

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application)	Application No. C-116
of Northwestern Bell Telephone)	
Company, Omaha, Nebraska, for)	
authority to adjust its rates)	GRANTED IN PART
and charges for telephone ser-)	
vice in the State of Nebraska.)	Entered: October 20, 1981

APPEARANCES: For the applicant
Richard L. Johnson, Attorney
100 South 19th Street
Omaha, Nebraska

For the Commission
Shanler Cronk, Attorney
2115 State Capitol Building
Lincoln, Nebraska

OPINION AND FINDINGS

BY THE COMMISSION:

By its application filed January 7, 1981, Northwestern Bell Telephone Company, Omaha, Nebraska, seeks authority to adjust its rates and charges for telephone service furnished by it in the State of Nebraska.

Notice of the filing of the application was published pursuant to the provisions of the Commission's Rules and Regulations. Formal protests to the application were filed by Security International, Inc., American District Telegraph Company and Energy Management and Control, Inc.; petitions to intervene were filed by Accurate Answering Service and Telephone Answering Bureau, Inc., dba Physicians Bureau; and letters of protest were received from 95 individuals throughout the state.

Pursuant to notice required by law, public hearing was held on the application on July 8, 9 and 10, 1981 in the Board of Equalization Room, City-County Building, Omaha, Nebraska, with appearances as set forth above.

In accordance with policies adopted by this Commission in 1974, a Staff Attorney was assigned to prepare and present a staff case at the hearing. This was done to insure that the Commission would receive all relevant and material evidence on the record, where it would be subject to cross-examination testing its truthfulness. The assigned Staff Attorney was isolated from the decision-making process and placed in the same status as other participants of record. He, as the applicant, presented evidence through witnesses on the record, cross-examined other witnesses and submitted a brief.

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

GENERAL

1. The applicant is a corporation existing under the laws of the State of Iowa with its general operating headquarters at Omaha, Nebraska. It is a common carrier furnishing general communications services in Nebraska, Iowa, Minnesota, North Dakota and South Dakota, and is under the jurisdiction of this Commission.

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2. Applicant furnishes local and long distance service at 95 telephone exchanges in Nebraska serving approximately 754,000 company-owned telephones and provides long distance connections to 360 exchanges of other telephone companies in the state.

3. The rates and charges of the applicant now in effect were approved by the Commission in its order entered May 6, 1980, in Application No. 33605.

4. Applicant alleges that its earnings are inadequate and do not provide a fair and reasonable rate of return on its property in Nebraska devoted to intrastate business. Applicant seeks to increase rates in an amount to produce additional annual revenue of \$16,600,000 to Northwestern Bell Telephone Company. Applicant alleges that it requires a rate of return of 10.34% on its property devoted to intrastate service in the State of Nebraska.

5. For the purpose of determining the results of operations, both applicant and staff have used a test year ending December 31, 1980 and an end of period rate base. Intrastate revenues, expenses and investments were determined in accordance with the latest Separations Manual of the NARUC.

6. Applicant has included in its exhibits the effect of the Federal Communications Commission's order requiring the expensing of station connections. This Commission has in separate proceedings required the continued capitalization of station connections.

RATE BASE

7. Applicant's exhibits reflect its rate base as of December 31, 1980 to be \$297,864,713, consisting of the following:

Book Cost of Plant and Equipment	\$441,099,312
Materials and Supplies	2,131,362
Working Capital	2,619,133
	<u>445,849,807</u>
Less: Long Term Plant Under Construction	27,646,693
Depreciation Reserve	75,517,823
Deferred Tax Reserve	41,829,615
	<u>300,855,676</u>
Plus Unamortized Portion of Interest During Construction, 1979 Short-Term Projects	762,917
Less Capital Recovery Items	3,753,880
	<u>\$297,864,713</u>

8. Staff has proposed adjustments to this rate base including items to be capitalized which had been expensed and excluding furniture to be used in the new corporate headquarters which is not in service. These adjustments represent a decrease of \$1,159,566. In addition, staff has adjusted the Capital Recovery Items to reflect the continued capitalization of station connections. This represents an increase of \$1,001,245. Staff's proposed rate base is therefore \$297,706,392.

9. We find that the appropriate rate base to be used in this case is \$297,706,392.

RESULTS OF OPERATIONS

10. Applicant's exhibits show intrastate operating income for the year ended December 31, 1980, adjusted for known changes, previous Commission disallowances and Capital Recovery Items, in the amount of \$23,700,120. Adjustments include salary and wage increases, the effect of the 1980 rate increase, amortization of short term interest during construction, the removal of out of period toll settlements, reduction in pension accrual and tax increases. Previous Commission disallowances include corporate and other advertising, lobbying, Pioneer expense and contributions.

11. The staff proposed additional adjustments including the continued capitalization of station connections and found intrastate net operating income to be \$26,033,140.

12. Staff proposes to exclude several out-of-period and non-ratepayer expenses totaling \$127,689.

13. Staff proposes to disallow rent paid for storage space of documents relating to antitrust suits in the amount of \$15,943.

14. Staff proposes to annualize the revenues and expenses associated with sales of telephone equipment. Applicant pointed out that revenues and expenses for sales of equipment were previously found in other accounts so that this proposed adjustment in the amount of \$119,380 (\$59,744 after taxes) should not be allowed.

15. Staff proposes to exclude the salaries and benefits incurred in 1980 for positions discontinued by the applicant, an adjustment of \$647,634.

16. Staff proposes an adjustment reducing federal income taxes by \$1,122,934. Applicant participated in the filing of a consolidated federal income tax return along with AT&T and members of the Bell System. Applicant does, however, record income tax liability on its books as though it filed a separate return. Staff contends that, as a result, Northwestern Bell is paying more in taxes than actually required by the tax liability on a consolidated basis.

17. Adjustments to state and federal income taxes as a result of the foregoing adjustments total \$454,913.

18. Applicant called two witnesses to justify its License Contract expenditures. Applicant has an agreement (Exhibit 10, Part II) with AT&T which provides that AT&T furnish services as outlined therein and that applicant pay its share of the cost of such services up to a limit of 2.5% of its total gross earnings, calculated as provided in the contract.

19. In addition to payments under the License Contract, applicant makes payments to AT&T and other Bell System companies for services called Cost Sharing and Conduit. A number of these services are related to License Contract activities such as the purchase under Cost Sharing or Conduit of a training or operation manual which was developed and paid for under the License Contract.

20. For the test year, License Contract payments totaled \$3,491,272, Cost Sharing \$949,795, and Conduit \$217,705 or a total of \$4,658,772. Two and one-half percent of revenues as computed under the License Contract would be \$3,563,983, or \$1,004,789 less than the total shown above. The License Contract payment is almost 2.5% and it appears that Cost Sharing and Conduit are virtually the same as License Contract and all should be treated the same. We find that the \$1,004,789 by which the total exceeds the 2.5% limit should be disallowed which, after taxes, increases operating income by \$502,847.

21. We find after all of the above adjustments that applicant's net earnings for the year 1980 is \$26,476,243.

RATE OF RETURN

22. The evidence indicates that applicant's rate of return for the test year 1980 on its original cost rate base was 8.89%.

23. In its order in Application No. 33605 the Commission authorized an overall rate of return of 9.88% and found that it produced a return on equity of 11.81%, which was the same return on equity found in application No. 32426. Applicant now again proposes that it be allowed the same 11.81% return on equity, but because of changes in the capital structure and cost of debt, the overall return required is now 10.34%. Excluding Western Electric equity from the capital structure used would result in an overall return required of 10.27%.

24. Applicant presented testimony concerning recent rulings by the Federal Communications Commission which have permitted accounting changes to more rapidly recover the company's investment in telephone equipment, all of which tend to improve the ability of the industry to compete with non-regulated companies and have, in our opinion, reduced the risk of the applicant.

25. Having considered all of the evidence, we fail to find any justification for an increase in the 9.88% rate of return found reasonable in the last case.

SERVICE

26. Testimony was presented by Commission Engineer M. G. Hand on the results of central office service tests conducted in a number of the applicant's exchanges. The percentage of test calls that completed properly from the selected central offices, in general, was good. In four areas completion fell below expected levels which requires further investigation by the company.

27. Information provided by the company revealed that 32 exchanges have upgraded to one and two party service without converting to automatic number identification (ANI). A plan shall be submitted to the Commission to install ANI in these exchanges as soon as possible to provide good quality service in relation to the one and two party plant investment and further reduce the amount of operator expense associated with the handling of these calls.

28. Trouble indices in 10 of the company's exchanges exceed the Commission objective of 8 reports per 100 stations per month, based on a six month period. Late filed exhibit No. 19 revealed more recent indices for five of these exchanges which did meet this Commission objective. The company should file quarterly trouble indices for the following exchanges: Belgrade, Creston, Crookston, Litchfield and St. Libory. Such reports should be filed until December 31, 1982 or further order of the Commission.

29. The company should complete its rural service improvement program by the end of 1982. This program should include the ability to offer one party service to all subscribers. A plan shall be submitted to the Commission that outlines conversion from ONI to ANI in all of the company's exchanges. This plan should be based on a completion date of year end 1984 with emphasis given to converting to ANI at the time the rural service improvement program is completed or as soon after as possible.

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CONCLUSION

30. We have found that applicant is entitled to a rate of return of 9.88% on its rate base. To produce this rate of return will require an increase in revenues of \$7,129,006. This increase in revenue will allow applicant to attract capital and will enable it to continue its service improvement program.

31. Applicant should be directed to file with the Commission for its approval a schedule of rates and charges which will produce additional annual revenue of \$7,129,006.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-116 be and it is hereby granted in part and the Northwestern Bell Telephone Company be and it is hereby authorized to revise its rates and charges to produce additional annual revenue of \$7,129,006.

IT IS FURTHER ORDERED that applicant file with the Commission for its approval a schedule of rates and charges that will produce additional annual revenue of \$7,129,006.

IT IS FURTHER ORDERED that applicant submit to the Commission a plan to install ANI in those exchanges already upgraded; that applicant's rural service improvement program be completed by the end of 1982 and that a plan be submitted to the Commission that outlines the conversion from ONI to ANI in all of the company's exchanges based on a completion date of year end 1984 with emphasis given to converting to ANI at the time the rural service improvement program is completed or as soon after as possible; that applicant file quarterly with the Commission trouble indices for the exchanges of Belgrade, Creston, Crookston, Litchfield and St. Libory until December 31, 1982 or until further order of the Commission.

MADE AND ENTERED at Lincoln, Nebraska this 20th day of October, 1981.

NEBRASKA PUBLIC SERVICE COMMISSION

Jack Romans
Chairman

ATTEST:

COMMISSIONERS CONCURRING:

Harold D. Simpson
Quane D. Gay

Terence L. Kibbert
Secretary