

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the matter of the application of)	Application No. C-558
Great Plains Communications, Inc.)	
Blair, Nebraska, for authority to adjust)	GRANTED IN PART
its rates and charges for local tele-)	
phone service.)	Entered: September 24, 1985

APPEARANCES: For the applicant
Wyman Nelson, Attorney
1645 Front Street
Blair, Nebraska 68008

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

OPINION AND FINDING

BY THE COMMISSION:

By its application filed December 4, 1984, Great Plains Communications, Inc., Blair, Nebraska seeks authority to adjust its rates and charges for local telephone service.

Notice of the application was published pursuant to the provisions of the Commission's rules and regulations. Over 120 letters of protest have been received.

Pursuant to notice required by law, public hearing was held on the application on August 5, 1985 at 9:30 a.m. in the American Legion Hall, Elgin, Nebraska and on August 8, 1985 at 9:30 a.m. in the American Legion Hall, Sutherland, 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 corporation organized and existing under the laws of the State of Nebraska with its principal place of business at Blair, Nebraska. It is engaged in the telephone business as a common carrier serving approximately 14,000 subscribers through 26 exchanges in Nebraska.

2. Great Plains Communications, Inc. was, until its name change in September, 1983, known as Northeastern Telephone Company. On January 1, 1984, Great Plains was merged with Central Nebraska Telephone Company, Nebraska Telephone Company, Northern Telephone Company and Union Telephone Company. On January 1, 1985, Great Plains acquired the property of Continental Telephone Company of Nebraska, however no change in rates at the former Continental exchanges is proposed in this application.

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3. Applicant alleges that its rate of return is inadequate and seeks to increase rates to produce additional annual revenue of \$601,487.

4. Both applicant and the Commission staff have used the calendar year 1984 as the test year; applicant using six months of actual data and six months of estimated data and the staff using 12 months of actual data.

RATE BASE

5. Applicant's rate base consists of the intrastate portion of telephone plant in service, plant under construction, depreciation reserve, amortization reserve, deferred income taxes, investment tax credits, materials and supplies and Rural Telephone Bank Stock and totals \$9,749,759.

6. Staff's rate base is composed of the same elements as of December 31, 1984 along with adjustments to delete from the rate base the company airplane and short term construction projects which will not be completed within 12 months and to add to the rate base an asset which was expensed in error. Staff proposed deletion of the airplane since the majority of its use was for purposes other than regulated telephone services. Staff's rate base is \$10,163,149.

7. Testimony of both applicant and staff and Exhibit No. 11 recognized that Mobile CPE had been detariffed by the FCC. Removal of mobile CPE would reduce the rate base \$1,905 to \$10,161,244

8. We find that the appropriate rate base is \$10,161,244.

RESULTS OF OPERATIONS

9. Applicant's exhibits reflect projected intrastate net operating income for the year 1984 to be \$650,865, including an adjustment to reflect a change in coin phone rates which become effective in 1984.

10. Staff's exhibits reflect intrastate net operating income for 1984, as adjusted, to be \$729,813.

11. Adjustments proposed by the Staff include, in addition to the coin rate adjustment and adjustments related to the rate base mentioned above, disallowance of certain advertising expenses as benefiting the stockholder rather than the ratepayer; disallowance of lobbying expenses and other items not related to telephone operations; disallowance of expenses related to the acquisition of Continental Telephone Company of Nebraska as non-recurring; disallowance of other out-of-period expenses and disallowance of the expense of the company's employee meeting. The final adjustment reflects the federal and state tax effect of the other adjustments. Total adjustments proposed by the staff and included in the 1984 intrastate operating income amount to \$47,250.

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12. Applicant presented evidence opposing the adjustment for costs of the Continental acquisition asserting that "...with the changing environment in the telephone industry, such expenses may be a normal operating cost." Applicant also stated that its annual employee meeting was a necessary and reasonable expense.

13. We find that the annual meeting provided training to Company employees is a necessary expense. However, a part of the costs of the meeting should not be considered for ratemaking purposes. Therefore, we find that \$9,893 of the annual meeting expense and one-half of the disallowed advertising expense is reasonable and should be allowed. These changes and the removal of mobile CPE revenue and expense would result in net operating income of \$722,179.

RATE OF RETURN

14. Applicant's witness, Michael Pinquoch, testified that applicant required a rate of return of 9.8% on its rate base and 14.25% on its common equity. Mr. Pinquoch's determination of rate of return was based upon returns allowed other telephone companies by the Commission.

15. Staff witness, Mrs. Bobette Murtaugh, testified that she recommended a rate of return of 9.144% on rate base and 13.03% on common equity. Her recommendation was based on the use of three techniques of financial analysis: risk premium analysis, capital asset pricing model and comparative analysis. In her risk premium analysis Mrs. Murtaugh compared applicant with publicly traded telephone companies of similar size. This resulted in the recommended 13.03% return on equity. The capital asset pricing model and a comparison with Nebraska telephone companies mentioned by the applicant were used to verify the results obtained.

16. We find that returns of 9.144% on rate base and 13.03% on common equity are fair and reasonable and will allow applicant to continue to attract capital.

SERVICE

17. Testimony was presented by Commission Engineer M. G. Hand on the results of central office service tests conducted in thirteen of the applicant's exchanges. The objective completion percentages for local, extended area service (EAS) and toll calls were met in all but one exchange, Verdigre.

18. Testimony was given by Neal Hasselbalch, Leon Rimovsky and Eldon Jacobsen regarding service provided in the St. Edward exchange. Mr. Hand testified that the St. Edward exchange toll traffic was scheduled to be routed to Omaha on September 16, 1985.

19. Mr. Hand testified that the sole offering of multiparty or 4-party service is not adequate service and the company should be ordered to upgrade the remaining exchanges by the end of 1986. Information supplied by the company revealed that current plans call for the upgrading to be completed by the end of 1988. Mr. Pinquoch testified that the company could accelerate the conversion schedule and complete the exchange upgrades by the end of 1987.

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20. The company presently has Free Access Service (FAS) from its Ewing and Walnut exchanges to the Orchard exchange which is served by General Telephone Company of the Midwest. Mr. Pinguoch testified that the addition of one trunk to the Ewing to Orchard FAS trunk group will meet the full EAS requirements. Mr. Hand testified that FAS is an inadequate service and should be discontinued or expanded to full EAS.

21. Trouble indices in three of the company's exchanges failed to meet the Commission's trouble index objective for at least one 6 month period from November 1983 to March 1985. These exchanges were Oakdale, Oconto and Tryon. The company should file quarterly trouble indexes for the three exchanges until they meet the Commission's objective for 12 consecutive months.

RATES

22. A rate of return of 9.144% will require an increase in rates of \$408,756. Applicant should be required to file for Commission approval a schedule of rates designed to produce that amount.

23. It is the Commission's intention that applicant will eventually have only one rate schedule for all of its exchanges. In designing its rate schedule it should attempt to reduce even more than originally proposed the number of separate rate schedules.

24. Because applicant's size has increased substantially since the 1984 test year, it should file with the Commission for 1985 and until further order of the Commission, on a quarterly basis, its Nebraska intra-state results of operation and rate base.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that application No. C-558 be and it is hereby granted in part and Great Plains Communications, Inc. be and it is hereby authorized to revise its rates and charges to produce additional annual revenue of \$408,756.

IT IS FURTHER ORDERED that applicant file with the Commission for its approval a schedule of rates and charges to produce the increase allowed, in accordance with the Opinion and Findings.

IT IS FURTHER ORDERED that the Company complete its upgrading to 1-party service in all exchanges by the end of 1987; the company submit a plan, within 60 days from the date of this order, designed to improve the quality of its FAS trunk groups; the Company file quarterly with the Commission trouble indices for the Oakdale, Oconto and Tryon exchanges until these exchanges meet the Commission's objective for 12 consecutive months; the company make toll tests subsequent to the September 16, 1985 date, when the toll service to the St. Edward exchange is scheduled to be cut directly through to Omaha, and submit the results thereof to the Commission.

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IT IS FURTHER ORDERED that applicant file with the Commission quarterly for 1985 and until further order, its Nebraska intrastate results of operations and rate base.

MADE AND ENTERED at Lincoln, Nebraska, this 24th day of September, 1985.

NEBRASKA PUBLIC SERVICE COMMISSION

Harold D. Simpson
Chairman

COMMISSIONERS CONCURRING:

Deane D. Gay

ATTEST:

Donald Adams
Executive Secretary