

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of)	Application No. C-35
Southeast Nebraska Telephone Com-)
pany, Falls City, Nebraska, for)	GRANTED IN PART
authority to adjust its rates and)	
charges for telephone service.)	Entered: April 21, 1981

APPEARANCES: For the Applicant
Paul M. Schudel, Attorney
1500 Sharp Building
Lincoln, Nebraska 68508

For the Commission
Hal Hasselbalch, Attorney
301 Centennial Mall South
Lincoln, Nebraska 68509

OPINION AND FINDINGS

BY THE COMMISSION:

By its application filed June 19, 1980, the Southeast Nebraska Telephone Company, Falls City, Nebraska seeks authority to adjust its rates and charges for telephone service.

Notice of the filing of the application was published pursuant to the provisions of the Commission's Rules and Regulations. Letters of protest to the application were received from Richard L. Davis and the Village Board of Barada.

Pursuant to notice required by law, public hearing was held on the application on December 17, 1980 at 10:30 a.m. in the City Council Chambers, Falls City, Nebraska with appearances as set forth above.

Upon consideration of the application, the evidence adduced at the hearing and being fully advised, the Commission is of the opinion and finds that:

Applicant is a corporation organized and existing under the laws of the State of Nebraska with its principal place of business at Falls City Nebraska. It is engaged in the telephone business as a common carrier serving approximately 3,940 subscribers in Richardson County, Nebraska. Applicant provides service through two exchanges; Falls City, serving Falls City, Rulo and Salem and Tri City, serving Stella, Shubert and Verdon.

Applicant's present rates and charges were established by the Commission's order entered December 21, 1976 in Application No. 31213.

Applicant alleges that its earnings are inadequate and seeks increased rates to produce additional gross annual operating revenue of \$230,000.

Both applicant and the Commission staff presented financial exhibits based upon a test year ending December 31, 1979.

RATE BASE

Applicant's original cost rate base was \$2,491,616 consisting of:

Plant in service	\$3,995,896
Less depreciation reserve	1,519,844
Plus: materials & supplies	12,665
prepayments	2,899
Rate Base	<u>\$2,491,616</u>

The staffs rate base amounted to \$2,525,110. Staff's depreciation reserve did not include an adjustment of 1979 depreciation expense; made adjustments to include plant expensed and exclude an item not supported by a voucher; and did not include prepayments.

While applicant has presented a rate base based upon trended cost, we will continue to use an original cost rate base.

We find that applicant's rate base as of December 31, 1979 is the sum of \$2,490,331, consisting of:

Telephone plant in service	\$3,995,896
Depreciation reserve	(1,519,844)
Materials and supplies	12,665
Plant expensed	1,614
	<u>\$2,490,331</u>

RESULTS OF OPERATIONS

Both the applicant and the staff used 1979 Net Operating Income of \$228,690.

Applicant's adjustments to Net Operating Income included: an increase in revenue to reflect year-end customers; an increase in expenses for a wage increase in 1980; an increase in expenses for increased payroll taxes; an increase in expenses to increase depreciation to the year-end level; other increases and decreases in expenses to reflect changes in costs which occurred during or immediately after the test year. Applicant's adjusted Net Operating Income is \$161,449.

The staff adjusted Net Operating Income to reduce expenses by \$14,640, representing out of period items, and items which should be capitalized or treated as non-rate-payer expense.

Considering the adjustments of the applicant and of the staff, we find that applicant's Net Operating Income for the year 1979 is the sum of \$176,089.

SERVICES

The staff presented evidence that prior to the hearing on this application the Staff Engineer had conducted two sets of tests at the applicant's exchanges, on September 17 and 18, 1980 and November 12 and 13, 1980. The testimony indicated an improvement in the results between the July and August tests, and the latter were found to be within the Commission standards.

The Commission staff found that applicant's trouble report index, which was calculated by the Staff Engineer, was higher than the Commission objective. Applicant presented an exhibit which calculated the trouble index after excluding from the total troubles related to off-hook conditions which showed that the index was lower than the Commission objective. The pertinent Rule and Regulation requires that all troubles be counted. By whichever method is used, the Tri-City exchange trouble index is high and applicant should be required to furnish monthly reports of its trouble indexes to the Commission.

The testimony indicated that applicant still has six lines which serve more than four subscribers per line and that applicant is in the process of eliminating these multi party lines. The Commission is of the opinion and finds that no increase in rate shall apply to these subscribers until the line fill is reduced to provide them four party service.

Testimony was also given that the village of Barada is served with four party service; that there is no outside paystation in Barada or any of the other towns served, except Falls City; and that conversation timing is used on long distance calls.

The testimony and the Commission's records and files reveal that until the Tri-City office was established, the villiage of Barada was served by a central office. The Commission is of the opinion and finds that applicant should provide one and two party service in the village of Barada without mileage charge, just as it does in the other towns served by the Tri-City office.

Section 7 of Chapter V of the Commission's Rules and Regulations require, that telephone companies provide a public pay station in each incorporated municipality served, unless said rule is waived by the Commission. Applicant should be required to provide public pay stations in the incorporated municipalities it serves until such time as it is authorized by the Commission to discontinue such service.

Applicant should also discontinue any conversation timing (cut off) on long distance calls.

RATE OF RETURN

The evidence indicates that applicant's rate of return for 1979 was 7.07%. The increase proposed by applicant would result in a rate of return of 14.36% which is excessive.

Applicant's witness testified that an increase of \$230,000 was necessary to achieve the same ratio of interest coverage which resulted from the last rate order.

The Commission is not convinced that interest coverage is a proper factor to consider in determining rate of return or appropriate rates and charges.

In this case we find that applicant is entitled to earn the same rate of return as was allowed in 1975, 9.5%. It should be noted that, while this rate of return will not cover applicant's projected interest expense, the Commission will, as in Application No. 31213, give consideration to the compensation paid to the president and majority stockholder during the year.

It is also appropriate to point out that in 1975 debt represented 68% of applicant's total capital and in 1979 debt represented 91% of the total capital.

To provide a 9.5% rate of return will require an increase in revenue of \$60,492.

The application should be granted in part and applicant should be required to submit for Commission approval a schedule of rates designed to produce additional revenue of \$60,492.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-35 be and it is hereby granted in part and the Southeast Nebraska Telephone Company be and it is hereby authorized to increase its rates and charges to produce additional revenue of \$60,492.

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

Application No. C-35

Page four

IT IS FURTHER ORDERED that applicant submit to the Commission for its approval a schedule of rates and charges designed to produce additional revenue of \$60,492.

IT IS FURTHER ORDERED that applicant file with the Commission on or before the 15th of the month its trouble index for the preceeding month, for a period of one year from the date of this order.

IT IS FURTHER ORDERED that no increase in rates apply to subscribers on lines serving more than four customers until the line fill on such lines is reduced to four or less.

IT IS FURTHER ORDERED that applicant provide one and two party service without mileage charge in the village of Barada; that applicant provide public pay stations in the incorporated municipalities it serves, unless authorized by the Commission to discontinue such service; and that applicant discontinue conversation timing (cut off) on long distance service.

IT IS FURTHER ORDERED that applicant submit to the Commission within sixty (60) days from the date of this order a plan and timetable to accomplish the service changes ordered immediately above.

MADE AND ENTERED at Lincoln, Nebraska, this 21st day of April, 1981.

NEBRASKA PUBLIC SERVICE COMMISSION

Duane D. Gay
Chairman

ATTEST:

COMMISSIONERS CONCURRING:

Jack Romans

Terence L. Kubacki
Secretary