

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
PIGEON TELEPHONE COMPANY)	Case No. U-11846
to restructure its rates.)	
_____)	

At the February 17, 1999 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. David A. Svanda, Commissioner

OPINION AND ORDER

On November 24, 1998, Pigeon Telephone Company (Pigeon) filed an application for approval to restructure its rates pursuant to Section 304a of the Michigan Telecommunications Act, MCL 484.2304a; MSA 22.1469(304a). With the application, Pigeon filed a supporting total service long run incremental cost (TSLRIC) study. Pigeon says that the application is the second step to comply with the statutory requirement that its rates be fully restructured by January 1, 2000.¹ Pigeon proposes to increase the monthly rate for residential service from \$10.32 and \$11.80 in its various exchanges to \$18.00 and the monthly rate for business service from \$11.42 and \$15.20 to \$19.00. None of those rates reflect the additional monthly charge of \$1.25 for touchtone service. It also proposes to increase the initial service order charge from \$14.00 to \$25.00, the subsequent

¹Pigeon previously restructured its rates pursuant to the Commission's March 20, 1998 order in Case No. U-11643.

service order charge from \$5.00 to \$10.00, and the central office line connection charge from \$5.00 to \$10.00. Finally, it proposes to implement a late payment fee of \$3.00 for business accounts.² It asserts that after implementation of the proposed increases, rates will remain below TSLRIC.

As required by the Commission, Pigeon published a notice of opportunity to comment. Several customers filed comments opposing the proposed increases. The Commission Staff (Staff) also filed comments. The Staff argues that Pigeon has failed to account for high cost loop fund revenues that Pigeon receives in federal universal service funding. After accounting for that source of revenue, the Staff concludes that a further restructuring of rates is not required because the proposed rates would be above TSLRIC.

On January 27, 1999, Pigeon filed a response to the Staff. It says that a rate restructuring is designed to compare the rate and TSLRIC of a service. It asserts that because the federal high cost loop fund revenues are neither a rate charged to customers nor an element of TSLRIC, they are irrelevant to the restructuring of rates. It also says that it is not required to use those revenues solely to support basic local exchange service. It further argues that if the high cost revenues are taken into account, common costs must be considered as well, which would leave its proposed rates below TSLRIC. It also asserts that its restructuring proposal can be approved if the common cost portion of its offset calculation is excluded and the Commission permits residential rates to exceed TSLRIC by 11¢.

The Commission agrees with the Staff that the federal high cost loop fund revenues cannot be ignored as Pigeon proposes. Section 304a requires the Commission to examine a proposed restructuring by considering the relationship between rates and costs. In the context of the language

²The notice to customers indicated that the late fee would be \$2.00.

and purpose of Section 304a, revenues provided by the federal universal service funding must be considered either the functional and legal equivalent of rates paid by customers or an offset to TSLRIC. Because Pigeon's proposed restructuring of residential and business rates fails to account for the high cost fund revenues, the Commission rejects that proposal and agrees with the Staff that when those revenues are considered, Pigeon's rates are above TSLRIC. The Commission also rejects Pigeon's argument that common costs should be considered when evaluating its proposed restructuring. An allocation of common costs is not within the scope of the TSLRIC methodology, and a restructuring of rates under Section 304a is not an appropriate mechanism to increase rates to recover common costs. Finally, the Commission rejects Pigeon's belated recalculation in support of its proposal. Within the time frames permitted under Section 304a, the company's filing cannot become a moving target.

Because Pigeon's rates are above TSLRIC when the high cost loop fund revenues are considered, Pigeon may not restructure its rates under Section 304a and the application must be denied. Because Pigeon may not restructure its rates under Section 304a, this case does not provide an opportunity to implement the proposed late payment fee and increase in service charges. Pigeon must address those issues, if at all, in a proper application under Section 304.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1991 PA 179, as amended, MCL 484.2101 et seq.; MSA 22.1469(101) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACRS, R 460.17101 et seq.
- b. The application to restructure rates should be denied.

THEREFORE, IT IS ORDERED that Pigeon Telephone Company's application to restructure its rates is denied.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ John G. Strand
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

By its action of February 17, 1999.

/s/ Dorothy Wideman
Its Executive Secretary

THEREFORE, IT IS ORDERED that Pigeon Telephone Company's application to restructure its rates is denied.

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MICHIGAN PUBLIC SERVICE COMMISSION

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Suggested Minute:

“Adopt and issue order dated February 17, 1999 denying Pigeon Telephone Company’s application to restructure its rates, as set forth in the order.”