BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Investigation into the)
Earnings of Seneca Telephone Company and)
Goodman Telephone Company.)

Case No. TR-98-373

REPORT AND ORDER

Issue Date: February 10, 1999

Effective Date: February 23, 1999

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Investigation into the Earnings of Seneca Telephone Company and Goodman Telephone Company.	)))	**Case No. TR-98-373**

APPEARANCES

W.R. England, III, Attorney at Law, Brydon, Swearengen & England, P.C., P.O. Box 456, 312 East Capitol Avenue, Jefferson City, Missouri 65102-0456, for Seneca Telephone Company and Goodman Telephone Company.

Carol M. Keith, Assistant General Counsel
and
David J. Stueven, Assistant General Counsel
P.O. Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

Shannon Cook, Senior Public Counsel, P.O. Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel.

Leo J. Bub, Senior Counsel, Southwestern Bell Telephone Company, One Bell Center, Room 3518, St. Louis, Missouri 63101, for Southwestern Bell Telephone Company.

Paul S. DeFord, Attorney at Law, Lathrop & Gage, 2345 Grand Boulevard, Suite 2500, Kansas City, Missouri 64108-2684, for AT&T Communications of the Southwest, Inc.

REGULATORY LAW JUDGE: Morris L. Woodruff

REPORT AND ORDER

Procedural History

On February 27, 1998, the Staff of the Missouri Public Service Commission (Staff) and Seneca Telephone Company and Goodman Telephone

Company (Seneca-Goodman) filed a joint motion to open docket. The motion indicated that Staff had conducted a per book review of the earnings of Seneca-Goodman. The Staff's review was based upon the twelve months ending December 31, 1996, updated for known and measurable changes occurring during 1997. The motion indicated that Staff and Seneca-Goodman had executed a Stipulation and Agreement to resolve all issues surrounding the audit performed by Staff and the results of that audit. The Stipulation and Agreement was attached to the joint motion and Staff and Seneca-Goodman requested that the Commission approve the Stipulation and Agreement.

On March 10, the Commission issued an Order Establishing Case, Giving Notice and Setting Intervention Date. That order provided that any parties wishing to intervene should file an application to do so no later than April 9. On April 3, Southwestern Bell Telephone Company (SWBT) filed an Application to Intervene. AT&T Communications of the Southwest, Inc. (AT&T) filed an Application to Intervene on April 6. On April 17, the Commission issued an order granting the intervention applications of SWBT and AT&T.

The April 17 order also scheduled a prehearing conference for May 1, and directed the parties to file a proposed procedural schedule. Staff filed a Motion to Establish Procedural Schedule on June 19 and the Commission issued an Order Adopting Procedural Schedule on July 13. At the request of Seneca-Goodman, an Order Granting Protective Order was issued by the Commission on August 7, 1998. Direct Testimony was filed on behalf of Staff and Seneca-Goodman on August 10 and rebuttal testimony was filed on behalf of SWBT and AT&T on September 14. Surrebuttal testimony was filed on behalf of AT&T, Seneca-Goodman and Staff on October 13.

The parties filed a Hearing Memorandum on October 27 and an evidentiary hearing was held on November 5. Staff, Seneca-Goodman, AT&T and SWBT filed initial briefs on December 21 and reply briefs on January 21, 1999. Public Counsel did not file either initial or reply briefs.

Findings of Fact

The Missouri Public Service Commission has considered all of the competent and substantial evidence upon the whole record in order to make the following findings of fact. The Commission has also considered the positions and arguments of all the parties in making these findings. Failure to specifically address a particular item offered into evidence or a position or argument made by a party does not indicate that the Commission has not considered it. Rather the omitted material was not dispositive of the issues before the Commission.

I. Uncontested Issues

The Stipulation and Agreement submitted by Staff and Seneca-Goodman contains several provisions that did not draw objection from any party. Those provisions are:

A. Revenue Reduction

The Stipulation and Agreement provides that Seneca-Goodman's gross intrastate revenues are to be reduced by approximately $716,072 per year.

This would result in an annual reduction of $446,564 for Seneca and $269,508 for Goodman.

B. Depreciation Rates

The Stipulation and Agreement authorizes Seneca-Goodman to adopt new depreciation rates that are consistent with Staff's "generic" depreciation rates for Small Telephone Companies.

C. Elimination of Analog Carrier Equipment

The Stipulation and Agreement provides that Seneca-Goodman will invest approximately $262,028 in digital carrier equipment, which would replace all analog carrier equipment throughout their networks. Although this modernization will cost Goodman $60,862 and Seneca $201,166, only $12,166 of this cost for Goodman and $40,233 for Seneca were included as part of the rate design changes contained in the Stipulation and Agreement.

D. Reduction of E911 Rates

The Stipulation and Agreement would reduce trunk rates for E911 service to a flat rate of $25.00 per month, per trunk. Implementation of this rate results in a revenue reduction of $2,084.40 for Goodman and $4,586.40 for Seneca, a total revenue reduction for Seneca-Goodman of $6,670.80.

E. Removal of Touchtone Charges

The Stipulation and Agreement would eliminate Seneca-Goodman's existing touchtone additives. The elimination of the touchtone rate additive will result in a decrease in annual local service revenue of $32,322 for Seneca and $20,970 for Goodman.

F. Expanded Local Calling Scopes

The Stipulation and Agreement requires Seneca-Goodman to implement toll-free calling among all four exchanges that they serve. The expanded toll-free calling will eliminate intraLATA toll calling between the exchanges and will reduce Seneca's revenue requirement by $34,314 and Goodman's revenue requirement by $81,274.

II. Contested Issues

While the parties did not object to any of the six foregoing items, there was disagreement about some other aspects of the Stipulation and Agreement:

A. Bringing interLATA and intraLATA access rates into parity.

The Stipulation and Agreement would bring interLATA and intraLATA access rates into parity. Seneca-Goodman and Staff argue that there are four reasons to set interLATA and intraLATA access rates at the same amount. First, a common set of rates makes billing more streamlined and easier to verify and maintain. Second, there is virtually no difference between the cost to haul intraLATA versus interLATA traffic. Third, the current intraLATA and interLATA access rates are different because they were established at different times, based on different test years and for different reasons. Since both rates are being revised by this Stipulation and Agreement, Seneca-Goodman and Staff state there is no good reason to have different rates. Fourth, with the advent of competition and the introduction of dialing parity in the LATA, having access rates that are different for intraLATA and interLATA traffic is unreasonable.

SWBT opposed this aspect of the agreement and argued that parity in interLATA and intraLATA access rates is not appropriate in this case. SWBT's position is that more than half of Seneca-Goodman's intrastate switched access revenue comes from intraLATA access. However, the Agreement would allocate only about a third of the access earnings reduction to the intraLATA jurisdiction with the other two thirds of the rate reduction going to the interLATA jurisdiction. SWBT argues that because intraLATA traffic has contributed a greater amount to Seneca and Goodman's over-earnings, a greater percentage of the earnings reduction should be allocated to reducing income from intraLATA access rates, which would result in a lower intraLATA access rate.

SWBT's position must be rejected. The evidence submitted by SWBT indicates only the source of Seneca-Goodman's revenues. It does not establish that Seneca-Goodman's intraLATA access rates are unreasonably high or that they are the source of its over-earnings. Even if SWBT's assumption that intraLATA traffic has contributed a disproportionate amount to Seneca-Goodman's over-earnings is accepted, its solution is inappropriate. The purpose of the Stipulation and Agreement proposed by Staff and Seneca-Goodman is not to try to compensate Seneca-Goodman's customers for past over-charges. Rather, its purpose is to establish fair and equitable rates for the future.

Access rate parity between interLATA and intraLATA calls as established in the Stipulation and Agreement is a reasonable remedy to eliminate the current over-earnings of Seneca-Goodman and is in the public interest. SWBT's challenge to access rate parity is denied.

B. Elimination of the Carrier Common Line (CCL) Cap.

The Stipulation and Agreement would eliminate the intraLATA CCL Cap, which imposes a sharply reduced access rate for traffic above a certain level of annual minutes of usage. The agreement would create a single access rate no matter the amount of annual usage. SWBT opposes the elimination of the intraLATA CCL Cap, asserting that eliminating the CCL Cap would increase access rates for all minutes in excess of the cap amount. Seneca-Goodman and Staff reply that the composite access rates proposed in the Stipulation and Agreement are lower than the current composite access rates and will result in reduced revenues for Seneca-Goodman. The elimination of the CCL Cap would result in increased revenues only if intraLATA access minutes of use increase beyond current levels. Given the provision of the Stipulation and Agreement that implements extended local calling between the Seneca-Goodman exchanges, intraLATA access minutes of use are likely to decrease rather than increase. Therefore, Seneca-Goodman and the Staff argue that the elimination of the CCL Cap will not harm SWBT, and will, in fact, result in reduced access payments by SWBT.

SWBT's argument in favor of retaining the CCL Cap is not persuasive. There is no compelling evidence that would indicate that SWBT will be harmed by the elimination of the CCL Cap. The evidence does indicate that Staff and Seneca-Goodman have carefully considered the revenue effects of the proposed CCL rate reduction and the elimination of the CCL Cap and that the proposed changes will reduce Seneca-Goodman's revenue in the desired manner. SWBT's objection to the elimination of the CCL Cap is rejected.

C. Creating parity between the CCL originating and terminating rates of both companies.

The Stipulation and Agreement would set the ratio between terminating and originating CCL rates at 2 to 1 for Seneca and 1.6 to 1 for Goodman. AT&T argued that the terminating to originating ratio should be set at 1 to 1 for both companies. AT&T's position is that there is no economic or physical reason that an originating CCL access service minute of use would be any different than a terminating CCL access service minute of use. Therefore, the rate charged for an originating minute of use should be equal to the rate charged for a terminating minute of use. Seneca-Goodman and Staff reply that the terminating to originating ratio proposed in the Stipulation and Agreement is consistent with the terminating to originating ratio of other local exchange companies in Missouri. They argue that to require Seneca-Goodman to equalize terminating and originating CCL rates would place Seneca-Goodman at a competitive disadvantage.

The terminating to originating access charge ratio established by the Stipulation and Agreement is consistent with the ratio existing for other local exchange companies in Missouri. There is no compelling reason to impose a 1 to 1 ratio on Seneca-Goodman. AT&T's position is rejected.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following Conclusions of Law:

Seneca Telephone Company and Goodman Telephone Company are local exchange telecommunications service providers as defined under Section 392.410, RSMo Supp. 1997 and, therefore, are subject to the jurisdiction of the Missouri Public Service Commission under Chapters 386 and 392, RSMo.

The Commission has the legal authority to accept a stipulation and agreement as offered by the parties as a resolution of issues raised in this case, pursuant to Section 536.060, RSMo Supp. 1997.

Orders of the Commission must be based upon competent and substantial evidence on the record. Section 536.140, RSMo (1994). Based upon its findings of fact, the Commission concludes that the Stipulation and Agreement submitted by Seneca-Goodman and Staff should be approved.

IT IS THEREFORE ORDERED:

1. That the Stipulation and Agreement filed by Seneca Telephone Company, Goodman Telephone Company and the Staff of the Missouri Public Service Commission on February 27, 1998, is hereby approved (See Attachment A).

2. That those motions and objections not specifically ruled on in this order are hereby denied or overruled.

3. That this Report and Order shall become effective on February 23, 1999.

BY THE COMMISSION

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, Murray,
Schemenauer, and Drainer, CC.,
concur and certify compliance
with the provisions of
Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,
on this 10th day of February, 1999.

FILED
FEB 27 1998
MISSOURI
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the investigation into the earnings of Seneca Telephone Company and Goodman Telephone Company.	)))	Case No. TR-98- 373

STIPULATION AND AGREEMENT

In May of 1997, the Staff of the Missouri Public Service Commission (Staff) began a per books review of the earnings of Seneca Telephone Company (Seneca) and Goodman Telephone Company (Goodman) (or collectively referred to as Companies). Staff's audit was based upon the twelve (12) months ending December 31, 1996, updated for known and measurable changes occurring during 1997. Upon completion of its preliminary earnings analysis, the Staff began discussions with the Companies. As a result of extensive negotiations, the signatories hereto stipulate and agree as follows:

1. The Companies' gross intrastate revenues will be reduced by approximately $716,072 on an annual basis (i.e., $446,564 reduction for Seneca and $269,508 reduction for Goodman).

2. This overall reduction in revenues occurs partially as a result of the Companies' commitment to invest approximately $262,028 (i.e., $201,166 to be invested by Seneca and $60,862 to be invested by Goodman) in digital carrier equipment which will eliminate all analog carrier equipment currently existing in the Companies' networks (The annual revenue impact associated with this investment is approximately $40,233 for Seneca and $12,172 for Goodman.)

3. The remaining reduction in gross intrastate revenues (i.e., $663,667) is to be accomplished as a result of changes in intrastate rates as more specifically set forth in Attachment A, which is attached hereto and incorporated herein by reference.

ATTACHMENT A

The Companies will prepare draft tariff sheets incorporating the rate changes identified on Attachment A and provide such drafts to Staff no later than March 20, 1998. (Permanent tariff sheets will not be filed with the Commission until it has approved this Stipulation and Agreement.)

5. Beginning January 1, 1998, the Companies shall be authorized to accrue depreciation expense based on the depreciation rates set forth in Attachment B, which is attached hereto and incorporated herein by reference.

6. The approval of this Stipulation and Agreement in its entirety by the Commission will conclude Staff's per books earnings investigation of the Companies upon which this settlement was based.

7. None of the signatories to this Stipulation and Agreement shall have been deemed to have approved or acquiesced in any ratemaking or procedural principle or any method of cost determination or cost allocation, or any service or payment standard and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

8. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Stipulation and Agreement in its entirety, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

9. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights to

present testimony, to cross-examine witnesses, and to present oral argument and written briefs pursuant to Section 536.080.1 RSMo. 1994; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo. 1994; and their respective rights to judicial review pursuant to Section 386.510 RSMo. 1994.

10. If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each Party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of the Staff's memorandum, a responsive memorandum which shall also be served on all Parties. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all Parties, and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in any future proceeding or in this proceeding whether or not the Commission approves this Stipulation and Agreement. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to the Stipulation and Agreement, whether or not the Commission approves this Stipulation and Agreement.

WHEREFORE, the signatories respectfully request that the Commission issue its order approving the terms of this Stipulation and Agreement and for such other orders as are reasonable in the circumstances.

Respectfully submitted,

Carol Keith, Mo. Bar No. 45065
Assistant General Counsel
Missouri Public Service Commission
P.O. Box 8706
Jefferson City, MO 65102
(573) 751-8706
(573) 751-9285/Fax
Attorney for the
Missouri Public Service Commission

W.R. England, III, Mo. Bar No. 23975
Brydon, Swearengen & England P.C.
P.O. Box 456
Jefferson City, MO 65102
(573) 635-7166
(573) 634-7431/Fax
Attorneys for
Seneca Telephone Company and
Goodman Telephone Company

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to the following:

Michael Dandino
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Attachment A

Seneca Telephone Company - Rate Design Change

Revenue Reductions:

1. Access Rate Adjustment ($335,133)

Bring Intrastate switched access rates into parity. Eliminate the CCL cap and discounted CCL rates over a specific volume. Combine LS1 and LS2 rates. Combine End Office Local Switching and Line Termination rates. Reduce Billing and Collection rates.

Access Rate Adjustments are as follows:

Access Rate Element	Current Intrastate IntraLATA	Current Intrastate InterLATA	Proposed Rate
Orig. CCL - Full Level	$0.043000	$0.072600	$0.019247
Term. CCL - Full Level	$0.073700	$0.124400	$0.038494
Orig. CCL - Discount	$0.001800	$0.000000	$0.019247
Term. CCL - Discount	$0.003100	$0.000000	$0.038494
LS1, LS2 & Line Termination	$0.029500	$0.034400	$0.017882
Directory Surcharge	$0.000397	$0.000397	$0.000198
Local Transport	$0.022500	$0.022500	$0.016500
Recording	$0.048300	$0.048300	$0.025000
Msg. Processing	$0.000000	(InterLATA only) $0.013400	(InterLATA only) $0.013400
Msg. Billing - Per Msg.	$0.045900	$0.045900	$0.030000
Msg. Billing Svcs. - State Only	$0.820000	$0.820000	$0.201600
Billing Svcs. - State/Interstate	$0.820000	$0.820000	$0.100800
CMDS Transmission	$0.008400	$0.008400	$0.003000
CMDS Sample	$0.000000	(InterLATA only) $0.016300	(InterLATA only) $0.002300

2. Digital Carrier ($40,233)

Replace all analog carrier at total capital expenditure of $201,166.

3. Expanded Calling Scope ($34,314)

Remove all toll charges for calls between all Seneca and Goodman exchanges. This will increase the number of lines in the local calling scope to approximately 3,881.

4. Touch-tone ($32,322)

Remove all Touch-tone charges for all customers. Current Touch-tone charges are $1.00 per line for residence, $1.50 per line for business customers.

5. E911 Rate Reduction ($4,562)

Reduce E911 rate to flat $25.00 per month per trunk.

Total Over-earnings $446,564

Attachment A

Goodman Telephone Company - Rate Design Change

Revenue Reductions:

1. Access Rate Adjustment ($153,008)

Bring Intrastate switched access rates into parity. Eliminate the CCL cap and discounted CCL rates over a specific volume. Combine LS1 and LS2 rates. Combine End Office Local Switching and Line Termination rates. Reduce Billing and Collection rates.

Access Rate Adjustments are as follows:

Access Rate Element	Current Intrastate IntraLATA	Current Intrastate InterLATA		Proposed Rate	
Orig. CCL - Full Level	$0.026300		$0.068600		$0.010000
Term. CCL - Full Level	$0.045100		$0.117500		$0.016425
Orig. CCL - Discount	$0.000500		N/A		$0.010000
Term. CCL - Discount	$0.000900		N/A		$0.016425
LS1, LS2 & Line Termination	$0.019600		$0.019600		$0.015327
Directory Surcharge	$0.000397		$0.000397		$0.000198
Local Transport	$0.019500		$0.019500		$0.016500
Recording	$0.048300		$0.048300		$0.025000
Msg. Processing	$0.000000	(InterLATA only)	$0.013400	(InterLATA only)	$0.013400
Msg. Billing - Per Msg.	$0.045900		$0.045900		$0.030000
Msg. Billing Svcs. - State Only	$0.820000		$0.820000		$0.201600
Billing Svcs. - State/Interstate	$0.820000		$0.820000		$0.100800
CMDS Transmission	$0.008400		$0.008400		$0.003000
CMDS Sample	$0.000000	(InterLATA only)	$0.016300	(InterLATA only)	$0.002300

2. Expanded Calling Scope ($81,274)

Remove all toll charges for calls between all Seneca and Goodman exchanges. This will increase the number of lines in the local calling scope to approximately 3,881.

3. Touch-tone ($20,970)

Remove all Touch-tone charges for all customers. Current Touch-tone charges are $1.25 per line for residence and business customers

4. Digital Carrier ($12,172)

Replace all analog carrier at total capital expenditure of $60,862.

5. E911 Rate Reduction ($2,084)

Reduce E911 rate to flat $25.00 per month per trunk.

Total Over-earnings $269,508

ATTACHMENT B

SENECA TELEPHONE COMPANY

Depreciation Rates

Acct	Description	Authorized Depreciation Rate
2112.000	Motor Vehicles	10.23%
2116.000	Other Work Equipment	6.71%
2121.000	Buildings	2.80%
2122.000	Furniture	6.71%
2123.200	Company Communications Equipment	11.55%
2212.000	Digital Electronic Switching	6.67%
2232.000	Circuit Equipment	10.30%
2351.000	Public Telephone Terminal Equipment	8.74%
2411.000	Poles	6.19%
2421.000	Aerial Cable	5.52%
2323.000	Buried Cable	4.29%
2431.000	Aerial Wire	14.17%

ATTACHMENT B

GOODMAN TELEPHONE COMPANY

Depreciation Rates

Acct	Description	Authorized Depreciation Rate
2112.000	Motor Vehicles	10.23%
2116.000	Other Work Equipment	6.71%
2121.000	Buildings	2.80%
2122.000	Furniture	6.71%
2123.100	Other Support Equipment	9.70%
2123.200	Company Communications Equipment	11.55%
2124.000	General Purpose Computers	13.59%
2212.000	Digital Electronic Switching	6.67%
2232.000	Circuit Equipment	10.30%
2311.000	Station Appartus	4.00%
2351.000	Public Telephone Terminal Equipment	8.74%
2411.000	Poles	6.19%
2421.000	Aerial Cable	5.52%
2323.000	Buried Cable	4.29%
2431.000	Aerial Wire	14.17%