

P-3007/GR-93-1 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 Petition of Minnesota Independent Equal Access Corporation for Authority to Increase Its Rates for Telephone Service in the State of Minnesota	ISSUE DATE: May 20, 1993
	DOCKET NO. P-3007/GR-93-1
	ORDER SETTING INTERIM RATES

**PROCEDURAL HISTORY**

On March 22, 1993, the Minnesota Independent Equal Access Corporation (MIEAC or the Company) filed a petition seeking a general rate increase of \$833,923, or 25.8 percent, effective May 21, 1993.

As part of its filing, the Company proposed an interim rate schedule to be effective May 21, 1993, in the event that the Commission suspended its proposed final rate schedules.

On May 11, 1993, the Commission issued its ORDER ACCEPTING FILING AND SUSPENDING RATES. On the same date the Commission met to consider MIEAC's proposed interim rates.

**FINDINGS AND CONCLUSIONS**

**I. The Company Proposal**

MIEAC requested that its interim rate schedules go into effect as interim rates on May 21, 1993. The Company sought the same rate increase in its interim rates request as it sought in final rates. The Company's request was based on the following financial summary:

Rate Base	\$9,998,955
Rate of Return	8.26%
Required Return	\$ 825,914
Net Operating Income	109,716
Income Deficiency	\$ 716,198
Revenue Conversion Factor	1.679769
	\$1,203,047
Tax Adjustment	(205,454)
Tentative Revenue Deficiency	\$ 997,593

The request, however, was limited by an established rate cap (explained below). The maximum interim increase would therefore be calculated as follows:

Tentative Revenue Deficiency	\$ 997,593
Revenues Under Present Rates	<u>3,035,913</u>
Overall Revenue Requirement	\$4,033,506
Rate Cap Revenue Limit	<u>3,882,720</u>
Unrecoverable Revenue Requirement	\$ 150,786
Tentative Revenue Deficiency	\$ 997,593
Unrecoverable Revenue Requirement	<u>(150,786)</u>
Maximum Allowable Increase	\$ 846,807

## II. The Interim Rate Statute and Previous Rate Determination

Minn. Stat. § 237.075, subd. 3 states in part as follows:

\*\*\*\*\* Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the company equal to that authorized by the Commission in the company's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the Commission in the company's most recent rate proceeding; and (3) no change in the existing rate design, except for products and services offered by nonregulated competitors. In the case of a company which has not been subject to a prior Commission determination or has not had a general rate adjustment in the preceding three years, the Commission shall base the interim rate schedule on its most recent determination concerning a similar company.

In this case, the Company has recently begun operation and has therefore never been before the Commission in a general rate case. The Company has, however, been subject to a prior Commission rate determination in Docket No. P-3007/NA-89-76, In the Matter of the Minnesota Independent Equal Access Corporation's Application for a Certificate of Public Convenience and Necessity. MIEAC received its authority to provide equal access service in that proceeding on January 10, 1991. ORDER GRANTING CERTIFICATE OF AUTHORITY TO PROVIDE EQUAL ACCESS SERVICE. That Order also established an agreed upon "capped rate" of \$.0099 per minute of use during MIEAC's first year of operation, and of \$.0126 in years two through five. MIEAC received approval of its compliance filings and proposed final rates and allowed return on equity on January 21, 1993. ORDER APPROVING COMPLIANCE FILING AND REQUIRING ADDITIONAL FILINGS.

The Orders in Docket No. P-3007/NA-89-76 form a basis for comparison under Minn. Stat. § 237.075, subd. 3. The rate cap established in the January 10, 1991 Order also limits the Company's allowed interim increase, as shown in Section I above.

### III. Commission Analysis

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. The Commission will address the main issues raised in the interim rates proposal in turn.

#### A. Rate Base

In its interim rates filing, MIEAC proposed a rate base of \$9,998,955. The rate base approved in the January 21, 1993 ORDER APPROVING COMPLIANCE FILING AND REQUIRING ADDITIONAL FILINGS (the Compliance Order) was \$9,884,646. The main reason for the difference in the two rate base amounts is the inclusion of Cash Working Capital and Short-term Construction Work in Progress in interim rates calculations. These items were not included in the Company's compliance filings because the P-3007/NA-89-76 docket was not a fully developed general rate case, but rather a certificate proceeding for the approval of MIEAC's operations. The difference in scope in the two proceedings is an exigent circumstance which warrants inclusion of the two items in rate base under Minn. Stat. § 237.075, subd. 3. The Commission will approve the Company's proposed \$9,998,955 interim rate base.

#### B. Operating Income Statement

In its interim rates filing, MIEAC proposed operating expenses of \$3,119,664. Revenues were not calculated for the Company's compliance filings in Docket No. P-3007/NA-89-76 because the Company was starting up operations at the time. Expenses accepted in the Compliance Order were \$3,490,000. The primary expense reductions since the Company's initial certificate proceedings are found in Corporate Operations and in Income Taxes.

The expense items proposed by the Company are adequately documented for the purposes of interim rates and are the same in nature and kind as those approved in the Compliance Order. The Commission will approve the Company's proposed \$3,119,664 operating expenses for interim rates purposes.

#### C. Rate of Return and Cost of Capital

MIEAC proposed the following capital structure and cost rates for interim rates:

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Short-term debt	0.0382%	1.00%	0.0004%
Long-term debt	62.1609%	6.08%	4.1151%
Preferred stock	12.9139%	9.00%	1.1623%
Common equity	<u>24.8871%</u>	12.00%	<u>2.9864%</u>
TOTAL	100.0000%		8.2642%

The 12% cost of equity proposed by MIEAC is the same as that approved in the Compliance Order. The proposed cost of equity thus conforms to the requirements of Minn. Stat. § 237.075, subd. 3.

The capital structure used for interim rates is the Company's proposed test year capital structure. Differences between the proposed capital structure and the capital structure upon which initial rates were based include: exclusion of retained deficits, which are tied to the start up of operations; increases in debt amounts due to periodic loan draws; increased common equity ratio, reflecting the net proceeds of a second offering of common stock.

The Commission approves the Company's proposed cost of equity and capital structure for interim rates purposes.

#### **D. Rate Design**

In its interim rates filing, the Company proposed that its interim rate increase be applied only to rates for FG-B and FG-D centralized equal access, rather than to all Company rates. The Company offered explanations for this change in existing rate design, as required under Minn. Stat. § 237.075, subd. 3.

##### **1. Transport Service**

The Company requested that rates for transport service be exempted from the proposed rate increase pursuant to Minn. Stat. § 237.075, subd. 3:

Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include:...(3) **no change in the existing rate design, except for products and services offered by nonregulated competitors.** (Emphasis added).

The Company explained that there are a wide range of competitive alternatives to MIEAC's transport service offering, including transport offered by the interexchange carriers (IXCs). Although IXCs are not "nonregulated" entities, their ownership and use of transport facilities would not be regulated by the Commission.

##### **2. Non-recurring Charges Associated with FG-B and FG-D**

The Company stated that it is not planning to change these rates in final rates. The Company also stated that it would be unreasonably burdensome to track these charges should a refund later become necessary.

The Company requested that these facts be found exigent circumstances which would justify exclusion of these rates from its proposed rate increase.

### **3. Recording and Rating Service Rates**

MIEAC proposed that these rates be excluded from its interim rate increase. The Company explained that it provides recording and rating services to participating independent local exchange companies (PILECs) on a "wholesale" basis. PILECs in turn bill their IXC customers for the PILECs' billing and collection function. Many PILECs, however, have chosen to obtain the necessary equipment to provide the recording and rating function in their own end offices. Other PILECs who are continuing to obtain the recording and rating service from MIEAC have long term contracts with their IXC customers which would preclude them from passing any part of increased costs to the IXCs.

MIEAC asked that the Commission make a finding of exigent circumstances to justify the exclusion of recording and rating service rates from its interim rate increase.

### **4. SS7 Services and Associated Nonrecurring Charges**

MIEAC stated that SS7 services are new services offered for the first time during the test year. Since there were no rates for these services in existence before the test year, they would not be included in an across the board interim rate increase.

### **5. Miscellaneous Charges**

This rate category consists of a very small amount of revenue associated with a temporary switching arrangement which MIEAC expects to discontinue during the test year. The Company stated that it would be unreasonably burdensome to track these charges if a refund later becomes necessary. The small amount of revenues would have a barely measurable effect on interim revenue requirements.

### **6. Commission Finding**

The Commission is satisfied with the Company's explanations for its exclusion of certain items from its proposed interim rate increase. The Commission finds that the facts presented by the Company constitute exigent circumstances justifying a change in rate design under Minn. Stat. § 237.075, subd. 3.

## **IV. Notice to Counties and Municipalities and Customer Notice of Interim Rate Increase**

The Commission has reviewed the Company's proposed notice to counties and municipalities and customer notice of rate increase. The Commission finds that the proposed wording of the notices should be changed to reflect the procedure that was adopted by the Commission in the May 11, 1993 ORDER ACCEPTING FILING AND SUSPENDING RATES. With this modification, the notice and the Company's proposed methods of providing the notices to customers are appropriate and acceptable.

#### IV. Commission Action

Based on the findings and conclusions discussed above, the Commission approves the Company's proposed rate base, revenues, expenses, capital structure, return on common equity, and interim increase allocation method for interim rate purposes.

The Commission will authorize an interim rate increase of \$833,923, to be collected for service rendered on and after May 21, 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.

#### ORDER

1. Minnesota Independent Equal Access Corporation is authorized to collect \$833,923 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 May 21, 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 rates schedule.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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