

Service Date: January 31, 1985

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 and Telegraph) UTILITY DIVISION
Company (Mountain Bell) for Authority to)
Change Rates and for Approval of Tariff) DOCKET NO. 83.11.81
Changes Due to Divestiture.)

IN THE MATTER of the Application of the) UTILITY DIVISION
Mountain States Telephone and Telegraph)
Company (Mountain Bell) for Authority to) DOCKET NO. 84.4.19
Increase Rates and for Approval of Tariff)
Changes for Telecommunications Service.) INTERIM ORDER NO. 5046e

FINDINGS OF FACT

1. On April 26, 1984 Mountain Bell filed an application for authority to increase rates to generate an additional \$28,004,000 annually. That application is based on a 1984 budgeted test year.

2. Mountain Bell requested interim relief on April 26, 1984 and again on September 7, 1984. The Commission issued orders responding to these requests on July 5, 1984 and October 11, 1984 respectively. The Commission denied both interim requests noting that the Companies actual results were not tracking well with budgeted amounts and therefore the Commission was very concerned about the accuracy of Mountain Bell's budget.

3. On October 18, 1984 Mountain Bell filed a Revised Motion to Amend on the matters in this Docket be bifurcated, The issues of rate of return, capital structure, and rate design would be heard beginning December 4, 1984. A hearing on the remaining issues would be deferred until June 4, 1985. The amended procedure proposed by Mountain Bell would allow the

Company to file an actual 1984 test year for consideration in this case, thus eliminating all the problems inherent in analyzing budgeted data.

4. On November 2, 1984 the Commission issued an Amended Procedural Order which bifurcated the hearings in this Docket and set the procedural order for the remainder of the case. In the Amended Procedural Order the Commission finds that the opportunity to conduct its deliberations based upon actual as opposed to budget figures would greatly enhance its ability to assure that rates for Mountain Bell remain just and reasonable. The Commission also agreed to address the need for interim relief based on at least ten months of actual results prior to the January 26, 1984 original nine month deadline for this docket. In procedural paragraph 5 the Commission stated that such interim order “will apply the Commission’s recognized rules and standards for granting interim relief.”

5. On December 26, 1984 Mountain Bell filed a request for \$20,049,000 in interim relief.

6. The Commission made three adjustments to Mountain Bell’s interim request. The first adjustment recognizes the currently authorized overall rate of return granted in Order No, 5046d in this Docket. The second adjustment denies Mountain Bell’s request for immediate authorization of a three year amortization of the investment in inside wire. This is a new issue and will be considered in the final order in this docket. The third adjustment reverses the Company’s un-recovered capital adjustment. This adjustment was denied in the last Mountain Bell general rate case, Docket No. 83.3.18.

7. The Commission finds that Mountain Bell’s filing is substantially in accordance with the interim rules and that the Company is entitled to \$10,495,000 calculated as follows:

	(000)
Average Rate Base As Requested ¹	\$188,137
3-year amortization of inside wire	548
Unrecovered Capital	<u>39</u>
	188,724

Rate of Return		<u>11.64%</u>	<u>21,967</u>
Earnings Available			
As Requested	\$16,141		
3-year amortization	796		
Unrecovered capital	<u>347</u>		<u>17,284</u>
Earnings Required		4,683	
		<u>2,0290</u>	
Revenue Required		9,502	
Settlements ²		1,017	
Refund from ATTIS		<u>(24)</u>	
TOTAL INTERIM REV. REQ.			<u>\$ 10,495</u>

1 All data on this table is from page 2 of the attachments of Brian Johnson to the interim application.

2 Settlements were calculated by Brian Johnson.

8. The Commission grants this interim request with some hesitation, The analysis of this interim accepts the “per books” data of the Company. Although it is typical for the Commission to take this approach in an interim, the Commission can normally judge the reasonableness of the booked costs by analyzing the relationship of current costs with past trends. Divestiture has made that kind of analysis almost impossible to do in this case. Therefore, the Commission finds that a very in-depth probe into the reasonableness of current costs is needed before the final order in this docket.

9. Both the Commission staff and the Montana Consumer Counsel requested the Company calculate the effect on the test year revenue requirement if the tax law option in which the basis of an investment for tax purposes is not reduced and the investment tax credit rate is reduced by 2 percent is elected. Mountain Bell responded that the analysis of the revenue requirement impact of a change in ITC election would require a lengthy special study. The Company instead submitted examples of the revenue requirement impact assuming an investment in several plant categories of \$10,000 per year. It appears that the revenue requirement would be lower in every year of the plant life using the 8 percent ITC election.

Therefore, the Commission finds that the staff and Montana Consumer Counsel request to calculate an actual revenue requirement impact is reasonable and directs the Company to submit this calculation with its March 25, 1985 filing.

10. Mountain Bell proposed interim price changes to reflect an initial revenue increase request of \$10,297,000, The proposed price changes included:

1) increase local coin message rate from 10¢ to 25¢	\$ 1,909,654
2) create a Colstrip Base Rate Area	(112,656)
3) increase subscriber access by a uniform 20.41%	<u>8,500,002</u>
	\$10,297,000

11. On a final basis, MBT proposes, in addition to the Colstrip Base Rate Area and local coin message rate increase, local operator charges and a residual services uniform percent increase to a broader base², The only products or excluded from uniform price increases in the final proposal are:

- 1) intra exchange usage prices,
- 2) Centron nonaccess,
- 3) Zone Increment and Zone Construction Charges, and
- 4) intraLATA MTS and WATS.

12. The MPSC finds that an interim ruling on local coin message prices and the proposed Colstrip base rate area would be inappropriate. These proposals will be considered on a final basis.

13. Given an interim annual increase in total revenues of \$10,495,000, a uniform percent increase to exclusively subscriber access prices would require a 24.02 percent increase³. An increase of this magnitude would produce the following changes in subscriber access prices.

	Order No. 5103	(\$/line/month) Increase	Order No. 5046e
Residential LMS (LW1)	5.15	1.24	6.39
Residential flat (1FR)	8.76	2.11	10.87
Business LMS (LMB)	14.58	3.51	18.09
Business flat (1FB-2)	31.81	7.65	39.46
1FB-2 with CALC	37.81	7.65	45.46

14. The MPSC finds that the magnitude of the interim change in total revenue requires a broader application of a uniform percent change to prices. For interim purposes, the uniform percentage change should be applied to the broader base found in the MBT final proposal, except that the Dual Element service charges should be excluded. The nonrecurring nature of the Dual Element charges poses difficulties should the final change in total revenues dictate a rebate.

- (2) See Exh, MBT-15, p. 10-12 and Schedule 1.
- (3) 1984 forecasted sales at Order No. 5103 (interim RTIP) prices.

15. The resulting calculation of the uniform percent price change is as follows⁴.

	Revenue (103 \$/year)
Current Subscriber Access	41,652
Order Nos. 5055c and 5103	1,996
Other Network Services	25,899
Private Line and Interexchange DA	2,040
Proposed Exclusions	(4,811)
Local Coin Message	(1,346)
Dual Element Service Charge	(7,984)
Revenue Basis	57,446
Revenue Increase	10,495
% Increase	18.27%

16. Resulting subscriber access prices are as follows:

	Order No. 5103	(\$/line/month) Increase	Order No. 5046e
Residential LMS (LW1)	5.15	.94	6.09
Residential flat (1FR)	8.76	1.60	10.36
Business LMS (LMB)	14.58	2.66	17.24
Business flat (1FB-2)	31.81	5.81	37.62
1FB-2 with CALC	37.81	5.81	43.62

- (4) Derived from Exh. MBT-15, Schedule 1, adjusted to reflect Order No. 5055c (interim access) and Order No. 5103 (interim RTIP) price changes.
- (5) Includes \$1,201,000 of complex premise wiring subject to 10 year phase out.

CONCLUSIONS OF LAW

1. Applicant, The Mountain States Telephone and Telegraph Company, is a corporation providing telephone and other communications services in the state of Montana, and as such, is a public utility in the meaning of 69-3-101, MCA.

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

3. Section 69-3-304, MCA, provides in part: "The Commission may, in its discretion, temporarily approve increase pending hearing or final decision."

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to Mountain Bell and are just, reasonable, and not unjustly discriminatory.

ORDER

1. Mountain States Telephone and Telegraph Company is hereby granted authority to implement, on an interim basis, increased rates designed to generate \$10,495,000 in additional annual revenues.

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

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

4. Interim rates granted herein are subject to rebate should the final order in this Docket determine that a lesser increase in annual revenues is warranted. Such a rebate would include compound interest pursuant to Section 69-3-302, MCA, as amended by Senate Bill No. 305, 1983 Legislature.

DONE IN OPEN SESSION at Helena, Montana this 28th day of January,
1985, by a vote of 3 -2

BY THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

JOHN B. DRISCOLL, Commissioner
DISSENTING

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner
DISSENTING

DANNY OBERG, Commissioner

ATTEST:

Trenna Scoffield
Secretary

(SEAL)

Note: You may be entitled to judicial review in this matter. Judicial review may be obtained by filing a petition for review within thirty (30) days of the service of this order. Section 2-4-702, MCA.

DISSENT

Docket No. 84.4.19

Order No. 5046e

Two problems existed in the early and late 1960's, which caused a severe financial hardship to utilities; the inflation rate at that time, which reached as high as 13% and the other was the fact that there was no time certain for a Public Service Commission decision. It could, and sometimes did, extend for well past a year. The result was that between the time a utility asked for a rate increase and the time it was granted, they could be in a very serious debit condition. The Montana Legislature therefore, in 1979, modified the interim rate increase rules so the Public Service Commission could grant an interim rate increase rapidly and with minimum information.

However, because these two factors have now disappeared, that is, inflation is now running at a 2 to 3% annual rate and the Commission is bound by law to grant or deny a rate increase within 9 months of the filing, utilities are no longer placed in financial jeopardy, and therefore, the reasons for the current interim rules have been eliminated. If the utility concerned were in jeopardy and in danger of failing, the interim rule would make sense. However, because no one has even suggested this is the case in Mountain Bell, I strongly dissent from the Order to grant an interim rate increase.

TOM MONAHAN