

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Application of	)	Application No. C-637
Nebraska Central Telephone Company,	)	
Gibbon, Nebraska, for authority to	)	GRANTED IN PART
adjust its rates and charges for	)	
telephone service.	)	Entered: January 6, 1987

APPEARANCES: For the applicant  
Paul M. Schudel, Attorney  
1500 American Charter Center  
Lincoln, Nebraska

For the Commission  
Hal Hasselbalch, Attorney  
301 Centennial Mall South  
Lincoln, Nebraska

BY THE COMMISSION:

By its application filed January 24, 1986, the Nebraska Central Telephone Company, Gibbon, Nebraska, seeks authority to adjust its rates and charges for telephone service.

Notice of the filing of the application was published pursuant to the provisions of the Commission's Rules and Regulations. No formal protest to the application was filed; however, a number of letters and petitions of protest were received.

Pursuant to notice required by law, public hearing was held on the application on December 3, 1986 in Sargent, Nebraska and on December 4, 1986 in Gibbon, Nebraska with appearances as set forth above.

OPINION AND FINDINGS

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 Gibbon, Nebraska. It is engaged in the telephone business as a common carrier under the jurisdiction of this Commission and provides telephone service to subscribers through exchanges at Ansley, Arcadia, Comstock, Gibbon, Sargent and Shelton, Nebraska.

2. Applicant's present rates and charges were approved by the Commission in its Order entered September 22, 1981 in Application No. C-122. In that case, a 10.13% rate of return on net plant rate base was approved by the Commission. Applicant seeks Commission approval in this case to realize additional revenues to earn the 10.13% rate of return.

3. Since September 22, 1981, Applicant has continued its construction of a major plant improvement program. The Company has accomplished installation of a Stromberg-Carlson DCO at Ansley in October, 1985, with remote units in Sargent, Arcadia, and Comstock. These switches are linked by fiber optics cable. A similar installation will be completed in the Company's Gibbon and Shelton exchanges in February, 1987. New or remodeled buildings have been constructed in each exchange. All distribution facilities, including customer drop wires, have been replaced and are buried underground. One-party service is provided to all subscribers. Automatic line insulation test equipment and stand-by power generators are in place at all exchanges.

4. Financing for the accomplishment of these plant upgrades was approved by this Commission in Application No. C-455 on December 20, 1983, with a total borrowing authorization of slightly over \$7.9 million. Mr. McGregor, Applicant's President, testified that the total project will be accomplished at a cost of approximately \$6.766 million. This savings of 14% was realized through favorable pricing of equipment and lower than expected construction bids.

5. Testimony was presented by Commission Engineer Maurice Gene Hand pertaining to two rate design issues. First, Mr. Hand proposed that Extended Area Service (EAS) be unbundled from the access line rate on the subscriber's bill. He proposed that the EAS additive be set at \$2.75 for business subscribers and \$1.50 for residence subscribers. Second, Mr. Hand proposed that the Company discontinue an additional charge for touch tone service and include this service as part of the basic access line. We agree with these proposals and shall require the Company to incorporate both in their new schedule of rates.

6. Although limited service standard shortcomings were identified by the Commission Staff in testing the Applicant's Gibbon and Shelton exchanges, the Commission is satisfied that cutover of the new DCOs in these exchanges in February, 1987 will remedy these problems.

7. In order to realize the 10.13% rate of return on its investment as authorized in Application No. C-122, Applicant sought an increase in its rates and charges to produce additional annual revenue of \$422,810 based upon pro forma year end December 31, 1985 results. Based upon actual results for year end December 31, 1985, Applicant seeks additional revenues of \$433,755.

8. Both Applicant and the Commission Staff presented evidence concerning the financial statements, revenues, expenses and rate base of Applicant. Adjustments to the operating statement and rate base were made by the Staff and were accepted by Applicant.

9. Mr. Brad Hurrell, of Peat Marwick and Mitchell, testified on issues concerning rate of return for the Applicant. He testified that a 10.17% rate of return would constitute a make whole situation, whereby the Company desires to maintain the rate of return awarded in C-122. He opined that the capital structure used to calculate the weighted cost of capital should match the test year; therefore, the capital structure of Nebraska Central as of December 31, 1985 would be more appropriate.

Ms. Murtaugh, Staff Financial Analyst, testified that since ratemaking is a forward looking process, the cost of capital should represent the most current market conditions and that the weighted cost of capital should match that capital structure. Using the capital structure as of November 1986, the cost of equity approved in C-122 and the current costs of debt and preferred, she recommended a rate of return of 9.36%. She further testified that it would be appropriate to recalculate the weighted cost of capital based on the new information concerning the current capital structure supplied by Mr. Hurrell and Mr. McGregor at the hearings.

During the hearing, Mr. Hurrell indicated that the November 1986 capital structure was incorrect since it did not reflect that \$471,000 of the REA loan funds were on requisition and not yet received.

After reviewing all the evidence, we find that the more current capital structure recommended by Ms. Murtaugh is appropriate; however, said capital structure should not include REA loan funds on requisition. The updated capital structure and the resulting weighted cost of capital is illustrated in the following table:

<u>CAPITAL</u>	<u>AMOUNT</u>	<u>PERCENT</u>	<u>COST</u>	<u>WTD COST</u>
LTD-RTB	\$4,444,650	56.39%	10.00%	5.64%
LTD-REA	1,489,000	18.89%	5.00%	.94%
PREFERRED	160,000	2.03%	5.00%	.10%
COMMON	1,787,751	22.68%	12.88%	2.92%
				<u>9.60%</u>

Based on this capital structure, we find a rate of return of 9.6% to be fair and reasonable.

10. Applicant's rate base as of December 31, 1985 was calculated to be \$6,202,219. Net operating income, as adjusted, for year end 1985 is \$409,438. Utilizing the 9.6% rate of return on rate base, Applicant's revenue requirement on the foregoing rate base is \$595,413. When the revenue shortfall is adjusted for the income tax factor (1.982), the total revenue increase required is \$368,602.

11. On December 16, 1986, the Commission entered its Order in Application No. C-627 to prescribe uniform procedures for intrastate toll compensation to exchange carriers. Applicant has submitted as late filed Exhibit 21, the impact of this Order on its revenues for test year ended December 31, 1985. Such calculation shows that based upon financial data as of December 31, 1985, Applicant would realize additional intrastate toll revenues of \$212,659 pursuant to the December 16, 1986 Order.

12. The Commission finds that this additional toll revenue impact should be netted against the local exchange revenue calculation set forth in paragraph 10, which results in an additional local exchange revenue requirement of \$155,943. This amount will be adjusted in the event that the Commission's Order in Application No. C-627 is revised as a result of the disposition of the pending Motion for Reconsideration therein.

Application No. C-637

Page 4

13. Mr. McGregor further testified that the Company is proposing to increase the current returned check charge of \$5.00 per check to \$10.00 per check which he estimates will generate \$600.00 per year in additional revenue. Further, he proposes to increase local pay station charges to \$.25 per call which will produce \$1,500.00 per year of additional revenue. We find these rate changes to be fair and reasonable; therefore, they should be incorporated in the company's revised tariffs.

14. The Commission finds that the additional local exchange revenue requirement of \$155,943 is less than the amount of revenue generated by Applicant's implementation of an interim local exchange rate increase during the pendency of this application. The Commission has recognized the \$212,659 increase in annual toll revenue resulting from Docket C-627 in determining the additional annual revenue requirement; however, because the increase in toll revenue will not commence until January 1, 1987, no refund of the interim rates is required. The interim rates will remain in effect until final disposition of Docket C-627 or until further order of the Commission.

## ORDER

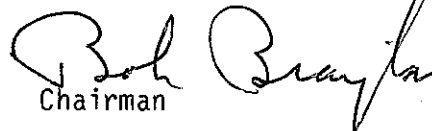
IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. C-637 be and it is hereby granted in part and Nebraska Central Telephone Company be and it is hereby authorized to revise its rates and charges to produce additional annual revenue of \$155,943 subject to possible adjustment if the Commission's Order in Application No. C-627 shall be revised pursuant to the pending Motion for Reconsideration therein.

IT IS FURTHER ORDERED that Applicant's interim rates shall remain in effect until final disposition of Docket C-627 or until further order of the Commission.

IT IS FURTHER ORDERED that Applicant shall submit for approval tariffs which incorporate the staff proposals concerning an EAS additive and discontinuing the additional monthly charge for touch tone service.

MADE AND ENTERED at Lincoln, Nebraska this 6th day of January, 1987.

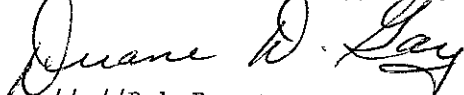
NEBRASKA PUBLIC SERVICE COMMISSION

  
Chairman

ATTEST:

  
Executive Secretary

COMMISSIONER'S CONCURRING



//s//Bob Brayton

//s//James F. Munnelly

//s//Eric Rasmussen

//s//Harold D. Simpson