

In the Matter of the Increase of Rates and)
Charges by MANTI TELEPHONE CO.)
Applicant)

DOCKET NO. 99-046-01
REPORT AND ORDER

ISSUED: April 30, 1999

SYNOPSIS

Applicant having proved its case for a rate increase, 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.

By the Commission:

PROCEDURAL HISTORY

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

FINDINGS OF FACT

1. Manti Telephone Company (Applicant) is a telephone corporation certificated by this Commission. Applicant has fewer than 5,000 subscribers. It has not had rate relief since 1987. Proposed monthly increases range from 28% (\$2.50 in absolute numbers) for basic residential service to 58% (\$7.20 in absolute numbers) for basic business service, and a median increase of 33%. 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 of Public Utilities, Utah Department of Commerce (DPU) reviewed the proposed exhibits and audit records of the Applicant. DPU and Applicant have discussed and resolved a number of revenue requirement issues raised by DPU. As a result of those discussions, and based on DPU's examination of the Applicant's books and records, DPU filed a memorandum with the Commission supporting a stipulation it achieved with Applicant and recommending approval of the rate spread proposed by the company.
3. With the concurrence of DPU, Applicant reduced the depreciation life of the building account from 30 years to 20 years. All but one existing building are more than 30 years old and they need to be replaced within the next five years, however, the account is only 45 percent amortized. Decreasing the building account life will permit faster amortization, and be more in line with the replacement work.
4. Again with the concurrence of DPU, the digital switching account life was decreased from 20 years to 12 years to be consistent with the required amortization of the bi-annual software upgrades that have been caused by past industry changes, and to be consistent with the depreciation rates of all other small local exchange companies in Utah.
5. The depreciation lives of the aerial wire, aerial cable and buried cable - metallic were reduced due to the fact that most of this plant will be replaced in the next 5 to 8 years due to maintenance, obsolescence or statewide modernization plan reasons. These cable accounts have only been amortized 22 to 30 percent.

6. Rate of return on rate base: Applicant's current capital structure is comprised of 100% debt. By use of a hypothetical capital structure, Applicant and DPU agreed to a return on equity of 12.5% (on 50% of rate base) and a return on debt of 7.25% (on 50% of rate base), which results in an overall 9.875% return on rate base.

7. Income tax calculation: Applicant and DPU stipulated to an income tax calculation that reflects the impact of a proforma adjustment as well as a tax synchronization adjustment for interest expense.

8. Inclusion of a post test period adjustment: Applicant and DPU stipulated to one known and measurable adjustment to the historic test period. This adjustment consists of an addition to rate base of \$736,948 and related expenses. This adjustment reflects additional investments that will be in service when rates go into effect in this case. DPU recommended this exception to the Commission's general policy of excluding post test period adjustments because:

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 rate base which should be recoverable in current rates.

Applicant is a small telephone company with only 1,507 subscriber lines in 1998. It would be very difficult for this company to carry this amount of investment for another year before reflecting the impacts in rates.

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.

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

9. DPU 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).

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. To us, this implies that we have the authority to conduct an expedited review. We concur with DPU that in the circumstances of this case, the use of a historic test period with a known and measurable adjustment is justified. We wish to 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).

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 DPU.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that:

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 May 1, 1999; Applicant may publish said pages on one-day's notice.

Any person aggrieved by this Order may petition the Commission for review within 20 days of the date of this Order. Failure so to do will forfeit the right to appeal to the Utah Supreme Court.

DATED at Salt Lake City, Utah, this 30th day of April, 1999.

/s/ A. Robert Thurman
Administrative Law Judge

Approved and Confirmed this 30th day of April, 1999, as the Report and Order of the Public Service Commission of Utah.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary