

P-407/CI-94-366 ORDER ADOPTING SETTLEMENT REDUCING RATES AND  
REQUIRING NOTICE TO CUSTOMERS AND FILING OF TARIFFS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm  
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Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Petition of the Minnesota  
Department of Public Service for a  
Commission Investigation of the Level of Rates  
Charged by GTE in Minnesota

ISSUE DATE: July 11, 1994

DOCKET NO. P-407/CI-94-366

ORDER ADOPTING SETTLEMENT  
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**PROCEDURAL HISTORY**

**I. Proceedings to Date**

On July 14, 1993, the Minnesota Department of Public Service (the Department) opened an investigation of GTE Minnesota, Inc.'s (GTE's or the Company's) earnings. The matter was assigned to Docket No. P-407/DI-93-645.

On April 18, 1994, the Department requested that the Commission investigate the level of rates charged by GTE pursuant to Minn. Stat. § 237.081, subd. 2.

On the same date, the Department, the Residential Utilities Division of the Office of the Attorney General (RUD-OAG), and GTE filed an Offer of Settlement and Stipulation, proposing that GTE's Minnesota revenues be reduced by \$3.9 million and that its overall rate of return be set at 9.42 percent. This would result in a 7.1 percent reduction in the Company's Minnesota intrastate revenues.

On June 28, 1994, the Commission met to consider this matter.

**FINDINGS AND CONCLUSIONS**

**II. The Proposed Settlement**

In their Offer of Settlement, the parties proposed

- to resolve the Department's complaint (request that the Commission investigate GTE's rates) and
- provide GTE's ratepayers an immediate and significant rate reduction.

The parties proposed that GTE's authorized return on equity should be set at 11.45 percent with an authorized overall rate of return set at 9.42 percent, based on a capital structure of 60 percent equity, 30 percent long term debt, and 10 percent short term debt.

The overall rate of return of 9.42 percent on rate base, combined with financial information developed by the Department and accepted by the Company, would produce an estimated intrastate jurisdictional annual revenue surplus of \$3.92 million. The parties have agreed that,

upon Commission approval of this settlement, GTE's access revenues should be reduced by approximately \$2.8 million annually, local exchange rates by approximately \$866,000, and service order charges by approximately \$232,000.

### **III. Statutory Standard for Reviewing a Proposed Settlement**

Minn. Stat. § 237.076 states that the Commission may accept a settlement upon finding that to do so is in the public interest and is supported by substantial evidence. The Commission may issue an Order modifying the settlement, subject to the approval of the parties. A party has 10 days after entry of an Order or Order After Reconsideration to reject the proposed modification. The Commission may reject the settlement; the matter must then be set for contested case pursuant to Minn. Stat. 237.081, subd. (2)(b) and the Company would be allowed 120 days to initiate a rate case.

### **IV. The Department's Investigation**

On May 1, 1993, GTE filed its annual report with the Department of Public Service. GTE's 1993 projected earnings reflected a 14.78 percent return on equity, significantly higher than the 12.3 percent return on equity authorized in the Company's last rate proceeding.

On the basis of information it received from GTE in the course of its investigation, the Department concluded that the Company's projected 1993 return on equity would remain above 12.3 percent. According to the Department's analysis, a return in the range of 10.5 percent to 11 percent would be more appropriate.

Based on its analysis, the Department calculated that GTE is earning approximately \$3.9 million more than is appropriate under present market conditions.

### **V. Commission Analysis**

#### **A. Benefits of Approving/Rejecting the Settlement**

The parties believe the negotiated settlement, if approved as filed, would be in the public interest and would result in the most timely rate reduction to GTE's customers. GTE has agreed to file revised tariff pages within five days of the Commission's approval of the settlement and to implement actual reductions on customers' bills no later than 45 days after specific rates are approved by the Commission.

The rate reductions required by the Settlement are substantial:

Access Charges: The parties proposed that access charge revenues be reduced by \$2.8 million annually. The parties indicated that in GTE's last rate determination in 1991, its access charges were reduced by \$1.2 million, a reduction of approximately 6 percent. As a result, since 1991, if this settlement is adopted, GTE's access charges will have been reduced by \$4 million.

One-party Rates: Further, the parties have agreed that local exchange revenues should be reduced by approximately \$866,000 and service order charge revenues be reduced by approximately \$232,000 annually. As such, total general exchange revenues will be reduced by a total of approximately \$1,098,000. Residential one-party rates will decrease by \$0.45 per month for non metro customers and \$0.72 per month for metro customers. Below are some examples of the existing rates for business and residential local exchange service.

**Business And Residential (One-Party Service)**

	<u>Present</u>	<u>Proposed</u>
<b>Residential:</b>		
Metro	\$23.22	\$22.50
Outstate	\$14.85	\$14.40
<b>Business:</b>		
Metro	\$52.48	\$50.85
Outstate	\$31.10	\$30.05

The rate reductions would be effective the day after the Commission approves the settlement as filed. In addition, acceptance of the Settlement would free up a significant amount of regulatory attention for allocation to areas of arguably more urgent need.

The benefit of rejecting the Settlement is that it would allow an investigation to proceed that might demonstrate that the Department's original rate of return range is appropriate. Rates reflecting that range would be lower than those resulting from this Settlement.

Finally, the Settlement appears to resolve the critical issues within the range of regulatory reasonableness. The parties developed and the Commission has reviewed rate base and operating income schedules including 1992 actual results, proposed adjustments to arrive at proposed 1993 test year amounts, and the projected 1993 jurisdictional rate base and operating income. The projected rate base of \$71.3 million reflected a slight decrease from the 1992 rate base. The Commission finds that the consistency of the rate base amounts supports the reasonableness of the projections.

While capital structure issues have not been as fully explored as they would be in a rate case or contested case proceeding, the parties have provided sufficient evidence to support the use of these capital structure figures. This is not to say that the Commission would have approved these exact figures after fuller examination, but given the circumstances, they appear reasonable.

## **B. Detriment from Approving/Rejecting the Settlement**

In the Offer of Settlement, the Department is supporting an 11.45 percent return on equity for the Company rather than advocating for a return in the range of 10.5 to 11 percent which its analysis had earlier found appropriate. Conceivably, if the Commission rejected the Settlement and found, after investigation, that the Department's range should be adopted, the resulting rates would be lower than what they would be under the proposed Settlement.

On the other hand, rejecting the Settlement and proceeding with a formal investigation would cause a significant time delay. The parties advised that a formal investigation would likely take up to 14 months and that approximately an additional four months would transpire from the conclusion of that investigation to the date that the new reduced rates would go into effect.

In addition, the Commission would note that the Commission has not always adopted the Department's recommendations with respect to rate of return. It is hardly a foregone conclusion, therefore, that the Commission, even after a full formal investigation, would require the Company to reduce its rates to reflect the 10.5 percent to 11 percent range originally advocated by the Department.

## **VI. Commission Action**

Based on its review, the Commission finds that the Settlement is in the public interest and supported by substantial evidence.

### **ORDER**

1. The proposed Offer of Settlement is approved.
2. GTE shall reduce its rates to the levels proposed in the Offer of Settlement effective the day after the date of this Order.
3. GTE shall implement actual reductions on customers' bills issued no later than 45 days after this Order issues.
4. GTE shall notify its customers of the rate changes approved in this Order with the first customer bills reflecting these rate changes.
5. Within 5 days after this Order, GTE shall file proposed tariff sheets reflecting reductions proposed in the Offer of Settlement and approved in this Order.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)