BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Filing by Southwestern Bell Telephone Company of New Intrastate Rates, Tolls, and Charges Applicable to Intrastate Telecommunication Services Furnished Within the State of Missouri	)	Case No. TR-81-208
In the Matter of the Usage Sensitive Pricing Study of Southwestern Bell Telephone Company	)	Case No. TO-78-46

BRIEF OF THE STAFF OF THE
MISSOURI PUBLIC SERVICE COMMISSION

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TELEPHONE PLANT UNDER CONSTRUCTION

Company Witness: Thomas R. Vrooman: Direct Testimony; Company Exhibit 19, Page 18-24, Tr. 2199

Staff Witness: Cary G. Featherstone: Rebuttal Testimony; Exhibit 120, Tr. 2200-2207

I.

INTRODUCTION

Company contends that telephone plant under construction (TPUC) should be included in rate base. TPUC encompasses those construction projects that can be completed in one (1) year or less. (Exhibit 19, Page 18 and Exhibit 120, page 2) The Staff is opposed to such construction being included in rate base for the reasons delineated infra.

While the Company presents this issue to the Commission for a determination, it is worthy of mention that this adjustment was not included in Company´s prefiled case as a component of rate base. (Exhibit 19, Page 19 and Exhibit 120, Page 1) Rather, this is an issue that overprooves Company´s case.

II.

COMPANY´S POSITION

The Company believes that TPUC should be recognized by the Commission for two reasons. First, Company´s proposal in its opinion balances the responsibility of the ratepayer to support the construction program. (Exhibit 19, Page 19) Second, Company´s proposal is in conformance with the FCC´s stance on this issue. (Id.) Therefore, if Company´s position is adopted herein, side records will not be necessary.

The TPUC in issue turns over on an average of every 3.75 months. (Exhibit 19, Page 22) However, some of the projects could take eight months before they are completed. (Tr. 2190) The length of time in which it takes to complete a project depends on the type of construction involved. (Tr. 2191) Company does not know how many projects make up the adjustment.

In its prefiled case, Company stated as a reason in support of its proposal that TPUC is "used and useful" to present customers. (Exhibit 19, Page 20) "Used and useful" as defined by the Company means customers can use it. (Tr. 2179) During cross-examination, Company's witness defined TPUC as "plant while it's in the process of being constructed". (Id.) Therefore, the very name of this issue by definition shows that this construction is not of benefit to current ratepayers.

III.

STAFF'S POSITION

The Staff proposes to exclude TPUC from rate base and allow capitalization of interest during construction (IDC) thereon. (Exhibit 120, Page 2) The purpose of calculating IDC on TPUC is to allow the Company a return on this plant while it is still under construction. The capitalization of IDC will insure the Company will be able to earn and collect on this investment when the construction is completed and transferred to plant in service. (Exhibit 120, Page 3)

Staff opposes inclusion of TPUC in rate base for several reasons. The most obvious one being that such construction is not useful to current ratepayers because it is not in service. (Exhibit 120, Page 5) Therefore, the ratepayer will not receive any benefit from such construction at the present time. Current ratepayers as defined by the Staff are those customers in existence and receiving service from the Company as of the end of the test year utilized in this proceeding. The significance of this point is that if Company's proposal is adopted, current ratepayers will be forced to pay a return on plant still being constructed to which there is no corresponding benefit. Under Staff's methodology, future ratepayers will pay the return on the investment as they have the use of the plant.

Secondly, present ratepayers are already paying a return on plant which is currently in service but has more capacity than is needed by current ratepayers. Therefore, a portion of the existing plant in service is not utilized by current ratepayers and exists to serve new customers. However, current ratepayers are paying a return on the currently existing excess capacity. Excess capacity is common for utilities so that plant will have a reserve to meet new demand when called upon.

In fact, plant is designed through the engineering intervals. (Exhibit 120, Page 9) An engineering interval is a period of time between the planned in-service date of an equipment addition and the date when the next addition is required. (Exhibit 120, Page 10) For example, Company supplied documents show that building additions are engineered so as to have a capacity to meet anticipated growth and demand for a period of eight years. (Exhibit 120, Page 10) Buried cable and aerial cable are engineered to have a capacity to meet demand for a period of ten years. (Id.) Therefore, existing plant is designed with an eye to the future to meet demands of future ratepayers as opposed to only meeting the demands of current ratepayers.

Third, current ratepayers are already paying a return on items included in rate base that are not currently used and useful through account 100.1. Said account concerns premature bookings which includes all construction projects which are estimated at $25,000 or less and are expected to be completed in less than two months. (Exhibit 120, page 12)

Fourth, Company divides its construction projects into four categories consisting of growth, modernization, plant replacement and customer movement. Growth concerns projects to expand and or increase revenues. Growth expenditures reflect projects which provide capacity for new customers and increased usage by existing customers. (Exhibit 120, Page 13) Accordingly, this type of construction project results in increased revenues. (Id.) Modernization includes projects to introduce improved operational efficiency. (Id.) This type of project improves service with corresponding increased productivity. It also makes available new services to customers which will also cause the Company to accrue additional revenues. (Id.) Plant replacement consists of replacing worn or damaged equipment. This type of construction expenditure results in reduced maintenance costs and thus less expense to the Company. (Exhibit 120, Page 14) Finally, customer movement classifications concerns the costs of meeting the day-to-day service requirement of existing customers. This particular category would not result in increased revenues to the Company except to the extent installation charges are incurred through the moving process.

(Exhibit 120, Page 14)

The foregoing shows that if Company's proposal is adopted, Company will reap the benefits of an increased revenue requirement by inflating rate base without taking into consideration the related increased revenues and reduced maintenance expenses. (Exhibit 120, Page 16) If the current ratepayers are made to be responsible for financing TPUC as the Company suggests, then Staff is of the opinion that it is only proper and equitable that the same ratepayers be given the benefit of additional revenues and reduced expenses. (Exhibit 120, Page 17)

IV.

ARGUMENT

As mentioned supra, Company's adjustment fails to take into consideration the increased revenues and reduced expenses as a result of TPUC. While Staff is of the opinion that such an effect is inequitable to current ratepayers, such position on behalf of the Company is also inconsistent with several other sections of its own case. During cross-examination, Company's witness agreed that the purpose of a test year is to synchronize expenses, revenues, rate base and rate of return at a point in time for the purpose of setting rates for the future. (Tr. 2184) Company's witness further agreed that the purpose of a test year is a worthwhile goal to accomplish. (Id.) In fact, in Company's prefiled case, it is stated that it is necessary to annualize operating revenues to an end-of-period basis to match other end-of-period items. (Exhibit 19, Pages 24-25) Properly matching end-of-period levels is important to properly match the other areas of a regulatory proceeding. (Id.) It is interesting to note that if revenues were taken to end of period without also bringing rate base and expenses to end of period, Company's revenue requirement would decrease. (Tr. 2186) However, if rate base is taken out to a point in time beyond where revenues and expenses are set, the Company's revenue requirement would increase. (Id.) The Company's proposal to include TPUC in rate base takes the rate base out past the point in time where revenues and expenses are annualized and thus increases the revenue requirement. Apparently, matching the different components of a rate case is only important in the Company's eyes if failure to do so would result in a decrease to the revenue requirement. However, when the opposite is true, the Company espouses a philosophy that matching is not all that important.

Company's reliance on the treatment given by the FCC is misplaced in light of the FCC's "Order Under Reconsideration" in Docket No. 21230 (November 6, 1979) which dealt with TPUC.

> 9. As our final order in Docket 2130 makes clear, we have in no way attempted to influence, or interfere with, the ratemaking prerogatives of the New York PSC or any other state commission. The states remain free to establish intrastate rates on whatever lawful basis they may choose. The fact that separate accounting information will have to be retained to accomplish this and the fact that the gathering and retention of such information may involve additional costs does not, in our view, involve any significant interference with state control over intrastate rates.

Furthermore, Commission Rule 4 CSR 240-30.040.3 provides that the Missouri Commission is not bound by the FCC Uniform System of Accounts when it is engaged in ratemaking.

This Commission has consistently ruled that TPUC shall not be included in rate base. In Re: Southwesten Bell Telephone Company, Case No. TR-79-213 (March 13, 1980) the Commission had the following to say regarding TPUC:

> The Commission is not bound by the decisions of the Federal Communications Commission and there has been no evidence presented which would persuade us to depart from the customary practice of excluding the cost of all plant under construction from rate base. Undedicated plant under construction is not used and useful in rendering service and no return should be allowed on the amounts associated with the construction until it is dedicated to public service. In the Commission's opinion, the accrual of interest during construction to be capitalized at the time the plant goes into service provides the investor with an adequate opportunity to earn a return on those costs or the life of the plant. The Commission will continue to exercise its discretion in favor of excluding construction work in progress from rate base, and the Company's proposed inclusion is disallowed.

In Re: United Telephone Company of Missouri, Case No. 18,264 (October 10, 1975) the Commission provided some guidance on the factors concerned with this issue:

> The Commission is of the opinion that the controlling factors to be considered are: (1) The levels of CWIP in relation to total plant (if large, then to capitalize is to distort future rate base and present a false picture in actual dollars of revenue because of large amount of interest during construction being added to test year revenues though there are no actual dollars flowing in); (2) How far beyond the test year does the utility estimate the

> CWIP will be in actual service; (3) Is the CWIP good revenue-producing property or not, and if so, is it then necessary to adjust revenues and expenses as if CWIP were in service.

See also In Re: United Telephone Company: TR-80-235 (December 19, 1980).

Here, the amount of TPUC is approximately the same as that before the Commission in Company's last contested rate proceeding. Furthermore, the amount of time beyond the test year before the TPUC will actually be in service is again the same as it is in Company's last rate case. Finally, the record is replete with statements that the Company will incur increased revenues and reduced expenses. Company did attack the Staff because the amount of revenues coming from TPUC had not been quantified. (Tr. 2202-2203) However, nowhere in the record did the Company ever attempt to establish that the TPUC in question was not revenue producing.

Accordingly, the facts presented in the instant case are no different than the last contested case before this Commission concerning the same Company which resulted in the adjustment being denied before. The Staff submits that the same conclusion should be reached herein.

V.

CONCLUSION

In conclusion, Staff submits TPUC should be excluded from rate base for the following reasons.

a) TPUC is not used or useful in the rendition of service to current ratepayers.

b) Present ratepayers are already paying a return on plant completed and in service which has more capacity than is presently needed by current ratepayers.

c) Company's proposal fails to consider the related benefits associated with these capital projects which will be realized when they are completed.

d) Company's proposal on TPUC includes an amount of plant that will not be used and useful until after the end of the test period utilized by all parties of record in this docket, but it does not consider the associated revenues of this plant.

RATE DESIGN

Company Evidence: Exhibits 5, 6, 20, 21, 24, 102, 105, 108, 109, 112, 115, 116
Tr. 1456-1691, 1702-1793, 1957-1959, 2058-2107

Staff's Evidence: Exhibit 28
Tr. 1801-1859

Public Counsel's Evidence: Exhibits 34, 35, 54, 103, 104, 106, 107, 110, 111, 114
Tr. 1892-1955, 1965-2044

Mo Ho Mo's Evidence: Exhibit 39
Tr. 1693-1700

State of Missouri's Evidence: Exhibit 38
Tr. 1866-1883

Mo PIRG's Evidence: Exhibit 41
Tr. 2045-2057

Missouri Farm Bureau Federation's Evidence: Exhibit 40

Joint Evidence: Exhibit No. 2

The Staff's basic position in regards to the appropriate allocation of any rate increase authorized in this proceeding is explained on page 5 of Exhibit No. 3. This recommendation basically supports Company's proposed revenue allocation. Assuming that Staff's recommended revenue requirement for the Company $36,146,000 - $51,042,000, Exhibit 2, Appendix A, p. 2) is adopted by the Commission, the Staff's recommended revenue allocation would be as follows:

Description	Increases
1. Service Connection Charges	$11,700,000
2. Operator-Assisted Toll	3,413,000
3. Instrument Reprice	10,453,000
4. Hotel/Motel Station Lines	62,000
5. E-911 Mileage	70,000
6. Local Exchange Rates	10,448,000-25,344,000
	$36,146,000-51,042,000

Staff is of the opinion that even a $25,344,000, a 15% increase in local exchange rates, would not be an unreasonable increase in local exchange rates. Staff's opinion is based upon the fact that Company's last two rate proceedings culminated in rate reductions for local exchange rates. Additionally, it is anticipated that FCC's Computer II decision will exert significant upward pressure on the level of local exchange rates. Lastly, inflation has caused all of Company's costs to have signilficantly increased since the last time local exchange rates were increased. Staff believes it is no longer appropriate to shield local exchange rates from these facts of life. The principle of TANSTAAFL as explained by Dr. Alessio should prevail. (Tr. 2090-1)

There are two other subjects in the area of rate design that Staff would like to address. The Public Counsel has requested the Commission to increase Missouri intrastate MTS and WATS service by 16% in order to achieve "parity" with FCC's recent interstate increase in these services. The effect of this increase is about $16,972,000 (Exhibit 3, p. 8). In light of the Company's long-standing policy of obtaining parity between interstate and intrastate MTS and WATS service and its ambivalent attitude towards Public Counsel's recommendation, the Staff takes no position in regards to Public Counsel's position on Intraste Toll Tariffs. Additionally, the Public Counsel has proposed that Company's intrastate private line service rates be increased by between 20-25%. Staff opposes this position. As the Staff is well aware, private line services received significant rate increases in Company's last two general rate cases (Case Nos. TR-79-213 and TR-80-256). The Company recognizes that these rates are below cost and has committed to increase these rates above cost. Because of the adverse customer impact, the Company has decided to increase these rates to an "above cost" level over a period of years. The next scheduled increase will be presented to the Commission next year. The Company has lived up to its obligation in this schedule and Staff feels there is no reason to depart from it at this time.

In conclusion, Staff requests the Commission to allocate the rate increase in the manner recommended by Staff.