

OVERVIEW OF CURRENT PSC ISSUES FOR 6/20/2005 ETIC MEETING

Telecommunications

EAS (extended area service) – expands a customer’s free local calling area so that calls between exchanges that were long-distance calls are now local calls. Local monthly rates increase to offset the costs and foregone revenues experienced by phone companies when they implement EAS.

Now pending at the PSC is a proposal from Ronan Telephone to create a Western Montana EAS region that would include all of the towns in the recently expanded Qwest/Blackfoot/Ronan & Hot Springs EAS region and add to that region the Flathead Valley exchanges served by Century Tel.

Designation of eligible telecommunications carriers (ETCs) - The federal Telecommunications Act and FCC orders set up a procedure whereby telephone companies are designated as “eligible telecommunications carriers” (ETCs) by state regulatory commissions. In order to be designated as an ETC, a carrier must prove that it offers certain FCC-identified basic services to customers and that ETC designation is in the public interest. A carrier must be designated as an ETC before it can receive funds from the federal Universal Service Fund.

All the incumbent wireline phone companies like Qwest and the smaller independents & co-ops have been designated as ETCs each year for several years. In 2004, Montana ETCs received more than \$74 million in USF high cost support.

Wireless telephone providers may also apply for and receive ETC designation. The PSC has recently approved two wireless ETC applications – one from Western Wireless and one from Mid-Rivers Cellular, which is owned by Mid Rivers Telephone Co-op.

Earlier this year, the PSC adopted ETC rules that establish initial ETC application requirements and ongoing standards for ETCs in Montana.

PSC investigation into Qwest’s use of federal universal service funds – Docket D2005.1.1

The amount of high cost USF support Qwest receives has increased dramatically the past few years: from \$1.5 million in 2000 to \$10 million in 2003 and to \$16 million in 2004. The PSC is investigating Qwest’s use of USF funds and will determine if and how Qwest’s USF funds should be targeted in Montana.

Intercarrier compensation workshop – June 28 – The term “intercarrier compensation” refers to the ways in which telecommunications providers compensate one another for the use of their networks. The FCC is considering proposals for reforming the existing intercarrier compensation system. Prior to submitting reply comments in the FCC proceeding, the Montana PSC has solicited the opinions of Montana carriers and will hold a workshop June 28 to discuss the topic.

Energy

MDU - PSC issued a final order last month in MDU's natural gas rate case, in which the PSC approved a settlement agreement between MDU and Consumer Counsel. The rate impact for residential customers is a 10-cent-a-month increase in MDU's monthly service charge.

Energy West - pending gas general rate case. A hearing was held in the spring; the final PSC order will be issued soon

NorthWestern Energy - NWE and the PSC have settled their dispute over the PSC's order in the 2002 and 2003 annual gas tracker cases that disallowed about \$10 million in NWE's gas costs. Under the terms of the settlement, NWE will drop its court appeal in return for being able to recover about \$4.6 million in costs that had been disallowed by the PSC. Also, NWE committed to filing its gas procurement strategy with the PSC.

PPL Montana – FERC filing re: continued market-based rate authority.

With market-based rate authority from the Federal Energy Regulatory Commission, PPL Montana is able to sell electricity in NorthWestern Energy's control area at unregulated market rates. FERC grants market-based rate authority only if the generation-owner does not have "market power" in the area.

In its pending filing for continued market-based rate authority at FERC, PPL argues it does not possess or exercise market power in Montana and that it should continue to have market-based rate authority. Montana Consumer Counsel responds that PPL does have market power in NorthWestern's control area and FERC should not grant PPL market based rate authority. The PSC also intervened in the proceeding and protested the PPL application.

- Kate Whitney, Administrator, PSC Utility Division