

P-430, 421/CP-91-35 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 a Petition for  
Extended Area Service From  
Plainview to Rochester

ISSUE DATE: AUGUST 25, 1992

DOCKET NO. P-430, 421/CP-91-35

ORDER ADOPTING RATES FOR POLLING

**PROCEDURAL HISTORY**

On January 3, 1992, the Commission issued its ORDER REQUIRING TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES in this matter.

On March 19, 1992, U S West Communications, Inc. (USWC) and United Telephone Company (United) filed their cost studies and proposed rates.

On May 4, 1992, the Minnesota Department of Public Service (the Department) filed its report and recommendations regarding the companies' cost studies and proposed rates.

On May 26, 1992, USWC filed its response to the Department's report.

On August 20, 1992, the Commission met to consider this matter.

**FINDINGS AND CONCLUSIONS**

The Commission has previously found that the Plainview petition meets the initial statutory criteria: adjacency<sup>1</sup> and adequate traffic<sup>2</sup>. Minn. Stat. § 237.161, subd. 1 (1990). The Commission will now proceed to determine whether the petition meets the

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<sup>1</sup> ORDER REQUIRING FURTHER TRAFFIC STUDY (June 11, 1991).

<sup>2</sup> ORDER REQUIRING TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES (January 3, 1992) at page 2.

final criterion: adequate subscriber support. Before polling Plainview subscribers, however, the Commission will adopt EAS rates to appear on the ballots to inform subscribers regarding the rates that they will experience if EAS is approved.

The Department has raised two issues regarding the proposed rates that this Order will address: cost of money and revenue apportionment.

#### Cost of Money

The Department asserted that the return on equity (ROE) figure used by USWC in its cost study is too high. The Department urged the Commission to require USWC to refile its cost study using a lower ROE proposed by the Department or simply adopt rates using the Department's ROE. The Department predicted that adopting rates based on USWC's ROE would not leave the Company income neutral as required by the statute, but would increase the Company's income from these routes.

These are the same arguments that the Commission considered and rejected when it adopted EAS rates for North Branch, Cambridge, and Buffalo. See, e.g. In the Matter of the Petition of Certain Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/CP-86-272, ORDER ADOPTING RATES FOR POLLING (May 22, 1992). Subsequently, the Commission considered and rejected the Department's request, based on the same arguments, that the Commission reconsider its decision in those three dockets. See, e.g. In the Matter of the Petition of Certain Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/CP-86-272, ORDER DENYING PETITION FOR RECONSIDERATION AND REHEARING (August 18, 1992).

In rejecting the Department's recommendation on this point in this case, the Commission incorporates the rationale presented in the North Branch, Cambridge, and Buffalo Orders. The ROE used by USWC is within the bounds of reasonableness. Moreover, the Commission notes that in this case the Department's proposed ROE would only alter the rates by a penny or two at the most. In fact, the R1 rate in the Rochester or Plainview exchanges using the Department's proposal would remain the same.

At the same time, the Commission will clarify that in approving EAS rates based on a cost study that includes a particular ROE figure it is simply finding that this particular return on equity figure is adequate in the context of determining 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.

#### Allocation of EAS Costs

With regard to apportioning EAS costs between the petitioning and petitioned exchanges, the EAS statute divides EAS petitions into two groups: petitions for EAS to the metropolitan calling area and all other EAS petitions. For petitions to the metropolitan calling area (MCA) the statute mandates that the petitioning exchange rates defray 75% of the costs of providing EAS. For other petitions, however, the statute leaves to the sound discretion of the Commission what percentage (between 50 and 75%) of EAS costs the petitioning exchange will be required to defray in its rates.

Minn. Stat. § 237.161, subd. 3 (a) (1990) states in pertinent part:

When the proposed extended service area is not the metropolitan calling area, the commission shall determine the apportionment of costs, provided that between 50 and 75 of the costs must be allocated to the petitioning exchange.

The Department argued that because the EAS implementation process allows Plainview subscribers to vote whether EAS will be installed but denies the same opportunity to subscribers in the petitioned local calling area, it is fair that Plainview subscribers defray the maximum statutory amount of EAS costs, i.e. 75% of those costs.

The Commission does not find this consideration dispositive.<sup>3</sup> The legislature did not establish a link between voting and payment of 75% of the costs. According to the statutory process, subscribers in the petitioning exchange are always the only subscribers polled. Since the legislature clearly stated that rates for non-metro petitions could be set between 50 and 75 percent, it is clear that the legislature intended other factors to control the percentage of costs to be allocated to the petitioning exchange.

In making the allocation determination, the Commission considers the interests of all parties to determine a fair and equitable rate, as required by Minn. Stat. § 237.161, subd. 3 (b) (1990).

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<sup>3</sup> For a similar discussion and analysis of this issue see: In the Matter of a Petition for Extended Area Service From the Loman Exchange to the International Falls, Ericsburg, and Ranier Exchanges, Docket No. P-407/CP-90-547, ORDER ADOPTING RATES FOR POLLING (March 25, 1992).

In so doing, the Commission considers such factors as the comparative benefits that installation of EAS will bring to the exchanges in question, the comparative burden borne by the exchanges under various apportionment plans. As noted in previous Orders considering this question, the benefits to be derived from the proposed EAS are not totally one-sided. After all, toll free calling from Plainview to Rochester would not simply benefit the calling party in Plainview. It would also benefit the Rochester recipients of those calls. Further, analysis of the benefit must take into account not only the number of calls currently placed between the petitioning exchange and Rochester, but must also consider the value to Rochester of the additional calls from the petitioning exchange that EAS will stimulate. Finally, it is likely that the proposed EAS will also stimulate additional calling from the petitioned exchange to the petitioning exchanges.

In this case, the subscriber base of the petitioning exchange is significantly smaller than that of the petitioned Rochester exchange. As a consequence, the impact of EAS costs on Plainfield subscribers will be much greater than on Rochester subscribers. In light of this disparate impact and the comparative value of the service to the two exchanges, the Commission finds that a 60/40 allocation of EAS expenses between the petitioning and petitioned exchanges is appropriate and will result in fair and reasonable rates.

#### Commission Action

The Commission will adopt rates for polling consistent with its decisions to use USWC's ROE figure in calculating rates and that allocate 60 percent of the costs of providing EAS service between Plainview and Rochester to Plainview.

The Commission will now proceed to poll the Plainview subscribers to see if a majority of those responding to the poll support the installation of EAS between Plainview and Rochester. The EAS rates adopted for Plainview will appear on the ballots distributed to Plainview subscribers.

#### ORDER

1. The Commission hereby adopts EAS rate additives for the EAS route proposed between Plainview and Rochester. The rates adopted are as follows:

PLAINVIEW

ROCHESTER

<u>Class of Service</u>	<u>Rates</u>	<u>Class of Service</u>	<u>Rates</u>
R1	\$ 6.23	1FR	\$ .17
R2	\$ 5.73	1FR Key	\$ .18
R4	\$ 5.05	2FR	\$ .13
B1	\$12.46	1FB	\$ .42
B4	\$ 9.97	1FB Key	\$ .45
Semi Pub	\$12.46	Semi Pub	\$ .42
Trunk	\$15.64	Trunk	\$ .49
School	\$ 9.35		

2. United shall cooperate fully with Commission Staff and Commission contractors to expedite the polling of Plainview subscribers. As part of this cooperation, United shall provide Commission Staff upon request with a customer list for the Plainview 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)