

FEB 26 1998

COMMERCE AND REGULATION

HOUSE FILE 2462
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and MAY

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the election of a local exchange carrier to be
2 price-regulated and providing an effective date.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2462

1 Section 1. Section 476.97, subsection 2, Code 1997, is
2 amended to read as follows:

3 2. The board, after notice and opportunity for hearing,
4 may approve, modify, or reject the plan. The board shall
5 approve, modify, or reject the plan by no later than ninety
6 days after the date the plan is filed. The local exchange
7 carrier shall have ten days to accept or reject any board
8 modifications to its plan. If the local exchange carrier
9 rejects a modification to its plan, the board shall reject the
10 plan without prejudice to the local exchange carrier to submit
11 another plan.

12 Sec. 2. Section 476.97, subsection 3, paragraph a,
13 subparagraphs (1), (3), and (4), Code 1997, are amended to
14 read as follows:

15 (1) Establishing and changing prices, terms, and
16 conditions for basic communications services. The initial
17 plan for price regulation must include a proposal, which the
18 board shall approve, for reducing the local exchange carrier's
19 average intrastate access service rates to the local exchange
20 carrier's average interstate access service rates in effect as
21 of the last day of the calendar year immediately preceding the
22 date of filing of the plan, as follows:

23 (a) A local exchange carrier with five hundred thousand or
24 more access lines in this state shall reduce its average
25 intrastate access service rates by at least fifty one hundred
26 percent of the difference between average intrastate access
27 service rates and average interstate access service rates as
28 of the date that the plan ~~is filed and further reduce such~~
29 ~~rates to the average interstate access service rates within~~
30 ~~ninety days of the date that the plan~~ becomes effective.

31 (b) A local exchange carrier with fewer than five hundred
32 thousand but seventy-five thousand or more access lines in
33 this state shall reduce its average intrastate access service
34 rates to its average interstate access service rates in
35 increments of at least twenty-five percent, with the initial

1 reduction to take effect on approval of the plan and equal
2 annual reductions on each anniversary of the approval during
3 the first three years that its plan is in effect.

4 (c) A local exchange carrier with fewer than seventy-five
5 thousand access lines in this state shall reduce its average
6 intrastate access service rates to its average interstate
7 access service rates with equal annual reductions during a
8 period beginning no more than two years and ending no more
9 than five years from the plan's inception.

10 (3) The plan shall also provide that the initial prices
11 for basic communications services shall be ~~six~~ three percent
12 less than the rates approved and in effect at the time the
13 local exchange carrier files its plan. A local exchange
14 carrier which elects to reduce its rates by ~~six~~ three percent
15 shall not, at a later time, increase its rates for basic
16 communications services as a result of the carrier's
17 compliance with the board's rules relating to unbundling. In
18 lieu of the ~~six~~ three percent reduction, and prior to the
19 adoption of rules relating to unbundling pursuant to section
20 476.101, subsection 4, paragraph "a", subparagraph (1), the
21 local exchange carrier may request and the board may establish
22 a regulated revenue requirement in a rate proceeding under
23 section 476.3 or 476.6 commenced after July 1, 1995. After
24 the determination of the local exchange carrier's regulated
25 revenue requirement pursuant to the rate proceeding, the local
26 exchange carrier shall not immediately implement rates
27 designed to recover that regulated revenue requirement.
28 Following the adoption of rules relating to unbundling
29 pursuant to section 476.101, subsection 4, paragraph "a",
30 subparagraph (1), the local exchange carrier shall commence a
31 tariff proceeding for the approval of tariffs implementing
32 such unbundling. The board has six months to complete this
33 tariff proceeding and determine the local exchange carrier's
34 final unbundled rates. The local exchange carrier shall carry
35 forward the regulated revenue requirement determined by the

1 board pursuant to the rate proceeding and design rates that
2 comply with the board's rules relating to unbundling that
3 recover the regulated revenue requirement, and that implement
4 the board's approved rate design established in the tariff
5 proceeding.

6 In lieu of taking the ~~six~~ three percent reduction, a local
7 exchange carrier that submits a plan for price regulation
8 after the board adopts rules relating to unbundling may file a
9 rate proceeding under section 476.3 or 476.6 and the board may
10 approve rates designed to comply with those rules which allow
11 the carrier to recover the established regulated revenue
12 requirement and that implement the board's approved rate
13 design established in the tariff proceeding.

14 (4) The plan shall provide for both increases and
15 decreases in the prices for basic communications services
16 reflecting annual changes in inflation and productivity.
17 Prior to January 1, ~~1998~~ 2000, the board shall use the gross
18 domestic product price index, as published by the federal
19 government, for an inflation measure, and two and six-tenths
20 percentage points for a productivity measure. ~~After~~ On or
21 after January 1, ~~1998~~ 2000, the board by rule may adopt
22 current measures of inflation and productivity.

23 Sec. 3. Section 476.98, Code 1997, is amended to read as
24 follows:

25 476.98 EARNINGS CALCULATION AND REPORT.

26 The consumer advocate shall calculate an estimate of the
27 return of a local exchange carrier operating under price
28 regulation pursuant to section 476.97 as if the carrier were
29 subject to rate-of-return regulation. The calculation shall
30 be based upon the annual report of such carrier and other
31 information provided to the consumer advocate by the carrier.
32 The calculation shall be made every two years beginning
33 following the end of the second calendar year after the year
34 in which the plan becomes effective. Notwithstanding section
35 476.1D, subsection 4, the consumer advocate shall make two

1 calculations pursuant to this section with one calculation
2 taking into account the investment, revenues, and expenses
3 associated with the sale of classified directory advertising,
4 and one calculation not taking into account such investment,
5 revenues, and expenses. The consumer advocate shall provide a
6 written report to the general assembly including the results
7 of this calculation on or before July 1 of the year
8 immediately following the two-year period for which a
9 calculation is made. If, after a review of the information
10 used to make the calculation required in this section, the
11 consumer advocate determines that the public interest would be
12 better served by a different form of rate regulation, the
13 consumer advocate shall provide a recommendation that the
14 general assembly direct the utilities board to implement a
15 different form of rate regulation.

16 Sec. 4. EFFECTIVE DATE. This Act, being deemed of
17 immediate importance, takes effect upon enactment.

18 EXPLANATION

19 This bill amends portions of Code section 476.97 applicable
20 to a local exchange carrier with 500,000 or more access lines
21 electing to operate under price regulation. The bill provides
22 that the utility board must approve, modify, or reject the
23 plan of any local exchange carrier to elect price regulation
24 by no later than 90 days after such plan is filed with the
25 board. The bill provides that a price regulation plan for a
26 local exchange carrier with 500,000 or more access lines must
27 provide for the reduction of its average intrastate access
28 service rates by at least 100 percent of the difference
29 between average intrastate access service rates and average
30 interstate access service rates as of the date the plan
31 becomes effective. Currently, such rates must be reduced by
32 50 percent of such difference between intrastate and
33 interstate access service rates with a further reduction to
34 the average interstate access service rates within 90 days of
35 the date the plan becomes effective.

1 The bill also provides that initial prices for basic
2 communications services shall be three percent less than rates
3 in effect at the time a local exchange carrier with 500,000 or
4 more access lines files its plan. Currently, such reduction
5 in prices is to be six percent less than such rates.

6 The bill provides that the board, for purposes of
7 determining increases and decreases in prices for basic
8 communications services under the plan reflecting annual
9 changes in inflation and productivity, is to use the gross
10 domestic product price index until January 1, 2000, after
11 which the board is to adopt current measures of inflation and
12 productivity. Currently, the board is to use the gross
13 domestic product price index for such determinations until
14 January 1, 1998.

15 The bill also provides that the consumer advocate, in
16 calculating an estimate of the return of a local exchange
17 carrier operating under price regulation as if the carrier
18 were subject to rate-of-return regulation, is to make two
19 calculations with one calculation considering the investment,
20 revenues, and expenses associated with the sale of classified
21 directory advertising, and one calculation not considering
22 such investment, revenues, and expenses.

23 The bill takes effect upon enactment.

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