P-404, 421, 430, 407, 405, 520, 426/CP-89-1039 ORDER DENYING RECONSIDERATION AND REQUIRING REFILED COST STUDIES AND PROPOSED 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 a Petition for Extended Area Service Between the Monticello Exchange and the Minneapolis/St. Paul Metropolitan Calling Area

ISSUE DATE: June 15, 1993

DOCKET NO. P-404, 421, 430, 407, 405, 520, 426/CP-89-1039

ORDER DENYING RECONSIDERATION AND REQUIRING REFILED COST STUDIES AND PROPOSED RATES

PROCEDURAL HISTORY

On December 4, 1992, the Commission issued its ORDER REQUIRING REFILED COST STUDIES AND PROPOSED RATES. In that Order, the Commission required Bridge Water Telephone Company (Bridge Water) and the telephone companies serving the Minneapolis/St. Paul metropolitan calling area (MCA) to refile cost studies and proposed rates which reflect the Commission's decisions 1) to not include U S West Communications' (USWC's) toll contribution for routes from Monticello to non-USWC exchanges in the MCA and 2) to allow USWC to use a 13.4 percent return on equity and Bridge Water to use a 13.5 percent return on equity.

On December 22, 1992, the Minnesota Department of Public Service (the Department) filed a petition for reconsideration of the Commission's December 4, 1992 Order challenging those two decisions.

On January 4, 1993, USWC filed response comments stating that it would not file revised cost studies until the cost of money issue was decided. On the same day, Bridge Water filed comments stating that it could not file revised cost studies and proposed rates until USWC completed its cost studies.

On June 1, 1993, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In its petition for reconsideration, the Department raised two issues that the Commission examined thoroughly in the December 4, 1992 Order: 1) whether USWC is an affected telephone company with respect to EAS routes between exchanges which USWC serves solely as an IXC and 2) whether USWC used an appropriate return on equity figure in preparing its cost studies and proposed rates.

Affected Telephone Company Issue

After examining the arguments of the parties including those of the Department, the Commission stated in the December 4, 1992 Order:

> The Commission finds that the Monticello docket, in which USWC serves the routes in question solely as an IXC, is essentially similar to the Hokah-Northfield-Cannon Falls dockets that the Commission considered in issuing the Hokah Orders. Having examined the parties' arguments, the Commission finds no sound reason to deviate from the finding in Hokah that Minn. Stat. § 237.161, subd. 3 (b) (1990) refers solely to the local exchange companies serving the petitioning exchange and the petitioned exchange or exchanges and does not refer to IXCs that carry toll traffic over proposed EAS routes. USWC's toll revenue effect for routes between Monticello and MCA ILEC exchanges will not be included in calculating EAS rates in this docket. ORDER at page 11.

The Department has raised no new arguments to persuade the Commission to reverse its decision on this point.

Cost of Money Issue

In opposing the 13.4 percent return on equity that the Commission accepted for EAS rate setting purposes in the December 4, 1992 Order, the Department raised three arguments: 1) that USWC used an inappropriate methodology to determine its ROE, 2) that the difference in rates using its proposed ROE and USWC's ROE was not de minimis, 3) that even if it made only a de minimis impact, using an 11.5 percent ROE was more in line with Commission precedent and 4) it is improper to support approval for USWC's ROE by referring to the threshold approved for sharing adopted in the incentive plan.

None of these arguments persuades the Commission to change the ROE that USWC should use in calculating proposed EAS rates in this docket:

1. USWC uses a discounted cash flow model and a capital asset pricing model to calculate its ROE. As found in previous dockets, this combined method is reasonable. The Department has shown nothing to the contrary.

2. As to the de minimis rate impact factor, the Department has provided no information to show that the impact of using its proposed ROE in this docket would be other than de minimis. The rate impact examples cited by the Department, all involving petitioning exchanges served by USWC, are not relevant to this docket in which Bridge Water, not USWC, serves the petitioning exchange. In the examples cited by the Department, USWC's costs in general would naturally have a larger impact on the petitioning exchange's EAS rates because by law the petitioning exchange must absorb 75 percent of the costs of establishing the proposed EAS. Even so, the largest rate impact due to the ROE factor alleged by the Department did not exceed 1 percent. In any event, the Department overstates the importance of the de minimis factor to the Commission's decision to accept USWC's use of an 13.4 percent ROE in calculating EAS rates. In its Order, the Commission cited the comparative rate impact of using the Department's ROE and USWC's as supporting its decision that USWC's ROE was within the range of reasonableness. The basis of the decision, however, remained that USWC's method of calculating the ROE for EAS rate setting purposes was appropriate.

3. The Department further stated that even if the rate impact difference between its proposed ROE and USWC's was de minimis, the Commission should have chosen its proposed ROE because it is more in line with "recent precedent," i.e. USWC's current authorized return of 12 percent. The Department incorrectly attributes precedent status to USWC's current authorized return. USWC's current ROE figure (12 percent) has no precedent value for this issue because the purpose of USWC's authorized ROE is different from the purpose of the ROE used to calculate EAS rates. USWC's method produced what was needed, a forward looking, best estimate of the cost of money that will be experienced during the period that the rates will be in effect.

4. The Department misstated the Commission's use of the sharing threshold adopted the incentive plan. The Commission did not use the sharing threshold to fix the ROE to use in calculating EAS rates, but simply to suggest the outer boundaries of reasonableness for the ROE figure. That USWC's proposed ROE was lower than the sharing threshold was simply taken as some indication (a rough check) that reasonableness had not been exceeded. The basis for accepting use of the 13.4 percent ROE was that it was calculated using a reasonable method, as previously

indicated.

Commission Action

In view of the foregoing analysis, the Commission will deny the Department's Petition for Reconsideration of the December 4, 1992 ORDER REQUIRING REFILED COST STUDIES AND PROPOSED RATES and simply adjust the timing of the items required in that Order, as set forth fully in the following Ordering Paragraphs.

ORDER

1. The Petition for Reconsideration filed by the Minnesota Department of Public Service is denied.

2. Within 30 days of this Order, Bridge Water Telephone Company (Bridge Water) and the telephone companies serving the exchanges comprising the Minneapolis/St. Paul Metropolitan Calling Area shall

    a. determine, in light of the uniform rates of USWC currently in effect in the Elk River exchange, what percentage of the Monticello EAS revenue requirement will need to be allocated to the Monticello subscribers to meet the requirements of Minn. Stat. § 237.161, subd. 3 (a) (1990); and

    b. refile their cost studies and proposed extended area service (EAS) rates accordingly.

3. In their refiled cost studies and proposed rates filed pursuant to Ordering Paragraph 2, the companies shall

    a. not include the toll contribution effect that U S West Communications, Inc. (USWC) has experienced with respect to the routes between Monticello and the non-USWC exchanges of the Minneapolis/St. Paul Metropolitan Calling Area; and

    b. include the toll contribution effect that U S West Communications, Inc. (USWC) has experienced with respect to the routes between Monticello and the USWC exchanges of the Minneapolis/St. Paul Metropolitan Calling Area.

4. In their refiled cost studies and proposed rates,

    a. USWC shall use a 13.4 percent return on equity;

    b. Bridge Water shall use a 13.5 percent return on equity;

and

c. Eckles Telephone Company (Eckles) shall use its current Carrier Common Line Charge (CCLC) and traffic recording rate.

5. Within 30 days of the date of this Order, Bridge Water shall file the facilities lease with U S Link or any other affiliate.

6. Within 30 days of the date of this Order, Bridge Water shall refile the rates for its lower priced alternative using the method for calculating access and usage charges indicated in the text of the December 4, 1992 Order. In calculating those rates, Bridge Water shall estimate 1) the number of Bridge Water's customers who will choose the lower priced alternative if EAS to the MCA is installed and 2) the usage generated by these subscribers. In making those estimates, Bridge Water shall have reference to the experience of neighboring exchanges offering measured service along with EAS.

7. Within 75 days of the date of this Order, the Minnesota Department of Public Service (the Department) shall file another report and recommendation. The report shall list the rates resulting from Commission decisions made in the December 4, 1992 Order, the Department's recommendation on those rates, and any rates proposed by the Department that result from those proposed changes.

8. Within 20 days after the Department files its report and recommendation, any party may file final comments regarding this docket.

9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)