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- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Increase of Rates and
Charges by Gunnison Telephone Company

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DOCKET NO. 00-043-01

REPORT AND ORDER

ISSUED: July 3, 2000

SYNOPSIS

Applicant having proved its case for a rate increase, the Division of Public Utilities, Utah Department of Commerce, having recommended approval, no opposition appearing, and the rates appearing to be just and reasonable and in the public interest, the Commission approved the application.

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By The Commission:

I. PROCEDURAL HISTORY

On March 17, 1999, Applicant above-named filed its application for rate relief, accompanied by a memorandum from the Division of Public Utilities, Utah Department of Commerce ("Division"), recommending approval. Since the applicable statute allows disposition without hearing, and there appears to be no reason for convening one, the Commission having been fully advised in the matter, now enters the following Order, containing proposed findings of fact, conclusions of law, and the Order based thereon.

II. FINDINGS OF FACT

1. Gunnison Telephone Company ("Applicant") is a telephone corporation certificated by this Commission. Applicant has fewer than 5,000 subscribers. Proposed monthly increases range from \$0.50 to \$15.00 (\$2.50 increase for basic residential service and \$5.00 increase for basic business service). All subscribers have been notified of the proposed rate increase.

2. Applicant retained GVNW, a consulting firm, to prepare a rate case. Before the case was filed, the Division reviewed the proposed exhibits and audit records of the Applicant. The Division and Applicant have discussed and resolved a number of revenue requirement issues raised by the Division. As a result of those discussions, and based on the Division's examination of the Applicant's books and records, the Division filed a memorandum with the Commission

supporting a stipulation it achieved with Applicant and recommending approval of the stipulated rate spread.

3. With the concurrence of the Division, Applicant reduced the depreciation life of the computer account from 5 years to 4 years and the depreciation life of digital switching-testing equipment from 8 to 5 years. These periods are in line with actual replacements by the Applicant.

4. Rate of return on rate base: Applicant's current capital structure is comprised of 6.5 percent debt to 93.5 percent equity. By use of a hypothetical capital structure, Applicant and the Division agreed to a return on equity of 12.5 percent (on 50 percent of rate base) and a return on debt of 7.6 percent (on 50 percent of rate base), which results in an overall 10.05 percent return on rate base.

5. Income tax calculation: Applicant and the Division stipulated to an income tax calculation that reflects the impact of a *pro forma* adjustment as well as a tax synchronization adjustment for interest expense resulting from the use of a hypothetical capital structure.

6. Inclusion of a post test period adjustment: Applicant and the Division stipulated to one known and measurable adjustment to the historic test period. This adjustment reflects additional investments that will be in service when rates go into effect in this case. The Division recommended this exception to the Commission's general policy of excluding post-test period adjustments because:

A. Applicant has engaged in a major upgrade of its facilities. The additional investments included in this filing reflect a significant known and measurable addition to a rate base, which should be recoverable in current rates.

B. Applicant is a small telephone company with less than 1,700 subscriber lines. It would be very difficult for this company to carry this amount of investment until another rate case.

C. For a small company, the cost of filing a rate case is very burdensome. Inclusion of that significant cost now should mitigate the need for an early additional filing.

D. Applicant's records were readily available for review and were in general good order. Each addition to the plant was individually reviewed and physically verified where necessary. The Division is reasonably assured that the books and records of the company accurately reflect the ongoing operations of the company.

E. The Division has supported similar post-test period adjustments in the following cases: Gunnison Telephone Company (Docket 94-043-02); Bear Lake Communications (Docket 96-2201-01); and South Central Utah Telephone (Dockets 95-052-01 and 97-052-01).

7. Universal Service Funding: The Applicant's current regulated results of operations warrant subsidy from the state's Universal Service Support Fund.

III. DISCUSSION

The applicable statute, ' 54-7-12(7), UCA 1953, as amended, allows telephone companies with fewer than 5,000 subscriber lines to implement rate increases merely by filing the proposed tariff with the Commission. This implies that we have the authority to conduct an expedited review. We concur with the Division that in the circumstances of this case, the use of an historical test period with a known and measurable adjustment is justified. We emphasize, however, that we are not thereby receding from our general policy that absent such exceptional circumstances, an historical test year is to be used for rate-making purposes. To the degree this order establishes precedent, it only applies to our treatment of telephone corporations with fewer than 5,000 access lines under ' 54-7-12(7).

IV. CONCLUSIONS OF LAW

The proposed rates are just and reasonable and the minimum necessary to allow Applicant to provide adequate and efficient service and to meet its capital requirements; the application should be approved in accordance with the stipulation between Applicant and the Division.

V. ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. Applicant's application for a rate increase, as set forth in proposed revised tariff pages attached to the application, which pages are annexed hereto and incorporated by this reference, be, and it hereby is, approved effective June 15, 2000.

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2. Pursuant to U.C.A. ' 63-46b-13, an aggrieved party may file, within 20 days after the date of this Report and Order, a written request for rehearing/reconsideration by the Commission. Pursuant to U.C.A. ' 54-7-15, failure to file such a request precludes judicial review of the Report and Order. If the Commission fails to issue an order within 20 days after the filing of such request, the request shall be considered denied. Judicial review of this Report and Order may be sought pursuant to the Utah Administrative Procedures Act (U.C.A. ' ' 63-46b-1 et seq.).

DATED at Salt Lake City, Utah, this 3rd day of July, 2000.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary