Service Date: March 15, 1983

8-3-82

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

* * * * *

In the Matter of the Application of GENERAL TELEPHONE COMPANY OF THE NORTHWEST, INC. for Authority to Increase Rates and for Approval of Tariff Changes.	)))))	UTILITY DIVISION ✓ DOCKET NO. 82.6.39 ORDER NO. 4923a ✓ 83-11

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APPEARANCES

FOR THE APPLICANT:

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FOR THE COMMISSION:

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BEFORE:

THOMAS J. SCHNEIDER, Chairman
JOHN B. DRISCOLL, Commissioner
HOWARD L. ELLIS, Commissioner
CLYDE JARVIS, Commissioner
DANNY OBERG, Commissioner

FINDINGS OF FACT

PART A

GENERAL

1. On June 23, 1982, General Telephone Company of the Northwest, Inc. (GTNW, Applicant or Company) applied to this Commission for authority to increase rates for telecommunications services in Montana. Tariffs filed with the application would increase revenues from Montana intrastate operations by $611,163.

2. On August 3, 1982, the Commission granted the Company interim rates to generate additional annual revenues of $131,523.

3. On August 9, 1982, a procedural order was issued by the Commission which set forth dates for intervention, discovery, filing of testimony and hearing on the above application.

4. The Montana Consumer Counsel (MCC) has participated in this docket on behalf of the consuming public since its inception. There were no other intervenors of record.

5. Pursuant to appropriate Notice of Public Hearing, a hearing was held on the above application on January 11-12, 1983 in Libby, Montana. At that time testimony and exhibits were received by the Commission and the public was allowed the opportunity to inquire as to the proposed increase in the Company's rates.

PART B

REVENUE REQUIREMENT

6. The Company has proposed a test year comprised of the 12 months ended December 31, 1981. The Commission finds this test year to be a

reasonable period, within which to measure the Applicant's revenues, costs, and required return for the purpose of determining fair and reasonable rates for telecommunication services.

7. The Company and the MCC used different methods to analyze the appropriate capital structure and cost of capital for the Company. MCC's approach is to view the parent company's capital structure and cost rates while the Company believes the appropriate method is to utilize the Company's capital structure for determining a reasonable overall rate of return. Based upon an analysis of these two approaches, the Company and the MCC stipulated and agreed that an overall rate of return in the range of 11.75 percent to 12.25 percent is not unreasonable for determination of the revenue requirement in this case. The Commission accepted the stipulation and finds that an overall rate of return of 12 percent is reasonable for determining the revenue requirement herein.

8. On October 13, 1982, the Company and the MCC, after analyzing the operating expenses of the Company for the test year, stipulated to the disallowance of certain intrastate operating expenses for legislative advocacy and payments to affiliates for the purpose of determining revenue requirements for this case. The Commission accepted this stipulation.

9. On November 15, 1982, the Company and MCC stipulated on all issues concerning test year operating results and adjustments.

10. On December 3, 1982, the Commission accepted the three stipulations referenced in the above Findings. Based on those stipulations, the Commission finds that the Company's adjusted test year net operating income is $390,471 and test year average rate base is $4,703,897, as follows:

	Net Operating Income	Average Rate Base
1981 Actual Results	$362,257	$4,732,639
Adjustments:		
Interest During Construction	(2,867)	55,429
Toll Revenues	9,980	-
Uncollectibles	2,032	-
Federal Income Tax	(587)	(12,461)
Depreciation Represcription	(41,031)	(70,450)
Expensing Station Connections	(25,874)	275
Increased Settlements	81,071	-
Labor Costs	(29,781)	-
Directory Assistance Charging	2,839	-
State Income Taxes	16,953	-
Advertising, Legislative Advocacy and Payments to Affiliates	13,763	-
Adjustments Contained in Interim	1,716	(1,535)
1981 Adjusted Results	$390,471	$4,703,897

11. The Commission finds that the Company is entitled to $353,562 of additional annual revenues as follows:

1.	Average Rate Base	$4,703,897
2.	Rate of Return	12.00%
3.	Required Net Operating Income	564,468
4.	Adjusted Net Operating Income	390,471
5.	NOI Deficiency	173,997
6.	Income to Revenue Multiplier	2.032
7.	Revenue Deficiency	$ 353,562

This amount constitutes $222,039 of additional annual revenues above those granted pursuant to interim increases.

PART C

RATE DESIGN

Introduction

12. Interim/Final Revenue Increase. In Interim Order No. 4923 certain of the Applicant's existing rates were increased by a uniform percent -- approximately 15 percent -- to generate an interim increase of $131,523. In setting rates to generate the final approved revenue increase of $353,562, the reference point is the Applicant's pre-interim rates.

13. Cost-Of-Service. The Applicant's proposed service category revenue responsibilities derive from a mixture of cost analyses and residual pricing (see Data Response Nos. 17 and 20). The Applicant concurs with Mountain States Telephone and Telegraph Company's (MBT) rates for Wide Area Telecommunication Service (WATS), Message Toll Service (MTS) and Private Line (PL) service; intrastate PL revenues, however, are not subject to the settlements process. Certain vertical service rates are cost based (see Data Response No. 18). Nonrecurring service charge rates for residential and business customers are cost based (see Data Response No. 15B, and TR. pp. 29-30). Finally, the network exchange service category revenue responsibility derives from residual pricing (see Data Response No. 12).

14. Schedule 1 below summarizes the Applicant's existing and originally proposed service category revenue responsibilities.

SCHEDULE 1

Service Category Revenue Responsibility[1] ($)

Category	Pre-Interim	Proposed	Increase	% Increase
Network Exchange	576,974	869,070	292,096	51
Vertical	294,053	512,857	218,805	75
Service Charges	38,150	138,414	100,264	262
Subtotal	916,061	1,533,105	611,165	67
Less:				
Settlement Revenues[2]			67,211	6
Local Private Line[3]			5,880	85
Net Requested Increase:[4]			538,074	

1 See Data Response No. 31; note that the $611,165 was the Applicant's originally proposed revenue increase.

2 The settlement revenues are for interexchange Private Line service, MTS and WATS. The $67211 revenue increase derives from Commission Order No. 4948.

3 As a consequence of concurring with MBT's intraexchange tariffs, GTNW will receive additional revenues equal to $5880 (see Mr. Rod Benson's correspondence to the Commission Staff dated February 2, 1982).

4 The net requested increase equals the subtotal less settlement and local private line revenues.

15. The Montana Consumer Counsel (MCC), while not submitting pre-filed testimony on cost-of-service (COS) or rate design issues, did file posthearing comments. Regarding COS, the MCC takes the position that "all rates should be based on the cost of providing the service."; further noting that "Only under these circumstances can the Commission then determine if any cross-subsidy exists." (MCC Comments dated January 13, 1983.)

16. While the Commission concurs with the MCC, it also recognizes the practical obstacles to achieving such an ideal objective. The categorical revenue increases set forth by the Commission use the best information available on the record in Docket No. 82.6.39. The Commission finds the proper approach for setting rates to be the following: competitive-fungible items should be priced at least at incremental fully distributed costs; rates for the capital component of competitive-nonfungible items should be based at least at embedded FDC. Rates for items that are noncompetitive should be set at the appropriate (depending on fungible/nonfungible characteristics) incremental or embedded fully distributed cost.

17. The Commission perceives one major problem with the Applicant's proposed rates and consequent service category revenue responsibility. On January 11, 1983, the Applicant submitted a set of revised tariffs (Exh. No. 5E revised), to replace the original set (Exh. No. 5E) from which Schedule 1 above was derived. As discussed below, the Applicant's revised tariffs decrease certain rates which are cost based e.g., simple residential service charges; this decision in turn stems from a lower stipulated level of revenue increase. The Commission finds that this proposal eliminates valuable cost information for ratemaking purposes and substitutes arbitrarily based rates (see Finding No. 19).

Service Charges

18. The Applicant's current service charge rate design features a multi-element structure. Schedule 2 below provides the Applicant's existing (pre-interim), interim and proposed (see page 43 of Exh. No. 5E revised) rates for the various elements. The Applicant's pre-filed testimony implies

that some sort of cost study was the basis of the proposed nonrecurring service charge rates:

Q. How will nonrecurring charges be affected?

A. Increases in addition to those included in the interim filing are necessary so that these charges can be brought into line with current costs, therefore, increases are proposed in all elements of our multipart nonrecurring charges for basic service.
(see Exh. No. 5E, p. 6)

SCHEDULE 2

Comparative Service Charge Rates[1]

	Residential			Business		
	Pre-Interim	Interim	Proposed	Pre-Interim	Interim	Proposed
Nonavoidable:						
Service Order[2]	$ 4.00	$ 4.60	$10.00	$ 8.00	$ 9.20	$19.00
Central Office Line	5.00	5.75	11.00	9.00	10.40	20.50
Premise Visit	5.00	5.75	10.00	5.00	5.75	10.00
Total	$14.00	$16.10	$31.00	$22.00	$25.35	$49.50
Avoidable:						
Premise Visit	$ 5.0	$ 5.75	$10.0	$ 5.0	$ 5.75	$10.0
Inside Wire & Jack	4.0	4.60	10.0	7.0	8.05	17.5
Station Handling	N/A	N/A	N/A	2.0	2.30	4.0
Total	$ 9.0	$10.35	$20.0	$14.0	$16.10	$31.5

1 See Exh. 5E revised, page 43, for interim and proposed values.

2 The service order rates are for initial service only. The proposed rates for "subsequent" residential and business service equals $7.50 and $10.0, respectively (Exh. 5E revised, p. 84). See Applicant response to staff Data Request No. 38A for a breakdown of avoidable/nonavoidable components.

3 See response to staff Data Request No. 37 for an explanation of this charge.

19. In response to cross-examination by the MCC, the Applicant refined its description of how the proposed service charge rates were developed:

> Q. Okay, do you have a cost study to indicate what it costs the Company for installation of a phone? Non-reoccurring charges is what I'm specifically referring to.
>
> A. Yes. Well, we have one that we made in the state of Washington and we have--the time ingredients in the study probably would be reflective of any location. We have adjusted the time factors that are in the study to reflect Montana dollars, and that was the basis for the installation charge request that brought the first petition for $64,111.
>
> Q. How did the Company arrive at a request of $41 which, as I understand it, is what they're seeking today for a residential non-reoccuring installation charge?
>
> A. That's an arbitrary reduction in the amount because, had we allowed the whole amount or continued to petition for the whole amount that we had requested, we would have been reducing rates for network access services, because we would have had a negative residual amount. (TR. pp. 29-30)

20. In post-hearing comments the MCC expressed concern over the Applicant's application of a uniform percent increase to existing nonrecurring charges and the alleged "...very real possibility/probability of resulting cross-subsidization" (see paragraph No. V of the MCC's comments).

21. The Commission would point out that the five service charge elements listed in Schedule 2 can be separated into two categories: avoidable (or competitive) and nonavoidable (or monopoly); the premise visit, however, must occur in each category. In Docket No. 82.6.37 (Order Nos. 4951b and 4951c), the Commission found that the provision of competitive service functions should be regulated by the marketplace. The Commission allows the regulated utilities to provide these service functions on a fully compensatory

time and materials (T&M) basis through calendar year 1983; thereafter, the utilities can perform these functions only through a nonregulated Fully Separated Subsidiary (FSS).

22. The Commission finds merit in the concerns raised by the MCC but notes the following. In Docket No. 82.2.8, the Commission adopted less than fully compensatory charges for the nonavoidable elements of the service charge; in this Docket the Commission once more finds merit with the objective of moderating rate impacts of nonavoidable service functions and directs the Applicant to institute the following rates. For the nonavoidable rate elements in Schedule 2, the Applicant is directed to tariff the rates submitted in Exhibit 5E revised (including subsequent service order charges). For the avoidable elements, the Applicant is required to utilize fully compensatory T&M Charges. The revenue impact from the nonavoidable service charges is approximately $39,860. For purposes of this Docket, the Applicant is directed to file revenue verification demonstrating revenues resulting from T&M charges applied to the avoidable service elements on a test year 1981 basis, as well as the revenues generated for the approved nonavoidable elements. The Commission encourages the Applicant to automatically pro rate over a three (3) month period service charges subsequent to this order, unless a customer explicitly chooses to pay the full amount on a one-time up-front basis.

Vertical Services

23. In Federal Communications Commission (FCC) Docket No. 20828 (Computer II), the FCC deregulated new customer premise equipment (CPE). GTNW's proposal in this Docket includes tariff sheets which serve to grand-

father CPE to the embedded inventory as of December 31, 1982. In Order No. 4951b (Docket No. 82.6.37), and pursuant to FCC Docket No. 20828, the Commission approved of the grandfathering and therefore directs GTNW to include the grandfathering tariff sheets in its compliance tariff filing with this order.

24. In Order No. 4951b, the Commission bifurcated the remaining embedded CPE into a "single line" and "other" component. The single line CPE, or Big Six, includes essential single line handicapped enhancements; this subset of embedded CPE is subject to continued regulation and a sale plan to be implemented on May 1, 1983. The "other" embedded CPE, pursuant to Order No. 4951b, will also be deregulated on May 1, 1983.

25. In this order, the Commission must arrive at lease rates for both categories of embedded CPE. Although the "other" subset of embedded CPE is deregulated on May 1, 1983, cost-based rates must be established to arrive at test year operating revenues.

26. Rotary and Touch-Call. The Applicant maintains that it employed a "fully allocated cost methodology" (FAC) to price CPE in its Montana jurisdiction (see Data Response No. 17). Regarding rotary and Touch-Call phones, the Applicant proposes to unbundle the telephone from the local network exchange rate and establish the phone rates set forth in Schedule 3 below.

SCHEDULE 3

Applicant's Proposed Rates
(Revised) for Rotary and Touch-Call Phones[1]

Phone Type	$/Month
Rotary	
Standard Rate	$1.25
Touch-Call	
Standard Rate	$1.25
Additive	$0.50

[1] These rates apply to both primary and extension services, and are derived from Exh. No. 5E revised.

27. The Applicant's original filing (Exh. No. 5E) proposed phone rates equal to $1.50 and $2.00 respectively for rotary and Touch-Call equipment; the latter rate includes the 50¢ adder, reflecting the capitalized difference in costs for the two phone types. On January 11, 1983 (Exh. No. 5E revised), the Applicant reduced each phone rate by 25¢.

28. The Commission finds the Applicant's decision to reduce cost based rates, in response to a lower stipulated revenue increase, to ignore valuable cost information, and consequently, directs the Applicant to tariff the rates as originally submitted in Exh. No. 5E. The revenue from the above approved rates approximately equals $134,424. Furthermore, in all subsequent billings the Applicant is directed to itemize each customer's bill by the separate services and charges provided.

29. PBX and Pushbutton. In response to the MCC's cross-examination, the Applicant stated that it performed avoided cost analyses to develop PBX and Pushbutton CPE rates (TR. pp. 31,32, also see Exh. No. 5E, pp. 4,5). The Applicant proposes to increase rates based on these cost studies

and to restructure the rates for Pushbutton CPE. As a result, a separate charge will be assessed for the common equipment used in conjunction with Pushbutton CPE. The revenues generated from the Applicant's initial filing equal $32,433 and $42,849 for PBX and Pushbutton CPE respectively (Exh. No. 5E, p. 1); the Applicant's revised proposals equal $7,207 and $32,415 respectively (Exh. No. 5E revised, p. 3).

30. In post-hearing comments the MCC questioned the appropriateness of using avoided costs to set PBX and Pushbutton rates noting:

> We don't believe that the Commission has before it a sufficient record to make an intelligent determination as to whether the PBX and Pushbutton Telephone Service offerings are being priced in such a way as to make a positive contribution towards offsetting the capital investment.
>
> (See post-hearing comments, paragraph No. II)

31. The Commission finds that the Applicant's avoided cost based rates and the resulting revenue generation from the original filing shall serve as the basis of assigning test year revenues for PBX and Pushbutton CPE. The resulting revenue effect equals $74,922 (Exh. No. 5E, p. 1). Regarding the appropriateness of avoided cost based rates, the Commission would draw attention to the Applicant's rate computations for PBX equipment in Applicant Data Response No. 21B. Evident from this data response is the Applicant's inclusion of common overhead costs as well as annualized fixed charge costs including depreciation expenses.

32. Unpublished, Unlisted and Additional Listings. In this Docket, the Applicant proposed increased Additional Listing rates and to establish nonlisted and nonpublished service rates as summarized in Schedule 4 below.

SCHEDULE 4

Unpublished, Unlisted and Additional Listing Rates

	Pre-Interim	Proposed
Business:		
Add. Listing	$0.75	$1.13[1]
Unpublished	-	$1.0
Unlisted	-	$1.0
Residential:		
Add. Listing	$.04	$0.6[1]
Unpublished	-	$1.0
Unlisted	-	$1.0

[1] These are the Applicant's originally proposed rates (Exh. No. 5E, p. 55); the final proposed rates equal $0.96 and $0.52 respectively for Business and Residential customers (Exh. No. 5E revised, p. 52).

33. In the absence of cost support evidence, the Commission approves of the Applicant's rates in Exh. No. 5E revised which generate an additional $5,468 in revenues.

34. Color Elimination. The Applicant proposes and the Commission approves of the proposal to eliminate the $0.25 charge for color phones with an annual revenue effect of $13,335.

35. Miscellaneous Services and Equipment. In addition to the above rate proposals, the Applicant proposed rate increases for other miscellaneous items. From the original filing (Exh. No. 5E, p. 55), the annual revenue increase equaled $18,830, while the final proposed rates (Exh. 5E revised) generate an increase in annual revenues of $11,580.

36. The Commission approves of the Applicant's original revenue increase proposal but notes that the approved revenue increase of $18,830 is

not net of approved increases for certain other services e.g., Foreign Exchange and Directory Listings.

Private Line, Message Toll and WATS

37. The Applicant's revenues from PL, MTS and WATS derive from a combination of the settlements process and concurrence with MBT's rates. The Applicant will receive an estimated $67,211 in increased settlement revenues from MTS, WATS and interexchange PL services (see Mr. Dennis DuBois' letter dated December 8, 1982 to the MCC). Due to its concurrence with MBT's intraexchange PL rates, the Applicant estimates it will receive an additional $5,880 in annual revenues (see Mr. Rod Benson's letter to Commission Staff dated February 2, 1983).

38. The Commission accepts these revenue effects, and only requests that the Applicant submit detailed working papers with its tariff transmittal including pre-interim and final intraexchange PL rates per Docket No. 82.2.8, and test year billing determinants.

Local Network Exchange and Related

39. Directory Assistance and Operator Assisted Calls. Based on a directory assistance (DA) usage study, the Applicant proposed to institute a DA charge of 20¢ for each call in excess of six per month (Exh. No. 1, p. 7). On January 11, 1983, the Applicant stated it would not object to setting the monthly ceiling at five calls, in lieu of the six call ceiling initially proposed (TR. p. 36). In response to further cross-examination, the Applicant agreed to provide up to two phone numbers per DA call (see TR. p. 48).

40. The Commission directs the Applicant to institute a 20¢ charge for DA calls exceeding five per month and provide up to two phone numbers per call. The Commission also directs the Applicant to apply a 20¢ charge for each operator assisted call. The annual revenue increase from the five DA call ceiling approximately equals $2,290 (see TR. p. 36). The annual revenue increase for charging for operator assisted calls approximately equals $78 (see Mr. Rod Benson's correspondence to the Commission staff dated February 2, 1983). The Commission directs the Applicant to exclude the following type customers from the above charges: hospitals, motels/hotels, coin phones and handicapped persons.

41. Semi-public Phone Access Rates. In this Docket the Applicant proposes to replace the existing daily guarantee with a fixed monthly minimum rate for semi-public phone access. Schedule 5 below provides the existing daily guarantee and the Applicant's original (Exh. No. 5E, pp. 44-46) and final (Exh. No. 5E revised, pp. 45-47) monthly minimums. The Applicant's basis for proposing to eliminate the daily guarantee is to reduce administrative expenses while not affecting revenues (TR. p. 41).

SCHEDULE 5

Semi-Public Phone Access Rates

	Daily Guarantee	Number of Phones	Proposed Monthly Minimum	
			Initial	Final
Libby	$0.55	23	$23.40	$18.89
Troy/Eureka	$0.40	13	$20.03	$16.65

42. The Commission's decisions regarding the Applicant's Semi-public phone access rate proposal are as follows. If, as the Applicant suggests,

the monthly minimum should have no revenue effect (TR. p. 41), then the rates for Libby, and Troy and Eureka should equal $16.72 and $12.17 per month respectively (based on a 365 day year). These rates should not vary with respect to the final total revenue increase approved in this Docket; the rates proferred by the Applicant (see Schedule 5), however, clearly vary with the assumed level of approved revenue increase. In addition, the Applicant's final proposed rates are not equal to those that result from annualizing the daily guarantee as the Applicant's testimony would suggest (TR. p. 41). The Commission directs the Applicant to tariff the above ($16.72 and $12.17) monthly minimums.

43. Second, in the recent MBT rate proceeding (Docket No. 82.2.8), the MBT proposal to set access rates for semi-public phones equal to the one-party flat business rate, without an allowance for commissions, was approved by the Commission. That is, additional business benefits accrue to the owner of the premise, where a semi-public phone is located, that render unnecessary any additional incentives such as commissions. In the Applicant's next general rate proceeding the Commission will consider such an option.

44. Class A and B Trunks. The Applicant has proposed two new trunk line rates. One rate would apply to lines that terminate in systems that automatically select outgoing trunks and the other is for lines requiring manual selection. The Applicant states that due to FCC Rules and Regulations Part 68, customers must provide the Applicant with information on the type of CPE used on its network exchange system; consequently, the Applicant argues that it is capable of segregating customers by class A or B service (see Data Response No. 3). As with other rate proposals, the

Applicant's initial and final proposals varied, generating a range in annual revenue increases from $25,952 to $47,198.

45. The Commission finds no basis for developing two separate trunk line rates. In response to cross-examination, the Applicant stated that the basis for the class A and B trunk line rate distinction is a value-of-service judgment (TR. p. 37). Consequently, any rate distinction would necessarily be discriminatory. The Commission directs the Applicant to treat any required rate increase for the existing trunk line on a residual basis per Finding No. 59 of this order.

46. Foreign Exchange. The record reveals conflicting evidence on the matter of whether the Applicant proposed rate increases for Foreign Exchange (FX) service. In a data response, the Applicant proposed no increase in FX rates as current rates "...equal, or on the average exceed, the rates charged by the Mountain States Telephone and Telegraph Company" (See Data Response No. 19, also see Data Response Nos. 6B and 6C). The Applicant's pre-filed testimony indicates that the only change regards "...the method of applying rates for foreign exchange mileage" (Exh. No. 5E, p. 6). On January 11, 1983, the Applicant responded that it is currently studying the costs of all network services including FX and will submit the resulting FX revenue responsibilities in a latter proceeding (Tr. p. 38).

47. With respect to those services that are supposedly not receiving rate increases, the MCC indicates that "The most glaring ommission is Foreign Exchange service" (see post-hearing comments, paragraph No. V).

48. The Commission is puzzled by the apparent inconsistency in the record regarding FX rate increases. As indicated in finding No. 46 above

the Applicant proposed no rate increases for FX service. Yet, inspection of a late filed exhibit (Exh. No. 5E revised, Sheet No. 410) clearly indicates an annual revenue impact of $768 for FX service. The rate impact derives from a combination of flattening out the existing mileage sensitive rate design and assessing a higher rate than in the existing first block of the existing three-block inverted FX rate structure. The Commission notes that the MBT rate of $1.0 per quarter mile is considerably less than the Applicant's proposed of $2.50. In the absence of cost support evidence, the Commission directs the Applicant to increase FX rates on a residual basis per Finding No. 59 of this order; any increase shall apply to the existing rates and rate structure.

49. Nonrecurring Line Extension and Recurring Mileage Charges. The Applicant proposes Nonrecurring Line Extension (NLE) charges as summarized in Schedule 6. The annual revenue effect equals $6,364.

SCHEDULE 6

Nonrecurring Line Extension Charges[1]

	Pre-Interim	Proposed
Free Extension Allowance	1/2 Mile	150 Feet
Unit Charge[2]	9.5¢/Foot	75¢/Foot

1 These rates only apply to new construction outside the Base Rate Area.

2 The pre-interim rate is $50 per tenth mile (see Tariff Sheet No. 350).

50. The Applicant's proposed Recurring Mileage Charge (RMC) increases, as set forth in Schedule 7 below, are not based on cost analyses (TR. pp. 28-29). The annual revenue increase equals $33,395.

SCHEDULE 7

Recurring Mileage Charges ($ Per Quarter Mile Per Month)

Line Type	Pre-Interim	Proposed[1]
Trunks/1-party and Tie Lines	0.75	1.0
2-party	0.50	0.65
4-party	0.35	0.45

1 These proposed rates are from Sheet No. 330 of either Exh. No. 5E or 5E revised (no scaling back of rates was proposed by the Applicant).

51. The Commission approves of the proposal to reduce the NLE free extension allowance down to 150 feet: the existing rate design is promotional and results in the existing ratepayers subsidizing new line extensions from 150 feet to one-half mile in length. The Applicant also indicated that the 75¢ per foot charge is based on a cost study (TR. p. 30); however, the results of the cost study indicate a cost of 83¢ per foot. The Commission directs the Applicant to tariff the latter rate of 83¢ per foot. The Applicant must submit detailed work papers setting forth the revenue impact of the rate design and rate charge. The revenue increase exceeds $6,364.

52. As the Applicant did not base its proposal to increase mileage charges on cost evidence, the Commission directs the Applicant to increase such rates on a residual basis per Finding No. 59 of this order. In the Applicant's next general rate proceeding the Commission intends to consider the establishment of a "zone system" for mileage charges in lieu of the existing quarter mile increment rate design. Such a charge was not considered in this Docket due to the absence of billing determinant data in each per quarter mile increment, and the resulting unknown revenue impact. The Commission will also consider flattening out the three line rates at such time.

53. Extension Service. At present the Applicant assesses business and residential customers a monthly extension service (ES) rate equal to $2.0 and $1.25 respectively. For this monthly fee a customer is provided a second phone and maintenance of the inside wire and jack for the extension (TR. p. 45). Due to the expensing of inside wire, and the unbundling of the station apperatus from the network access rate, the Applicant proposes to eliminate the above (ES) rates. The annual revenue effect is a negative $55,362 (see Data Response No. 11A).

54. The Commission approves of the Applicant's proposal to eliminate the extension rate. Given the unbundling of the set from the extension rate, the residual represents maintenance of embedded inside wire. In Docket No. 82.6.37, the Commission approved of MBT's proposal to convert the maintenance rate from a per extension to a per access line basis. The MBT proposal also includes unbundling this maintenance rate from the local exchange rate. In Order No. 4951d, the Commission encouraged GTNW to file a similar unbundled maintenance charge on a per line (as opposed to per extension) basis.

55. Network Exchange Rates and Related. The Applicant's current rate structure features separate one- and two-party, and rural exchange rates for business and residential customers; there also exists a separate four-party residential rate. These rates vary for the two existing exchange sizes i.e., Libby, and Troy and Eureka. In addition, current local network rates include a bundled CPE charge. Joint users are assessed a rate equal to 50 percent of the appropriate business or residential rate. The Applicant also indicated that the current rural service contains both four- and five-party lines (TR. p. 56). The resulting annual revenue effect from increas-

ing these rates on a residual basis equals $79,500 (see Exh. 5E revised, pp. 45-47).

56. The Commission finds inappropriate a value-of-service basis for continuing interexchange rate differentials for similar service e.g., one- or two-party residence or business rates (TR. pp. 37,38). The Applicant is directed to collapse each local exchange rate to a single rate group that equals a weighted average of the existing rates in each of the Troy, Eureka and Libby exchanges; for example, the one-party residential rate would equal $6.10. Necessary rate increases to this weighted average rate shall be made via the residual process described in Finding No. 59 of this order; note that this weighted average rate must exclude the unbundled station apperatus rate of $1.50.

57. Touch-Call Line Rates. The Applicant proposed and the Commission approves of no increase to the existing Touch-Call line rates of $1.50 and $2.00 respectively for residential and business customers.

Revenue Reconciliation

58. The revenue requirements section of this order identified a need for increased revenues equal to $353,562. Schedule 8 below summarizes the Commission's "known and approved" revenue effects from this order. It remains to balance the increased revenue requirements with the Applicant's rates and test year billing determinants.

59. The residual difference between the known and approved total increase (note, this is an estimate), and the approved revenue increase of $353,562 is to be generated by applying a uniform percent increase to the Applicant's pre-interim rates for 1) the trunk line rate (Finding No. 45), 2)

Foreign Exchange (Finding No. 48), 3) local exchange network access rates (Finding No. 56), and 4) mileage charges (Finding No. 52).

SCHEDULE 8

Sources of Increased Revenue Generation

Service Category	Known and Approved Revenue Effects
Service Charges[1]	$ 39,860
Vertical Services[2]	196,011
Private Line/MTS/WATS[3]	67,211
Private Line (Intraexchange)	5,880
Local Network[4]	-46,708
	$262,254

1 Includes simple business and residence customers.

2 Includes rotary/Touch-Call ($134,424), PBX and Pushbutton ($74,922), Additional Listings, Non-list and Nonpublished ($5,468) and color elimination (-$13,335); excludes Miscellaneous Service and Equipment.

3 Private Line refers to interexchange service.

4 Includes Directory and Operator Assistance ($2,368), Line Extensions ($6,364) and Extension Service (-$55,362).

CONCLUSIONS OF LAW

1. Applicant, General Telephone Company of the Northwest, Inc., is a corporation providing telephone and other communications services within the State of Montana and as such is a "public utility" within the meaning of MCA § 69-3-101.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. The rate base adopted herein reflects original cost depreciated values and as such complies with the requirements of MCA § 69-3-109 that the value placed upon a utility's property for ratemaking purposes "...may not exceed the original cost of the property."

4. The revenue increase determined herein includes the normalization requirements to meet the 1981 Economic Recovery Tax Act.

5. The rate structure authorized by the Commission herein is just, reasonable and not unjustly discriminatory, MCA § 69-3-201.

6. The Commission has the authority to inquire into the management of the business of General Telephone Company of the Northwest, Inc. and is required to keep itself informed as to the manner and method in which the same is conducted. MCA § 69-3-106(1).

ORDER

The Montana Public Service Commission orders that:

1. The General Telephone Company of the Northwest shall file rate schedules designed to produce a test year revenue increase of $353,562 from its Montana subscribers. Rate changes resulting from interim Order No. 4923 are hereby nullified and replaced by the rates established in this order.

2. The increased revenues authorized herein shall be collected from tariffed services in the manner described in the Findings of Fact set forth in this order.

3. The increased rates authorized herein shall be effective upon the filing and approval of revised tariffs consistent with this order.

4. Final rate calculations are to be supported by detailed working papers showing: 1) test year sales; 2) Docket No. 82.6.39 rates; and 3) the product of 1) and 2), summed, equalling the total revenue requirement, less the existing revenue requirement.

5. All motions and objections made by parties in this Docket not ruled upon in the Findings in this order are hereby denied.

DONE AND DATED this 14th day of March, 1983, by a vote of 4-0 .

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:
Madeline L. Cottrill
Madeline L. Cottrill
Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten days. See 38.2.4806, ARM.