

Service Date: December 30, 1993

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

IN THE MATTER of the Application of)	UTILITY DIVISION
AT&T COMMUNICATIONS OF THE)	
MOUNTAIN STATES, INC. For interim)	DOCKET NO. 83.11.80
and final approval in interim and final)	
intrastate Tariffs.)	ORDER NO. 5044

INTERIM RATE ORDER

FINDINGS OF FACT

Background

1. Pursuant to the provisions of this Commission's Order No. 5018a in Docket No. 83.6.47, AT&T Communications of the Mountain States, Inc. (hereafter AT&T Communications) has filed proposed interim and final tariffs to cover intrastate inter-LATA services that it will assume beginning January 1981, pursuant to the Modified Final Judgment in *United States v. Western Electric, et al.* Civil Action No. 82-0192.

2. AT Communications has requested interim approval of tariffs that would assume the existing Mountain Bell tariffs for intrastate inter-LATA services plus a 19.5 percent increase. Such rates would provide AT&T Communications with an 11.70 percent overall rate of return. That is the return that was authorized by the Commission for Mountain Bell in

3. In calculating the rate level necessary to generate the 11.70 per cent rate of return the Company considered its projected costs of providing inter-LATA service beginning January 1, 1994. These included \$21,003,000 in carrier access charges to be paid to Mountain Bell and Independent Companies as well as a \$2,827,000 bulk-billing to be paid to Mountain Bell¹. Other costs of \$10,842.99 are made up primarily of: costs transferred from Mountain Bell in the divestiture process; contract payments to Mountain Bell for shared facilities; and National Operations and Management Organization cost allocated to Montana operations.

Discussion and Analysis

¹ For a description and derivation of the carrier access and bulk billing charges see Order No. 5018a in Docket No. 83.6.47.

4. AT&T Communications' request for interim rate approval presents the Commission with rather unique situation in that the Company has absolutely no history of operations in Montana. Consequently, the request is based upon projected levels of revenues and costs. The Commission concludes that analysis based upon projections is unavoidable under the circumstances. However, the Commission does intend to review and analyze actual results of operations as soon as they become available. AT&T Communication is directed to file monthly results of operations with the Commission. If such results are not significantly in line with the protections relied on in this filing the Commission may conduct additional review and rate adjustment on an interim basis prior to the issuance of final order in this docket ²

5. Due to the circumstances surrounding this filing and the imminence of the January 1, 1984 start-up date for AT&T Communications, the Commission has not been in a position to thoroughly scrutinize the projections contained in the filing. however, modifications to the level of the request would appear appropriate in two other areas.

6. First adopting Mountain Bell's authorized rate of return for AT&T Communications on an interim basis would appear reasonable given that no inquiry has yet been made into AT&T Communication's costs of capital. AT&T Communications proposed adopting 11.70 percent rate of return because that was the level authori7ed for Mountain Bell in Docket No. 82.2.8. However, the Commission has just issued a more recent Mountain Bell general rate case decision, Docket No. 83.3.18, wherein a 11.23 percent return is authorized for Mountain Bell. This is the rate of return that should be applied for interim purposes in this docket.

7. An additional area of Commission concern as the Bell System enters divestiture centers upon the treatment of the gain realized from the sale of certain Customer Premises Equipment (CPE). Mountain Bell and the Commission agreed some time ago that single line telephone instruments (Big 6 CPE) should be offered for sale to customers during 1983 prior to divestiture. It was the Commission's desire that these instruments be offered for sale at book value. Order No. 49Mb, Docket No. 82.6.37. Mountain Bell desired that the sale be at market value which was above book value in most instances. Mountain Bell brought a Court action which successfully blocked a sale at book value. Mountain Bell v. PSC, Cause No. 49063, First

² Additional interim treatment may also be triggered by implementation of customer Access Line Charges and related elimination of the bulk-billing element at some future date. See Order No. 5018a in docket No. 83.6.47.

Judicial District. In order to assure that at least some form of sale plan was implemented in 1933, the Commission reluctantly approved tariffs offering the Big 6 CPE for sale at market value at its agenda meeting of April 11, 1983.

8. However, in a approving sale at market value it was the Commission's intent that the gain realized from sale at market value was to accrue to Mountain bell and Mountain Bell ratepayers and not to AT&T at divestiture. Recent discussions between Mountain Bell and staff have revealed that because "salvage accounting" has been applied to CPE sales; the remaining CPE will be transferred to AT&T at a lower book value than would at otherwise have been the case. Consequently the gain from the sale will effectively accrue to AT&T and not Mountain Bell.

9. The matter of the gain on sale of CPE relevant to this order because the Commission perceives this order as the most appropriate vehicle to assure that its original intent concerning the go n is realized the Commission first considered imputing the gain on the sale directly to Mountain Bell and thereby reducing the revenue requirement recognized in Mountain Bell's interim rate order, Order No. 5046, Docket No. 83.11.81. This would allow the gain to accrue to Mountain Bell ratepayers but penalize Mountain bell itself because AT&T and not Mountain Bell will actually realize the gain. Accordingly the Commission concludes that it would be more appropriate to impute the gain to AT&T Communications and thereby reduce the revenue requirement recognized herein.

10. The Commission recognizes that AT&T Information Systems and not AT&T Communications will actually realize the gain from the sale. However, it is impossible for the Commission to impute the gain directly to AT&T Information Systems because this Commission will not regulate its services. FCC action of November 23, 1983, CC Docket No. 81-893. The important consideration is that the gain somehow be imputed to AT&T. It was AT&T who made the decision to sell the CPE at market is opposed to book value. AT&T is also responsible for the decision to apply salvage accounting. Imputing the gain to AT&T communications will ultimately result in an offset to the earnings of AT&T shareholders the same as if the gain were imputed to AT&T Information Systems because AT&T owns both companies.

11. Imputing the gain on sale to AT&T Communications will offset AT&T Communications' revenue requirement recognized in this order and result in lower rates for

intrastate inter-LATA toll and like services. Although the group of customers utilizing these services will not be identical to the group of customers utilizing Mountain Bell services in the future, it is sufficiently similar to render this treatment of the gain which properly imputes the gain to AT&T as the most appropriate.

12. Consequently, the Commission directs that the revenue requirement determined for purposes of granting interim rate relief herein be offset by a one-time (amortized over 12 months) recognition of the gain on sale of Big 6 CPE. The gain on sales projected through December 31, 1983, was \$636,409.

13. Interim Rate Order No. 5046 In Docket No. 83.11.81 issued con-currently herewith discussed and ruled upon certain differences between how Mountain Bell and AT&T Communications proposed to provide Outward WATS, Inward WATS, and FX services. Tariffs filed in response to this order should reflect the rulings contained in Order No. 5046. In addition, such tariffs should exclude the provision of AT&T WATS (pre-filed testimony of Daniel M. Krueger. p. 12). The Commission perceives this as a new service offering which should not be approved in an Interim order without benefit of closer examination and opportunity for hearing and comment

14. The Commission concludes that a flat percentage increase to the existing Mountain Bell rates for all intrastate inter-LATA services is appropriate for recovery of the revenue requirement authorized herein. AT&T is authorized to file tariffs that will recover \$3,743,000 in annual revenues above those generated under existing Mountain Bell tariffs calculated as follows:

		(000)
1.	Average Rate Base	\$19,575
2.	Current Authorized Rate of Return	<u>11.23</u>
3.	Total Earnings Required	2,198
4.	Earnings Available	<u>46</u>
5.	Additional Earnings Required	2,152
6.	Net to Gross Multiplier	2.0347
7.	Additional Revenue Required	\$ 4,379
8.	Less Gain on CPE Sales	636
9.	Revenue Requirement	<u>\$ 3,743</u>

CONCLUSIONS OF LAW

1. AT&T Communications is a corporation providing telecommunication services in the state of Montana and as such is a public utility within the meaning of 69-3-101, MCA.
2. The Montana Public Service Commission properly exercises jurisdiction over AT&T Communications' Montana operations pursuant to Title 69, Chapter 3, MCA.
3. Pursuant to 69-3-304, MCA, the (may, in its discretion, temporarily approve increases In rates pending a hearing or final decision. Any interim increase granted may be subject to rebate with interest if the final decision disapproves the increase.
4. The relief and rates approved herein arc just and reasonable on an interim basis pending hearing and final decision.

ORDER

1. AT&T Communications of the Mountain States is hereby granted authority to implement rates on an interim basis at a level sufficient to allow an 11.23 percent rate of return as more fully set forth in the preceding findings.
2. Such rates are to be implemented by applying a flat percentage increase to existing Mountain Bell tariffs.
3. AT&T Communications' proposal to institute an AT&T WATS service (Finding No. 13) is denied for the interim.
4. If the final decision in this docket is to disapprove any of the revenues authorized herein, those revenues may be subject to rebate at 13.5 percent interest (the return on equity authorized to Mountain Bell in Docket No. 83.3.18. Order No. 4991b).
5. AT&T Communications is directed to file actual operating results the Commission on a monthly basis as soon as they become available.
6. The rates authorized herein shall be effective for service rendered and after January 1, 1984.

DONE IN OPEN SESSION at Helena, Montana this 28th day of December, 1983 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 within ten (10) days. See 38.2.4806, ARM.