

ISSUE DATE: August 6, 1998

DOCKET NO. P-408, 420, 421/CP-96-1151

ORDER ESTABLISHING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey
Joel Jacobs
Marshall Johnson
LeRoy Koppendrayner
Gregory Scott

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Petition for Extended Area
Service from the Frazee Exchange to the
Detroit Lakes, Vergas and Perham Exchanges

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PROCEDURAL HISTORY

On October 2, 1996, subscribers in the Frazee exchange submitted a petition for extended area service (EAS) to Detroit Lakes, Vergas and Perham. Loretel Systems, Inc. (Loretel) serves Frazee; U S WEST Communications, Inc. (USWC) serves Detroit Lakes; and East Otter Tail Telephone Company (East Otter Tail) serves the Vergas and Perham exchanges.

On January 29, 1997, the Commission issued its ORDER REQUIRING COST STUDIES AND PROPOSED RATES. In its Order, the Commission found that, although all the communities met the Commission's adjacency requirement, only the route between Frazee and Detroit Lakes met its traffic criterion. The Commission denied the Vergas and Perham portion of the Frazee petition and directed the affected telephone companies to prepare cost studies and proposed rates.

Between May 19 and July 3, 1997, the affected companies submitted cost studies and proposed rates.

On July 9, 1997, the Minnesota Department of Public Service (the Department) filed comments, expressing concern that Loretel did not account for access cost savings that would arise if the route were converted to an EAS route. The Department recommended that the Commission require Loretel to adjust its revenue requirement to account for access cost savings.

On February 27, 1998, USWC filed a revised cost study and proposed rates.

On March 6, 1998, the Department filed amended comments in this matter. The Department stated that in deference to the Commission's findings in the New Germany case,¹ the Department filed amended comments on March 6, 1998, rescinding its proposed adjustment of Loretel's revenue requirement. However, the Department continued to maintain that, without its proposed accounting

¹ See the Commission's November 7, 1997 ORDER ADOPTING RATES FOR POLLING for the proposed New Germany EAS route. Docket No. P-407, 421/CP-96-799. In its Order, the Commission found that the record was not sufficient to support the Department's access cost savings argument. The Commission reaffirmed its decision on this point in its January 20, 1998 ORDER DENYING RECONSIDERATION in the same matter.

for access cost savings, the affected telephone companies will not remain income neutral after an EAS route is installed.

On April 13, 1998, the Department filed additional amended comments in this matter.

The Commission met on June 30, 1998 to consider this matter.

FINDINGS AND CONCLUSIONS

The cost or "revenue requirement" for an EAS route is composed of two elements. One element is the cost of providing EAS, i.e., the value of facilities and other resources of Loretel and USWC needed to carry EAS traffic. The other is the lost contribution from the provision of access and toll by the affected companies.

A. Revenue Requirement

1. Facilities Costs

In its July 1997 comments, its March 1998 amended comments, the Department supported the affected companies' calculations of the facilities cost for an EAS route between Frazee and Detroit Lakes. The affected companies did not file reply comments.

The Commission finds that the facilities' cost estimates provided by the companies are appropriate. The Commission will accept them.

2. Lost Contribution

In its comments, the Department argued (as it had in earlier EAS cases) that the affected telephone companies should have accounted for access cost savings that would arise from no longer having to provide access service if EAS is installed. The Department did not adjust Garden Valley's revenue requirement but recommended that the Commission require Garden Valley to submit access cost estimates and to make an adjustment to the revenue requirement.

In several earlier EAS cases (e.g., Atwater and New Germany) GTE and other affected telephone companies successfully disputed the Department's allegations that access cost savings existed and that the affected telephone companies were not accounting for the savings.² In its November 7, 1997 ORDER ADOPTING RATES FOR POLLING for the proposed New Germany EAS route, and in other EAS cases, the Commission found that the record was not sufficient to support the Department's access cost savings argument. The Commission reaffirmed its decision in its January 20, 1998 ORDER DENYING RECONSIDERATION of the same issue, in the same matter.

In its Orders setting rates for Atwater and New Germany, and in several other EAS cases for which the Commission set rates in late 1997, the Commission gave careful consideration of the Department's concern regarding lost access contribution, i.e., lost access revenues less access cost savings. To illustrate, the Commission's January 20, 1998 Order denying the Department's petition for reconsideration in the New Germany case stated at pages 2-3:

² Docket Nos. P-407, et al./CP-96-564 and P-407, 421/CP-96-799.

. . . after reviewing the Department's petition the Commission remains comfortable with its decisions to accept GTE's cost studies and proposed rates for New Germany to the MCA (Docket No. P-404, 407, 520, 405, 426, 427, 421, 430/CP-96-564) and for Atwater to the MCA (Docket No. P-407, 421/CP-96-799). In those Orders the Commission reasoned as follows:

The affected telephone companies have calculated their revenue requirements consistent with prior practice. The Commission cannot determine, on the basis of the record established in this matter, that the Department's access cost savings argument is correct and that the Commission should lower the revenue requirement of several affected telephone companies (principally GTE) to account for such alleged access cost savings. The Commission is particularly reluctant to make such a determination absent a clear showing, given the potential ramifications of such a finding on other dockets. The Commission concludes that the telephone companies' cost studies have reasonably estimated the costs for the affected telephone companies in this matter.

Order in Docket No. P-404, 407, 520, 405, 426, 427, 421, 430/CP-96-564 (New Germany) at page 3. See also Order in Docket No. P-407, 421/CP-96-799 (Atwater) at page 3.

No further Commission consideration of the Department's lost access argument is warranted. Consistent with its decision and rationale provided in previous Orders, the Commission will not require the companies to make the "access cost" adjustment advocated by the Department. The Commission finds that the companies' figures for lost contribution are appropriate as presented and will accept them.

B. Proposed Rates

In its review of Loretel's proposed rates, the Department noted that Loretel used access line counts for the year-ending December 31, 1995. The Department stated that the most recent access line count available should be used to calculate the EAS additives and provided proposed Frazee EAS additives based on access line counts as of year-end 1996. Because the line count was higher at year-end 1996, the rates proposed by the Department in its March 6, 1998 amended comments, are somewhat lower than those proposed by Loretel. The Company did not dispute this adjustment, which the Commission finds appropriate.

Regarding the cost allocation between the petitioning and petitioned exchanges, the Commission notes that it may allocate between 50 and 75 percent of the revenue requirement to the petitioning exchange, Frazee. The Department has recommended that the Commission allocate 75 percent of the total revenue requirement to the Frazee exchange. Having reviewed this matter and weighed the equities, the Commission concurs with the Department's recommendation that the Commission assign 75 percent of the revenue requirement to the Frazee exchange.

ORDER

1. The EAS rate additives for the Frazee exchange, calculated by allocating 75 percent of the

revenue requirements for the Frazee and based on the revenue requirements approved herein, are hereby established as follows:

EAS Rate Additives for the Frazee Exchange

Class of Service	Base Rate	75%
Residential One Party	\$8.20	\$10.90
Business One Party, PBX & Key System	\$12.20	\$16.24

2. EAS rate additives for Detroit Lakes, the petitioned exchange, are hereby established as follows:

EAS Additives for Detroit Lakes

Class of Service	Base Rate*	25%
Residential Flat Rate	\$14.25	\$0.47
Residence Measured	\$8.89	\$0.29
Business Flat Rate	\$35.08	\$1.17
Business Measured	\$21.78	\$0.72
Trunk/Centrex/CENTRON	\$37.12	\$1.22
Public/Semi-Public Payphone	\$35.08	\$1.17

* The Detroit Lakes' base rate includes EAS to Audubon and Vergas.

3. Loretel Telephone Company shall cooperate fully with Commission staff and contractors to conduct a poll of telephone subscribers in the Frazee exchange:
- a. the Company shall provide usable, deliverable addresses for all access lines in a format and according to a schedule established by Commission staff;
 - b. the Company shall provide proof of the accuracy of the customer list as requested by Commission staff;
 - c. the Company shall provide a list of Frazee subscribers as of the date specified by Commission staff for polling the Frazee exchange.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar

Executive Secretary

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