

P-425/M-91-268; P-425/M-93-240 ORDER APPROVING EXPANDED TRIAL AND  
CLOSING DOCKET

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 Proposal to Introduce Optional Extended Area Service Between Three Exchanges on a Trial Basis

ISSUE DATE: September 24, 1993

DOCKET NO. P-425/M-91-268

In the Matter of a Request for Expansion of Optional EAS Trial by Runestone Telephone Association

DOCKET NO. P-425/M-93-240

ORDER APPROVING EXPANDED TRIAL AND CLOSING DOCKET

**PROCEDURAL HISTORY**

On October 8, 1991, the Commission issued its ORDER APPROVING RUNESTONE TELEPHONE ASSOCIATION'S PETITION TO INTRODUCE OPTIONAL EXTENDED AREA SERVICE ON A TRIAL BASIS BETWEEN THREE OF ITS EXCHANGES in Docket No. P-425/M-91-268. This Order permitted Runestone Telephone Company (Runestone or the Company) to offer its Elbow Lake, Barrett and Wendell subscribers Optional Extended Area Service (OEAS) between those exchanges for a flat monthly rate of \$7.00 (per route) for both residential and business subscribers.

The trial offering of the optional EAS began June 1, 1991 and was to continue 18 months until December 31, 1992. Runestone was required to submit usage, cost and revenue data every six months during the trial period. Runestone has filed the required data in a timely manner.

On July 1, 1992, Runestone filed a request to continue the trial period for two years.

On December 14, 1992, the Commission issued its ORDER EXTENDING TRIAL OF OPTIONAL EXTENDED AREA SERVICE. This Order extended the trial until December 31, 1994, required Runestone to 1) continue reporting usage data every six months and to notify its customers of the availability of OEAS every six months, 2) seek Commission approval if it wished to change the offering, and 3) exclude the access losses from future earnings investigations in order to isolate the effects of OEAS from the company's long-term financial condition.

On March 29, 1993, Runestone filed a request to expand the OEAS offering to all of its nine exchanges on a permanent basis. This request was assigned to a new docket, P-425/M-93-240.

On July 16, 1993, Runestone filed a letter modifying its March 29, 1993 proposal. The Company indicated its willingness to simply expand the *trial* to all nine exchanges, rather than making OEAS a *permanent* offering at this time.

On August 9, 1993, the Minnesota Department of Public Service (Department) filed reply comments.

On September 21, 1993, the Commission met to consider this matter.

### **FINDINGS AND CONCLUSIONS**

The Department's 1991 earnings investigation found that Runestone was earning a 29.16 percent return on equity (ROE). In part to address this high level of return, Runestone has undertaken, with the Commission's approval, a trial offering of EAS on an optional basis (OEAS) in three of its exchanges. That undertaking has resulted in a smaller reduction of the Company's ROE than had been expected, largely because the Company had overestimated the take rate for the OEAS in the three exchanges. Although Runestone had estimated a take rate of 13 percent, only 6.9 percent of the subscribers in these three exchanges chose OEAS. As a result, the Company's ROE declined to only 21.18 percent in 1992.

In an effort to further reduce the ROE, Runestone has requested authority to offer OEAS as permanent service in all nine of its exchanges. The Company proposed the following rates:

<u>Number of Exchanges to Which OEAS is Provided</u>	<u>Residential</u>	<u>Business</u>
One Exchange	\$3.00	\$ 5.00
Two Exchanges	6.00	10.00
All Exchanges	9.00	15.00

A new docket, P-425/M-93-240, was opened to consider that request. Later, the Company modified its proposal, requesting authority to offer OEAS in all its exchanges on a trial basis only.

The Commission will approve Runestone's request and proposed rates. Clearly, there is further need to reduce the Company's ROE. Expanding the trial to include all Runestone exchanges is expected to result in an additional \$40-\$60,000 per year revenue reduction, thereby further reducing the Company's ROE. At the

same time, provision of this service in additional exchanges will enhance telecommunications options for a substantial additional number of customers including, for example, the customers in the Barret, Elbow Lake, Hoffman, Kensington, and Wendell communities that combined their schools effective this month.

There are three aspects of the proposal that bear comment:

1. The Business/Residential Price Differential

The proposed business/residential price differential is reasonable because business customers incur higher toll usage than other customers.

2. Service Order Waiver

Runestone's proposal to waive any service order or central office charges only for customers switching to OEAS is reasonable. If a customer cancels OEAS, then reorders it, the service order charges would properly apply.

3. Existing EAS Not Displaced

Runestone serves nine exchanges: Barrett, Cyrus, Connelly, Elbow Lake, Hoffman, Kensington, Norcross, Tintah, and Wendell. Of these nine exchanges, eight already have EAS to one or two other Runestone exchanges and some have EAS to other non-Runestone exchanges. For seven of these exchanges, the residential rate is \$5.00 per month; the residential rate is \$9.00 for Donnelly (includes EAS to Morris, a non-Runestone exchange); the residential rate for Cyrus is \$12.00 (includes EAS to two non-Runestone exchanges: Morris and Starbuck). These EAS routes were established before the 1990 EAS law. Although the EAS additives for those routes have been combined with the local exchange rate by tariff and are not broken out in the tariff, they are undoubtedly lower than the OEAS additives Runestone proposed in this docket.

The Commission does not intend to allow the Company to substitute the higher priced offering, OEAS, for any existing EAS routes that it currently offers. To do so would serve to increase its ROE, exactly the opposite of what is appropriate for the Company at this time. To avoid this possibility, the Commission will prohibit Runestone from selling a customer OEAS to any exchange to which the customer already has EAS.

**ORDER**

1. Runestone's proposal to expand the trial of Optional Extended Area Service (OEAS) to all the Runestone exchanges is approved.

2. Runestone's proposed OEAS rates for all nine exchanges, are approved as follows:

<u>Number of Exchanges to Which OEAS is Provided</u>	<u>Residential</u>	<u>Business</u>
One Exchange	\$3.00	\$ 5.00
Two Exchanges	6.00	10.00
All Exchanges	9.00	15.00

Current rates for traditional EAS already in place between any of the exchanges will stay at current levels.

3. Within 10 days of this Order and prior to offering the OEAS at the rates approved in this Order, Runestone shall file a tariff for the service. The tariff shall include the effective date for the rates and approved expanded service offering. The effective date shall be no later than 30 days after this Order.
4. Docket No. P-425/M-93-240 which was opened to consider Runestone's request that the trial OEAS offering be expanded and made permanent is hereby closed. If Runestone wishes to request a permanent offering for all of its exchanges, that request should be made before the end of the trial. Any request for a permanent offering should include data from the trial.
5. Runestone shall continue to report usage, cost, and revenue data every six months on June 30 and December 30 of each year through the end of the trial. The data must include the OEAS effect on Runestone's return on equity.
6. Runestone shall notify its customers prior to the implementation of the expanded OEAS and to again notify all customers every six months.
7. Runestone shall separate the access losses from OEAS from future earning investigations.
8. Runestone is hereby prohibited from selling a customer OEAS to any exchange to which the customer already has EAS.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Susan Mackenzie  
Acting Executive Secretary

(S E A L)