

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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

Application No. C-461,
Supplement No. 1

GRANTED IN PART

Entered: August 28, 1984

APPEARANCES: For the applicant
W. Richard Morris, Attorney
and
Mark E. Belmont, Attorney
10825 Old Mill Road
Omaha, Nebraska 68154

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

For the Commission,
John E. Finnigan, Attorney
301 Centennial Mall South
Lincoln, Nebraska 68509

OPINION AND FINDINGS

BY THE COMMISSION:

By its Supplemental Application filed May 25, 1984, AT&T Communications of the Midwest, Inc. (AT&T/MW), Omaha, Nebraska, seeks authority to implement final initial rates and charges for interexchange communications service furnished by it in the State of Nebraska.

Notice of the filing was published May 31, 1984 pursuant to provisions of the Commission's Rules and Regulations. On May 31, 1984, the Commission sent a letter of notification to all interested parties in the area served by AT&T/MW advising that the supplemental application had been filed and that the increase requested over the interim initial rates of AT&T/MW was \$4,785,000.

The Original Application was filed October 27, 1983 and the Commission acted on that application in its order entered December 27, 1983. The Commission granted in part the original application and held the case open directing AT&T/MW to file actual financial data so that final initial rates could be established. To accomplish this the Commission stated "that this matter be reviewed further by the Commission after 90 days".

Intervenors in this application include Lincoln Telephone and Telegraph Company and Northwestern Bell Telephone Company. Protests were filed by ConAgra; Henningson, Durham & Richardson, Inc., and Mangelson's.

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Pursuant to notice required by law, public hearing was held on the supplemental application on August 8, 1984 with appearances set forth above.

Upon consideration of the supplemental application, the evidence presented 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 interexchange 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 reorganized pursuant to the terms of the Modification of Final Judgment. As a result AT&T/MW was created to handle intrastate AT&T calling in Nebraska. New rates were established for AT&T/MW pursuant to authorized procedures in the first phase of this proceeding.

3. The Commission, in awarding only \$3 million in additional revenue in the first phase of this proceeding, recognized that additional revenue may be needed to meet the revenue requirements of AT&T/MW. As a result the Commission held this application open and directed the Company to submit actual financial reports so that the Commission could review this matter further.

4. Applicant alleges that the \$3 million awarded in the first phase of this proceeding did not bring its earnings to an adequate level and that the Company will not earn a fair and reasonable return on its property devoted to intrastate business under the existing toll schedule. Applicant seeks to implement final initial rates in an increased amount to produce annual additional revenues of \$4,785,000 to AT&T/MW as set forth in rate schedules filed herein. This is an 8.17% proposed increase for all services other than operator charges.

5. Applicant alleges that additional expenses at an annual level of \$4,785,000, which were not known in the original phase, of this proceeding, have occurred and that such increased operating expenses should be recovered through increased rates as shown in AT&T/MW's exhibits. These increased expenses are Northwestern Bell billing and collection fees of \$3,867,000 and Northwestern Bell uncollectable fee of \$918,000.

6. For the purpose of determining the results of operations, applicant has used a test year ending December 31, 1984. At the time the supplemental application was filed, 1984 results were based on actual experience in the first three months. At the hearing, applicant supplied six months of actual results and a 1984 estimate based thereon. Intrastate revenues, expenses and investments were determined in accordance with the NARUC Separations manual.

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7. Applicant further alleges that even with additional annual revenues of \$4,785,000 that its rate of return, for the first six months of 1984 would have been negative 29.34%.

RATE BASE

8. Applicant's exhibits reflect its rate base as of June 30, 1984 as follows:

Telephone Plant in Service	\$8,138,000
Short Term Plant under Construction	41,000
Materials and Supplies	5,000
	<u>8,184,000</u>
Less: Depreciation Reserve	2,228,000
Deferred Tax Reserve	1,194,000
	<u>\$4,762,000</u>

9. We find that the appropriate rate base to be used in this case is \$4,762,000.

RESULTS OF OPERATIONS

10. Applicant's exhibits show test year net intrastate operating revenues, after adoption of the rates proposed in its filing, for the test year ended December 31, 1984, in the amount of \$-2,644,000. The test year uses six months actual data annualized with the effects of the proposed revenue increase. Total revenues are projected as \$51,547,000.

11. The tax effect as shown in the applicant's exhibits on the net intrastate operating revenues of \$-2,644,000 is \$-1,237,000.

12. After the tax effect has been applied to applicant's net intrastate operating revenues, the net earnings for the test year are projected to be \$-1,397,000.

13. We find that the additional billing and collection and uncollectable fees expenses proposed by AT&T/MW are reasonable and that applicant's net earnings for the test year are \$-1,397,000.

RATE OF RETURN

14. The evidence indicated that applicant's rate of return for the test year 1984 on its rate base using current toll rates was -80.13%. After implementing the proposed rates the return will be -29.34%.

15. We previously authorized AT&T/MW an overall rate of return of 11%. Applicant seeks no change in its authorized rate of return in this proceeding.

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CONCLUSION

16. Intervenor, Northwestern Bell presented evidence that it planned to file tariffs with the Commission which would have the effect of reducing the uncollectable fee. While recognizing that this expense will decline in the future, the evidence shows that, even with the increases proposed, applicant will not meet its revenue requirement. Increased rates as proposed by applicant should therefore be allowed except as set forth below.

17. In the original order entered December 27, 1984, applicant was directed to offer the Optional Calling Plan. The evidence indicates that applicant's position is that if the optional calling area includes both interLATA and intraLATA calling points the caller who wishes to call in both LATAs must subscribe to two Optional Calling Plans. We disagree. The Optional Calling Plan is one plan with the customer paying one rate for the selected service and revenue for jointly furnished service divided between the interLATA and local exchange carrier. Equity also requires that the rates for such service of applicant and Northwestern Bell be the same. We will not therefore approve any increase in Optional Calling Rates at this time.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-461, Supplement No. 1 be and it is hereby granted in part and AT&T Communications of the Midwest, Inc. is authorized to implement its final initial rates and charges as set for in the Opinion and Findings.

IT IS FURTHER ORDERED that the proposed increase in Optional Calling Plan rates be and it is hereby denied.

IT IS FURTHER ORDERED that the Optional Calling Plan is one plan and the subscriber shall pay only one rate.

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

MADE AND ENTERED at Lincoln, Nebraska, this 28th day of August, 1984.

NEBRASKA PUBLIC SERVICE COMMISSION

Harold D. Simpson
Chairman

ATTEST:

John E. Livingston
Acting Executive Secretary

COMMISSIONERS CONCURRING: