

MEMORANDUM

To: Missouri Public Service Commission Official Case File
Tariff File Nos. JI-2004-0611, JI-2004-0612, JI-2004-0613, JI-2004-0614, JI-2004-0615
Case Nos. IT-2004-0225, IT-2004-0226, IT-2004-0227, IT-2004-0228, IT-2004-0229

From: Walter Cecil
Telecommunications Department

/s/ Natelle Dietrich 12/09/03
Utility Operations Division/Date

/s/ William K. Haas 12/09/03
General Counsel's Office/Date

Subject: Recommendation To Approve Sprint Price Cap Tariff Filings

Date: December 5, 2003

P.S.C. Mo. Nos. 22, 23, 24, 25, 26

I. Introduction

On October 31, 2003, Sprint Missouri, Inc., d/b/a Sprint (Sprint) an incumbent local exchange carrier, filed proposed tariff sheets with an effective date of December 18, 2003, in accordance with Section 392.245 of the Missouri Revised Statutes (2000) (price cap filing). Substitute sheets were filed on December 3, 2003.

Staff analyzed Sprint's filing, including supporting workpapers. Sprint proposes to change almost five hundred effective rates including local rates, private line services rates and exchange access services rates. Sprint also proposes to increase more than 1,500 prices contained in the Company's schedules of Maximum Allowable Rates. The following sections discuss the proposed changes and compliance with applicable Missouri statutes.

Staff does not object to the proposal.

II. Reduction of basic local rates and certain access rates by the change in the Consumer Price Index –Telephone Services (CPI-TS)

Section 392.245.4 states:

4. (1) ... the maximum allowable prices for exchange access and basic local telecommunications services of an incumbent local exchange telecommunications company shall be annually changed by one of the following methods:

(a) By the change in the telephone service component of the Consumer Price Index (CPI-TS), as published by the United States Department of Commerce or its successor agency for the preceding twelve months...

The statute allows a price cap regulated company to choose one of two methodologies by which it may change its maximum allowable basic local and access rates. This year's CPI-TS adjustment is -.0503 percent. Accordingly, Sprint is reducing basic local business and residential rates in all rate groups by approximately one cent per month. Sprint is also reducing its carrier common line (CCL) terminating access rate by \$.000068 per minute.

Staff notes that Sprint filed for and received authorization to rebalance its access rates and basic local rates in IT-2004-134 and IT-2004-135. While the rebalancing of rates has been authorized, Sprint has not imposed the increased basic local rates. The instant proposal will reduce the increase due to rebalancing. The increase in basic local services rates will now be \$1.49 instead of \$1.50.

III. Increase of nonbasic local rates, access rates and private line services rates by 8%

Section 392.245.11 states (emphasis added):

*11. The maximum allowable prices for nonbasic telecommunications services of a large, incumbent local exchange telecommunications company regulated under this section shall not be changed until January 1, 1999, or on an exchange- by-exchange basis, until an alternative local exchange telecommunications company is certified and providing basic local telecommunications service in such exchange, whichever is earlier. **Thereafter, the maximum allowable prices for nonbasic telecommunications services of an incumbent local exchange telecommunications company may be annually increased by up to eight percent for each of the following twelve-month periods upon providing notice to the commission and filing tariffs establishing the rates for such services in such exchanges at such maximum allowable prices.** This subsection shall not preclude an incumbent local exchange telecommunications company from proposing new telecommunications services and establishing prices for such new services. An incumbent local exchange telecommunications company may change the rates for its services, consistent with the provisions of section 392.200, but not to exceed the maximum allowable prices, by filing tariffs which shall be approved by the commission within thirty days, provided that any such rate is not in excess of the maximum allowable price established for such service under this section.*

The highlighted portion of the statute allows a large price cap regulated company to increase its rates for nonbasic telecommunications services on an annual basis by up to eight percent. Sprint's proposal increases the effective rates for certain nonbasic services by amounts not exceeding eight percent. These services include nonbasic local services (Filing No. JI-2004-0611), private line services (Filing No. JI-2004-0613), and nonbasic exchange access services other than CCL (Filing No. JI-2004-0615). Staff finds the proposed rate increases consistent with Section 392.245.11 RSMo.

Staff notes that all proposed filings contain increases of 8% or less to the Company's schedules of maximum allowable prices. Staff further notes Filing Nos. JI-2004-0612 (Message Telecommunications Service) and JI-2004-0614 (Wide Area Telecommunications Services) propose 8% increases exclusively to the Company's schedules of maximum allowable prices. This practice is similar to the banking

practice that was disallowed by the Commission in Case No. TT-2002-447; however, the schedules of maximum allowable prices allow the company to track the maximum prices that could have been charged, are not imposed on any end user and do not affect the rates charged to the end user. Last year, after issuing its decision in Case No. TT-2002-447, the Commission approved similar increases to the Company's maximum allowable prices in Case Nos. IT-2003-0166, IT-2003-0167, IT-2003-0168, IT-2003-0169 and IT-2003-0170 (2002 Price Cap). In its Orders Approving Tariff, the Commission found that Case No. TT-2002-447 addressed the issue of "banking" and was not applicable to the adjustments of maximum allowable prices in the 2002 Price Cap cases. Sprint's actions in the aforementioned cases are similar to its actions in the instant cases. (The Cole County Circuit Court recently affirmed the Commission's Case No. TT-2002-447 decision in Case No. 03CV323021. However, the case remains subject to appeal to the Western District Court of Appeals.)

IV. Staff Analysis

This filing requires application of two distinct subsections of the statutes: 392.245.4 and 392.245.11. Section 392.245.4 deals with the annual change in rates imposed against basic local services and access services based on certain economic indicators. The proposed adjustments are consistent with previous practice and similar filings, and are mathematically correct. Staff finds the proposed rate adjustments consistent with the application of the statute and does not object.

The second section of the price cap statute, Section 392.245.11, requires an analysis of each of the approximately four hundred proposed nonbasic rate changes to ensure compliance with the eight percent limit. Staff has examined each proposed rate increase, and found the proposed rate increases to be between approximately six percent and eight percent, and therefore less than or equal to the maximum of eight percent allowed by statute.

Staff further analyzed the proposed rate increases with respect to the various yardstick economic indices mentioned in the Commission's *Report and Order* in Case No. IT-2004-0015. Specifically the Commission indicated the CPI-TS or the GDP-PI should be considered in determining whether a proposed rate increase is just and reasonable. The Commission also indicated it would consider whatever competent and substantial evidence the parties may adduce as to the reasonableness of the proposed prices. During the past twelve months, the percentage changes in the indices mentioned in the Commission's *Report and Order* in Case No. IT-2004-0015 varies from -2.6973 (CPI-TS) to +2.8398 (CPI-Local Services) (CPI-LS).

Since Sprint's proposed nonbasic price cap adjustments range from approximately 6% to 8%, which is greater than the highest yardstick index, Staff contacted Sprint for additional justification of the increases. Sprint responded by stating the company is proposing to adjust only a portion of its nonbasic rates and the aggregate increase in non-basic service revenues is less than the percentage change in the highest yardstick index. Sprint's proposed filing increases the company's non-basic service revenue by only 2.23%. Thus, Sprint's proposed aggregate increase in non-basic service revenues of 2.23% is less than the percentage change in the most recent CPI-LS index of 2.8398%.

VI. Summary and Recommendation

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Staff has reviewed the proposed tariff filings and supporting documentation and finds that Sprint has complied with the requirements of Section 392.245. Staff has no objections to the filings, as amended, and recommends the Commission approve the proposed tariff revisions to Sprint Missouri, Inc., d/b/a Sprint PSC MO Nos. 22, 23, 24, 25 and 26. Staff is unaware of any other filing which affects or which would be affected by this tariff filing.

☒ The Company is current in filing an annual report and paying the PSC assessment.

☐ The Company is delinquent. Staff recommends the Commission grant the requested relief/action on the condition the applicant corrects the delinquency. The applicant should be instructed to make the appropriate filing in this case after it has corrected the delinquency.

(☐ No annual report ☐ Unpaid PSC assessment. Amount owed:)