

P-427, 421/CP-85-652 ORDER ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of a Petition for
Extended Area Service Between
Zimmerman and the
Minneapolis/St. Paul
Metropolitan Calling Area

ISSUE DATE: September 21, 1993
DOCKET NO. P-427, 421/CP-85-652
ORDER ADOPTING RATES FOR POLLING

PROCEDURAL HISTORY

On March 9, 1993, the Commission issued its ORDER GRANTING PARTIAL RECONSIDERATION, CLARIFYING PRIOR ORDER, SETTING RETURN ON EQUITY, AND REQUIRING FURTHER FILINGS in the above-captioned matter. In that Order, the Commission required Sherburne County Rural Telephone Company (Sherburne or the Company) to route the extended area service (EAS) traffic between Zimmerman and the metropolitan calling area (MCA) in the most efficient and cost effective manner possible. In order to assess relative cost effectiveness, the Commission ordered Sherburne and Bridge Water Telephone Company (Bridge Water) to file cost studies for routing a portion of the EAS traffic across the Monticello exchange. These cost studies were due within 20 days of the date of the Order, or March 29, 1993.

In the March 9, 1993 Order the Commission also required the local exchange companies (LECs), which serve the metropolitan calling area, and Sherburne, which serves the Zimmerman exchange, to file revised cost studies and proposed rates for the proposed Zimmerman/metro EAS route. These cost studies were due 30 days from the date of the Order, or April 8, 1993.

The Commission also ordered the Department of Public Service (the Department) to file its report and recommendations on the cost studies and proposed rates within 60 days of the date of the Order, or by May 10, 1993.

Due to some delay caused by miscommunications, Sherburne and Bridge Water filed their required cost studies on April 2 and April 12, respectively. The final LEC cost studies were filed on April 23, 1993.

On May 7, 1993, the Department filed a letter requesting an additional 30 days in which to file its report and recommendations. The Department explained that the delayed cost study filings rendered it difficult to file a complete report and recommendation within the May 10, 1993 deadline. The Department stated that it was still waiting for answers to information requests sent to two of the telephone companies involved in the proceeding.

On May 19, 1993, the Commission issued an ORDER GRANTING TIME EXTENSION. In this Order, the Commission granted the Department a 30 day time extension, until June 9, 1993, in which to file its report and recommendations.

On June 9, 1993, the Department filed its Report of Investigation and Recommendation.

On June 22, 1993, Sherburne filed comments on the Department's report.

On September 7, 1993, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

This Order considers three subjects: the routing of Zimmerman-MCA EAS traffic, the companies' cost studies, and Sherburne's lower cost alternative.

A. Routing of Zimmerman-MCA EAS Traffic

Following the enactment of the EAS statute in 1990, a major delay in processing this matter has been the disagreement between Sherburne and USWC, initially, and later between Sherburne and Bridge Water as to how EAS traffic between Zimmerman and the MCA should be routed. Sherburne and USWC resolved their dispute, but did so in a manner that Bridge Water disputed.

Under the USWC-Sherburne agreement, Sherburne would 1) hand off to USWC at the Big Lake-Elk River exchange boundary the traffic destined for the Elk River and Anoka wire centers and 2) carry all other traffic on facilities it owns from Big Lake, across Bridge Water's Monticello exchange and hand off this traffic to USWC at the Monticello-Buffalo exchange boundary. Bridge Water objected that this would violate its territorial authority. Bridge Water proposed that the Commission require Sherburne to allow Bridge Water to carry Sherburne's EAS traffic across Bridge Water territory.

In its March 9, 1993 Order, the Commission rejected Bridge Water's territorial authority argument. The Commission reasoned that since Sherburne would not be providing any services to Monticello end users, Sherburne did not need to obtain a certificate of territorial authority in order to carry EAS traffic across the Monticello exchange. The Commission stated, however, that it would select the most efficient method of routing the traffic (Sherburne's or Bridge Water's) and directed the companies to file cost studies in support of their competing proposals.

Based on the cost studies submitted by Bridge Water and Sherburne, it appears that it is more cost efficient to route the traffic across the Monticello exchange on Sherburne facilities. Accordingly, the Commission will adopt Sherburne's proposal that the portion of the Zimmermann-MCA EAS traffic to be routed across the Monticello exchange be carried on Sherburne facilities.

B. Lower Priced Alternative

In response to the Commission's October 16, 1992 Order in this matter, Sherburne filed a lower priced alternative plan based on local measured service. The Sherburne proposal included a flat recurring monthly charge and a per minute charge for all calls into the MCA. The Company proposed 1) a monthly recurring charge of \$8.50 for a residential subscriber and \$14.95 for a business customer and 2) a per minute charge of 25 cents (with no discount for calling during off-peak periods) for all calls into the MCA. The per minute charge would apply to all local calls except those to existing EAS areas: Big Lake, Glendorado/Santiago, and Princeton. In estimating its revenues from the lower priced alternative, the Company assumed that calling by subscribers opting for this alternative would be stimulated by a factor of three. The Company called for a true-up to be conducted if the take rate for the alternative service was more than 10 percent different from the 13.6 percent take rate that it used in designing its proposal.

The Department criticized the Company's proposal and recommended another rate design for the lower cost alternative. The Department used a stimulation factor of 7, maintained the current business-residential rate ratio when usage is factored in, and provided a discount during off-peak hours. The Department alleged that its proposal was more consistent with current toll rates and other companies' usage charges for calls to the MCA under a lower cost alternative. Under the Department's plan, the recurring monthly rate would be \$10.00 for a residential subscriber and \$21.58 for a business subscriber; per minute rates for all daytime calls into the MCA would be 12 cents and 6 cents during the evening/night/weekend rating periods.

Commission Action

The Commission will adopt a lower priced alternative for Zimmerman which 1) adopts a 6.3 stimulation factor, 2) modifies Sherburne's proposed per minute charge, and 3) substantially departs from the monthly recurring charge recommendation of both parties.

Regarding the stimulation issue, the Commission selects a stimulation factor of 6.3 in this case. The 6.3 figure is more consistent with the range of stimulation factors approved by the Commission in previous lower priced alternative cases and is exactly the stimulation factor approved in designing the Community Plus Plan adopted for the Delano and Lindstrom exchanges.¹ The Community Plus Plan has other features that the Commission finds attractive and will approximate in this matter. To provide an alternative that truly provides an option to the low volume user, the Commission will set the monthly recurring charge at \$5.00, considerably below the level recommended by either Sherburne and the Department. In addition, the Commission will adopt the Company's proposed per minute of use charge (25 cents) for the peak usage period, but will reduce that charge to 12.5 cents per minute during the off-peak period (10:00 p.m. - 8:00 a.m.).

The Commission finds that the resulting rate design is consistent with the purpose of the lower cost alternative while still meeting the portion of the EAS revenue requirement assigned to the lower priced alternative option. Accordingly, the Commission will require the Company to refile its proposed lower priced alternative rates consistent with these decisions.

Finally, the Commission will reject the Company's true-up proposal. In fairness to Zimmerman ratepayers, it is the Commission's goal to adopt at this time rates that are as accurate as possible under the circumstances so that rates presented to ratepayers as part of the balloting do not need to be altered significantly shortly thereafter. Provision of true-ups as a matter of course would reduce the parties' incentive to make their best efforts to provide the Commission with information adequate to set income neutral rates from the outset. If, despite these best efforts and after the rates have been in effect for some time, it appears that the Company is substantially over- or underearning, there are regular procedures for adjusting the rates.

C. The Companies' Cost Studies and Proposed Rates

¹ See ORDER APPROVING LOWER COST ALTERNATIVE, COST STUDIES AND RATES FOR POLLING in Docket Nos. P-407, 421/CP-86-526 and P-407, 421/CP-87-219 (February 25, 1993).

1. The Department's Objections to USWC's Cost Studies

The Department raised two objections to USWC's cost studies that it has raised in previous EAS dockets: 1) that the figures used in USWC's cost studies for return on equity and cost of debt were too high and 2) that USWC should be considered an affected telephone company for the traffic it carries between Zimmerman and the independent ILEC exchanges within the MCA. The Commission has thoroughly reviewed those issues and rejected the Department's objections in previous Orders. The Department has presented no new arguments in this matter that would warrant departure from Commission precedent on these two points.

2. Sherburne's Objection to USWC's Cost Studies

Sherburne noted that the difference in USWC's costs when the ILEC to ILEC traffic is included is only \$27,245 or \$1.46 per month per residential subscriber more than when this traffic is excluded. Sherburne suggested that this was an erroneously small difference.

The Commission has reviewed USWC's figures and finds them reasonable. The Commission notes that the difference in the two cost studies reflects only USWC toll *contribution* from ILEC to ILEC routes. In addition, there are several reasons specific to Zimmermann's particular circumstances (e.g. the fact that Zimmerman is adjacent to the MCA via USWC exchanges and that intraLATA presubscription is available in the Zimmerman exchange) that reduce the effect of ILEC to ILEC traffic on USWC's costs.

3. Other Companies' Cost Studies

No party objected to the cost studies and rates proposed by Eckles, GTE, Scott-Rice, Vista and United. (The Department did raise a concern regarding the cost study and proposed rates filed by Sherburne for its lower cost alternative, as discussed above.) The Commission has reviewed and will approve these companies' filings.

ORDER

1. The portion of the Zimmerman-Metro EAS traffic to be routed across the Monticello exchange shall be routed on Sherburne facilities.
2. The cost studies and proposed rates filed by Eckles, GTE, Scott-Rice, Vista, and United telephone companies are approved.
3. The cost study and proposed rates filed by USWC are

approved.

4. The monthly EAS rates for Zimmerman subscribers are as follows:

Resident	\$38.00
Business	\$66.75

5. Sherburne's proposal that the Commission conduct a true-up proceeding if the take rate for the lower cost alternative is ten percent different from the Company's estimate after one year is rejected.
6. The cost study and proposed rates filed by Sherburne are approved except that the rates for Sherburne's lower priced alternative shall be: a recurring monthly rate of \$5.00 for residential customers and \$8.80 for business customers and a per minute rate of 25 cents between 8:00 a.m. and 10:00 p.m. discounted 50 percent between 10:00 p.m. and 8:00 a.m.
7. Sherburne shall cooperate with the Commission Staff to provide customer lists (one deliverable address for each access line) and other information needed to poll the Zimmerman exchange.
8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Susan Mackenzie
Acting Executive Secretary

(S E A L)