

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Barbara Beerhalter | Chair |
| Cynthia A. Kitlinski | Commissioner |
| Norma McKanna | Commissioner |
| Robert J. O'Keefe | Commissioner |
| Darrel L. Peterson | Commissioner |

In The Matter Of The Application Of
Northwestern Bell Telephone Company,
Minneapolis, Minnesota For Authority To
Change Its Schedule of Telephone Rates For
Customers Within The State Of Minnesota

ISSUE DATE: December 10, 1987

DOCKET NO. P-421/GR-83-600

ORDER REVISING APRIL 3, 1987 RATE
DESIGN

PROCEDURAL HISTORY

Northwestern Bell Telephone Company (NWB) filed this general rate case on September 29, 1983. On July 27, 1984, The Minnesota Public Utilities Commission (the Commission) issued its Findings of Fact, Conclusions of Law and Order in this matter. On April 2, 1987, the Commission issued its Order After Investigation in Docket No. U-999/CI-86-177 which vacated the Commission's July 27, 1984 Order in this proceeding and directed that this matter be redeliberated to remove any possible improper influence on the decisions in the July 27, 1984 Order and to restore public trust and confidence in regulation.

The Commission issued its Order After Redeliberation on April 3, 1987. The Order treated metropolitan tier rates differently than the Commission's July 27, 1984 Order.

The Suburban Rate Authority (SRA) filed a petition for reconsideration on April 23, 1987. SRA requested that the Commission adopt the metropolitan tier rate design originally adopted in the Commission's 1984 decision rather than the Commission's 1987 metropolitan tier rate decision.

The Commission denied the SRA's and all other petitions for reconsideration in an Order dated June 4, 1987.

On June 15, 1987, NWB filed a request for stay of the 1987 rates. The SRA submitted responsive comments on June 19, 1987 asking the Commission to reconsider the metro tier decision a second time on the Commission's own motion.

The Commission met on June 24, 1987 to consider the stay and the SRA request. The Commission granted a stay of the 1987 rates. At the meeting the Commission determined that the issue of the

metropolitan tier rates should be reviewed. No further Commission action was taken on June 24, 1987. The meeting was recessed until June 26, 1987.

The Commission met on June 26, 1987 with Commissioners Beerhalter, Crump, Kitlinski, and Peterson attending. The Commission was unable to reach a consensus regarding metropolitan tier rates. Chair Beerhalter ruled that the discussion on the issue of the metropolitan tier system was over and that the original 1987 metropolitan tier rate decision would stand.

The Commission stayed all 1987 rates, including the metropolitan tier rates, in an Order dated June 30, 1987. The Order was silent on the issue of reconsidering the metropolitan tier rate design on the Commission's own motion.

The SRA raised the metropolitan tier issue a third time on July 1, 1987 in a motion to reopen and redeliberate the rate case. The Commission took the motion under advisement upon advice of Counsel.

SRA filed an appeal of the Commission's 1987 decisions with the Minnesota Court Of Appeals on September 9, 1987.

Commission Counsel subsequently met with the SRA and NWB regarding the court case. The Commission agreed to decide the metropolitan tier rate issue with all 5 Commissioners present, if possible, as part of an agreement with the SRA to dismiss the appeal.

The Commission met on November 24, 1987 to carry out its agreement with SRA. Oral comments were made by SRA, NWB, the Minnesota Department of Public Service (DPS), and the Residential Utilities Division Of The Attorney General's Office (RUD-AG).

FINDINGS AND CONCLUSIONS

The Issue to be decided is what is the appropriate relative increase to be allocated to each tier in the metropolitan area local exchange service rates.

SRA requested that the Commission reinstate the metropolitan tier rate ratios that were originally adopted in 1984 rather than implement the existing dollar amount differences required by the Commission's 1987 decision. DPS, RUD-AG and NWB indicated they were not opposed to the Commission revisiting the 1987 metropolitan tier rate decision.

The Commission issued its Order After Redeliberation in this proceeding on April 3, 1987. The Order authorized Northwestern Bell Telephone Company (NWB) to increase rates by approximately 42 million dollars. This amount is approximately 12 million dollars less than the 54 million dollar increase authorized in the Commission's July 27, 1984 Order which has been vacated.

In the 1984 decision the Commission increased all metro tier rates eliminating one half of the relative difference between metropolitan tier rates. The resulting rates were placed into effect and are the rates actually seen on customer's bill in 1987. In the 1987 decision, the Commission increased all metropolitan tier rates, but maintained the existing dollar amount of difference between metropolitan tier rates. The 1987 decision reduced the relative difference between metropolitan rates but to a lesser extent than occurred in the 1984 decision.

Because of this difference in rate design, customers in metropolitan tiers III and IV would pay higher rates than the rates that then are presently billed. This result occurs even though the total amount NWB will collect under the 1987 decision is 12 million dollars less than authorized in 1984.

The Commission finds its initial decision requiring that metropolitan tier rates be increased to maintain the existing dollar differences between tiers is sound in principle and should generally be maintained. Parties have shown no persuasive argument or fact to the contrary. However, the Commission also recognizes that along with a principled rate design, it must balance the practicality of continuity of rates and customer acceptance. Under the unique facts of this case, these considerations cause the Commission to temper the results reached by applying the principle.

The Commission finds that the metropolitan tier rate design adopted in the April 3, 1987 Order will result in rate increases for approximately 100,000 customers in metropolitan tiers III and IV. Such a result would not be understood by customers receiving a rate increase at a time when others perceive their rates declining. The Commission notes that this "decline" is illusory because it represents merely the correction of the increases determined after redeliberation. Further, the additional increases would be unlikely to restore confidence in the regulatory process. Therefore, the Commission concludes that its April 3, 1987 metropolitan tier rate design decision should be revised.

NWB has appealed the Commission's April 3, 1987 Order to the Minnesota Court Of Appeals. The Commission has granted a stay of the rates required by the April 3, 1987 Order in conjunction with that appeal. Other revised schedules of rates would be necessary if NWB ultimately prevails on all or part of its appeal. The Commission finds that it would not be in the public interest to require NWB to calculate and submit a revised schedule of rates based on this Order at this time in view of the possibility that a different schedule may ultimately be required by the courts. Therefore, the Commission will order NWB to file a revised schedule of rates Order within 10 days of the final court order in this matter.

ORDER

1. The metropolitan tier rate design required by the Commission's April 3, 1987 Order is reaffirmed, except that it is revised so that no metropolitan tier rate is increased above the level of the rates actually being collected from customers on April 3, 1987.

2. Northwestern Bell Telephone Company shall file a revised schedule of rates based on the April 3, 1987 Order as revised by this Order with the Commission and all parties within 10 days of the final court order in this matter.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)