BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

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| In the Matter of the Application of Cambridge Telephone Company, Cambridge, Nebraska, for authority to revise rates and charges for Local Exchange Service and for approval of Depreciation Rates | Application No. C-783<br><br>GRANTED IN PART<br><br>Entered: January 16, 1990 |

APPEARANCES: For the applicant
Eric B. Eisenhart, Attorney
Box 250
Cambridge, Nebraska

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

BY THE COMMISSION:

By its application filed October 2, 1989, the Cambridge Telephone Company, Cambridge, Nebraska, seeks authority to revise rates and charges for Local Exchange Service and for approval of Depreciation Rates.

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 subscriber letters and petitions of protest were received.

Pursuant to notice required by law, public hearing was held on the application on November 29, 1989 in the Cambridge High School Auditorium, Cambridge, Nebraska with appearances as shown.

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 Cambridge, 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 Cambridge and Bartley, Nebraska.

2. Applicant alleges that its existing rates are not adequate to provide a reasonable rate of return on its plant in service and proposes to increase rates as follows:

| | Present Rate | Proposed Rate |
|---|---|---|
| Business one party | $7.50 | $17.00 |
| Residence one party | 5.25 | 14.00 |

3. Applicant also seeks approval of the following depreciation rates:

| Plant Classification | Rate |
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| Motor vehicles | 14.0% |
| Other work equipment | 8.0% |
| Buildings | 4.5% |
| Office equipment | 10.0% |
| Company communications equipment | 8.0% |
| Central office equipment: | |
| Switching | 7.0% |
| Transmission | 12.5% |
| Buried cable: | |
| Exchange | 4.5% |
| Toll | 6.0% |
| Conduit | 3.0% |

4. J. Richard Shoemaker, Manager and Director of applicant testified. Cambridge Telephone Company has placed in service on September 19, 1989 a new digital switching facility with a host switch located at Cambridge and a remote located at Bartley interconnected with fiber optic cable. The cost of the upgrade will be less than originally estimated; $2.7 million instead of $3.2 million. Applicant's proposed rates will include touch calling features without an additional charge. He indicated that the proposed increases are 126% for business and 166% for residence while inflation has increased 149.58% since 1962 when the present rates were established. Even though the company has not increased its rates since 1962 it has earned profits and paid dividends. On cross-examination he responded that the company would continue to repair customer premise equipment and sell telephones.

5. Dean Erickson, partner in a CPA firm testified concerning the financial condition of the applicant. He has not worked for applicant before being engaged for this proceeding. Mr. Erickson's Exhibit No. 3 indicates a pro forma plant balance of $3,000,830 as of December 31, 1988 after adjustments for the new plant construction, retirements and reclassification of customer premise equipment. The depreciation reserve as adjusted would be $361,658. The increased rates proposed would produce additional annual revenue of $120,828. Pro forma operating income after adjustments would be $254,815. Among the adjustments to the income statement are the following: an increase in access revenue based on a projected cost separation study; a 10% inflationary increase in expenses; an increase in the maintenance expense to reflect that maintenance time will in

the future be spent on regulated activities instead of repairing customer premise equipment; and a $20,000 increase for the cost separations study for long distance access. For purposes of determining access revenue, Mr. Erickson has used estimates supplied by Mr. Larry Brennan who will perform the cost separations study. Mr. Brennan has estimated that 67% of the plant will be allocated to toll and 33% to local. For operating expenses he has projected that 72% would be toll and 28% local. Mr. Erickson's exhibit indicates that applicant's projected rate of return would be 9.61%. The proposed return on toll would be 11.98% and on local would be 4.79%. In additional testimony Mr. Erickson indicated that plant additions of $131,000 have been made to complete the upgrade subsequent to the preparation of his exhibits which would change the local rate of return to 4.58%.

6. Deanna Campbell testified for the Commission Staff concerning the rate base, operating income and return of the applicant. Her rate base after adjustments is $2,662,853, adjusted operating income $209,421 and earned rate of return 7.86%. She calculated that increased revenue of $79,000 would be required to achieve the 9.61% rate of return requested. Ms. Campbell's rate base differs from that of the applicant in that equipment booked as station apparatus was reclassified to central office equipment which reduced the amount of adjustment required to deregulate customer premise equipment. Her income statement adjustments which differ from that of the applicant include disallowance of $2,674 as nonratepayer expense; annualizing the increase in subscriber line charge; allowing only $10,000 for the ongoing cost of the separations study; increasing nonregulated income $40,000 to recognize the shift of expense to regulated operations; and she did not adjust expenses for inflation.

7. In rebuttal, Mr. Erickson challenged four adjustments made by the staff: First, that the $6,151 subscriber line charge adjustment should not be made since this revenue is paid directly to NECA and does not affect the company's earnings. Second, that nonregulated income should not be increased $40,000 for the reason that the company will not be involved with customer premise equipment in the future and will experience neither revenue or expense. Third, that the expense of the cost separation study should not be reduced to $10,000 since the ongoing cost will be $20,000. Fourth, that the 10% inflation adjustment should be allowed because inflation in 1989 was about 5% and rates are to be set for the future. He also asserted that the return proposed by the staff, when separated to local would not cover the allocated interest expense or would be less than the cost of service.

8. Having heard the evidence concerning the financial results of the applicant, the Commission finds the rate base to be the sum of $2,787,958 including the addition of $131,000 of plant to complete the upgrade. We agree with Mr. Erickson that

no adjustment should be made as a result of the increase in subscriber line charge. We also agree that if the company is not involved with customer premise equipment in the future there will be no nonregulated income or expense. To reflect this, a decrease of $30,781 in nonregulated income is required. While testimony indicates that the company will continue to sell and repair customer premise equipment, any additional revenue or expense is neither known nor measurable. We agree that the expense allowed for the cost separation study should be $20,000. The provisions of the Commission's Rules and Regulations (Chapter 5, Rule 002.29A1) do not allow for adjustments for future inflationary expectations, however access revenues should be decreased by $17,404 to reflect the disallowance of this proposed adjustment. We find operating income to be the sum of $201,702 and the rate of return on 1988 operations as adjusted to be 7.23%.

9. M. Gene Hand, Chief Engineer, testified for the Commission staff. Service tests were performed at the Cambridge and Bartley exchanges on October 11, 1989. No failures were found. Mr. Hand recommended reductions in the proposed depreciation rates for central office transmission from 12.5% to 10.0% and for fiber buried toll cable from 6% to 4% to correspond with the Commission's guideline depreciation rates. He also proposed that extended area service be priced separately to reflect its cost as has been done in several other rate cases, proposing a rate of $1.40 for business and $1.00 for residence for the extended area service between Cambridge and Bartley. Mr. Hand presented a proposed rate schedule to produce additional revenue of $79,000 annually, consisting of a $13.50 business rate and a $9.65 residence rate. With the extended area service rates, the business rate would total $14.90 and the residence rate $10.65. He agreed with the applicant's proposal to include touch calling at no additional charge. He also recommended that the rate for semi-public service be the same as the business rate.

10. Two witnesses from the public testified. Cecil Williams from Bartley, Nebraska was concerned about the effect of the increase on senior citizens and low income residents of the community. Beverly Smith, a Cambridge business subscriber testified in support of the increase and recognized the improvement in service which has occurred since the new digital switching equipment was installed.

11. Applicant has proposed a schedule of rates and charges which would produce additional annual revenue of $120,828 and based upon its original calculations a rate of return of 9.61% on its rate base. Applicant has recognized an additional $131,000 in plant construction which would reduce its rate of return to about 9.5% but has proposed no revision in its proposed rates. The Commission staff has proposed a schedule of rates which would

produce additional annual revenue of $79,000 or an overall rate of return of 8.9% including the $131,000 plant addition. The record contains no additional evidence that a return of 9.61% or 9.5% is more or less reasonable than a return of 8.9%. Applicant has suggested that, after separation of plant, revenues and expenses between toll and local, the staff's proposal would not cover the allocated interest and is therefore unreasonable. A review of applicant's projected allocation between toll and local contained in its Exhibit 3 shows that applicant's proposed increase likewise does not cover the allocated interest expense. This application was filed under the provisions of Chapter 75, articles 1 and 6 of the Nebraska Statutes and the Commission's Rules and Regulations and Section 86-803(4) which provide that the Commission may "prescribe fair and reasonable rates".

12. The rates and charges proposed by the staff establish an appropriate differential between business and residence rates, are fair and reasonable and produce a fair and reasonable rate of return, and the application should be granted in part.

ORDER

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that application No. C-783 be and it is hereby granted in part and the Cambridge Telephone Company be and it is hereby authorized to increase its rates and charges for business one party service to $13.50 and for residence service to $9.65 effective on the first billing date following the date of this order.

IT IS FURTHER ORDERED that applicant establish an EAS adder of $1.40 for business and $1.00 for residence to be shown separately on customer bills.

IT IS FURTHER ORDERED that applicant discontinue the separate charge for touch calling service.

IT IS FURTHER ORDERED that applicant be and it is hereby authorized to use the proposed depreciation rates set forth in Opinion and Findings except that the rate allowed for central office transmission shall be 10% and the rate for toll fiber buried cable shall be 4%.

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MADE AND ENTERED in Lincoln, Nebraska, this 16th day of January, 1990.

NEBRASKA PUBLIC SERVICE COMMISSION

Daniel G. Urwiller

Chairman

COMMISSIONERS CONCURRING:

Duane D. Gay

//s//Frank E. Landis, Jr.
//s//James Munnelly
//s//Eric Rasmussen
//s//Daniel G. Urwiller

ATTEST:

John Burvainis

Acting Executive Director