

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Case No. TR-85-179

In the matter of the application of
United Telephone Company of Missouri
for authority to file tariffs increasing
rates for telephone service provided to
customers in its Missouri service area.

APPEARANCES: J. Richard Smith, Vice President and General Counsel, and
Denton C. Roberts, Attorney, United Telephone Company of
Missouri, 6666 West 110th Street, Overland Park, Kansas
66211, for United Telephone Company of Missouri.

William Clark Kelly, Assistant Attorney General, Office of
Attorney General, Post Office Box 899, Jefferson City,
Missouri 65102, for the State of Missouri.

William G. Bowles, Jr., d/b/a Mid-Missouri Mobilfone, Post
Office Box 405, Rolla, Missouri 65401, pro se.

Joni K. Ott, Assistant Public Counsel, Office of Public
Counsel, Post Office Box 7800, Jefferson City, Missouri
65102, for the Office of Public Counsel and the public.

Mary Ann Young, Deputy General Counsel, and
Linda K. Malinowski, Assistant General Counsel, Missouri
Public Service Commission, Post Office Box 360,
Jefferson City, Missouri 65102, for the Staff of the Missouri
Public Service Commission.

REPORT AND ORDER

On February 4, 1985, United Telephone Company of Missouri (Company)
submitted tariffs to this Commission designed to increase telephone rates to its
Missouri customers by approximately 41 percent. The proposed increase would increase
Company's Missouri revenues by \$10,500,000. The tariffs were to go into effect on
March 6, 1985.

The Commission suspended the tariffs to allow sufficient time to determine
if they were just and reasonable. The tariffs were suspended until January 4, 1986.

A procedural schedule was established for the filing of prefiled testimony and for a hearing of the issues.

The City of Jefferson, William G. Bowles, Jr., d/b/a Mid-Missouri Mobilfone, the State of Missouri, the City of St. Robert, the Department of Defense, the City of Oak Grove and the City of Buckner were granted intervention in this matter. Public hearings were held in Warrensburg, Missouri, and Jefferson City, Missouri.

A prehearing conference was held September 3, 1985, through September 13, 1985. Company, Commission Staff, the Office of Public Counsel and William G. Bowles, Jr., participated in the prehearing. The Department of Defense entered an appearance but did not participate. The evidentiary hearing was scheduled for October 7 through October 18, 1985. Prior to the hearing the parties filed a stipulation to all issues except those raised by William G. Bowles, Jr. The stipulation was treated as a joint recommendation of those parties who signed the stipulation. A hearing was held on October 7, 1985, to give all parties an opportunity to call witnesses and present evidence. Oral argument was had after the evidence was taken.

Findings of Fact

Having considered all of the competent and substantial evidence upon the whole record, the Missouri Public Service Commission makes the following findings of fact.

JOINT RECOMMENDATION

Company, Staff and Public Counsel stipulated to all issues in this matter. Since William G. Bowles, Jr. did not sign the stipulation and his issues were tried, the stipulation was taken as a joint recommendation from the signatory parties. No evidence was presented concerning the issues agreed to by the parties. The parties stipulated to the total revenue requirement and certain rate design changes.

After the hearing on October 7, 1985, the parties filed an amended stipulation and agreement. This amended stipulation and agreement is received into evidence as late-filed Exhibit 30. The amended stipulation contains the final agreement of the parties on those issues upon which agreement was reached.

The amended stipulation agreed to by the parties is attached to this order as Appendix A. The Commission has reviewed this stipulation and has determined it is just and reasonable and should be accepted and adopted as a proper resolution of all issues upon which agreement was reached.

BOWLES ISSUES

The joint recommendation of the parties resolved all issues in the case except for those raised by William G. Bowles, Jr. (Bowles). Bowles is a sole proprietor of Mid-Missouri Mobilfone (MMM). MMM is a radio common carrier which provides paging and mobile telephone service to customers in Missouri and Arkansas. MMM provides services in competition with Company in Rolla, Missouri.

Company as part of its prefiled case presented an embedded cost of service study which included the costs associated with the provision of paging and mobile telephone service. The cost of service study resulted in a required monthly rate of \$4.26 for a paging access line and \$92.17 for a mobile access line. Company, though, proposed no rate increase for mobile telephone access lines or paging access lines because of the competitive nature of the service. The current rate is \$5.25 for paging access line and \$63.35 for mobile telephone access line.

Bowles presented testimony which contested three issues. These issues are the revenue requirement for 100 numbers/DID (direct inward dialing), the revenue requirement for mobile telephone access lines, and the revenue requirement for paging access lines.

Bowles disagreed with the allocation of costs made by Company in performing its cost of service study on 100 numbers. Bowles contends that DID 100 numbers cannot originate calls and so should not be allocated one-half of the local

traffic-sensitive investment for a call. The call originator should therefore be allocated all of the traffic-sensitive costs for the call.

Bowles proposed that Company raise its mobile telephone access line rate and paging access line rate to recover full embedded costs. Bowles objected to Company's proposal not to raise these rates. Bowles states the cost of service study shows the proposed rates are 45 percent below the fully embedded costs. Bowles stated that Company has proposed a 25 percent override in costs for other 100 DID numbers and the 25 percent override should also be applied to mobile telephone access line and paging access line rates. Bowles proposes a \$120 rate for mobile telephone access line rate and \$12 for a paging access line rate. This rate would recover the full embedded costs plus the 25 percent override, according to Bowles.

Bowles objects to the pricing of competitive services at a competitive rate. He argues this allows Company to subsidize its competitive services with its monopoly services. Bowles contends this is unfair to Company's competitors, who cannot subsidize their costs for these services.

Bowles contended that Company did not include all costs incurred by the mobile service in its cost study. Bowles contends Company failed to include the cost of telephone access lines where the mobile telephone transmitter and antenna are not located in the same location. Bowles also contended that Company did not allocate a portion of its joint costs for land, buildings, towers and other equipment to the paging service.

Company moved to strike that portion of Bowles' testimony relating to mobile telephone service since Bowles had no mobile customers in Rolla and was therefore not a competitor. The motion is denied. Even though Bowles has no mobile customers, he does offer the service and therefore has standing to raise the issue.

Company agreed with Bowles concerning the allocation of costs to the mobile and paging services. Company allocated additional costs based upon Bowles' testimony. These costs increased the required monthly rate to \$103.61 for a mobile

telephone access line and \$6.28 for a paging access line. Company stated that the additional costs would not affect its proposal to retain the current rates for mobile and paging access lines. Company's rates are set by Company to recover avoidable costs and provide some contribution to joint and common costs. Company bases its price on the competitive market, not fully embedded costs.

Company witness Anderson testified that Company's DID numbers could originate calls and so allocating half of the traffic-sensitive investment to DID numbers was appropriate. Anderson also indicated that the cost of service study did allocate joint costs between mobile and paging services and Bowles was wrong in suggesting it did not. The Commission finds Company's evidence is the more probative on these questions and finds Company has properly allocated costs to the DID numbers and mobile and paging services.

The Commission has considered the issues raised by Bowles with regard to the pricing of mobile telephone and paging access lines. Company admits it is not pricing these rates at fully embedded costs. Bowles contends it should be priced to recover these costs. Company argues that since these services are competitive they should be priced to recover avoidable costs and make some contribution to joint and common costs while still being competitive. A resolution of the proper method of pricing will resolve the remaining issues raised by Bowles.

Bowles cites several Federal Communications Commission decisions and decisions in other jurisdictions in support of his position. The Commission does not consider these decisions case dispositive. The Commission has for many years allowed public telephone utilities to price competitive services below fully embedded costs.

The evidence here is that Company's proposed rate recovers Company's avoidable costs for providing the service and provides some contribution to joint and common costs. The evidence showed Company's rates are above those of competitors. Although Bowles contended Company was comparing prices of different types of service, he offered no evidence showing that to be true. The Commission believes there is a

strong possibility increasing the rates as proposed by Bowles would force Company's customers to take service from a competitor, and thus there would be no contribution to joint and common costs. Based upon these considerations, the Commission has determined the rates for mobile telephone access lines and paging access lines proposed by Company in this case are just and reasonable.

The Commission has determined the rates proposed by Company are reasonable based upon the evidence and circumstances existing at this time. Both paging and mobile service will be deregulated on January 1, 1986. (Section 386.030, R.S.Mo. Supp. 1984). The Commission will direct its Staff to examine the allocation of costs and the appropriate accounting of costs between the regulated services provided by Company and the services to be deregulated. The proper allocation and accounting should be addressed in Company's next rate case.

Bowles filed a motion for costs associated with his filing of a motion to compel answers to interrogatories. That motion is denied.

Conclusions

The Missouri Public Service Commission has arrived at the following conclusions.

The Company is a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 392, R.S.Mo. 1978. The Commission suspended Company's tariffs, which are the subject of this proceeding, under Section 392.230, R.S.Mo. 1978. The burden of proof to show the increased rates are just and reasonable is upon Company. The Commission may consider all facts which in its judgment have any bearing upon a proper determination of the setting of fair and reasonable rates. The Commission, for ratemaking purposes, may accept a stipulated settlement of any contested matter submitted by the parties. The Commission has determined and concludes the stipulated agreement presented by the parties in this matter is just and reasonable and should be accepted. The Commission has determined and concludes that the rates for mobile telephone service and paging service proposed

by Company are just and reasonable. The acceptance of the stipulated agreement and the findings regarding the mobile telephone and paging rates resolve all of the issues in this case.

It is, therefore,

ORDERED: 1. That the amended stipulated agreement entered into by the parties in this matter is made a part of this order and attached as Appendix A. That agreement is hereby accepted and adopted by the Commission.

ORDERED: 2. That United Telephone Company of Missouri's rates for mobile telephone service and paging service will be \$63.65 and \$5.25, respectively.

ORDERED: 3. That the tariffs filed by United Telephone Company of Missouri on February 4, 1985, are hereby disapproved and Company is authorized to file in lieu thereof, for approval by the Commission, tariffs designed to comply with the amended stipulated agreement and findings in this order.

ORDERED: 4. That in compliance with the amended stipulated agreement, the tariffs to be filed with the Commission for approval may be effective for service rendered on or after October 28, 1985, except for tariffs for extended area service (EAS) and metropolitan operational service plan (MOSP) in the Lake Lotawana exchange, which may be effective on or after November 28, 1985.

ORDERED: 5. That United Telephone Company of Missouri will submit for Commission approval its notice to Lake Lotawana customers for explaining the service options.

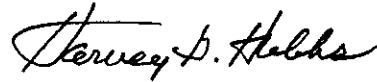
ORDERED: 6. That the Motion For Costs filed by William G. Bowles, Jr., is hereby denied.

ORDERED: 7. That late-filed Exhibit 30 is received into the record.

ORDERED: 8. That United Telephone Company of Missouri file with the Commission the information required by Section 392.300, R.S.Mo. Supp. 1984.

ORDERED: 9. That this report and order shall become effective on the
28th day of October, 1985.

BY THE COMMISSION



Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Musgrave, Mueller,
Hendren and Fischer, CC., Concur and
certify compliance with the provisions
of Section 536.080, R.S.Mo. 1978.

Dated at Jefferson City, Missouri,
on this 21st day of October, 1985.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the application)
of United Telephone Company of)
Missouri for authority to file)
tariffs increasing rates for) Case No. TR-85-179
telephone service provided to)
customers in its Missouri service)
area.)

AMENDED STIPULATION AND AGREEMENT

Come now United Telephone Company of Missouri (Company), Staff of the Missouri Public Service Commission (Staff), and Office of the Public Counsel (Public Counsel) and as a result of the prehearing conference in the above-referenced docket recommend the following Stipulation and Agreement to the Missouri Public Service Commission (PSC) for its consideration and approval:

1. That the Company be authorized to file revised tariffs designed to increase its Missouri jurisdictional gross annual telephone revenues by \$4,045,622, exclusive of applicable local taxes.

2. That the above-mentioned tariffs shall become effective as soon as possible but no later than October 28, 1985.*

3. That a schedule of significant rate structure changes is set out on Attachment A. The revenue increase shall be spread as shown on Attachment B (which shows the increase by categories).

4. That the recommended rate increase is based on an authorized rate of return of 12.0%.

5. That new depreciation rates in two accounts shall be implemented and booked by the Company as of the effective date of the revised tariffs referred to in paragraph 1 above, as follows:

<u>Account</u>	<u>Rate</u>
241 Pole Lines	4.3%
242.4 Submarine Cable	3.0%

6. That beginning October 28, 1985, the sum of \$81,372 from the debit depreciation reserve in Account 242.4 - Submarine Cable shall be set aside into Account 609 - Extraordinary Retirements and amortized at 3.0% rate.

* Except tariffs for Lake Lotawana optional EAS rates and MOSP service, which will have a 30-day effective date.

7. That Company agrees to engage an outside consultant for the purpose of conducting a comprehensive management audit of Company's operations in the manner described in the prepared direct testimony of Staff witness Stephen P. Hogg. Company and Staff agree that a separate Commission investigatory docket should be established for purposes of the audit, and that the existing investigatory docket, Case No. TO-83-47 should be closed. The scope of the audit will be as described in Staff witness Hogg's prepared direct testimony and the audit will be conducted with Staff's assistance and supervision. Company and Staff shall present their recommended request for proposal and the selection of a consultant to the Commission for approval.

8. Company shall investigate each service complaint raised at the local public hearings held in this case as well as those held in Case Nos. TC-81-345, TC-78-178 and TC-85-233. The results of Company's investigation shall be reported to the Commission thirty days after the effective date of the Commission's order in this case. If the investigation results are unsatisfactory to Staff, Staff intends to conduct further investigation of those service complaints, and take further action as needed.

9. That Company shall continue to file semiannual progress reports with the Commission regarding the Company's replacement of central offices, as was provided in ORDERED: 8 in Case No. TR-80-235.

10. That the prefiled testimony and exhibits of the witnesses of the parties are hereby submitted into the record in this case and shall be received into evidence without the necessity of said witnesses taking the stand.

11. That in the event the Commission accepts the specific terms of this Stipulation and Agreement:

a) The parties waive their respective rights to cross-examine witnesses with respect to the prefiled testimony and exhibits sponsored by such witnesses;

b) The parties waive their respective rights to present oral argument or written briefs, pursuant to Section 536.080(1) RSMo 1978;

c) The parties waive their respective rights pertaining to the reading of the transcript by the Commission, pursuant to Section 536.080(2) RSMo 1978;

d) The parties waive their respective rights to judicial review pursuant to Section 386.510 RSMo 1978 regarding the disposition of this case.

12. That the provisions of this Stipulation and Agreement have resulted from extensive negotiations among the signatory parties and are interdependent. In the event the Commission does not approve and adopt the terms of this Stipulation and Agreement in total, the Stipulation shall be void and no party shall be bound by any of the agreements or provisions hereof.

13. That the Stipulation and Agreement represents a negotiated dollar settlement for the sole purpose of disposing of Case No. TR-85-179 and the parties to this Stipulation and Agreement shall not be prejudiced, bound by, or in any way affected by the terms of this Stipulation and Agreement in any future proceeding or in this proceeding should the Commission decide not to approve this Stipulation and Agreement.

14. That the parties to this Stipulation and Agreement shall not be deemed to have approved or acquiesced in any ratemaking principle, value methodology, cost of service method, or rate design proposal underlying any of the rates and tariffs provided for in this Stipulation and Agreement.

15. That the Staff reserves the right to submit to the Commission, in memorandum form, an explanation of its rationale for entering into this Stipulation and Agreement and to provide to the Commission whatever further explanation the Commission requests. Such memorandum shall not become a part of the record in this proceeding and shall not bind or prejudice the Staff in any future proceeding or in this proceeding in the event the Commission does not approve the Stipulation and Agreement.

Respectfully submitted,

/s/ J. Richard Smith

J. Richard Smith
United Telephone Company
of Missouri
6666 W. 110th Street
Overland Park, KS 66211

Attorney for United Telephone
Company

/s/ Mary Ann Young

Mary Ann Young
Linda K. Malinowski
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Attorneys for the Staff of the
Missouri Public Service Commission

/s/ Joni K. Ott

Joni K. Ott
Assistant Public Counsel
Office of Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Attorney for the Office of
the Public Counsel

LOCAL RATE STRUCTURE CHANGES

1. Non-optional EAS rates shall be unbundled from the basic access line rate. The EAS rates shall be those outlined in Pederson Schedule 5. However, a cap of \$3.65 residential and \$7.30 business shall apply.
2. Optional EAS in the Lake Lotawana exchange shall be retained but the monthly rate shall be increased to \$39.35 for residential customers and \$49.20 for business customers. A metropolitan optional service plan (MOSP) will be offered in this exchange as an alternative to the optional EAS. Existing optional EAS customers will be allowed a one-time change from the optional EAS service to the MOSP service or to basic exchange service without service charge. New customers will be allowed to choose among the three types of service. Tariffs implementing the increased rates for optional EAS and the MOSP service will have a 30-day effective date. Company will give notice to all Lake Lotawana exchange customers of the service alternatives and the effect of changing from the optional EAS to MOSP service, including the effect on telephone book listings and telephone numbers. Prior to providing such notice, Company will submit the notice to the Commission for approval.
3. The rate relationships for four-party urban and four-party rural service shall be 70% and 130% of the one-party rate, respectively. All other rate relationships shall remain unchanged.
4. Zone charges shall increase 10¢ per zone per month, i.e., zone charges shall be \$3.10, \$6.20, \$9.30 and \$12.40 per month for each of the four zones.
5. Custom calling feature (CCF) recurring rates, white page directory and MOSP rates shall be as proposed in Staff's testimony.
6. CCF nonrecurring rates for customers solely requesting CCF shall be \$10.25 for simple residence and business orders and \$14.70 for complex orders.
7. U-Touch non-recurring rates for customers solely requesting U-Touch service shall be \$20.60 for simple orders and \$25.00 for complex orders.
8. All remaining non-recurring service connection charges and maintenance of service charges shall be as proposed in Staff's testimony.
9. Local coin rates for local direct dial coin calls shall remain at 20¢ per call.
10. Restoration of Service charge shall be \$17.80. No trip charge shall apply.
11. Business four-party service in the urban area shall be eliminated as facilities are available.
12. Customers will be charged for more than five calls to directory assistance. Rates and charges shall reflect those currently in effect per the current Southwestern Bell tariff. Customers will also be charged for local operator assistance under the same rates and charges as the current Southwestern Bell tariff.

For the initial six-month period of implementation, customers shall receive a verbal notice of the rates and charges prior to completion of the customer's request for operator assistance.
13. All rates and tariff changes not otherwise addressed herein or in Attachment B shall be as proposed by Company.

United Telephone Company of Missouri
Summary of Revenue Sources
General Rate Case
Case No. TR-85-179

ANNUALIZED REVENUE

GENERAL CATEGORY	May 31, 1985 (BASED ON PRESENT RATES)	May 31, 1985 (BASED ON PROPOSED RATES)	INCREASE	PERCENT INCREASE
Service Connection Charges	\$1,571,329	\$2,764,684	\$1,193,355	76%
Restoration Service	74,448	220,862	146,414	197%
Non-Recurring Charges	202,597	202,597	0	0%
Fire Reporting Systems	18,539	27,384	8,845	48%
Local Coin Drop	690,193	690,193	0	0%
Semi-Public Instrument	971	42,074	41,103	N/A
100 Numbers/DID	271,423	466,026	194,603	72%
Rotary Hunt Service	42,937	173,155	130,218	303%
Local Private Line	857,719	879,965	22,246	3%
Mobile/Paging Access Line	47,490	47,490	0	0%
Local Directory Assistance	0	41,272	41,272	N/A
Local Operator Assistance	0	64,064	64,064	N/A
Extended Area Service	44,283	1,069,307	1,025,024	N/A
* Optional Discounted Toll (Note 1)	180,180	177,256	(2,924)	-2%
Franchise Tax	931,036	931,036	0	0%
Custom Calling Features	345,804	380,384	34,580	10%
Customer Premises Equipment	6,571,563	6,571,563	0	0%
Local Measured Service Usage	18,363	18,363	0	0%
Directory Listings	174,523	293,163	118,640	68%
Miscellaneous Services	52,343	69,567	17,224	33%
U-Touch	706,467	824,727	118,260	17%
Maintenance of Service	14,800	21,218	6,418	43%
Zone Mileage	1,620,522	1,674,509	53,987	3%
* Metropolitan Optional Svc (Note 2)	131,237	226,233	94,996	72%
Miscellaneous Access Lines	416,914	419,569	2,655	1%
* Access Lines	11,054,795	11,789,437	734,642	7%
TOTAL LOCAL REVENUE	26,040,476	30,086,098	4,045,622	16%

* Note 1: Local revenue impact of increasing Lake Lotawana optional EAS rates by 97% with 50% suppression in subscription.

* Note 2: Local revenue impact of MOSP rate changes in Buckner and Kearney exchanges and addition of MOSP offering in Lake Lotawana.