

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In The Matter of Basic Local)
Exchange Rates of Eastern)
Nebraska Telephone Company)
Blair, Nebraska.)
) Entered: December 8, 1987

APPEARANCES: For Eastern Nebraska Telephone Co.
 John R. O'Hanlon, Attorney
 1569 Washington Street
 Blair, Nebraska

 For the Commission
 Chris Dibbern, Attorney
 300 The Atrium
 1200 N Street
 Lincoln, Nebraska

BY THE COMMISSION:

OPINION AND FINDINGS

Pursuant to the provisions of Section 86-801 et. al. of Nebr. Rev. Stats. on June 25, 1987 Eastern Nebraska Telephone Company, Blair, Nebraska, notified its subscribers that it proposed to increase its basic local exchange rates.

An order was entered on August 18, 1987 acknowledging proper complaints signed by more than five percent of the affected subscribers of Eastern Nebraska Telephone Company and suspending the rate increase during the pendency of this proceeding. The matter was docketed as C-743.

Pursuant to written and published notice, a public hearing was held on the Docket on November 5, 1987 at 9:30 a.m. in the Meadow Grove Fire Hall, Meadow Grove, Nebraska, with appearances as set forth above.

Upon consideration of the matter, the evidence adduced at the hearing and being fully advised, the Commission is of the opinion and finds that:

GENERAL

1. Eastern Nebraska Telephone Company (hereinafter referred to as Eastern) is a corporation existing under the laws of the State of Nebraska with its general operating headquarters at Blair, Nebraska. It is a common carrier furnishing general communications services in Nebraska and is under the jurisdiction of this Commission.

2. Eastern furnishes local basic exchange service in the communities of Belden, Carroll, Macy, Meadow Grove, Osmond, Rosalie, Walthill, and Winnebago all in the State of Nebraska. Approximately 2,425 access lines are served by Eastern.

3. Eastern's current authorized rate of return was approved by the Commission in its order entered December 14, 1970, in Application No. 28466.

4. Eastern alleges the need for rate relief, and that it can no longer afford to operate on rates established in 1970. Costs associated with the day-to-day provisions of telephone service have substantially increased since 1970, while Eastern's share of long distance revenue has diminished the last several years because of changes made by the Federal Communications Commission. Local operating revenue is no longer sufficient to provide the company a fair return on its investment in local telephone plant and equipment used and useful in providing quality local service to its customers. It seeks to increase rates to \$12.95 for residence and \$19.95 for business service which would produce additional annual revenue of \$237,910.

5. For the purpose of determining the "actual cost" of "basic local exchange service", Eastern used a test year ending December 31, 1986, and the Commission staff used the same test year. Both Eastern and staff have used an end-of-period rate base.

COST OF SERVICE

6. Staff's financial exhibits reflect the combined operations of Eastern including interstate and intrastate toll service as well as local service. Eastern objected to evidence of combined operations as being irrelevant and immaterial and alleged that only local service operations should be considered. The objection was noted and the testimony allowed. We find that it is relevant, material and necessary to examine the combined operations of Eastern as a part of determining the cost of basic local exchange service and whether the rates proposed are fair, just and reasonable.

7. Eastern's exhibits and the staff's exhibits reflect a combined rate base as of December 31, 1986 of \$3,031,655. Eastern's witness, Ms. Susan Geyen, a part owner of Teleconsulting Services, which is engaged in providing rate and cost consulting services to independent telephone companies, proposed using a National Exchange Carrier Association (NECA) cost study to determine the rate base attributable to local operations. Her exhibit reflects a local rate base of \$859,481.

8. Michael A. Jacobson, General Manager of Eastern Nebraska Telephone Company, testified and presented exhibits consisting of the Balance Sheet and Income Statement on the combined operations for the Company. As of December 31, 1986, his exhibits reflect net operating income of \$151,398.

9. Ms. Geyen then used a NECA cost study to allocate revenues and expenses between toll and local operations. She alleged that local operations resulted in a net operating loss of \$92,672.

10. Staff exhibits after adjustments reflect net operating income of \$161,649 on a combined basis. A number of adjustments proposed by the staff and the company were not contested. These adjustments include the year-end Federal and State income taxes, revenues to be received from the Universal Service Fund, expense reimbursements made as a result of a road move, and other expenses classified as non-ratepayer, duplicated costs, and out-of-period costs. Also included in the adjustments were increased expenses due to the phase-down of the interstate subscriber plant factor and reduced revenues due to the intrastate access charge residual rate. We agree with this staff proposal.

11. Eastern's only objection was to the staff adjustment reflecting an increase in the amount of intrastate access charge revenue the Company will receive. The staff used 6 months of 1987 actual results, annualized these results, compared them to the booked amount, and proposed an adjustment reflecting \$57,159 in increased access charges. Ms. Geyen, testifying for Eastern, presented rebuttal testimony alleging that the interstate access revenue proposed in the staff exhibit is based on a rate of return of 12.75%. Since the Company is now allowed only a 12% return on interstate toll, an adjustment should be made to reflect the new rate of return and the new income tax rates on interstate toll. The resulting adjustment would reduce interstate toll revenue by \$38,482. We find the staff adjustment to intrastate access charges reasonable. However, we feel that the staff proposal for interstate toll should be adjusted to reflect the \$38,482 reduction due to the lower interstate toll rate of return and income tax effects.

12. Eastern testified that an actual cost for providing "basic local exchange service" was not resolved. Geyen testified for Eastern that the local portion of the operation which was used to determine the actual cost of service was actually local and other costs. Breaking down the "actual cost of basic local exchange service" was not feasible.

13. The Commission in a separate docket, C-738, has established Uniform procedures to detariff Customer Premise Equipment for all telephone companies in Nebraska.

14. Late filed Exhibit No. 9 indicates that the economic value of Eastern's embedded customer premise equipment is \$5,798. The company requests that this amount be amortized over 5 years as an extraordinary retirement. We agree with this proposal and find that \$1,160 should be credited to the extraordinary retirement account to reflect the first year of this plan.

15. We find that, based on the adjustments set forth above, Eastern's net operating income on a combined basis for the 1986 test year was \$138,552 and on the local operations a net loss of \$88,253.

COST OF CAPITAL

16. Eastern's Witnesses, Jacobson and Geyen, testified that the rates proposed are necessary to allow Eastern to earn 7.66% previously authorized in the Commission's 1970 order. Ms. Geyen further testified that the rate of return of 7.66% was applied to the "local and other" portion of the company.

17. Staff witness, John S. Burvainis, testified that to be consistent with the 1970 order authorized by the Commission the 7.66% rate of return should be applied on a combined basis. He testified that the revenues requested would allow Eastern to be earning 10.6% on a combined rate base.

18. Eastern's Witness, Geyen, while on direct testified that she was qualified as a rate of return analyst and therefore qualified to give an expert opinion as to rate of return. It was apparent on cross examination of this witness that although Geyen was qualified in the areas of separation studies and cost allocation factors, no prerequisite research was performed in the areas of cost of capital, risk analysis and comparative analysis. No educational specialization in rate of return analysis was manifested.

19. Exhibit No. 23 sponsored by Ms. Geyen sets forth Eastern's cost of capital. Long term debt represents 48% of total capital and carries a composite interest rate of 2.19%. Ms. Geyen has used 12.5% as the cost of equity capital, explaining that this rate came from the company management. She further acknowledged that the cost of capital would be the same on a combined basis or on a local basis.

20. Having considered all the evidence we find that the appropriate cost of capital or cost of money to be used in establishing the cost of basic local exchange service is 2.3%, giving consideration to the cost of debt capital and the relative low risk for equity capital. We further find that while it is appropriate to consider the overall cost of capital, it is also appropriate that the cost apply to basic local exchange service in order to avoid cross-subsidy.

SERVICE

21. Testimony was presented by Commission Engineer M. Gene Hand on the results of central office service tests conducted in Eastern exchanges. The percentage of test calls that completed properly from the selected central offices met the staff objectives in all categories.

22. Subscribers testified they were satisfied with the quality of service provided by Eastern.

23. Staff witness Hand testified and the company agreed that a program should be implemented which will assure that each office is routined twice each year using a call through test set capable of variable speed, leak and loop conditions. The Commission feels this recommendation is appropriate.

REVENUE REQUIREMENT AND RATE DESIGN

24. Mr. Hand proposed that Eastern be required to have an EAS adder and the additive should recover the EAS costs and appear on the bill unbundled from the access line rate. The EAS additive proposed was \$1.70 for business subscribers and \$.95 for residence subscribers and would only apply to the Meadow Grove subscriber.

25. Mr. Hand testified that technology has developed to the point where every access line should be equipped to process calls placed by either a touch tone or rotary dial instrument at no additional cost to the ratepayer. The staff proposal includes discontinuing the separate charge for touch tone service; thereby including this service as part of the basic access line for all Eastern Nebraska subscribers.

26. Eastern's Witness, Jacobson estimated that the cost of upgrading all of the exchanges to allow for touch tone was approximately \$15,000.

27. We adopt the proposed EAS adder for the Meadow Grove exchange at \$.85 for residence and \$1.70 for business and find that touch tone be included in the basic local exchange rate only at the digital exchanges of Macy, Rosalie, Walthill and Winnebago and that a separate charge continue to apply at the remaining exchanges until conversion of said offices to digital service.

28. Based on the preceding adjustments, we find the net operating loss for the test year to be \$88,253, and the adjusted rate base to be \$859,481. Using a cost of capital of 2.3%, the company should be allowed to increase rates by \$174,551.

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29. Mr. Hand's Exhibit No. 19 was designed to permit Eastern to recover an additional \$114,043 annually. We find the annual increase in rates should be \$174,551. Based on the September 1987 subscriber counts on Mr. Hand's exhibit we find the rates necessary to generate this amount are:

Residential	R-1,	\$10.95
Business	B-1	16.95
Rotary line charge		6.50

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Docket C-743 be and it is hereby granted in part and the Eastern Nebraska Telephone Company be and it is hereby authorized to charge and collect the rates for basic local exchange service set forth in paragraph 29 of the Opinion and Findings herein, effective on the first billing date following the date of this order.

IT IS FURTHER ORDERED that Eastern submit new rate lists in compliance with this order.

MADE AND ENTERED at Lincoln, Nebraska, this 8th day of December, 1987.

NEBRASKA PUBLIC SERVICE COMMISSION

Eric Rasmussen
Chairman

ATTEST:

COMMISSIONERS CONCURRING:

Juane D. Gay

//s//James F. Munnelly
//s//Eric Rasmussen
//s//Harold D. Simpson
//s//Daniel G. Urwiller

[Signature]
Executive Secretary