Service Date: November 22, 1978

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application)	
of the MOUNTAIN STATES TELEPHONE)	DOCKET NO. 6496
AND TELEPGRAPH COMPANY for)	ORDER NO. 4389e
authority to establish increased rates)	AMENDED FINAL ORDER
for telephone service.)	

1. By application filed March 14, 1977, the Mountain States Telephone and Telegraph Company (Mountain Bell or Applicant) sought authority from this Commission to increase rates and for the approval of tariff changes for telecommunication services provided its customers in the state of Montana. The proposed permanent rate changes would generate $11.83 million of additional yearly revenues.

2. Following legal notice, hearings on Phase I of Docket No. 6496 commenced on November 1, 1977 and concluded November 8, 1977. On April 4, 1978, Phase II hearings began and continued through April 12, 1978.

3. Contained in its application to the Commission was Mountain Bell's request for interim relief. This request was renewed at both the November and April hearings.

4. Interim rate Orders 4389a, 4389b, and 4389c issued in March and May, 1978 granted the utility interim revenue increases totaling $2,326,000.

5. Through Order No. 4389d, served on October 2, 1978, Mountain Bell was authorized to submit rate schedules designed to increase annual revenues by $3,087,000; this increase was in lieu of rather than in addition to those granted on an interim basis.

6. On October 12, 1978, Applicant and the Montana Consumer Counsel (MCC) filed Motions and Briefs for Reconsideration of Order No. 4389d. Mountain Bell's Motion pleaded for reconsideration in eighteen (18) subject areas considered in the Order.

Confined to one area, the Motion of MCC urged the Commission to accept the productivity adjustment rejected in the Order.

7. Later in October, Answers to Mountain Bell's Motion to Reconsider were received by the Commission from the Consumer Counsel and attorneys for Executone Systems of Montana. Mountain Bell likewise responded to MCC's Motion For Reconsideration.

8. Having reviewed the Motions, Briefs and Answers dealing with reconsideration of its Order No. 4389d as well as the record in Docket No. 6496, the Commission makes the following responses and amendments:

FINDINGS OF FACT

9. Contrary to the utility's contention in its Exception 2, utilization of a test year ended June 30, 1977 does not deny Mountain Bell the opportunity to earn a fair rate of return. The Commission can grant no more than that opportunity.

10. In allowing an amount equal to one percent of gross local and toll revenues as an appropriate expense for license contract fees paid by Mountain Bell, the Commission did not rely upon the recommendation of Mr. Gabel. Instead, it found that the Company had failed to demonstrate the reasonableness of the expense incurred in light of benefits received by Montana ratepayers. The one percent allowed was the percentage permitted in Mountain Bell's last general rate case, not "a totally arbitrary and capricious figure" as claimed in Exception 3 of the Motion and Brief for Reconsideration by the Company.

11. Exception 4 in the utility's Motion asks that the Commission include the expenses borne by Mountain Bell for the cost of service study undertaken on behalf of the Consumer Counsel in computation of test year operating results. Included in test year costs were rate case expenses based on those which actually occurred during the twelve months ended June 30, 1977. Altig testified that the Gabel study, conducted after that date, cost in excess of $97,000. In its Order overruling Objections to Data Request dated June 29, 1977, the Commission found: "Any documented increase in Applicant's costs of operation

occasioned by this preparation (i.e., the cost of service study requested by MCC) will be allowed as a proper expense, and will be amortized over a three year period." In his letter of April 10, 1978 submitted as a late filed exhibit, R. A. Remington, Vice President and Montana General Manager, indicated that Mountain Bell had $30,112.80 (see Attachment 1 to letter) of "expenses not normally incurred" associated with the Gabel cost of service study. Accordingly test year expenses should rise by one-third of $30,000 or $10,000 and the Company's revenue requirement to $3,097,000.

12. Mountain Bell's Long Run Incremental Analysis (LRIA) was not rejected by the Commission solely because it relied upon projections of the future as implied in Exception 6 by the Company. Rather, Finding 63 of Order No. 4389d, rejected LRIA as a rate making methodology on two primary grounds: (a) its use of forecasts produced by utility personnel, and (b) its failure to assign overhead costs to individual offerings when evidence indicated that overhead expenses did increase with rising plant investment. Reliance on forecasts was not the reason LRIA was discarded as a pricing tool and the Commission is not being inconsistent when it employs projections elsewhere. Forecasts were rejected when the Commission could not objectively determine their reasonableness.

13. In its Motion, Mountain Bell characterizes the 1.58 price factor found proper by the Commission for the Dimension PBX "a totally arbitrary and hypothetical number." The Commission disagrees. Although grouping into product lines is for pricing purposes, the defense by Western Electric of Dimension's situation in the Customer Premises Product Line rested on the technological similarity of this PBX with other items in the line. This defense implies that the appropriate price factor (price/ standard cost ratio) depends upon the technology embodied in an item. Extensive testimony, particularly that of Collins and Horenkamp, addressed the homogeneity issue. Having weighed all evidence, the Commission is not convinced that the CPPL is homogeneous; instead, the Dimension PBX shares characteristics of customer premises products and dial products. As a hybrid, Dimension requires adjustment of its price factor which the Commission has made. If an item is incorrectly assigned to a product group as Western Electric has done, it follows that a wrong price factor will be used in setting price and the resulting price will not be compensatory.

14. Contrary to Mountain Bell's assertion in its Motion, Exception 11, the record provides no basis for concluding that the new toll schedules authorized by the Commission which reduce rates for one and two minute DDD calls would result in a revenue loss. Testimony in this Docket addressed only the revenue impact of a general increase in toll charges.

15. In response to Exception-13, the Commission finds that the move, change or rearrange service charge to business subscribers where a central office line is involved should be set at $5.00, not $4.50 as originally approved.

16. Despite the argument made by Mountain Bell in Exception 15, the Commission continues to believe that its calculation of the credit for a customer provided set is proper. With provision to terminal equipment now occurring in a competitive market, the actual ratio of new to refurbished sets will change from its historic level, that used by Mountain Bell in computing the set credit. The ratio Proposed by Gabel and utilized by the Commission in its Order reflects the impact of competition.

Similarly, competition and the attendant increase in business risks justify the 12 percent cost of money used in calculating the set credit. To here employ the 8.78 percent return found appropriate on an overall basis would ignore the higher risks of the competitive marketplace.

17. The vagueness of Exception 18 leaves the Commission unable to respond.

18. Order Paragraph No. 4 should be changed to exclude Executone from the meeting which shall be called to derive guidelines for the fully distributed cost study prescribed therein. This amendment is consistent with the request of Mountain Bell in its Motion and Brief for Reconsideration (Exception 20) and the Consumer Counsel's recommendation in his Answer to Mountain Bell's Motion for Reconsideration (page 23).

19. Following receipt of the Motion for Reconsideration from Mountain Bell, the Commission has reviewed the record in this Docket and found the exceptions not commented upon in this Order to be without merit.

20. The Motion to Reconsider filed by the Consumer Counsel asked the Commission to reverse its decision with respect to the adjustment of operating results during the test year to reflect anticipated productivity gains. Utilization of the productivity adjustment recommended by witness Hess is based on speculative assumptions rejected by the Commission. In contrast, the accepted allowance for wage increases was of a different quality since the levels were determined by a binding labor contract.

CONCLUSIONS OF LAW

1. The service charge approved in Finding of Fact No. 15 above is just, reasonable and not unjustly discriminatory.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Order No. 4389d in Docket No. 6496 issued October 2, 1978 is hereby incorporated by reference into this Order with the following exceptions pursuant to Order No. 4389e:

> (a). Applicant shall now be allowed to file rate schedules designed to produce $3,097,000 of additional revenues. This amount must be substituted in Finding of Fact No. 134 in Order No. 4389d to determine the necessary reduction in local exchange rates.
>
> (b). Consistent with Finding of Fact No. 15 in this Order, the charge for restoration of service and suspension of service shall be increased to $12.00, rather than $11.50 as authorized in Finding of Fact No. 120, Order No. 4389d.
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> (c). Executone shall be excluded from the meeting discussed in Order Paragraph No. 4 of Order No. 4389d.

DONE IN OPEN SESSION at a meeting of the Montana Public Service Commission held on the 20th day of November, 1978, by a vote of 5 - 0.

BY THE MONTANA PUBLIC SERVICE COMMISSION.

Gordon E. Bollinger, Chairman

P.J. Gilfeather, Commissioner

Thomas J. Schneider, Commissioner

James R. Shea, Commissioner

George Turman, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTICE: You are entitled to judicial review of the final decision in this matter. If no Motion For Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this Order. If a Motion For Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. The Montana Administrative Procedure Act, esp. Sec. 82-4216, RCM 1947; and Commission Rules of Practice and Procedure, esp. 38-2.2 (64) - P2750, ARM.