BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Earnings Review of Stoutland Telephone Company.	))	**CASE NO. TO-96-349**

REPORT AND ORDER

Issue Date: August 21, 1996

Effective Date: September 4, 1996

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OF THE STATE OF MISSOURI

In the Matter of the Earnings Review of Stoutland Telephone Company.	))	**CASE NO. TO-96-349**

APPEARANCES: **W.R. England, III**, Attorney at Law, Brydon, Swearengen & England, P.C., P. O. Box 456, Jefferson City, Missouri 65102-0456, For: Stoutland Telephone Company.

Paul S. DeFord, Attorney at Law, Lathrop & Gage, L.C., 2345 Grand Boulevard, Kansas City, Missouri 64108, For: AT&T Communications of the Southwest, Inc.

Willard C. Reine, Attorney at Law, Dalton, Reine & Seiden, 314 East High Street, Jefferson City, Missouri 65101, For: Midwest Independent Coin Payphone Association.

Leo J. Bub, Attorney at Law, 100 North Tucker Boulevard, Room 630, St. Louis, Missouri 63101, For: Southwestern Bell Telephone Company.

Michael F. Dandino, Senior Public Counsel, P. O. Box 7800, Jefferson City, MO 65102, For: Office of the Public Counsel and the Public.

Robert J. Hack, General Counsel, P. O. Box 360, Jefferson City, Missouri 65102, For: Staff of the Missouri Public Service Commission.

Administrative Law Judge: **Anne Wickliffe Freeman.**

REPORT AND ORDER

I. Procedural History

The Stoutland Telephone Company (Stoutland), the Staff of the Commission (Staff), the Office of the Public Counsel (OPC), the Midwest Independent Coin Phone Association (MICPA), AT&T Communications of the

Southwest, Inc. (AT&T), and Southwestern Bell Telephone Company (SWBT) submitted a Stipulation and Agreement for Commission approval on April 19, 1996. Stoutland filed tariff sheets on the same date designed to implement the agreement but later withdrew them. The Stipulation and Agreement provides for a reduction in Stoutland's overall net revenues of approximately $320,000 annually. The parties agreed to a rate design that would reduce intraLATA and interLATA access revenues but make no reduction in rates for basic local residential or business service. The agreement also revises depreciation rates and provides for the company to undertake certain modernization projects.

The Commission issued an Order and Notice on May 3, 1996, directing parties wishing to intervene to file an application to do so by June 4, 1996. The same order granted intervention to MICPA, AT&T, and SWBT, signatories to the Stipulation and Agreement. No other parties filed applications to intervene. The case was set for a hearing on July 16, 1996, to determine whether the Stipulation and Agreement should be approved. The parties appeared on that date and made presentations and responded to Commission inquiries regarding the agreement. After the hearing, Stoutland submitted late-filed exhibits 2-HC and 4, Staff submitted late-filed Exhibit 3, and SWBT submitted late-filed Exhibit 5-HC. There were no objections filed to any of the late-filed exhibits. Staff filed a Memorandum in support of the Stipulation and Agreement on August 6, 1996, as permitted by paragraph 8 of the agreement.

II. Findings of Fact

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

A. **Description of the Stipulation and Agreement.** The Stipulation and Agreement filed by the parties on April 19, 1996, provides for a reduction in Stoutland's overall net revenues by approximately $320,000 annually. The rate reduction is allocated entirely to intraLATA and interLATA access charges, with approximately 50% of the reduction assigned to each type of service. The parties propose that Stoutland's intraLATA access revenues should be reduced by eliminating the discounted rate for originating and terminating carrier common line charges. The parties propose that Stoutland's intraLATA and interLATA carrier common line revenues be reduced as shown below.

TYPE OF ACCESS	CURRENT RATE per/min		PROPOSED RATE per/min	
	Originating	**Terminating**	**Orig.**	**Term.**
IntraLATA	.0758 full	.1298 full	.0231	.0394
	.0337 discounted	.0577 discounted		
InterLATA	.1243	.2131	.05	.1485

The parties propose a fee of $.45 for each directory assistance call after an allowance of two free calls within a billing period. Stoutland currently provides Directory Assistance service at no charge. The agreement includes an increase in Stoutland's depreciation rates for three accounts: the depreciation rate for digital switching would be increased from a 5% to a 6.67% annual rate; buried metallic cable from 4% to 4.29%; and buried fiber cable, which currently has no separate rate, would be depreciated at a rate of 3.55%. The parties agreed that Stoutland would make an investment of approximately $1.56 million dollars to complete the installation of fiber between the towns of Stoutland and Eldridge and to "unload" many of its digital loop carriers.

B. Discussion. There were no objections to any of the late-filed exhibits. The Commission finds that Exhibits 1, 2-HC, 3, 4, and 5-HC are relevant and should be admitted.

The Staff Memorandum in support of the agreement filed on August 6, 1996, included as Attachment C a document entitled "Restructuring Local Exchange Carrier Rates," dated October 1995 ("the Restructuring document"). According to the Staff Memorandum, the Restructuring document sets out a prioritization of service-related and rate structure objectives developed by consensus of the Telecommunications Department Staff. The Restructuring document has never been approved as an accurate reflection of the priorities of the Commission and, indeed, no such statement of priorities reflecting Commission policy exists. Therefore, the Restructuring document will not be relied upon as a guide for allocating the revenue reduction in this case.

The earnings review conducted in this case indicates that Stoutland is overearning by more than $470,000 annually. After making changes in depreciation rates and allocating a portion of the overearnings to modernization, $320,441 were available for rate reductions. Stoutland's access rates are currently among the highest for any Missouri local exchange company and account for approximately 86% of the company's total revenues. There is no doubt that a significant reduction in access rates would be appropriate. All of Stoutland's customers, though, have been contributing to its earnings, local service customers included. Local revenues at $9.75 for residential and $13.75 for business service account for approximately 9% of Stoutland's total revenues. The Commission believes that Stoutland's local ratepayers should receive some benefit from the rate reduction because of their contribution to revenues. Each case should be reviewed to ensure an equitable distribution of overearnings based on its individual facts, rather than basing distribution of overearnings solely on a predetermined formula or set of priorities. Given the high percent of revenues derived by Stoutland from access charges, the Commission believes that a 4% allocation of the overearnings to the local ratepayers is acceptable. This would have resulted in residential local rates being reduced to $8.75 and business local rates to $13.25.

The Commission finds that allocating the entire rate reduction in this case to access charges with no rate relief to local service is unreasonable. The Commission finds the Stipulation and Agreement proposed by the parties is not in the public interest and should not be approved.

III. Conclusions of Law

The Missouri Public Service Commission has reached the following conclusions of law:

The Commission has jurisdiction over the operations of, and the rates charged by, the Stoutland Telephone Company pursuant to Chapters 386 and 392 of the Revised Statues of Missouri[1]. The parties to this case submitted a Stipulation and Agreement for Commission approval and, after hearing, the Commission has made findings of fact based on a review of all the competent and substantial evidence on record. Section 536.060 gives the Commission the authority to approve a stipulation of the parties in resolution of a contested case. The Commission has the duty to insure that Stoutland's rates are just and reasonable and that Stoutland provides safe and adequate service. §392.200 RSMo. The Commission has reviewed the Stipulation and Agreement filed in this case in light of the public interest and of these statutory responsibilities and found the agreement to be unreasonable. Based upon its findings of fact, the Commission

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[1]All statutory references are to the Revised Statutes of Missouri 1994.

concludes that the agreement submitted by the parties is not in the public interest and should be rejected.

IT IS THEREFORE ORDERED:

1. That late-filed exhibits numbered 2-HC, 3, 4, and 5-HC are received into evidence.

2. That the Stipulation and Agreement of the parties filed on April 19, 1996, is rejected.

3. That this Report and Order shall become effective on the 4th day of September, 1996.

BY THE COMMISSION

David L. Rauch

David L. Rauch
Executive Secretary

(S E A L)

Zobrist, Chm., Kincheloe, and
Drainer, CC., Concur.
Crumpton, C., Concurs with concurring
opinion to follow.
McClure, C., Dissents with dissenting
opinion, and certify compliance with the
provision of Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,
on this 21st day of August, 1996.