

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of)	Application No. C-266
The Lincoln Telephone and Telegraph)	
Company, Lincoln, Nebraska, for)	GRANTED IN PART
authority to adjust its rates and)	
charges for telephone service.)	Entered: June 21, 1983

APPEARANCES: For the Applicant
Paul M. Schudel, Attorney
1500 American Charter Center
Lincoln, Nebraska 68508

For the Commission
John Boehm, Attorney
Assistant Attorney General
State Capitol Building
Lincoln, Nebraska 68509

OPINION AND FINDINGS

BY THE COMMISSION:

By its application filed June 15, 1982, The Lincoln Telephone and Telegraph Company, Lincoln, Nebraska, seeks authority to adjust its rates and charges for telephone service furnished by it in the State of Nebraska.

Notice of this application was published in the Daily Record, Omaha, Nebraska, on July 9, 1982, pursuant to the Rules and Regulations of this Commission pertaining to notice. On July 9, 1982, the Commission sent a letter of notification to all mayors, community clubs and newspapers in the area served by applicant advising that the application had been filed and that the increase requested was \$5,687,202. In protest to the granting of this application, approximately twenty-four letters from the general public were received by the Commission. On May 12, 1983, the Secretary of the Commission sent a letter by First Class mail to all parties interested in this proceeding giving them notice of the hearing in this matter.

In accordance with policies adopted by this Commission in 1974, a Staff Attorney was assigned to prepare and present the 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 and cross-examined other witnesses.

Pursuant to notice public hearing was held on the application on May 26 and 27, 1983 in the Commission Hearing Room, 301 Centennial Mall South, Lincoln, Nebraska, with appearances as shown.

The evidence and showing of applicant was presented by the testimony and exhibits of J. E. Geist, President; L. A. Connealy, Senior Vice President and Controller; Charles P. Arnold, Senior Vice President; and Frank Hilsabeck, Vice President-Corporate and Revenue Development.

On behalf of the Commission, testimony and exhibits were presented by John S. Burvainis, staff accountant and Maurice Gene Hand, staff engineer.

Testimony in protest to the granting of the application was presented by eight public witnesses.

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GENERAL

1. The applicant is a corporation organized and existing under the laws of the State of Nebraska, with its principal executive offices located in Lincoln, Nebraska. It is a common carrier furnishing telephone service in the twenty-two southeastern counties of the State of Nebraska, and is under the jurisdiction of this Commission.
2. As of December 31, 1981, applicant furnishes local and long distance service at 137 telephone exchanges in Nebraska serving approximately 337,218 telephones.
3. The rates and charges of the applicant now in effect were approved by the Commission in its order entered October 7, 1980, in Application No. 33788.
4. Applicant alleges that its earnings are inadequate and do not provide a fair and reasonable rate of return on its investment in telephone plant. Applicant seeks to increase rates in an amount to produce additional annual revenue of \$5,684,048.
5. Applicant and the Commission Staff have entered into a stipulation (Exhibit 4) covering the points of agreement concerning the rate base, operating income and certain other issues.
6. For the purpose of determining the results of operations, both applicant and staff have used a test year ending December 31, 1981 and an end of period rate base.

RATE BASE

7. Applicant's exhibits and those of the Commission Staff reflect the rate base as of December 31, 1981 to be \$202,968,845 consisting of the following:

1.	Land	\$ 1,618,364
2.	Buildings	16,192,516
3.	Central Office Equipment	112,802,374
4.	Station Apparatus	38,351,517
5.	Station Connections	28,640,057
6.	Large PBX's	9,351,376
7.	Pole Lines	6,170,839
8.	Aerial Cable	18,059,891
9.	Underground Cable	14,417,229
10.	Buried Cable	57,025,935
11.	Aerial Wire	714,182
12.	Underground Conduit	8,375,801
13.	Furniture & Office Equipment	4,858,048
14.	Vehicles & Other Equipment	<u>5,425,438</u>
15.	Total Telephone Plant in Service	\$322,003,567
16.	Materials and Supplies	3,263,163
17.	Total	\$325,266,730
18.	Less: Depreciation Reserve	95,647,818
19.	Deferred Taxes from Accelerated Depreciation	26,281,978
20.	Pre-1971 Investment Tax Credit	<u>368,089</u>
21.	Net Rate Base	\$202,968,845

RESULTS OF OPERATIONS

8. Both applicant's exhibits and those of the staff show adjusted operating income for the year ended December 31, 1981 to be \$19,480,585.
9. Adjustments proposed by applicant and included above represent wage increases, annualization of increased depreciation rates, and increases in payroll and other taxes.

10. Proposed staff adjustments, agreed to by applicant, include out-of-period adjustment to toll revenue for the 1980 toll settlement accounted for in 1981, exclusion of lobbying expenses, exclusion of a portion of the reorganization expenses incurred in setting up Lincoln Telecommunications Company, exclusion of expenses for discounts on stock purchases by employees, an adjustment regarding commissions received by applicant for collecting sales tax and certain non-ratepayer costs. Having considered all of the evidence, we find applicant's 1981 net operating income to be \$19,480,585.

RATE OF RETURN

11. The evidence establishes that applicant's rate of return actually earned on the test year 1981 adjusted rate base was 9.60%. The rate of return authorized in applicant's last rate case, Application No. 33788, was 9.75%.

12. Rate of return testimony and exhibits were offered by the Applicant. Laurence A. Connealy, Senior Vice President and Controller of applicant testified that applicant was requesting a return on common equity of 13.67%, which in his opinion is conservative based upon current economic conditions and comparative studies of recent rate orders in Nebraska and other states.

13. Mr. Connealy further testified that this Commission ordered a 12.75% return on common equity in Application No. 31027 entered on March 1, 1982; and a 14.09% return on common equity in Application No. C-227 entered on January 11, 1983. The Missouri PSC authorized a 15.45% return on common equity for Southwestern Bell in January 1983; and the Minnesota PUC authorized a 14.99% return on equity for Northwestern Bell in April 1983. Additionally, Mr. Connealy sponsored an exhibit (Exhibit 8, Schedule 5) which revealed that on the basis of 41 observations, an average return on common equity for telephone companies during 1980 was 12.92%; and that on the basis of 63 observations during 1981, an average return on common equity was 14.35%.

14. Cross-examination of Mr. Connealy revealed that the average returns on common equity quoted above from Schedule 5 of Exhibit 8 are questionable because the cases cited are not directly comparable. In some cases rates of return are based on average rate base and in others on year-end rate base. The exhibit does not indicate whether deferred taxes are treated in the rate base or in the capital structure.

15. Having duly considered all of the evidence presented in this proceeding, we are of the opinion and find that the fair and reasonable overall rate of return for applicant on its adjusted net plant rate base should be 10.75% developed as follows:

	Amount	Percent	Cost	Weighted Cost
Debt	\$89,260,440	47.11%	8.95%	4.21%
Preferred Stock	11,059,100	5.84	6.65	.39
Common Equity	89,163,577	47.05	13.07	6.15
		100.00%		10.75%

16. The rate of return to be allowed applicant in this proceeding is properly based upon its weighted cost of capital, which includes debt, preferred stock and common equity. The evidence shows applicant's cost of debt at December 31, 1981 to be 8.95%, and the cost of preferred stock at December 31, 1981 to be 6.65%.

17. Applicant has requested that it be allowed to establish a zone of reasonableness for its rate of return of 50 basis points. The Commission finds that such requested zone is fair and reasonable and authorizes that such range should be 10.75%--11.25% on adjusted net plant rate base.

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18. Applicant should be authorized to increase rates to produce the 10.75% rate of return which will require an increase in revenue of \$4,572,781.

SERVICE

19. Maurice Gene Hand, Commission Engineer, testified that central office tests and inspections yielded results which were acceptable when viewing the offices as a group. Exchanges tested which fell below a Commission-approved standard were: Valparaiso in average call completion--problem corrected; DeWitt, Liberty and McCool in percentage long distance ok and busy-- the McCool problem was corrected, however, Mr. Hand recommended that the DeWitt and Liberty exchanges be further tested after new toll equipment is placed in Service at Beatrice; and based upon applicant's responses to information requests by the Commission Staff, the Firth and Garland exchanges experienced trouble reports in excess of the Commission standard for the first six months of 1982 and the Dorchester, Hallam and Valparaiso exchanges exceeded the standard during the last six months of 1982. Mr. Hand recommended monitoring of these five exchanges until within Commission standards.

20. Rebuttal testimony offered by applicant's Senior Vice President, Charles P. Arnold, indicates that, for the six months ending, April 1983, all of applicant's exchanges are within the Commission objective for trouble reports. Applicant should however file with the Commission six month trouble indexes for the Firth, Garland, Dorchester, Hallam and Valparaiso exchanges on a quarterly basis until further order of the Commission. Applicant should notify the Commission when new toll equipment is installed at Beatrice and the Commission Staff should then again perform service tests at DeWitt and Liberty.

21. Evidence was presented by Mr. Hand that full intercept service is not yet available in applicant's Adams, Cook and Martell exchanges. Applicant presented evidence on the cost of converting those exchanges if ordered to be completed prior to dates established by applicant for central office conversion which includes intercept. The Commission finds that capital investment in equipment prior to scheduled central office conversion is not an efficient use of capital because the equipment necessary for early provision of intercept will become useless upon such conversion. Further, the Commission finds that only one segment of intercept is not now available, and therefore the expenditure of capital for this purpose is unwarranted.

22. Substantial evidence was presented concerning the relative merits of operator number identification (ONI) and automatic number identification (ANI). ONI involves the intervention of an operator to identify the calling party for toll billing. Testimony by Mr. Hand and several of the public witnesses indicated that ONI was inferior to ANI both in test results and as perceived by the subscriber. At the end of 1982, applicant still provided ONI service to 78 of its 137 exchanges. In March, 1983, 152,984 subscribers, or nearly 90% were served by ANI. Thus, applicant's exchanges still receiving ONI service are its smaller exchanges. The Commission finds that applicant's current schedule for conversion of all exchanges to ANI by the last quarter of 1992 is unacceptable. Applicant should be ordered to submit with ninety days from the date of this order a schedule to convert all of its exchanges to ANI by December 31, 1989. Applicant should be required to make annual work progress reports to the Commission on the anniversary date of this order.

RATES AND CHARGES

23. Based upon the record as a whole and the findings recited hereinabove, we hold that applicant is entitled to a rate of return of 10.75% on its adjusted net plant rate base. To realize this rate of return applicant will require an increase in revenues of \$4,572,781.

24. Applicant is directed to file with the Commission for its approval, a final schedule of rates and charges which will produce additional annual revenue of \$4,572,781 based upon the following considerations.

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25. Applicant offered the testimony of Frank H. Hilsabeck, Vice President-Corporate and Revenue Development who described the schedule of rates and charges proposed by the Applicant that would produce the additional revenue required for the requested \$5,684,048. These increases included increased service connection charges, increased paystation rates, increased direct inward dialing service, increased touch call services, increased custom calling service, increased centrex service, increased PBX service, increased key system service, increased miscellaneous services and equipment and increased local exchange rates.

26. Included among the Applicant's additional revenue projections is revenue realized through an increase in local coin telephone rates from ten cents to twenty-five cents. This rate would apply to all coin and coinless public telephones and semi-public coin telephones in exchange areas served by the Applicant. It is the opinion of the Commission that increase coin telephone rates in its service area from ten cents to twenty cents is fair and reasonable and it should be allowed.

27. The Commission finds that based upon rebuttal testimony offered by Applicant's Senior Vice President Charles P. Arnold a charge should be developed for busy verification service. This service is furnished to customers upon request to provide line status or busy interrupt for a requested line or trunk. The Commission finds that this charge is fair and reasonable and should be allowed.

28. We find that the foregoing sources and projected revenues are fair and reasonable subject to our order below that Applicant file with the Commission for its approval a schedule of rates and charges to produce the annual revenue allowed of \$4,572,781.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-266 be and it is hereby granted in part and The Lincoln Telephone and Telegraph Company be and it is hereby authorized to increase its rates and charges to produce a gross increase in operating revenue of \$4,572,781.

IT IS FURTHER ORDERED that applicant submit for the Commission's approval a revised schedule of rates and charges which will produce the additional gross revenue as herein provided.

IT IS FURTHER ORDERED that applicant shall comply with all service mandates and directives as enumerated and set forth in the Opinion and Findings herein.

IT IS FURTHER ORDERED that the authorized increase in telephone operating income will not become effective until further order of the Commission following the approval of the revised schedule of rates and charges as specified herein.

MADE AND ENTERED at Lincoln, Nebraska, this 21st day of June, 1983.

NEBRASKA PUBLIC SERVICE COMMISSION

Harold D. Simpson
Chairman

ATTEST:

COMMISSIONERS CONCURRING:

Terrence L. Rubicek
Executive Secretary