

DT 05-133

GRANITE STATE TELEPHONE

Notice of Intent to File Rate Schedules

Order Approving General Rate Increase

ORDER NO. 24,621

May 12, 2006

APPEARANCES: Devine, Millimet & Branch P.A. by Frederick J. Coolbroth, Esq. for Granite State Telephone, Inc.; Orr & Reno P.A. by Susan S. Geiger, Esq. for Union Communications; F. Anne Ross, Esq. for the Office of Consumer Advocate; Lynn Fabrizio, Esq. for Staff.

I. PROCEDURAL HISTORY

On August 15, 2005, Granite State Telephone, Inc. (GST) filed with the New Hampshire Public Utilities Commission (Commission) a Notice of Intent to file a rate schedule change. On October 5, 2005, GST filed a revised tariff reflecting a general increase in rates. GST is an incumbent local exchange carrier in New Hampshire providing telecommunications service to residential, business and Centrex customers in the towns of Chester, East Deering, Hillsboro Upper Village, Sandown, Washington, Weare and Windsor, as well as in sections of the towns of Antrim, Auburn, Derry, Hopkinton and New Boston.

In support of its filing, GST provided pre-filed direct testimony of William R. Stafford, Chief Operations Officer of GST; Otto M. Nielsen, a consultant to GST; and Douglas D. Meredith of John Staurulakis, Inc. (JSI), a telecommunications consulting firm. Concurrently with its rate schedule filing, GST filed a petition and pre-filed testimony by Mr. Stafford and Mr. Nielsen in support of an order prescribing temporary rates and suspending the newly filed rate schedule pending investigation. On August 22, 2005, the Office of Consumer Advocate (OCA) notified the Commission that it would participate in this docket on behalf of residential

ratepayers. On October 14, 2005, the Commission issued an Order of Notice suspending GST's revised general rate schedule pending the Commission's investigation. The Order of Notice also scheduled a Prehearing Conference and Technical Session for November 9, 2005, and required intervention requests to be filed by November 4, 2005. On November 4, 2005, Union Telephone Company d/b/a Union Communications (Union) filed a petition for intervention. On November 8, 2005, GST filed an objection to Union's petition. GST and Union came to agreement prior to the Prehearing Conference that Union's participation in this proceeding would be limited to receiving public documents and would not be deemed a party or attend or participate in any settlement discussions or agreement that may result from this proceeding. No objections were made to that agreement.

The Prehearing Conference and initial Technical Session including GST, Staff and the OCA were held as scheduled. On November 18, 2005, OCA and Staff issued data requests; GST provided its responses on November 29, 2005. On November 28, 2005, the Commission issued Order No. 24,549 approving the recommended procedural schedule and the agreement regarding Union's participation in the Docket.

Following a second technical session and settlement conference, GST, OCA and Staff agreed to a stipulation on temporary rates to increase local service revenue by \$300,000 above the level generated by then existing rates. The temporary rate stipulation was filed with the Commission on December 9, 2005; a hearing on the stipulation was held on December 14, 2005. The Commission approved the stipulation regarding temporary rates in Order No. 24,565.

On January 10, 2006, the parties held a settlement conference regarding cost of capital issues. An agreement was reached based on a hypothetical capital structure consisting of 36%

debt and 64% equity, and a cost of debt of 5.45%. The stipulated cost of equity was 9.30% and the resulting weighted average cost of capital and overall allowed rate of return was 7.914%.

The Audit Staff of the Commission conducted a full audit of GST and issued its Final Audit Report on February 27, 2006. Over the course of the proceeding, GST, OCA and Staff held four settlement conferences, ultimately leading to a proposed resolution of the issues in the case. The final Stipulation agreement was filed on April 7, 2006. A hearing on the agreement was held on May 3, 2006.

II. STIPULATION AGREEMENT REGARDING PERMANENT RATES

In its October 5, 2005 filing, GST requested permanent rates that would generate an estimated increase in annual revenues of approximately \$860,000. GST proposed to apply the entire increase to basic local rates. Following review by OCA and Staff of GST's responses to data requests, the Final Audit Report, and extensive settlement discussions regarding both the overall amount of the increase and the proposed rate structure, GST, OCA and Staff reached an agreement pursuant to which (i) residential basic service rates would be raised to the comparable Verizon rates, (ii) business basic service rates in an exchange would be set at twice the level of the residential basic service rates in that exchange, (iii) rates for specified vertical services would be increased, (iv) originating intraLATA (Local Access and Transport Area, meaning in this instance, within the 603 area code) long distance access charges would be reduced by two cents per minute, (v) the proposed elimination of two-party service would be moved to a separate tariff filing with notice to two-party service subscribers, and (vi) the overall revenue increase, as a result of these rate changes, is expected to be \$430,000, which is a reduction from the original request of \$860,000.

The signatories to the Stipulation agreed that the permanent rates would be made effective for service rendered on or after July 1, 2006, and that customers would receive notice of the rate increase in accordance with N.H. Code Admin. Rules Puc 412.07 and no less than 30 days prior to July 1, 2006.

Under the Stipulation and pursuant to RSA 378:29, GST will recover the difference between the temporary rates and permanent rates for the period January 1 through July 1, 2006, (estimated at approximately \$65,000) through a recoupment surcharge of an estimated \$.54 per month to basic service rates. GST's rate case expenses (estimated at \$91,500) would be recovered through a monthly surcharge of an estimated \$.76 to basic rates, subject to Commission review. The above recoupments would be recovered through the monthly surcharges for approximately 12 months, based on the current number of access lines.

III. COMMISSION ANALYSIS

RSA 378:7 requires the Commission, following a hearing, to establish utility rates that are just and reasonable. We have reviewed GST's filings, Staff's Final Audit Report, the Stipulation regarding Permanent Rates, and the testimony presented at the May 3, 2006 hearing. At the hearing, Staff testified, among other things, that the Stipulation reflects significant adjustments to the Company's recoverable expenses for general and administrative costs as well as marketing.

In its initial filing, GST requested a revenue increase of \$860,000. A preliminary review of the books and records on file in this docket indicated that it was likely GST would need to increase its rates to earn a reasonable return on its investment. See, Order No. 24,565 (December 15, 2005). The Stipulation among GST, OCA and Staff proposes a revenue increase of \$429,524

and incorporates a rate design that applies the increase to both local service rates and certain vertical service rates. The Stipulation proposes that residential basic service rates be raised to the current comparable Verizon rates and that business basic service rates be set at twice the level of residential rates in the corresponding exchanges. At the same time, intraLATA long distance access rates will be reduced by two cents per minute. We find these elements to be reasonable and consistent with RSA 378:17-a. We further find that the proposed rate design reflects a balancing of the interests of customers and the company that is both fair and reasonable. Finally, we note that the stipulated cost of equity and the rate of return produced using the capital structure and cost of debt approved in Docket No. DT 04-180, will permit GST to earn a fair return on its investment. Based on these findings, the Stipulation is just and reasonable and we will approve it in its entirety, for effect July 1, 2006, on a service rendered basis.

Based upon the foregoing, it is hereby

ORDERED, that the Stipulation on permanent rates for Granite State Telephone, Inc. is APPROVED and the rates set forth therein are authorized to take effect for service rendered on or after July 1, 2006; and it is

FURTHER ORDERED, that Granite State Telephone, Inc. file a compliance tariff within 30 days of this Order.

By order of the Public Utilities Commission of New Hampshire this twelfth day
of May, 2006.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary