ORIGINAL

EX PARTE OR LATE FILED

THE STATE OF WYOMING

JIM GERINGER
GOVERNOR

Public Service Commission

HANSEN BUILDING, SUITE 300 2515 WARREN AVENUE CHEYENNE, WYOMING 82002
(307) 777-7427 FAX (307) 777-5700 TTY (307) 777-7427 http://psc.state.wy.us

STEVE ELLENBECKER
CHAIRMAN
KRISTIN H. LEE
DEPUTY CHAIR
STEVE FURTNEY
COMMISSIONER

STEPHEN G. OXLEY
SECRETARY AND CHIEF COUNSEL
DAVID M. MOSIER
ADMINISTRATOR

September 21, 1998

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street N.W., Room 222
Washington, D.C. 20554

ORIGINAL

RE: CC Docket 96-45

Dear Ms. Salas:

On September 18, 1998, a delegation of Wyoming government and industry leaders met with James Schlicting, Deputy Chief of the Common Carrier Bureau, Donald Stockdale, Associate Chief of the Common Carrier Bureau, and Charles Keller of the Accounting Policy Division staff, to discuss activities which have been undertaken in Wyoming to introduce competition in local telecommunications markets and to preserve and advance universal service. The delegation stressed the need for the prompt implementation of explicit federal support for high cost states which have taken necessary actions to open their markets, rebalance rates, and implement explicit intrastate universal service support mechanisms.

Representing the State of Wyoming were Mary Kay Hill, Director of Policy for the Governor of Wyoming, Steve Ellenbecker, Chairman, and Denise Parrish, Supervisor Rates and Pricing of the Wyoming Public Service Commission, and Senator Carroll Miller and Representative John Hanes of the Wyoming Legislature. Representing the Wyoming telecommunications industry were Jim Woody, President of the Wyoming Telecommunications Association, Bob Adkisson of GVNW Inc., Pete Sywenki and Barry Counts of Sprint, and Barbara Allgaier, Glenn Brown, Mike Ceballos and Michael Stull of U S WEST. The attached handouts were used during the meeting.

No. of Copies rec'd 0+1
List A B C D E

In accordance with Section 1.1206(a)(2) of the Commission's Rules, the original and one copy of this letter, is being filed with your office for inclusion in the public record for the above-mentioned proceedings. Acknowledgment of date of receipt of this transmittal is requested. A duplicate of this letter is provided for this purpose. Thank you for your consideration.

Please contact me if you have any questions.

Sincerely,

STEVE ELLENBECKER
Chairman

cc: James Schlicting
Donald Stockdale
Charles Keller

(A)

Universal Service in Wyoming
September 18, 1998

Wyoming is Unique

- Its high cost of service is driven by large size (97,000 square miles), smallest population in U.S. (480,000) and lack of large urban markets (largest is 50,000 people and 35,000 access lines).
- Wyoming is highly dependent on telecommunications for education, health care and economic development.
- Wyoming is *among the most advanced* states in
  - Identifying true costs of service; and
  - Rebalancing prices to eliminate subsidies; which are
  - Supported by a functioning, explicit universal service fund.

The Wyoming Telecommunications Act of 1995

- Prepares markets for competition and helps competition to develop while promoting infrastructure development.
- Intent and approach very similar to 1996 federal Act
- Deregulates much and greatly simplifies remaining regulation.
- Requires each service to cover its own TSLRIC costs.
- Eliminates implicit subsidies from rates.
- Creates an explicit universal service fund.

Wyoming PSC Implementation Initiatives

- Developing prices which cover actual costs.
  - Access and toll rates have gone down.
  - Local basic service rates have increased significantly
  - Job is almost complete for over 90% of Wyoming's access lines.
- Developed currently functioning state universal service fund.
  - Funded by explicit surcharge on bill.
  - Support shows on bill as explicit credit.
  - Covers rates over 130% of the statewide average
  - Surcharges now at 6% and will probably go higher
- PSC has developed costing, universal service and other rules.

The Wyoming Subscriber's Situation

- Local service rates are among highest in nation.
- As rebalancing progresses, the statewide average rate goes up, raising the rates paid by subscribers,
  - the size of the universal service fund, and
  - the size of the surcharge.
- Some smaller markets with the highest costs are among the least likely to attract early competition.

The Challenge We Face Now

- The Wyoming market is too small and costs are too high for it to provide adequate universal service support by itself.
- Wyoming has sincerely identified actual costs and removed subsidies.
- Without active federal assistance the political and economic pressures to retreat from the competitive market may be too great to resist.

(B)

THE STATE OF WYOMING

JIM GERINGER
GOVERNOR

Public Service Commission

HANSEN BUILDING, SUITE 300 2515 WARREN AVENUE CHEYENNE, WYOMING 82002
(307) 777-7427 FAX (307) 777-5700 TTY (307) 777-7427 http://psc.state.wy.us

STEVE ELLENBECKER
CHAIRMAN
KRISTIN H. LEE
DEPUTY CHAIR
STEVE FURTNEY
COMMISSIONER

STEPHEN G. OXLEY
SECRETARY AND CHIEF COUNSEL
DAVID M. MOSIER
ADMINISTRATOR

MEMORANDUM

TO: CHAIRMEN AND MEMBERS OF THE JOINT CORPORATIONS, ELECTIONS AND POLITICAL SUBDIVISIONS INTERIM COMMITTEE

FROM: DENISE PARRISH, PUBLIC SERVICE COMMISSION STAFF

DATE: SEPTEMBER 14, 1998

RE: ATTACHED CALCULATIONS REGARDING THE WYOMING UNIVERSAL SERVICE FUND

On behalf of the members of the Wyoming Public Service Commission, I have prepared and attached summaries of a series of calculations performed to estimate the size of the Wyoming Universal Service Fund based on different assumptions currently being discussed as possible modifications to the existing method of calculation. Each of the alternatives is based on an assumption that U S WEST Communications and United Telephone of the West (Sprint) requested prices are approved in cases currently pending before the Commission, even though the Commission has not yet held hearings on either of those cases. This allows for an estimate of those two cases, which involve the majority of local exchange customers in Wyoming, to be part of the discussion regarding the growth in the Wyoming Universal Service Fund.

Also included is an estimate of the highest local exchange bill that a customer would pay under the proposed local exchange carrier modifications to the Wyoming Universal Service Fund and under the proposed McLeodUSA and AT&T sponsored modifications to the Wyoming Universal Service Fund. Since the McLeodUSA and AT&T proposal continues to advocate the use of 130% of the statewide average for determining the level at which support would be received, this sample bill is computed based on current and known proposed rates, which could change in the future.

The important message to take away from the sample bill calculation is that when discussing a maximum local rate, this is generally thought of as being prior to the additives that occur for taxes and surcharges. These can add as much as $10 to the authorized local rate.

I would be please to answer any questions that you may have on these attachments.

SAMPLE RESIDENTIAL CALCULATION OF CUSTOMER BILL INCLUDING SURCHARGES AND TAXES

[illegible]	[illegible] Carrier Proposal	[illegible] Proposal
Monthly Service Charge	$30.00	$36.67
Federal Access Charge	$3.50	$3.50
Telephone Assistance Program Fund	$0.01	$0.01
Universal Service Fund *	$2.45	$1.42
Wyoming Relay Service Fund	$0.07	$0.07
Emergency 9-1-1 Surcharge	$0.50	$0.50
Municipal Surcharge **	$0.51	$0.62
Federal & State Taxes ***	$2.59	$3.00
TOTAL	$39.63	$45.79

* Rate will vary depending on the proposal accepted.

** Rate will vary depending on municipality and other possible factors.

*** Surcharge will vary with bill level.

SUMMARY OF UNIVERSAL SERVICE FUND *ESTIMATED IMPACTS*

Alternative #1:

This alternative uses the current methodology, with the level at which USF support is received remaining at 130 percent of the statewide average rate for both residence and business customers. This alternative also assumes, for computational purposes, that the U S WEST and Sprint/United prices are approved as filed in cases currently pending before the Commission. Finally, this and each of the alternatives assumes an estimated administrative cost for the fund of $75,000 which includes the computational work and money management, interest payments due to timing issues, and auditing costs.

Total Estimated Amount of the Fund with Administrative Cost	$10,144,392
Estimated Assessment Factor	6.22%
Residential Rate to be Exceeded before Support Received	$ 35.43
Business Rate to be Exceeded before Support Received	$ 33.87

Alternative #2:

This alternative uses the current methodology, except that the level at which USF support is received becomes anything over a $25 base price for both residence and business customers. This alternative also assumes, for computational purposes, that the U S WEST and Sprint/United prices are approved as filed in cases currently pending before the Commission. Finally, this and each of the alternatives assumes an estimated administrative cost for the fund of $75,000 which includes the computational work and money management, interest payments due to timing issues, and auditing costs.

Total Estimated Amount of the Fund with Administrative Cost	$17,178,831
Estimated Assessment Factor	10.54%
Residential Rate to be Exceeded before Support Received	$ 25.00
Business Rate to be Exceeded before Support Received	$ 25.00

Alternative #3:

This alternative uses the current methodology, except that the level at which USF support is received becomes anything over a $30 base price for both residence and business customers. This alternative also assumes, for computational purposes, that the U S WEST and Sprint/United prices are approved as filed in cases currently pending before the Commission. Finally, this and each of the alternatives assumes an estimated administrative cost for the fund of $75,000 which includes the computational work and money management, interest payments due to timing issues, and auditing costs.

Total Estimated Amount of the Fund with Administrative Cost	$13,322,220
Estimated Assessment Factor	8.17%
Residential Rate to be Exceeded before Support Received	$ 30.00
Business Rate to be Exceeded before Support Received	$ 30.00

Alternative #4:

This alternative uses the current methodology, except that the level at which USF support is received becomes anything over a $35 base price for both residence and business customers. This alternative also assumes, for computational purposes, that the U S WEST and Sprint/United prices are approved as filed in cases currently pending before the Commission. Finally, this and each of the alternatives assumes an estimated administrative cost for the fund of $75,000 which includes the computational work and money management, interest payments due to timing issues, and auditing costs.

Total Estimated Amount of the Fund with Administrative Cost	$10,210,882
Estimated Assessment Factor	6.26%
Residential Rate to be Exceeded before Support Received	$ 35.00
Business Rate to be Exceeded before Support Received	$ 35.00

Alternative #5:

This alternative uses the current methodology, except that the level at which USF support is received becomes anything over a $40 base price for both residence and business customers. This alternative also assumes, for computational purposes, that the U S WEST and Sprint/United prices are approved as filed in cases currently pending before the Commission. Finally, this and each of the alternatives assumes an estimated administrative cost for the fund of $75,000 which includes the computational work and money management, interest payments due to timing issues, and auditing costs.

Total Estimated Amount of the Fund with Administrative Cost	$ 7,690,720
Estimated Assessment Factor	4.72%
Residential Rate to be Exceeded before Support Received	$ 40.00
Business Rate to be Exceeded before Support Received	$ 40.00

Alternative #6:

This alternative uses the new methodology proposed by McLeodUSA and AT&T Communications. Under this proposed method, the computation of the statewide average rate is modified to exclude federal universal service fund payments and 130 percent of the statewide average rate is still used to determine the level at which customers receive support. The federal universal service fund receipts are then used to directly support the customers with high local exchange prices (rather than the current use of the funds which repays companies for expansions and upgrades of infrastructure), reducing the amount of support that must come from the state universal service fund. This alternative assumes, for computational purposes, that the U S WEST and Sprint/United prices are approved as filed in cases currently pending before the Commission. This alternative also assumes that none of the federal funds that U S WEST currently receives (about $3.2 million) is already incorporated in the development of the pending proposed prices and is available to use as customer credits. Finally, this and each of the alternatives assumes an estimated administrative cost for the fund of $75,000 which includes the computational work and money management, interest payments due to timing issues, and auditing costs.

Total Estimated Amount of the Fund with Administrative Cost	$ 6,307,433
Estimated Assessment Factor	3.87%
Residential Rate to be Exceeded before Support Received	$ 36.67
Business Rate to be Exceeded before Support Received	$ 35.10

Telephone Affordability Study

Selected Wyoming Residents

Summer 1997

By

Annemarie Burg, Summer Intern
Wyoming Public Service Commission

Table of Contents

Executive Summary iii

Introduction 1

Background 1
- Wyoming Public Service Commission 1
- Historical Rate of Return Telephone Regulation 2
- Wyoming Telecommunications Act of 1995 2
- Survey 3
- Other Findings 4

Results 5

Analysis 8

Conclusion 10

References 11

Appendix A: Cover Letter 12

Appendix B: Survey 14

Appendix C: Results Spreadsheets 16
- Region 1 17
- Region 2 19
- Region 3 21
- Statewide 23
- Comparative 25

Appendix D: Public Comments 28
- Casper 29
- Cheyenne 31
- Cody 34
- Douglas 35
- Greybull 36
- Lander 37
- Laramie 37
- Powell 38
- Rawlins 38

Table of Contents

Riverton 38
Thermopolis 39
Torrington 39
Wheatland 39
Worland 40
Other 40

Executive Summary

The Wyoming Public Service Commission, an agency in the executive branch of state government, administers the Wyoming Telecommunication Act of 1995. This Act directs that local telephone service must be cost based and, at the same time, remain affordable. The Act includes a provision for a Universal Service Fund to allow ratepayers who live in remote or high-cost areas to continue to receive affordable telephone service.

Wyoming was in the forefront of telecommunications policy when it implemented the Telecommunications Act of 1995, and one year later Congress enacted the federal Telecommunications Act of 1996. The two acts are strikingly similar in many ways; and both pieces of legislation, among other things, relaxed the regulation of local telephone service. The Wyoming Act mandated that the local telephone service industry make the transition from a monopolistic to a competitive service environment so that customers will have a choice of who provides the service and about the manner in which that service is provided.

Historically, telephone companies were not subject to competition. The state public service commissions and the Federal Communications Commission were established to protect the public from monopoly abuse. The rates utilities could charge were set by the regulatory commissions based upon rate of return, which means that utilities could recover prudently incurred expenses plus a reasonable profit. As a matter of policy, state regulatory bodies set local residential telephone service prices below cost and set rates for other services, such as long distance and business service, above cost, which subsidized residential service.

The federal government has high cost support programs currently in use to try to maintain the affordability of telecommunication service. In the future, a federal Universal Service Fund will be the primary tool for the disbursal of federal support for local telephone service. The federal government also has two other programs called LinkUp America and Lifeline which assist people in getting and keeping local telephone service.

Affordability of local telephone service is clearly a matter of great concern throughout the nation.

The Commission conducted a direct mail survey consisting of 12 questions which were sent to one thousand Wyoming households to determine affordability of telephone service for the average Wyoming resident. The responses were grouped into three regions and also accumulated into statewide results. The questions were designed to elicit information about subscribership, the ability to call essential services without toll charges, the amount people would be willing to pay for local services before it would no longer be affordable and how important telephone service is to the customer.

Three hundred fifty three surveys were completed and returned for a response rate of 37.6 %, showing the concern of Wyoming residents on this issue; and current rates may be seen as affordable based upon the fact that the subscribership level is 99% for those surveyed. The respondents also

can call essential services such as schools and hospitals without incurring a toll charge (which meets one of the recommendations discussed in the Federal Communications Commission's Report and Order regarding universal service released May 8, 1997).

Local telephone service is essential for most Wyoming customers, but those customers do not know what monthly rate would cause them to discontinue their telephone service. Although there is some indication that $30.00 per month may cause some to discontinue their service, they are willing to pay almost any charge. However, they do not want the Commission to get the idea that rates should be increased dramatically.

According to a majority of the responses, cellular telephones, electronic mail and the Internet are not adequate substitutes for telephone service. In fact, it, along with household transportation, are the top priorities (with the question having excluded food and lodging) on a list which included Internet service, cable TV and entertainment/recreation.

The monthly basic charge for local telephone service has room for some upward movement in which prices can increase and subscribership levels will remain constant. People may start disconnecting their service when the charge goes above the $30.00 range because the benefits of having telephone service will not outweigh the cost of remaining connected.

Introduction

The Wyoming Public Service Commission (Commission) is the state agency responsible for administering the Wyoming Telecommunications Act of 1995. Among other things, this Act mandates cost-based pricing for local telephone service but also states that: "It is the intent of this act to provide a transition from rate of return regulation of a monopolistic telecommunications industry to competitive markets and to maintain affordable essential telecommunications services through the transition period."[1]

This study was developed to provide Wyoming policy makers with a better understanding of the concept of affordability from the perspective of average Wyoming residents considering their local telephone service. The findings provide the Wyoming Public Service Commission and others with information that may assist them in the formulation of policies implementing the Wyoming Telecommunications Act of 1995 and in ensuring compliance with the Federal Telecommunications Act of 1996, both of which mandate competition for local telephone service while maintaining affordable prices.

A direct mail survey was chosen as the best method to collect the necessary information to determine affordability for the average Wyoming resident primarily because existing published research does not adequately address the issue of affordability in Wyoming. Existing prices and the recent U S WEST hearings conducted by the Wyoming Public Service Commission, which were well covered by the media, further illustrated the value of the proposed mail survey because affordability issues presently enjoy some prominence in the minds of consumers. The survey was limited to 10-12 questions to make it as easy as possible for the recipient to answer and return, in turn increasing the response rate.

Background

Wyoming Public Service Commission:

The Wyoming Public Service Commission is an agency of the state government. Its mission is to protect the public interest of utility consumers in the state. As times are changing and the telecommunications utility industry is going through a transition from traditional rate of return regulation to a competitive environment, the Commission must educate customers, resolve complaints and ensure that the residents of Wyoming have access to safe and reliable utility services. Under the Wyoming Telecommunications Act of 1995, the Commission is charged with overseeing the transition from rate of return regulation to the competitive provision of local exchange services. Its duty is to see to it that the change is as transparent as possible and that the benefits of competition are passed on to the state's residents.[2]

Historical Rate of Return Telephone Regulation:

In the past, telephone companies and other utilities were the monopoly providers of service. In order for services to be available at a price the majority of the people could afford and to eliminate the risk of the exaction of monopoly profits, agencies such as the state public utility commissions and the Federal Communications Commission (FCC) were established to regulate the prices charged by these monopolies and the services they offered.

Most rates were set on rate of return, rate base rate making principles, meaning that the monopolistic utility companies were allowed to recover their prudently incurred expenses and were given the opportunity to earn a reasonable return on their investment. In this regulatory era, the utility company filed its proposed revenue requirement together with financial and operating data to support that level of revenue. Thereafter, the Commission rendered its decision, pursuant to a full and fair public hearing process, regarding whether or not the company had justified an increase in revenue. During this period of traditional regulation, the Commission also enjoyed wide latitude in determining rates to be charged to individual classes of customers (called "rate spread"). The overall goal was that the rates charged to each customer for telephone service, in the aggregate, would recover the Commission-prescribed revenue requirement under normal operating conditions.

A natural outgrowth of this type of rate making process was the subsidization of local residential telephone service through the over pricing of other services such as toll and local access service. Companies that provided basic local telephone service did so at a rate set below the cost of providing the service. At the same time, the revenue from other services, such as toll and business service, helped to recover the shortfall from subsidized service and to provide a degree of profitability for the company.

Wyoming Telecommunications Act of 1995:

In 1995, the Wyoming Legislature adopted the Wyoming Telecommunications Act of 1995 (W. S. §§ 37-15-101 through 37-15-501). The Act mandates that local telecommunications industry in Wyoming make a transition from a monopolistic to a more competitive paradigm. The intent of this legislation, when fully implemented, is to provide customers the benefits of competition, including ultimately prices moderated by competition and enhanced choice, not only in who provides local telephone service, but also in the manner in which that service is provided (e.g., land line vs. wireless service; local dial tone only vs. local service packaged with other optional or long distance services). The Legislature's concern in adopting this legislation, as evidenced in the Act itself, is that local telephone service remain affordable to all Wyoming ratepayers.

By enacting this legislation, Wyoming went directly to the forefront of telecommunications policy initiatives nationally. As an example, in 1996, fully one year after the passage of the Wyoming Act, Congress enacted the federal Telecommunications Act of 1996 which contained many requirements similar to those in the Wyoming Act, including a call for vastly relaxed regulation of local telephone service. Both of these pieces of legislation required that, during this change, telephone rates must remain affordable. As discussed in the FCC's Report and Order regarding universal service released

on May 8, 1997, the determination of affordability includes not only subscribership levels, but also non-rate factors such as local calling area, income level, population density, and the cost of living and other non-price based measures of affordability.[3]

Local exchange services, pursuant to Wyoming law, now must be priced so that the amount of revenue recovered from the sale of each service recovers the cost of providing that service, as measured by the service's total service long-run incremental cost (TSLRIC). The Wyoming Act states that: "No telecommunications company shall use revenues earned from or allocate expenses to noncompetitive services to subsidize services determined by the commission to be subject to competition."[4]

In order to make the transition to competition less burdensome to ratepayers and to mitigate the possibility that some extremely high cost customers would drop their service altogether, the Legislature adopted provisions allowing for the establishment of a Universal Service Fund as part of the Act. This fund's purpose is to ". . . assist only those customers of telecommunications companies located in areas of this state with relatively high rates for essential services."[5] A monthly charge applied to telephone service subscribers will create the fund, and it will be distributed to the companies which provide service to customers at rates that "exceed one hundred thirty percent (130%) of the weighted statewide average local exchange rate."[6] The fund enables local exchange service to remain affordable for customers who live in remote or otherwise high cost areas by keeping their basic monthly telephone charges down.

Survey:

According to 1990 census data[7], there are approximately 169,000 households in the state of Wyoming. While the use of statistical methods in determining the appropriate sample size for the survey was contemplated, it was concluded that a statistically valid sample size, determined by way of accepted sampling techniques, was well beyond the scope of this study. At the same time, it was also recognized that the use of an inadequate sample size would not be representative of the larger body of Wyoming ratepayers, particularly in light of the fact that the average response rate for mail surveys is 25%[8]. Conversely, the use of a supra adequate sample size would have had serious implications for the budget established for the project. Ultimately, it was determined that a sample size of one thousand Wyoming residents would be within the budget and would provide a sufficient number of responses to provide meaningful results.

The sample was obtained by requesting a mailing list from a company headquartered in Florida, with the only stipulation being that the addresses provided be located somewhere in Wyoming. Most addresses were residential, but there is the possibility some business addresses were included. The survey questionnaires and envelopes were addressed to "Wyoming Resident" in order to avoid the possibility of new occupants of a household returning the survey unopened and therefore increasing the undeliverable rate. (See Appendix A).

When the mailing list was received, the addresses were divided into three regions based on the following criteria: (1) the first three digits in the zip code; (2) the cities covered by the Cheyenne area

telephone book and; (3) the number of addresses from each city that were included in the mailing list. The three regions are large enough that a sufficient number of responses could be expected to be returned from each region and the results would not be skewed due to small numbers. The regions and the number of surveys sent to each region are as follows:

- Region 1: Casper and Douglas (319).
- Region 2: Cody, Greybull, Lander, Lovell, Powell, Riverton, Thermopolis, and Worland (283).
- Region 3: Cheyenne, Laramie, Rawlins, Torrington, and Wheatland (394).

The first two questions reflect an effort to determine the subscribership level of the sample. If the respondent did not have telephone service, question two was aimed at finding out why. Question 3 made it possible to break the returned surveys into regions. The next question determined whether the telephone service already available gave the customer access to essential services. Questions 5-8 dealt with income and the amount people would be willing to pay for local telephone service before it would not be an affordable service. The next three questions were posed to determine how important local telephone service is to customers and if there are any substitutes. Question 12 let the respondents make any comments which they thought would be beneficial to the Commission (see Appendix B).

Other Findings:

Even though telephones are commonplace in many households, there are some households without local telephone service. According to some studies on such households conducted between 1993 and 1995, the primary reasons people do not have telephone service include: (1) they had telephone service in the past, but incurred excessive toll charges; (2) they feared others would use the service and charge it to them and; (3) they feared they would purchase items by telephone[9]. Another reason that people gave for not having telephone service was that the installation fees and deposits are excessive.[10]

The Federal Communications Commission, in adopting revised rules governing the administration of the federal Universal Service Fund pursuant to the federal Act, recognized that income plays an important part in the affordability of local telephone service. An article on the Internet justifies this importance. According to the article, when the cost of basic telephone service is around 1% of the household income, subscribership levels are at or above 90%. When the cost drops below 0.7% of the income, the subscribership increases to 99%.[11]

The federal government has several programs in place that help to keep telephone service affordable. The primary mechanism for the distribution of federal support in aid of local telephone service is the federal Universal Service Fund. At the time of the drafting of this report, all the rules and policies required to implement the revised federal USF were still being developed by the FCC with prospective implementation in 1998.

LinkUp America is a federally sponsored program which assists people in connecting to the local

telephone network. LinkUp America allows a $35.00 discount for installation of local service to qualified applicants. The funds for this program come from the federal Universal Service Fund.

Lifeline is also a program sponsored jointly by the federal government and participating state governments (about 10 states do not participate). The program provides a discount on the monthly basic telephone service charge of up to $7.00. $3.50 is supplied from the federal Universal Service Fund and the other $3.50 comes from the state where the applicant resides. Wyoming Statutes implementing this program are found at W. S. §§ 37-2-301 through 37-2-306. In Wyoming, participation is voluntary for all local service providers except U S WEST.

Results

(For the numbers and other percentages refer to Appendix C.)

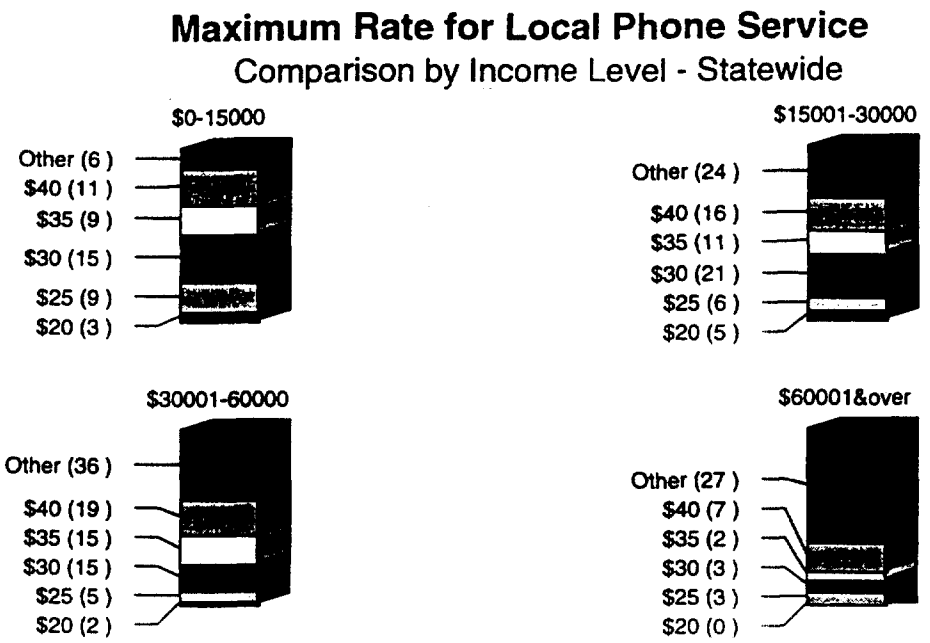
Of the 996 surveys sent out, 58 were undeliverable by the post office. Three hundred fifty-three (353) were returned completed giving a response rate of 37.6%. Region 3 topped the three regions with 148 returned surveys. Region 1 had 106, while Region 2 had 91 completed surveys. Eight surveys were included in the statewide figures, but were excluded from any one region because Question #3 was left blank or did not have a city listed and so could not be classified.

Most of the people responding have telephone service. In fact, ninety nine percent (99%) of those who returned the survey have local telephone service. This varied between 100% in Region 1 and 98% in Region 2, with Region 3 reporting 99%. The two answers given most often for not having telephone service were that the installation fees/deposits were too high and the bills the customer incurred were too large. The only other reason given for not subscribing to local telephone service was that there was not an office for the local telephone company in Cheyenne where the customer could get problems resolved.

Statewide, 97% of the households polled do not receive a long distance charge when they call hospitals, schools, and other essential services. Region 2 again had the lowest result with 92% not receiving a toll charge. Region 1 and 3 both had 99% who stated that they were able to reach these essential services without charge.

Based on income levels, the most frequent response to the question of what the level of monthly charge would be at which people would no longer subscribe to local telephone service is "other," implying something greater than $40.00 per month. The only income level which was an exception was the $0-15,000 level which gave $30.00 per month as their top response. Forty dollars was the second most marked response for households both the upper income levels (greater than $30,000) and the lowest income level (less than $15,000). The $15,001-30,000 level's second most common answer was $30.00. (See Graph #1).

Graph #1



Not based on income, the largest percentage of households questioned (36%) marked "other" again, implying that a price of more than $40.00 would be the highest acceptable basic monthly charge above which customers statewide would no longer wish to subscribe to local telephone service. Following "other" was $40.00 (20%) and then $30.00 (18%) for the highest acceptable monthly charge. Region 3 followed the pattern of the statewide results of "other" (36%), $40.00 (21%) and $30.00 (20%). Region 1 followed the pattern with "other" (46%) and $40.00 (21%) being the first two choices, but the third choice was $35.00 (20%). "Other" (27%) was the first choice for Region 2 with $30.00 (25%) being second. $40.00 and $25.00 tied for third each with 16%. (The charges and corresponding percentages are compared for each region and statewide in Chart 1.)

Chart 1

	Region 1	Region 2	Region 3	Statewide
$20	0%	5%	4%	4%
$25	5%	16%	5%	9%
$30	8%	25%	21%	18%
$35	19%	10%	14%	14%
$40	22%	16%	21%	20%
Other	46%	27%	35%	36%

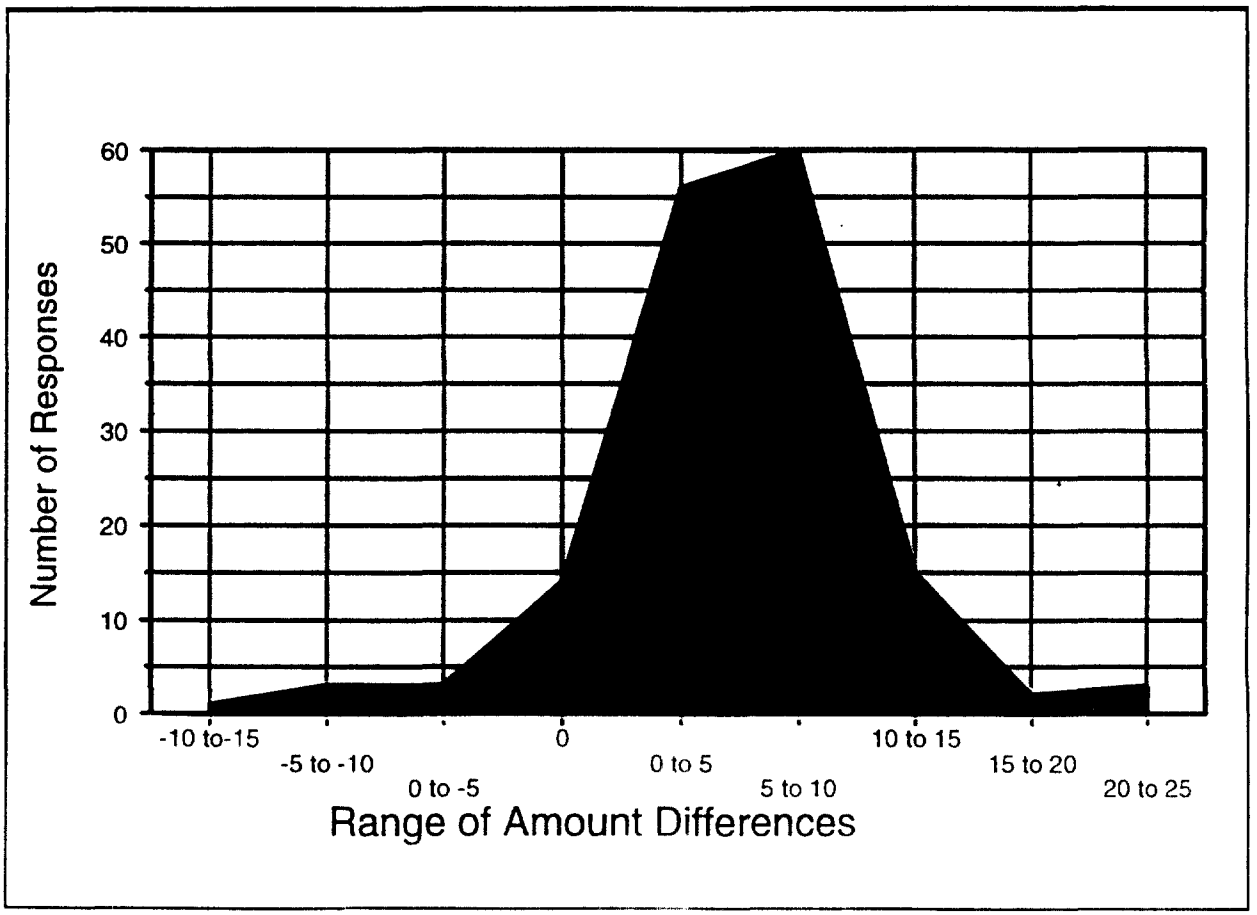
Of those questioned who budget for monthly expenses, 47% of the respondents in Region 1 set aside 1% or less for local telephone service. In Region 2, 54% of the respondents allocate 2-5% of their

budget for this service, as do 47% in Region 3 and 44% overall. Statewide, 85%, or 179 out of 215 people who responded to question six (concerning what percentage they budget for local telephone service), apportion 5% or less of their monthly budget for this purpose.

Considering what the consumers said they currently pay for local telephone service, the difference between that amount and the level at which they would no longer subscribe was calculated. The "other" responses were not included, nor were current charges above $40.00. Statewide, the most popular answer (with 60 responses) shows that customers are willing to pay an additional increment of $5 to $10 per month for telephone service. Following closely behind (with 56 responses) was the indication that customers would be willing to pay up to an additional $5.00 per month for telephone service. (See Graph #2). Region 2 and Region 3 had the same order for the first two responses. In Region 1, up to an additional $5 per month was the most popular response, followed by the $5 to $10 increment.

Graph #2

Difference Between Present & Maximum Acceptable Charge
Statewide



Local telephone service is "very important" according to the responses to Question 9. Statewide, 83% thought so, while only 2% believed that telephone service was "not important." One hundred percent (100%) of the returned surveys in Region 1 rated local service as either "very important" (84%) or "somewhat important" (16%). In Region 2, one percent (1%) thought that local service was not important, 13% thought it somewhat important, and 86% believed it to be very important. In Region 3, only 79% rated local telephone service as very important. Eighteen percent (18%) thought it to be somewhat important and three percent (3%) found it not important.

The sampled Wyoming residents rated the importance of local telephone service, cable television, Internet service, household transportation, and entertainment/recreation on a one to five scale with five being the highest or most important. The answers were pooled and summed using a weighted score. Overall local telephone service and household transportation were rated as the most important, nearly tying on a percentage basis (23.20% and 22.97%, respectively). Rounding the answers out were cable television (19.19%), entertainment/recreation (19.07%) and Internet service (15.57%). The results are basically the same when the regions are viewed separately. In Region 1, telephone service was first in importance with 23.59% of the responses, followed by transportation (22.14%), cable TV and entertainment/recreation (19.31%), and the Internet (15.66%). In Regions 2 and 3, transportation was most important with 23.14% and 23.48% of the responses, respectively. Local telephone service followed with 22.60% and 23.24%, respectively. Rounding out Region 2 was entertainment/recreation (18.83%), cable TV (18.22%), and the Internet (17.22%). Region 3 ended with cable TV (19.66%), entertainment/recreation (19.18%), and Internet service (14.44%).

Cellular telephone service, electronic mail, and the Internet are not viewed as alternatives to local telephone service according to 64% of those surveyed statewide. However, 36% responded that one, two or three of these technological options could be used as an alternative. In Region 1, the results were much closer, fifty eight percent (58%) said they were not an alternative, while 42% believe they were a possible option. Region 2 was split with one-third (33%) responding that they could be an option and two-thirds (67%) saying none of the three was an optional surrogate for local telephone service. Sixty-eight percent (68%) of the people responding in Region 3 said they were not an option while 32% said they were.

Analysis

The study's response rate of 37.6% was more than 10% better than the average for such studies, which could be an indicator that Wyoming citizens are concerned with the affordability of their local telephone service. Many citizens also voiced their opinion on Question 12, a request for additional comments, which shows their concern about this issue. (The comments are included in Appendix D, classified by city.)

Subscribership rates in Wyoming are high based on the earlier described responses. This may be an indication that the telephone rates as they stand currently are affordable.

Most households do not incur toll charges when they call essential services such as hospitals and

schools. From this information, one may conclude that, in most of the polled areas, the calling area is sufficient as discussed by the Federal Communication Commission in its Report and Order on universal service released May 8, 1997, although it may not be ideally sized for all business transactions that customers would like to make from their homes on a regular basis. Greybull and Douglas furnish interesting examples. Of the six surveys returned from Greybull, four respondents said that they could not contact essential services without incurring a charge. Douglas, on the other hand, responded they could call essential services; but, in the comment section, some citizens expressed their wish to be able to call to Casper without a long distance charge being incurred.

Local telephone service is considered by many Wyoming residents to be essential. They view it as a service they cannot live without, and they consequently do not want to see prices rise too high. A substantial portion of those who marked "other" as their option on the question regarding the monthly rate at which they would no longer subscribe to local telephone service described their need for the service as being so great that they would pay almost any amount, but they did not want the Commission to conclude that rates should therefore be allowed to increase dramatically. Some respondents included long distance charges in the current amount they reported for their local monthly telephone service charges and, therefore, stated that their monthly charge was anywhere from $40 to $100. They therefore believed rates could go higher than $40.

The second and third most common responses to the question about the highest rate the customer would be willing to pay prior to considering disconnection were $40 and $30 per month, which are both higher than most current monthly basic charges. Also, as indicated by the amount that subscribers pay now and the amount that would cause them to disconnect their service, telephone rates apparently have a "cushion" of up to $10. It appears, therefore, that there is some room for upward movement in the monthly local telephone service charge. That is, the survey indicates that monthly prices could be increased, if required to comply with the Wyoming Telecommunications Act of 1995, and still maintain affordable rates and high subscribership levels.

The importance of an item directly relates to affordability and a customer's willingness to pay increased prices. The more important an item, is the more people would be willing to spend to have it. Based on the households questioned and their responses, people place local telephone service among their top priorities (with the question having excluded food and lodging). Although four of the five items compared in Question 10 were ranked closely, household transportation and local telephone service were the top choices. This leads to the conclusion that people would be more willing to spend their money on these items first; and then, if there were any money left over, they would purchase from the other categories.

Another factor that relates generally to affordability is availability of substitutes. A person will not pay as much for an item if there is another item that can be used in its place, as long as the replacement item fulfills the intended purpose as well or better than the original or is priced at a substantial discount where the price savings makes up for inferior quality. Currently there is no available -- and acceptable -- alternative to local telephone service, according to a majority of those questioned. However, about one-third of those polled view new technologies such as electronic mail, the Internet and cellular telephone service either as substitutes now or as soon-to-be substitutes

for local telephone service. This third may be willing to switch if local telephone service prices increased to a level at which the alternatives were more cost effective.

Conclusion

The Wyoming Telecommunications Act of 1995 requires that local telephone service in Wyoming become a competitive industry with cost-based pricing. This study was conducted to examine affordability and how it relates to the local telephone service industry. Its purpose is to better inform the Wyoming Public Service Commission and other interested parties and to assist them in the implementation of the cost-based pricing mandated in the 1995 Act.

Affordability is an important focus in the federal Telecommunications Act of 1996 and further discussed in the FCC's Report and Order regarding universal service released on May 8, 1997, which the Commission must also consider because of their effect on prices for local telephone service. The Report and Order included subscribership levels and the local calling area in their list of determinants for affordability. Wyoming subscribership levels are high; and, from the responses gathered from the survey, it appears that they should remain high.

Wyoming is predominately rural. Cities are few and far between, which means that local calling areas are limited in size. They do allow people to reach local essential services such as hospitals and schools which is the basic requirement of a calling area. Therefore, from the standpoint of calling areas, Wyoming's local telephone rates are currently affordable. Because there is no pending action to shrink calling areas, this perspective of affordability is not likely to change.

Local landline telephone service is very important to the residents of Wyoming. Customers see no comparable substitute for it at this time which seems to indicate that the subscribership levels will remain the same unless the rates go above the $30.00 range. If they do, some people indicate that they will disconnect their telephone service because the benefits of having it do not outweigh the cost to keep it active.

Finally, concerns were expressed about how the elderly and those living on fixed incomes would be able to afford increases in local telephone service if cost-based pricing mandates increases. It is necessary for people in these groups to have local telephone service in case of medical or other emergencies. The telephone also keeps some elderly persons connected to the outside world. To resolve this situation, previously discussed programs such as Lifeline and LinkUp America can help to maintain affordable rates for these residents. Therefore, persons with this concern need to find out if they qualify for assistance and can do so by contacting their local telephone company or the Wyoming Department of Family Services.

It was not the purpose of this study to ask Wyoming telephone customers to make proposals for cheaper types of service (such as limited-purpose local-only telephone service), to survey their awareness of potential sources of help in paying bills, or to understand their attitudes toward receiving assistance in paying local telephone service bills (generally an independent attitude that

does not look positively at such assistance).

References

1. Wyoming Telecommunications Act of 1995, 1995. 37-15-102, Legislative intent.

2. http://psc.state.wy.us/strategicplan.html

3. Federal Communication Commission Joint Board Report and Order, Released: May 8, 1997. CC Docket No. 96-45, paragraph 109

4. Wyoming Telecommunications Act of 1995, 1995. 37-15-403 (a), Cross - subsidies prohibited; enforcement.

5. Wyoming Telecommunications Act of 1995, 1995. 37-15-501 (c), Universal service fund created; contributions; administration.

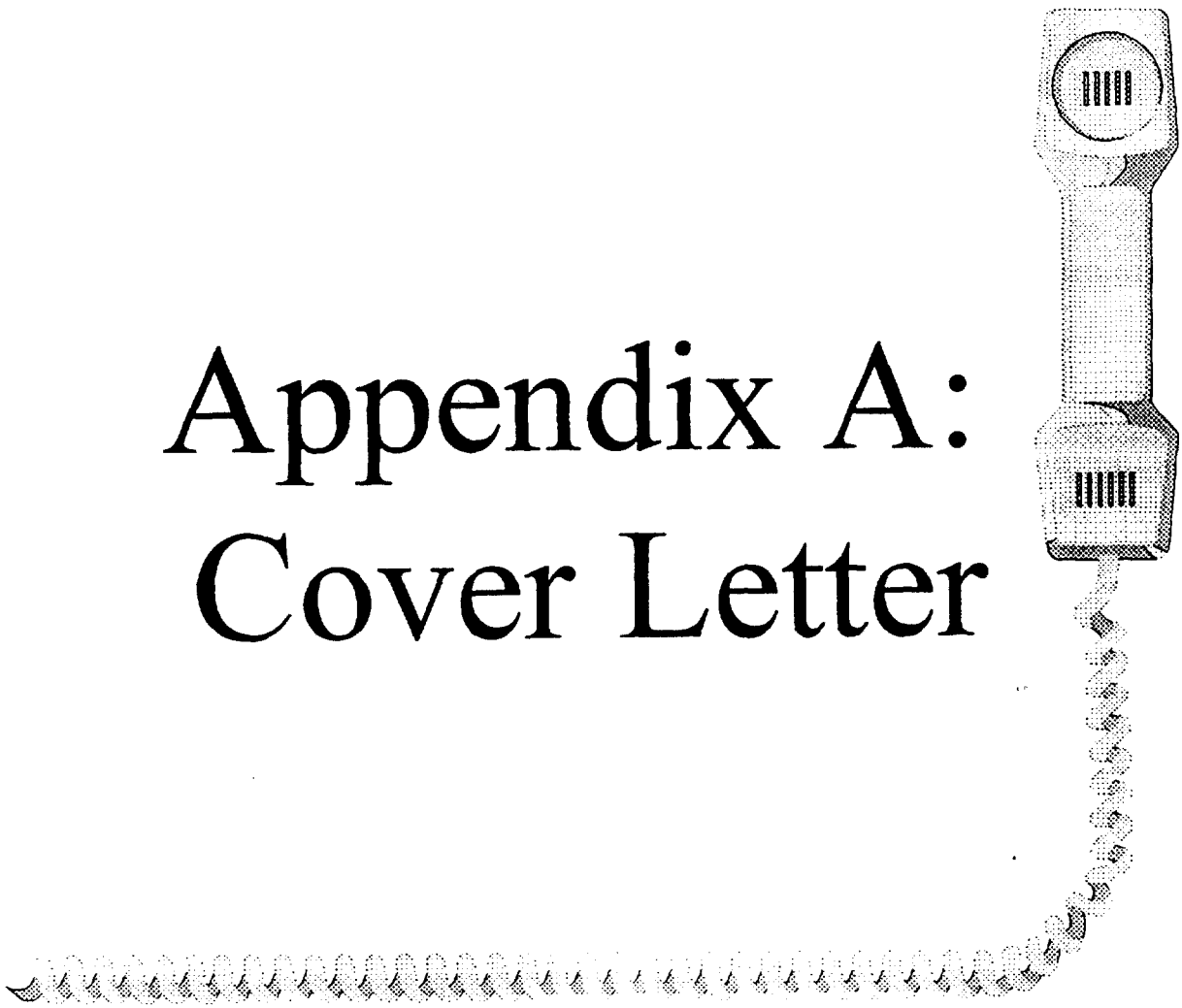
6. Wyoming Telecommunications Act of 1995, 1995. 37-15-501 (d), Universal service fund created; contributions; administration.

7. http://venus.census.gov/cdrom/lookup/864408116

8. McCarthy, Jerome E. and William D. Perreault Jr. Basic Marketing. Irwin, Homewood, IL: 1987.

9. http://www.ctr.columbia.edu/vi/papers/cacm.htm

10. http://www.ctr.columbia.edu/vi/papers/1996usf.htm

11. http://www.benton.org/Library/Recommend/Affordability.html

Appendix A: Cover Letter