

P-421/CP-87-506 ORDER ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Petition of Certain Subscribers in the Buffalo Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area	ISSUE DATE: May 22, 1992 DOCKET NO. P-421/CP-87-506 ORDER ADOPTING RATES FOR POLLING
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PROCEDURAL HISTORY

On June 26, 1990, the Commission issued its ORDER AFTER RECONSIDERATION OF JUNE 20, 1989 ORDER IN LIGHT OF MINNESOTA STATUTE § 237.161 (1990) in the consolidated Metro EAS Case, Docket No. P-421, 405, 407, 430, 426, 520, 427/CI-87-76. In its Order, the Commission reviewed 16 pending petitions for Extended Area Service (EAS). Among other things, the Commission found that four exchanges including Buffalo met the adjacency requirement of Minn. Stat. § 237.161 and directed Northwestern Bell Telephone Company (NWB) now U S West Communications, Inc. (USWC), the telephone company providing local service to Buffalo, to file traffic studies that would allow the Commission to determine whether the traffic requirement of the new EAS legislation was satisfied. Minn. Stat. § 237.161 (1990)

On August 10, 1990, Northwestern Bell Telephone Company (NWB) filed its traffic study for the Buffalo exchange.

On September 13, 1990, the Commission found that the traffic study for the Buffalo exchange indicated sufficient traffic between the Buffalo exchange and the metropolitan calling area (MCA) to satisfy the EAS statute's traffic criterion and issued an Order requiring NWB and the telephone companies serving the existing MCA to file cost studies and proposed rates for the proposed EAS between the Buffalo exchange and the MCA.

By December 13, 1990, all the affected telephone companies had filed cost studies and proposed rates.

On February 27, 1991 and again on April 26, 1991, the Commission granted requests from the Minnesota Department of Public Service

(the Department) for additional time to comment on the companies' cost studies and proposed rates.

On May 13, 1991, the Department filed its report and recommendation regarding the companies' cost studies and proposed rates. The Department recommended that the Commission 1) direct the companies to file amended cost studies that assume a zero percent gross receipts tax and use actual traffic data from the last 12 month period; 2) extend the "true-up" mechanism approved in earlier EAS dockets to include the Buffalo exchange; 3) order United Telephone Company (United) to use the intercompany cost apportionment mechanism based on the new traffic study based on 12 months of actual data; and 4) order USWC to apportion some of the EAS revenue requirement to OLMS customers using a specified formula.

On July 31, 1991, the Commission issued its ORDER REQUIRING REFILED COST STUDIES. The Commission ordered U S West Communications, Inc. (USWC), the company serving the petitioning Buffalo exchange and the telephone companies serving the exchanges comprising the petitioned MCA to refile cost studies. The Commission further directed USWC to file proposed rates for the Buffalo exchange. The Commission directed the Department to file its report and recommendation regarding the companies' filings within 45 days after they were made.

By December 2, 1991, the companies had made all the required filings.

On February 5, 1992, the Department filed its report and recommendations regarding the Buffalo filings. The Department recommended that the Commission accept the cost studies of all the companies except USWC. The Department stated that USWC had used outdated material in support of its cost of money estimate. The Department recommended that the Commission require USWC to revise its cost study using the lower return on equity and cost of debt estimates recommended by the Department.

On February 25, 1991, USWC filed a response to the Department's report and recommendation. USWC stated that it had revised its cost of money factor to be used in cost studies and would refile its Buffalo cost study within 30 days.

On March 23, 1992, USWC filed its revised Buffalo cost study and proposed rates for EAS between Buffalo and the MCA.

On April 2, 1992, the Department filed comments in response to USWC's revised cost study and proposed rates.

On May 5, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

At dispute in this docket is the cost of money factor that the Commission will use in calculating EAS rates for the proposed EAS routes between the Buffalo exchange and the metropolitan calling area (MCA). In its revised filing dated March 23, 1991, USWC proposed using a 13.4 percent return on equity and an 8.5 percent cost of debt for a composite cost of money of 11.5 percent. The Department recommended using a return on equity of 11.5 percent and a 9.0 percent cost of debt.

The Commission agrees with the Department that USWC's initial figures for return on equity and cost of debt were based on outdated material. In fact, USWC's figures were based on pre-recession data. However, USWC has now revised its return on equity and cost of debt based on current data and the Department has not pointed to any flaw in USWC's revised figures, nor has it submitted any analysis to indicate the superiority of its recommended figures.

In these circumstances, the Commission finds that USWC's return on equity figure is adequate for the limited purpose it plays in this case. The Commission will adopt EAS rates for polling calculated using that figure.

In the parties' filed comments, there was some lack of clarity regarding the implications of such a Commission finding. Therefore, the Commission will clarify what it is and is not deciding in this Order. The Commission is simply finding that USWC's proposed return on equity figure is adequate in the context of a determination of EAS rates for polling. Because of the unique circumstances and goal of EAS rate setting, the Commission's finding here is not precedent for the company's return on equity in its next rate case. In the context of a general rate case, the Commission will approve a rate of return that is appropriate based on the facts presented at that time.

ORDER

1. The extended area service (EAS) rates for the petitioning Buffalo exchange, as proposed by U S West Communications, Inc. (USWC) in its revised March 23, 1992 filing, are hereby adopted for polling.
2. U S West Communications, Inc. (USWC) shall cooperate fully with Commission Staff and Commission contractors to expedite the polling of Buffalo subscribers. As part of this cooperation, USWC shall provide Commission Staff upon

request with a customer list for the Buffalo exchange and associated information in a timely fashion.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)