

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of  
AT&T Communications of the Midwest,  
Omaha, Nebraska, for Approval of its  
Initial Tariffs.

) Application No. C-461

) GRANTED IN PART

) Entered: December 27, 1983

APPEARANCES: For the applicant  
Richard A. Peterson  
P.O. Box 81849  
Lincoln, Nebraska 68501  
and  
W. Richard Morris  
10825 Old Mill Road  
Omaha, Nebraska 68154

For intervenor, The Lincoln Telephone and  
Telegraph Company  
Paul M. Schudel  
1500 American Charter Center  
Lincoln, Nebraska 68508

For Northwestern Bell Telephone Company  
Richard L. Johnson  
100 South 19th Street  
Omaha, Nebraska 68102

OPINION AND FINDINGS

BY THE COMMISSION:

By its application filed October 27, 1983, AT&T Communications of the Midwest, Inc. (AT&T/MW), Omaha, Nebraska, seeks authority to implement its initial rates and charges for telephone service furnished by it in the State of Nebraska.

Notice of the filing was published on November 1, 1983 pursuant to the provisions of the Commission's Rules and Regulations. On November 1, 1983, the Commission sent a letter of notification to all interested parties in the area served by AT&T/MW advising that the application had been filed and that the increase requested over previous rates of Northwestern Bell Telephone Company was \$7,558,000. A Petition for Leave to Intervene in this application was filed by Lincoln Telephone and Telegraph Company and Northwestern Bell Telephone Company.

Pursuant to notice required by law, public hearing was held on the application on December 21, 1983 with appearances as set forth above.

Upon consideration of the application the evidence adduced at the hearings 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 a major 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.

2. On January 1, 1984, American Telephone and Telegraph Company will reorganize pursuant to the terms of the Modification of Final Judgment. As part of that reorganization ownership of AT&T/MW will transfer from Northwestern Bell Telephone Company to American Telephone and Telegraph Company. The assets necessary for AT&T/MW to provide long distance service in the State of Nebraska will also be transferred from Northwestern Bell ownership to the ownership of AT&T/MW.

3. Applicant will furnish long distance service throughout Nebraska through access connections to the local exchange telephone companies in the State.

4. Applicant will assume the responsibility of providing toll service not provided through local exchange companies beginning January 1, 1984. The rates and charges now in effect for toll in the State of Nebraska have not been concurred in by AT&T/MW.

5. Applicant alleges that its earnings will be inadequate and will not provide a fair and reasonable return on its property in Nebraska devoted to intrastate business under the existing toll schedule. Applicant seeks to implement initial rates in an increased amount to produce annual additional revenue of \$7,558,000 to AT&T/MW. This is a 19.1% increase proposed for all services.

6. Applicant further alleges that it is reasonable to allow an overall rate of return to AT&T/MW of 11% on its property devoted to intrastate service in the State of Nebraska. Applicant further states that 11% is the last overall rate of return authorized for Northwestern Bell Telephone Company, the previous owner of the assets to be used in the provision of its service.

7. For the purpose of determining the results of operations, the applicant has used a test year ending December 31, 1984. Intrastate revenues, expenses and investments were projected in concurrence with NARUC Separations Manual.

8. Applicant's exhibits reflect its rate base as of December 31, 1984 to be \$8,890,000 consisting of the following:

## RATE BASE

Telephone Plant in Service	\$14,867,000
Materials and Supplies	156,000
	<u>15,023,000</u>
Less: Depreciation Reserve	4,246,000
Deferred Tax Reserve	1,887,000
	<u>\$ 8,890,000</u>

9. We find that the appropriate rate base to be used in this case is \$8,890,000.

#### RESULTS OF OPERATIONS

10. Applicant's exhibits show net intrastate operating revenues, after adoption of the rates proposed in its filing, for the year ended December 31, 1984 in the amount of \$-2,315,000. Total revenues are \$45,625,000.

11. The tax effect as shown in the applicant's exhibits on the net intrastate operating revenues of \$-2,315,000 is \$-1,030,000.

12. After the tax effect has been applied to applicant's net intrastate operating revenues, the net earnings for the year 1984 are projected to be \$-1,285,000.

13. The evidence showed that under the access charges as approved, including the \$4 million of Northwestern Bell billing and collection charges, AT&T/MW will over fund the exchange telephone company revenue requirements by approximately \$4.5 million.

14. We find that the expenses proposed by AT&T/MW are reasonable and that applicant's net earnings for the year 1984 are \$-1,285,000.

#### RATE OF RETURN

15. The evidence indicated that applicant's rate of return for the test year 1984 on its rate base using Northwestern Bell toll rates was -31.92%. After implementing the proposed rates the return will be -14.5%.

16. The applicant proposed that its rate of return be 11% overall which is the same rate of return previously authorized Northwestern Bell.

17. We find that the application of the previously authorized Northwestern Bell overall rate of return of 11% to the assets transferred from Northwestern Bell to AT&T/MW is reasonable.

#### OPTIONAL CALLING PLANS

18. In its tariffs, AT&T/MW has removed Optional Calling Plans. The evidence showed that Northwestern Bell had four customers of such plans. Lincoln Telephone, however, had hundreds of such customers.

19. Lincoln Telephone argued that AT&T/MW should continue to provide Optional Calling Plans so that customers who heavily rely on the plans are not disrupted.

20. The Commission finds the Optional Calling Plans to be in the interests of Nebraska customers.

## WATS RESALE

21. Lincoln Telephone complained about the existence of WATS resale provisions in the AT&T/MW tariff. AT&T/MW stipulated that it agreed to be bound by the Commission order in the Northwestern Bell WATS resale proceeding.

## CONCLUSION

22. We find that at present time the evidence presented is largely speculative as to the revenue needed to produce an 11% rate of return for AT&T/MW. We note that the tariff proposed by the applicant would not produce this level of return

23. Having considered all of the evidence, we are of the opinion and find that applicant submit tariffs designed to provide \$3,000,000 in revenue over that provided under Northwestern Bell tariffs, effective January 1, 1984.

24. Applicant should be required to submit monthly financial reports, beginning for the month of January 1984, and that this matter be reviewed further by this Commission after 90 days.

## ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-461 be and it is hereby granted and AT&T Communications of the Midwest, Inc. is authorized to implement its initial rates and charges to produce annual revenue of \$41,067,000.

IT IS FURTHER ORDERED that applicant file appropriate tariffs containing its schedule of rates and charges filed in this proceeding is hereby approved.

IT IS FURTHER ORDERED that applicant insert the provisions of the Optional Calling Plan in its tariff.

IT IS FURTHER ORDERED that applicant submit monthly financial reports beginning for the month of January 1984 and that this matter be reviewed further by the Commission after 90 days.

MADE AND ENTERED at Lincoln, Nebraska, this 27th day of December, 1983

NEBRASKA PUBLIC SERVICE COMMISSION

*Harold D. Simpson*  
Chairman

COMMISSIONERS CONCURRING:

ATTEST:

*Terence L. Kuback*  
Executive Secretary