

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of
Northwestern Bell Telephone Company,
Omaha, Nebraska, for authority to
adjust the rates and charges for
telephone service furnished by it in
the State of Nebraska.

) Application No. C-484
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)

GRANTED IN PART

Entered: December 18, 1984

APPEARANCES: For the Applicant
Richard L. Johnson, Attorney
100 South 19th Street
Omaha, Nebraska 68102

For the Commission
John Boehm, Attorney
2115 State Capitol Building
Lincoln, Nebraska 68509

For AT&T Communications
W. Richard Morris, Attorney
10825 Old Mill Road
Omaha, Nebraska 68154

OPINION AND FINDINGS

BY THE COMMISSION:

By its application filed January 19, 1984, Northwestern Bell Telephone Company, Omaha, Nebraska, sought authority to adjust its rates and charges for telephone service furnished by it in the state of Nebraska.

Notice of the filing was published on January 24, 1984, pursuant to the provisions of the Commission's Rules and Regulations. On that same day, the Commission sent a letter of notification to all mayors, community clubs and newspapers in the area served by Northwestern Bell advising that the application had been filed and that the increase requested was \$34,400,000. Petitions for Leave to Intervene in this application were filed by AT&T Communications of the Midwest and by Mary Kay Green. Letters of protest and petitions opposing the application were received from throughout the State.

In accordance with the policies adopted by this Commission in 1974, an Assistant Attorney General 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 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 required by law, public hearing was held on the application on October 9, 10 and 11, 1984, in the Board of Equalization Room, City/County Building, Omaha, Nebraska, with appearances as set forth above.

Additional public hearings were held in Grand Island, Nebraska, on October 18, 1984; Alliance, Nebraska, on October 22, 1984; Sidney, Nebraska, on October 23, 1984; Norfolk, Nebraska, on October 25, 1984; and West Point, Nebraska, on October 26, 1984.

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 its general 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. Applicant furnishes local and long distance service at 95 telephone exchanges in Nebraska serving approximately 416,049 access lines and provides long distance connections to 360 exchanges of other telephone companies in the state.

3. Applicant's current authorized return on equity was approved by the Commission in its order entered January 11, 1983, in Application No. C-227.

4. Applicant alleges that its earnings are inadequate and do not provide a fair and reasonable rate of return on its property in Nebraska devoted to intrastate business. Applicant seeks to increase rates in an amount to produce additional annual revenue of \$34,400,000.

5. For the purpose of determining the results of operations, both Applicant and Staff have used an adjusted test year ending December 31, 1983 and adjusted end-of-period rate base. Intrastate revenues, expenses and investments were determined in accordance with the NARUC Separations Manual.

6. The Applicant has adjusted the test period data to reflect the FCC's decision in Docket 20828, commonly referred to as Computer Inquiry II, as well as the Modified Final Judgment (MFJ) which required AT&T to divest itself of all of the Bell Operating Companies including the Applicant. Computer Inquiry II and divestiture have resulted in two major changes in Applicant's business. First of all, Applicant's embedded base of terminal equipment has been transferred to AT&T. Secondly, Applicant is no longer allowed to provide interexchange (inter-LATA) toll services as defined by the MFJ. This portion of Applicant's business has been assumed by interexchange carriers. Both of these changes have impacted revenues, expenses, taxes and investment and the Applicant has adjusted its test period data to account for these effects.

RATE BASE

7. Applicant's exhibits reflect its adjusted rate base as of December 31, 1983 to be \$322,154,859, consisting of the following:

Telephone Plant in Service	\$464,694,915
Short-Term Construction	3,625,633
Materials and Supplies	3,154,613
Working Capital	2,651,295
	<u>474,126,456</u>
Less: Depreciation Reserve	93,394,192
Deferred Tax Reserve	58,577,405
	<u>\$322,154,859</u>

8. Staff has proposed several adjustments to this rate base. These adjustments are:

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|--|-------------|
| a. To disallow unamortized interest on short-term construction | (476,825) |
| b. To disallow certain short-term construction projects not completed within 12 months | (63,259) |
| c. To adjust the depreciation reserve and deferred tax reserve to 1984 end-of-period level | (1,848,112) |
| d. To disallow pre-1971 investment tax credit | (483,912) |

The foregoing adjustments reduce Applicant's rate base by \$2,872,108 to \$319,282,751.

9. By a stipulation entered as Exhibit 14, the Applicant has agreed for purposes of this case not to contest any of the foregoing adjustments. We find the Staff's adjustments to be reasonable and further find that the appropriate rate base to be used in this case is \$319,282,751.

RESULTS OF OPERATIONS

10. Applicant's exhibits show intrastate operating income for the year ended December 31, 1983, adjusted for known changes in the amount of \$22,208,396. Adjustments include compensation and benefit changes, amortization of short-term interest during construction, annualization of an increase in settlements with independent companies, the annualized effect of 1983 rate increases, and the effects of divestiture and Computer Inquiry II.

11. In addition to the Applicant's adjustments, the Staff proposes and we concur in an adjustment to exclude from depreciation expense the sum of \$95,364 which is the 1983 amount of amortized interest on short-term plant under construction from the period of January 1, 1979 to April of 1980. This adjustment increases net telephone earnings by \$46,918.

12. The Staff proposes to exclude from commercial expenses an amount of \$419,378 which represents various expenses which the Staff believes is not measurable. This adjustment increases net telephone earnings by \$206,334. We find the Staff adjustment reasonable.

13. The Staff proposes to exclude from Applicant's expenses an amount of \$377,398 which represents various expenses which the Staff believes to be non-ratepayer, non-Nebraska or out-of-period expenses. Included in this adjustment are disallowances for certain contributions, Pioneer activities, lobbying expense and costs incurred under the Management Income and Supplemental Income Protection Plans. This adjustment increases net telephone earnings by \$185,679. We find the Staff adjustment reasonable.

14. The Staff proposes an adjustment for concession service furnished in 1983 to employees of the Applicant who are now employed by AT&T or U. S. West. This proposed adjustment also excludes payments made by Applicant to employees who purchased their telephone sets. These costs were incurred in the test year but did not continue after January 1, 1984.

15. Dr. Thomas Fish, Staff Consultant, has studied six months of Applicant's actual 1984 operating results to determine the validity of the adjustments that Applicant made to the test year data to reflect the effects of divestiture and Computer Inquiry II. Dr. Fish's analysis indicates that Applicant's adjustments resulted in an overstatement of test year expenses by \$2,353,243 and an understatement of test year revenues by \$4,366,927. As a result of Dr. Fish's study, the Staff has proposed that Applicant's test year expenses and revenues be adjusted accordingly. In addition, upon the recommendation of Dr. Fish, the Staff is also proposing that License Contract expense in the amount of \$1,976,847 be disallowed. These adjustments sponsored by Dr. Fish increase net telephone earnings by \$4,278,932. We find these adjustments reasonable.

16. The Staff initially proposed an adjustment which would have disallowed Applicant's non-management wage increase which went into effect on August 7, 1984. However, on November 2, 1984, the Nebraska Supreme Court ruled in Docket No. 83-101 that a post-test period wage increase such as that granted to Applicant's non-management employees on August 7, 1984 should be included in test year operating results for ratemaking purposes. For that reason, the Staff now proposes, and we concur, that the actual wage increase of August 7, 1984 based on the number of Applicant's employees employed on that date should be included in the test year operating results.

17. As a result of its adjustments, the Staff has determined Applicant's intrastate net operating income to be \$27,171,660.

18. We find after all of the above adjustments and the resulting tax effect that Applicant's net earnings for the test period are \$27,171,660.

RATE OF RETURN

19. In its order in Docket No. C-227, this Commission authorized for the Applicant a return on equity of 14.09%. Applicant and the Staff both agree that for purposes of this case the Applicant should continue to be allowed the same 14.09% return on equity and agree that to maintain this return on equity requires an overall return of 11.44%. The capital structure used in computing this overall rate of return is Applicant's January 1, 1984 capital structure which consisted of 42.8% debt and 57.2% equity.

20. Having considered the evidence, we find that a reasonable and appropriate return on common equity is 14.09% and that the resulting overall rate of return is 11.44%.

SERVICE

21. Testimony was presented by Commission Engineer M. G. Hand on the results of central office service tests conducted in 28 of the Applicant's exchanges. The percentage of test calls that were completed without failure from the selected exchanges was good. The average completion percentages for the test exceeded current objectives by nearly 2% in each category.

22. During 1983 only the Crookston exchange failed to meet the Commission objective of no more than 8 reports per 100 telephones for a six-month period on a total telephone basis. In Crookston the trouble reports average 9.19 per 100 stations for 1983. The Crookston exchange has historically had problems in meeting the Commission's objective rate, and for that reason, the Company should be ordered to investigate the source of trouble in that exchange and take the necessary action to insure compliance with trouble index objectives. The Commission should further require the Applicant to file quarterly trouble index information for the Crookston exchange until the index meets the Commission objective for 12 consecutive months.

CUSTOMER BILLING

23. During the pendency of this case, the Commission has received several complaints about the complexity of current telephone bills. For that reason the Commission has directed the Applicant to redesign its billing to simplify the bills and make them more understandable for customers. The Commission is of the opinion that the new format should be put into use by the Applicant no later than the second quarter of 1985.

CONCLUSION

24. We have found that Applicant is entitled to a rate of return of 11.44% on its rate base. To produce this rate of return will require an increase in revenues of \$22,633,746. This increase in revenue will allow Applicant to attract capital and will enable it to continue to provide satisfactory telephone service to its Nebraska customers.

25. Applicant should be directed to file with the Commission for its approval a schedule of rates and charges which will produce additional annual revenue of \$22,633,746 in accordance with the following directions.

20¢ COIN

26. On August 14, 1984 in Docket No. C-490 this Commission approved an increased coin rate for the state of Nebraska and subsequently directed that any additional revenue realized by the Applicant from the new coin rate for the Application is \$1.126 million, and this amount should be considered a part of the rate design necessary to recover the revenue requirement established by this order.

BASIC SERVICE

27. On August 21, 1984 the Applicant put into effect certain interim rates pursuant to 75-128 of the Nebraska Statutes. Through these interim rates, Applicant is giving its customers, where facilities permit, three options for basic service. The first is a flat rate option ranging from \$12.69 in outstate Nebraska to \$14.63 in Omaha for residence individual lines and \$31.34 to \$35.28 for business individual lines. The second option is Value Measured Service Pac at a rate across the state of \$12.00 with an allowance of \$5.00 usage for residence, and a rate of \$27.85 with a \$5.00 usage allowance for business. The third option is a Budget Measured Service Pac at a rate across the state of \$9.00 with an allowance of \$1.00 usage for residence and a rate of \$23.85 with no usage allowance for business.

28. In those locations that do not have measured service available, the Applicant is charging under its interim rates schedule a flat rate ranging from \$12.14 in outstate Nebraska to \$13.00 in Omaha for residence individual lines and from \$25.95 to \$31.28 for business lines.

29. Having considered the evidence, the Commission concludes that the Applicant should file final tariff sheets continuing in effect the charges for basic service at the levels established on an interim basis except that Applicant should reduce all rates for basic residence lines by \$.50 per month beginning with the effective date of the new tariffs.

DIRECTORY ASSISTANCE

30. The Applicant proposes to change the Directory Assistance Charging Plan to a 5 call allowance for residence customers with a charge of 25¢ for directory assistance calls exceeding that allowance. For business customers the Applicant proposes a 3 call allowance and a charge of 25¢ for each call beyond that number. The Commission finds Applicant's proposal to be fair and reasonable.

TOLL SERVICE

31. In order to hold down increases in charges for basic service, the Commission concludes that the Applicant should increase the initial and overtime minutes and reduce the number of rate mileage steps for all intra-LATA calls to produce sufficient revenue to cover the \$.50 per month reduction in basic service which this Commission has directed above. For the same reason, the Applicant should increase the amount of the operator surcharge on both intra-LATA calls and local operator assistance. The charges for these operator handled calls should be increased to ¢ .50 for credit calls, \$.95 for station to station calls and \$2.00 for person to person calls.

MISCELLANEOUS

32. In its interim rates, the Applicant made increases in its insufficient check charge, its monthly rate for touch-tone lines and its Directory Listings such as Non-List, Non-Published and Additional Listings. The Commission finds these increases to be reasonable and should remain at their present level. The Commission further finds that the Applicant should establish a charge for all Dial 8 trunks at the same rate at the Applicant is now charging for two-way trunks.

SUMMARY

33. The following is a list of the approved additional revenues by service:

Basic Service	\$16,752,000
Coin Telephone Increase	1,126,000
Directory Assistance	870,000
Toll Service	2,696,000
Miscellaneous	1,189,000
Total	<u>\$22,633,000</u>

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-484 be and it is hereby granted in part and the Northwestern Bell Telephone Company be and it is hereby authorized to revise its rates and charges to produce additional annual revenue of \$22,633,746.

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IT IS FURTHER ORDERED that Applicant file with the Commission for its approval a schedule of rates and charges that will produce additional annual revenue of \$22,633,746 in accordance with the directions specified herein.

IT IS FURTHER ORDERED that Applicant investigate the source of trouble in the Crookston exchange and take the necessary action to insure compliance with the trouble index objective; and that the Applicant file quarterly trouble index information for the Crookston exchange until the index meets the Commission's objective for 12 consecutive months.

IT IS FURTHER ORDERED that Applicant redesign its customer billing and place the new billing format into use no later than the second quarter of 1985.

MADE AND ENTERED at Lincoln, Nebraska, this 18th day of December, 1984.

NEBRASKA PUBLIC SERVICE COMMISSION

Harold D. Simpson
Chairman

COMMISSIONERS CONCURRING:

Duane D. Gay

ATTEST:

Donald Adams
Executive Secretary