

Service Date: October 22, 1980

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

In the Matter of MOUNTAIN STATES)	UTILITY DIVISION
TELEPHONE AND TELEGRAPH COMPANY'S)	
Proposed Price Changes in Vertical)	DOCKET NO. 6714
Service Offerings and Proposed)	
Implementation of a Transfer Fee.)	ORDER NO. 4706

APPEARANCES

FOR THE APPLICANT:

J. Walter Hyer III, Attorney at Law, 931 Fourteenth Street, Denver, Colorado, appearing on behalf of the Applicant.

Laura D. Ford, Attorney at Law, 931 Fourteenth Street, Denver, Colorado, appearing on behalf of the Applicant.

George T. Bennett, Attorney at Law, 406 Fuller Avenue, Helena, Montana, appearing on behalf of the Applicant

FOR THE INTERVENORS:

James C. Paine, Attorney at Law, 34 West Sixth Avenue, Helena, Montana, appearing on behalf of the office of the Montana Consumer Counsel.

Alan Joscelyn, Attorney at Law, P.O. Box 1271, Helena, Montana, appearing on behalf of Telephone Answering Services of the Mountain States, Inc.

Dennis K. Muncy, Attorney at Law, 1400 Anthony Drive, Champaign, Illinois, appearing on behalf of Telephone Answering Services of the Mountain States, Inc.

Roger Tippy, Attorney at Law, P.O. Box 475, Helena, Montana, appearing on behalf of Executone Systems of Montana.

FOR THE COMMISSION:

Calvin K. Simshaw, Attorney at Law, 1227 11th Avenue, Helena, Montana, appearing on behalf of the Montana Public Service Commission.

BEFORE:

GORDON E. BOLLINGER, Chairman
CLYDE JARVIS, Commissioner
THOMAS J. SCHNEIDER, Commissioner
JAMES R. SHEA, Commissioner
GEORGE TURMAN, Commissioner

FINDINGS OF FACT

Background

1. This Docket, essentially a vertical terminal equipment pricing methodology case, has its genesis in Order 4389d entered in Docket No. 6496 on October 2, 1978. Within that Docket, evidence was taken from the various parties concerning the appropriate cost methodology to be employed in the development of a price for vertical terminal equipment. The Commission in its Order, directed that the Company compute its costs in accordance with two specified costing methodologies, each with respect to different types of vertical offerings, and to submit the results of the cost calculations to the Commission.

2. Mountain Bell, in compliance with the Commission directive, submitted its cost studies to the Commission on June 1, 1979. Thereafter, Mountain Bell was requested to submit pricing recommendations in light of the filed costs; this was accomplished on August 10, 1979.

3. This Docket was then created at the initiative of the Commission to investigate, inter alia, Mountain Bell's compliance in performing the cost studies and to investigate Mountain Bell's pricing recommendations submitted to the Commission on August 10, 1979.

4. A pre-hearing conference was held in Helena, Montana on October 23, 1979. The Procedural Order bearing service date of December 10, 1979 specifically detailed and set forth the issues to be considered and addressed by the parties as follows:

- (a) The role that costs determined pursuant to the "Montana fully distributed cost (FDC) methodology" (Order Paragraph No. 4 of Order No. 4389d) should play in the development of the price of vertical terminal equipment services. Specifically:
 - (i) Whether prices should be set equal to these FDC costs, or

- (ii) Whether the FDC cost should form the floor for a definite price.
 - (b) The role that costs determined by the "Wilson Cost Methodology" (Order No. 4389d, Findings of Fact Nos. 89-99) should play in the development of prices for Dimension and ComKey services.
 - (c) Whether the studies submitted by Mountain Bell on June 1, 1979 accurately compute the cost of the various products and services according to the Montana (FDC) and Wilson cost methodologies.
 - (d) The degree of flexibility Mountain Bell should have in establishing prices in the proper relation to cost and to adjust such prices to respond to cost or market conditions.
 - (e) The price changes, if any, which should be made for the products and services identified in Mountain Bell's August 10, 1979 pricing recommendations.
 - (f) In cases where proposed price changes would have a severe impact on a particular group of customers, the consideration, if any, which should be given to phasing the implementation of these price changes.
 - (g) Mountain Bell's need for increased revenues due to repricing. If no need is found, the means by which the higher rates for vertical services should be offset to yield a net revenue change of zero.
 - (h) The level of transfer fee, if any, which should apply to the assumption by a new customer of existing in-place equipment covered under a two-tier payment plan or a companion month-to-month payment plan.
5. Pursuant to the terms of said pre-hearing order, the parties engaged in discovery and exchanged exhibits and summaries of expert testimony prior to the hearings in this matter.
6. On February 19 and February 20, 1980, hearings were held pursuant to notice at the offices of the Montana Public Service commission, 1227 11th Avenue, Helena, Montana.

APPROPRIATE COST METHODOLOGY

7. Mountain Bell witness, Mr. Glenn Brown testified as to how the Company, pursuant to Order No. 4389d, developed and presented a Montana fully distributed cost study (hereafter referred to as Montana FDC). These studies used a methodology agreed to by the Company, Commission Staff, and Montana

Consumer Counsel and related to the following services: Non-Comkey Multi-Line Telephone Systems, Non-Dimension Private Branch Exchange Systems, Mobile Telephone Service, Extension Telephones, Secretarial Bureau Service.

8. Mr. Brown then testified as to how the Company, pursuant to Order No. 4389d, Findings of Fact Nos. 89-99, developed and presented a cost study using a methodology advocated by Executone witness Dr. John Wilson in Docket No. 6496 (hereafter referred to as Wilson cost study). The Wilson cost study was performed relating to Dimension and ComKey services.

9. Both the Montana FDC study and the Wilson cost study were incorporated into the record as Mountain Bell Exhibits l(a), l(b) and l(c).

10. The Commission finds that Mountain Bell in its cost studies has accurately computed the costs associated with vertical terminal equipment according to the Montana FDC and Wilson cost methodologies and has complied with the directives of Order No. 4389d.

11. Mr. Brown recommended that the Commission adopt only one cost methodology rather than using both the Montana FDC and the Wilson methodology. Mr. Brown argued that this would serve the interest of conserving the economies of time, manpower, expense, administration and the avoidance of any confusion. Therefore Mr. Brown urged the Commission to adopt the Montana FDC for all vertical services including Dimension and ComKey. Intervenor, Executone has argued from the inception of Docket No. 6496 that use of the Wilson methodology is the only proper method of pricing Dimension and ComKey.

12. It remains the Commission's intention to utilize a fully distributed cost methodology for cost identification in the pricing of vertical services. Both the Montana FDC and the Wilson cost study are fully distributed cost studies. The Commission perceives two basic differences between the two methodologies. The first is in the use of a different common overhead factor (7.7% ,Montana FDC vs. 10.24% Wilson), the second is in the imputation of a higher Western Electric price for Dimension equipment used in the Wilson cost study

13. The Commission finds that both the Montana FDC and Wilson cost studies attempt to allocate the same overheads. Therefore use of two different common overhead factors would be inconsistent. The Commission finds that development of the 7.7% common overhead factor utilized in the Montana FDC is sound. The entire Montana FDC methodology has been subjected to close examination in the course of meetings held among the Company, Commission Staff and the Montana Consumer Counsel which meetings flowed from Docket No. 6496.

14. However, the Commission continues to see merit in the Wilson methodology's imputation of a higher Western Electric price for Dimension equipment. Mr. Brown testified (Tr. p. 79) that the Montana FDC methodology could be modified to utilize the higher imputed price for Dimension equipment. The Commission finds that modifying the Montana FDC methodology in this manner would be a better method of arriving at fully distributed costs for all vertical services than maintaining two separate methodologies would be.

15. Therefore the Commission adopts the Montana FDC methodology as the appropriate methodology to be used in pricing all vertical terminal equipment. The Commission also finds that for the purpose of pricing Dimension, the Montana FDC methodology should be modified to include the imputed higher Western Electric price contained in the Wilson methodology. The Commission finds that the adoption of only one fully distributed cost methodology will be in the public interest because it will contribute to public and Commission staff understanding of vertical terminal equipment pricing by requiring that they learn and interpret only one methodology. It will also eliminate the necessity of the Company maintaining two separate computer programs and computer printouts.

PRICING OF EXISTING VERTICAL TERMINAL EQUIPMENT OFFERINGS

16. The Commission's aim in pricing vertical terminal equipment remains as stated in Docket No. 6496, Order No. 4389d. That is, vertical terminal equipment should be priced at a level sufficient to recover all of the costs associated with providing that equipment. There should be no cross-subsidization from another service or product area inasmuch as vertical terminal equipment is definitionally discretionary and does not

fall within the category of basic exchange services. The cost-causer should bear the full costs of providing the services.

17. It is clear from the testimony and exhibits that many vertical terminal equipment offerings are already priced at a level above Montana FDC. These offerings are therefore not being cross-subsidized. The Commission finds that existing vertical terminal equipment offerings whose rates are already set at or above Montana FDC should remain at their current level. The Commission sees no purpose to be gained in adjusting these rates downward to exactly equal Montana FDC. The market has already adjusted to the existing rate level and such action would merely serve to give a false price signal when every indication is that the cost of providing such service will rise in the future. Such action would also necessitate the raising of rates in some other area to recoup lost revenues.

18. On the other hand, it is equally clear from the testimony and exhibits that many other vertical terminal equipment offerings are priced at a level below their Montana FDC. The rates for such offerings are not recovering their total costs and cross-subsidization is therefore occurring. The Commission accordingly finds that in those instances, with one exception discussed infra, rates should be adjusted upward to a point where they equal Montana FDC.

RATES FOR SECRETARIAL BUREAU SERVICES

19. One of the issues identified in the procedural order to this docket was:

In cases where proposed price changes have a severe impact on a particular group of customers, the consideration, if any, which should be given to phasing the implementation of these price changes.

A particular customer group did intervene and present testimony concerning the impact on them of re-pricing at Montana FDC. Witness Gwen A. Corbett testified on behalf of intervenor Telephone Answering Services of the Mountain States, Inc., as to the severity of the impact upon telephone answering services that would be occasioned by the re-pricing of Secretarial Bureau Services.

20. Four factors arise which lead the Commission to believe that pricing of Secretarial Bureau Services will have such a substantial impact upon telephone answering services that it merits special consideration.

- a) Secretarial Bureau Services are the major cost component of a telephone answering service business as opposed to most other businesses where such a service would be only a small portion of its administrative costs.
- b) Adjusting rates for the 557B switchboard and the concentrator-identifier up to Montana FDC would generally result in increases in the area of 200%.
- c) Telephone answering services have already incurred substantial increased costs when this Commission increased rates for private lines in Docket No. 6652, Order No. 4585a, dated July 14, 1980.
- d) There currently exists no alternative to Mountain Bell equipment in acquiring telephone answering equipment. See Trans. p. 139:

"Mr. Muncy: So it is your testimony that competition does not exist, in fact, today, in the state of Montana in regard to the provision of telephone answering equipment.

Mr. Brown: Not in active fact, No."

21. Taking these factors into consideration the Commission finds that it would not be in the public interest to adjust rates for Secretarial Bureau Services all of the way up to Montana FDC at this time as such an action could prove to be fatal to existing telephone answering services. Rather the Commission finds that rates for Secretarial Bureau Services should be increased by 50 percent or raised to Montana FDC whichever results in the lower rate.

22. The Commission recognizes that this action will allow a certain degree of cross-subsidization to continue to exist in the area of Secretarial Bureau Services. Telephone answering services should be put on notice that the Commission will not allow this condition to exist indefinitely, Ultimately, Secretarial Bureau Services will be expected to recover their full costs the same as all other vertical services.

PRICING OF FUTURE VERTICAL TERMINAL EQUIPMENT OFFERINGS

23. The Commission finds that the filing of all future vertical terminal equipment offerings should be accompanied by Montana FDC figures for that offering. The Commission would expect that such filings would be set at a level of at least Montana FDC plus 10 percent. This will assure against cross-subsidization in future offerings.

24. All future filings will continue to be reviewed on a case-by-case basis and the Commission reserves the right to set the offering at a rate other than that applied for.

FLEXIBLE TARIFFS

25. Mountain Bell has proposed that the Company be allowed to inaugurate the concept of minimum price or flexible tariffs. The "minimum price tariff" envisions a price level floor set at least equal to Montana FDC, and, the opportunity for the Company to flexibly price its products at or above that minimum floor level.

26. Under such a pricing scheme Mountain Bell would be free to change its rates at any time so long as they not drop below the floor represented by Montana FDC. The Commission finds that it cannot approve such a procedure because of the following statutory constraints regarding rate changes:

Section 69-3-301, MCA

Every public utility shall file with the Commission. schedules which shall be open to public inspection, showing all rates, tolls, and charges which it has established and which are in force at the time for any service performed by it within the state...

and 69-3-302, MCA

No change shall be made in any schedule, including schedules of joint rates, except as approved by the commission or upon the passage of 9 months,

and 69-3-303, MCA

Before it may approve any change increasing the rate or rates for utility service in a schedule generally affecting consumers in a utility's service area, the commission shall publish a notice of the proposed change.... This notice shall announce a public hearing on the proposed change...

(emphasis supplied)

27. The current unstable status of regulation in the area of terminal equipment (see FCC Docket No. 20828, Computer Inquiry II) also causes the Commission to hesitate to adopt such a novel pricing scheme at this time.

RE-USE CREDIT

28. Also Identified in the procedural order as an issue in this docket was the method of calculating the re-use credit for customers who terminate two-tier agreements early.

29. The Company related how administration of the re-use credit plan as directed in Order No. 4389d results in the customer being granted more credit in every case than exists in the value of the equipment at the time the customer disconnects.

30. The Commission finds that the re-use credit procedure set in Order No. 4389d does indeed cause unreasonable results. Consistent with its action taken at agenda meetings of May 20, 1980, and August 25, 1980, the Commission finds that credits for re-use should commence at the re-usable or salvageable cost level and decline linearly over the market life.

COMKEY 416

31. In Docket No. 6496 the Commission approved offerings of ComKey 416 on a month to month and three year, two-tier option but denied the requested five and seven year option alternatives. The Company has renewed its request for approval of the five and seven year options.

32. As the Commission has now had full opportunity to examine fully distributed costs for the five and seven year options of ComKey 416 it finds that it should approve the same.

LEVEL OF TRANSFER FEE

33. In the procedural order in this docket, the Commission requested that Mountain Bell address the level of a transfer fee, if any, which should apply to the assumption by a new customer of existing in-place equipment covered under a two-tier payment plan or a companion month-to-month plan.

34. Mountain Bell in its Exhibit No. 10 and through the testimony of Mr. Brown detailed the costs that are typically involved in accomplishing the transfer. The Company proposed that the transfer fee be reflective of the actual cost incurred in any given transfer.

35. The Commission agrees that an actual cost case-by-case basis is superior to developing a flat fee based upon an average cost of all transfers. This method of implementing a transfer fee will better assure that the cost causer bear the cost of the transfer. However, because of the flexible nature of such a fee the Commission will want to closely monitor its implementation. Therefore the Commission finds that the Company should be required to file with the Commission an itemized breakdown of the cost elements and amounts making up each transfer fee that is charged. This is not meant to require prior approval of each transfer fee but rather to better assist the Commission in answering inquiries concerning transfer fees.

TREATMENT OF REVENUE EFFECTS OF REPRICING ~

36. It is clear to the Commission that re-pricing of vertical terminal equipment pursuant to Finding Nos. 18 and 21 will cause Mountain Bell to realize increased revenues beyond those that would have been realized if no re-pricing had been undertaken, The Commission finds that these increased revenues should be offset by an appropriate decrease in basic exchange rates to yield a net revenue change of zero from this docket.

37. Mountain Bell argued that the increased revenues generated from re-pricing need not be offset by any rate decreases because they would not result in excessive earnings for the Company.

However in order to so argue, the Company had to go totally beyond the scope of this docket.

The procedural order identified as an issue the following:

Mountain Bell's need for increased revenues due to re-pricing. If no need is found, the means by which the higher rates for vertical services should be offset to yield a net revenue change of zero.

This docket was clearly intended to address only revenue needs that would arise "due to re-pricing" of vertical services. As has been already stated the re-pricing occasioned by this docket will not cause a need for increased revenues. On the contrary, re-pricing in this docket will cause increased revenues. 38. The need for increased revenues sought to be -shown by the Company through its offer of proof was not "due to re-pricing". The Company tried to show a need for increased revenues brought about by inflation, attrition and other factors. A need for increased revenues based on these factors is clearly the province of a general rate case. This docket was not intended to be anything beyond a rate structure case; nor was it noticed as anything more .

39. As strictly a rate structure proceeding, this docket should yield a net revenue change of zero. Therefore when the Company files tariffs re-pricing vertical terminal equipment pursuant to the findings herein, it should also file tariffs reducing basic exchange rates to a level that will offset increased revenues from vertical services.

CONCLUSIONS OF LAW

1. The Commission properly exercises jurisdiction over the parties and matters in this docket pursuant to Title 69, Chapter 3, MCA,

2. All interested parties have been provided adequate notice of and an opportunity to participate in Docket Nos. 6496 and 6714. .

3. The pricing methodologies adopted herein are consistent with developing just and reasonable rates.

ORDER

WHEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS
THAT:

1. For purposes of pricing vertical terminal equipment, Montana fully distributed cost as described in the Findings of Fact portion of this order and as modified for Dimension equipment shall be the applicable costing methodology.

2. Rates for vertical terminal equipment offerings which are already priced above Montana fully distributed cost should remain at their existing level.

3. With the exception of Secretarial Bureau Services, rates for those offerings of vertical terminal equipment which are below Montana fully distributed cost shall be raised to a level equal to Montana fully distributed cost. Mountain Bell is directed to file tariffs accomplishing the same.

4. Rates for Secretarial Bureau Service offerings which are below Montana fully distributed cost shall be increased by 50 percent or to a level equal to Montana fully distributed cost, whichever results in the lower rate. Mountain Bell is directed to file tariffs accomplishing the same.

5. In filing the above mentioned tariffs, Mountain Bell shall at the same time file a summary showing the increased annual revenues caused by the re-pricing of vertical terminal

equipment. Said summary shall be based upon the most recently available inventory of the equipment offerings involved.

6. At the time of filing the above mentioned tariffs, Mountain Bell shall also file tariffs decreasing rates for basic exchange service that cause decreased revenues on an annual basis equal to the increased revenues shown on the summary described in Order Paragraph No. 5.

7. Mountain Bell's request to inaugurate minimum price or flexible tariffs is denied.

8. Re-use credit allowed for customers who terminate two-tier agreements early shall commence at the re-usable or salvageable cost level and decline linearly over the market life.

9. Mountain Bell's request for approval of five and seven year options in offering ComKey 416 is granted.

10. The transfer fee to be applied upon the assumption by a new customer of existing in-place equipment covered under a two-tier or companion month-to-month payment plan shall be equal to the actual cost of the transfer. Mountain Bell shall file with the Commission an itemized breakdown of the cost elements and amounts making up the transfer fee in each case a fee is assessed.

11. Mountain Bell shall file tariffs conforming to Order Paragraphs 8,9, and 10.

12. All rates approved herein shall be effective upon the filing and acceptance of the requisite tariffs.

13. Mountain Bell's Motion to Correct Transcript filed March 19, 1980, is granted.

14. All other motions pending before the Commission in this docket and not specifically addressed herein are denied.

DONE AND DATED THIS 20th day of October, 1980, by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: You may be 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. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806 ARM.