 to 100	\$.0562
Over 100	\$.0580

(B) Optional Features

USOC

Monthly Rates

Nonrecurring Charges

Provision of Other Than Telephone Company Selected Traffic Routing (Available with FGB, FGC and FGD)

- Direct Trunking in lieu of Tandem Trunking

1RTD+

ICB rates and charges apply

- Tandem Trunking in lieu of Direct Trunking

1RTT+

ICB rates and charges apply

IC Specification of Feature Group Directionality (Available with FGB, FGC*, FGD and FGE)

- One-Way Operation in lieu of Two-Way Operation

1DSO+

ICB rates and charges apply

- Two-Way Operation in lieu of One-Way Operation

1DST+

ICB rates and charges apply

* For FGC this option is available only in electronic end offices.

Case No. I-7106

Issued: ~~September 30, 1983~~

Effective: January 1, 1984

~~Assistant Vice President
Marketing-Communications Industry~~

~~1314 Douglas-On-The-Mall, Omaha, Nebraska~~

ACCESS SERVICE

6. Switched Access Service (Cont'd)

6.11 Rates and Charges for the State of North Dakota (Cont'd)

6.11.3 End Office

(A) Local Switching

	<u>Rates</u> <u>Per Access Minute</u>
LS1 - Feature Groups A, B & E	\$.0065
LS2 - Feature Groups C & D	\$.0104

Case No. I-7106

Issued: ~~September 30, 1983~~

Effective: January 1, 1984

~~Assistant Vice President~~
~~Marketing Communications Industry~~
~~1316~~

ACCESS SERVICE

6. Switched Access Service (Cont'd)

6.11 Rates and Charges for the State of North Dakota (Cont'd)

6.11.3 End Office (Cont'd)

(B) Line Terminations

Rates Per Access Minute

(1) Common Line and Dedicated
Access Line Service Terminations \$.0083

FID

(2) Dedicated Access Line Service
Terminations Nonchargeable Options

(a) Line Side Terminations:

Originating Only
Loop Start, Line Side
Connection, with DTMF
Address Signaling
- Per Transmission Path NC +++R

Originating Only
Loop Start, Line Side
Connection, with Dial
Pulse Address Signaling
- Per Transmission Path NC +++N

Originating Only
Ground Start, Line Side
Connection, with DTMF
Address Signaling
- Per Transmission Path NC +++S

Originating Only
Ground Start, Line Side
Connection, with Dial
Pulse Address Signaling
- Per Transmission Path NC +++P

Case No. I-7106

Issued: ~~September 30, 1963~~

Effective: January 1, 1984

~~Assistant Vice President
Marketing-Communications Industry
1314 Douglas On The Mall, Omaha, Nebraska~~

ACCESS SERVICE TARIFF

CONSOLIDATED TELEPHONE COOPERATIVE
STATE OF NORTH DAKOTA

TARIFF NO. 52
1ST REVISED PAGE 318

ACCESS SERVICE (cont.)

6. SWITCHED ACCESS SERVICE (cont.)

6.11 RATES AND CHARGES FOR THE STATE OF NORTH DAKOTA (cont.)

6.11.3 END OFFICE (Cont.)

(C) INTERCEPT RATES PER 100 ACCESS MINUTES

INTERCEPT CHARGE \$.0158
(For all access minutes)

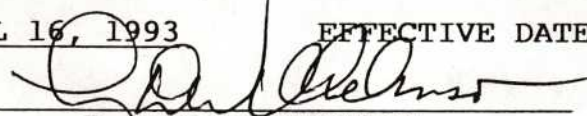
(D) 800 DATA BASE ACCESS SERVICE QUERIES RATE PER QUERY

Basic \$.0080
Vertical Feature \$.0084

(N)
|
(N)

APPROVED NORTH DAKOTA
PUBLIC SERVICE COMMISSION
MAY - 5 1993
CASE NO. PU-419-93-275

DATE ISSUED APRIL 16, 1993 EFFECTIVE DATE MAY 1, 1993


L. DAN WILHELMSON
GENERAL MANAGER

APR 20 1993

PUBLIC SERVICE COMMISSION

STATE OF NORTH DAKOTA

AT&T Communications of the)
Midwest, Inc.,)
Complainant,)

-vs-

CASE NO. 10,694

Absaraka Coop. Tel. Co.,)
et al,)
Respondents.)

-----)
In The Matter of The)
Investigation of North)
Dakota Access Charges and)
Intercompany Compensation)
for the Provision of)
Intrastate Toll Service)
-----)

CASE NO. 10,699

FINDINGS OF FACT,
CONCLUSIONS OF LAW,
AND ORDER

APPEARANCES:

Public Service Commissioners present: Commissioner Leo M. Reinbold, Commissioner Dale V. Sandstrom, Commissioner Bruce Hagen.

Daniel S. Kuntz of Zuger & Bucklin, Attorneys at Law, P.O. Box 1695, Bismarck, North Dakota 58502, on behalf of the Public Service Commission.

W. Richard Morris, Attorney at Law, 10825 Old Mill Road, Omaha, Nebraska 68154 AND Frank J. Magill of Nilles, Hansen, Magill & Davies, Attorneys at Law, P.O. Box 2626, Fargo, North Dakota 58108, on behalf of AT&T Communications of the Midwest, Inc.

Dean Winkjer of Rolfstad, Winkjer, McKennett & Stenehjem, Attorneys at Law, P.O. Box 1366, Williston, North Dakota 58801, on behalf of Absaraka Coop Telephone Company, BEK Telephone Mutual Aid Corporation, Consolidated Telephone Cooperative, Dickey Rural Telephone Cooperative, Gilby Telephone Company, Griggs County Telephone Company, Intercommunity Telephone Company, Midstate Telephone Company, Moore & Liberty Telephone Company, Nemont Telephone Corporation, Noonan Farmers Telephone Company, Northwest Mutual Aid Telephone Corporation, Polar Communication Mutual Aid Corporation, Red River Telephone Association, Inc., Reservation Telephone Coop., United Telephone Mutual Aid Corporation, West River Mutual Aid Telephone Corporation, Wolverton Telephone Company, and York Telephone Company.

Fabian E. Noack, Attorney at Law, P.O. Box 15, Carrington, North Dakota 58421, on behalf of Dakota Central Rural Telephone Cooperative Association.

Gary J. Haugen of Maslon, Edelman, Borman & Brand, Attorneys at Law, 1800 Midwest Plaza, Minneapolis, Minnesota 55402, on behalf of North Dakota Telephone Company.

David M. Sparby, Attorney at Law, 414 Nicollet Mall, Minneapolis, Minnesota 55402, AND R. W. Wheeler of Wheeler, Wolf, Peterson, Schmitz, McDonald & Johnson, Attorneys at Law, P.O. Box 2056, Bismarck, North Dakota 58502, on behalf of Northern States Power.

Richard A. Karre AND Jo Bass, Attorneys at Law, 1314 Douglas, Omaha, Nebraska 68102, on behalf of Northwestern Bell Telephone Company.

Mark F. Purdy AND Jo Noack of Pringle & Herigstad, Attorneys at Law, P.O. Box 1000, Minot, North Dakota 58702, on behalf of Souris River Telephone Mutual Aid Cooperative and the North Dakota Association of Telephone Cooperatives.

John Richardson of Richardson, Blaisdel, Isakson & Lange, Attorneys at Law, P.O. Box 488, Hazen, North Dakota 58545, on behalf of West River Mutual Aid Telephone Corporation.

PROCEDURAL HISTORY

On December 13, 1983, this Commission issued its order in Case No. 10,444 adopting interim measures addressing changes in the telecommunications industry resulting from the divestiture of the Bell System and the Federal Communications Commission's decision in Docket 78-72. The order in Case No. 10,444 adopted a Memorandum of Recommendation proposed by the North Dakota local exchange companies providing for a two year mechanism to compensate local exchange companies for the origination and termination of toll calls. Compensation for intrastate interLATA toll calls was to be provided by a system of access charges to interexchange carriers such as AT&T Communications of the Midwest, Inc. The interLATA access charges were established at the same level as the interstate carrier access

charges that the local exchange companies were proposing at that time.

Compensation between Northwestern Bell Telephone Company and the other local exchange companies for intraLATA toll traffic was to be based upon the then existing settlement process for intrastate toll settlements. The intraLATA compensation level was to be reduced in 1985 by removal of ten percent of the non-traffic sensitive costs from the settlement base.

Our order in Case No. 10,444 also provided for the establishment of an ongoing committee of local exchange company representatives to study and provide recommendations on a number of telephone issues including intercompany toll compensation and charges for intrastate toll service.

On April 22, 1985, AT&T filed a complaint against the North Dakota local exchange companies alleging that the access charges assessed to AT&T by the local exchange companies were discriminatory and unreasonable in violation of Chapter 49 of the North Dakota Century Code. On April 25, 1985, the Commission issued a notice that the complaint had been filed and set a hearing on the complaint for July 8, 1985.

On May 2, 1985, the Commission received a report from the local exchange company study committee in the form of a memorandum of understanding on the issue of intrastate toll compensation arrangements. In response to the report, the Commission passed a motion on May 7, 1985 to initiate an investigation on the issue of intrastate toll compensation and to hold the hearing in conjunction with the previously scheduled hearing on AT&T's Complaint. The

notice of hearing set forth the following issues to be addressed at the hearing:

1. Should the method of intercompany compensation for the provision of intrastate toll service be changed in favor of access charges?
2. Should the amount of contribution required from interexchange carriers of intrastate toll service to exchange companies for reimbursement of non-traffic sensitive costs be reduced?
3. If the amount of contribution for non-traffic sensitive costs from interexchange carriers should be reduced, how much should it be reduced?
4. If the amount of contribution for non-traffic sensitive costs from interexchange carriers is reduced, how should those non-traffic sensitive costs be recovered?
5. If the amount of contribution for non-traffic sensitive costs from interexchange carriers is reduced, how should that reduction be reflected in intrastate toll rates?

On May 15, 1985, Northwestern Bell requested a continuance of the scheduled hearing to enable the Commission to consider a proposed access tariff Northwestern Bell planned to file. The motion for a continuance was approved and the hearings rescheduled to commence on August 12, 1985. Northwestern Bell's proposed tariff was filed with the Commission on June 21, 1985. Hearings were held as scheduled on August 12 through August 15, 1985 in the Pioneer Room of the State Capitol, Bismarck, North Dakota.

Upon consideration of the evidence of record, the Commission makes the following:

FINDINGS OF FACT

The report submitted by the local exchange company study committee provided recommendations regarding intrastate toll

compensation for a two year period beginning January 1, 1986. The report addressed compensation for both interLATA and intraLATA toll service and was supported by all the North Dakota local exchange companies with the exception of North Dakota Telephone Company which is a wholly-owned subsidiary of Continental Telecom, Inc. North Dakota Telephone Company provided its own recommendations regarding intrastate toll compensation as did the Commission staff. While AT&T supported the study report, it also recommended the Commission consider modifications to the report in certain areas.

INTERLATA COMPENSATION

Our order in Case No. 10,444 directed that interLATA toll compensation was to be provided through carrier access charges. Northwestern Bell was to file carrier access charges at the same level as its then proposed interstate access charges and the independents were given the option of mirroring Northwestern Bell's tariff or mirroring their own interstate tariff.

The local exchange companies' access charges to carriers of interLATA toll can be categorized into four groups: traffic sensitive, billing and collecting, nontraffic sensitive, and special access. Traffic sensitive charges are for switched access services such as local transport, local switching, line termination, and intercept.

a. Traffic Sensitive Access Charges

The study committee recommended that for 1986 and 1987, traffic sensitive access charges assessed by the independent local exchange companies should equal Northwestern Bell's intrastate interLATA charges, however, individual local exchange companies

would not be precluded from filing state specific cost based rates for traffic sensitive charges. Although the report implies that Northwestern Bell's traffic sensitive rates will be cost based, no recommendation was made as to the type of cost study that should be used in setting traffic sensitive rates.

Northwestern Bell states it developed its proposed tariff for traffic sensitive access charges based upon incremental costs. The specific cost studies supporting those rates were not supplied as a part of its filing because Northwestern Bell considered them proprietary although the Company offered to make them available for review by the Commission staff.

It is Northwestern Bell's position that the incremental costs of providing carrier access are the only relevant costs in the pricing of access service or any other good or service. Northwestern Bell recognizes, however, that prices can be set above incremental costs to provide a contribution to a firm's common or fixed costs where the level of competition permits. Northwestern Bell states its proposed traffic sensitive access charges contain such a market adjustment above incremental costs. It recommends the present carrier common line charge should be phased out and the entire charge for access be recovered thru market adjusted traffic sensitive rates. AT&T supports both Northwestern Bell's position and proposed traffic sensitive access charges.

The Commission staff notes it is doubtful Northwestern Bell's manner of establishing market prices and its incremental costing methodology could be reviewed prior to the implementation of new

toll compensation arrangements for 1986. While the staff agrees traffic sensitive access charges should have some relation to traffic sensitive costs, it recommends that a fully allocated embedded cost study be used to establish traffic sensitive access charges at least initially. The staff's position for the use of an embedded cost study is supported by North Dakota Telephone Company.

The use of a fully allocated embedded cost study to establish traffic sensitive rates was criticized by Northwestern Bell and AT&T on the grounds that such studies result in arbitrary allocations of past costs and are irrelevant to the company's current costs of providing service. Their expert witnesses testified that economic efficiency is best served when costs are set at incremental costs although some degree of market pricing is acceptable to provide a contribution to common costs.

While we can agree that incremental cost studies, properly performed, provide an indication of a firm's current costs of providing service and are certainly a relevant pricing consideration; we do not agree that embedded costs are irrelevant in establishing prices especially for a regulated utility. As utilities, the local exchange companies have a revenue requirement necessary to recover their costs of operation including a reasonable return on their investment. In setting prices for a utility's goods and services, a regulatory commission must provide the utility a reasonable opportunity to earn its revenue requirement. The revenue requirement is calculated based upon embedded costs and therefore embedded costs are a relevant consideration in setting the utility's prices. While the individual prices established for

a utility's services need not equal the embedded cost of each such service, the total revenue generated by the sale of the company's services should equal its total embedded costs.

Incremental costs, on the other hand, can be either above or below the embedded costs of providing a service. Consequently, if a utility's prices were based on incremental costs, the revenue received from those prices would bear no relation to the company's revenue requirement. If carrier access charges do not recover the revenue requirement associated with providing that access, the deficiency must be recovered from local exchange rates. While it may be necessary to price a service below its associated revenue requirement but at or above its incremental costs to prevent a loss of sales to a competitive service; we are not convinced that the current level of competition in the telephone industry requires the pricing of access below its revenue requirement.

Certainly, knowledge of the revenue requirement associated with the provision of carrier access is relevant to pricing that access. That information is not available, however, because an embedded cost study has not been conducted. We are therefore reluctant to deviate from the present level of traffic sensitive access charges until we have been presented with a fully allocated embedded cost study for review. We will also consider a properly conducted incremental cost study in setting any new carrier access charges if any of the parties desire to present one, however, the incremental costs will be considered only in conjunction with an embedded cost study. We are therefore directing that prior to July 1, 1986, Northwestern Bell present for our review a fully allocated

embedded cost study for traffic sensitive carrier access. We envision that any adjustment to our present level of traffic sensitive rates based upon the results of the cost studies could be implemented effective January 1, 1987. The new Northwestern Bell traffic sensitive rates will be mirrored by the other local exchange companies during 1987. Prior to May 1, 1987, the Commission staff, the local exchange company study committee, and any other party shall report to the Commission as to the desirability of the independent local exchange companies developing traffic sensitive access tariffs based upon individual cost studies or if they should continue to mirror Northwestern Bell's. Any revenue impact to the local exchange companies resulting from adjustments in the traffic sensitive access charges on January 1, 1987 shall be offset by an adjustment to the carrier common line charge that is assessed to the interexchange carriers.

We recognize that the use of embedded cost studies for the pricing of carrier access may not promote economic efficiency to the degree that reliance on incremental cost studies may. The economic experts in this proceeding recognized, however, that economic efficiency is only one factor the Commission must consider in establishing the price of access. Our position in Case No. 10,444 remains unchanged that a commitment to the preservation of universal telephone service is our foremost objective in dealing with issues arising in the new telecommunications environment. At this point, we believe that objective is best served if charges for traffic sensitive access are priced to recover the revenue requirement associated with that service rather than pricing solely on the

basis of economic efficiency.

We also want to briefly address the positions of Northwestern Bell and AT&T that all contribution from carrier access charges to the fixed costs of an local exchange company should come thru a market adjustment to the traffic sensitive access charges rather than thru a separate non-traffic sensitive access charge. We note the difficulty in attempting to determine an appropriate level of such a market adjustment. Northwestern Bell admits that market pricing is a difficult and imprecise science and we believe such pricing would be extremely subjective and lead to sharp disagreement among all the parties as to the appropriate level of such prices. Nonetheless, assuming a market adjustment could be determined, we are not convinced that such an adjustment should be recovered entirely in the traffic sensitive rates. At first blush it may appear of little significance whether any contribution to non-traffic sensitive costs is recovered through increased traffic sensitive charges or in a separate non-traffic sensitive charge. From the interexchange carrier's standpoint the total revenue impact may be the same. We are not certain, however, that there is not a revenue impact on the individual local exchange companies.

The traffic sensitive access charge revenues for calls originating or terminating from an independent local exchange are divided between the independent local exchange company and Northwestern Bell whenever Northwestern Bell facilities are used to complete the call which is the usual occurrence. The division of those revenues is based in large part upon the amount of equipment of the respective companies used in completing the call. It is our

understanding that in North Dakota Northwestern Bell has the predominant amount of traffic sensitive equipment. Accordingly, Northwestern Bell would receive the predominant amount of access charge revenue including any non-traffic sensitive contribution if the entire amount of access charges were recovered through the traffic sensitive rates.

The witnesses in this proceeding testified that the presence and cost of alternatives determines the ability of a company to make a market adjustment in the sale of its goods or services above incremental costs. The cost of the alternative goods or services in comparison to the incremental costs of the goods or services being sold determines the amount of the adjustment. The witnesses testified, in effect, that the present level and cost of alternatives to switched access provided by the local exchange companies allows such switched access to be market priced above its incremental costs.

We believe that a significant part of the value of switched access that allows it to be priced above its incremental costs is the access and use of the local loops to the customer's premises that it provides. The witnesses admitted that access to these non-traffic sensitive facilities has a value to the interexchange carrier as there are significant costs associated with the use of any alternative to these local loops.

If a contribution to non-traffic sensitive costs is extracted through access charges from the interexchange carriers, that contribution should be directed to the local exchange companies in relation to the non-traffic sensitive investment that is a substantial factor in allowing that contribution to be collected. If the

entire contribution is recovered through traffic sensitive charges, it will be divided among the carriers based upon the traffic sensitive investment of those carriers rather than the non-traffic sensitive investment to which at least part of the contribution should be directed. Thus, until we are convinced otherwise, we find that any contribution through carrier access charges for non-traffic sensitive costs should be recovered in a separate access charge rather than as a market adjustment to the traffic sensitive charges.

b. Billing and Collection -

Revenues received by the local exchange companies for billing and collection services provided to AT&T have been significant. Northwestern Bell indicated that about 13.6 percent of the revenue it received in 1984 under its intrastate interLATA access tariff was derived from billing and collection services. Testimony also showed that rates of return the local exchange companies are receiving on the provision of these services are high. AT&T requests that the Commission order Northwestern Bell to set its billing and collection rates at a level which will produce no more than Northwestern Bell's authorized rate of return. Unfortunately no specific cost information concerning billing and collection revenue was presented by any of the parties. Likewise, none of the parties presented information regarding the cost of alternative billing and collection services to determine an appropriate market based price for those services.

We find that billing and collection services provide a significant source of revenue to the local exchange companies. If those

services are priced at excessive levels, however, the revenue source is lost as the interexchange carrier will perform its own billing. AT&T has already indicated that it soon will be providing certain billing and collection services for at least its larger customers. The result is not only a lost source of revenue to the local exchange companies but also the likelihood of overall higher costs to the telephone consumer as two separate bills are rendered where one was issued before.

AT&T states that cost is a major factor but not the only factor influencing the decision to do its own billing. In any rate proceeding, AT&T should be prepared to show that the costs of providing its own billing do not exceed the expense of having such billing performed by the local exchange companies.

We believe the billing and collection tariffs represent a potential unwarranted loss of revenue and economic efficiency because of excessively high prices. To prevent these inefficiencies, we find that the existing billing and collection tariffs should be adjusted. Unfortunately, because of the lack of specific cost data in the record of this proceeding, it is impossible to direct an appropriate reduction directly related to the local exchange companies costs of providing the services or the cost of alternative services. Northwestern Bell states that its proposed adjustments in its billing and collection rates were designed to correspond to interstate rates for those services. Northwestern Bell contends those interstate rates were market priced.

Because of the ready availability of alternatives, we believe the pricing of billing and collection services should be market

based provided those prices at least equal the incremental costs of providing those services. In the absence of evidence indicating Northwestern Bell's proposed rates are not properly market based, we approve Northwestern Bell's proposed rates for billing and collection services.

The other local exchange companies are directed to file proposed adjustments to their intrastate interLATA access tariffs to accomplish reductions similar in magnitude to those proposed by Northwestern Bell effective January 1, 1986 or as soon thereafter as possible. A local exchange company may request an exception from this directive if it can provide adequate documentation that such new rates will not recover its cost of providing billing and collection services. Any revenue impact to the local exchange companies as a result of these billing and collecting adjustments shall be absorbed through the local exchange rate adjustment approved later in this order.

In calculating the amount of any revenue impact to be absorbed through a local exchange rate adjustment, only the revenue loss resulting from tariff adjustments based upon the level of billing and collection services provided in 1984 shall be considered. The local exchange companies are not allowed to absorb in the local exchange rate adjustment anticipated revenue erosion from possible reduced volumes of services purchased by AT&T. We agree with the Commission staff witness that the potential erosion of this revenue is indistinguishable from revenue erosion resulting from other sources. Such erosion must be balanced against potential new sources of revenue, increases in other revenue sources, or changes

in costs which are outside the scope of this proceeding. Furthermore, the extent of any revenue erosion from the reduced purchase of billing and collection services appears speculative at this time. The local exchange companies therefore may only absorb in the local exchange rate adjustment revenue losses based upon 1984 volumes.

Any interexchange carrier, of course, may examine the proposed tariff adjustments presented by the local exchange companies and request any changes from the Commission prior to the effective date of the tariffs. The local exchange companies shall provide the appropriate back-up material documenting the manner in which the amount of revenue to be absorbed in the local exchange rate adjustment as a result of the billing and collection tariff adjustments was determined.

c. Non-Traffic Sensitive Access Charges -

As noted earlier, a significant amount of the discussion in this proceeding concerned whether interexchange carriers should be required to provide a contribution for non-traffic sensitive costs and if so, the amount of that contribution and the manner it should be recovered. We have already found that the local exchange companies investment of local loops provides a value to an interexchange carrier and its customers. In the absence of the availability of those loops, the interexchange carrier would likely be required to construct access facilities between the customer location and the interexchange carrier's equipment. The difficulty arises in determining the appropriate level of contribution to such

non-traffic sensitive costs as well as the manner it should be recovered.

Clearly, the value to an interexchange carrier of access to the local loops of an local exchange company is dependent upon the level of toll traffic originating or terminating on those loops and the revenue derived from that traffic. Obviously, there is minimal value to interexchange carriers for access to a local loop that never originates or terminates a call. Because the value of the loop to the interexchange carrier is dependent upon the volume of interexchange toll tariff on the loop, pricing access to the loop based upon the number of minutes the loop is used for toll seems appropriate.

On the other hand, the value of access to a local loop is limited by the cost of alternative sources of access to the customer. The use of such alternative forms of access to users of large amounts of toll service, or bypass as it is commonly referred to, becomes a concern when it is not economically justified. Uneconomic bypass occurs when the local exchange companies switched access network is bypassed in favor of an alternative access facility that costs more to provide than the cost of the local exchange companies to provide access over the switched network. Pricing the non-traffic sensitive contribution on a straight minutes of use basis can result in large users of toll paying significantly more for access than the cost of an alternative access facility even though the local exchange companies costs of providing access to that particular user are well below the costs of the alternative facility. For this reason, pricing the non-traffic sensitive contribution on a minutes of use basis, as is currently

done, may not be appropriate.

The study committee, Northwestern Bell, AT&T, North Dakota Telephone Company and the Commission staff all recommended that the level of contribution to non-traffic sensitive costs paid by the interexchange carriers be reduced. Although there were differences as to the recommended level of the non-traffic sensitive contribution, most of the parties supported the study committee recommendation regarding the level of reduced non-traffic sensitive contribution for the two year period of 1986 and 1987.

The study committee recommended that each local access line be assessed a flat charge of \$1.25 per month in 1986 and \$2.50 per month in 1987. The revenue generated from these flat monthly charges would allow a reduction in non-traffic sensitive support for both interLATA and intraLATA toll from present levels. Originally, the study committee recommended the non-traffic sensitive reduction would be allocated between interLATA and intraLATA toll carriers based upon the relative amount of interLATA and intraLATA toll usage. This recommendation was later amended to allow a larger reduction of non-traffic sensitive support from interLATA toll during 1986. The study committee report further provided that the amount of non-traffic sensitive contribution after the reduction should not go below the level any local exchange company would receive if its non-traffic sensitive costs were allocated on the basis of a subscriber line usage factor. The study committee recommendation was supported by Northwestern Bell, the independent local exchange companies and AT&T.

The Commission staff recommended non-traffic sensitive support be established based upon a subscriber line usage factor with

periodic review to determine if further reductions are necessary to keep the switched network competitive. The staff recommended the loss of revenue experienced by the local exchange companies thru its proposed reduction in non-traffic sensitive support from toll be recovered thru increases in local exchange rates or thru a surcharge by the local exchange company on its customers for intrastate toll usage. To lessen the impact such a reduction of non-traffic sensitive support might have on local rates, the staff recommended establishment of a high cost fund to reimburse local exchange companies for 80 percent of its revenue requirement in excess of the revenue it would generate if its local exchange rates were set at the level of Northwestern Bell's.

North Dakota Telephone Company suggested that non-traffic sensitive support from toll should be reduced to a level based upon a subscriber line usage factor, but that such a reduction should be phased in over an eight year period.

While we find that the current level of non-traffic sensitive support from toll should be reduced, we do not believe it should be reduced at this time to the degree recommended by the parties. As stated previously our primary objective in the regulation of telephone service remains the maintenance of universal service. We further find that universal service has the potential to be impacted to some degree by the level of non-traffic sensitive support received by the local exchange companies from toll service. The degree of that impact is influenced by the level of non-traffic sensitive support that is maintained as well as the length of time any reduction in the present level of non-traffic sensitive support

is phased over.

Northwestern Bell witness Vondras presented the results of a Northwestern Bell study showing a potential level of bypass of its switched network used for intrastate interLATA toll traffic. The greatest potential for bypass is the traffic from an interexchange carrier's large toll customers. Because of the traffic volumes of these customers, a straight per minute access charge for non-traffic sensitive support can result in charges for non-traffic sensitive support in excess of alternative means of access. The interexchange carrier or the toll customer have the incentive to seek alternative forms of access either thru the purchase of a special access line from the local exchange company or construction of an access facility totally unrelated to the local exchange company's facilities.

Northwestern Bell's study also indicated that the threat of bypass is not entirely the result of access charges for non-traffic sensitive support. The study showed that even if non-traffic sensitive support was totally removed from interLATA access charges there was still an incentive to bypass for a substantial amount of the traffic.

Northwestern Bell's study did not address if the bypass potential could be reduced thru a restructuring of the manner in which non-traffic sensitive support is recovered either from the interexchange carrier or the toll user. It is only a relatively small number of toll customers that are potential candidates for bypass with the existing level of bypass alternatives. Northwestern Bell's study showed that less than 1 percent of its North

Dakota business customers currently have the economic incentive to bypass the switched toll network. These large volume customers, however, account for a significantly greater share of the interLATA access revenue received by Northwestern Bell. Thus, the loss of these customers from the switched network could result in a much greater revenue impact than their numbers would suggest.

The large user of toll service is a bypass threat largely because the non-traffic sensitive contribution is charged on a per minute basis with no recognition of the customer's usage volume. Because the carrier common line charge is assessed at the same level on each minute of use, the large user may pay more for non-traffic sensitive support than the cost of an alternative access system. The study committee proposal would lower the level of the carrier common line charge but still collect it on a constant level for each minute of toll use.

We believe this plan has two major drawbacks. First, non-traffic sensitive support is reduced not only from the large toll users that constitute a bypass threat, but it is also reduced, at the same per minute level, to smaller users of toll services who are not a threat to bypass. While we find some merit in the argument that toll rates should be reduced for all customers, we do not believe that non-traffic sensitive support from toll should be phased down as quickly as that proposed by most of the parties. We believe the negative impact of rapidly rising local exchange rates because of reduced non-traffic sensitive contribution at both the intrastate and interstate level would be far greater than any negative impact experienced as a result of toll rates that may be in excess of their

incremental costs. Accordingly, we do not believe it is either necessary or wise to lower the level of non-traffic sensitive support from those toll customers who are not bypass threats to the same degree that it is lowered for those customers who are paying non-traffic sensitive support in excess of their non-traffic sensitive costs and who have the economic incentive to leave the switched network.

Second, we find that phasing down the size of the carrier common line charge as proposed does not adequately remove the economic incentive of many of the large toll users to bypass the switched network when considered in relation to the non-traffic sensitive support it gives up. For example, Northwestern Bell estimated the number of large business customers having an economic incentive to bypass the switched network would be reduced from 51 to 44 as a result of the proposed first year reduction in non-traffic sensitive support. The second year's proposed reduction, however, would remove the economic incentive to bypass for only 1 additional customer. We doubt that toll revenue from this additional customer is comparable to the size of the non-traffic sensitive reduction proposed under the second year of the study committee's proposal.

We believe that if the non-traffic sensitive reduction is directed more toward the large use customers that have an economic incentive to bypass, we can discourage uneconomic bypass and maintain the integrity of the switched network without reducing the level of non-traffic sensitive support to local exchange rates as

rapidly as suggested by the study committee proposal. We believe one possible method to accomplish our objective is the assessment of non-traffic sensitive contribution to the interexchange carrier on a flat rate rather than a minutes of use basis. Assessment of non-traffic sensitive contribution on a flat rate basis would provide the interexchange carrier more flexibility in marketing toll both during off peak periods and to large volume users. Furthermore, because non-traffic sensitive costs do not vary with usage levels, it is appropriate that non-traffic sensitive support payments be calculated on a lump sum rather than a minutes of use basis. With a lump sum charge, the exchange carrier receives the exact amount of the non-traffic sensitive costs allocated to inter-exchange toll - no more, no less. To that extent, it would contribute to revenue stability for the exchange carriers.

Lump sum assessment of non-traffic sensitive costs to inter-exchange carriers was supported by AT&T, the Commission staff, and North Dakota Telephone Company. While the other local exchange companies did not oppose the concept of lump sum recovery of non-traffic sensitive costs, they stated further study was necessary not only as to the desirability of such a method of payment but also the manner in which such payments should be calculated and implemented.

We agree there may be difficulties in the calculation and implementation of lump sum payments and that further review is necessary to develop solutions to those difficulties. While the implementation of a lump sum payment methodology might be relatively simple as long as AT&T is the only certified carrier; it

could become considerably more complex if other interexchange carriers enter the North Dakota intrastate toll market. We are therefore directing that the parties present their position and proposals regarding the implementation of lump sum assessments for non-traffic sensitive support to the Commission before July 1, 1986 for consideration for implementation by January 1, 1987.

The carrier common line charge is not assessed on the closed end of WATS and 800 toll service under existing access charge tariffs. Northwestern Bell's proposed access tariff, however, provides for an assessment on both the originating and terminating portions of such calls. We believe Northwestern Bell's proposal is contrary to the objective to preventing bypass of large volume toll users. Many of the large users of toll services are WATS or 800 service customers. These customers are also the most likely candidates for bypass. A WATS or 800 service customer's greatest economic incentive to bypass the switched access network is at the closed end of such service as it is the closed end of switched access that can be replaced economically in most instances by a dedicated access facility. Furthermore, such customers are already paying NTS support for the closed end of their service by payment of a flat access fee for such service. Imposing the carrier common line charge in addition to the flat access fee on the closed end of WATS and 800 service invites those customers to bypass the switched network. Northwestern Bell's proposed tariff provisions to assess the carrier common line charge on the closed end of WATS and 800 service are rejected.

As stated previously we believe a smaller reduction in non-traffic sensitive support that is directed more toward the large use

customers having the greatest economic incentive to bypass is preferable to the proposal presented by the study committee. Earlier this year we approved such a plan for implementation for intraLATA toll service. The discount plan we adopted for intraLATA use has not been in effect long enough to make a comprehensive determination of its impact. Nonetheless, we believe this type of plan significantly reduces the economic incentive of large toll users to bypass the switched network. While implementation of this precise plan may be difficult or inappropriate for interLATA toll service because of the manner in which access charges are assessed, we do believe a toll plan can be fashioned for interLATA use which accomplishes the same objectives. With the implementation of intraLATA access charges in 1986 it may be necessary to adjust the intraLATA plan with the result that a similar plan could be fashioned for both interLATA and intraLATA toll services.

We are, therefore, directing that \$.15 per month per access line of the local exchange rate adjustment approved in this proceeding be used to reduce the level of non-traffic sensitive support assessed to interexchange carriers. The interexchange carriers, which at the present time includes only AT&T, shall submit for our review within 60 days proposals for flowing this reduction through to interLATA toll users. The other parties may submit comments on AT&T's proposals or submit proposals of their own. This portion of the local rate exchange adjustment shall become effective on January 1, 1986 or the effective date of the rate reduction proposal adopted by the Commission, whichever is later.

In addition to the non-traffic sensitive reduction we are ordering to be flowed thru to toll users, we believe the level of non-traffic sensitive contribution should be further reduced to prevent an increase in interLATA toll rates. There is currently pending before the Commission an application by AT&T to increase its intrastate toll rates to obtain a reasonable rate of return on its investment. AT&T requests that its intrastate rates be raised to recover an approximate \$3.2 million revenue shortfall.

While we do not necessarily agree that AT&T's shortfall in achieving a reasonable return on its intrastate investment is of the magnitude suggested by AT&T, our initial review of the company's application does indicate that the company will not be able to obtain a reasonable rate of return on its intrastate investment unless either MTS rates are increased or access charges are decreased. The financial statements filed by AT&T in support of its rate application show that in 1984, access and billing and collection charges equated to nearly ninety percent (90%) of its toll revenues.

A general increase in MTS rates at this time would increase the economic incentive of large users to bypass the switched network. Furthermore, it could easily defeat the purpose of both the present intraLATA and proposed interLATA discount plans by sending inconsistent signals to toll customers as to the present and future direction of intrastate toll pricing. For these reasons we believe a general increase in interLATA toll rates should be avoided if possible. We are therefore directing that \$.75 per month per access line of the local exchange rate adjustment approved in this

order be used by the local exchange companies to reduce interLATA billing, collecting, and access charges to interexchange carriers. As directed previously, an amount equal to \$.15 per month per access line shall be used by AT&T to develop a toll reduction plan. The balance of the savings in access charges, or \$.60 per access line per month, may be retained by AT&T to improve its intrastate earnings level. While we recognize that based upon an initial analysis of AT&T's financial statements, this reduction in access, billing, and collecting charges may not in itself enable AT&T to achieve a reasonable rate of return; we believe these reductions, when coupled with increases in miscellaneous service rates AT&T may propose, will allow AT&T to obtain an adequate earnings level.

We have already directed the manner in which the local exchange companies shall adjust their billing and collection charges and that the revenues lost from these reductions may be absorbed through the local exchange rate adjustment. The balance of the revenue received from the interLATA portion of the local exchange rate adjustment shall be used by the local exchange companies to reduce the interLATA carrier common line charge. Each local exchange company shall use the following method to calculate the amount the carrier common line charge is reduced from the current level of 4.61 cents per carrier common line access minute:

Carrier common line charge reduction = \$.75

Times:	Local exchange company's 1984 average number of access lines
Times:	12
Plus:	Estimated revenue from special access rate adjustments

Minus: Estimated revenue loss from billing and collection
charge adjustments
Divided
By: Number of 1984 interLATA carrier common line access
minutes billed by the local exchange company.

The local exchange companies shall provide the appropriate back-up material documenting the manner in which the carrier common line charge reduction was calculated. Likewise, AT&T shall provide the appropriate back-up material documenting the amount of decreased carrier common line charge expense that will be used for a toll rate reduction plan. Each of the parties may examine back-up documentation presented by another party and propose adjustments for the Commission's consideration.

d. Equal Access and Network Reconfiguration -

Northwestern Bell states it will incur costs of \$596,335 in 1986 and \$200,000 in 1987 for equal access and network reconfiguration and proposes a separate access charge to recover those costs from interexchange carriers. Equal access and network reconfiguration costs will be incurred to meet the requirements of the modified final judgment. AT&T asserts that \$26,000 of the expenses incurred in 1986 should not be assessed against the interexchange carriers but rather absorbed by Northwestern Bell. The \$26,000 reflects a fifty percent (50%) disallowance of the ballot expense for customer selection of interexchange carriers. AT&T asserts the ballot has a promotional value to Northwestern Bell by promoting the intraLATA presence of Northwestern Bell and substantially assists in its marketing efforts.

We have examined the ballot form that Northwestern Bell states would be used for customer selection of interexchange carriers. We

find nothing on the ballot to be of a particular promotional nature to Northwestern Bell. While the ballot does provide an additional contact for Northwestern Bell with its customers, we believe the promotional value of this particular contact is minimal considering the present level of contact between Northwestern Bell and its customers. The real value of the billing process is to the interexchange carriers and they should bear its costs. We approve Northwestern Bell's access tariff proposals to recover the entire cost of equal access and network reconfiguration thru interexchange carrier access charges.

e. Special Access -

In its Complaint, AT&T alleges that interLATA special access rates that Northwestern Bell assesses AT&T are discriminatory because they are higher than the private line rates that Northwestern Bell assesses its end user customers. For its part, Northwestern Bell proposes to raise its interLATA special access rates based upon a market pricing principle and asserts that a strict comparison of private line and special access rates is inappropriate.

Northwestern Bell states it market priced the proposed special access tariffs using its incremental cost of providing the service as a floor and its interstate special access charges as a ceiling. AT&T doesn't dispute Northwestern Bell's assertions regarding its market basis for pricing special access or its incremental costs, but simply argues the rates are discriminatory if priced higher than Northwestern Bell's corresponding intraLATA private line rates. AT&T states that private lines from local exchange companies have

been used in other jurisdictions to avoid the facilities of inter-exchange carriers and any disparity in the price of special access and private line rates fosters this type of bypass. AT&T did not attempt to show whether Northwestern Bell's private line rates are priced too low or the special access lines are priced too high, but only that the rates are different.

A difference in the price of similar services does not in itself constitute discrimination. While private lines and special access lines are similar type services, they may be used for different purposes in the future. Northwestern Bell has attempted for some time to raise the price of its intrastate private line rates to have them better reflect the costs of providing the service. While we approved some of the requested increases in those rates, including an increase in Northwestern Bell's most recent rate proceeding, we have not always allowed increases to the extent requested by Northwestern Bell because many of the lines are used for special purposes which could not sustain large and rapid increases in the price of the service.

We also note that the primary purpose of special access is to bypass the switched access network. Pricing special access too low would increase its desirability as a mechanism for bypass of the switched network. Not only would such pricing result in a loss of revenue to the switched network, it could also encourage additional investment in special access facilities which might not be economical and which might become stranded investment if special access prices were later raised to meet its costs.

Finally, AT&T did not contend that private line services were

improperly being used in North Dakota to bypass its interexchange facilities.

AT&T has not met its burden of proving that any disparity in Northwestern Bell's private line and special access tariffs is discriminatory. Northwestern Bell's proposed special access rates are approved and that portion of AT&T's complaint against Northwestern Bell asserting discrimination is dismissed. The projected additional revenue Northwestern Bell or the other local exchange companies may receive from special access adjustments shall be used to reduce the present level of the carrier common line charge. AT&T may file proposed tariffs to recover any increased costs of special access from the customers using those services.

INTRALATA COMPENSATION

Intercompany compensation between Northwestern Bell and the independent local exchange companies for intraLATA toll traffic is based upon a settlement process we approved in Case No. 10,444. Our order adopted a settlement method similar to that used prior to divestiture of the Bell system except that commencing January 1, 1985, ten percent (10%) of the non-traffic sensitive costs (except for 'category 6' central office equipment and customer premise equipment) were to be removed from the compensation base. The cost savings of this ten percent (10%) non-traffic sensitive reduction was used to develop an intraLATA toll discount plan that offers increasing discounts to users of toll service based upon their monthly volume of toll usage.

As part of our order in Case No. 10,444, we directed the local exchange company study committee to examine the desirability of

using access charges for intraLATA intercompany toll compensation. As part of its report, the study committee recommended that an access charge plan using a designated carrier concept for intraLATA compensation be adopted at least for the initial two year period of 1986 and 1987. Northwestern Bell is to act as the designated carrier and will pay access charges to the other local exchange companies. The study committee report further recommended that intraLATA access charges assessed by the local exchange companies should mirror each local exchange company's intrastate interLATA access charges during 1986 and 1987.

We find considerable merit in the recommendations of the study committee. We believe access charges are an appropriate mechanism for intercompany compensation. While the use of the access adjustment rate, which we will discuss later, negates any significant revenue impact between access charges and settlements, we believe it is important that an intraLATA access charge mechanism be established now to determine its long term operating and revenue impact on the local exchange companies. We, therefore, adopt the study committee's recommendation and direct the implementation of intraLATA access charges equal to the local exchange companies interLATA access charges effective January 1, 1986, or as soon thereafter as they can be implemented.

The study committee recommended the ten percent (10%) reduction in the non-traffic sensitive compensation base be continued for intraLATA settlements. In addition, the committee recommended intraLATA non-traffic sensitive contributions be further reduced during 1986 and 1987 to correspond to the recommended intraLATA

allocation of the revenue derived from the committee's proposed end user charges during each of those years.

As we stated previously, we do not believe it is necessary to reduce the present level of non-traffic sensitive support to the degree, or at least as rapidly, as recommended by the study committee. The intraLATA toll discount plan has been in effect for approximately four months and no study has been made regarding the effect of that plan. The discount plan should be monitored over a longer period of time before we can determine if the plan should be modified. We find no need to adopt larger or different discounts or reductions before we have the opportunity to study and analyze the effects of the present plan.

While we do not find it presently necessary to implement additional intraLATA toll reductions or discounts, we note the ten percent (10%) non-traffic sensitive reduction level approved in our last order only provides sufficient revenue to fund the present discount plan for a seven month period each year. We believe the discount plan should be offered on a continued basis for the next two years to properly monitor its effect. Accordingly, we find the present level of intraLATA non-traffic sensitive contribution to the local exchange companies should be reduced to provide sufficient revenues to fund the discount plan on a continuing basis. The lost non-traffic sensitive contribution may be absorbed by the local exchange companies through the local exchange rate adjustment we are approving. We find the level of non-traffic sensitive contribution received by each local exchange company from intraLATA toll should be reduced by an amount equal to \$.15 per month per

access line. If the revenues from the non-traffic sensitive support reductions exceed the amount of revenue needed to fund the discount plan on a continuing basis, Northwestern Bell should present proposals for the Commission's consideration to modify the plan to flow these additional revenues through the plan.

The local exchange companies shall file an intraLATA carrier common line charge access rate equal to their interLATA carrier common line charge rate. Any over or under recovery of revenue to the local exchange companies as a result of mirroring the interLATA carrier common line charge will be recognized in the access adjustment rate.

With the adoption of intraLATA toll access charges, Northwestern Bell will act, at least in the interim as the designated toll carrier. The recognition of an intraLATA designated carrier and adoption of access charges signifies the dual role of Northwestern Bell as both a toll carrier and a local exchange company. In a sense it also signifies a change in the relationship between Northwestern Bell and the other local exchange companies from a type of partnership in the provision of intraLATA toll to more of a buyer-seller arrangement. This change in roles and relationships may become more pronounced if requests are received from other carriers to compete with Northwestern Bell in the provision of intraLATA toll.

We believe it will become necessary in the future for the Commission in regulating Northwestern Bell to more closely recognize its offering of toll and local exchange service as separate businesses. We fully expect the other local exchange companies, as well as any potential competitive provider of toll, will demand that

Northwestern Bell's local exchange service not receive a greater contribution from intraLATA toll than that received by the other local exchange companies and vice versa with regard to any contribution Northwestern Bell's toll service might receive from its local exchange business. Accordingly, we adopt the recommendation of the staff witness that Northwestern Bell begin separation of its intrastate books and records to reflect the investment and expenses of its intraLATA toll business separate from its business as a local exchange provider. Even if the Commission never approves a competitive provider of intraLATA toll service, we believe a separation of Northwestern Bell's intrastate investment and expense is necessary to properly and equitably set intraLATA access charges and toll rates in the future, particularly if those charges and rates are to have any relation to the costs of providing those services.

ACCESS ADJUSTMENT RATE

The study committee report proposed the adoption of an access adjustment rate. The access adjustment rate is designed to recover the difference between the independent local exchange company's intrastate toll revenue requirement and the revenue received by the independent local exchange company from access charges plus the amount of non-traffic sensitive support reduction approved by the Commission. While we find merit in the use of the access adjustment rate for intraLATA access charges, we are not adopting it as an interLATA access charge.

Because access charges have not been used on an intraLATA basis, we have no history as to the revenue impact each of the independent local exchange companies will experience as a result of

the transition from settlements to bill and keep access charges. In addition, because we have no intraLATA cost information available, we have set intraLATA access charges for the initial period equal to the approved level of interLATA access charges. We would expect, however, that interLATA and intraLATA access costs might vary particularly since we have approved different sized reductions in non-traffic sensitive contributions from intraLATA and interLATA toll. We, therefore, find that use of an access adjustment rate is an appropriate mechanism for the transition from intraLATA settlements to intraLATA access charges.

Prior to each calendar year each independent local exchange company shall calculate an intraLATA access adjustment rate for that calendar year as follows:

Estimated Intrastate Intralata Toll Revenue Requirement

Minus:	Estimated intralata traffic sensitive access charge revenue
Minus:	Estimated intralata non-traffic sensitive access charge revenue
Minus:	Estimated revenues from separate contracts for facilities included in state toll revenue requirements
Minus:	Estimated intralata non-traffic sensitive support reduction
Equals:	Estimated Access Adjustment

The estimated access adjustment will be divided by the projected intraLATA carrier common line access minutes to derive the access adjustment rate. Positive access adjustment rates will be paid by the designated carrier to the local exchange company based upon actual carrier common line access minutes each month. Negative access adjustment rates will be paid to the designated carrier by the local exchange company based on actual carrier common line access minutes each month.

In developing the intraLATA toll revenue requirement, the local exchange company should use an acceptable costing methodology provided the revenue requirement derived therefrom does not exceed those amounts which would be arrived at by the application of the methods prescribed in Parts 67 and 69 of the FCC rules. As FCC rules are revised to reflect the implementation of the FCC High Cost Fund, intraLATA toll revenue requirements shall be analyzed to prevent the double recovery of intrastate costs. In cases where intrastate settlement allocation percentages for common costs associated with traffic recording, identification, billing and collecting, and operation functions change for reasons other than changing traffic patterns, those percentages shall not exceed those which would have been applicable for the latest 12 month study period ending prior to April 1, 1985. The rate of return used to calculate the revenue requirement shall be eleven percent (11%) until changed by the Commission. The designated carrier shall have the right to review the data and procedures used to calculate the revenue requirement and the access adjustment rate.

At the conclusion of each year's business, actual data will be used in place of the estimated amounts in the calculation of the access adjustment rate by each local exchange company. A net true-up payment will be made by the designated carrier (or vice versa) for the difference between the estimated annual access adjustment rate and the actual access adjustment rate.

Those local exchange companies that currently settle with Northwestern Bell on an average schedule basis, may use as a surrogate for the estimated intrastate intraLATA toll revenue

requirement, the amount they received during 1984 for intraLATA compensation.

We are not adopting the study committee's proposal to implement an access adjustment rate for interLATA toll traffic. Unlike intraLATA traffic, we have experience with the use of access charges for interLATA compensation. While some of the local exchange companies may have suffered a revenue loss when bill and keep access charges were implemented, those carriers have presumably adjusted their local exchange rates to maintain their revenue requirement. Initiation of an access adjustment rate would in effect allow a double recovery of the shortfall. Furthermore, we view the access adjustment rate as only a transition mechanism from settlements to access charges; that transition has already been made at the interLATA level. Implementation of an access adjustment rate for interLATA traffic would be a step backward. Since we are limiting the local exchange rate adjustment to a level substantially less than that recommended by the study committee, any impact on local exchange rates by not implementing the interLATA access adjustment rate will be significantly less than if the study committee's recommendation were adopted in full.

LOCAL EXCHANGE RATE ADJUSTMENT

Each local exchange company subject to the ratemaking jurisdiction of the Commission may raise its local exchange rates by an amount not to exceed \$.90 per month per access line to recover the revenue lost through the reduction of intraLATA and interLATA non-traffic sensitive contribution and other rate adjustments approved

in this order. The authority to increase local exchange rates is limited, however, to the extent that a local exchange company may not increase its rates beyond the level necessary for it to achieve the rate of return authorized by the Commission in the company's most recent general rate proceeding. The local exchange carriers are put on notice that we will examine the rates of return earned by the companies and that we intend to investigate the rates of any company that increases its local exchange rates beyond a level necessary to maintain its authorized rate of return.

LIMITATION ON NON-TRAFFIC SENSITIVE SUPPORT REDUCTIONS

We have approved reductions in the level of non-traffic sensitive support from both intraLATA and interLATA toll traffic. The reductions have been based on an amount per subscriber access line. We further find that the amount of these reductions should be limited in that the level of non-traffic sensitive support a local exchange company receives from intraLATA and interLATA toll traffic shall not be less than the revenue the local exchange company would receive if the level of non-traffic sensitive contribution from intraLATA and interLATA traffic were calculated on a subscriber line usage factor, excluding category 6 central office equipment and customer premise equipment.

CONTINUATION OF STUDY COMMITTEE

The exchange carrier study committee spent numerous hours over the past two years studying a number of telephone issues including those that led to the study committee's recommendations in this proceeding. While we have not adopted all of the committee's recommendations, the committee's report has provided us invaluable

assistance in this proceeding. It provided a focus for not only the issues but also the solutions to the problems addressed. Probably most importantly, it narrowed the areas of disagreement among the parties.

While we cannot delegate our decision making responsibility to this or any other committee, we urge the study committee to continue its work of studying toll and access charge rate issues and presenting recommendations to us both for any revisions during the two year period of 1986 and 1987, as well as the years following.

From the foregoing Findings of Fact, the Commission makes the following:

CONCLUSIONS OF LAW

1. The local exchange companies and AT&T are telecommunications companies subject to the jurisdiction of this Commission except insofar as certain of the exchange companies have elected not to be subject to the Commission's rate jurisdiction pursuant to the laws of North Dakota. Such non-rate regulated local exchange companies are, however, subject to the Commission's jurisdiction over carrier interconnection compensation. The Commission has jurisdiction of this proceeding.

2. The access charge arrangements approved in the Findings of Fact provide a reasonable level of interconnection compensation for intrastate toll service.

3. To the extent the complaint of AT&T is not satisfied by the adjustments approved in this order, AT&T has failed to sustain its burden of proof on its complaint and that complaint should be dismissed.

From the foregoing Findings of Fact and Conclusions of Law, the Commission issues the following:

ORDER

1. The North Dakota local exchange companies and inter-exchange companies shall file access charge and toll rate proposals in accordance with our Findings of Fact.


2. The Complaint of AT&T is dismissed.

Dated at Bismarck, North Dakota, this 8th day of October, 1985.

PUBLIC SERVICE COMMISSION

(S E A L)


Leo M. Reinbold, President


Dale V. Sandstrom, Commissioner


Bruce Hagen, Commissioner

ATTEST:


Secretary

PUBLIC SERVICE COMMISSION

STATE OF NORTH DAKOTA

AT&T Communications of the Midwest, Inc.,)	Case No. 10,694
Complainant,)	
vs.)	
Absaraka Coop. Tele. Co., et al,)	
Respondents.)	

In the Matter of the Investigation of)	
North Dakota Access Charges and Inter-)	
company Compensation for the Provision of)	Case No. 10,699
Intrastate Toll Service.)	

SUPPLEMENTAL
ORDER

Our Order of October 8, 1985, directed that \$.15 per month per access line of the local exchange rate adjustment approved in that Order was to be used to reduce the level of non-traffic sensitive support assessed to interexchange carriers. The interexchange carriers were directed to submit for our review within 60 days proposals for flowing this reduction through to interlata toll users. This portion of the local exchange adjustment was to become effective on January 1, 1986, or the effective date of the rate reduction proposal adopted by the Commission, whichever was later.

AT&T Communications of the Midwest, Inc., which is presently the only certified interexchange carrier in North

Dakota, has submitted a rate reduction proposal in accordance with our order. The reduction proposal suggests various adjustments to the existing mileage rates for interlata calls.

While we are in general agreement with rate reduction concept proposed by AT&T, we are unable to give full review and approval of the proposal at this time. We are unable to adopt a final reduction plan or an effective date for such a plan until we have determined the overall revenue impact of both the access charge adjustments to be filed by the local exchange companies and the rate reduction plan filed by AT&T. The local exchange companies, however, need our approval at this time for implementation of the local rate adjustment so they can properly prepare their tariffs and billing systems for implementation of the adjustment on January 1, 1986.

We are, therefore, allowing the local exchange companies to implement their local exchange rate adjustments effective January 1, 1986. An interlata toll rate reduction plan will be considered for implementation after we have fully reviewed the revenue impacts of the rate reduction proposal filed by AT&T and access charge adjustments to be filed by the local exchange companies. Accordingly,

IT IS HEREBY ORDERED that the Findings of Fact, Conclusions of Law and Order in these proceedings dated October 8, 1985, are amended and supplemented to authorize the local exchange companies to implement effective January 1, 1986, the local

exchange rate adjustments as if the interlata toll rate reduction plan had been approved.

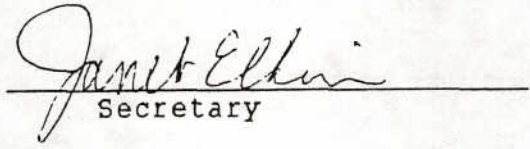
Dated at Bismarck, North Dakota, this 9th day of December, 1985.

(S E A L

PUBLIC SERVICE COMMISSION:

ATTEST:


Leo M. Reinbold, President


Secretary


Dale V. Sandstrom, Commissioner


Bruce Hagen, Commissioner

PUBLIC SERVICE COMMISSION

STATE OF NORTH DAKOTA

* * * * *

AT&T Communications of the)	
Midwest, Inc.,)	
)	
Complainant,)	Case No. 10,694
)	
-vs-)	
)	
Absaraka Coop. Tel. Co.,)	
et al,)	
)	
Respondents.)	SECOND SUPPLEMENTAL
-----)	ORDER
)	
In the Matter of the Investigation of)	
North Dakota Access Charges and Inter-)	
company Compensation for the Provision of))	Case No. 10,699
Intrastate Toll Service.)	
-----)	

In our Order of October 8, 1985, we directed the local exchange companies to reduce the level of access charges assessed to interLATA interexchange companies for non-traffic sensitive plant support. We directed the local exchange companies to reduce interLATA billing, collecting, and access charges to interexchange carriers by an amount equal to the projected annual revenue received from the local rate adjustment approved in our Order. We limited the amount of the reductions, however, by finding that the resulting level of non-traffic sensitive support a local exchange company receives from intraLATA and interLATA toll traffic shall not be less than the revenue the local exchange company would receive if

non-traffic sensitive support were calculated on a subscriber line usage factor, excluding category 6 central office equipment and customer premise equipment.

At the time of our Order, it was expected that the proposed reductions would not lower the level of non-traffic sensitive support below a level calculated on a subscriber line usage factor, except in possibly a few isolated instances. It now appears that the proposed reductions would lower the level of non-traffic sensitive support below a subscriber line usage level for nearly all of the local exchange companies. Accordingly, the calculation of the appropriate subscriber line usage factor becomes critical. In particular, a question has arisen regarding the appropriate manner of calculating non-traffic sensitive costs and a subscriber line usage factor for those companies that usually calculate costs on an "average cost" basis.

We believe that ideally costs and cost allocation factors should be determined based upon each company's actual costs and experience, rather than on "average costs". We recognize, however, that this objective may be unrealistic and impose a hardship on a number of the smaller companies in complying with the time frames of our Order. We further recognize that the benefits of using actual costs and usage characteristics are

reduced as the size of the company decreases. For these reasons we are allowing those local exchange companies that have fewer than 3,000 access lines, and that calculated costs on an "average" basis during 1983, to calculate non-traffic sensitive costs and subscriber line usage factors on an "average" basis. All other local exchange companies shall calculate non-traffic sensitive costs and a subscriber line usage factor using their actual costs and subscriber usage characteristics.

Those local exchange companies authorized to use "averages" in the calculation of non-traffic sensitive costs and a subscriber line usage factor shall do so using the following formula:

$$\left[\frac{(1984 \text{ IntraLATA Schedule A Settlements}) \times (.61) \times (1984 \text{ total Intrastate Toll Minutes})}{1984 \text{ IntraLATA Toll Minutes}} \right] \times$$

$$\left[\frac{\text{Weighted average intrastate subscriber line usage factor for all local exchange cost companies except Northwestern Bell}}{\text{Weighted average intrastate subscriber plant factor for all local exchange companies except Northwestern Bell}} \right] \times$$

$$\left[\frac{1984 \text{ InterLATA Toll Minutes}}{1984 \text{ total Intrastate Toll Minutes.*}} \right]$$

=InterLata non-traffic sensitive costs based upon a subscriber line usage factor, excluding CPE

*Toll minutes are defined as the originating and terminating minutes from CMDS, form 809, line 32.

To determine the total interLATA subscriber line usage level of non-traffic sensitive costs, the "average" company will add the 1986 level of CPE costs to the number derived in the preceeding formula.

IT IS HEREBY ORDERED that the Findings of Fact, Conclusions of Law, and Order in these proceedings, dated October 8, 1985, are amended and supplemented to authorize the local exchange companies that have fewer than 3,000 access lines, and that calculated costs for settlement purposes on an "average" basis during 1983, to calculate non-traffic sensitive costs and a subscriber line usage factor on an "average" basis in accordance with the terms of this Order.

Dated at Bismarck, North Dakota, this 7th day of January, 1986.

(S E A L)

PUBLIC SERVICE COMMISSION

ATTEST:

Leo M. Reinbold, President

Secretary

Dale V. Sandstrom, Commissioner

Bruce Hagen, Commissioner

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PUBLIC SERVICE COMMISSION
STATE OF NORTH DAKOTA

AT&T Communications of the)	
Midwest, Inc.,)	
)	
Complainant,)	Case No. 10,694
)	
-vs-)	
)	
Absaraka Coop. Tel. Co.,)	<u>THIRD SUPPLEMENTAL ORDER</u>
et al,)	
)	
Respondents.)	
-----)	
In the Matter of the)	
Investigation of North Dakota)	Case No. 10,699
Access Charges and Intercompany)	
Compensation for the Provision)	
of Intrastate Toll Service.)	
-----)	

Our order of October 8, 1985, approved adjustments in the local rates charged by local exchange telephone companies. The revenue generated from these rate adjustments was to be used to reduce access charges assessed by the local exchange companies to carriers of toll calls. The local exchange companies were directed to lower their access charges to intraLATA interexchange carriers by an amount equal to the revenue generated from a local rate adjustment of \$.15 per month per access line. Access charges to interLATA interexchange carriers were to be lowered by an amount equal to the revenue generated by a local rate adjustment of \$.75 per month per access line.

Our order further directed that an amount equal to \$.15 per month per access line be used by the interLATA interexchange carrier (AT&T is the only authorized interLATA interexchange

carrier) to implement a toll reduction plan. We authorized the balance of the reduction in access charges, or \$.60 per month per access line, to be retained by AT&T to improve its intrastate earnings level. There was pending before the Commission an application by AT&T to increase its intrastate toll rates to recover a revenue shortfall in its intrastate operations. Our review of the company's application at that time indicated that AT&T would not be able to obtain a reasonable rate of return on its intrastate investment unless MTS rates were increased or access charges decreased. We stated our belief that a general increase in MTS rates would increase the economic incentive of large users to bypass the switched network and also defeat present and proposed discount plans by sending inconsistent signals to toll customers as to the present and future direction of intrastate toll prices. For those reasons, we stated a general increase in interLATA toll rates should be avoided if possible.

At the time of our order, we anticipated that proposed reductions in interLATA access charges would be approximately \$2,704,338 on an annual basis. We expected that \$540,868 would be used to fund the rate discount program while the balance, or \$2,163,470, would be retained by AT&T to offset the company's rate application. Our order, however, placed a limitation on the amount each local exchange company was required to lower its access charges. The order provided that the access charge reductions were to be limited such that the level of non-traffic sensitive support a local exchange company receives from toll traffic should not be less than the revenue the local exchange

company would receive if non-traffic sensitive support contribution from toll traffic were calculated on a subscriber line useage factor, excluding category 6 central office equipment and customer premise equipment.

At the time of our initial order, it was expected that the proposed reductions would not lower the level of non-traffic sensitive support below a level calculated on a subscriber line usage factor except in a few isolated instances. As the local exchange companies began calculating the proposed reductions, however, it became apparent that those reductions would lower the level of non-traffic sensitive support below a subscriber line usage level for nearly all of the local exchange companies. With the determination of the access charge reductions for virtually all of the companies now complete, the reductions, with the subscriber line usage limitation are expected to total \$1,777,315 on an annual basis rather than the originally projected amount of \$2,704,338.

Since issuance of our initial order, we have also carefully examined the rate increase application of AT&T. The examination, conducted by our staff and consultants, shows that AT&T is experiencing an annual shortfall in its intrastate revenue requirement of \$2,993,334. If AT&T were allowed to retain the entire benefit of the access charge changes from our initial order (including changes in billing, collection, and special access charges) an annual revenue shortfall of \$700,479 would still be expected.

Clearly, the access charge reductions from our order are not sufficient to both provide revenue relief to AT&T and also

fund a interLATA toll discount plan unless we remove the limitation for the required level of non-traffic sensitive support. This we decline to do.

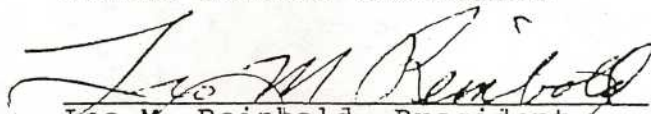
We also reaffirm our position that a general increase in toll rates would likely defeat the purpose of a toll discount plan and should be avoided if possible. A toll discount plan would serve little purpose if toll rates had to be increased to fund the plan.

We are therefore modifying our initial order in this proceeding to remove our directive that AT&T implement a rate discount plan to flow through to toll customers an amount equal to \$.15 per month per access line of the reduced access charges.


IT IS HEREBY ORDERED that the Findings of Fact, Conclusions of Law, and Order in these proceedings, dated October 8, 1985, are amended and supplemented to remove the requirement that the interLATA interexchange carriers implement a rate reduction proposal to flow through reductions in access charges equal to \$.15 per month per access line.

Dated this 1st day of April, 1986.

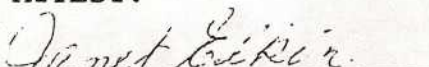
PUBLIC SERVICE COMMISSION


Leo M. Reinbold, President


Dale V. Sandstrom, Commissioner


Bruce Hagen, Commissioner

ATTEST:


Janet Elkin, Secretary

PUBLIC SERVICE COMMISSION

STATE OF NORTH DAKOTA

* * * * *

AT&T Communications of the Midwest, Inc.,)
Complainant) CASE NO. 10,694

vs.

Absaraka Coop. Tele. Co., et al,)
Respondents) CASE NO. 10,699

In the Matter of the Investigation of)
North Dakota Access Charges and Inter-)
Company Compensation for the Provision of) SUPPLEMENTAL
Intrastate Toll Service.) FINDINGS

Our order of October 8, 1985, stated a belief that the assessment of non-traffic sensitive support payments to the interexchange carrier on a flat rate rather than a minutes of use basis could be one method of discouraging uneconomic bypass by large use customers. We stated that lump sum assessments would also provide the interexchange carrier more flexibility in marketing toll to large volume customers, especially for calls during off-peak periods. We determined it appropriate that non-traffic sensitive support be calculated on a lump sum rather than a minutes of use basis, but asked all parties to report any potential difficulties in the calculation and implementation of lump sum payments before July 1, 1986.

The North Dakota Industry Study Committee, after reviewing several plans for lump sum assessment, concluded such plans would not encourage use of the telephone network, would not

reduce the incentive to bypass the switched network, may even increase the incentive, and would not be self policing to eliminate potential billing disputes between the local exchange companies and the interexchange carriers. The committee suggested the current method of non-traffic sensitive assessment be retained.

AT&T Communications reported it unnecessary to implement lump-sum assessments since the Commission had already taken substantial measures in the access charge order toward preventing uneconomic bypass. Since the Commission directed substantial reductions in the level of non-traffic sensitive assessment and prevented the application of a non-traffic assessment on the closed end of WATS and 800 services, any additional gain in preventing bypass thru implementation of lump-sum assessments would be small.

The industry committee also implied potential problems with all methods used to allocate non-traffic sensitive cost between interexchange carriers and with any methods used by the local exchange companies to determine the appropriate level of non-traffic sensitive support that interexchange carriers should provide.


The responses of the industry committee and AT&T Communications have convinced us that lump-sum assessments for non-traffic sensitive contribution should not be implemented at this time.

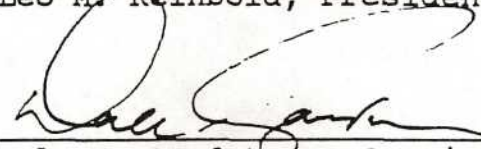
We are, therefore, allowing the local exchange companies to continue to assess non-traffic sensitive costs on a usage sensitive basis through the approved carrier common line access charges.

Dated at Bismarck, North Dakota, this 7th day of August, 1986.

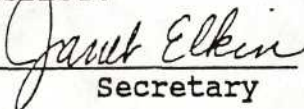
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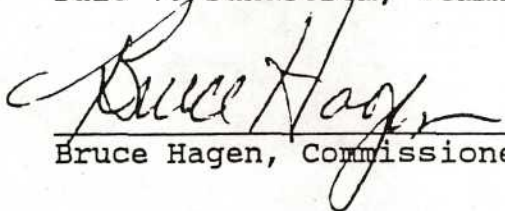
PUBLIC SERVICE COMMISSION


Leo M. Reinbold, President


Dale V. Sandstrom, Commissioner

ATTEST:


Secretary


Bruce Hagen, Commissioner

1314S

PUBLIC SERVICE COMMISSION

STATE OF NORTH DAKOTA

* * * * *



In the Matter of the Complaint of AT&T Communications of the Midwest, Inc. Concerning Access Charges of the Local Exchange Companies in North Dakota.

DOCKET PU-453-85-1 (10,694)

In the Matter of the Investigation of North Dakota Access Charges and Intercompany Compensation for the Provision of Intrastate Toll Service.

DOCKET PU-439-85-1 (10,699)

FOURTH SUPPLEMENTAL ORDER

Our order of October 8, 1985, directed new access charges that are assessed by the local exchange companies to carriers of toll calls. Our order also directed that a) by July 1, 1986, Northwestern Bell Telephone Company (NWB) file a fully distributed cost study for it's switched access services, b) that by January 1, 1987, NWB have new embedded cost based switched access service rates in effect and all other local exchange companies mirror those rates, and c) by May 1, 1987 the local exchange companies report to the Commission on the desirability of company specific cost based switched access service rates or if they should continue to mirror NWB rates.

NWB provided a fully distributed cost study for it's switched access services and also provided an incremental cost study. The studies revealed that some of the rates for individual switches services could be adjusted. Some of them

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could be increased and others decreased. The Commission did not require that NWB adjust it's access charges at that time, and will not require adjustments at this time. However, NWB may apply to the Commission to change it's access rates whenever it wishes.

On April 21, 1987 the North Dakota Industry Study Committee responded that mandatory concurrence with another company's tariff is not justified and that requiring all company's to file cost based tariffs is equally not justified. The committee further stated that the decision to mirror NWB's tariff or file its own cost based tariff rates should rest entirely with the local exchange company.

The responses of the industry committee have convinced the Commission that there is no need for mandatory concurrence of NWB's switched access tariff. We would also like to make it clear that the Commission does not preclude a company from applying to the Commission to establish it's own cost based access rates.

The responses of the industry committee have also convinced the Commission that mandatory filing of cost based access charges should not be directed at this time.

CONCLUSIONS OF LAW

The local exchange companies and AT&T are telecommunications companies subject to the jurisdiction of

this Commission except insofar as certain of the exchange companies have elected not to be subject to the Commission's rate jurisdiction pursuant to the laws of North Dakota. Such non-rate regulated local exchange companies are, however, subject to the Commission's jurisdiction over carrier interconnection compensation. The Commission has jurisdiction of the proceeding.

Having reviewed the issues in this proceeding, the Commission issues the following:


ORDER

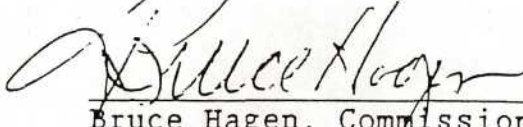
This case is terminated.

Bismarck, North Dakota, October 14, 1988.

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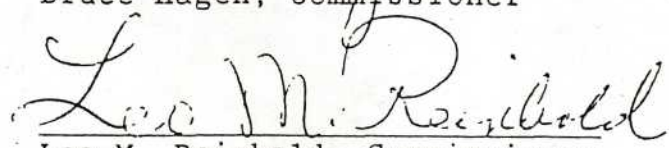
PUBLIC SERVICE COMMISSION


Dale V. Sandstrom, President


Bruce Hagen, Commissioner

ATTEST:


Secretary


Leo M. Reinbold, Commissioner

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Public Service Commission
Access Charges
Investigation

Case No. PU-439-89-487

NOTICE OF PROPOSED FOURTH SUPPLEMENTAL ORDER

November 21, 1989

On December 13, 1983, a North Dakota Public Service Commission (Commission) order in Case No. 10,444 directed that an ongoing study group, made up of Northwestern Bell Telephone Company and independent company representatives, be formed to develop long-term recommendations for intercompany compensation and charges for intrastate long distance service.

On October 8, 1985, the Commission adopted an order in Case No. 10,694 and Case No. 10,699 (order). These cases concerned the methods of intercompany compensation for the provision of intrastate long distance service.

The order required a continuation of interLATA long distance compensation through carrier access charges. The order directed the implementation of intraLATA access charges equal to the local exchange company's interLATA access charges. In addition, the Commission adopted a rate element for intraLATA access compensation called the access adjustment rate. The access adjustment rate was designed to recover the difference between the independent local exchange company's intrastate intraLATA long distance revenue requirement and the revenue received by the independent local exchange company from access charges. A net true up was also provided by the order to insure the local exchange company receives its actual revenue requirement. In developing its intraLATA long distance revenue requirement, the local exchange company was directed to use an acceptable costing methodology provided the revenue requirement derived therefrom not exceed those amounts which would be arrived at by the application of the methods prescribed in Parts 67 and 69 of the Federal Communications Commission (FCC) rules.

In Case Nos. 10,694 and 10,699, there were also three supplemental orders and one supplemental finding of fact. The first supplemental order concerned adjustments needed as a result of interLATA access rate reductions. The second supplemental order concerned calculation of non-traffic sensitive costs and a subscriber line usage factor on an "average" basis for certain companies. The third supplemental order concerned a flow through of access charge reductions. The supplemental findings of fact concerned lump sum assessments for non-traffic sensitive costs.

Since the date of the order and its supplements, the FCC has adopted a new system of accounts (47 CFR Part 32) for interstate access charge ratemaking and a corresponding new cost separations manual (47 CFR Part 36). The FCC continues to prescribe the use of Part 69 for allocating long distance costs to specific categories of services.

In its rules the Commission adopted by reference 47 CFR Part 32. This renders the use of the FCC's old Part 67 cost separations manual administratively cumbersome.

By letter dated September 15, 1989, the industry study group requested that the Commission adopt a modified form of the FCC's current cost separation rules for use in North Dakota.

To accomplish this, the Commission proposes to adopt a Fourth Supplemental Order in Case No. 10,694 and Case No. 10,699 to modify the existing Commission order relating to the acceptable costing methodology by which companies can derive their intraLATA toll revenue requirement for intraLATA access charges.

The Fourth Supplemental Order would adopt the use of the FCC's Part 36 cost manual retroactively to January 1, 1988. Part 36, Subpart F: Universal Service Factor, and Subpart G: Lifeline Connection Assistance Expense Allocation would not be adopted as they do not apply to North Dakota intrastate separations. In addition, the Fourth Supplemental Order would include the following modifications to the FCC's Part 36:

1. References to separations between interstate and state jurisdiction would be considered references to separations between exchange and intrastate long distance and/or between exchange and intrastate access.
3. Category 3 central office equipment will be allocated using the DEM factor (dial equipment minutes) multiplied by a weighting factor. Each company's individual DEM weighting factor will result in a January 1, 1988 allocation level equivalent to the combined allocation level that would have resulted from using the 47 CFR Part 67 methods for allocating Central Office Equipment categories 4, 5, 6, and 7 on December 31, 1987. The weighting factors determined by the industry are:

DEM Weighting Factors
for Allocating Category 3 COE

<u>Company</u>	<u>Weighting Factor</u>
BEK	1.853962
Consolidated	1.789920
Contel	1.817690
Dakota Central	1.868306
Dickey Rural	1.724258
Inter-Community	1.540553
Midstate	1.477800
Northwest Communications	1.576550

Polar	1.816500
Reservation	1.847177
Souris	1.540257
United	1.950225
West River	1.508710
Northwestern Bell	1.558900

4. Non-traffic sensitive costs will be allocated using rules already adopted by the Commission in case numbers 10,444 and 10,694 and 10,699.


The Commission will retain authority to reexamine the issue in the future.

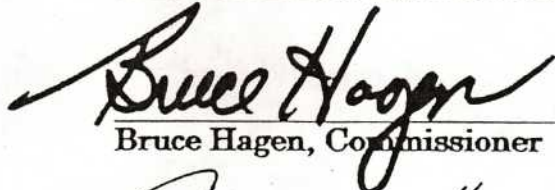
Those interested are invited to comment on this proposed supplemental order in writing. Anyone desiring a hearing must file a written request identifying his interest in the proceeding and the reasons for requesting a hearing. Comments and requests for hearing must be received by December 29, 1989. If deemed appropriate, the Commission can determine the matter without a hearing.

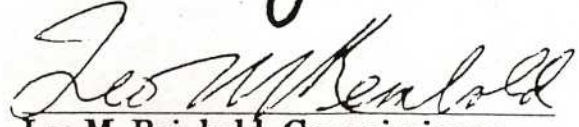
The Commission believes statewide public notice can best be achieved by publishing the notice in North Dakota daily newspapers. Therefore, the Commission waives that portion of N.D. Admin. Code Section 69-02-04-01 requiring notice to be served on city and county officials across the state, and requiring publication in county newspapers.

For more information, contact the Public Service Commission offices, 12th Floor, State Capitol, Bismarck, North Dakota 58505-0480, or toll free at 1-800-932-2400.

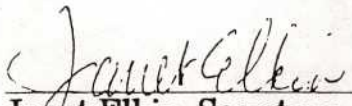
PUBLIC SERVICE COMMISSION


Dale V. Sandstrom, President


Bruce Hagen, Commissioner


Leo M. Reinbold, Commissioner

Attest:


Janet Elkin, Secretary

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Public Service Commission
Access Charges
Investigation

Case No. PU-439-89-487
(Case Nos. 10,694 and 10,699)

FOURTH SUPPLEMENTAL ORDER

January 9, 1990

Preliminary Statement

On November 21, 1989, the Public Service Commission (Commission) issued a Notice of Proposed Fourth Supplemental Order. In the Notice the Commission proposed to modify its order in Case No. 10,694 and Case No. 10,699 by adopting a modified version of the Federal Communication Commission's (FCC) Part 36 cost separations manual. This modified manual would be the acceptable costing methodology by which companies can calculate their maximum intraLATA toll revenue requirement for intraLATA access charges.

The Commission gave interested parties opportunity to file objections or requests for hearing before the Commission in this matter on or before December 29, 1989. The Commission also gave notice that it could decide the matter without hearing. The deadline has passed and no objections or requests for hearing were received. AT&T Communications (AT&T) and West River Mutual Aid Telephone Corporation (West River) filed comments. After reviewing the comments submitted in this case, the Commission makes the following:

On December 13, 1983, a North Dakota Public Service Commission (Commission) order in Case No. 10,444 directed that an ongoing study group, made up of Northwestern Bell Telephone Company and independent company representatives, be formed to develop long-term recommendations for intercompany compensation and charges for intrastate long distance service.

On October 8, 1985, the Commission adopted an order in Case No. 10,694 and Case No. 10,699 (order). These cases concerned the methods of intercompany compensation for the provision of intrastate long distance service. In determining intrastate intraLATA long distance revenue requirements, the local exchange companies were directed to use an acceptable costing methodology provided the revenue requirement derived therefrom not exceed those amounts which would be arrived at by the application of the methods prescribed in Parts 67 and 69 of the FCC rules.

Since the date of the order, the FCC has adopted a new system of accounts (47 CFR Part 32) for interstate access charge ratemaking and a corresponding new cost separations manual (47 CFR Part 36). The FCC continues to prescribe the use of Part 69 for allocating long distance costs to specific categories of services.

By rulemaking, this Commission adopted by reference 47 CFR Part 32 making the use of the FCC's old Part 67 cost separations manual administratively cumbersome.

By letter dated September 15, 1989, the industry study group requested that the Commission adopt a modified form of the FCC's current cost separation rules for use in North Dakota.

In the Notice the Commission proposed to modify the existing order in Case No. 10,694 and Case No. 10,699 relating to the acceptable costing methodology by which companies can derive their intraLATA toll revenue requirement for intraLATA access charges. The Commission proposed to adopt the use of the FCC's Part 36 cost manual retroactively to January 1, 1988. Part 36, Subpart F: Universal Service Factor, and Subpart G: Lifeline Connection Assistance Expense Allocation would not be adopted as they do not apply to North Dakota intrastate separations. In addition, the Commission would include the following modifications to the FCC's Part 36:

- a. References to separations between interstate and state jurisdiction would be considered references to separations between exchange and intrastate long distance and/or between exchange and intrastate access.
- b. Category 3 central office equipment would be allocated using the DEM factor (dial equipment minutes) multiplied by a weighting factor. Each company's individual DEM weighting factor would result in a January 1, 1988 allocation level equivalent to the combined allocation level that would have resulted from using the 47 CFR Part 67 methods for allocating Central Office Equipment categories 4, 5, 6, and 7 on December 31, 1987. The weighting factors determined by the industry would be:

DEM Weighting Factors
for Allocating Category 3 COE

<u>Company</u>	<u>Weighting Factor</u>
BEK	1.853962
Consolidated	1.789920
Contel	1.817690
Dakota Central	1.868306
Dickey Rural	1.724258
Inter-Community	1.540553
Midstate	1.477800
Northwest Communications	1.576550
Polar	1.816500
Reservation	1.847177
Souris	1.540257
United	1.950225
West River	1.508710
Northwestern Bell	1.558900

- c. Non-traffic sensitive costs would be allocated using rules already adopted by the Commission in case numbers 10,444 and 10,694 and 10,699.

The Commission would retain authority to reexamine the issue of separations in the future.

West River responded to the Commission's Notice on November 29, 1989. The company provided data showing that its DEM weighting factor should be 2.03763 rather than 1.50871. AT&T Communications responded to the Commission's Notice on December 29, 1989. AT&T comments that no DEM weighting factor should be specified for Northwestern Bell since a) Northwestern Bell does not use separated cost methodologies for the costing and pricing of access charges, b) Northwestern Bell access charges are now subject to the essential telecommunications price factor set forth in Senate Bill 2320, c) weighting factors are totally arbitrary, and d) that at the interstate level the weighting factors are used to provide subsidies to benefit small local exchange companies and are not intended for large companies such as Northwestern Bell.

The Commission's proposal in this case does not require Northwestern Bell to use the separated cost methodology for the pricing of access charges. The Commission's proposal does set the Commission methodology used to determine the maximum rate a company may charge for intraLATA access. This order does not require that intraLATA access rates be set at the maximum level.

While Northwestern Bell access charges are subject to the price factor set forth in Senate Bill 2320, Northwestern Bell may at any time opt not to be subject to Senate Bill 2320. The weighting factors established at the interstate level may be totally arbitrary as AT&T alleges, but this order does not propose the same arbitrary FCC weighting factors. The Commission's proposal modifies the changes in the interstate separations manual represented by the weighting factor in a way that results in no increases of access charges to long distance companies such as AT&T. This means that no subsidies are created by the methodology proposed by the Commission relative to weighting factors for either Northwestern Bell or the other local exchange companies.

Based on the foregoing statement, the Commission makes the following:

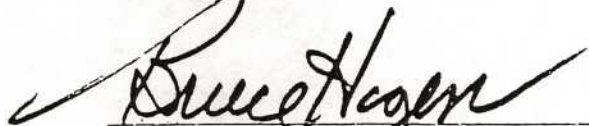
Order

1. In developing the intraLATA toll revenue requirement, the local exchange company should use an acceptable costing methodology provided the revenue requirement derived therefrom does not exceed those amounts which would be arrived at by the application of the methods prescribed in Parts 36 and 69 of the FCC rules, modified as described in the Preliminary Statement of this order.
2. The DEM weighting factor for West River Telephone Company is 2.03763.

PUBLIC SERVICE COMMISSION



Dale V. Sandstrom, President



Bruce Hagen, Commissioner



Leo M. Reinbold, Commissioner

Attest:



Janet Elkin, Secretary

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Public Service Commission
Access Charges
Investigation**

**Case No. PU-439-90-176
(Case Nos. 10,694 and 10,699)**

FIFTH SUPPLEMENTAL ORDER

July 19, 1990

Preliminary Statement

On May 22, 1990, the Public Service Commission issued a Notice of Proposed Fifth Supplemental Order. In the Notice the Commission proposed to modify its order in Case No. 10,694 and Case No. 10,699 by modifying the Dial Equipment Minutes weighting factors adopted in Case No. PU-439-89-487. The weighting factors are part of the cost allocation manual used by North Dakota local exchange companies to determine intrastate revenue requirements. This modified manual would be the acceptable costing methodology by which companies calculate their maximum intraLATA toll revenue requirement for intraLATA access charges.

On December 13, 1983, a North Dakota Public Service Commission order in Case No. 10,444 directed that an ongoing study group, made up of Northwestern Bell Telephone Company and independent company representatives, be formed to develop long-term recommendations for intercompany compensation and charges for intrastate long distance service.

On October 8, 1985, the Commission adopted an order in Case No. 10,694 and Case No. 10,699. These cases concerned the methods of intercompany compensation for the provision of intrastate long distance service.

The order required a continuation of interLATA long distance compensation through carrier access charges. The order directed the implementation of intraLATA access charges equal to the local exchange company's interLATA access charges. In addition, the Commission adopted a rate element for intraLATA access compensation called the access adjustment rate. The access adjustment rate was designed to recover the difference between the independent local exchange company's intrastate intraLATA long distance revenue requirement and the revenue received by the independent local exchange company from access charges. A net true up was also provided by the order to insure the local exchange company receives its actual revenue requirement. In developing its intraLATA long distance revenue requirement, the local exchange company was directed to use an acceptable costing methodology provided the revenue requirement derived therefrom not exceed those amounts which would be arrived at by the application of the methods prescribed in Parts 67 and 69 of the Federal Communications Commission rules.

In Case Nos. 10,694 and 10,699, there are also four supplemental orders and one supplemental finding of fact. The first supplemental order concerned adjustments needed as a result of interLATA access rate reductions. The second supplemental order concerned calculation of non-traffic sensitive costs and a subscriber line usage factor on an "average" basis for certain companies. The third supplemental order concerned a flow through of access charge reductions. The fourth supplemental order concerned the adoption of the Federal Communications Commission's Part 36 cost separations manual, with certain modifications, for use in North Dakota. It set forth the Dial Equipment Minutes weighting factor to be used by each company for allocating Category 3 central office equipment. The supplemental findings of fact concerned lump sum assessments for non-traffic sensitive costs.

By letter dated April 2, 1990, the industry study group informed the Commission that many of the Dial Equipment Minutes weighting factors listed in the Fourth Supplemental Order were incorrect. The industry study group requested that the Commission issue another supplemental order correcting the weighting factors. In its letter, the group suggested an alternative to listing specific weighting factors in the order. The suggestion was to eliminate all references to numbers entirely. The cost companies would freeze the Dial Equipment Minutes weighting factor as of December 31, 1987 based on the method specified in the Fourth Supplemental Order for determining the Dial Equipment Minutes weighting factor.

In its May 22, 1990 notice, the Commission proposed to include the weighting factor numbers in the Fifth Supplemental Order since those numbers are based on calculations using historical data for December 31, 1987. The Commission stated there should be no reason for these numbers to change again.

The notice proposed that the Fifth Supplemental Order would include the following language to modify page 2, paragraph b. of the Fourth Supplemental Order:

- b. Category 3 central office equipment will be allocated using the Dial Equipment Minutes factor multiplied by a weighting factor. Each company's allocator will result in a January 1, 1988, category 3 central office equipment allocation equivalent to the combined allocation level that would have resulted from using the 47 CFR Part 67 methods for allocating Central Office Equipment categories 4, 5, 6, and 7 on December 31, 1987. The weighting factor will remain frozen at the December 31, 1987, level for future intrastate cost separations. The weighting factors are:

Dial Equipment Minutes Weighting Factors
for Allocating Category 3 COE

<u>Company</u> <u>Weighting Factor</u>	<u>Intrastate/IntraLATA</u> <u>Frozen Dial Equipment Minutes</u>
BEK	1.874186
Consolidated	1.761582

Contel	1.887990
Dakota Central	1.868306
Dickey Rural	1.746873
Inter-Community	1.545822
Midstate	1.483800
Northwest Communications	1.545166
Polar	1.868100
Reservation	1.774393
Souris	1.515728
United	1.942028
West River	2.158639
Northwestern Bell	1.558900


The Commission gave interested parties opportunity to file objections or requests for hearing before the Commission in this matter on or before June 25, 1990. The Commission also gave notice that it could decide the matter without hearing. The deadline has passed and no objections or requests for hearing were received.

Based on the foregoing statement, the Commission makes the following:

Order

1. Page 2, paragraph b. of the Fourth Supplemental Order is modified as described in the Preliminary Statement of this order.

PUBLIC SERVICE COMMISSION


 Dale V. Sandstrom, President

Attest:


 Bruce Hagen, Commissioner


 Janet Elkin, Secretary

(Absent)
 Leo M. Reinbold, Commissioner