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COMMERCE

SENATE FILE 2302

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DOUGLAS, and HARPER

Passed Senate, Date \_\_\_\_\_ Passed House, 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.

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

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S.F. 2302

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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