

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
WESTPHALIA TELEPHONE COMPANY)	
for approval of a total service long run)	Case No. U-13177
incremental cost study.)	
_____)	

At the January 22, 2002 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Laura Chappelle, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

OPINION AND ORDER

On November 2, 2001, Westphalia Telephone Company (Westphalia) filed an application for approval of its total service long run incremental cost (TSLRIC) study. In the past, Westphalia has relied on the initial cost study prepared by the Michigan Exchange Carriers Association (MECA), which was approved by the Commission on January 28, 1998 in Case No. U-11448. However, this application seeks approval of a cost study prepared specifically for Westphalia.

As directed by the Commission's Executive Secretary, Westphalia mailed a notice of opportunity to comment to Attorney General Jennifer M. Granholm and all licensed local exchange companies and facility-based interexchange companies operating in Michigan as of November 15, 2001. Only the Commission Staff (Staff) filed comments.

In its comments, the Staff states that Westphalia's cost study was prepared in a manner generally consistent with other TSLRIC studies prepared for small companies that have been

approved by the Commission. However, the Staff asserts that Westphalia's estimate of forward-looking common costs should be adjusted. The Staff takes the position that shared and common costs should be relatively consistent among small telephone companies, unless the company presents evidence or convincing argument that dictates otherwise. The Staff points out that Westphalia's projected common cost markup is twice that recently approved by the Commission for MECA member companies in Case No. U-12261.

The Staff goes on to state that Westphalia has not met its burden to justify the extent of its deviation from the common cost markup levels commonly experienced by small telephone companies. The Staff notes that the detail underlying Westphalia's calculations indicates that from 1997 to 1998, the company experienced a 37% increase in common costs. The following year, these costs decreased by 4%. Then from 1999 to 2000, common costs increased by 25%. Westphalia used the three-year average to project average annual common cost increases of 19%.

The Staff argues that double-digit increases in common costs over the three-year period are not reasonable given the relatively low inflation and high growth cycle in the United States economy during that period. The Staff therefore recommends that the Commission reduce by half Westphalia's common cost markup factor before approving the cost study. The Staff states that if the Commission follows that recommendation, it will approve for Westphalia a common cost markup factor that is within the range approved for the MECA companies in Case No. U-12261.

Westphalia did not file a response.

The Commission finds that Westphalia has failed to demonstrate the reasonableness of the significant increases in its projected common costs during a period of low inflation and high growth. Its proposed common cost markup factor is double that allowed by the Commission for the MECA companies in the joint TSLRIC study approved in Case No. U-12261, and is out of line

with those approved for other small telephone companies. The Commission therefore concludes that Westphalia's cost study should be modified to reflect a common cost markup factor that is half that proposed by Westphalia.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1991 PA 179, as amended, MCL 484.2101 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACRS, R 460.17101 et seq.

b. The TSLRIC study filed by Westphalia should be approved as modified by this order.

THEREFORE, IT IS ORDERED that the total service long run incremental cost study filed by Westphalia Telephone Company is approved as modified by this order.

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.

MICHIGAN PUBLIC SERVICE COMMISSION

(S E A L)

/s/ Laura Chappelle
Chairman

By its action of January 22, 2002.

/s/ David A. Svanda
Commissioner

/s/ Dorothy Wideman
Its Executive Secretary

/s/ Robert B. Nelson
Commissioner

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By its action of January 22, 2002.

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Suggested Minute:

“Adopt and issue order dated January 22, 2002 approving, as modified by the order, the total service long run incremental cost study filed by Westphalia Telephone Company, as set forth in the order.”