

## HB 539 FACT SHEET – by PSC

### GENERAL POINTS

- This is a deregulation bill. All that remains regulated are single primary access lines. 50,000 of 61,000 business lines deregulated. 70% of Qwest's revenues deregulated.
- Qwest can accomplish all that it seeks to achieve in this bill through current law. The reason for legislation is money. Qwest collected revenues of \$90 million over authorized level from 2000 - 2003. (See attached chart)
- PSC authority to enforce customer service protections is eliminated.
- Deregulation of most of the services of the dominant provider of telecommunications in Montana can result in price increases as are happening in energy market today.
- Qwest is earning twice its authorized rate of return, charging ratepayers \$5 more per line per month over its authorized rate.
- Investment in Montana decreased dramatically. \$8 million not invested as required by PSC in approval of U S WEST Qwest merger.
- Conflicts with other Montana law.

### SPECIFIC SECTIONS OF BILL

#### SECTION 1: PROMOTIONS

- Qwest can engage in predatory pricing and drive competitors out of business without any PSC oversight.
- Irreparable harm to market if promotions not reviewed in advance.

#### SECTION 3: PRIMARY LINE RESTRICTION

- There is no difference between a primary line and an additional line. If access lines are competitive all are competitive and all should be deregulated; if access lines aren't competitive none are competitive and all should remain regulated.
- Billing, disconnection, deposits, carrier service questions are no longer within PSC purview with respect to deregulated services. 348 complaints about long distance alone resolved in 2004.
- Wireless not a substitute for wireline.

#### SECTION 4: COMBINED SERVICES

- Call waiting, caller identification, call forwarding etc. can be added to primary line at any price, regardless of cost.

### RELATED LEGISLATION

- SB 321 (periodic rate review); SB 428 (211 services); HB 618 (UNEs)

## HB 539 FACT SHEET – SHEET 2

### DEREGULATED SERVICES UNDER HB 539

Some examples of deregulated services:

- All N11 services including:
  - 911/E911 Emergency Reporting service;
  - 711 Telephone Relay Service for the Hearing Impaired;
  - 511 Road Information;
  - 411 Directory Assistance;
  - 311 Non-Emergency Reporting to Local Government Agencies;
  - 211 Community Services (SB 428);
- additional non-primary residential and business lines;
- customer deposits on non-primary lines;
- operator and directory service rates;
- late payment charges on delinquent bills;
- construction charges for line extensions;
- toll;
- non-recurring charges (e.g., connection charge) for new service orders;

### PSC POLICY DEREGULATING COMPETITIVE SERVICES:

Since 1985 the Commission has reduced regulation of telecommunications services in Montana in recognition of competition. The following are examples:

- flexible pricing for Qwest for basic business service in selected towns;
- deregulation of Qwest's voice messaging and Megabit (digital subscriber line) service;
- detariffed CLASS services (such as caller ID) for several local phone companies;
- approval of numerous Qwest forbearance applications;
- reduced price regulation for the major interexchange carriers, including Qwest's long distance affiliates QLD and QCC;
- waiver of any price regulation or tariff filing requirement for all resellers of intrastate toll service;
- extremely relaxed regulatory oversight (no price regulation) of competitive local exchange carriers; and
- detariffing of Qwest's intraLATA toll and directory assistance services for business customers.

### CONCLUSION

- The move from regulated to competitive markets in telecommunications in Montana has occurred gradually.
- Unlike electricity restructuring, there is no official transition period assigned to the process.
- One of the major issues in developing effective competition is below cost pricing of competitive services supported by cross subsidization.

# Qwest

Year	2003	2002	2001	2000
Construction Budget Schedule 25, Ln 40	\$ 23,824,000	\$ 28,724,000	\$ 50,000,000	\$ 64,252,000
Montana Composite Statistics Schedule 29				
Residential Access Lines Ln 23	242,615	254,049	261,664	267,231
Business Access Lines Ln 24	107,934	109,563	108,259	104,639
PBX Access Lines Ln 25	13,120	15,995	17,111	17,759
Other Access Lines (Public) Ln 26	3,369	3,679	4,043	4,275
Total	<u>367,038</u>	<u>383,286</u>	<u>391,077</u>	<u>393,904</u>

### Montana Intrastate Regulated Earned Rate Of Return Schedule 35

Total Rate Base Ln 20	\$142,616,000	\$167,976,000	\$189,098,000	\$185,803,000
Net Earnings Ln 22	\$ 28,087,000	\$ 33,360,000	\$ 38,396,000	\$ 24,854,000
Rate Of Return On Average Rate Base Ln 24	19.694%	19.860%	20.305%	13.38%
Rate Of Return On Average Equity Ln 26	46.109%	37.569%	35.543%	19.55%
Adjusted Rate Of Return On Average Rate Base Ln 43	19.763%	19.190%	20.359%	13.404%
Adjusted Rate Of Return On Average Equity Ln 45	46.334%	37.718%	35.660%	19.607%

### Analysis

Actual Net Earnings	\$ 28,087,000	\$ 33,360,000	\$ 38,396,000	\$ 24,854,000
Earnings Based On The Approved ROR Of 10.44%	\$ 14,889,110	\$ 17,536,694	\$ 19,741,831	\$ 19,397,833
Over Earnings	\$ 13,197,890	\$ 15,823,306	\$ 18,654,169	\$ 5,456,167
Assuming A 40% Federal Tax Rate	\$ 8,798,593	\$ 10,548,870	\$ 12,436,113	\$ 3,637,445
Total Revenue Over Collected	<u>\$ 21,996,483</u>	<u>\$ 26,372,176</u>	<u>\$ 31,090,281</u>	<u>\$ 9,093,611</u>
Amount Over Collected Per Month Per Access Line	\$ 4.99	\$ 5.73	\$ 6.62	\$ 1.92

### Over Collection Of Revenue

2003-2000	<u>\$ 88,552,551</u>
Authorize Rate Of Return Docket No. 88.12.55 Order No. 5398a	<u>10.44%</u>