

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the matter of the application of)	Application No. C-434
Continental Telephone Company of)	
Nebraska, Wisner, Nebraska, for)	GRANTED IN PART
authority to increase its rates and)	
charges.)	Entered: June 25, 1984

APPEARANCES: For the applicant
Jack L. Shultz, Attorney
P.O. Box 82028
Lincoln, Nebraska 68501

For the Commission Staff
John Boehm, Attorney
Capitol Building
Lincoln, Nebraska 68509

OPINION AND FINDING

THE COMMISSION:

By application filed September 1, 1983, Continental Telephone Company of Nebraska, Wisner, 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. Letters of protest were received from a number of persons.

Pursuant to notice, public hearing was held on the application on March 28, 1984 in the Commission Hearing Room, Lincoln, Nebraska, on March 29, 1984 in the Community Room, Hubbell, Nebraska and on April 4, 1984 in the Courthouse, Fremont, Nebraska with appearances as shown.

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

1. Applicant is a Nebraska corporation with its principal place of business at Wisner, Nebraska. It is engaged in the telephone business as a common carrier serving approximately 11,200 subscribers in 28 exchanges in Nebraska.

2. Applicant alleges that its current rates and charges do not produce sufficient revenues to allow it to earn a fair rate of return. Applicant seeks an increase in revenue of \$999,682 to earn a rate of return of 10.31%.

RESULTS OF OPERATIONS

3. Both applicant and the Commission staff used a test year ending September 30, 1983 and included only Nebraska intrastate operations.

4. Applicant's rate base amounted to \$11,647,607 and consisted of plant in service, plant under construction, materials and supplies and Rural Telephone Bank stock, less depreciation reserve, deferred income taxes and pre-1971 investment tax credit.

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5. Staff's rate base was \$11,138,465 consisting of the following elements:

Telephone plant in service	\$20,526,392
Less: Book cost assigned to interstate jurisdiction	(5,041,282)
Plus: Short term plant under construction	855,270
Materials and supplies	67,031
Rural Telephone Bank Stock	233,758
Less: Depreciation reserve	(3,749,950)
Deferred income taxes	(1,741,835)
Pre-1971 investment tax credit	(10,919)
	<u>\$11,138,465</u>

6. Staff's rate base differed from that of applicant in that it disallowed committed construction; disallowed extraordinary retirements; used end of period balance instead of average for materials and supplies; and adjusted the depreciation reserve for the other adjustments referred to.

7. In general, we adopt the staff's rate base with the following adjustments: (a) Applicant is correct in proposing an average balance for materials and supplies. This will increase the rate base by \$8,263. (b) We have required General Telephone Company of the Midwest to upgrade access service to extended area service. Mr. Osland, Vice President and State Manager testified that the investment required by applicant at Archer and Wolbach in connection with this upgrade is \$20,000. We further find that although Rural Telephone Bank Stock is included in the rate base, for rate making purposes it should be amortized over a ten year period from January, 1984, when the order was entered authorizing its inclusion in the rate base. We therefore find that the appropriate rate base is \$11,166,728.

8. Applicant's exhibits showed net operating income for the test year of \$676,717. Staff's exhibits showed net operating income of \$691,439. Staff's adjustments include (a) the revenue effect of rate base adjustments; (b) to disallow depreciation on short term plant under construction; (c) to disallow certain lobbying expense; (d) to disallow wage increases occurring after the end of the test year; and (e) to reflect the income tax effect of the adjustments.

9. We find the staff's adjustments to be proper and that the net operating income for the test year is \$691,439.

RATE OF RETURN

10. Dennis Maunder, Assistant Vice President-Revenues, testified for applicant that a return on equity of 16.75% and an overall rate of return of 9.97% was required. Mr. Maunder used the actual capital structure and cost of debt of applicant as of September 1, 1983. For cost of equity he made a discounted cash flow analysis of a composite of telephone operating companies.

11. Thomas H. Fish testified for the staff. He also used a discounted cash flow technique, however, since applicant is a wholly-owned subsidiary of Continental Telcom, he analyzed the parent's market performance to determine the cost of equity and also used a double leverage technique to determine that applicant's cost of equity was between 12.51 and 13.44% and its overall cost of capital between 8.33 and 8.62%.

12. Having heard the evidence of both rate of return witnesses, we are of the opinion and find that it is proper to look to the parent's cost of equity and to use double leverage to determine applicant's cost of capital. We further find that a rate of return of 8.62% is fair and reasonable and will allow applicant to continue to attract capital.

SERVICE

13. M. Gene Hand, Chief Engineer of the Commission testified concerning the results of service tests he performed at applicant's exchanges. Tests showed call completion for local calls were below expected levels at three exchanges, for extended area service one exchange failed to meet expected levels and regarding toll service three exchanges failed to meet expected levels. Applicant testified that routine maintenance was performed at these exchanges to correct the problems.

14. Mr. Hand recommended that the Merriman exchange be upgraded to all one-party service during 1984 eliminating the offering of multi-party service by this company in Nebraska. Interrogatories revealed that the company plans to offer one-party service to all of its subscribers by the end of 1985. We accept the company's plans.

15. Information supplied by the company in response to staff interrogatories No. 3 and No. 46 revealed that at the end of 1983 five of the company's twenty-eight exchanges still employed Operator Number Identification (ONI). According to information included in the referenced interrogatories the company will complete conversion to Automatic Number Identification (ANI) during 1984.

16. Mr. Hand presented further testimony concerning trouble indexes which revealed five exchanges which failed to meet the Commission's objective for the July through December 1983 period. The Commission finds that the company should investigate the sources of trouble in these exchanges and file a report with this Commission which outlines measures the company will take to lower the trouble indexes in these exchanges to acceptable levels. The company should file quarterly trouble indexes for the five exchanges until they meet the Commission's objective for 12 consecutive months.

RATES

17. The revenue increase required to produce a rate of return of 8.62% is \$535,184.

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18. In addition to proposed increases in basic exchange rates applicant proposed increases for other services including service connection charges, key systems, PBX's etc. With one exception, we find the increases proposed for other services generally acceptable and direct that adjustment of rates to derive the revenue increase allowed herein occur in basic exchange rates.

19. The exception mentioned above is applicant's proposal to increase coin telephone rates to 25¢. We find that a coin phone rate of 20¢ is reasonable and should be allowed.

CONCLUSION

20. As modified above, the application is in the public interest and should be granted in part. Applicant should be directed to file for approval a revised rate schedule to produce additional annual revenue of \$535,184.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that application No. C-434 be and it is hereby granted in part and the Continental Telephone Company of Nebraska be and it is hereby authorized to revise its rates and charges to produce additional annual revenue of \$535,184.

IT IS FURTHER ORDERED that applicant file a revised schedule of rates and charges with the Commission for its approval.

IT IS FURTHER ORDERED that applicant make one-party service available to all subscribers by the end of 1985.

IT IS FURTHER ORDERED that the applicant investigate the sources of trouble in Cotesfield, Kilgore, Merriman, Reynolds and Riverton and file a report with the Commission, within 90 days from the date of this order, which outlines measures the company will take to lower the trouble indexes in these exchanges to acceptable levels.

IT IS FURTHER ORDERED that the applicant file quarterly trouble indexes for Cotesfield, Kilgore, Merriman, Reynolds & Riverton until these exchanges meet the Commission's objective for 12 consecutive months.

MADE AND ENTERED at Lincoln, Nebraska, this 25th day of June, 1984.

NEBRASKA PUBLIC SERVICE COMMISSION

Harold D. Simpson
Chairman

ATTEST:

John E. Pringle
Acting Executive Secretary

COMMISSIONERS CONCURRING: