

DR 98-160
DR 98-189
DT 99-025

**CONTOOCOOK VALLEY TELEPHONE COMPANY, INC.,
MERRIMACK VALLEY TELEPHONE COMPANY, INC.**

Overearnings Investigations and Petition for Merger

**Order Approving Stipulation and
Comprehensive Settlement Agreement
Regarding Merger of Companies,
Expansion of Local Calling Areas,
Permanent Rates, Temporary Rate Refunds, and
Rate Case Expenses**

O R D E R N O. 23,278

August 9, 1999

APPEARANCES: Devine, Millimet & Branch by Frederick J. Coolbroth, Esq., for Contoocook Valley Telephone Company, Inc., and Merrimack Valley Telephone Company, Inc.; Office of the Consumer Advocate by Anne Ross, Esq. on behalf of Residential Utility Customers; and, Larry S. Eckhaus, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 22, 1998, following a review by the Staff (Staff) of the New Hampshire Public Utilities Commission (Commission), the Commission issued an Order of Notice pursuant to RSA 365:5 and RSA 378:7 opening an investigation into the level of earnings of Contoocook Valley Telephone Company, Inc. (CVT), Docket DR 98-160. The Order of Notice scheduled a prehearing conference for October 26, 1998 to address the issue of temporary rates, to consider motions to intervene, and to establish a procedural schedule. The Order of Notice further noted that CVT management had expressed to Staff an interest in

merging CVT with its affiliate, Merrimack County Telephone Company (MCT).

The prehearing conference and a technical session were held on October 26, 1998 at the offices of the Commission and a procedural schedule was established. On that same date, MCT and CVT filed a petition seeking the Commission's authorization for the merger of CVT into MCT, Docket DR 98-189.

On November 19, 1998, Staff filed a stipulation among CVT, Staff and the Office of Consumer Advocate (OCA) providing for the existing rates of CVT to be established as temporary rates pursuant to RSA 378:27. A hearing on the stipulation was held by the Commission on November 20, 1998, and pursuant to Order No. 23,069 issued November 30, 1998, CVT's existing rates were established as temporary rates effective as of the date of the Order.

Staff conducted comprehensive audits of both CVT and MCT and submitted final audit reports on January 29, 1999. On February 16, 1999, representatives of Staff, the OCA, MCT and CVT met to discuss the status of the merger and CVT earnings dockets. At that time that, Staff had concluded, based on their audit, that MCT was in an overearning position and that the Commission should institute proceedings to address the issue. While MCT did not agree with Staff's assertion that MCT was overearning, MCT

agreed to the opening of a separate docket to review MCT's earnings and to a recommended procedural schedule.

On February 22, 1999, the Commission issued an Order of Notice initiating Docket DT 99-025 for the purpose of investigating the earnings of MCT. The Order of Notice also established a procedural schedule to run concurrently with the revised schedule in Docket DR 98-160.

On February 26, 1999, Staff submitted in Docket Nos. DR 98-160 and DT 99-025 the prefiled testimonies of Steven E. Mullen, Utility Analyst III, regarding CVT and MCT revenue requirement issues, Thomas S. Lyle, Utility Analyst III, and Andrew D. Kosnaski, Economist II, regarding the cost of capital for these companies.

On March 5, 1999, MCT and CVT submitted in Docket DR 98-189 the prefiled testimony of Beth H. Osler, Industry Affairs Manager and Darren R. Winslow, Accounting Manager, in support of the proposed merger of CVT into MCT. MCT and CVT also retained Robert J. Rohr to provide his opinion as to the required rate of return on common equity for the Companies.

On March 19, 1999, a prehearing conference in DT 99-025 was held at the Commission's offices. Due to the inadvertent lack of publication of the Order of Notice by MCT, the parties agreed to further publication of public notice. A continued prehearing conference was held on April 8, 1999.

Also on March 19, 1999, Staff, the OCA, MCT and CVT held a comprehensive settlement discussion on the three pending dockets. The Stipulation and Comprehensive Settlement Agreement (Agreement) filed on April 28, 1999 was the result of that meeting.

On May 5, 1999 the Commission held a hearing to consider the entire Stipulation and Settlement, which included the merger of CVT and MCT, the expansion of the local calling areas and the impact on rates, permanent rates, temporary rate refunds, rate case expenses, and access rates.

II. THE AGREEMENT

The Agreement, dated April 28, 1999, is entered into by MCT, CVT, the OCA and Staff, representing all of the full participants in this docket (the Participants), and provides for the approval of the merger of CVT into MCT (including the resulting transfer of the CVT franchise to MCT) pursuant to RSA 374:30; the fixing of permanent rates pursuant to RSA 378:28; expansion of local calling areas; temporary rate refunds pursuant to RSA 378:29; and accounting for charges under affiliate contracts pursuant to RSA 366:7, 374:13 and other related statutes.

The Participants stipulate and agree to the entry of an order by the Commission approving the merger of CVT with and into

MCT, with MCT as the surviving corporation (Merged MCT) in accordance with the form of merger agreement submitted by the Companies. Merged MCT agrees to notify the Commission upon completion of the Consolidation. For the purposes of any reports required by the Commission for the period beginning January 1, 1999 (such as an annual report), Merged MCT shall file a single report which shall include the pre-consolidation results of CVT and MCT, unless the Commission or Staff expressly requests that those pre-consolidation results be provided separately.

Agreement was also reached on all outstanding issues relating to normalization and adjusting entries between Staff and the Companies. Adjustments were made to Staff's cost allocation methodology (i) to reflect actual customer numbers for the MCT, Inc. "FAST" service and actual usage for MCT Long Distance and (ii) to remove assignments of costs to MCT Long Distance relating to billing and collection functions (since those costs are recovered in billing and collections charges by MCT and CVT). In addition, no pro forma adjustment was made for the 1999 reduction in Universal Service Fund payments based on Staff's position that the change has occurred more than twelve months subsequent to the end of the test year. A return on equity of 10.00% was agreed to for the purposes of this stipulation.

The Agreement produces the following permanent revenue requirement on an Intrastate basis (supporting Schedules B, C and D were appended to the Agreement):

	<u>MCT</u>	<u>CVT</u>
Revenue Requirement	\$3,602,387	\$3,365,383
Revenue Increase (Decrease)	\$(62,161)	\$(330,071)
% Increase (Decrease)	(1.70%)	(8.93%)
Rate Base	\$5,505,671	\$4,691,551
Debt/Equity	58/42%	54/46%
Return on Rate Base	7.8568%	9.0319%
Return on Equity	10.0%	10.0%

The resulting revenue requirement of Merged MCT is as follows on an Intrastate basis:

Merged MCT

Revenue Requirement	\$ 6,979,128
Revenue Increase (Decrease)	(380,874)
% Increase (Decrease)	(5.17%)
Rate Base	\$10,197,222
Debt/Equity	56%/44%
Return on Rate Base	8.4568%
Return on Equity	10.0%

It was also agreed that Merged MCT shall implement EAS to all contiguous exchanges as soon as reasonably practicable, with implementation initially targeted for June 30, 1999, subject to necessary arrangements with neighboring local exchange carriers as noted below:

Merged MCT Exchange

New EAS Exchange(Carrier)

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Bradford (938)	Henniker (428) (CVT) Hillsboro (464) (CVT) Newport (863) (BA) Sunapee (763) (BA) Hill Up Vlg (478) (GST) Washington (495) (GST)
Contoocook (746)	Henniker (428) (CVT) Penacook (753) (BA) Warner (456) (MCT) Dunbarton (774) (DTC) Salisbury (648) (KTC) Weare (529) (GST)
Sutton (927)	Sunapee (763) (BA) New London (526) (KTC)
Warner (456)	Henniker (428) (CVT) Andover (735) (KTC) Contoocook (746) (MCT) Salisbury (648) (KTC) New London (526) (KTC)
Antrim (588)	Greenfield (547) (BA) Hancock (525) (BA) Marlow (446) (BA) Weare (529) (GST)
Henniker (428)	Bradford (938) (MCT) Contoocook (746) (MCT) Warner (456) (MCT) Weare (529) (GST)
Hillsboro (464)	Weare (529) (GST) Bradford (938) (MCT) Greenfield (547) (BA)
Melvin Village (544)	Ctr. Harbor (253) (BA) Ctr. Sandwich (284) (476) (BA) Ctr. Ossipee (539) (BA)

The Participants acknowledge that Merged MCT shows a slightly smaller Revenue Decrease, \$380,874, than the total

Revenue Decrease of MCT, \$62,161 and CVT, \$330,071, together, \$392,232, largely due to the merging of the capital structure and associated costs as applied to the combined rate base. The Participants agree that, for the purpose of establishing rates in this proceeding and the two (2) proposed Step Adjustments, the larger decrease will be utilized.

The Participants believe that the proposed merger will bring certain efficiencies, including tariff simplification, reduced auditing, and regulatory expenses among others.

The implementation of the expanded EAS routes is estimated to result in access and billing and collection revenue losses for Merged MCT in the amount of \$702,352 on an annual basis. Of this amount, \$373,776 will be recovered through an increase in residence and business basic exchange rates of \$2.00 per month. The remaining \$328,576 will be netted against the stipulated overearnings of \$392,232, which results in overearnings of \$63,656. This amount will be applied toward the folding of Touch-Tone service into basic rates in the existing exchanges. The separate monthly charges of \$.80 (residence) and \$1.30 (business) for Touch-Tone service will be eliminated, and basic rates in the MCT exchanges will be increased by \$.07 per month to reflect this change.

The flat-rated basic monthly exchange rates of Merged MCT will be adjusted to parity (by class) in all exchanges in two

annual, revenue-neutral steps. One year following the implementation of the rate design set forth on Attachment G to the Agreement (initially expected to be July 1, 2000), Merged MCT shall calculate the weighted average basic exchange rate for each rate class (1FR, 1FB and PAL) and adjust each basic exchange rate in each exchange to a rate which is half way between the existing rate and the average basic exchange rate for that rate class (i.e., 1FR, 1FB or PAL). One year following the foregoing step adjustment (initially expected to be July 1, 2001), basic exchange rates in each class (1FR, 1FB and PAL) shall be adjusted to a single average rate for each such rate class. Each such step adjustment shall be further adjusted for revenue neutrality so that the revenue to be produced following the step adjustment will be substantially the same as the revenue that would have been produced had no such adjustment been made. On the effective date of the EAS expansion, the tariffed intrastate rates of the Companies for services other than basic exchange service will be averaged.

The rate case expenses incurred by the Companies in the amount of \$34,338.16 were submitted to Staff for review. Staff has reviewed the rate case expenses for CVT as stipulated in the Agreement and recommends approval. The approved rate case expenses shall be collected in accordance with the details below.

CVT shall provide a calculation, subject to review by

the OCA and Staff, of the difference between Permanent Rates and Temporary Rates from November 30, 1998 to the date Permanent Rates are implemented. The Participants initially intended for both the new rates and EAS to be effective July 1, 1999. The difference shall be refunded to customers of the CVT exchanges as set forth: a) The Participants agreed that the Rate Case Expenses to be collected may be offset against the Temporary Rate Refunds. The net amount will be refunded over a period of twelve (12) months as a flat monthly credit to customers within the former CVT exchanges; b) It was also agreed that the Rate Case Expenses and Temporary Rate Refunds will be tracked separately in the accounting records to facilitate reconciliation.

III. COMMISSION ANALYSIS

Dockets DR 98-160 and DT 99-025 were initially opened for the purpose of addressing the issue of overearnings. In addition to the overearnings issue, the Agreement addresses issues relating to the Companies' Petition for Authority to Merge. The Companies have also agreed to proposals for rate design, expansion of local calling areas, temporary rate refunds and rate case expenses.

The rate design proposal will eliminate the Touch Tone charge for MCT customers while increasing MCT rates for all MCT customers only \$0.07 per month. The expanded EAS will increase

basic rates for all MCT and CVT customers by only \$2.00/month while providing customers greatly expanded calling areas. Annual toll savings to for all MCT and CVT customers will be \$721,703 with an \$3.86 monthly average saving per customer. The net result of the temporary rate refunds, and rate case expenses is a monthly credit of approximately \$2.18, assuming a September 30, 1999 effective date. In addition, the intrastate access rates for MCT and CVT will be blended into one rate and will be revenue neutral for all eight exchanges combined.

After considering the Agreement that was presented to the Commission and the number of issues that it resolves, including the merger of MCT and CVT and the averaging of the rates over a two year period, the Commission finds that the Agreement is an appropriate resolution of all of the issues involved and that the underlying merger is in the public interest. The Company's rate case expenses for CVT presented to Staff appeared to be reasonable and we will approved the recovery of \$34,338.16.

Based upon the foregoing, it is hereby

ORDERED, that the Stipulation and Comprehensive Settlement Agreement entered into by the Parties and Staff is hereby approved; and it is

FURTHER ORDERED, that the proposed merger of CVT with and into MCT, with MCT as the surviving corporation (Merged MCT), in accordance with the form of merger agreement submitted as Exh. 2 to Exhibit 1 in Docket DR 98-189, is hereby approved; and it is

FURTHER ORDERED, that CVT and MCT shall file appropriate tariff pages to simultaneously effectuate the merger and changes in local calling areas, permanent rates, and access rates, consistent with the Stipulation and Comprehensive Settlement Agreement effective with service rendered on and after July 1, 1999 or such other date thereafter as is reasonably practicable; and it is

FURTHER ORDERED, that CVT shall file appropriate tariff pages to effectuate the Temporary Rate Refunds net of Rate Case Expenses, in accordance with the Stipulation and Comprehensive Settlement Agreement effective with service rendered on and after July 1, 1999 or such other date thereafter as is reasonably practicable.

By order of the Public Utilities Commission of New Hampshire this ninth day of August, 1999.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

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Thomas B. Getz
Executive Director and Secretary