Service Date: April 5, 1984

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

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| IN THE MATTER of the Application of the Mountain States Telephone and Telegraph Company (Mountain Bell) for authority to Establish Rates and for Approval of Generic Cost and Rate Design Methodology in Connection with the Implementation of its Comprehensive Rural Tele— phone Improvement Program (RTIP) | ) | DOCKET NO. 83.11.79<br><br>ORDER NO. 5043a |

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FINAL ORDER

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FINDINGS OF FACT

1. On November 16, 1983, Mountain States Telephone and Telegraph Company (Mountain Bell, Company) filed its Application with the Montana Public Service Commission (Commission) for Authority to Establish Rates and for Approval of an Extended Generic Costs and Rate Design Methodology in connection with the implementation of the Comprehensive Rural Telephone Improvement Program (RTIP). The Company requested increased annual revenues of $683,500 for costs incurred for the RTIP through 1983.

*2.* Concurrent with the filing of the Application, Mountain Bell filed its Verified Application for Interim Relief pursuant to Section 69-3-304, MCA, and the Commission Rules ARM 38.5.501, et seq., which address the granting of interim relief by the Commission.

3. On December 30, 1983, the Commission granted Mountain Bell interim rate relief in the amount of $576,500.

4. On February 21, 1984, a stipulation between and among Mountain Bell, the Montana Consumer Counsel, and the Commission staff was submitted to the Commission. This stipulation reflected agreement among these parties that the methodology in Exhibits A through D is just, reasonable, and in the public interest and is the appropriate basis for a final order in this docket. The stipulation also reads: "…….Mountain Bell conceded to capitalizing drop wire replacement expenditures as opposed to expensed. Therefore, only one issue remains in dispute, that being the tax calculation associated with said drop and block wiring."

5. Exhibits A through D set forth the methodology for determining RTIP revenue requirements arrived at via three-way meetings among Mountain Bell, the Montana Consumer Counsel, and the Commission staff. The Commission accepts these exhibits as reflecting a reasonable method for determining the RTIP revenue requirement.

6. The one issue upon which the parties reached no agreement was the calculation of the tax savings associated with the cost of replacing aerial drop wires with buried drop wires. For the year 1983, the Company expensed these costs for tax purposes. Starting in 1984, these costs will be capitalized for tax purposes and accelerated depreciation will be taken. Pursuant to current tax law, the difference in tax expense caused by the difference between tax and book depreciation will be deferred. For 1983, there are two possible treatments associated with the tax savings resulting from drop wire costs. The difference between taxes per books and actual taxes paid, which arises as a result of expensing these costs for tax purposes and capitalizing them for book purposes can be deferred and flowed back to ratepayers over the life of the drop wires or it can be flowed through to customers immediately by reducing 1983 taxes charged to ratepayers.

7. Mountain Bell and the Montana Consumer Counsel both filed position papers on this issue. Mountain Bell believes that this tax savings should be deferred and flowed back over the life of the associated plant (normalized). The Montana Consumer Counsel believes that ratepayers should get an immediate benefit by reducing the current tax expense (flow-through). Mountain Bell acknowledges the fact that this Commission has a long history of requiring flow-through to be used unless normalization is required by law.

However, Mountain Bell asserts that "the Rural Telephone Improvement Program revenue requirement is significantly different and unique from the revenue requirement represented in general rate cases due to the finite life of RTIP," and that the Commission should allow normalization "for the same reasons used by the Commission in arriving at its decision to capitalize rather than expense the drop wire replacement costs." (Position paper, pp. 3, 4).

8. In Order No. 4950b, Docket No. 82.11.73, the Commission decided to capitalize rather than expense drop wire replacement costs because, "Replacing aerial drops with buried drops is an extensive replacement that will provide benefits for many years. (Order No, 4950b, Finding No. 12). The Commission realizes that if one item of plant is examined the tax timing differences stemming from accelerated depreciation reverses and normalization would result in all customers who pay for that plant addition to share equally in the tax offset. The reason the Commission favors flow-through is that the steady growth in plant accounts results in continuing large tax savings to the Company which should be shared by ratepayers.

9. The Company argues that normalization should be used due to the unique and finite nature of the RTIP. The only real difference between the RTIP and ongoing construction is the rate of return allowed on RTIP. Although some of the costs of the program have been targeted to the direct beneficiaries of the program, most of the costs have been picked up by the general body of ratepayers. Therefore, the Commission finds no persuasive reason to view taxes in this case in a different light than general rate cases. The flow-through method as proposed by Montana Consumer Counsel is accepted.

10. The Commission finds the revenue requirement for the RTIP to be $512,600. This amount is found by taking the $683,500 requested by the Company and subtracting $170,900, which is the revenue effect associated with the flow-through adjustment discussed above. The $512,600 annual revenue requirement represents a $63,900 annual revenue decrease from the interim revenue granted.

11. Order No, 4839 in Docket No. 80.10.79 contemplated generating RTIP revenue requirements from some combination of increased basic exchange rates, zone increment charges, and zone construction charges.

The Commission increased all of these elements in Order No. 4950b, which addressed the revenue

requirement of the 1982 RTIP. The Commission feels that the zone increment charges and zone construction charges have been increased to a maximum reasonable level. Therefore, the Commission finds it appropriate to generate the revenue requirement of $512,600 by increasing basic exchange rates only by a uniform percentage increase.

## CONCLUSIONS OF LAW

1. Applicant, Mountain States Telephone and Telegraph Company, is a corporation providing telephone and other communication services within the State of Montana and, as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

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 Section 69-3-109, MCA, that the value placed upon a utility's property for rate-making purposes . . "may not exceed the original cost of the property."

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

5. The Commission has the authority to inquire into the management of the business of Mountain Bell and is required to keep itself informed as to the manner and method in which the same is conducted. Section 69-3-106 (1) , MCA.

## ORDER

1. For purposes of final relief in this docket, Mountain States Telephone and Telegraph Company is granted increased revenues in the amount of $512,600. This represents a $63,900 reduction

in revenues from the level authorized in Interim Rate Order No. 5043.

2. Mountain Bell is directed to collect these revenues by increasing basic exchange revenues by a uniform percentage increase.

3. The rates authorized herein shall be effective upon the filing and approval of appropriate tariffs.

4. Mountain Bell is directed to refund the revenues collected pursuant to interim orders that were over and above the final revenues authorized herein with interest at the rate of 14.03 percent per annum.

DONE IN OPEN SESSION at Helena, Montana, this 2nd day of April, 1984, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed with ten (10) days. See ARM 38.2.4806.