

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 Proposal to
Introduce Optional Extended Area
Service Between Three Exchanges
on a Trial Basis

ISSUE DATE: December 14, 1992

DOCKET NO. P-425/M-91-268

ORDER EXTENDING TRIAL OF
OPTIONAL EXTENDED AREA SERVICE

PROCEDURAL HISTORY

On October 8, 1991, the Commission issued an Order approving Runestone telephone association's petition to introduce optional extended area service (OEAS) on a trial basis for an 18 month period starting June 1, 1991. The Order authorized Runestone Telephone Association (Runestone or the Company) to offer its Elbow Lake, Barret, and Wendell subscribers OEAS between those exchanges or a flat monthly rate.

On July 1, 1992, Runestone filed its 12-month status report.

On October 6, 1992, the Minnesota Department of Public Service (the Department) filed its 15-month preliminary report.

On December 8, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

Runestone's Request

In its 12-month report, Runestone stated that a survey of its OEAS customers indicated strong customer support for the service by those who receive it. Customers that had chosen OEAS listed community of interest concerns as their main reasons for choosing the service. Runestone requested a two-year extension of OEAS. The Company explained that the extension would allow continued service to the customers currently receiving OEAS while the

Company determined how best to offer OEAS to its other exchanges. Runestone noted that it may upgrade its switch to SS7 which would make it easier to offer OEAS to all its exchanges.

The Department's Recommendation

The Department reported that the trial has been valuable and recommended that it be extended as requested by Runestone. The Department noted, however, that the rate at which customers in the three affected exchanges chose OEAS was lower than anticipated, resulting in a considerably smaller reduction in the Company's access revenue than anticipated.

Commission Deliberation

In evaluating the appropriate course at this point, it is important to recall the context in which Runestone originally proposed to provide OEAS. Runestone had been experiencing a consistently high rate of return on equity over the past several years, e.g., 29.16 percent in 1991 according to Department estimates. One way to reduce that rate of return while increasing the value of service to its customers was to offer OEAS. The low level of customers switching to OEAS has frustrated that strategy and raises concern about the ability of that strategy to achieve its goal. Aside from this goal, however, the offering of OEAS unquestionably increases the service options available to Runestone's customers. This increase in customer choice serves the public interest.

In its report, the Department suggested one reason for the low number of customers subscribing to OEAS may be the low level of customer awareness of the availability of OEAS. Another may be that as currently priced (a flat \$7.00 monthly rate per line for both residential and business subscribers) and current usage rates, OEAS may not be attractive to a majority of Runestone's customers.

Commission Action

The Commission will extend the trial offering of OEAS in the three listed exchanges until December 31, 1994. However, Runestone will be required to report usage, cost, and revenue data every six months during the trial. To increase customer awareness of OEAS, the Commission will direct Runestone to provide information to its customers regarding the benefits and availability of OEAS at least every six months. Runestone will be required to seek Commission approval before expanding OEAS to any of its other exchanges and before making any pricing changes during the trial period. To track the effect of offering OEAS on the Company's earnings, the Company will be required to continue to exclude the losses from OEAS from future earnings

investigations in order to isolate the OEAS effect from the long-term view of Runestone's financial condition.

ORDER

1. Runestone Telephone Association (Runestone or the Company) is authorized and directed to extend the trial offering of Optional Extended Area Service (OEAS) to subscribers in its Elbow Lake, Barret, and Wendell until December 31, 1994.
2. Runestone shall continue to report usage, cost, and revenue data every six months during the trial.
3. Runestone shall provide its customers information regarding the benefits and availability of OEAS at least every six months.
4. Runestone shall not implement price changes in OEAS without seeking and obtaining Commission approval.
5. Runestone shall continue to exclude the losses from OEAS from future earnings investigations in order to isolate the OEAS effect from the long-term view of Runestone's financial condition.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)