

P-421, 407/CP-87-747 ORDER ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
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In the Matter of a Petition for
Extended Area Service From Iron
Trail United Communities

ISSUE DATE: May 25, 1993

DOCKET NO. P-421, 407/CP-87-747

ORDER ADOPTING RATES FOR POLLING

PROCEDURAL HISTORY

On November 10, 1987, Iron Trail United Communities (ITUC) filed petitions requesting Extended Area Service (EAS) between various ITUC communities and six other exchanges for a total of 74 separate EAS routes. The affected exchanges are served by either U S West Communications, Inc. (USWC) or Contel of Minnesota, Inc. (Contel).

On September 20, 1988, the Commission issued its Order outlining 14 EAS routes which merited further study. The Commission directed USWC and Contel to file cost studies and proposed rates for 14 routes.

On February 2, 1989, the Commission issued its ORDER VARYING TIME REQUIREMENTS AND DEFERRING CONSIDERATION OF PETITION AND VARIANCE REQUESTS. The Order delayed further consideration of this petition until after the conclusion of the 1989 legislative session.

On May 4, 1989, the Commission issued its ORDER AFTER RECONSIDERATION, DENYING VARIANCE REQUESTS, AND ESTABLISHING FILING TIMETABLE. This Order concluded that the 1989 legislative session would not produce any guidance on EAS policy issues, and therefore directed USWC and Contel to file cost studies and to propose EAS rates meeting the requirements of Minn. Rules, part 7815.0900, subp. 2 within 90 days.

On August 9, 1989, the Commission issued its ORDER GRANTING TIME EXTENSION, granting USWC and Contel a 30 day time extension to file the cost studies and proposed rates.

On October 19, 1989 and November 3, 1989, the Commission granted the Minnesota Department of Public Service (the Department) time extensions to file comments on the cost studies and proposed rates filed by the companies.

On April 27, 1990, the legislature enacted new legislation regarding EAS, 1990 Minnesota Laws Chapter 513. The part of the new EAS statute that governs the implementation of EAS in non-metropolitan exchanges such as those involved in this docket was codified as Minn. Stat. §237.161 (1990).

On September 18, 1990, the Commission issued its ORDER DENYING PETITIONS, STAYING CONSIDERATION, AND REQUIRING THE FILING OF TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES in this matter (ITUC September 18, 1990 Order). In this Order, the Commission reduced to nine the number of EAS routes that merited further consideration, required additional traffic studies, required USWC and Contel to file cost studies and proposed rates and required the Department to file a report and recommendation on the cost studies and proposed rates.

Between that date and April 26, 1991, Contel and USWC filed cost studies and traffic studies, the Commission granted time extensions to the Department, and the Department made several information requests to Contel and USWC.

On April 26, 1991, the Department filed its report and recommendation.

On May 16, 1991, Contel and USWC filed their response comments.

On July 16, 1991, the Commission granted Contel's petition to be renamed Contel of Minnesota d/b/a GTE Minnesota (GTE).¹

On September 17, 1991, the Commission issued its ORDER REQUIRING REVISED TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES FOR THIRTEEN ROUTES. In this Order, the Commission required USWC and GTE to file cost studies and proposed rates for thirteen proposed EAS routes within 150 days.

In February 1992, USWC and GTE filed the required cost studies and proposed rates but on February 26, 1992, USWC informed the Commission that errors in the cost studies would require 30 days to revise.

On March 13, 1992, the Commission issued an Order granting GTE and USWC additional time to file corrected cost studies. The companies filed their corrected studies on March 23 and 24, 1993 respectively.

On May 26, 1992, the Department filed its report and recommendations on the cost studies and proposed rates. Among other things, the Department recommended that USWC and GTE be required to file revised cost studies and proposed rates that 1) correct USWC's network usage calculations for the Bear River

¹ In this Order, actions taken by the company prior to July 16, 1991 will be attributed to Contel of Minnesota, Inc. (Contel). References to the company after July 16, 1991 will be to Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota).

to Chisholm route and for the Bear River to Chisholm-Hibbing-Buhl local calling area and 2) correct traffic data discrepancies on the Aurora to Virginia local calling area route.

On June 29 and July 2, 1992 respectively, GTE and USWC filed corrections and additions to their cost studies and proposed rates.

In late September 1992, GTE and USWC filed rates based on the 60/40 cost split as requested by Commission Staff.

On May 18, 1993, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In its report, the Department expressed concerns regarding 1) the accuracy of information used by GTE and USWC in their March 1992 cost studies and proposed rates, 2) the appropriate cost of capital for USWC, 3) inclusion of digital switch costs in the Greaney and Bear River exchanges, and 4) appropriate allocation of EAS costs between the various exchanges.

Cost Study Information

Subsequent to the Department's report, GTE and USWC submitted corrected cost study information. The information satisfied the Department's concern and will be accepted by the Commission as the basis for its deliberations in this matter.

Cost of Capital

USWC proposed an 11.5 percent cost of capital for purposes of calculating EAS rates. The Department recommended that the Commission order USWC to refile the cost studies and proposed rates using a lower cost of capital (10.24 percent) calculated using the Department's discounted cash flow (DCF) model.

The Commission will reject the Department's request. The Commission has previously determined in other EAS cases where the Department has made this request that USWC's proposed return on equity (ROE) is reasonable and results in fair and reasonable EAS rates.²

² 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

Ample considerations support the Commission's finding in this case that USWC's proposed cost of capital is acceptable in the context of setting EAS rates and does not result in rates that are outside the range of reasonableness. Among those considerations are the following:

1. The Commission has found and the Department has never disputed that USWC used a reasonable method to calculate its cost of capital. In a previous docket, the Commission found that USWC applied both the discounted cash flow and the capital asset pricing model to three groups of companies, the seven RBOCs, independent telephone companies and comparable risk non-regulated companies. USWC also checked its figure against an estimate of the expected return on the market average of stocks and the risk and return differential between common stocks and bonds. 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, Docket No. P-421/CP-87-506, ORDER DENYING PETITION FOR RECONSIDERATION AND REHEARING (August 18, 1992) at page 3.
2. The cost of money is only one factor among many in an incremental cost study. Other factors are: the stimulation factor used to calculate the amount of additional facilities required by EAS is based on an estimate of increased traffic volume; expenses to operate and maintain EAS; depreciation, income taxes, ad valorem taxes and business fees. In this case, using the Department's proposed lower cost of money in the cost study would have a de minimis impact upon the EAS rates, the thing which ultimately must be found to be reasonable.
3. A 13.4 percent return on equity figure is consistent with but lower than the sharing threshold adopted by the Commission in USWC's incentive plan case. In that case, the Commission found that it would be appropriate for the Company to earn up to a 13.5 percent return on equity before it would be required to begin sharing its earnings with ratepayers. In the Matter of Northwestern Bell Telephone Company's, d/b/a U S West Communications, Proposed Incentive Regulation Plan, Docket No. P-421/EI-89-860, ORDER AFTER RECONSIDERATION AND CLARIFYING ORDER OF JUNE 7, 1990, 8. To estimate its ROE for EAS rate setting purposes, USWC used both the discounted cash flow (DCF) model and the capital asset pricing model.

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). See also In the Matter of a Petition for Extended Area Service From Plainview to Rochester, Docket No. P-430, 421/C-91-35, ORDER ADOPTING RATES FOR POLLING (August 25, 1992) and In the Matter of a Petition for Extended Area Service From the Nickerson Exchange to the Askov, Carlton, and Moose Lake Exchanges, Docket No. P-407, 421/C-89-105, ORDER ADOPTING RATES FOR POLLING (September 22, 1992).

Cost of Digital Switches

In its September 17, 1991 Order, the Commission required GTE to file cost studies and proposed rates using costs for digital equipment in the Bear River and Greaney exchanges if it planned to install the new equipment within three years. In February 1992, GTE filed costs studies and proposed rates that did not incorporate the cost of digital equipment for the Bear River and Greaney exchanges.

In its May 26, 1992 report, the Department recommended that the Commission order GTE to file new rate information assuming the installation of new, lower-cost digital equipment in the Bear River and Greaney exchanges. The Department based its recommendation on GTE's answers to Department information requests in which GTE stated that it may convert those two exchanges to EAS in the second quarter of 1994 whether or not EAS is ordered as a result of the petition process.

On June 29, 1992, when GTE submitted revised cost studies, the Company stated that it did not plan to convert the two exchanges to digital within three years and subsequently confirmed that intention.

Accordingly, the Commission will not require GTE to refile its cost studies and proposed rates for the Bear River and Greaney exchanges.

EAS Rates for Balloting

The Commission will adopt EAS rates for the exchanges involved in this petition that reflect the decisions previously made in this Order (USWC's cost of money and no digital equipment costs for the Bear River and Greaney exchanges). In addition, the rates have been calculated to split recovery of EAS costs between the petitioning and petitioned exchanges based on the expressed desire of the exchanges for the EAS route in question. For example, if it appears that both exchanges are equally interested in establishing EAS over the route between them, the Commission will split the costs 50/50 between them. If, however, one exchange is clearly the pursuer of EAS for the route, that exchange will bear 75 percent of the costs. This is fairer to the pursued exchange because it does not require it to defray the same amount of costs as the pursuing exchange.

The Commission notes the unique circumstances presented in this petition. A total of 74 potential EAS routes were presented in one mass petition. Whereas traditional EAS petitions delineate the petitioning and petitioned exchanges, the Commission had to devote an entire Order to sorting out the petitioner/petitioned status of each of the exchanges on the 13 routes that met the threshold criteria of the EAS statute. ORDER REQUIRING REVISED TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES FOR THIRTEEN ROUTES (September 17, 1991). The scope of the petition, the diverse exchanges involved, and the process undertaken by the Commission in designating certain exchanges as the petitioners for purposes of

certain routes distinguish it from previous petitions in which EAS cost splitting between the exchanges has proceeded on a somewhat different basis.

Commission Action

The Commission will proceed expeditiously with the polling process. The full cooperation of GTE and USWC with Commission Staff and contractors will be expected. Specifically, GTE and USWC will provide the Commission's polling contractor with a complete useable mailing address for every telephone access line in the exchanges to be polled.

ORDER

1. The EAS rates adopted for the thirteen potential EAS routes are as follows:

Route 1: Aurora-Biwabik/Biwabik-Aurora Route

Petitioning Exchange: Aurora

Res	\$1.00
Bus	\$2.00

Petitioned Exchange: Biwabik

1FR	\$0.69
1FRKey	\$0.68
2FR	\$0.49
1FB	\$1.69
1FBKey	\$1.77
TRK	\$1.94
SemiPub	\$1.69

Petitioning Exchange: Biwabik

1FR	\$0.69
1FRKey	\$0.68
2FR	\$0.49
1FB	\$1.69
1FBKey	\$1.77
TRK	\$1.94
SemiPub	\$1.69

Petitioned Exchange: Aurora

Res	\$1.00
Bus	\$2.00

Route 2: Aurora to Palo-Biwabik-Virginia Route

Petitioning Exchange: Aurora

Res	\$ 5.95
Bus	\$11.90

Petitioned Exchange: Palo

Res	\$ 5.85
Bus	\$11.70

Petitioned Exchange: Biwabik

1FR	\$0.69
1FRKey	\$0.68
2FR	\$0.49
1FB	\$1.69
1FBKey	\$1.77
TRK	\$1.94
SemiPub	\$1.69

Petitioned Exchange: Virginia

1FR	\$0.19
1FRKey	\$0.19
2FR	\$0.14
1FB	\$0.48
1FBKey	\$0.50
TRK	\$0.55
SemiPub	\$0.48

Route 3: Bear River to Chisholm Route

Petitioning Exchange: Bear River

Res	\$4.00
Bus	\$8.00

Petitioned Exchange: Chisholm

1FR	\$0.04
1FRKey	\$0.04
2FR	\$0.02
1FB	\$0.07
1FBKey	\$0.08
TRK	\$0.09
SemiPub	\$0.07

Route 4: Bear River to Chisholm-Hibbing-Buhl Route

Petitioning Exchange: Bear River

Res \$10.30
Bus \$20.60

Petitioned Exchange: Chisholm

1FR \$0.04
1FRKey \$0.04
2FR \$0.02
1FB \$0.07
1FBKey \$0.08
TRK \$0.09
SemiPub \$0.07

Petitioned Exchange: Hibbing

1FR \$0.03
1FRKey \$0.01
2FR \$0.01
1FB \$0.05
1FBKey \$0.06
TRK \$0.07
SemiPub \$0.05

Petitioned Exchange: Buhl

1FR \$0.09
1FRKey \$0.09
2FR \$0.07
1FB \$0.23
1FBKey \$0.24
TRK \$0.26
SemiPub \$0.23

Route 5: Bear River to Cook Route

Petitioning Exchange: Bear River

Res \$ 3.45
Bus \$ 6.90

Petitioned Exchange: Cook

1FR \$0.39
1FRKey \$0.41
2FR \$0.30
1FB \$0.98
1FBKey \$1.02
TRK \$1.12
SemiPub \$0.98

Route 6: Buhl to Virginia Route

Petitioning Exchange: Buhl

1FR	\$2.13
1FRKey	\$2.24
2FR	\$1.65
1FB	\$5.33
1FBKey	\$5.59
TRK	\$6.12
SemiPub	\$5.33

Petitioned Exchange: Virginia

1FR	\$0.10
1FRKey	\$0.12
2FR	\$0.09
1FB	\$0.26
1FBKey	\$0.27
TRK	\$0.31
SemiPub	\$0.26

Route 7: Cook to Virginia Route

Petitioning Exchange: Cook

1FR	\$ 3.96
1FRKey	\$ 4.17
2FR	\$ 3.07
1FB	\$ 9.91
1FBKey	\$10.41
TRK	\$11.40
SemiPub	\$ 9.91

Petitioned Exchange: Virginia

1FR	\$ 0.14
1FRKey	\$ 0.14
2FR	\$ 0.10
1FB	\$ 0.35
1FBKey	\$ 0.37
TRK	\$ 0.39
SemiPub	\$ 0.35

Route 8: Greaney to Cook Route

Petitioning Exchange: Greaney

Res	\$ 4.70
Bus	\$ 9.40

Petitioned Exchange: Cook

1FR	\$ 0.12
1FRKey	\$ 0.13
2FR	\$ 0.09
1FB	\$ 0.30
1FBKey	\$ 0.32
TRK	\$ 0.35
SemiPub	\$ 0.30

Route 9: Greaney to Orr Route

Petitioning Exchange: Greaney

Res	\$ 3.35
Bus	\$ 6.70

Petitioned Exchange: Orr

1FR	\$ 0.61
1FRKey	\$ 0.64
2FR	\$ 0.46
1FB	\$ 1.52
1FBKey	\$ 1.59
TRK	\$ 1.74
SemiPub	\$ 1.52

Route 10: Greaney to Orr-Cook Route

Petitioning Exchange: Greaney

Res	\$ 8.05
Bus	\$16.10

Petitioned Exchange: Orr

1FR	\$ 0.61
1FRKey	\$ 0.64
2FR	\$ 0.46
1FB	\$ 1.52
1FBKey	\$ 1.59
TRK	\$ 1.74
SemiPub	\$ 1.52

Petitioned Exchange: Cook

1FR	\$ 0.12
1FRKey	\$ 0.13
2FR	\$ 0.09
1FB	\$ 0.30
1FBKey	\$ 0.32
TRK	\$ 0.35
SemiPub	\$ 0.30

Route 11: Orr to Cook Route

Petitioning Exchange: Orr

1FR	\$ 1.15
1FRKey	\$ 1.21
2FR	\$ 0.89
1FB	\$ 2.88
1FBKey	\$ 3.02
TRK	\$ 3.31
SemiPub	\$ 2.88

Petitioned Exchange: Cook

1FR	\$ 0.46
1FRKey	\$ 0.47
2FR	\$ 0.35
1FB	\$ 1.14
1FBKey	\$ 1.20
TRK	\$ 1.31
SemiPub	\$ 1.14

Route 12: Palo to Aurora Route

Petitioning Exchange: Palo

Res	\$ 5.75
Bus	\$11.50

Petitioned Exchange: Aurora

Res	\$ 2.45
Bus	\$ 4.90

Route 13: Palo to Aurora-Hoyt Lakes Route

Petitioning Exchange: Palo

Res	\$ 8.50
Bus	\$17.00

Petitioned Exchange: Aurora

Res	\$ 2.45
Bus	\$ 4.90

Petitioned Exchange: Hoyt Lakes

Res	\$ 1.38
Bus	\$ 2.76

2. GTE Minnesota and U S West Communications, Inc. shall cooperate with Commission Staff and the Commission's consultant in expediting the balloting required to determine these matters. For example, the companies shall provide the Commission's polling contractor with a complete useable mailing address for every telephone access line in the exchanges to be polled.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)