

P-405/GR-93-2 ORDER SETTING INTERIM RATES

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 Application of Vista Telephone Company of Minnesota for Authority to Increase its Rates for Telephone Service in the State of Minnesota	ISSUE DATE: April 28, 1993 DOCKET NO. P-405/GR-93-2 ORDER SETTING INTERIM RATES
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PROCEDURAL HISTORY

I. Proceedings to Date

On March 1, 1993 Vista Telephone Company of Minnesota filed a petition seeking a general rate increase of \$6,463,057 or 18%, effective April 30, 1993. On April 8, 1993 the Commission issued Orders accepting the filing as of March 29, 1993, suspending the proposed rates, and referring the case to the Office of Administrative Hearings for contested case proceedings.

Under Minn. Stat. § 237.075, subd. 3 (1992), the Commission is required to order an interim rate schedule into effect within 60 days, unless the Commission allows the proposed rates to go into effect. The Company included a proposed interim rate schedule in its filing. On April 20, 1993 the Commission met to set interim rates for the duration of the rate case proceeding.

FINDINGS AND CONCLUSIONS

II. Statutory Requirements

Under Minn. Stat. § 237.075, subd. 3 (1992), interim rates are established in expedited proceedings conducted ex parte. Except under exigent circumstances, the following principles control.

Interim rates are based on proposed test year cost of capital, proposed test year rate base, and proposed test year expenses. They are calculated using existing rate design and the rate of return on common equity authorized in the company's last general

rate case. Only rate base and expense items similar in nature and kind to those allowed under the Company's last general rate case Order can be included in interim rate calculations. Finally, if the company has not had a general rate adjustment in the past three years, the Commission is to base its interim rate schedule on its most recent determination concerning a similar company.

III. The Company's Proposal

The Company proposed an interim rate increase of \$5,140,216, or 14.3%, to be collected by a 17% increase in rates for all telephone services except the following: 911, fire bar, company-owned coin-operated service, customer-owned coin-operated service, operator service charges, directory assistance, and Centrex services provided under contract.

The Company based interim rates on a test year rate base of \$67,582,131, its current capital structure, and a return on equity of 12.3%.

The Company also filed a proposed customer interim rates notice and a proposed notice to interexchange carriers of interim increases in access charges.

IV. Commission Action

The Commission has reviewed the Company's interim rates proposal and finds that it generally complies with the requirements of Minn. Stat. § 237.075, subd. 3 (1992). Individual issues are addressed below.

A. Rate Base

Interim rates are based on a test year rate base of \$67,582,131, up from \$33,952,526 in the Company's last general rate case. Rate base growth is due to new plant installed to serve new subscribers, an upgrade of the Company's Burnsville switch, the development of a data base for accounting and information service systems, and a reduction in accumulated deferred income taxes. The increase has been adequately documented, and its component parts are the same in nature and kind as the component parts of the rate base approved in the Company's last rate case. The Commission approves the rate base on which the Company based its interim rates calculations.

B. Expenses and Revenues

The Company's income statement shows substantial increases in revenues and expenses since its 1983 rate case. These increases are due mainly to increased numbers of subscribers, although inflation has contributed, too. The Commission finds that expenses and revenues are adequately documented and that claimed expenses are the same in nature and kind as those allowed in the last rate case. The Commission approves the expense and revenue calculations on which the Company based its interim rates proposal.

C. Capital Structure and Rate of Return

The Company proposed to use its actual capital structure as of February 28, 1993, which is 40% long term debt and 60% equity, in calculating interim rates. This capital structure differs significantly from the one in place at the time of its last rate case. It is nearly identical, however, to the capital structure approved in the most recent general rate determination for a similar company, which the statute directs the Commission to consider. (That Company is Contel of Minnesota, Inc. (Contel), whose rates were reduced in 1991 after an earnings investigation.¹) The Commission approves the Company's proposal to base interim rates on its actual capital structure.

The Company proposed to base interim rates on an authorized return on common equity of 12.3%, the same return on equity authorized for Contel. (Clearly, the return on equity authorized in the Company's last rate case provides little guidance in setting a rate of return nearly ten years later.) The Commission agrees that interim rates should be based on the 12.3% return on equity authorized in the most recent rate proceeding involving a similar company.

D. Rate Design

The Company proposed to calculate interim rates by applying a uniform percentage increase to all rates in its rate schedules, with specified exceptions. The uniform percentage increase complies with the statutory requirement that interim rate schedules make no change in existing rate design. Minn. Stat. § 237.075, subd. 3 (1992). The collection method is approved. The exceptions, too, are approved and are addressed below.

¹ In the Matter of a Joint Petition by the Department of Public Service and the Office of the Attorney General for a Commission Investigation of the Level of Rates Charged by Contel of Minnesota, Inc., Docket No. P-407/C-90-906, ORDER ACCEPTING OFFER OF SETTLEMENT AND STIPULATION (February 13, 1991).

1. Centrex and Billing and Collection Services

The interim rates statute exempts from interim rate increases "products and services offered by non-regulated competitors." Minn. Stat. § 237.075, subd. 3 (1992). Two of the services the Company proposes to exempt, Centrex and billing and collection, are classified by statute as competitive services. Minn. Stat. § 237.59, subd. 1 (3) and (5). They are therefore properly excluded from the interim rates schedule.

2. 911 and Fire Bar Service

The Company proposed to exempt 911 and fire bar service from interim rate increases to avoid forcing local governments to increase their emergency services budgets on such short notice. The Commission agrees that this constitutes an exigent circumstance justifying an exemption under Minn. Stat. § 237.075, subd. 3 (1992).

3. Public Telephone Service

The Company proposed no final rate increase for company-owned pay telephone service and proposed to exempt that service from any interim rate increase. The Company argued it would be confusing to introduce a new pay phone rate just for the interim period, it would be expensive to adapt its pay phone equipment for a different rate, and it would be impossible to refund any overcollection to customers who made calls from pay phones. The Commission agrees that exigent circumstances justify exempting company-owned pay telephone service from interim rates.

4. Customer-Owned Coin-Operated Telephone Service

The Company proposed no interim increase in rates for customer-owned coin-operated telephone service. (For final rates it proposed a decrease.) The Company argued it would be anti-competitive and inequitable to increase its rates to competitors while holding rates for its own pay phone service steady. The Commission agrees and finds that exigent circumstances justify exempting customer-owned coin-operated telephone service from any interim rate increase.

5. Operator Services and Directory Assistance

The Company proposed no final rate increase for operator services and directory assistance. It proposed exempting these services from interim increases because it would be impossible to refund any overcharges to customers using the services during the interim period. The Commission agrees that this inability to refund is an exigent circumstance justifying an exemption from interim rate increases.

6. Miscellaneous Services and Revenues

The Company proposed no interim increase in rates and charges for activities that are not traditionally considered telephone service, such as directory advertising, rent, and late payment charges. The Commission agrees that such rates and charges are properly excluded from interim rate schedules.

E. Action Authorized

Based on the findings and conclusions discussed above, the Commission authorizes an overall rate of return for interim rates of 10.47% and a return on equity of 12.3%, calculated as follows:

<u>TYPE OF CAPITAL</u>	<u>RATIO</u>	<u>COST</u>	<u>WEIGHTED COST</u>
Short Term Debt	0.00%	0.00%	0.00%
Long Term Debt	40.00%	7.73%	3.09%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	<u>60.00%</u>	12.30%	<u>7.38%</u>
TOTAL	<u>100.00%</u>		<u>10.47%</u>

Based on the findings and conclusions discussed above, the Commission finds that the appropriate interim revenue deficiency is \$5,140,216 as shown below.

Rate of Return	10.47%
Income Deficiency	\$3,054,812
Revenue Conversion Factor	1.682662
Revenue Deficiency	\$5,140,216

Accordingly, the Commission will authorize an interim rate increase of \$5,140,216, to be collected for service rendered on or after April 30, 1993. Interim rates are collected subject to refund in the event the interim rate level exceeds the final rate level allowed in the general rate case. Minn. Stat. § 237.075, subd. 3 (1992).

F. Notices to Customers and Interexchange Carriers

The Commission has examined the Company's proposed customer notices and notices to interexchange carriers of the rate changes approved herein. Those notices are accurate and clear and are approved.

ORDER

1. Vista Telephone Company of Minnesota is hereby authorized to collect \$5,140,216 in additional annual revenues as interim rates, consistent with the terms of its interim rates filing and this Order, beginning with bills for service rendered on and after April 30, 1993.
2. Within seven days of the date of this Order, the Company shall file with the Commission and the Department of Public Service interim tariff sheets and supporting documentation reflecting the decisions herein.
3. The Company shall keep such records of sales and collections under interim rates as will be necessary to compute a potential refund. Any refund shall be made within 120 days of the effective date of the Commission's final Order in a manner approved by the Commission.
4. The Company shall provide notice of the rate changes approved in this Order with the first billing under its interim rate schedule.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)