

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the matter of the application of)	Application No. C-335
United Telephone Company of the West,)	
Scottsbluff, Nebraska, for authority)	GRANTED IN PART
to Increase Rates and Charges.)	
)	Entered : August 23, 1983

APPEARANCES: For the applicant
J. Richard Smith, attorney
6666 West 110th Street
Overland Park, Kansas

For the protestants, Tracy Corporation II
and Michael J. Tracy
John Herdzina, attorney
1175 Woodmen Tower
Omaha, Nebraska

For the protestant, City of Kimball
Darrel J. Huenergardt, attorney
P. O. Box 490
Kimball, Nebraska

For the Commission Staff
John Boehm, Assistant Attorney General
2115 State Capitol Building
Lincoln, Nebraska

OPINION AND FINDINGS

BY THE COMMISSION:

By its application filed December 27, 1982, the United Telephone Company of the West, Scottsbluff, Nebraska seeks authority to increase its rates and charges.

Notice of the filing of the application was published pursuant to the Commission's Rules and Regulations. Forty protests and letters opposing the application were received.

Pursuant to notice required by law, public hearing was held on the application on July 19 and 20, 1983, in the Courthouse, Gering, Nebraska with appearances as shown.

GENERAL

1. Applicant is a corporation organized and existing under the laws of the State of Delaware and is authorized to do business in the State of Nebraska with its principal place of business at Scottsbluff, Nebraska. It is engaged in the telephone business as a common carrier furnishing local and long distance service to approximately 23,500 customers in 13 exchanges in Nebraska. It also operates telephone exchanges in eastern Wyoming but this application and the financial information connected therewith apply only to applicant's Nebraska operations.

2. The applicant's current rates and charges were approved by the Commission on December 18, 1979 in application No. 33499.

3. Applicant alleges that its current rates are not adequate to provide it with a fair rate of return and seeks an increase in its revenues to provide it with a return of 10.8%. The application proposed an increase in revenue of \$2,227,330.

RATE BASE AND RESULTS OF OPERATIONS

4. Both applicant and the Commission staff have used a test year ending September 30, 1982.

5. Applicant and the Commission staff have also stipulated and agreed (Exhibit 4) on all issues in the case except rate of return and the appropriate level of depreciation expense.

6. Applicant has requested that the Federal Communications Commission approve new increased depreciation rates for accounts 221.6, C.O.E.-Radio Equipment and 231, Station Apparatus. Applicant proposes to increase depreciation rates for account 221.6 from 6.6% to 12.3%. Account 231 would increase from 8.3% to 12.9%. Additional intrastate expense would be \$238,694, or \$121,257 after taxes.

7. The Commission staff opposes this adjustment for the reason that the increase is outside the test period, the FCC has not acted on the request and therefore the amount of increased expense cannot be determined with any reasonable accuracy. The staff further proposes that if the proposed expense adjustment is allowed, that a corresponding adjustment be made increasing the depreciation reserve by \$304,718 to match up the depreciation expense and depreciation reserve.

8. Subsequent to the hearing on this matter, the Commission was advised that the FCC did authorize new depreciation rates of 7.8% for account 221.6 and 11.1% for account 231 effective January 1, 1983. The effect of this prescription on applicant's operating results would be to increase jurisdictional depreciation expense by \$86,063 and to decrease net operating income by \$43,720. We are of the opinion that this expense adjustment, the amount of which is now known, should be considered and allowed. We further accept the staff recommendation that the depreciation reserve be increased and the rate base thereby decreased. The appropriate adjustment is \$95,363.

9. Having considered the foregoing, the Commission finds applicant's jurisdictional rate base as of September 30, 1982 to be \$15,800,290, consisting of the following elements:

Total telephone plant in service	\$22,112,743
Less: Reserve for depreciation	4,459,502
Deferred taxes	2,077,151
Pre 1971 investment credits	34,339
Plus: Short term plant under construction	130,572
Materials and supplies	127,967
Rate base	<u>\$15,800,290</u>

10. Applicant's Nebraska jurisdictional net operating income for the year ended September 30, 1982 is \$1,371,443 and the earned rate of return is 8.68%.

RATE OF RETURN

11. Applicant and the Commission staff agree that long term debt represents 43.90% of the total capital at a cost of 8.23% and that short term debt represents 6.27% of total capital at a cost of 10.85%.

12. The overall rate of return applicant originally requested was based upon the inclusion of deferred taxes and investment credits in the capital structure. Since applicant and the staff have agreed to treat these items in the rate base, applicant's requested overall rate of return becomes 12.26% with a requested return on equity of 16%.

13. J. D. Brewer, Vice President-Finance, testified for the applicant concerning a fair rate of return. Using the comparable earnings method, he concluded that a 16% return on equity was needed.

14. Cross-examination of Mr. Brewer established that his estimate and returns of other companies in his comparison were for the entire operations of the companies in question, including unregulated and competitive activities. It is reasonable to expect the unregulated activities of the applicant to contribute to the equity return and it is likewise reasonable that the equity return from regulated activities be lower than that from unregulated activities.

15. Having considered all of the evidence in this matter, we are of the opinion and find that a return of 10.77% on rate base is fair and reasonable and will result in a return on equity of 13%.

16. A rate of return of 10.77% on applicant's rate base requires net operating income of \$1,701,691 or an increase in revenue of \$650,149.

SERVICE

17. M. Gene Hand, Chief Engineer for the Commission testified concerning service tests he performed at some of the applicant's exchanges. In summary he testified that test call completion was adequate. Trouble report indexes for Lyman, Minatare, Morrill, and Potter were higher than in applicant's other exchanges and repeated trouble reports at Morrill and Potter were high. Mr. Hand recommended that applicant be directed to file with the Commission a plan to reduce the trouble report indexes at these exchanges and to file quarterly trouble report data and repeated trouble report data until further order of the Commission.

18. Fourteen public witnesses from a total of six exchanges testified concerning service problems, inconvenient business office service, slow repair service and rural line mileage charges. One problem concerned intermittent outages of rural service affecting a number of customers served by carrier equipment.

19. Public testimony also concerned the lack of the availability in Gering and other exchanges of service features now available at Scottsbluff. Applicant should be required to study the feasibility of expanding the availability of digital service features to other exchanges and report the result of such study to the Commission within 90 days.

RATE DESIGN

20. Applicant offered testimony from two witnesses in support of its proposed rate adjustments. Applicant proposes increases for terminal equipment, PBX's, key systems, data, teletype, mobile, coin, service connection charges and miscellaneous services in addition to access line charges.

21. Since the revenue increase authorized herein is less than that proposed, applicant shall be required to submit new rate schedules in accordance with the following:

22. Protestant, Tracy Corporation II, challenged the rates proposed for one-way paging service as being too low. Applicant presented cost studies for pager rental and service using incremental cost methods which supported its proposed rates. These cost studies used historical costs and ignored cost changes which occurred after the test year. Pager rental and service rates should be set at a level higher than proposed by applicant.

23. Applicant proposed increases in rates for terminal equipment including the primary telephone. The Commission has ordered that the rate for the primary telephone shall be \$.50 per month for all telephone companies. This Commission will not make exceptions to this order and applicant will not be authorized to increase the rate for the primary telephone.

24. Consistent with our recent decision is application No. C-266 of The Lincoln Telephone and Telegraph Company, coin telephone rates should be limited to 20 cents.

25. As modified above, the application is fair and reasonable, is in the public interest and should be granted in part and applicant should be ordered to file with the Commission for its approval a schedule of rates designed to produce additional annual revenue of \$650,149.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-335 be and it is hereby granted in part and the United Telephone Company of the West be and it is hereby authorized to increase its rates and charges to produce additional annual revenue of \$650,149.

IT IS FURTHER ORDERED that applicant file a schedule of rates designed to produce the additional annual revenue authorized herein with the Commission for its approval.

IT IS FURTHER ORDERED that applicant file with the Commission within 60 days from the date of this order a plan to reduce the trouble report indexes at Lyman, Minatare, Morrill and Potter and to file quarterly trouble report data and repeated trouble report data until further order of the Commission.

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IT IS FURTHER ORDERED that applicant report to this Commission within 90 days on the feasibility of expanding the availability of digital service features.

MADE AND ENTERED at Lincoln, Nebraska, this 23rd day of August, 1983.

NEBRASKA PUBLIC SERVICE COMMISSION

Harold D. Simpson
Chairman

ATTEST:

COMMISSIONERS CONCURRING:

Terrence L. Kubicsek
Executive Secretary