Service Date: December 30, 1983

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

IN THE MATTER of the Application of	) UTILITY DIVISION
The MOUNTAIN STATES TELEPHONE	) DOCKET NO. 83.3.18
AND TELEGRAPH COMPANY (Mountain	) ORDER NO. 4991b
Bell) For Authority to Increase Rates	)
and for Approval of Tariff Changes for	)
Telecommunications Service.	)

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APPEARANCES

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FOR THE COMMISSION:

Calvin Sumisho, Staff Attorney, 1227 11th Avenue, Helena, Montana 59620

BEFORE:

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

FINDINGS OF PACT

PART A

GENERAL

1. On March 28, 1983 Mountain States Telephone and Telegraph Company (Mountain Bell, Applicant or Company) applied to the Commission for authority to increase rates for telephone services within the state of Montana. Mountain Bell requested the Commission recognize an annual revenue deficiency of $20,710, 000. Mountain Bell's rebuttal testimony, filed on September 26, 1983 revised the requested annual revenue increase to $18,268,000.

2. On April 12, 1983, pursuant to proper notice, a prehearing conference was held for the purpose of discussing procedure. On April 25, 1983, a Procedural Order was issued by the Commission setting forth dates for intervention, discovery, filing of testimony, and hearing on the above application.

3. Concurrent with the filing of the application, Mountain Bell filed an Application for Interim Relief, pursuant to 69-3-304, MCA, and the Commission rules ARM 38.5.501, et seq. The application requested interim relief in the amount of $8,512,104 annually, inclusive of independent company settlements. On June 10, 1983 the Commission granted Mountain Bell interim relief in an amount of $4,235,593, also inclusive of settlements.

4. On August 22, 1983 the United States District Court in The Mountain States Telephone and Telegraph of Public Service Regulation, et al (Cause No. CV-83-177-H) issued d ruling requiring implementation of the FCC depreciation rates, effective August *22, 1*983.

Interim Order No. 4991a authorized the Company to implement additional annual revenues for depreciation in the amount of $1,883,000.

5. The Montana Consumer Counsel (MCC) has participated in this Docket on behalf of the consuming public since its inception.

6. In addition to the Montana Consumer Counsel, Central Answering Services and the Department of Defense were granted intervention in this proceeding.

7. During the months of October and November, 1983, satellite hearings were held in the following cities: Missoula, October 6; Great Falls, October 20; Thompson Falls, October 24; Billings, November 1; and Havre, November 7. These hearings are designed to explain the reasons for increased rates to Mountain Bell customers and to afford them the opportunity to voice opinions on the application.

8. Pursuant to appropriate Notice of Public Hearing, a hearing was held on the application on October 4-7, 1983 in the House Chambers of the State Capitol in Helena, Montana.

9. Mountain Bell has proposed a test year comprised of the 12 months ended December 31, 1982. The Commission finds this test year to be a reasonable period in which to measure the Company's revenues, expenses, and required return for the purpose of determining fair and reasonable rates for telecommunications services.

10, On August 24, 1982, the United States District Court for the District of Columbia entered a Modified Final Judgment (MFJ) in the case of United States v. Western Electric Co., et al., Civil Cause No. 82-0192, which causes AT&T to divest itself of its local operating companies, including Mountain Bell, on January 1, 1984. Pursuant to the MFJ, Mountain Bell will not be allowed to provide interLATA Services or customer premises equipment (CPE). Loss of these services will substantially change Mountain Bell's business operations. This proceeding does not address changes taking place in Mountain Bell caused by the MFJ These changes will be addressed in Docket No. 83.11.81, Mountain Bell's application for authority to change rates and for approval of tariff changes due to divestiture.

PART B

COST OF CAPITAL

Capital Structure

11. The Company's witness, Mr. Bruce Wilson, recommends that the Commission use the Bell System consolidated capital structure as of December 31, 1982. This capital structure contains 42.3 percent debt, 2.1 percent preferred stock, and 55.6 percent common equity. Mr. Wilson testified that the two major rating agencies, Standard and Poor's and Moody's, support the need to maintain a 40-45 percent debt ratio for Local Exchange Companies. He also comments that the consolidated capital structure reflects the risks to current investors because Mountain Bell's own capital structure (including short-term debt) as of December 31, 198?, is similar to the consolidated capital structure and Mountain Bell will be divested with a debt ratio no higher than 45 percent (Exh 3, pp. 11-12)

12. Dr John Wilson testified in this area for the Montana Consumer Counsel. Dr . Wilson recommends using Mountain Bell's own capital structure of 45.22 percent long and short-term debt and 54.76 percent equity as a starting point in determining an Appropriate capital structure for Mountain Bell's Montana intrastate operations (Exh. MCC-4, p. 63). However, Dr. Wilson comments that "Each of the major service categories within MBT should receive a return commensurate with its own risks." (Exh, MCC-4, p. 65) To accomplish this Dr. Wilson applies different capital structure and equity cost rates to the various service categories that he believes exist within Mountain Bell, i. e. competitive, potentially competitive, and monopoly. He then combines these results on the basis of the net investment in each category subject to this Commission's jurisdiction as calculated in his cost of service study. The resulting recommended capital structure is 53.58 percent debt and 46.42 percent common equity (Exh. MCC-5, Sch, J.W.-2).

13. The Commission finds that Dr. Wilson's capital structure recommendation is

generally appealing for purposes of rate design but is not acceptable for establishing capital structure on this record. Dr. Wilson assigns capital structures of 70 percent equity, 30 percent debt and 40 percent equity, 60 percent debt to the competitive category and the monopoly category respectively. Dr. Wilson did not present a study to support the appropriateness of these capital structure nor did he present an analysis of the impacts that adopting these structures may have on risk, i.e. on the cost of debt or the cost of equity. Exactly which services fall within the competitive, potentially competitive, and monopoly categories is also subject to opinion or judgment. For instance, Dr. Wilson includes "Other Services" in his monopoly category. Included under the heading "Other Services" in account 231-03 - Radio (Exh. MCC-6, p. 13 of 65). This account consists mainly of mobile radio transmitters and receivers located in customers' motor vehicles and paging devices. The FCC issued a Notice of Proposed Rulemaking in CC Docket No. 83-372 contemplating the deregulation of this equipment. Certainly his is indicative of a competitive environment. There is also a major problem with the capital structure for the potentially competitive category. Dr. Wilson uses this category basically as a "plug" so that the sum of the parts equal the whole. Under cross-examination by Mr. Lopach Dr. Wilson explained:

> That's a computation that has a precise number in it because it relates back directly to the Company's actual capital structure. Having established a comparable capital structure for the regulated utility operations that's reflective of a utility capital structure and having established a capital structure for the competitive operations, that is reflective of a typical competitive capital structure. It's necessary to decide what to do with respect to the types of services that are potentially competitive, such as intrastate toll. It would be possible to assign a capital structure other than the precise numbers that are shown on page 3, but if you did that, let's say on a comparable basis, with other industrial sectors that may face the same kinds of risks, you would not produce a capital structure that would be exactly equal to the Company's composite capital structure and, therefore, there would be either overrecovery or under-recovery of revenues. Consequently, this number, which is intermediate between the competitive and the monopoly, is very precise, but the precision is not a matter of judgment. The precision is simply reflective of the fact that I decided that is a judgment, that it's appropriate to have the sum of the parts equal the whole. (TR., p. 171)

This Commission agrees with Dr. Wilson's judgment that the sum of the parts should equal the whole. However, this results in a capital structure that is not based on a study of risk or even a judgment of appropriateness but rather it is based on calculation of what structure is needed so that the sum of all categories equals Mountain Bell's own capital structure.

14. Finally, in the past, and again in this docket, the commission declines to include short-term debt in determining a capital structure or a debt cost rate (See Finding No. 17). If short-term debt is excluded, Mountain Bell's capital structure is approximately 39 percent debt and 61 percent equity, This would result in a potentially competitive capital structure of 34 percent debt, 66 percent equity, and a total jurisdictional capital structure of 43 percent debt, 57 percent equity. This result is far from Dr. Wilson's recommendation.

15. Although the Commission does not support Dr. Wilson's capital structure recommendation, the Commission does agree with Dr. Wilson's assessment that "MBT's capital structure is extremely equity-rich for a regulated utility" (Exh. MCC-4, p. 69). Certainly the equity ratio for Mountain Bell is much higher than the equity ratios of 35-40 percent typically found in electric utilities (TR. pp. 85, 161). The Commission is deeply concerned that Mountain Bell's decision to maintain such a high equity ratio causes Montana ratepayers to pay higher rates than are necessary to maintain Mountain Bell's financial integrity, Therefore, the Commission adopts a hypothetical capital structure of 50 percent debt, 50 percent equity as balanced, prudent, and reasonable for the intrastate jurisdictional services. Such a structure is significantly higher in equity than other regulated companies, reflecting the competitive and potentially competitive nature of various intrastate telecommunications services (TR. pp. 237-242).

Cost of Debt

16. Mr. Wilson proposes using Bell System Consolidated embedded cost of debt. consistent with his capital structure recommendation, Mr. Wilson includes short-term debt in his cost rate. Dr. Wilson proposes using Mountain Bell embedded debt costs and also includes short-term debt. The Commission finds that Mountain Bell's cost rate more accurately reflects the cost of serving Montana customers.

17. The Commission. has examined the concept of including short-term debt in rate of return calculations many times in the past. The commission has continually rejected inclusion of short-term debt on the grounds that short-term debt is generally used as temporary financing for construction. (TR. P. 156) This Commission does not allow Construction Work in Progress in rate base calculation. The Allowance for Funds Used During Construction (AFUDC) rates are typically based on short-term debt rates. This factor may lead to double counting if short-term debt is also included in cost of capital calculations. The Commission finds that inclusion of short-term debt is inappropriate. The Commission accepts 8.96 percent as the cost of debt (Exh, MB-3 Sch. 2).

Cost of Equity

18. Mountain Bell sponsored two witnesses to address the cost of common equity, Mr. Bruce Wilson and Mr. Robert Morris. Mr. Morris based his recommendation on a discounted cash-flow (DCF) analysis. Mountain Bell is a wholly own d subsidiary of AT&T and therefore its stock not publicly traded. Because of the forthcoming divestiture, Mr. Morris constructed a proxy of telephone companies serving markets similar to Mountain Bell's service areas instead of analyzing the cost of equity at the AT&T level only. Mr. Morris concluded that the market required rate of return on equity is 16.25 percent and after adjusting this rate to maintain a market-to-book ratio of 1.14-1.20 he recommends the Commission allow a return on equity of 17.57 percent to 18.10 percent.

19. Mr. Wilson testified that the cost of equity to AT&T would provide a conservative estimate of the cost of equity for Mountain Bell. Mr. Wilson bases this conclusion on concerns which analysts and rating agencies are expressing for the post-divestiture operating companies (Exh. MB-3 p. 3). Mr. Wilson's DCF and comparative earnings analysis result is a recommendation of a 15 . 6 percent to 17.6 percent allowed return on equity,

20. Dr. John Wilson testified on behalf of the Montana Consumer Counsel concerning the cost of common equity to Mountain Bell. Dr. Wilson uses a DCF analysis and a comparable earnings analysis to determine a cost of equity to Mountain Bell, Dr. Wilson conducts these analyses at the AT&T level, Based on his analyses Dr. Wilson recommends a cost of equity range of 11 percent to 14 percent.

21. The DCF method of analysis has enjoyed considerable support by this Commission because it somewhat lessens the degree of subjectivity inherent in analyzing the return investors require to invest in common stock. Dr. Wilson explains:

> ……. the model is based upon the proposition that the total return received by shareholders consists of dividends and capital gains, and these are measured in terms of the current dividend yield plus the expected rate of dividend growth, The DCF model, which combines yield and growth information to produce the total return expected by investors, is the following:
>
> | | | | | |
> |---|---|---|---|---|
> | Total Return to Investor | = | Current Dividend Yield | + | Expected Dividend Growth Rate |
>
> The model makes no separate provision for capital gain since they are fully accounted for in the growth component capital gains are a consequence of price appreciation which, in turn, is a consequence of rising dividends and expected dividend growth,

While all witnesses present DCF analyses, the results obtained varied substantially.

22. The Commission finds that it is appropriate to place primary reliance on the DCF analysis at the AT&T level. All witnesses agree that in this case an analysis of AT&T's cost of equity will provide a fair return to Mountain Bell. AT&T is included as one of the five companies Mr. Morris uses as a proxy and he also does a DCF analysis at the AT&T level.

23. Dr. Wilson and Mr. Wilson both agree that the proper dividend yield component of the DCF formula is 8.5 percent (Exh. MCC-4, p. 31 and TR. p. 98). Mr. Morris recommends using a dividend yield range of 8.80 percent to 8.83 percent. The 8.5 percent dividend yield is based on a current dividend of $5 .40 and a recent average price. Mr. Morris used a $66 month-end price and an expected dividend yield based on his expected growth factor (Exh. MB-1, Sch. 3, p. 5). The growth factor is the second component in the DCF formula and should not be accounted for twice. The Commission accepts 8.5 percent as the appropriate dividend yield.

24. Mr. Morris testified that current investors expect approximately 8.0 percent growth for AT&T. Mr. Wilson concluded that expected growth is 6.5 percent to 8.0 percent. Both of these analysts relied on indications of growth in earnings and dividends. Dr. Wilson testified that the investors' dividend growth expectations are in the range of 0 percent to 5 percent. Dr. Wilson

examined estimates of AT&T's growth in book value as well as growth in dividends and earnings. Dr. Wilson explains:

> Another deficiency in Mr. Wilson's DCF study is his exclusive focus on earnings and dividend growth, to the exclusion of book value growth. This is a major error because book value, especially in a regulated industry where rate base is set equal to the net book cost of utility property, is the foundation for both earnings and dividends. Unless one assumes that either the dividend payout ratio or the earnings rate will increase without limit (hardly a reasonable assumption to make), book value growth must be recognized as the foundation for earnings and dividend growth. AT&T's five and ten year compound annual book value growth rates (ending in 1982) are 3.63 percent and 3.87 percent, respectively. (Exh. MCC-4, p. 39)

This Commission has historically placed substantial weight on growth in book value as being a good indicator of long-term growth in dividends. This seems especially appropriate at this point in time because analysts' forecasts for the post divestiture companies vary greatly. For instance, Value Line, April 29, 1983 estimated dividend growth for the next five years would be .5 percent (Exh. MCC-5, Sch. J.W.-4). In March of 1983 Merrill Lynch projected dividend growth in the next five years to be 9.0 percent. The Commission accepts the upper end of Dr. Wilson's recommended growth range of 5 percent. Combined with an 8.5 percent dividend yield, this results in a cost of common equity of 13.5 percent. The Commission finds 13.5 percent to be a reasonable cost of common equity for purposes of setting intrastate rates for Montana.

25. Mr. Wilson and Mr. Morris request consideration of 50 to 185 basis points be added to the return on common equity to enable the Company's stock to sell at or above book value. Mr. Morris recommends granting a return high enough to allow the Company to sell stock at 1.14 to 1.20 times book value. Mr. Wilson explains:

> Proceeds from new stock issues will be below the market price due to issue expenses and underwriting fees. Also, there is the distinct possibility that new shares coming to the market will pressure the market price, and that the general level of stock prices could decline during the issue process. To offset these costs and contingencies, the Company should carry a market price somewhat above book value. This prevents dilution of the stockholders' equity investment by permitting issue proceeds to at least equal book value. (Exh. MB-3, P. 25)

26. The Commission has denied this type of an adjustment in the past two Mountain Bell dockets on the grounds that such an allowance should not be granted absent a showing that these expenses would actually be incurred. In this docket Dr. Wilson recommends that the Commission reject this adjustment because

> …… MBT's common equity ratio is adequate for intrastate purposes and further common equity capital would not be the most economical source of additional funds. This means that no allowance for issuing common stock is needed since it is neither necessary nor reasonable to provide revenues to cover an hypothetical cost which is not attributable to serving the needs of intrastate customers.
>
> In any event, even if the Commission determined that an adjustment to the equity cost rate related to issuance expense was appropriate, it would be a negligible amount. That is, it is clear that issuance expenses apply only to new publicly offered equity capital additions. Therefore, a 50 basis point allowance on new issues would amount to only 1/20th of 1 percent (.05 percentage points) on total equity if new public issues were expected to amount to 10 percent of outstanding stock annually. (Exh. MCC-4, pp. 59-60)

The Commission denies Mountain Bell's request for additional basis points.

Overall Rate of Return

27. Based on the findings for long-term debt and common equity cost rates in this proceeding, the following capital structure and costs resulting in an 11.23 percent overall rate of return are determined appropriate:

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	50.00%	8.96%	4.48%
Common Equity	50.00%	13.50%	6.75
Total	100.00%		11.23%

PART C

RATE BASE REVENUES AND LXP NSES

28. Monte Shriver, District Staff Manger at Mountain Bell, presented testimony for Mountain Bell concerning the company's current financial condition and calculated the requested revenue requirement. In order to assess Mountain Bell's current financial position Mr. Shriver started with the Company's Montana intrastate income statement and average rate base for the calendar year 1982 and then adjusted the results to arrive at a test year earnings level, Three major types of adjustments were considered:

1. Accounting adjustments - required to eliminate entries in the test year applicable to other accounting periods, to include entries made in other accounting periods applicable to the test year, or to include recommended changes in existing accounting procedures.

2. Pro forma adjustments - required to annualize the effect of cost level changes which are known and measurable, which became effective during the test year, or which are to become effective subsequent to the test year,

3. Statutory or commission adjustments – required by Montana Statute or prior commission orders.

These adjustments are numerous and many are uncontested, Therefore, unless specifically discussed in this order, the Commission accepts the adjustments made by Mr. Shriver

29. Mr. Shriver made numerous adjustments to his original exhibits in his rebuttal testimony. The Commission included the following adjustments from Exhibit MB-11 in its calculation of Company adjusted results (Finding No. 61): CPE Phase-out, test year ABI expenses, management and non-management wage true ups. The Commission also accepted and

included the pension expense update as filed by Mountain Bell in late filed Exhibit MCC-7, page 3.

30. Mr. Richard Maginnis testified on behalf of the Montana Consumer Counsel on issues concerning revenue, expense and rate base levels and calculated MCC's recommended revenue requirement.

Accrued Interest

31. Mr. Maginnis recommends deducting accrued interest from rate base. Mr. Maginnis testified that prior to the time when interest is actually paid to investors, accrued interest represents cost-free capital to the Company, and should therefore be deducted from rate base (Exh. MCC-8, p.7). Mr. Shriver rebuts this argument explaining that to deduct accrued interest from rate base is equivalent to treating this liability at zero cost in cost of capital calculations which the Commission has specifically rejected in the past. File also points out that the Commission do s not consider working capital in calculating rate base. To accept deduction of accrued interest only ignores the fact that many currant assets used to provide service are not included in rate base (Exh. MB-l1 p. 21).

32. The Commission rejects Mr. Maginnis' proposal to reduce rate base by accrued interest balance This Commission does not consider working capital adjustments in telephone utility rate base calculations. To consider current liabilities and ignore current assets is inconsistent and unfair to Mountain Bell.

Verification Transfers

33. Mr. Maginnis proposes removing verification transfers from rate base, Verification transfers represent missing items of plant being written off over a ten year period pursuant to a Federal Communication Commission (FCC) order. Mr. Maginnis explains that since this plant is not used or useful for providing telephone service it should be excluded from rate base.

34. The Commission has strictly applied the used and useful qualification in determining what items should be included in rate base. The Commission finds Mr. Maginnis'

adjustment proper and reduces rate base by $66,524.

Advances for Construction

35. Mr. Maginnis recommended removing Advances from Construction from rate base because it represents cost free capital to the Company, The Commission finds that these advances differ from accrued interest in that they are usually long-term in nature and are a deferred credit rather than a current liability. The Commission accepts Mr. Maginnis' adjustment. This adjustment decreases rate base by 330,000.

Elimination of Deferred State Income Taxes

36. Mr. Shriver makes an adjustment to the 1982 booked results to give recognition to the Commission's decision to flow back the balance of deferred state income taxes over five years. In calculating this adjustment Mr. Shriver uses an average 1983 accumulated deferred state income tax balance. The Commission uses a test year average rate base to calculate revenue requirements. Mountain Bell does not dispute the appropriateness of a test year average rate base To achieve consistency the 1982 average deferred state income tax balance should be used. Mr. Maginnis supports this adjustment which reduces rate base by $593.000

Uncollectible Operating Revenues

37. Mr. Maginnis proposes adjusting uncollectible operating revenue to the actual bad debt experience in the test year. He explains:

> Mountain Bell, like most other large companies, maintains a "Reserve for Uncollectibles." Additions to this reserve are made on an estimated basis, with the offsetting entry being mad to "Uncollectible Operating Revenues " i. e., Bad Debt Expense. When an account is determined to be uncollectible, the reserve reduced by the balance of the amount due, While this procedure is certainly a well-accepted accounting practice it represents an estimate of future collectibility, rather than actual bad debt experience. I believe, for regulatory purposes that the Company's actual bad debt experience, that is accounts written-off net of collections of accounts previously written-off, should be substituted for the estimated amount found in the Company's Uncollectible Operating Revenue account, (Exh MCC-8, pp.11-12)

38. Mr. Shriver rebuts Mr. Maginnis' proposal by explaining that Mountain Bell's procedures follow generally accepted accounting principles and provide a more proper matching

of revenues and expenses. Mr. Shriver points out that this adjustment appears to be moving the Company from an accrual basis to a cash basis.

39. It is not the Commission's intent to move away from accrual accounting. The commission agrees with Mr. Shriver's argument that an accrual allows better matching of revenues and expenses and believes this to be an important goal. However, given the magnitude of the difference between actual write-offs and the accrued uncollectible it appears that Mountain Bell's accrual rate is too high. Therefore, the Commission will accept Mr. Maginnis' adjustment as providing a more reasonable level of current uncollectibies and directs Mountain Bell to file support for its accrual rate in the next proceeding. This adjustment increases net operating income by $56,170,

Right-to-Use Fees and EDP Development Costs

40. Mr. Maginnis recommends deferring "right-to-use" fees and electronic data processing (EDP) costs and amortizing the deferred amount over three years. Right-to-use fees are amounts paid to Western Electric Company for use of software which is required to operate central office equipment and private branch exchanges. Mr. Maginnis testifies that both of these costs benefit future ratepayers and therefore should be charged to expense in all the periods in which ratepayers receive benefits from them.

41. It is not possible to predict with any certainty exactly when these types of "costs will be beneficial to ratepayers. However, it seems that any benefits will be received within a relatively short time span, i. e. less than five years (TR. p. 438). The Commission sees no advantage to deferring these expenses and writing them off over some arbitrary period of time, Therefore, the Commission rejects this adjustment.

CPE Depreciation

42. Mr. Maginnis makes an adjustment to remove the portion of CPE depreciation relating to the revised depreciation lives and the remaining life method prescribed by the FCC in

1982. The Commission disallowed this expense in Docket No. 82.6.37, Order No. 4951. Subsequent to the filing of Mr. Maginnis' testimony, the United States District Court in The Mountain States Telephone and Telegraph Coin any v. Department of Public Service Regulation, et al. (Cause No. CV-83-177-H) issued a ruling requiring implementation of the FCC prescribed depreciation rates. Therefore the Commission rejects this adjustment.

Property Taxes

43. Mr. Maginnis recommends removing property taxes or telephone plant under construction which he states, "should be capitalized similarly to other costs of construction" (Exh. MCC-8 p. 13). Mr. Maginnis removes these property taxes from operating expenses but makes no corresponding adjustment to rate base. Under cross examination by Mr. Hyer, Mr. Maginnis explained:

> It's impossible to make an offsetting adjustment to rate base, because when property taxes are capitalized, they are charged to the construction accounts . The construction accounts are not elements of rate base in Montana.
>
> Now, theoretically, a portion of what might have been charged to construction accounts during the test year may then have been transferred into the in-service account hr t I have no way of calculating that amount and the Company has no way of calculating it either. (TR. pp. 440-441)

During the test year 1982 the Rural Telephone Improvement Program (RTIP) comprised a large portion of Mountain Bell's Montana construction program and most of this construction was completed and in-service by the end of 1982. Therefore, not adjusting rate base is especially inappropriate in this case.

44. In Mr. Shriver's rebuttal testimony he describes the difficulty of tracking property taxes in order to assign them to specific construction and therefore properly add them to rate base, He explains:

> …….This allocated assessment is multiplied by the assessment factor to arrive at the total state taxable value for the tax year in question. The Montana Department of Revenue then allocates the state taxable value to each of over 800 taxing districts. This allocated taxable value is then multiplied by each tax district's mill le to arrive

> at the Ad Valorem tax for each district. In many cases, a single piece of property maybe taxed by more than one tax district. (Exh. MB-l1, p. 18)

45. In the past this Commission has not required capitalization of property taxes on construction in progress unless they specifically relate to a very large project that takes several years to complete, This is certainly not the case for telephone plant construction which is typically done within one year. The Commission does not accept Mr. Maginnis' adjustment,

NonOperating Expense

46. Mr. Shriver proposes reclassifying certain nonoperating expenses to the operating or "above-the-line" categories. These items include abandoned project write-offs, trustee's fees, entertainment and club dues, Mr. Maginnis rejects this proposal noting that these accounts are recognized as nonoperating by the FCC Uniform System of Accounts, The Commission agrees with Mr. Maginnis' assessment that the Company has provided no evidence supporting above-the line allowance of these expenses and disallows these items for ratemaking purposes. This adjustment increases adjusted net operating income by $8,000.

Vision Care Expenses

47. Mr. Maginnis recommends disallowing the company's estimate of the cost of its vision care plan for its employees. Mr. Maqinnis explains:

> The vision care program was introduced in 1983, and the Company has not been able to support its estimate of the cost of this plan. Until such time as the Company had some experience with the plan, and its costs become known and measurable, I recommend disallowance of any speculative estimates of expense for these charges. (Exh. MCC-8, p.18)

48. Mr. Shriver's estimate for 1982 intrastate vision care expenses as filed in his original testimony is $99 ,000. In his rebuttal testimony Mr. Shriver remarked that through July or 1983 the Company lies hooked $83 ,650 in vision care expenses. N en thins update, tie Commission finds that t_1 e Company's estimate is reasonable and grants the Company recovery of its $99,000 estimated vision care expense.

ABI Related Refunds

49. Mr. Shriver eliminated the non-License Contract portion of reimbursements to Mountain Bell from AT&T for the development of enhanced services and CPE to be furnished by American Bell, Inc. (which has now been renamed AT&T Information Systems of ATTIS). Mr. Maginnis reversed this adjustment arguing that to the extent ratepayers financed these expenses in the past they should receive the benefits of the reimbursements from AT&T.

50. Mr. Dwyer filed rebuttal testimony on this issue on behalf of Mountain Bell. Mr. Dwyer testified that to the extent ratepayers paid for these items in the past they have been included as an offset to the current revenue requirement. Upon cross-examination by Mr. Simshaw Mr. Maginnis explained the difference between Mountain Bell's position and his own: "However, I understand from Mr. Dwyer's rebuttal testimony that his position is that these amounts should only be refunded if they were in a prior test year and were accepted at that time, and I would reject that contention)' (TR. p. 453)

51. The Company did not provide the Commission with specific years and docket numbers wherein the alleged disallowances for non-License Contract amounts took place. Absent such a showing the Commission accepts Mr. Maginnis' adjustment which increases test year net operating income by $108,000,

License Contract and BIS

52. Mr. Allen Buckalew testified on behalf of the Montana Consumer Counsel in the area of License Contract and Business Information Systems (BIS) expenses. Mr. Buckalew recommends a limitation on these expenses of 1 percent of applicable revenues, Mr. Buckalew notes that the license contract will be terminated in 1984 and some of these activities will be undertaken by the Central Staff Organization (CSO). The costs of the CSO are unknown at this point. Mr. Buckalew proposes that until such a time when the CSO activities can be analyzed in

detail a 1 percent limitation is reasonable (Exh MCC-9, pp. 24-25).

In the last Mountain Bell General rate case (Docket No. 82.2.8, Order No. 4948) the Commission disallowed both License Contract and BIS expenses in their entirety on the basis that the beneficiaries of these costs were primarily competitive service. It appears that the CSO will be offering service to Mountain Bell which will he necessary for Montana operations. However, it is also clear that time level of these costs are unknown at this time. Since competitive operations were previously partially funded by License Contract payments it stands to reason that payments for CSO activities for the Belt operating companies which do not engage in competitive activities should be lower. The Commission accepts Mr. Buckle's recom-mendation for a 1 percent limitation until the Company can base expense levels on actual data. This adjustment increases test year net operating income by $709,000.

Capital Recovery

54. Mr. Shriver proposes an addition to test year revenue requirements for the "unrecovered portion of capital recovery." This amount represents recovery of capital for the time between the effective dates of FCC approval for revised depreciation rates and the dates that the Company began to receive higher rates from Montana a ratepayers. Mr. Maginnis' recommended that this "add-on' be rejected as retroactive ratemaking. He also remarked that it is not the responsibility of this Commission to match FCC effective dates.

55. The Commission supports Mr. Maginnis' arguments on this issue. There is no difference between increased depreciation and increases in any other expenses. This commission has never allowed retroactive recovery for expenses that have increased between rate cases. This Commission has recognized and properly accounted for the higher depreciation rates currently being used by Mountain Bell. However, retroactive recovery for these expenses I totally inappropriate and violates the purpose of a test year.

Pro Forma Interest

56. Mr. Maginnis proposes an adjustment which reflects the effect on income taxes of matching interest expense to rate base. In calculating this adjustment Mr. Maginnis does not deduct rate base amounts funded by lobs Development Investment Tax Credits (JDITC). Mr. Maginnis explains:

> The component of rate base funded by IDITC is required by law to earn the overall rate of return designated by. this Commission. This overall rate of return is composed of weighted return on equity and weighted cost of debt, that is, interest. To allow a return on this debt component of JDITC, without recognizing its effect on tax expense, would be inconsistent, and unfair to rate-payers. (Exh. MCQ-8, p. 20)

57. The merits of including]DITC in pro forma interest expenses has been argued several times in front of this Commission including arguments in the two prior Mountain Bell dockets (Docket Nos. 80.12.100 and 82.2.8). The Commission has consistently found that JDITC is properly accounted for in MCC's adjustment. The Company has not put forth any new or persuasive arguments in this case. Therefore, the Commission accepts the methodology involved in Mr. Maginnis' adjustment. The Commission recalculated this adjustment due to several changes in rate base from that recommended by Mr. McGinnis. This adjustment increases net operating income by $1,071,000.

Deferred Federal Income Taxes

58. Mr. Maginnis proposes an adjustment which flows-back over two years the deferred federal income taxes resulting from cost of removal timing differences relative to pre-1971 assets. As Mr. Maginnis explains:

> Prior to the adoption of "Asset Depreciation Range" regulations by the IRS in 1971, the cost of removing assets upon the expiration of their useful life was handled in an identical manner for both tax and book purposes, that is, as an element of depreciation expense which was spread over the life of the related assets. When the ADR regulation went into effect, only actual expenditures for cost of removal were allowed as deductions for tax return purposes. This produced a timing difference between the deduction on the books, which depreciation, and the tax return

> treatment. Since the regulation went into effect, the Bell System has normalized the tax effects of the timing difference. (Exh. MCC-8, p. 15)

For post-1970 assets revenue requirements are minimized under normalization because the deduction for cost of removal on the books occurs later on the tax return than it does on the books. However, for pre-1971 assets cost of removal remained an element of the depreciation rate for tax purposes. The Company could also deduct the actual cost of removal when incurred. This results in a positive cumulative deferred tax which reverses at the end of the asset's life. For these assets flow-through would result in lower revenue requirements. Mr. Maginnis recommends flowing-back this positive cumulative balance over a two year period.

59. The Commission rejects Mr. Maginnis' adjustment. This commission has accepted flow-through in the past if it resulted in a continuing advantage to the ratepayers. However, to use both flow-through and normalization for one timing difference, i.e. cost of removal, for different vintages simply because flow-through for some vintages results in lower revenue requirements is inconsistent and unfair.

Management Wages

60. In Mountain Bell's last general rate case, Docket No. 82.2.8, Order No, 4948, the Commission found that management wage increases were excessive. In Finding of Fact Nos. 46 and 47 the Commission discussed management wage increases.

> …….the Commission strongly supports the position that in difficult economic times, unless the Company can show that wage increases will be partially offset by achievable economies or be of benefit to the ratepayers, management should not grant themselves large wage and benefit increases to be born by the ratepayers. The Commission realizes that in periods of high inflation some increase is justified. The Commission also finds merit in Ms. Chavira's argument that for proper management reasons, there is a reasonable gap that should be maintained between your nonmanagement and your management (TR, p. 768), 1982 management increases averaged 13.4 percent,
>
> 46. Ms. Chavira states that nonmanagement wage increases are based primarily on the Consumer Price Index (CPI) (TR, pp. 824-825). The 1982 nonmanage "CPI related" wage increase was 7.6 percent. The Commission finds that since this percentage is set forth by the Company to be based primarily on the CPI it represents a reasonable increase to management as well as to nonmangement. The Commission disallows the 1982 management wage and benefit increase over and above 7 6 percent as an unreasonable expense.

61. The current docket is based on a 1982 test year. To be consistent with the last Commission order, test year net operating income must be increased by $212,000. The

Commission finds this to be an appropriate adjustment.

PART D

REVENUE REQUIREMENT

62. The Commission finds the company's test year adjusted net operating income to be $20,552,000 as follows:

MOUNTAIN BELL
MONTANA INTRASTATE
TWELVE MONTHS ENDING DECEMBER 31, 1983
(000)

	Adjusted Per Company	Adjustments	Accepted By The Commission
1. Local Service Revenues	$ 80,421	$ -0-	$80,421
2. Toll Service Revenues	52,678	-0-	52,678
3. Miscellaneous Revenues	10,516	(18)	10,498
4. Less: Uncollectibles	(813)	112	(701)
5. Total Operating Revenues	$142,802	94	$142,896
6. Maintenance	29,071	(403)	28,668
7. Depreciation	18,205	-0-	18,205
8. Traffic	9,991	(29)	9,962
9. Commercial	20,530	(128)	20,402
10. Revenue Accounting	2,772	(9)	2,763
11. Other General	7,848	(777)	7,071
12. Operating Rents	4,587	-0-	4,587
13. Relief and Pensions	9,901	(71)	9,830
14. General Services and Licenses	2,417	(988)	1,429
15. Total Operating Expenses	$105,322	$(2,405)	$102,917
16. Federal Income Tax	5,231	142	5,373
17. State Income Tax	298	22	320
18. Social Security Tax	3,678	(14)	3,664
19. Other Taxes	10,070	-0-	10,070
20. Total Operating Taxes	19,277	150	19,427
21. Net Operating Income	$ 18,203	$ 2,349	$ 20,552
22. Average Rate Base	$203,448	$ (990)	$202,458
23. Rate of Return	8.94%		10.14%

63. The Commission finds that the Company is entitled to additional annual revenue of $4,424,000 as follows:

MOUNTAIN BELL
MONTANA INTRASTATE
REVEN'UE DEFICIENCY AT PRESENT RATES
TWELVE MONTHS ENDING DECEMBER 31, 1983
(000)

1.	Average Rate Base	$202,458
2.	Rate of Return - Finding No, 27	11.23%
3.	Required Return	22,736
4.	Adjusted NOI - Finding No. 62	20,552
5.	NOI Deficiency	2,184
6.	Income to Revenue Multiplier	2.0258
7.	Revenue Deficiency	$ 4,424

In its application the Company made provision for increased independent company toll settlements. The Commission recognizes that because of rate increases granted by this order, Mountain Bell will incur additional expenses in its toll settlement procedures with independent telephone companies. The Commission finds that the Company is entitled to revenues to offset toll settlements expenses. It is expected that the additional revenues needed shall be approximately $705,000 annually. Thus, Mountain Bell's revenue deficiency including toll settlements is $5,129,000.

64. Mountain Bell has been granted interim revenues in this proceeding of $6,118,593, Therefore, the final revenue requirement in this case represents a decrease of $989,593.

PART E
RATES
SERVICE CATEGORY COST OF SERVICE
Proposed Cost of Service

65. The cost of service evidence in Docket No. 83.3,18 features a similar format to that found iii Docket No. 82 2.8 -- the previous MBT general rate case, The issue is whether MBT's Embedded Direct Analysis (EDA), a fully distributed version of the EDA, or the MCC's fully distributed cost study should be utilized for establishing a general overview of the Company's cost/revenue situation.

66, The Company's 1981 EDA features an altered, more functional, service category structure. Also filed were 1981 Pro Forma and 1982 EDA results, as well as various fully distributed ED.. versions reflecting alternative allocations of common costs and access costs.

(Exhs. MB-6 and MB-7). The 1982 EDA results are presented in Schedule 1. The remaining FDA versions are not supported by MBT or MCC and therefore are not considered here.

67. The MCC submitted a 1981 and later a 1982 Class Cost of Service Study (Exh. MCC-5 and MCC-6). The 1982 results are provided in Schedule 2.

SCHEDULE 1
1982 EDA ($millions)*

	Rev	Cost	Contribution Amount	R/C
SWITCHED NETWORK SVC				
Interstate Toll	$ 90.03	$ 33.88	$56.15	2.66
Intrastate Toll	51.25	31.88	19.57	1.62
Exchange Use	33.86	15.09	18.77	2.24
Network Access Line	0.00	76.72	(76,72)	0.00
Total Switched Network Svcs.	175.14	157.37	17.77	1.11
NON SWITCHED SERVICES				
Directory & Other	8.78	3.92	4.86	2.24

Inside Wire				
Res -	1.14	6.60	(5.46)	0.17
Bus-	0.30	1.15	(0.85)	0.26
Bus-Complex	2.87	6.68	(3.80)	0.43
Subtotal Inside Wire	4.31	14.42	(10.11)	0.30
Supplemental Services				
Res -	1.40	0.63	0.78	2.24
Bus -	1.98	2.78	0.80	0.71
Subtotal Suppl. Svcs.	3.39	3.40	(0.02)	0.99
Intrastate P.L.	3.77	7.90	(4.13)	0.48)
Interstate P.L.	15.64	6.62	9.02	2.36
Terminal Equipment				
Res	10.43	11.20	(0.77)	0.93
Bus	17.29	18.62	(1.33)	0.93
Subtotal Terminal	27.72	29.82	(2.10)	0.93
Total Non Switched Svcs.	63.61	66.08	(2.48)	0.78
COMMON TO FIRM		15.30	(15.30)	0.00
TOTAL ALL CATEGORIES	238.75	238.75	0.00	1.00

*   Exh. MB-7, Schedule 9, Page 1

SCHEDULE 2

1982 Class Cost of Service Study*

	TOTAL COMPANY	LOCAL EXCHANGE	STATE TOLL	STATE P.L	CENTREX	TERM EQUIP RESIDENCE	TERM EQUIP BUSINESS	INSIDE WIRE	OTHER SERVICES	INTERSTATE TOLL	INTERSTATE P.L.
RETURN	31,492,438	2,366,101	3,239,433	-3,695,383	10.113	-2,354,963	-2.371.837	-10,954,368	648,685	35,563,886	9,040,763
NET INVESTMENT BASE	384,055.115	90,884,239	94,141,527	18,875,762	2,192,240	9,855,871	19,329,644	17,383,340	3,542,302	112,986,623	14,863,570
RATE OF RETURN	8.2000%	2.6034%	3.4410%	-19.5774%	0.4613%	-23.0940%	12.2705%	-63/0165%	18.3125%	31.4762%	60.8250%

*Exh.. MCC-6, Page 1

68. MBT uses historical trend in FDA results a& evidence that access embedded revenue requirement is being increasingly funded with state and inter state toll rates (Exh. MB -20 p. 3). The EDA is therefore utilized as evidence that state toll rates should not be increased and any residual revenue requirement should be reflected in increased access line charges.

69. The EDA also provides the basis for further increases in private line services (Exh. MB-15, p. 8).

70. The MCC utilizes the Class Cost of Service Study (CCS) results as evidence that any increased revenues should be reflected in minor increases in service charges as well as private line and CPE (Exh. MCC-9, pp 38 39).

Analysis of Cost of Service

71. Both the EDA and the COS represent embedded, or booked, accounting costs. The primary difference between the EDA and the COS is that the CCS takes the EDA a step further in that it fully allocates common costs and access costs to various service categories. The EDA leaves the common costs and access costs as separate line items.

72. It is this allocation of common awl access costs that lead to the primary difference in the EDA and CCS results. both studies indicate that private line and CPE are areas where the embedded accounting costs would suggest higher prices are necessary. Both studies also indicate that interstate toll provides a substantial amount of revenues in excess of embedded accounting costs. The primary difference in the results is how one would view embedded access costs as they relate to state toll and local exchange. That is, because the CCS allocated embedded access costs to state and interstate toll, the resulting local exchange category – including network access - - is indicated as a service that should not be subject to significant residual price increases beyond, for example, any increase to state toll rates.

73. The e are three areas that require examining: 1) the allocation of common costs, 2) the allocation of access costs, and 3) the usefulness of the alternative service category cost of service studies for purposes of determining prices,

74. <u>The allocation of common costs</u>. First of all it should be pointed out that the allocation of common costs is the least significant component of the common/access allocation issue, Schedule I indicates that the EDA common cost line item accounts for only 6,4 percent of the total embedded revenue requirement. Even so, the issue of whether common cost can be allocated or whether they should be left out of any exclusively cost based pricing formula is an issue which requires comment,

75. The Commission finds questionable the proposition that common costs should be allocated without any consideration of demand. It appears that any direct allocation of <u>common</u> costs will result in deviations from marginal costs which have no correlation with demand. Such a proposition would necessarily produce inefficiency in the form of wasted capital -- unless coincidentally the common cost allocation tended to reflect relative price elasticities found in the various service categories.

76. <u>The allocation of access costs</u>. his is the primary category cost of service issue. opposed to the relative insignificance of common costs, the embedded access costs account for 32.1 percent of the total EDA costs. The significance of this issue also extends to the MCC pricing proposals for service charges and public coin service. Each of those proposals feature a jurisdictional allocation of costs to state toll and interstate toll rate elements.

77. The MCC service category recommendation involves cost allocation between service categories - - not the pricing structure within service categories (TR. Pp.332-336). However, it is the inability to relate the geographical service categories to functional cost-based rates that troubles the Commission in Docket No. 82.2.8:

> It is essential that the problem of relating the categorized “State Toll” and “Local Exchange” costs to rates be addressed. If it is intended that “State Toll” is to represent monthly usage rates sensitive to usage of the regulated network and “Local

> Exchange" is intended to represent flat nontraffic sensitive charges, then the reason for including NTS costs in the former and TS costs in the latter must be established. (Order No 4948, Finding No. 115)

78. The MCC proposal entails an allocation of nontraffic sensitive costs to state toll and interstate toll as provided in Schedule 3. To the extent that this results in nontraffic sensitive access costs[*] being reflected in usage rate elements -- it is unacceptable. The record in Docket No. 83.3.18 (or Docket No. 82.2.8) does not provide any evidence that existing inter-exchange usage rate elements should reflect nontraffic sensitive access costs; or that they do not currently generate usage revenues far in excess of usage costs.

* Including direct service charges and coin access

SCHEDULE 3
CCS Access Allocator*
Non-Traffic Sensitive Plant Allocator (Option D)

Demand Availability (100%)		
Local Exchange[1] (1/2)	State Toll (1/4)	Interstate Toll (1/4)

[1]Centrex Intercom Service = 2.1%; Switched Network Service = 47.9%

*Exh. MCC-5, Schedule JW-20, p.1

79. The implications of loading 50 percent of embedded nontraffic sensitive access costs onto usage rate elements include gross inefficiency and inequity.

80. If it is maintained that the nontraffic sensitive access costs allocated to “State Toll” should be reflected in a hat nontraffic sensitive charge (i.e. State CALC), then there appears to be no meaning to the allocation -- the customer’ would merely pay three access charges, the sum of which is the total direct access cost. As for the concept that the customer should be allowed to avoid paying the State CALC by choosing to subscribe only to “local” access: fine but the distinction between the access elements (if there is any) should be based on marginal or avoided costs -- not an arbitrary 50 percent allocation factor -- and even this does not require an allocation of access costs, it requires a functional access/usage cost study.

81. Usefulness of Service Category Cost of Service. To the extent that the CCS identifies embedded access costs which serve as a proxy for marginal usage costs, those costs should be reflected in usage rates. However, to the extent it results in allocating marginal or embedded nontraffic sensititive access costs to relatively price elastic usage rate elements, it is unacceptable.

82. Likewise, to the extent the EDA results in reflecting marginal usage-related access costs in nontraffic-sensitive rate elements, it is unacceptable. Neither study, however, purports to identify marginal usage-related access costs. MBT maintains that the EDA is useful for only a

general overview of previous pricing policies and identification of where cost analysis should be emphasized (TR. Pp.392-297).

83. Commission Decision, General increases to private line rates is not contested and appear reasonable, assuming the embedded cost/revenue results serve as an adequate proxy for the marginal cost/revenue relationship. The MCC's recommended increases to CPE prices is rejected because it would serve no purpose but to confuse an already cluttered divestiture*.

84. The record features no evidence that interexchange usage rate elements are in need of further increases. In fact, no party recommends increased interexchange usage rates. Therefore, the Commission finds that any residual pricing changes required should be reflected in network access line charges.

RATES FOR INDIVIDUAL SERVICES

85, Uncontested Rate Proposals. Numerous rate proposals filed by MBT received no opposing testimony and are approved by the Commission. Approved are the following proposals:

Rate Group Classification (Exh. MB-20 p. 10)
Base Rate Area Modification (Exh MB-20, p. 18)
Land Radio Service (Exh. MB-20, p. 24)
Semi-Public access (Exh, MB-20 p. 22)

* It is also not clear why CPE is exempted from the jurisdictional allocation found in the MCC Service Charge proposal (See TR. pp. 320-323 and especially Exh. MCC-9 pp. 42-44). Under that scenario the Commission would lower CPE prices to represent a 50 percent allocation to toll.

Additional Listings and Nonlisted Service (Exh. MB-20. p. 25)
Night Number Service, Availability Control Arrangement, , Code Billing Numbers, and Message Waiting Lamps (Exh. MB –20, pp.30-31)
Radio Common Carrier (USOC LWX) (Exh MB 20, p. 34)
Telpak (Exh MB-15, pp 9 - 10)
Series 10,000 Channels (Exh MB-15, pp 9-10)
Network Channel Equipment Exh MB -15, pp 9-10)
Customized Services (Exh. MB-15, pp. 9-10)

86. Where these proposals featured an increase equal to the total percentage increase in revenues requested (18%), the resulting rate-levels must be reduced to reflect the final increase

authorized.

87. Several other rate proposals filed by MBT received no opposing testimony but were found to either lack a basis for the proposed rate level or feature a proposed rate level that was found to be excessive. These proposals are approved with moderated rate levels as described below.

88. MBT proposes to eliminate the 60-call allowance provided with message-measured business network access (Exh. MB -20, p. 12). the Commission accepts the proposal but requests that the resulting additional revenues be applied against the message rate clement. The resulting message-measured business rate elements would thus reflect no change in revenue levels.

89. MBT proposes to increase WATS access rates from $15.14 (in) and $30.00 (out) to $19.00 and $38.00 (Exh. MB *-20*, pp 32-33) However, in reviewing the cost support* the Commission fails to find an adequate basis for the rate proposal. therefore, the Commission will only allow an increase equivalent to the percentage increase in total authorized revenues.

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* Cost Filing Package, Volume 1, Section A-7.

90. MTS operator services are proposed to increase based on the following rate/cost relationships (Exh. MB-20, pp. 31-32).

	Cost*	Existing Rate	Proposed Rate
Credit Card Station-to-Station	.48	.40	.50
Operator Station-to-Station	1.09	1.00	1.20
Operator Person-to-Person	3.50	2.85	3.75

* See Cost Filing Package, Volume 1, Section A-6.

91. The Commission accepts the proposal with the exception of the operator person-to-person charges which it finds excessive. The person-to-person charges will be constrained to the

cost level of $3. 50.

92. On May 3, 1983 MBT proposed to implement a returned check charge of $10. On Tune 7, 1983 the Commission combined the proposal into Docket No. 83.3.18.

93. MBT submitted a cost study demonstrating costs of $14.86 per occurrence. The record features no opposing testimony.

94. The Commission finds that returned check charges are a common practice. However, the returned check charges found elsewhere are usually of a seven to eight dollar range. The Commission therefore approves the implementation of a return check. charge, but only at a level found elsewhere -- $8.

Contested Rate Proposals

95. Dual Element Service Charge (DESC). MBT proposes a major restructuring of nonrecurring service charges. The existing Multi-Element Service Charge (MESC) structure features averaged dollar per task rate elements. The MESC rate elements are not at a fully compensatory level*

96. The DESC proposal (see Exh. MBT-16) would collapse the six MESC charges into two, more elaborate, elements. The existing service order, central office, and modular jack rate elements would be reflected in a single de-averaged installation charge. The nonrecurring installation charge, or Service and Equipment (S&E), would reflect a fully compensatory dollar per product or service rate element.

97. The remaining MESC charges would be collapsed into a Premise Work charge. The Premise Work charge. The Premise Work rate element would also feature fully compensatory charges and would be deaveraged into a time and material structure.

98. MBT also proposes structural deaveraging for Maintenance of Service and Simple Inside Wiring Maintenance.

99. In support of its proposal, MBT maintains that the DESC structure enhances the telephone subscriber's understanding of Service charges and will reduce administrative costs. The deaveraging found in the DESC would result in increased levels of efficiency and equity by more accurately aligning in the rates with costs (Exh. MBT-16, pp. 5-7).

100. The MCC concurs with the DESC structure but argues that the proposed rate levels should be pared back to reflect the jurisdictional separation of costs (Exh. MCC-9, pp. 42-45).

101. The Commission rejects the concept of applying jurisdictional separation of costs to the DESC rate proposals. It appears to be a concept

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* Order No. 4948 (Finding No. 186, Docket No. 82.2.8) constrained non-avoidable residential MESC to approximately 81% of the MBT proposal.

that allocates an arbitrary proportion of direct costs to some other customer. Depending on the specific circumstances, the separations concept could be grossly inefficient and inequitable. For example, the MCC proposal would feature costly complex wiring for large businesses priced at a fraction of its direct cost The remaining cost would be reflected in other customer's usage rates, Some of these other customers are low income rural customers. The inefficiency of pricing the complex wiring, for example, at less than its direct cost not only leads to wasteful wiring but would also serve to deter efficient competitors who are not as fortunate to have a portion of their operating costs allocated to some other business, The inefficiency extends into the usage market as well. Recovering the direct DESC costs in someone else's usage charges deters economical consumption of network usage and forces users of the network to seek alternatives which may be less efficient.

102. The Commission accepts the DESC and Maintenance of Service structure. The Commission also finds that the Premise Work element should be priced at a compensatory level and that the Service and Equipment element for nonresidential service and products should also be priced at a compensatory level.

103. Although the Commission finds that the residential S&E charges will eventually have to reflect compensatory levels, it finds that an element of transitional moderation is necessary. The residential-related S&E charges are accepted as proposed except that they will be capped at a level which reflects a 10 percent increase over the existing applicable MESC.

104. <u>Directory Assistance</u>. MBT proposes to develop an inverted directory assistance rate schedule, The existing schedule features, after a five-call allowance, charges of 20¢ per call 40¢ for operator handled assistance while the Company proposes to maintain the five-call allowance, it would increase the 11 through 20 call block to 90¢ and thereafter to 45¢, and operator handled assistance to 90¢ (Exh. MB-20, pp.26-27*)*.

105. In support of its proposal, MBT cites an embedded 1981 cost study* showing an average cost of 24¢ per call . The inverted schedule would "remove a portion of the burden currently borne by the vast majority of rate payers."

106. The MCC generally concurs with the proposal but would recommend that the 6 through 11 block of calls be priced at 25¢ to more closely align that consumption level with the costs (Exh. MCC-9, pp. 51-52).

107. In reviewing the evidence the Commission tails to find a basis for the inverted schedule. The record does not establish that one customer's 27th DA call is more costly than another customer's 9th DA call. The inverted schedule appears to offer only an unsupported element of additional complexity. The Commission does find that DA should be priced at a compensatory level. Although not necessarily adopting the 1981 embedded cost study, the Commission authorizes art increase in DA charges to 25¢ per call for all calls in excess of the five-call allowance. Operator handled calls are authorized to increase to 50¢. As with the existing schedule and the proposed schedule, the 50¢ level is twice the direct DA level.

108. Busy Line Verification. MBT proposes to implement a Busy Line Verification charge based on the following cost/rate relationship.

	Cost*	Existing Rate	Proposed Rate
Confirm	1.44	0	1.60
Interrupt	2.06	0	2.25

* Cost Filing Package, Volume 1, Section A5(8)

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* Cost Filing Package, Volume 1, Section A-5 (7)

The proposal would exempt charge for emergency-related interruptions as well as for trouble-related busy signals (Exh. MBT-20, pp. 27-29).

109. The MCC testified that busy line verification serves a beneficial trouble-shooting purpose and should not be subject to a charge. If a charge is established, then an allowance of several verifications at no charge should be provided (Exh. MB-20, pp. 52-54).

110. The Commission observes that busy line verification is apparently a widely used service which carries with it a significant cost. The proposed charges would generate nearly $350,000 in annual revenues to cover what appears to be around $320,000 in annual costs. Having no evidence of the administrative costs of providing a no-charge allowance, the Commission instead authorizes charges without an allowance - - but at a moderated level, The Commission finds that rates of $1.50 for confirmation and $2 , 00 for interruption adequately reflect the cost of the service. The emergency and trouble-related exemptions should serve to provide necessary and beneficial service at no charge.

111. <u>Public and Semi-Public Coin</u> MBT proposes to increase coin charges to 25¢ from the existing 10¢ level. In support of its proposal the Company maintains that coin service is primarily a convenience, not a network lifeline as previously stated by the Commission in Docket No, 82.2.8. The Company further cites cost analysis in support of a 25¢ charge: “our objective is to price local Coin Telephone Service so that its revenues at least equal its cost and thus does not impose a burden upon the other ratepayers who do not utilize coin service" (Exh. MB-20, pp. 18-22).

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* Discovery Document No 534.

112. The MCC urges the Commission to reject the Company's coin study because it fails to jurisdictionally separate the loop, drop, terminal equipment, booth, and switching requirements. The MCC proposal would have the Commission allocate 50 percent of these costs to interstate and intrastate toll. Even with the jurisdictional separation, coin service is probably not compensatory. However, if the Commission should choose a 25¢ rate, it should be in pursuit of a source of additional revenue, not MBT's cost study (Exh. MCC-9, pp. 46-50).

113. For reasons previously stated the Commission again rejects the concept of applying a jurisdictional separation to the coin costs. However, it is not clear whether the MBT calculation which proposes to recover all of the nontraffic sensitive access costs in the coin usage rate is preferred. It appears that it features the same logic (allocating direct nontraific sensitive costs to usage rate elements) found in jurisdictional separations. This cost/price proposal would suggest that the mop, drop, terminal equipment, and booth are avoidable costs which should be reflected in a coin usage price signal. These costs are avoidable only in the decision to inur access investment by placing coin telephones at various locations – not in the level to which customers use the public telephone. Furthermore, the purported price elasticity* indicates that a coin rate of 25 ¢ would merely make the existing nonavoidable access investment less valuable by deferring efficient usage of the sunk investment.

114. An apparent analogy to the public coin cost/rate proposals is alternative funding for public bridges. MBT would propose toll taxes per

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* Exhibit MB-20, Schedule 1, Page 2, sets forth nearly one million dollars in coin usage repression

crossing which included capital recovery of the bridge. The MCC proposal would recover 50 percent of the cost of the bridge in toll taxes per crossing the other 50 percent in other transportation taxes on a per mile basis*. A third pricing alternative would feature public funding of the bridge with income-sensitive general tax revenues and per crossing toll charges equal only to the avoidable usage costs incurred. It appears that the latter pricing method would result in the greatest benefit per unit of cost.

115. Several other factors are relevant. To begin with, it is not clear from MBT's cost study whether a 25 usage charge is in excess of the avoidable usage costs This appears to hinge on whether the "incremental coin switching" costs are accurately estimated and are truly usage-related. If so, then just the long-run avoidable cost of public-coin usage would appar to justify a 25¢ charge, A second factor is the absence of a pool of general tax revenues to fund the placement of public coin network access. The third factor is the relative price elasticities of the various services. Relative to other, more price elastic services, coin may be an appropriate place to recover nonavoidable embedded revenue requirement**.

116, The Commission finds that a 25¢ coin rate is a reasonable source of additional revenue . However, given that the MBT authorized revenue level in Docket No. 83.3.18 represents little change from the interim levels, the Commission chooses to forego an increase at this time. At a time it is found

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* It is interesting to note the implications of the per mile tax on, for example, a low income family traveling cross-country.

** For example, if the own price elasticity of state usage is -.7 and the coin usage price elasticity is -.3, it does not make sense to fund public coin access with a state usage tax in lieu of a coin usage tax.

that a significant divestitiure (Docket No. 83.11.81) or access-related (Docket No. 83.6.47, or subsequent access-related proceedings) revenue increase is necessary, the Commission may utilize these findings and authorize 25¢ public coin charge.

117. It has come to the Commission's attention that there may be several service problems developing in the public telephone area.. It seems the Company has removed or is contemplating removing some public telephones in remote areas which may serve a critical need being the only communication source for these remote areas, i. e small airports The Commission directs Mountain Bell to file proposed tariffs which establish criteria for the removal of public telephones. Public need should be one of the major criteria used when decisions to remove public phones are contemplated.

118. It also seems that the maintenance effort for public phones is dropping. This concerns the Commission especially where the public phone is outdoors and does not have a booth. The Commission directs Mountain Bell to study this situation and file Montana maintenance rates giving the cause for the maintenance rates giving the cause for the maintenance, i.e. vandalism, weather, etc.

119. Private Line. MBT proposes repricing some 93 private line recurring and nonrecurring rate elements. The rate proposals are bases on prospective cost studies and structured to cover cost with "contribution" (Exh. MB-15, see especially Schedules 3 and 4

120. The MCC testified that the private line rate proposals appear reasonable (Exh. MCC-9, pp.40-41).

121. One public witness testified in opposition to the private line rate proposals as they apply to her telephone answering service business*. Ms.

* Transcript, Missoula Satellite Volume, Pages 5-12.

Barthelmess pointed out that the cumulative effect of four consecutive years of major increases in private line rates has threatened the existence of her business. From its level of four years ago, the Telephone Answering Service (TAS) patron loop charge, with MBT's proposal, will have increased 255 percent. The nonrecurring service charge will have increased 342 percent. Ms. Barthelmess also testified that the averaging found in the prospective loop-is-a-loop because, by tariff, they are required to locate near the central office*.

122. In three areas the Commission finds that the rate proposals require moderation. Because of the cumulative effect of major private line rate increases and the averaging error found in the loop-is-a-loop pricing, the Commission finds that the TAS patron recurring and nonrecurring rate elements should not feature an increase beyond 10 percent of the existing rates. In that the 10 percent cap is greater than the total authorized increase, the resulting rate will be more reflective of a compensatory rate.

123. The Commission also finds the Local Channel Beyond Base Rate Area rate proposal requires moderation. MBT proposes a 707 percent increase from $3.96 per channel to $31.95. The Commission agrees that dedicated loops beyond the base rate area is an expensive proposition and should be priced to reflect that. However, to apply a 707 percent increase at one time is unacceptable**.

124, The Commission authorize the Company to increase the Beyond Base Rate Area channel rate. However, the increase must be limited so that

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* Exhibit MB-15 Page and Schedule 1.

** The Inventory Book (Volume 1, Section B-3) shows a $131,000 revenue effect from just the Series 10,000 channels.

it reflects the same base rate area/beyond base rate area rate relationship found in the existing Zone Increment Charge structure*.

125. Network Access. MBT proposes a residual increase in network access services. These access services include basic flat access, measured business lines, measured PBX trunks, optional one-way EAS, service station service, companion lines, Centrex access, dormitory station lines, special assemblies access, and rural radio access. Given a residual increase (or decrease) in basic access, the other access services increase (or decrease) through their relationship** with basic access or by an equivalent percentage amount. Subsequent to Docket No. 83.2.9, these access services also include business and residential measured service

126. Commensurate with the overall request of $27.4 million*** in increased prices, MBT requests $18.4 million**** in residual access-related increases.

127. On an interim basis these access rate elements were increased by $6.2 million. This order provides a final authorized increase of $5.135 million. In addition to this revenue Telephone Improvement Program) and Docket No. 83.11.81 (divestiture-related) provide authorized interim increases of $576, 500 and $6,506,000, respectively.

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* In its filing of 83.3.18 tariffs, the Company is expected to provide the derivation of the rate and demonstrate the ZIC relationship.

** For example, 1MB = .7(1FB)

*** Exh. MB-20, Schedule 1, Page 4. Includes repression and settlements.

**** Exh. MB-20, Schedule 1, Page 4.

128. The Commission finds that these increased levels of authorized revenues will be reflected in increased rates s provided herein, with a residual percentage change in network access prices as necessary to equate rates with authorized revenues,

REPRESSION

129. Elasticity Based Revenue Requirement Adjustment. In this docket the Company and the MCC submitted testimony regarding how consumers and businesses respond to price changes, and how this response in turn affects the Company's ability to generate an approved revenue requirement. In economic jargon the behavioral response to a price change is termed an elasticity response, or a change in the quantity demanded. A reduction in the quantity demanded due to a price increase is, in the telephone industry, referred to as repression; conversely, the increase in the quantity demanded due to a price decrease is termed stimulation.

130. In each of the Company's past two general rate cases the Commission has rejected the Company's proposed revenue adjustments due to repression. In Docket No. 80.12.100 the Commission rejected the Company's repression analysis for toll service, finding that repression adjustments would only be based on "comprehensive price elasticity studies." In Docket No. 82.2.8 the Commission once more rejected the Company's repression analyses, finding that such adjustments are not "known and measurable." The Commission however did find that it would consider repression adjustments once a "complete record is established."

131. Mountain Bell Proposal. In this docket the Company's witness, Mr. Ed Milker submitted prefiled direct (Exh. No. MB-18) and rebuttal

testimony (Exh. No. MB-19). The company proposes a net elasticity based increased revenue requirement of $3,272,078. This total proposed elasticity based revenue requirement derives from a combination of three factors: 1) price increases since the test year; 2) elasticity estimates statistical or otherwise; and 3) costs offsets. The price increases reflect in addition to actual known increases proposed rates and, therefore, would require change to reflect authorized rates.

132. The Company's net elasticity based revenue adjustments derive from regression studies are provided Schedule 4.

SCHEDULE 4
MBT's Dollar Estimates of Repression[1]
Elasticity

Category	Own Price	Cross-Price	Cost Offsets	Net Effect
Recurring:[2]				
Residence	$ 37,657		$ 18,293	$ 19,364
Business	26,421		11,177	15,244
Nonrecurring:[3]				
Residence	1,690,435		426,929	1,263,506
Business	475,392		108,712	366,680
Private Line	569,111	106,957	204,397	257,757
Total	$2,799,016	$106,957	769,508	$1,922,551

Source: Exh. No. MB-18, Sch. No. 12

1 It should be noted that the Company performed a regression analysis for intrastate toll (Exh. No. 18, Sch. No. 8, p. 13 of 15) however, no toll rate increase is requested (Exh. No. 29, p. 32) or authorized.

2 Although the MBT's testimony suggests that this category is for "terminal equipment" repression (Exh. No. MCC-10, Sch. 8, p. 3), post-hearing correspondence reveals that the category is actually comprised of: Directory Listings, Rural Radio Services, Central Office Switching, Billings, Common Carrier and Miscellaneous Services (Mr. John Heberly's correspondence to the Commission staff dated December 14, 1983).

3 From communication with the MBT staff the nonrecurring categories for business and residence are comprised of service charge related offerings.

133. The Company, as indicated in Schedule 4, considered cost offsets to the estimates of gross revenue repression (see Exh. No. MB-18, p. 15 and Sch. No. 13). The Company's analyses include cost offsets because "… the Law of Demand reflected in our price elasticities indicates a permanent drop in demand causes both reduced revenues <u>and</u> reduced costs in the test year."

134. The Company's cost offset calculations reflect short-run operating expenses -- long-run costs are excluded.

135. The Company also proposed elasticity based revenue adjustments for other categories of service. These adjustments, however, are apparently not based on regression studies (TR. p. 495). The categories of service and their associated revenue requirements are provided in Schedule 5.

SCHEDULE 5

NTB'S Dollar Estimates of Repression

Category	Net RevenueEffect
Coin	943,316
Directory Assistance	2,637
Busy Line Verification	22,766
Message Toll Service (Operator Surcharge)	380,808
Total	$1,349,527

Source Exh No. 20) Sch No. 1 p. 2 of 4.

136. The Montana Consumer Counsel Proposal. The MCC requests the Commission to deny all of the company's elasticity based revenue adjustments (Exh. No. MCC-10). The reasons stated by the MCC for this proposal are sixfold:

1. The repression proposal is not bases on a know and measurable change and is therefore inconsistent with regulatory practice in Montana.

2. The repression proposal is bases on an analysis which changes only the one explanatory variable which decreases quantity demanded and hence revenues in the test-year.

3. The Company's econometric models of residential terminal equipment and business terminal equipment overstate the effect on sales of a change in price.

4. Where the Company has not used econometric methods to measure the effect of price changes on quantity demanded, the analysis is insufficient to support the proposed repression adjustment.

5. The Company's estimates of cost savings due to the alleged permanent reduction in demand are understated because they are limited to selected variable costs and include no fixed costs.

6. If all variables which explain the quantity of services demanded were changed to reflect the likely conditions at the time of the decision in this case and if the total cost savings that will accrue to the Company were included, the net effect on the company revenues and return on equity of the Company.

(Exh. No. MCC-10, pp.6-8)

137. Commission Decision. The Commission finds that the concept of an elasticity based revenue adjustment appears sound on theoretic grounds. That is, no party in this docket denies the theoretic soundness of such an specified price change, each categorical estimate hinges on the reasonableness of the estimates of the price elasticity and cost offsets.

138. The Commission finds that the “known and measurable” criteria is not sufficient ha Is for rejecting an elasticity based revenue adjustment. Granted elasticity adjustments are not known and measurable with the deterministic certainty one has when, for example, making a centigrade/ fahrenheit conversion. However, the regulatory process is characterized by uncertainty. For example, regression analysis is used to temperature normalize electricity sales (see, for example, Donald Gregg’s testimony, p. 25, in Docket No. 83.9.67). Also, regression analysis is commonly used to perform discounted cash flow analyses. In both cases the objective is a “best estimate.” The objective with elasticity based revenue requirement adjustments is no

different.

139. The Company's demand equations and the resulting own-price elasticity of demand coefficients were generally estimated during the period 1974 to 1980. The coefficients are, in turn, used to adjust test year (calendar year 1982) billing determinants. The Commission finds that the proper basis of an elasticity based revenue adjustment should be a comprehensive regression analysis. If some other analysis is the basis of a proposed adjustment, it should be documented and explained in detail. The Company has testified that the product managers were responsible for the proposed elasticity based revenue adjustments for four areas (TR. p. 495). Exactly how the estimates were developed however, is unknown. Consequently, the Commission rejects the Company's proposed revenue adjustments for the four categories in Schedule 5.

140. In a related area the Commission finds no evidence in the Company's testimony supporting an analysis for the category of business nonrecurring revenues (see Exh. No. MB-18, Sch. No. 8). As a consequence the Commission rejects the associated revenue requirement of $366,680.

141. Comprehensive Cost Offset Analysis. For the following reason the Commission rejects the Company's proposed elasticity based revenue adjustments for the remaining categories. In that, as a general rule, the regulated prices are established at a level equal to long-run marginal costs, then changes in sales – upward or downward – should result in the changing cost levels of the same magnitude as the changing revenues. As the Company's cost studies are prospective and not historic for purposes of rate development, it appears inconsistent to combine these long-run prospective costs with only short-run avoidable operating costs for' cost offset purposes.

142. For example, of the categorical revenue repression proposals, residential nonrecurring appears to be the most statistically valid. However, nonrecurring residential rates have been and, as a result of this order, will continue to be at a level less than the prospective costs. This would suggest that any repression of sales would produce long-run costs offsets of greater magnitude than any reduction in revenues. Furthermore, the nature of the nonrecurring service costs appear to be predominantly short-run in nature.

143. Generally, the increases rates authorized in this order are in areas where prices are less than prospective costs. although it may be the case that the immediate 12-month period subsequent to rate changes do not feature full long-run costs offsets, the Commission finds questionable the establishment of permanent rate levels absent of consideration of permanent long-run cost offsets.

CONCLIISIONS 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 §69-3-401, 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 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, § 69-3-106(1), MCA.

4. 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 ratemaking purposes may not exceed the original cost of the property.”

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

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. For purposes of final relief in this docket, Mountain States Telephone and Telegraph Company is granted increased revenues in the amount of $15,135,999. This represents a $983,593 reduction in revenues from the level authorized in Interim Rate Order Nos. 4991 and 4991a in this docket.

2. Mountain Bell is directed to collect the increased revenues in the manner described in PART E of the Commission's Findings of Fact.

3. The access line USOC surcharge implemented for purposes of interim relief in Interim Rate Order Nos. 4991 and 4991a is hereby eliminated. Mountain Bell is directed to rebate those revenues collected under the interim orders that were over and above the final revenues authorized herein with interest at the rate of 13.5 percent per annum[1]. Such rebate shall take the form of a one-time credit to all access line USOC's in the same manner that the interim surcharge was applied to those USOC's.

4. Mountain Bell is directed to tile in proposed tariff form criteria as described in Finding of Fact No. 117 for determining the location of pay stations of pay stations.

5. The rates approved herein are to be effective for service rendered on and after January 1, 1984[2].

DONE IN OPEN SESSION at Helena, Montana this 28th day of December, 1983 by a vote of 5-0.

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1 13.5 percent is the return on equity authorized in this order. The Commission determines that it is an appropriate interest rate to be applied to the rebate pursuant to 69-3-304, MCA.

2 The Commission recognizes that it will not be possible to implement dual element service charges by January 1, 1984. Existing multi-element service charge shall remain effective in the interim.

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:

Iris Basta
Acting 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 ARM

Service Date: January 6, 1984

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

IN THE MATTER of the Application of	) UTILITY DIVISION
The MOUNTAIN STATES TELEPHONE	) DOCKET NO. 83.3.18
AND TELEGRAPH COMPANY (Mountain	) ORDER NO. 4991b
Bell) For Authority to Increase Rates	)
and for Approval of Tariff Changes for	)
Telecommunications Service.	)

ERRATA SHEET

Findings No. 62, 63, and 64 of pages 26 and 27 should be corrected to read as follows:

PART D

REVENUE REQUIREMENT

62. The Commission finds the Company’s test year adjusted net operating income to be 20,367,000 as follows:

MOUNTAIN BELL
MONTANA INTRASTATE
TWELVE MONTHS ENDING DECEMBER 31, 1983
(000)

		Adjusted Per Company	Adjustments	Accepted By The Commission
1.	Local Service Revenues	$80,421	$ -0-	$80,421
2.	Toll Service Revenues	52,678	-0-	52,678
3.	Miscellaneous Revenues	10,516	(18)	10,498
4.	Less: Uncollectibles	(813)	112	(701)
5.	Total Operating Revenues	$142,802	$ 94	$142,896
6.	Maintenance	29,071	(80)	28,991
7.	Depreciation	18,205	-0-	18,205
8.	Traffic	9,991	(29)	9,962
9.	Commercial	20,530	(128)	20,402
10.	Revenue Accounting	2,772	(9)	2,763
11.	Other General	7,848	(777)	7,071
12.	Operating Rents	4,587	-0-	4,587
13.	Relief and Pensions	9,901	(71)	9,830
14.	General Services and Licenses	2,417	(988)	1,429
15.	Total Operating Expenses	$105,322	$(2,082)	$103,240
16.	Federal Income Tax	5,231	22	5,253
17.	State Income Tax	298	4	302
18.	Social Security Tax	3,678	(14)	3,664
19.	Other Taxes	10,070	-0-	10,070
20.	Total Operating Taxes	19,277	12	19,289
21.	Net Operating Income	$18,203	$2,164	$20,367
22.	Average Rate Base	$203,448	$ (990)	$202,458
23.	Rate of Return	8.94%		10.06%

63. The Commission finds that the Company is entitled to additional annual revenues of $4,799,999 as follows:

MOUNTAIN BELL
MONTANA INTRASTATE
REVENUE DEFICIENCY AT PRESENT RATES
TWELVE MONTHS ENDING DECEMBER 31, 1983
(000)

1.	Average Rate Base	$202,458
2.	Rate of Return – Finding No. 27	11.23%
3.	Required Return	22,736
4.	Adjusted NOI – Finding No. 62	20,367
5.	NOI Deficiency	2,369
6.	Income to Revenue Multiplier	2.0258
7.	Revenue Deficiency	$4,799

In its application the Company made provision for increased independent company toll settlements. The commission recognizes that because of rate increases granted by this order, Mountain Bell will incur additional expenses in its toll settlement procedures with independent telephone companies. The Commission finds that the Company is entitled to revenues to offset toll settlements expenses. It is expected that the additional revenues needed shall be approximately $705 ,000 annually. Thus, Mountain Bell's revenue deficiency including toll settlements is $5,504,000.

64. Mountain Bell has been granted interim revenues in this proceeding of $6,118, 593. Therefore, the final revenue requirement in this case represents a decrease of $614,593.

Order Paragraph No. 1 should be corrected to read:

1. For purposes of final relief in this docket, Mountain States Telephone and Telegraph Company is granted increased revenues in the amount of $5,504,000. This represents a $614,593 reduction in revenues from the level authorized in Interim Rate Order Nos. 4991 and 4991a in this docket.

BY THE MONTANA PUBLIC SERVICE COMMISSION

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