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Jo Campbell  
Commissioner  
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Commissioner

# PUC BULLETIN



## A Publication of the Public Utility Commission of Texas

Volume 13, No. 11

July 1988

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DOCKET NO. 7394

APPLICATION OF SOUTHWESTERN BELL  
TELEPHONE COMPANY FOR AUTHORITY TO  
CHANGE RATES RELATING TO ESSX-400  
SERVICE

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/  
/  
/

PUBLIC UTILITY COMMISSION  
  
OF TEXAS

EXAMINER'S REPORT

I. Procedural History

On February 9, 1987, Southwestern Bell Telephone Company (Bell) filed an application to change its ESSX-400 rates and to revise its ESSX-400 rate structure. The Commission had adopted Bell's current tariff provisions concerning ESSX-400, then a new service, in Docket No. 6146, Application of Southwestern Bell Telephone Company to Obsolete Centrex Services and Implement ESSX-400, \_\_\_\_\_ P.U.C. BULL. \_\_\_\_ (October 30, 1985). In support of its application in the present docket, Bell stated that, although the tariff had been in effect for thirteen months, no customers had subscribed to ESSX-400.

On recommendation of the Commission staff, Bell's application was docketed. By examiner's order signed March 6, 1987, the operation of Bell's proposed tariff change was suspended for 150 days after the otherwise effective date of March 16, 1987, until August 13, 1987, pursuant to P.U.C. PROC. R. 23.24(i). Also, a prehearing conference was scheduled. A copy of the order was sent to all persons on the service list in Docket No. 6146, which, in addition to Bell and the Commission's general counsel, included: the State Purchasing and General Services Commission (SPGSC); the Office of Public Utility Counsel (OPC); and Rolm Corporation (Rolm). These three intervenors did not participate in the present case.

On March 16, 1987, Bell filed comments concerning public notice.

A prehearing conference was held on March 18, 1987. Mr. José Varela appeared for Bell and Assistant General Counsel Jesús Sifuentes appeared for the public interest. A procedural schedule and hearing date were established. In addition, the issue of public notice was considered. Since that issue as presented in this docket is somewhat unusual, it is discussed below.



likely to provide better notice than that proposed by Bell, since Telephony and Communications Week are trade journals which prospective ESSX-400 customers and competitors are likely to read.

[1] General counsel did not disagree with Bell, except that Mr. Sifuentes was not wholly convinced that PURA Section 43(a) does not apply as a matter of law. The examiner was persuaded by Bell's arguments and ordered that Bell publish notice in the manner it had proposed. The examiner also ordered Bell to provide any prospective ESSX-400 customers a copy of its application and of any order specifying filing deadlines or dates of proceedings in this case.

On April 17, 1987, AT&T Information Systems, Inc. (ATTIS) filed a motion to intervene. On May 4, 1987, ATTIS filed a motion to extend by two days the deadlines for prefiling of the intervenor and staff direct cases. These motions were granted without objection by examiner's order dated May 6, 1987.

On May 11, 1987, general counsel filed a motion to continue the hearing from May 15, 1987, until May 27, 1987, and to extend the deadlines for prefiling the staff direct case and Bell rebuttal case. On May 12, 1987, Bell filed a letter agreeing to extend the effective date of its application by twelve days if general counsel's motion was granted. By examiner's order signed May 13, 1987, general counsel's motion was granted without objection. In addition, pursuant to P.U.C. SUBST. R. 23.24(i), the operation of Bell's proposed rate schedule was suspended for 150 days after the new effective date of March 28, 1987, until August 25, 1987.

On May 26, 1987, Bell filed a motion to strike ATTIS' prefiled testimony and to rescind ATTIS' intervenor status. In support of its motion, Bell argued that ATTIS' testimony addressed only issues which had been resolved in Docket No. 6146 and other prior dockets, rather than the appropriateness of the particular changes proposed by Bell in the present docket. At the hearing, after listening to oral argument, the examiner denied the motion.

The hearing convened on May 27, 1987. Appearances were entered by Mr. Varela for Bell, Ms. Julie D. Nelson for ATTIS, and Mr. Sifuentes for the public interest. Mr. Varela announced that due to an oversight, notice had been published for only one week in Telephony and Communications Week. However, there were no objections to the sufficiency of such notice or to continuing with the hearing. The examiner concluded that the notice which had been provided should be deemed adequate, and the hearing proceeded. It was adjourned on May 28, 1987.

At the hearing, the parties agreed to a schedule for consideration of posthearing motions to take official notice of various documents. Bell filed such a motion on June 1, 1987. This motion was granted without objection by examiner's order dated June 23, 1987.

The parties also agreed to a late briefing schedule. To help ensure approval of that schedule, Bell agreed to extend its effective date by one week, from March 28, 1987, until April 4, 1987. The examiner approved the schedule, and by order dated May 29, 1987, suspended the operation of Bell's proposed rate schedule for 150 days after the new effective date until September 1, 1987. Bell, ATTIS and the general counsel filed briefs on June 19, 1987, and reply briefs on June 29, 1987.

The Commission has jurisdiction over this case pursuant to PURA Sections 16(a) and 18(b).

## II. Background Concerning ESSX-400

Bell's central office-based services fall into two main categories, designated as Centrex and ESSX. A customer may choose between the two. ESSX-400 utilizes electronic switching system (ESS) technology. It is available to customers with communication system requirements ranging from 30 to 400 station lines, and is targeted at customers located within one mile of a Bell central office. ESSX-30 and ESSX-Custom are companion offerings to ESSX-400, and are available to customers with less than thirty and more than four hundred stations, respectively.

In Docket No. 6146, Bell sought Commission approval to grandfather its existing Centrex II and III offerings to existing customers and to obsolete them for new customers, as well as to implement ESSX-400. ESSX-400 was essentially a reconfiguration of Centrex offerings intended to give customers greater control over central office-based switching system costs and more flexibility in payment arrangements. Bell proposed ESSX-400 in an effort to deal with its loss of Centrex customers. Bell indicated that from December 1983 through March 1985, customers representing 54,953 Centrex stations had disconnected their service, or announced their intention to do so.

SPGSC, OPC and the staff did not dispute Bell's application, and the hearing on it was essentially uncontested. However, as discussed in the Examiner's Report in Docket No. 6146, the examiner in that docket was not convinced that ESSX-400 would increase the ability of Bell's central office-based switching services to compete with Private Branch Exchange (PBX) services. The examiner was also concerned that allowing only existing customers to subscribe to Centrex would constitute unreasonable discrimination among customers. The examiner thus recommended denial of Bell's application. The Commission did not adopt this Examiner's Report. Instead, the Commission remanded the case to the examiner for the taking of additional evidence concerning such issues.

On remand, Rolm intervened and was the only party opposing Bell's application. In a Supplemental Examiner's Report, the examiner concluded that ESSX-400 would enhance Bell's ability to compete within the PBX market. This conclusion was based on evidence presented at the second hearing concerning factors other than price (notably financing options available to the customer) which enhance the competitiveness of such an offering. The examiner further found that unreasonable discrimination is not a serious concern unless Centrex is obsoleted. The examiner recommended approval of ESSX-400, provided that Bell continues to offer Centrex II and III. The Commission adopted the Supplemental Examiner's Report. The ESSX-400 tariff approved in this docket was effective November 27, 1985.



### III. Summary of Bell Proposal

Bell's proposal consists of approximately 120 rate decreases and 30 rate increases, for an overall ESSX-400 rate reduction of approximately twenty to twenty-five percent. Bell District Staff Manager - Rate Administration L. Dale Fitzwater attached to his direct testimony a comparison of the current and proposed rates. This comparison is Exhibit A to the Examiner's Report.

Bell is also proposing three changes to the ESSX-400 rate structure. One is elimination of the sixty-month payment option. Another is introduction of a packaged feature offering, the Business Convenience Package, that provides several frequently requested optional features for a discounted rate. A third is inclusion as ESSX-400 standard features of four features previously considered optional (Add-On, Call Hold, Consultation Hold and Transfer).

Bell estimates the revenue impact of its proposal at \$1,000,000 for the first year.

### IV. Summary of Parties' Positions

In its direct case, Bell generally did not revisit the issues which the Commission resolved in Bell's favor in Docket No. 6146. These issues include the desirability of allowing Bell to offer ESSX-400 and the appropriateness of Bell's general approach in that docket regarding cost studies and rate design. Instead, Bell presented evidence in support of its proposed changes in its ESSX-400 tariff. These arguments primarily relate to errors found in the cost study used in Docket No. 6146, changes in information underlying that study since the time it was prepared, and non-competitiveness of the current ESSX-400 offering.

The staff agrees with these arguments and recommends approval of Bell's application, with one modification. This modification is that the sixty-month payment plan be retained. Bell does not oppose this modification. However, ATTIS opposes reducing rates for customers choosing the sixty-month payment plan in a manner consistent with the rate changes proposed by Bell.

ATTIS recommends that the application be denied. In general, ATTIS did not contest the reasons for the specific changes in the ESSX-400 tariff described in Bell's direct case. Instead, ATTIS compared the charges paid by ESSX-400 and PBX users, and urges rejection of Bell's proposal on the ground that it would perpetuate unlawful discrimination favoring Bell's ESSX-400 customers at the expense of its PBX competitors. Bell and the staff disagree with ATTIS.

The rest of the discussion in the Examiner's Report is divided into consideration of: the arguments for approving the application raised in Bell's direct case and the modification to Bell's proposal recommended by the staff; and the arguments initially raised by ATTIS.

## V. Bell's Arguments for Approving the Application

### A. Changes in Rates

#### 1. Revised Cost Study and Rates

Bell District Staff Manager - Cost Studies James J. Hager testified that Bell prepared a new cost study to support its application in this case. It did so for three reasons. First, two significant errors were discovered in the Bell cost study which underlay the ESSX-400 tariff approved in Docket No. 6146. Specifically, the count of misdialed calls diverted to intercept announcements was significantly overstated, and the call restriction feature was included twice. Second, revised data concerning customer size, call counts and call duration became available. Third, new economic and financial information, including data concerning the cost of money, depreciation rates and tax rates, was available. The revised cost study is attached to Mr. Hager's direct testimony. Mr. Hager testified that, as was true of the cost study used in Docket No. 6146, Bell's revised cost study used the incremental unit cost (IUC) methodology.

Mr. Fitzwater testified that Bell used four criteria in choosing its proposed revised rates. These were: (1) to base the rates on its IUC studies; (2) to establish the IUC as the minimum rate; (3) to maximize the contribution of each rate element; and (4) to achieve a competitive market price. Mr. Fitzwater attached to his direct testimony a comparison of the rate and cost relationship for each rate element for which a rate change is proposed. This comparison is Exhibit B to the Examiner's Report. Also included in Mr. Fitzwater's testimony is an exhibit showing that, while costs may have decreased, Bell has increased the contribution levels incorporated in its proposed basic unrestricted primary location station rates for ESSX-400. Mr. Fitzwater indicated that Bell's ESSX-400 offering consists of four principal rate categories: (1) Basic Station Rates; (2) Station Line Facility; (3) Facility Terminating Rates; and (4) Optional Features.

While ATTIS challenged the reasonableness of Bell's proposed ESSX-400 rates when compared with the current PBX rates, in general it did not contest the specific changes Bell made to the cost study and rates approved by the Commission in Docket No. 6146. The issues raised by ATTIS are discussed in Section VI.

Staff Telephone Rate Analyst David E. Featherston stated that Bell's 1986 ESSX-400 cost study is appropriate. He agreed with Bell's explanation of the need for a new cost study and reasons for the differences in results between the two studies, and concluded that the changes in the 1984 study are proper.

The examiner's conclusions regarding the specific issues raised by ATTIS are discussed in Section VI. However, based on the entire record in this case, the examiner concludes that Bell's revisions in its cost study are reasonable and are an appropriate basis for setting its ESSX-400 rates, and that Bell's proposed rates are in the public interest and should be approved.

## 2. Non-Competitiveness of Current ESSX-400 Offering

In direct testimony, Mr. Fitzwater stated that to compete in the business telecommunications marketplace, Bell must offer a competitively priced product to serve the mid-sized (30- to 400-station line) segment of the market. This product must be central office-based, since under the Computer II decision, Bell may not provide customer premises equipment (CPE) such as PBXs, except through an unregulated subsidiary. According to Mr. Fitzwater, at present most of this segment of the market is served by PBXs provided by unregulated vendors, and a much smaller portion is served by Bell's Centrex offerings.

Mr. Fitzwater testified that Bell has not sold a single ESSX-400 system and that there are no sales pending installation. He stated that Bell's present ESSX-400 offering is not competitive, for two reasons. The principal reason is that the rates established in Docket No. 6146 are too high, due both to Bell's use of incorrect cost study data and its mis-estimation of the market price. The second reason is that, because ESSX-400 is a regulated service, it is difficult to react to market changes in a timely fashion. Mr. Fitzwater stated that since February 8, 1985, when Bell first applied for Commission approval of ESSX-400, the competitive market prices for CPE have been moving downward due to: (1) intensified competition between CPE vendors; (2) the numerous alternatives available in the marketplace; and (3) improvements in switching technology. Mr. Fitzwater indicated that Bell's current ESSX-400 offering also cannot compete with its Centrex offering.

According to Mr. Fitzwater, Bell's market strategy is to use ESSX-400 not to displace Centrex, but rather to compete with the CPE products available in the 30- to 400-station line market segment. A customer might use Centrex instead of ESSX-400 if he is located more than a mile from the Bell central office or has a low station-to-trunk ratio (i.e., three stations for every simulated PBX trunk).

In Mr. Fitzwater's opinion, if Bell's current proposal is approved, ESSX-400 would be competitive in the 30- to 400-station line market. This would result from combining the proposed lower prices with the ESSX-400 features, such as price stability, the customer's ability to determine his trunking requirements, and the availability of certain optional features.

Bell's contention that the current ESSX-400 offering is not competitive was not contested by ATTIS or the staff. Mr. Featherston testified that he is not aware of any studies showing that ESSX-400 will be competitive if Bell's proposal is adopted. He reported that Bell has neither made a customer proposal nor taken a customer order for ESSX-400 under its proposed rates. However, he noted that presumably price is one reason there are no ESSX-400 customers currently. Overall, Mr. Featherston concluded that the proposed rate changes are reasonable and in the public interest.

The examiner concludes that Bell's current ESSX-400 offering is not competitive and should be changed for this reason, and that Bell's proposed ESSX-400 rates will tend to make this offering more competitive.

#### B. Changes in Rate Structure

As discussed in Mr. Fitzwater's testimony, Bell's rationale for its three proposed changes in ESSX-400 rate structure is as follows. Bell is proposing to eliminate the sixty-month contract period because, given the rapid changes in technology which are occurring, most customers do not want to enter into such a long-term commitment. It is proposing to offer a Business Convenience Package to allow customers to obtain the most commonly selected optional features at a rate which is discounted from the cost of obtaining all of these features individually, but which still provides a significant contribution. It is proposing to include as standard ESSX-400 features four features (Add-On, Call Hold, Consultation Hold and Transfer) previously considered optional, because Bell discovered that their cost had already been included in the cost of the Basic Station Rate element. Of these proposed rate structure changes, only elimination of the sixty-month payment option generated controversy.

The staff opposed elimination of the sixty-month payment option. Mr. Featherston reported that, based on a market analysis, Bell determined that customers were not willing to commit to a sixty-month contract because of technological changes occurring rapidly in the PBX market. Mr. Featherston concluded that nevertheless, some customers might prefer a long-term contract. He reasoned that the sixty-month payment option might enable a small company to obtain ESSX-400, whereas it might not be able to afford the higher payments associated with a shorter-term contract. He also noted that the sixty-month payment option is being offered to Centrex II customers and utilized by two ESSX-Custom users, and that Bell is about to file a ten-year customer contract for an ESSX-Custom user.

In rebuttal, Mr. Fitzwater indicated that Bell is willing to maintain a sixty-month contract option if the Commission deems that appropriate.

Although Bell proposed deletion of the sixty-month payment option, the cost study attached to Mr. Hager's direct testimony showed the costs for that option. At the hearing, the examiner asked Bell to prepare an exhibit showing the rates Bell would charge an ESSX-400 user choosing the sixty-month option, calculated using the same approach as that underlying Bell's application. This exhibit was sponsored by Mr. Fitzwater and presented during Bell's rebuttal case. A copy is attached as Examiner's Exhibit C. ATTIS objected to admission of this exhibit on grounds of unfair surprise. As explained at the hearing, the examiner concluded that that objection is without merit.

ATTIS urges rejection of the rates shown on this exhibit, nearly all of which are lower than the rates currently available to ESSX-400 users choosing a sixty-month payment option. ATTIS argues that the notice published in this case did not indicate that significant rate reductions might be considered for ESSX-400 customers choosing that option.

General counsel presents three reasons to reject this argument. The first is that published notice has jurisdictional implications only in PURA Section 43(a) rate cases, the only cases for which the PURA requires publication of

notice before the Commission acts. The second is that the notice provided in this docket adequately informed potentially interested persons that the sixty-month contract rates, or any other ESSX-400 rates, might be changed. The third is that ATTIS cannot claim insufficient notice, because it had notice of the rates in question due to its participation in the hearing.

The examiner concludes that, except for elimination of the sixty-month payment option, Bell's proposed changes in its ESSX-400 rate structure are reasonable and should be adopted. The examiner also finds that the sixty-month payment option should be retained for the reasons described by Mr. Featherston. ATTIS did not dispute the staff's evidence showing why the sixty-month payment option should be continued. Rather, ATTIS urged that the rates of customers choosing this option not be reduced.

The examiner further recommends that the Commission approve the lower rates for customers choosing the sixty-month contract contained on Examiner's Exhibit C. ATTIS did not contest Mr. Fitzwater's testimony to the effect that the rates indicated on that exhibit had been calculated using the same approach as that underlying the rates proposed in Bell's application. The examiner elsewhere concludes that Bell's proposed rates should be approved. The same problems (defects in the original cost study, changes in the data underlying that study and non-competitiveness of Bell's current offering) would afflict the sixty-month contract rates as well as the other ESSX-400 rates. There seems little point in retaining the sixty-month payment option in this docket without resolving such problems. This is particularly true since the merits of both the methodology underlying Bell's proposal and the sixty-month payment option have been litigated in this case.

The examiner agrees with general counsel that through participation in this case, ATTIS received actual notice of the rates contained in Examiner's Exhibit C, and thus would not have been harmed even if notice to the public was deficient. However, the adequacy of public notice should be an important concern in any case in which the Commission considers a rate change. The examiner concludes that the notice provided was adequate to support adoption in

this docket of the rates contained in Examiner's Exhibit C. This notice states in part: "Revisions to the proposed rate structure include the elimination of the 60-month ESSX-400 payment option . . . The rate changes include both increases and decreases to the currently effective rates, with the majority of the changes being rate decreases." The examiner would expect a reasonable person to conclude from such notice that the Commission might reject the proposed elimination of the sixty-month payment option and approve the rate reductions, and thus might change the rates paid by customers choosing the sixty-month contract in a manner consistent with the rates it approved for customers selecting shorter-term contracts.

## VI. ATTIS' Arguments for Denying the Application

### A. Legal Standard

ATTIS argues that Bell's proposal is unlawful under the authorities discussed in this section. Bell and the staff contend that it is not. For reasons detailed later in the Report, the examiner agrees with Bell and the staff.

PURA Section 38 requires that a public utility's rates "shall not be unreasonably preferential, prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to each class of customers." PURA Section 45 states: "No public utility may establish or maintain any unreasonable differences as to rates of service either as between localities or as between classes of service." PURA Section 47 provides: "No public utility may discriminate against any person or corporation that sells or leases equipment or performs services in competition with the public utility, nor may any public utility engage in any other practice that tends to restrict or impair such competition." The parties discussed several cases construing these provisions.



Texas Alarm and Signal Ass'n v. Pub. Util. Comm'n, 603 S.W.2d 766 (Tex. 1980) (TASA) involved an intervenor's appeal from the Commission's final order in a Bell rate case which designed rates for the intervenor's customer class. The Supreme Court upheld the Commission's order, stating: "In general, Section 38 requires rate structures to be just, reasonable, and not unreasonably discriminatory. This broad standard allows the Public Utility Commission discretion to determine the method of rate design. It also gives the Commission the discretion to consider factors other than cost and adjusted values of property." (*Id.* at 772.) The Court held that such distinguishing factors include: cost of service, the purpose for which the service is received, the quantity or amount received, the differing character of service received, time of use, or any other substantial difference.

Amtel Communications, Inc. v. Pub. Util. Comm'n of Texas, 687 S.W.2d 95 (Tex. App. - Austin 1985, no writ) (Amtel) involved a complaint against Bell filed at the Commission by Amtel Communications, Inc. (Amtel). Bell and Amtel competed in supplying to answering services certain equipment known as concentrators. Since Bell installed its concentrators adjacent to the main frames in its central offices, when a Bell concentrator was used, only very short lines were needed to connect the telephones of the subscriber and the answering service. Bell did not permit any concentrator not owned and serviced by Bell to be installed within its central office. Consequently, when a competitor's concentrator was used, the connecting lines needed to be much longer. Under Bell's tariff, the charges for both installation and use of the lines were distance-sensitive. This tended to increase the customer's cost of using a concentrator not supplied by Bell. Amtel complained that this violated PURA Sections 38, 45 and 47. The Commission denied the relief requested in the complaint, reasoning that: (1) Bell's exclusionary policy rests upon valid business grounds and decisions with which the Commission should not interfere; (2) the cost-based system of distance-sensitive charges should not be revised in favor of the requested parity among competitors due to practical difficulties that make parity pricing unreasonable; and (3) under parity, Bell would be permitted either an excessive recovery or an insufficient recovery. In affirming the Commission's decision, the court held: "(T)he principle

includes a permissible range of unequal treatment which, while literally discriminatory, is not unlawfully so. . . . (T)he different treatment practiced by the public utility must be founded upon a substantial and reasonable ground of distinction between the favored and disfavored classes or individuals." (Id. at 102.) The court then listed the permissible grounds for distinction set forth in TASA.

AT&T Communications of the Southwest v. Pub. Util. Comm'n, No. 14,657, slip op. (Tex. Civ. App. - Austin, June 10, 1987, motions for rehearing pending) (AT&T) involved an appeal by AT&T Communications of the Southwest and other interexchange carriers (IXCs) concerning the Commission's imposition of access charges on them but not on local exchange carriers (LECs). The court reversed the Commission's decision, stating the following. IXCs and LECs compete in providing long-distance service within local access and transport areas (intra-LATA service). Access charges pay for a carrier's access to local exchanges operated by LECs. When an LEC originates or terminates an intra-LATA long distance call, it uses the same facilities and exacts the same non-traffic sensitive cost to the local system as does an IXC, but access charges are imposed on IXCs but not LECs. The IXCs complained that this treatment violated PURA Sections 38, 45 and 47, and the court agreed. The court cited the standards set forth in TASA and Amtel. Unlike in those cases, however, the court concluded that the Commission's preferential treatment in AT&T was not founded upon a substantial and reasonable ground of distinction.

#### B. Aspects of Bell's Proposal Objected to by ATTIS

##### 1. Configurations of ESSX-400 and PBX

The specific aspects of Bell's proposal complained of by ATTIS are addressed subsequently. Since in arguing such issues the parties extensively discuss the configurations of ESSX-400 and PBXs, those configurations are described in this section. Attached as Examiner's Exhibit D is a depiction of such configurations. The record shows the following concerning them.

An example frequently used in this docket involves a hypothetical customer with thirty-five telephone stations. The customer wants to be able to use any of the thirty-five to contact the outside world. However, he decides that he will only need to be able to use up to five telephones for this purpose at a given time. When five telephones are being used to contact the outside world, the other telephones can only be used to contact another telephone on the customer's premises (intercom capability).

For every telephone station on an ESSX-400 customer's premises to be capable of being used to access the outside world, each station must be connected through a separate dedicated loop to Bell's central office switch. The customer indicates how many telephone stations he wants the ability to use simultaneously to contact the outside world, and is assigned that number of simulated trunks. In the example above, the customer will be allotted five simulated trunks. Thus, while any of the thirty-five loops can be used to contact the outside world, software in the Bell central office will perform a choking function so that no more than five loops can be used for this purpose at a given time.

A PBX performs the same functions for a PBX user as the central office switch does for an ESSX-400 customer. Each telephone station on a PBX customer's premises is directly connected to the PBX. The PBX is directly connected to Bell's central office through trunks provided by Bell. In the above example, thirty-five telephone stations would be connected to the PBX, but only five trunks would be needed to connect the PBX to Bell's central office.

## 2. ATTIS' Position in General

Edward H. Hancock, a staff manager in AT&T Communications, Inc.'s (ATTC) Marketing Plans Implementation group, testified that ATTIS sells and leases PBX switches in competition with ESSX-400. He stated that Bell's proposal will result in different rate treatment for ESSX-400 and PBX, which unfairly discriminates in favor of ESSX-400 to the detriment of Bell's PBX competitors.

Mr. Hancock objected to Bell's proposed treatment of direct inward dialing (DID) charges, pricing of local loops and subscriber line charges. (He also objected to Bell's treatment of off-premises extensions. However, in its brief ATTIS withdrew that part of its argument.) These objections are discussed subsequently.

In its brief, ATTIS comments that several things hampered development of an exact comparison of the loops and central office switching components for ESSX-400 and PBX. First, Bell performed IUC studies to support the ESSX-400 rates but not the rates charged to PBX users. Second, a PBX customer must pay a bundled rate for the loop and central office switching component, but the ESSX-400 rates are unbundled. Third, the PBX trunk rate has always been based on a relationship to the flat rate for one business line (1FB), such as one and one-half or two times the 1FB rate, rather than on incremental costs. ATTIS contends that these pricing and bundling practices are themselves discriminatory. The examiner rejects this contention, which ATTIS raised for the first time in its brief, since there is insufficient evidence to find unreasonable discrimination on these grounds.

Mr. Hancock's overall recommendation is that rates be applied in the same manner to ESSX-400 and PBX. He testified that this could be done either by adopting ESSX-400 rates different from those proposed by Bell, or by changing the PBX rates. Since, in Mr. Hancock's opinion, Bell's proposal would result in unlawful discrimination, he recommended that the application be denied.

The relationship between ATTIS' requested relief and the pricing differences it objects to deserves some comment. At the hearing, in response to a question from the examiner, Ms. Nelson stated that ATTIS is not asking that the PBX rates be changed in this docket. To do so would certainly create problems in terms of sufficiency of notice and evidence. However, the fact that the PBX rates cannot be altered in this docket creates potential problems in terms of choosing an appropriate remedy if ATTIS' allegations of unreasonable discrimination are found to be meritorious.

[2,3] For one thing, it is preferable to consider charges of discrimination arising from a comparison of two rates in a docket (such as a complaint proceeding or general rate case) in which if the complainant prevails, the Commission can change either rate. Where one rate is unreasonably discriminatory relative to another, the solution is to change not the rate which is appropriately priced, but rather the one which is not.

Moreover, not only is it true that ATTIS' requested relief, denying Bell's application to change its ESSX-400 rates, may not be the appropriate solution even if unreasonable discrimination is found, such relief would not eliminate the differences in pricing of PBX and ESSX-400 complained of by ATTIS. As discussed in the next section, the aspects of ESSX-400 pricing objected to by ATTIS are also present in the ESSX-400 rates currently in effect.

Under the circumstances, it makes no sense to the examiner to refuse to approve Bell's proposed ESSX-400 rates if Bell has proven that they are appropriate, even it has not fully demonstrated in this docket the reasonableness of the PBX rates. Thus, where the evidence is sufficient to do so, the examiner has decided if the alleged differences between the ESSX-400 and PBX rates exist and are unreasonable. Where the evidence indicates that an alleged difference exists but is insufficient to show if it is unreasonable, the examiner has considered if the record supports Bell's proposed ESSX-400 rates. If it does, and given the other evidence supporting Bell's application, the examiner has recommended approval of these proposed rates.

### 3. Bell's and the Staff's Positions in General

For the most part, Bell's and the staff's positions concerning the matters raised by ATTIS are included in the discussion of the three specific aspects of Bell's proposal to which ATTIS objects. However, two general issues were raised: the effect of the Commission's decision in Docket No. 6146, and Mr. Hancock's credibility. These issues are discussed here.

With respect to the first issue, Bell and the staff note that, except for the specific changes described earlier in this Report, Bell's current application is the same one approved by the Commission in Docket No. 6146. They observe that ATTIS is attacking not these specific changes, but rather aspects of Bell's proposal also present in the ESSX-400 rates previously approved. Bell and the staff conclude that the issues raised by ATTIS should be resolved the same way as in Docket No. 6146. In support of this position, Bell cites Westheimer Ind. School Dist. v. Brockette, 567 S.W.2d 780, 787 (Tex. 1978), which states in part:

This court holds that a "material change of conditions" shall be narrowly construed, providing a basis for review in only limited circumstances. Such a policy recognizes that there are aspects of administrative orders which must be treated with flexibility, rather than with the binding effects of traditional *res judicata*. . . . However, whenever possible the courts should support the finality of administrative orders in keeping with the public policy favoring an end to litigation, whether it be in the administrative or judicial process. . . . Therefore, to constitute material changes of conditions, the allegations must reflect that the changes have intervened since the rendition of the order and must not constitute issues which might have been raised in the prior hearing had adequate and diligent research been conducted to discover such facts.

ATTIS responds that Bell is itself launching a significant attack on the Commission's decision in Docket No. 6146. Moreover, ATTIS argues, the rates proposed by Bell in the present docket, being substantially lower than those approved in Docket No. 6146, pose a more serious threat to competitors. Under these circumstances, ATTIS argues, it is appropriate to revisit the Commission's decision in Docket No. 6146 in the manner requested by ATTIS.

The examiner agrees with ATTIS that Bell is itself requesting that the Commission reconsider significant aspects of the Docket No. 6146 final order. On the other hand, the evidence produced by Bell and the staff shows the existence of significant changed circumstances and errors in the Docket No. 6146 record which formed the basis for the parts of the Commission's order which they seek to have changed in the present docket. ATTIS made no such showing. Rather, ATTIS apparently is arguing that the Commission simply resolved the issues raised by ATTIS the wrong way in Docket No. 6146.

Under these rather unusual facts, the examiner has found it appropriate to consider both the issues raised by ATTIS and the Commission's resolution of those issues in Docket No. 6146 and other previous cases. This includes not only the fact that the Commission approved the rate treatments complained of, but also the policy statements adopted by the Commission in those cases. For example, in Docket No. 6146 the Commission held:

Central office based switching services represent an effort by a regulated utility to compete within a highly competitive arena wherein the other competitors are free from the constraints of regulation. As SWB is providing an optional service and the profits derived from that service provide a contribution to the cost of providing basic local exchange service, the public interest would seem to be best served by maximizing the profitability of that service. In the examiner's opinion, the Commission's concern with the rates charged for an optional service provided by a regulated utility in a highly competitive unregulated market would be met so long as the rates recover the cost of providing that service plus a reasonable contribution level.

The second issue concerns the credibility of Mr. Hancock's testimony, which Bell vigorously challenged. Bell points to Mr. Hancock's testimony that he is an employee of ATTC, not ATTIS, and that ATTIS had little or no input into the preparation of his testimony. Bell comments that ATTIS, not ATTC, sells and leases PBXs. Bell also argues that Mr. Hancock has minimal expertise to testify concerning PBXs or PBX competitors. In that regard, Bell cites Mr. Hancock's testimony that he had never been an ATTIS employee, had no experience in selling or leasing PBX switches to customers, had never previously testified concerning PBX pricing, did not know the price of an ATTIS PBX, did not know how often ATTIS proposed that its PBX sales include DID service, and had limited technical knowledge concerning PBX systems. Bell also notes Mr. Hancock's testimony that neither he nor anyone else in his marketing organization had previously testified on behalf of ATTIS.

Despite Mr. Varela's skillful cross-examination, the examiner found Mr. Hancock to be a reasonably believable witness. Nevertheless, as no doubt is apparent from her specific recommendations, overall the examiner found Bell's and the staff's cases to be the better supported.

#### 4. Specific Differences Objected to by ATTIS

a. DID Charges. Mr. Hancock's first objection to Bell's proposal concerns DID, which allows a customer to call directly to a station line without an attendant operator. PBX users pay two charges in connection with DID: one for number assignment and one for trunk termination. Under Bell's proposal, the number assignment portion, but not the trunk termination portion, applies to ESSX-400. As a result, a PBX customer incurs a charge of \$16.95 per month per PBX trunk which is not incurred by an ESSX-400 customer.

Mr. Featherston and Mr. Fitzwater testified that since each ESSX-400 station line is connected directly to the central office, DID service is inherent in the offering. In contrast, with PBX, because each station is connected directly to the PBX, without DID an incoming call will go to the PBX attendant for routing. Since Bell incurs additional costs in providing the capability to access each PBX station directly, these witnesses argue, it is reasonable that PBX users be charged for such costs.

Bell and the staff argue that the Commission approved Bell's methodology regarding pricing of DID service for ESSX-400 in Docket No. 6146 and for PBX in Docket No. 6200. Bell comments that ATTC intervened in Docket No. 6200 but did not raise these issues. ATTIS responds that the applicable portion of the Commission's order in Docket No. 6200 applied only to Centrex.

ATTIS did not challenge Bell's and the staff's testimony that Bell incurs costs in providing the capability to access each PBX station directly that it does not incur for ESSX-400 stations. In addition, ATTIS did not persuade the examiner that the Commission's previous decisions concerning pricing of DID service should be changed. The examiner concludes that: this difference in costs exists; it justifies application of a higher DID charge for PBX users than for ESSX-400 users; and Bell's proposed DID charge for ESSX-400 is appropriate and should be adopted.



b. Pricing of Local Loops. The second aspect of Bell's proposal objected to by ATTIS concerns pricing of local loops. This was the most complicated of ATTIS' three objections to Bell's proposal, and includes several issues.

The first issue concerns Mr. Hancock's objection that while a PBX user must pay a trunk charge of \$33.65 for each trunk connection to Bell's central office, an ESSX-400 customer must pay the PBX trunk charge only for the number of simulated PBX trunks allotted to him. A significantly lower rate is applied to the difference between the number of dedicated local loops and the number of simulated PBX trunks used to serve the ESSX-400 customer.

In rebuttal, Mr. Fitzwater testified that Mr. Hancock is insufficiently familiar with the ESSX-400 rate structure for the loops (Station Line Facility Rates) and exchange access lines (Dial Tone Service). Mr. Fitzwater supplied the following explanation.

Mr. Fitzwater stated that the rate structure for the provision of intercom capabilities (Station Facility Rate Element) is distance-sensitive, and is based on the airline distance, measured in quarter-mile increments, between the locations of the ESSX-400 customer and of Bell's serving central office. Mr. Fitzwater commented that this rate element was not designed to recover the cost of providing exchange access service.

He testified that to provide dial tone service to the ESSX-400 customer, Bell charges the customer the same Exchange Access Line or trunk rate (including TouchTone) that is charged to a premises PBX customer. If an ESSX-400 customer and a PBX customer each require ten trunks, they pay identical charges for the local exchange access service. Because the trunk rate is designed to recover the cost of an average loop plus the cost of central office switching, for each trunk ordered by the ESSX-400 customer, Bell credits the customer's bill one Station Line Facility rate.

In the examiner's opinion, ATTIS' emphasis on whether or not the loops used by ESSX-400 customers and PBX users are identical is misplaced. The issue is whether or not ESSX-400 service generates costs not included in Bell's IUC study and reflected in its proposed ESSX-400 rates. Bell's evidence suggests that its proposed ESSX-400 rates will recover the cost of the service. The staff testimony supports the same conclusion. If there are costs associated with loops or trunks used to provide ESSX-400 service not incorporated in Bell's proposed rates, that fact is not evident from the record in this case. The examiner finds that the record supports Bell on this issue.

The second issue concerns Mr. Fitzwater's testimony during cross-examination by ATTIS to the effect that he thought Bell might have to do "something more" to the loop for ESSX-400 than for PBX. In its brief, ATTIS argues for the first time that if so, it costs Bell more to provide loops for ESSX-400 than for PBX.

The examiner rejects this argument. Mr. Fitzwater's testimony on this point was both vague and tentative. There is no evidence to show what the "something more" referred to by Mr. Fitzwater is, much less that it was not included in the costs assigned to ESSX-400 by Bell.

The third issue concerns Mr. Hancock's objection to Bell's proposed distance-sensitive pricing of the Station Facility Rate Element. He testified that because the average ESSX-400 customer is located near the central office, such pricing results in significantly lower local loop rates for ESSX-400 customers, an advantage not available to PBX users because the PBX trunk rate is a flat rate. Mr. Hancock observed that in any given situation, the loop length will be the same whether the customer chooses ESSX-400 service or uses a PBX.

Mr. Featherston supported Bell's proposed pricing. He testified that because most Centrex customers are located near the central office, it is less expensive for Bell to serve the average Centrex customer.

Mr. Fitzwater testified that the trunk rate charged to ESSX-400 customers and PBX users is a flat rate. Only the rate element associated with the cost of providing intercom capabilities is distance-sensitive.

[4] It is unclear from the evidence why the PBX and ESSX-400 trunk rates are flat rates. However, based on the record in this case, the examiner concludes that distance-sensitive pricing of the ESSX-400 rate element designed to recover only the cost of intercom service is not unreasonably discriminatory. The record does not reflect the existence of a comparable element in the rates charged PBX users. Moreover, the examiner agrees with Mr. Featherston that distance-sensitive pricing of this rate element should more accurately reflect actual costs.

c. Credit on Subscriber Line Charges. Mr. Hancock's third argument concerns the credit on subscriber line charges. The Federal Communications Commission requires Bell to bill a \$6 interstate end user common line (EUCL) charge for every PBX or ESSX-400 line connected directly to Bell's central office. In the example, the customer with thirty-five telephones would be billed a EUCL charge for five lines (a total of \$30) if he is a PBX user and for thirty-five lines (a total of \$210) if he is an ESSX-400 customer.

Under Bell's proposal, ESSX-400 customers receive a monthly credit from intrastate revenues which equates the EUCL charges they pay to that amount paid by PBX customers with an equivalent number of trunks. Thus, the customer in the example would be billed the EUCL charge on thirty-five lines and receive an offsetting credit for the charge on thirty lines (a total of \$180). Mr. Hancock testified that such credits are unreasonably discriminatory. Mr. Featherston and Mr. Fitzwater took the opposite view.

ATTIS observes that the EUCL credits transfer costs from the interstate jurisdiction to the intrastate jurisdiction.

ATTIS also likens Bell's proposed application of the EUCL credits to the disparate application of access charges rejected by the court in AT&T. Bell responds that in AT&T, the court found that IXCs paid access charges and LECs did not. In the present case, Bell argues, ESSX-400 customers and PBX users pay equivalent EUCL charges. According to Bell, the differences in calculating the EUCL for ESSX-400 customers and PBX users is precisely the type of reasonableness decision which Amtel and AT&T indicate the Commission is empowered to make in the public interest.

ATTIS further argues that Bell's reasoning is inconsistent. ATTIS notes Bell's contention that pricing DID differently for PBX and ESSX-400 is justified because the actual costs Bell incurs in providing DID are different, and states that if Bell is right in this contention, then ESSX-400 customers and PBX users should both pay the same EUCL credit for every loop used to provide them service, since the per loop costs to Bell are the same.

In the examiner's opinion, ATTIS has a point. It might be appropriate, at least for a time, to price rates charged to competitors the same way regardless of differences in cost so as to promote or preserve competition; alternatively, it might be appropriate to price such rates differently so as to reflect differences in cost. However, arguably it is inconsistent to use the first theory to price some aspects of ESSX-400 and the second to price others, with the result being rates more favorable for ESSX-400 customers and less favorable for PBX users than if either theory was used consistently.

On the other hand, it is clear from the court decisions that parity pricing is not always required, and that differences in cost are not the only permissible basis for differences in pricing. Thus the question is, is the combined approach described above unreasonably discriminatory under the standards enunciated by the legislature and the courts? Can the Commission approve its use, at least for now, in order to accomplish such goals as allowing Bell to compete, halting Bell's loss of revenues to PBX competitors, and, possibly, allowing Bell to utilize facilities which otherwise would be stranded?

In support of Bell's position on this point, the record shows that Bell's Centrex-type offerings, and certainly its ESSX-400 offering, have not been competitive during the last few years, and that as a result facilities used to provide Centrex have been stranded, and significant amounts of revenue have been lost to PBX competitors. It also supports the inference that such lost revenues may adversely affect Bell's ability to provide basic telephone service at a reasonable price. In addition, it is obvious that at current rates, even with the EUCL credits, ESSX-400 is not competitive. It is not clear if ESSX-400 would be competitive under Bell's proposal absent the EUCL credits, although the examiner expects that it would not be.

Bell and the staff note that in setting Centrex or ESSX-400 rates in several previous cases, the Commission has allowed telephone companies to offset the interstate EUCL charge from intrastate revenues. In addition to Docket No. 6146, they cite Docket Nos. 5686, Application of Southwestern Bell Telephone Company for Centrex CO Rate and Tariff Revisions, 10 P.U.C. BULL. 149 (September 28, 1984) and 5772, Application of General Telephone Company of the Southwest for Centrex Rate and Tariff Revisions, 10 P.U.C. BULL. 963 (December 4, 1984). (The Commission approved the same treatment for a specialized Centrex service in Docket No. 6386, Application of General Telephone Company of the Southwest for Revision of Its Airport Telephone Service Tariff, \_\_\_\_\_ P.U.C. BULL. \_\_\_\_\_ (March 5, 1986).) For example, in approving such treatment with respect to Bell's Centrex rates in Docket No. 5686, the Commission found the following Bell argument to be persuasive:

Because of the increase which would be experienced by Centrex CO customers upon implementation of the interstate EUCL charge and in particular when such increase is compared to the EUCL charges which would be applicable to competitive PBX services, it is SWB's belief that unless the impact of the Centrex CO EUCL charges is offset to some degree, Centrex customers would begin to disconnect. Furthermore, SWB anticipates that the customer abandonment of Centrex CO service would be rapid and would result in not only a dramatic loss of Centrex revenue, but also a considerable amount of idled investment. Ultimately, the loss of Centrex CO revenue would become a burden to the general body of SWB customers.

The Commission's reasoning in the dockets involving General Telephone Company of the Southwest (General) was similar. Bell comments that ATTIS could have intervened in these dockets.

ATTIS argues that these decisions are inapposite in that Docket No. 5686 concerned Centrex rates and Docket No. 5772 involved General's Centrex rates. The examiner disagrees. ESSX-400 is simply a reconfiguration of Centrex created as part of Bell's efforts to stanch the flood of customers migrating from Bell's central office-based services to PBX and the resultant loss of revenue and idling of facilities used to provide such services. This problem is also the Commission's stated reason for approving the EUCL credits.

ATTIS states that the stranded plant argument used in these dockets does not apply in the present case. ATTIS cites Bell's testimony that there have been neither customers subscribing to ESSX-400 nor plant installed specifically to provide that service, and concludes that there is no Bell plant to be stranded. ATTIS' conclusion does not necessarily follow. Although no plant has been used to provide ESSX-400 service, in some instances Bell might be able to provide ESSX-400 with facilities previously used to provide Centrex which were, or were about to be, stranded due to customers switching to PBXs. The record is somewhat unclear on this point. In any event, the other argument used to support the EUCL credits, prevention of Bell's loss of revenues from its central office-based services, does apply to ESSX-400.

[5] Upon consideration of all of these points, the examiner with some reluctance recommends approval of the continued use of the EUCL credits in Bell's ESSX-400 tariff. While the future is uncertain, based on Bell's recent experience with its central office-based services it seems unlikely that such services will be competitive without the EUCL credits. Moreover, the Commission's numerous prior decisions on this issue are not distinguishable, and ATTIS has shown no changes in fact or other factors which would justify not following them in this case.

### III. Findings of Fact and Conclusions of Law

The examiner further recommends that the Commission adopt the following Findings of Fact and Conclusions of Law.

#### A. Findings of Fact

1. On February 9, 1987, Bell filed an application to change its ESSX-400 rates and to revise its ESSX-400 rate structure.
2. The operation of Bell's proposed tariff change was suspended for 150 days after the otherwise effective date of March 16, 1987, until August 13, 1987, by examiner's order signed March 6, 1987. After Bell extended the effective date until March 28, 1987, the operation of the tariff change was resuspended until August 25, 1987, by examiner's order signed May 13, 1987. After Bell extended the effective date until April 4, 1987, the operation of the tariff change was resuspended until September 1, 1987, by examiner's order signed May 29, 1987.
3. Notice was provided to the public in the manner described in Section I. of the Examiner's Report.
4. A prehearing conference was held on March 18, 1987. The hearing on the merits was convened on May 27, 1987, and adjourned on May 28, 1987. Notice of these proceedings was published in the Texas Register and provided to all parties at least ten days before the proceeding.
5. ATTIS, which supplies PBXs in competition with Bell's ESSX-400 service, is the only intervenor in this case.
6. Bell's central office-based services fall into two main categories: Centrex and ESSX. ESSX-400 is available to customers with 30 to 400 station lines and is targeted at customers located within one mile of a Bell central office.

7. ESSX-400 is a reconfiguration of Bell's Centrex offerings intended to give customers greater control over costs and more flexible payment arrangements. It was created to help stanch the migration of customers from Bell's central office-based services to its PBX competitors.

8. Bell's current ESSX-400 tariff was approved by the Commission in Docket No. 6146. Although that tariff was effective November 27, 1985, no customer has ever subscribed to the service.

9. In its present application, Bell is proposing approximately 120 rate decreases and 30 rate increases, for an overall ESSX-400 rate reduction of approximately twenty to twenty-five percent. Bell is also proposing three changes to its ESSX-400 rate structure. Bell estimates the revenue impact of its proposal at \$1,000,000 for the first year.

10. The staff supports Bell's proposed rates. ATTIS opposes them. The staff supports Bell's proposed changes in rate structure, except that it would modify this proposal so as to retain the sixty-month payment option. Bell does not oppose this modification. However, ATTIS opposes reducing rates for customers choosing the sixty-month payment option in a manner consistent with Bell's proposed rate changes.

11. As discussed in Section V. of the Examiner's Report, Bell demonstrated that its current ESSX-400 rates should be changed due to errors in the cost study used in Docket No. 6146, changes in information underlying that study since the time it was prepared, and non-competitiveness of the current ESSX-400 offering.

12. As discussed in Section V.A.1. of the Examiner's Report, Bell's changes in its ESSX-400 cost study are reasonable, and the revised cost study provides an appropriate basis for setting ESSX-400 rates.

13. As discussed in Section V.A.2. of the Examiner's Report, Bell's proposed rates will tend to make its ESSX-400 offering more competitive.



14. Bell's proposed ESSX-400 rates are in the public interest and should be approved.

15. As discussed in Section V.B. of the Examiner's Report, except for Bell's proposed elimination of the sixty-month payment plan, Bell's proposed changes in its ESSX-400 rate structure are in the public interest and should be approved.

16. As discussed in Section V.B. of the Examiner's Report, the sixty-month payment option for ESSX-400 customers should be retained.

17. The public received adequate notice that the Commission might adopt in this docket rates of the nature contained in Examiner's Exhibit C.

18. As discussed in Section V.B. of the Examiner's Report, the rates for ESSX-400 customers choosing the sixty-month payment option shown on Examiner's Exhibit C should be approved.

19. The configurations of Bell's ESSX-400 service and the service provided by its PBX competitors are summarized in Section VI.B. of the Examiner's Report.

20. ATTIS raised for the first time in its brief the argument that the following constitute unreasonable discrimination: Bell's development of IUC studies concerning ESSX-400 but not concerning PBXs; the fact that a PBX user must pay a bundled rate for the loop and central office switching component but the ESSX-400 rates are unbundled in this respect; and the fact that the PBX trunk rate is based on a relationship to the 1FB flat rate rather than on incremental costs. There is insufficient evidence to find for ATTIS on these points.

21. Bell's PBX rates could not be changed in this docket due to insufficient notice and evidence.

22. ATTIS objects to alleged unreasonable differences in pricing of Bell's rates charged to ESSX-400 customers and PBX users. However, even if such unreasonable differences exist, denying Bell's application would not be the appropriate way to resolve them, as discussed in Section VI.B.2. of the Examiner's Report.

23. As described in Section VI.B.3. of the Examiner's Report, under the circumstances of this case it is appropriate for the examiner to consider both the issues raised by ATTIS and the Commission's resolution of such issues in Docket No. 6146 and other previous cases.

24. As described in Section VI.B.4.a. of the Examiner's Report, Bell's proposed pricing of DID charges is reasonable and should be approved.

25. As discussed in Section VI.B.4.b. of the Examiner's Report, the record indicates that Bell's proposed pricing of local loops and trunks is reasonable and should be approved.

26. As discussed in Section VI.B.4.c. of the Examiner's Report, the record indicates that Bell's proposal concerning the EUCL credits is reasonable and should be approved.

27. Bell's application should be approved, except that the sixty-month payment option should be retained, and the rates indicated on Examiner's Exhibit C for ESSX-400 customers choosing that option should be approved.

#### B. Conclusions of Law

1. Bell is a dominant carrier as defined by PURA Section 3(c)(2)(B) and is a telecommunications utility subject to the Commission's jurisdiction.

2. The Commission has jurisdiction over the matters considered herein pursuant to PURA Sections 16(a), 18(b) and 37.

3. Notice of Bell's application and proceedings in this docket was properly provided in accordance with the requirements of P.U.C. PROC. R. 21.25.

4. Bell's proposed ESSX-400 rates and rate structure comply with the requirements of PURA Article VI.

Respectfully submitted,

*Elizabeth Hagan Drews*

Elizabeth Hagan Drews  
Administrative Law Judge

APPROVED on this the 23<sup>rd</sup> day of July 1987.

*Phillip A. Holder*

PHILLIP HOLDER  
DIRECTOR OF HEARINGS

1d

ESSX-400 BASIC STATION  
RATE COMPARISON

		1 MO.		MO- TO-MO.	12 MONTH	24 MONTH	36 MONTH	48 MONTH
		60 MOS.	1ST MO.					
<b>Primary Location</b>								
Unrestricted	CURRENT	3.10	216.45	11.20	9.70	9.35	9.05	8.80
	PROPOSED	1.40	130.00	7.20	5.60	5.20	4.90	4.60
Fully Restricted	CURRENT	2.80	196.10	10.15	8.80	8.45	8.20	7.95
	PROPOSED	1.20	110.00	6.10	4.70	4.40	4.10	3.90
<b>Remote Location- Contiguous Serving Office to Primary Location</b>								
Unrestricted	CURRENT	4.50	216.45	12.60	11.10	10.75	10.45	10.20
	PROPOSED	2.80	130.00	8.60	7.00	6.60	6.30	6.00
Fully Restricted	CURRENT	4.20	196.10	11.55	10.20	9.85	9.60	9.35
	PROPOSED	2.60	110.00	7.50	6.10	5.80	5.50	5.30
<b>Remote Location- Non-Contiguous Primary Location</b>								
Unrestricted	CURRENT	3.10	216.45	11.20	9.70	9.35	9.05	8.80
	PROPOSED	1.40	130.00	7.20	5.60	5.20	4.90	4.60
Fully Restricted	CURRENT	2.80	196.10	10.15	8.80	8.45	8.20	7.95
	PROPOSED	1.20	110.00	6.10	4.70	4.40	4.10	3.90
<b>Off-Premises- Primary or Non- Contiguous Remote Location</b>								
Unrestricted	CURRENT	3.10	216.45	11.20	9.70	9.35	9.05	8.80
	PROPOSED	1.40	130.00	7.20	5.60	5.20	4.90	4.60
Fully Restricted	CURRENT	2.80	196.10	10.15	8.80	8.45	8.20	7.95
	PROPOSED	1.20	110.00	6.10	4.70	4.40	4.10	3.90
<b>Off-Premises- Contiguous Remote Location</b>								
Unrestricted	CURRENT	4.50	216.45	12.60	11.10	10.75	10.45	10.20
	PROPOSED	2.80	130.00	8.60	7.00	6.60	6.30	6.00
Fully Restricted	CURRENT	4.20	196.10	11.55	10.20	9.85	9.60	9.35
	PROPOSED	2.60	110.00	7.50	6.10	5.80	5.50	5.30

DOCKET NO. 7394

EXAMINER'S EXHIBIT A

ESSX-400 OPTIONAL FEATURE  
RATE COMPARISON

		1 MO.		MO- TO-MO.	12 MONTH	24 MONTH	36 MONTH	48 MONTH
		60 MOS.	1ST MO.					
Business Convenience Package	CURRENT* PROPOSED	.30	25.00	1.50	1.00	.95	.95	.90
Busy Verification, per system	CURRENT PROPOSED	1.90 .40	131.35 35.00	6.80 1.50	5.90 1.30	5.65 1.25	5.50 1.20	5.35 1.15
Call Forwarding- Busy Line, per Line	CURRENT PROPOSED	.05 .05	2.00 1.05	.15 .50	.10 .25	.10 .20	.10 .20	.10 .15
Call Forwarding- Don't Answer, per line	CURRENT PROPOSED	.40 .15	26.90 12.25	1.40 .80	1.25 .55	1.20 .50	1.15 .50	1.10 .45
Call Forwarding Variable, per line	CURRENT PROPOSED	.10 .05	4.80 1.65	.25 .50	.25 .25	.20 .20	.25 .20	.20 .15
Call Pickup per line	CURRENT PROPOSED	.20 .05	12.10 3.15	.65 .50	.55 .25	.55 .20	.55 .20	.50 .15
Call Waiting- Terminating per line	CURRENT PROPOSED	.25 .25	17.10 25.00	.90 1.00	.80 .90	.80 .85	.75 .80	.70 .80
Call Waiting- Intragroup per line	CURRENT PROPOSED	.35 .05	24.30 4.00	1.30 .20	1.10 .15	1.05 .15	1.05 .15	1.00 .15
Call Waiting- Originating, per line	CURRENT PROPOSED	.10 .05	4.10 4.00	.25 .20	.20 .15	.20 .15	.20 .15	.20 .15

\*This feature being introduced in this filing

ESSX-400 OPTIONAL FEATURE  
RATE COMPARISON

		1 MO.		MO- TO-MO.	12 MONTH	24 MONTH	36 MONTH	48 MONTH
		60 NOS.	1ST MO.					
Dial Call Waiting per line	CURRENT	.05	3.50	.20	.20	.15	.15	.15
	PROPOSED	.05	-	.10	.05	.05	.05	.05
Directed Call Pickup per line	CURRENT	.05	1.15	.10	.10	.05	.05	.05
	PROPOSED	.05	1.95	.50	.25	.20	.20	.15
Hunting -Circle, per line	CURRENT	.15	7.70	.45	.40	.35	.35	.35
	PROPOSED	.10	5.70	.25	.25	.20	.20	.20
-Preferential per list	CURRENT	.25	16.75	.90	.80	.75	.70	.70
	PROPOSED	.05	1.00	.10	.05	.05	.05	.05
Speed Calling-6 Codes per line	CURRENT	.05	2.50	.15	.15	.15	.15	.15
	PROPOSED	.05	-	.50	.25	.20	.20	.15
per arrangement	CURRENT	.20	10.85	.60	.50	.50	.50	.45
	PROPOSED	.05	1.15	.50	.25	.20	.20	.15
Speed Calling-30 Codes per line	CURRENT	.10	6.80	.40	.35	.30	.30	.30
	PROPOSED	.10	-	.50	.25	.20	.20	.15
per arrangement	CURRENT	.65	44.05	2.30	2.00	1.90	1.85	1.80
	PROPOSED	.05	3.95	.60	.35	.30	.30	.25
Station Toll Diversion per line	CURRENT	.15	10.30	.55	.50	.45	.45	.45
	PROPOSED	.30	30.00	1.30	1.10	1.10	1.00	.95
Station Toll Restriction per line	CURRENT	.20	12.75	.70	.60	.55	.55	.55
	PROPOSED	.05	4.00	.15	.15	.15	.15	.15

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**COMPARISON OF  
PRESENT AND PROPOSED  
RECURRING MONTHLY CHARGES**

<u>Rate Element</u>	<u>Quantity</u>	<u>Present Monthly Rate</u>	<u>Present Monthly Charge</u>	<u>Proposed Monthly Rate</u>	<u>Proposed Monthly Charge</u>
Basic Station	75	\$8.80	\$ 660.00	\$ 4.60	3.37 \$ 345.00
Station Line Facility	62	6.50	403.00	6.50	5.29 <u>403.00</u>
Rate Group 8 PBX TouchTone Trunk	13	50.30	653.90	50.30	<del>48.00</del> 653.90
Interstate EUCL	13	6.00	<u>78.00</u>	6.00	<u>78.00</u>
TOTAL			<u>\$1,794.90</u>		<u>\$1,479.90</u>
AVERAGE STATION RATE			\$23.92		\$19.73

~~11.15.78 JF~~

ESSX-400 BASIC STATION  
RATE/COST COMPARISON

		1 MO. 60 MOS. 1ST MO.		MO- TO-MO.	12 MONTH	24 MONTH	36 MONTH	48 MONTH
<b>Primary Location</b>								
Unrestricted	RATE	1.40	130.00	7.20	5.60	5.20	4.90	4.60
	COST	1.12	97.62	3.35	3.35	3.35	3.36	3.37
Fully Restricted	RATE	1.20	110.00	6.10	4.70	4.40	4.10	3.90
	COST	.94	82.18	2.81	2.81	2.81	2.83	2.84
<b>Remote Location- Contiguous Serving Office to Primary Location</b>								
Unrestricted	RATE	2.80	130.00	8.60	7.00	6.60	6.30	6.00
	COST	1.12	97.62	3.35	3.35	3.35	3.36	3.37
Fully Restrirted	RATE	2.60	110.00	7.50	6.10	5.80	5.50	5.30
	COST	.94	82.18	2.81	2.81	2.81	2.83	2.84
<b>Remote Location- Non-Contiguous Primary Location</b>								
Unrestricted	RATE	1.40	130.00	7.20	5.60	5.20	4.90	4.60
	COST	1.12	97.62	3.35	3.35	3.35	3.36	3.37
Fully Restricted	RATE	1.20	110.00	6.10	4.70	4.40	4.10	3.90
	COST	.94	82.18	2.81	2.81	2.81	2.83	2.84
<b>Off-Premises- Primary or Non- Contiguous Remote Location</b>								
Unrestricted	RATE	1.40	130.00	7.20	5.60	5.20	4.90	4.60
	COST	1.12	97.62	3.35	3.35	3.35	3.36	3.37
Fully Restricted	RATE	1.20	110.00	6.10	4.70	4.40	4.10	3.90
	COST	.94	82.18	2.81	2.81	2.81	2.83	2.84
<b>Off-Premises- Contiguous Remote Location</b>								
Unrestricted	RATE	2.80	130.00	8.60	7.00	6.60	6.30	6.00
	COST	1.12	97.62	3.35	3.35	3.35	3.36	3.37
Fully Restricted	RATE	2.60	110.00	7.50	6.10	5.80	5.50	5.30
	COST	.94	82.18	2.81	2.81	2.81	2.83	2.84

DOCKET NO. 7394

EXAMINER'S EXHIBIT B

1350



ESSX-400 OPTIONAL FEATURE  
RATE/COST COMPARISON

		1 MO. 60 MOS. 1ST MO.		MO- TO-MO.	12 MONTH	24 MONTH	36 MONTH	48 MONTH
Business Convenience Package	RATE	.30	25.00	1.50	1.00	.95	.95	.90
	COST	.24	19.97	.67	.67	.67	.69	.69
Busy Verification, per system	RATE	.40	35.00	1.50	1.30	1.25	1.20	1.16
	COST	.33	29.06	.99	.99	.99	1.00	1.00
Call Forwarding- Busy Line, per line	RATE	.05	1.05	.50	.25	.20	.20	.15
	COST	.01	.82	.03	.03	.03	.03	.03
Call Forwarding- Don't Answer, per line	RATE	.15	12.25	.80	.55	.50	.50	.45
	COST	.11	9.77	.33	.33	.33	.34	.34
Call Forwarding- Variable, per line	RATE	.05	1.65	.50	.25	.20	.20	.15
	COST	.02	1.32	.04	.04	.04	.04	.04
Call Pickup per line	RATE	.05	3.15	.50	.25	.20	.20	.15
	COST	.03	2.50	.08	.08	.08	.09	.09
Call Waiting- Terminating per line	RATE	.25	25.00	1.00	.90	.85	.80	.80
	COST	.22	19.36	.66	.66	.66	.66	.67
Call Waiting- Intragroup per line	RATE	.05	4.00	.20	.15	.15	.15	.15
	COST	.04	3.17	.11	.11	.11	.11	.11
Call Waiting- Originating, per line	RATE	.05	4.00	.20	.15	.15	.15	.15
	COST	.04	3.17	.11	.11	.11	.11	.11

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ESSX-400 OPTIONAL FEATURE  
RATE/COST COMPARISON

		1 MO. 60 MOS. 1ST MO.		MO- TO-MO.	12 MONTH	24 MONTH	36 MONTH	48 MONTH
Dial Call Waiting per line	RATE COST	.05 .01	- .07	.10 -	.05 -	.05 -	.05 -	.05 -
Directed Call Pickup per line	RATE COST	.05 .02	1.95 1.53	.50 .05	.25 .05	.20 .05	.20 .05	.15 .1
Hunting -Circle, per line	RATE COST	.10 .05	5.70 4.56	.25 .16	.25 .16	.20 .16	.20 .16	.20 .16
-Preferential, per list	RATE COST	.05 .01	1.00 .75	.10 .03	.05 .03	.05 .03	.05 .03	.05 .03
Speed Calling-6 Codes per line	RATE COST	.05 -	- -	.50 -	.25 -	.20 -	.20 -	.15 -
per arrangement	RATE COST	.05 .01	1.15 .89	.50 .03	.25 .03	.20 .03	.20 .03	.15 .03
Speed Calling-30 Codes per line	RATE COST	.10 -	- -	.50 -	.25 -	.20 -	.20 -	.1 -
per arrangement	RATE COST	.05 .04	3.95 3.14	.60 .11	.35 .11	.30 .11	.30 .11	.25 .11
Station Toll Diversion per line	RATE COST	.30 .27	30.00 24.18	1.30 .83	1.10 .83	1.10 .83	1.00 .83	.95 .83
Station Toll Restriction per line	RATE COST	.05 .04	4.00 3.10	.20 .11	.15 .11	.15 .11	.15 .11	.15 .11

1352

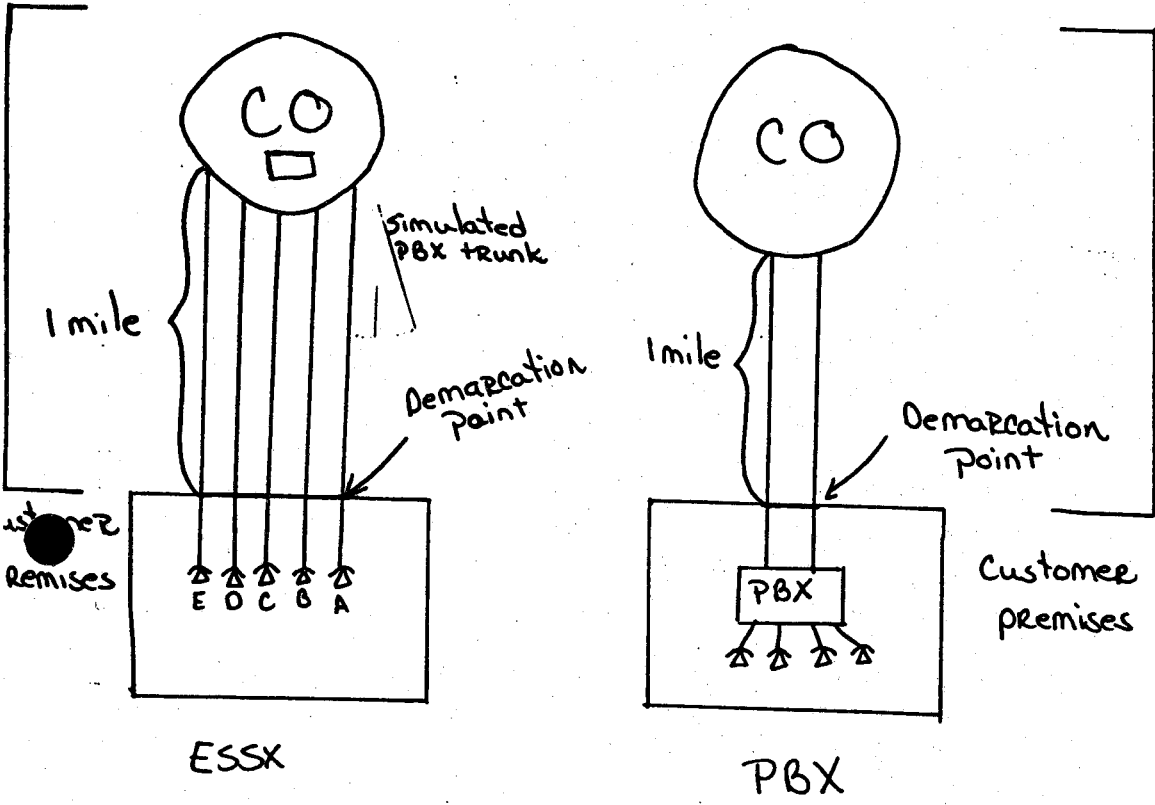
BASIC STATION RATES AND COSTS

	<u>60 Month Rate</u>	<u>60 Month Cost</u>
<b>Primary Location</b>		
Unrestricted	\$4.50	\$3.39
Fully Restricted	\$3.80	\$2.85
<b>Remote Location - Contiguous</b>		
Unrestricted	\$5.90	\$3.39
Fully Restricted	\$5.20	\$2.85
<b>Off-Premises - Primary</b>		
Unrestricted	\$4.50	\$3.39
Fully Restricted	\$3.80	\$2.85
<b>Off-Premises - Contiguous</b>		
Unrestricted	\$5.90	\$3.39
Fully Restricted	\$5.20	\$2.85

OPTIONAL FEATURES RATES AND COSTS

<u>Optional Feature</u>	<u>60 Month Rate</u>	<u>60 Month Cost</u>
Business Convenience Package	\$ .90	\$ .70
Busy Verification, Per System	1.10	1.01
Call Forwarding - Busy Line, Per Line	.15	.03
Call Forwarding - Don't Answer, Per Line	.45	.34
Call Forwarding - Variable, Per Line	.15	.05
Call Pickup, Per Line	.15	.09
Call Waiting - Terminating, Per Line	.75	.67
Call Waiting - Intragroup, Per Line	.15	.11
Call Waiting, Per Line	.15	.11
Dial Call Waiting, Per Line	.05	--
Directed Call Pickup, Per Line	.15	.05
Hunting - Circle, Per Line	.20	.16
Hunting - Preferential, Per Line	.05	.03
Speed Calling - 6 Codes, Per Line	.15	--
Speed Calling - Per Arrangement	.15	.03
Speed Calling - 30 Codes, Per Line	.15	--
Speed Calling - Per Arrangement	.25	.11
Station Toll Diversion, Per Line	.95	.84
Station Toll Restriction, Per Line	.15	.11

ATT-15  
Exhibit 3



DOCKET NO. 7394

APPLICATION OF SOUTHWESTERN BELL  
TELEPHONE COMPANY FOR AUTHORITY TO  
CHANGE RATES RELATING TO ESSX-400  
SERVICE

§  
§  
§  
§

PUBLIC UTILITY COMMISSION  
  
OF TEXAS

ORDER

In public meeting at its offices in Austin, Texas, the Public Utility Commission of Texas finds that, after statutory notice was provided to the public and interested persons, the application in this case was processed by an examiner in accordance with Commission rules and applicable statutes. An Examiner's Report containing Findings of Fact and Conclusions of Law was submitted, which report is hereby ADOPTED and made a part of this Order. The Commission further issues the following Order:

1. The application of Southwestern Bell Telephone Company (Bell) is hereby GRANTED in part and DENIED in part, as reflected by the terms of this Order.
2. Within twenty (20) days after the date of this Order, Bell SHALL file with the Commission five copies of all pertinent tariff sheets revised to incorporate all the directives of this Order, and SHALL serve one copy upon each party of record and the general counsel. Such tariff sheets shall reflect the retention of the sixty-month payment option and the rates for customers choosing such option which are shown in Examiner's Exhibit C. With those exceptions, such tariff sheets shall be in accordance with Bell's application in this docket. No later than ten (10) days after the date of the tariff filing by Bell, the general counsel shall file in writing the staff's comments recommending approval, modification or rejection of the individual sheets of the tariff proposal. No later than fifteen (15) days after

the date of the tariff filing by Bell, Bell shall file in writing any responses to the previously filed comments of general counsel and the staff. The Hearings Division shall by letter approve, modify or reject each tariff sheet, effective the date of the letter, based upon the materials submitted to the Commission under the procedure established herein. The tariff sheets shall be deemed approved and shall become effective upon expiration of twenty (20) days after the date they are filed, in the absence of written notification of approval, modification or rejection by the Hearings Division. In the event that any sheets are rejected, Bell shall file proposed revisions of those sheets in accordance with the Hearings Division letter within ten (10) days after the date of that letter, with the review procedures set out above again to apply. Copies of all filings and of the Hearings Division letter(s) under this procedure shall be served on all parties of record and the general counsel.

3. All motions, applications and requests for entry of specific findings of fact and conclusions of law as well as any other relief, general or specific, if not expressly granted herein, are DENIED for want of merit.

4. This Order is deemed effective on the date of signing.

SIGNED AT AUSTIN, TEXAS, on this the 13<sup>th</sup> day of August 1987.

PUBLIC UTILITY COMMISSION OF TEXAS

SIGNED: *Dennis L. Thomas*  
DENNIS L. THOMAS

SIGNED: *JD Campbell*  
JD CAMPBELL

I dissent. AT&T Information Systems, Inc. alleged that Bell's proposal violates the antidiscrimination provisions of Sections 38, 45 and 47 of the Public Utility Regulatory Act, Tex. Rev. Civ. Stat. Ann. art. 1446c (Vernon Supp. 1987). I was not persuaded by Bell's case in this respect, and would deny the application on that basis.

SIGNED: *Peggy Rosson*  
PEGGY ROSSON

ATTEST:

*Phillip A. Holder*  
PHILLIP A. HOLDER  
SECRETARY OF THE COMMISSION

1d



August 17, 1987

Utility's petition for increase in rates granted in part.

[1] RATEMAKING - COST OF SERVICE - FUEL AND PURCHASED POWER EXPENSE/REFUNDS

While Cooperative was required to make fuel refunds it received from its wholesale supplier, good cause existed for it to retain the fuel refunds and apply the increase in equity resulting from their retention as patronage capital.

[2] RATEMAKING - COST OF SERVICE - ACCOUNTING ADJUSTMENTS/RATE CASE AND APPEAL EXPENSE

The Commission did not agree with the examiner's exclusion of intervention rate case expenses and determined that such costs, although incurred prior to the Cooperative's test year, should be included in the Cooperative's cost of service and amortized over an appropriate period of time.

DOCKET NO. 7415

PETITION OF BLUEBONNET ELECTRIC  
COOPERATIVE, INC. FOR AUTHORITY  
TO CHANGE RATES

PUBLIC UTILITY COMMISSION  
OF TEXAS

EXAMINER'S REPORT

I. Procedural History

On March 2, 1987, Bluebonnet Electric Cooperative, Inc. (Bluebonnet, BEC or the Cooperative) filed with the Commission a statement of intent to increase its rates in the unincorporated areas in which it provides service. The Cooperative also filed its statement of intent with the municipalities in which it provides service contemporaneously with the instant filing. After being docketed, the case was assigned to Hearings Examiner Howard V. Fisher. Bluebonnet's application, if fully granted, would result in a system-wide annual revenue increase of \$4,757,694, or 14.2 percent annually, over adjusted test year revenues. The proposed rate increase would affect all of its customers. Bluebonnet used a test year of October 1, 1985 to September 30, 1986 as the basis for its application.

BEC published notice of the proposed rate increase once each week for four consecutive weeks in a newspaper of general circulation in each county containing service territory affected by the proposed changes, provided individual notice to its customers, and mailed notice to all affected customers and to the Commissioners' courts in each affected county. No interested persons intervened.

Pursuant to notice, a prehearing conference was convened by Examiner Fisher on March 24, 1987. At the prehearing conference, appearances were made by representatives of the Cooperative and the Commission staff. No other appearances were made. By order dated March 13, 1987, Examiner Fisher suspended implementation of the rate increase and other tariff changes beyond the otherwise effective date, pursuant to Section 43(d) of the Public Utility Regulatory Act (PURA or the Act), Tex. Rev. Civ. Stat. Ann. art. 1446c (Vernon Supp. 1987) for 150 days ending September 4, 1987, or until superseding order of the Commission.

On March 24, 1987, the General Counsel filed a motion alleging a material deficiency in the Cooperative's rate filing package in that BEC failed to file an Energy Efficiency Plan pursuant to P.U.C. SUBST. R. 23.22(c). On April 2, 1987, Bluebonnet filed an Energy Efficiency Plan in response to the general counsel's motion.

On June 3, 1987, this case was reassigned to the undersigned examiner. This examiner presided over the hearing on the merits and has read the record in this case and serves as the lawful replacement for Examiner Fisher under Section 15 of the Administrative Procedure and Texas Register Act (APTRA), Tex. Rev. Civ. Stat. Ann. art. 6252-13a (Vernon Supp. 1987).

Pursuant to notice, the hearing on the merits was convened on June 22, 1987, and adjourned on June 23, 1987. Appearances were entered by Earnest Casstevens for the Cooperative and George M. Fleming for the staff and the public interest. There were no other appearances entered. The parties had attempted to reach a stipulation in this case but due to the number of contested issues in this case, none was reached. The Cooperative and the Commission staff filed testimony in this case. The Cooperative was also permitted to late file exhibits regarding its compliance with published and individual notice requirements.

On June 29, 1987, Bluebonnet appealed the rate making ordinance of the City of Manor, which denied Bluebonnet's request in its entirety. The appeal was docketed in Docket No. 7568. Because the appeal was filed after the hearing on the merits had been concluded in this case, the appeal was not consolidated with the instant docket.

On July 10, 1987, the Cooperative and the general counsel filed initial briefs in this case. On July 17, 1987, the Cooperative and the general counsel filed reply briefs.

## II. Jurisdiction

Bluebonnet is a public utility as that term is defined in Section 3(c)(1) of PURA. The Commission has jurisdiction over this proceeding pursuant to Sections 16(a), 17(e), 37 and 43(a) of PURA.

## III. Description of Company

Bluebonnet is a distribution cooperative which provides electric utility service to approximately 45,381 customers within the counties of Austin, Bastrop, Burleson, Caldwell, Colorado, Fayette, Guadalupe, Hays, Lee, Travis, Washington, and Williamson. Bluebonnet's existing system consists of 8,991 miles of distribution line, and 66 miles of 69-kV and 138-kV framed/69-kV operated transmission line. Twenty-five substations supply distribution power to its customers. The Cooperative's energy needs are supplied by the Lower Colorado River Authority (LCRA).

## IV. Quality of Service

### A. Staff Position

The Cooperative's quality of service is generally adequate. Staff utility specialist Mel Eckhoff, Jr. testified that he reviewed four factors to determine the Cooperative's quality of service. First, the Commission received no quality of service complaints against Bluebonnet during the test year. While such fact is not indicative of the lack of quality of service problems, it does demonstrate that BEC's customers did not feel the need to resort to this Commission for resolution of their complaints. Second, the annual average hours of service interruptions for the period 1981-1985 was 3.3 hours per customer per year. Mr. Eckhoff testified that this outage time is not excessive compared to averages of other cooperatives. Third, the Cooperative's records do not reflect an excessive number of circuit breaker operations which would occur if the circuit is overloaded or when a short circuit occurs. Fourth, Mr. Eckhoff

reviewed the Cooperative's voltage survey records and found nothing which would be indicative of a problem.

Regarding Bluebonnet's quality of service in customer-service related areas, staff consumer analyst Paul G. Irish testified that the Cooperative's overall performance was adequate. During the test year, the Consumer Affairs Division of the Commission received seven consumer complaints, which primarily consisted of billing disputes and complaints regarding delays in obtaining service. The Commission also received four individual rate protests. The Cooperative itself received a total of 428 complaints (205 regarding billing, 72 regarding fuel charges, and 48 regarding damages) during the test year which were resolved without Commission involvement. BEC estimated that approximately 20 percent of the 428 complaints could more properly be classified as inquiries.

Mr. Irish reviewed the Cooperative's tariffs which included its service rules and regulations. Mr. Irish recommended the following changes to the Cooperative's tariff. Mr. Irish's proposed language is reflected in capital letters and his proposed word deletions are shown in brackets.

1. Section II, Sheet No. 29, Item 208.4.

Mr. Irish recommended that the Cooperative modify the language in this provision to reflect the proper citation to the current substantive rule. With this change, the tariff would read as follows:

4. In accordance with the Public Utility Commission of Texas Substantive Rule [ 0.52.02.04.048(b) ] 23.44(b)(1), the consumer shall be advised that the connecting electric utility may not provide service to said consumer until such connecting utility has evidence that the consumer has paid all charges provided for under this tariff.

2. Section II, Sheet No. 34, Item 209.E.

Mr. Irish recommended that the words "Commercial or Industrial" be added at the end of the sentence before the word "bill." This wording will bring

the item in compliance with P.U.C. SUBST. R. 23.45(b), which expressly prohibits any penalty for delinquent residential accounts. Similarly, Mr. Kol recommended that BEC not be permitted to impose a five percent penalty to late paid residential bills because such would be in contravention to the above rule. With this change, the tariff would read as follows:

E. Delinquent Accounts.

The Cooperative may assess a one-time penalty not to exceed five percent (5%) on each delinquent COMMERCIAL OR INDUSTRIAL bill.

3. Section III, Sheet No. 36, Item 5.

Mr. Irish recommended that the two sentences in Item 5 be deleted and replaced with wording that more clearly delineates the responsibilities of both the cooperative and the applicant in obtaining easements. He noted that his proposed paragraph has become standard wording in several other tariffs recently approved by the Commission. With these changes, the tariff would read as follows:

5. APPLICANTS SHALL GRANT OR SECURE TO THE COOPERATIVE AT THE APPLICANT'S EXPENSE AN EASEMENT, THE FORM AND CONTENT OF WHICH IS SATISFACTORY TO THE COOPERATIVE. THE FORM OF AN ACCEPTABLE UTILITY EASEMENT IS CONTAINED IN SECTION IV OF THIS TARIFF. THIS FORM MAY BE ALTERED BY THE MEMBER OR GRANTOR AND THE COOPERATIVE TO FIT PARTICULAR CIRCUMSTANCES. IN THE EVENT THE APPLICANT IS NOT ABLE TO SECURE AN EASEMENT ACCEPTABLE TO THE COOPERATIVE AFTER REASONABLE ATTEMPTS, THE COOPERATIVE SHALL EXERCISE ITS POWER OF EMINENT DOMAIN AT THE EXPENSE OF THE APPLICANT.

4. Section III, Sheet No. 42, Item 304.A.

Mr. Irish recommended that the entire item entitled "Meter Inspection" be deleted because of references to inspection fees. Bluebonnet already has a membership fee (Section III, Sheet No. 44, Item A), a connection charge (Section III, Sheet No. 46, Item C), a trip fee (Section III, Sheet No. 48, Item B), and a reconnect fee (Section III, Sheet No. 41, Item D). In his

opinion, if the Cooperative needs to inspect customer facilities, the cost of the service should be covered by one of those four charges.

5. Section III, Sheet No. 44, Item 305.

For reasons outlined in the previous recommendation, Mr. Irish recommended deleting Item f, "Wiring Inspection Fee (not required for water and oil well)."

6. Section III, Sheet No. 45, Item B.

Mr. Irish recommended that the entire section on Consumer Deposits be rewritten to bring it into compliance with the Commission's rules and policies. He recommended that the revision be patterned after Item 304 of Kimble Electric Cooperative's (Kimble) tariff, which was approved by the Commission in December, 1986, and which appears as an appendix to his testimony. BEC's revisions should address the following problems Mr. Irish perceived in Bluebonnet's proposed item relating to Consumer Deposits:

- a. While the title appears to focus this item on deposit policies for all cooperative consumers, Mr. Irish found the wording in the first paragraph to imply that the Cooperative will seek deposits on commercial, industrial, temporary, and seasonal service customers only.
- b. Phrases in the first paragraph like "unless waived" and "if it appears in the best interest of the Cooperative" are too vague and subjective in Mr. Irish's opinion, which could lead to discriminatory application of deposit policies.
- c. The Cooperative omitted an explanation of the option a utility must offer residential customers regarding the establishment of credit in lieu of making a deposit pursuant to P.U.C. SUBST. R. 23.43.
- d. Also omitted from this item was an explanation of the role residential customers can play in determining the appropriate amount for an initial deposit. Mr. Irish pointed to the Commission's decision in Docket No. 6510, Application of Grayson-Collin Electric Cooperative, Inc. for Authority to Change Rates,

wherein the Commission required the Cooperative to include such a provision in its tariff.

- e. Paragraph three states that interest on deposits will accrue "provided that the deposit is retained by the Cooperative in excess of thirty (30) days." However, Tex. Rev. Stat. Ann. art. 1440a provides that interest on customer deposits shall accrue from the date of deposit.

7. Section III, Sheet No. 50, Item 306. E.

In paragraph two, line five, Mr. Irish recommended adding the following phrase after the word "notice": "provided that one disconnect/termination notice has been issued for the payment in question." He further testified that this change would bring this item in compliance with P.U.C. SUBST. R. 23.46(b). With the change, this item would read as follows:

E. Insufficient Checks.

Insufficient checks returned by the bank will be immediately charged back to the customer's account. The consumer will be notified by letter of the deficiency and given five (5) days to settle the account. Any consumer who consistently gives such checks will be charged a \$10.00 handling charge for the checks returned by the bank.

In those cases where the member habitually and regularly pays by checks that are insufficient and in those cases where an insufficient check is received in payment of an insufficient check, then the account may be disconnected without further notice, PROVIDED THAT ONE DISCONNECT/TERMINATION NOTICE HAS BEEN ISSUED FOR THE PAYMENT IN QUESTION.

8. Section III, Sheet No. 54, Item 306.K.

Mr. Irish recommended striking all references to an inspection fee in this item for the reasons outlined in his discussion on meter inspections. With these deletions, the tariff would read as follows:

K. Wiring Inspection Program.

A wiring inspection shall be required of all new locations. The inspection shall consist of an inspection of the meter loop, to take place at the time the account is connected to the



Cooperative system. [ A \$15.00 fee shall be charged for the service. ] In the event that the meter loop does not pass inspection, the job will be turned down and will be reinspected following the necessary corrections. [ The reinspection will result in an additional \$5.00 charge. ]

A copy of the meter loop specifications will be provided at the time application for electric service is made.

The inspection will be conducted by Cooperative personnel or by an agent designated by the Cooperative.

9. Section III, Sheet No. 56, Item 306.0.

Mr. Irish recommended two changes to this portion of BEC's tariff to bring it in compliance with P.U.C. SUBST. R. 23.45(h)(2), which requires a customer to pay only the monthly average of the undisputed portion of a bill while it is being investigated by the cooperative and not the entire amount of the disputed bill. Additionally, he recommended that the provision should be clarified to indicate what portion of a disputed bill the consumer is responsible for paying and how that amount will be calculated. With these changes, the tariff would read as follows:

0. Disputed Bills.

If a consumer gives notice at the Cooperative's office prior to the time that payment is due that the correctness of the bill is in dispute, stating reasons therefor, the Cooperative will promptly investigate the complaint. However, such notice disputing correctness of a bill shall not be sufficient reason(s) for withholding payment OF THE UNDISPUTED PORTION OF THE BILL. If the bill is found to be incorrect, the Cooperative will refund the amount of overpayment or credit the amount of overpayment to the next bill rendered.

THE CONSUMER SHALL NOT BE REQUIRED TO PAY THE DISPUTED PORTION OF THE BILL WHICH EXCEEDS THE AMOUNT OF THAT CONSUMER'S AVERAGE MONTHLY USAGE AT CURRENT RATES PENDING THE COMPLETION OF THE DETERMINATION OF THE DISPUTE BUT IN NO EVENT MORE THAN 60 DAYS. FOR PURPOSES OF THIS RULE ONLY, THE CONSUMER'S AVERAGE MONTHLY USAGE AT CURRENT RATES SHALL BE THE AVERAGE OF THE CONSUMER'S GROSS UTILITY SERVICE FOR THE PRECEDING 12-MONTH PERIOD. WHERE NO PREVIOUS USAGE HISTORY EXISTS, CONSUMPTION FOR CALCULATING THE AVERAGE MONTHLY USAGE SHALL BE ESTIMATED ON THE BASIS OF USAGE

LEVELS OF SIMILAR CUSTOMERS AND UNDER SIMILAR CONDITIONS.  
[Emphasis Added.]

10. Section IV, Sheet No. 75, Item 401, Application for Service--Form #643.

Mr. Irish recommended striking the reference to a wiring inspection fee listed under "Fees Required" for reasons outlined in the recommendations regarding meter inspections. The deletion would include the third item that reads "\$15.00 Wiring Inspection, required for all new locations (Non-Refundable after inspection made)."

11. Section IV, Sheet No. 78, Item 401, Application for Service -- Form #643, Wiring Release Form #671.

Mr. Irish recommended striking the reference to the inspection fee in the lower left corner of the form. Deletions would include "Inspection Fee of \$15.00 Paid" and "Receipt No." for the same reasons noted above.

12. Section IV, Sheet No. 79, Item 402.

In this easement form, Mr. Irish recommended that additional language be inserted between the paragraph beginning "It is further understood that", and the paragraph beginning "This written easement." This addition would read as follows:

[ ] IF THIS BLOCK IS CHECKED, GRANTOR EXPRESSLY GRANTS TO THE COOPERATIVE THE RIGHT TO USE THE EASEMENT FOR TRANSMISSION OF HIGH VOLTAGE ELECTRICITY INCLUDING ELEVATED TOWERS AND STRUCTURES. DO NOT CHECK THIS BLANK IF HIGH VOLTAGE TRANSMISSION SERVICE IS NOT CONTEMPLATED.

13. Section IV, Page No. 2, Agreement for Electric Service, American Pipeline Company, Item 2.

Mr. Irish recommended that the following language be added after the sentence ending with the word "facilities" to define responsibilities of

both the cooperative and the applicant in situations where an easement cannot be obtained by an applicant. With this wording, Item 2 would read as follows:

2. Easements.

Consumer shall provide Seller with executed and acknowledged easements for all rights-of-way required on Consumer's land, mutually agreed upon by the parties for required facilities as determined by Seller. Seller shall obtain all other rights-of-way for any required facilities. IN THE EVENT THE APPLICANT IS NOT ABLE TO SECURE AN EASEMENT ACCEPTABLE TO THE COOPERATIVE AFTER REASONABLE ATTEMPTS, THE COOPERATIVE SHALL EXERCISE ITS POWER OF EMINENT DOMAIN AT THE EXPENSE OF THE APPLICANT.

B. Cooperative Position

The Cooperative disagreed with a number of the staff's recommendations to its tariff. First, regarding Section II, Sheet No. 34, Item 209.E, the Cooperative requested that it be permitted to impose a 5 percent late payment penalty on all delinquent bills, to include those for residential customers. As Mr. Henry Umscheid, General Manager for Bluebonnet, explained approximately eighteen percent of all residential bills become delinquent each month. The Cooperative's purpose in imposing the penalty is not to derive revenue but to provide some incentive for the timely payment of bills. Mr. Umscheid testified that at the 1985 and 1987 annual meetings, the membership agreed that the Cooperative should petition the Commission for approval of this late payment charge.

Second, regarding Section III, Sheet No. 36, Item 5, Bluebonnet witness David Peterson opined that language regarding altering the easement form or the imposition of eminent domain is unnecessary because the Cooperative's policy and Commission substantive rules already provide for this action.

Third, Mr. Peterson testified that regarding Section III, Sheet No. 42, Item 304.A, the wiring inspection fee is necessary because the fee covers transportation costs, labor costs and inspection of the customers' loop. Moreover, Mr. Umscheid indicated that while the section refers to "meter

inspection," it should be entitled "wire inspection." Mr. Peterson further testified that the wiring inspection fee does not result in the double recovery of costs. In addition, Mr. Peterson testified that the wiring inspection fee provides the Cooperative a means to assure that the customer's wiring is in compliance with electrical code requirements.

Fourth, regarding Section III, Sheet No. 44, Item 305, Mr. Peterson stated this fee is appropriate for the reasons stated above except that the phrase "(not required for water and oil well)" should be deleted.

Fifth, regarding Bluebonnet's Customer Deposit policy, Section III, Sheet No. 45, Item B, Mr. Peterson indicated that a deposit is required on all accounts unless waived by the Cooperative's Board of Directors. He further indicated that if a customer for permanent residential service satisfactorily establishes credit, such customer will not be required to pay a deposit. As to the interest payment, which is accrued at the rate of 6 percent per annum, Mr. Peterson indicated that it will be paid annually if requested by the member or at the time the deposit is returned or credited to the member's account.

Sixth, regarding Section III, Sheet No. 54, Section Item 306.K, Section III, Sheet No. 75, Item 401, Application for Service -- Form #643, and Section IV, Sheet No. 78, Item 401, Application for Service -- Form #643, Wiring Release Form #671, Mr. Peterson maintained his position regarding wiring inspection fee.

Seventh, regarding Section IV, Sheet No. 79, Item 402, Mr. Peterson indicated that the staff proposed check-off block would only confuse and alarm its members. Moreover, the cooperative maintains a separate form and obtains separate easements for transmission rights-of-way.

Eighth, regarding Section IV, Page No. 2, Agreement for Electrical Service, American Pipeline Company, Item 2, Mr. Peterson testified that the contract is already executed and cannot be amended. Moreover, the power of eminent domain already exists in the Commission's substantive rules.

The Cooperative did not oppose Mr. Irish's other recommendations.

C. Examiner's Discussion and Recommendation

Both Mr. Eckhoff and Mr. Irish found BEC's quality of service to be adequate. The examiner concurs. A dispute, however, arose regarding the Cooperative's proposed service rules and regulations.

The Cooperative did not object to Mr. Irish's recommendations regarding the following items in its tariff. The examiner finds that the recommended modifications are reasonable and appropriate for the reasons stated by Mr. Irish:

Section II, Sheet No. 29, Item 208.4

Section III, Sheet No. 50, Item 306E

Section III, Sheet No. 56, Item 306.0.

Only two minor changes are necessary to Mr. Irish's recommendations and they are to Section III, Sheet No. 50, Item 306.E. and Section III, Sheet No. 56, Item 306.0. First, the examiner recommends modifying paragraph 2 of Section III, Sheet 50, Item 306.E to clarify the language in this paragraph. The paragraph should read as follows:

In those cases where the member habitually and regularly pays by checks that are insufficient, and where a customer pays his bill with an insufficient check, and then subsequent to receiving notice of this fact, repays the same bill with another insufficient check, the Cooperative may disconnect the customer without further notice, provided that one disconnect/termination notice has been issued for the payment in question.

Second, in Section III, Sheet No. 56, Item 306.0, Mr. Irish recommended that the billing of a disputed bill should be made pursuant to a "Rule". However, that rule is not specified in the body of the language of his modification. The examiner thus recommends inclusion of the following language to clarify Mr. Irish's modification: "In compliance with P.U.C. SUBST. R.

23.45(b)(2), the consumer's average monthly usage..." With such modification, the examiner concurs with Mr. Irish's recommendations.

The examiner further makes the following recommendations:

1. Section II, Sheet No. 34, Item 209.E.

While the Cooperative requested Commission approval to charge a 5 percent penalty for delinquent residential bills, the examiner recommends denial of the request for three reasons. First, the Commission has established a policy that prohibits a late payment penalty on residential bills. Such policy is abundantly clear from P.U.C. SUBST. R. 23.45(b). Second, the examiner readily admits that whether good cause exists pursuant to P.U.C. SUBST. R. 23.2 to allow Bluebonnet to deviate from this rule is a judgment call. An eighteen percent level in delinquent payments for residential customer bills, however, is not so onerous to require an exception from the Commission's general rule. Third, in light of Mr. Umscheid's testimony that the request is not made to garner additional revenues for the Cooperative, denial of the request would not harm the operating ability of the Cooperative.

2. Section III, Sheet No. 36, Item 5

The examiner recommends adoption of the staff's proposed modification to this item. The Cooperative, in its rebuttal testimony, did not object to the language per se recommended by the staff. The Cooperative merely pointed out that the purpose of the staff's recommendation is already reflected in Bluebonnet's policy and Commission rules. Because the Cooperative intends to comply with the language as recommended by the staff, it is a better practice to expressly delineate this intent so that both the Cooperative and its customers have a clear understanding of their respective rights and obligations.

3. Section III, Sheet No. 42, Item 304.A.

The examiner was not persuaded that the Cooperative has not inadvertently double counted some costs in imposing its wiring inspection fee. Specifically, Mr. Peterson indicated that the wiring inspection fee consists of transportation costs, labor costs, and inspection of the customer's meter loop. Yet the Cooperative's connection fee, reconnect fee, and trip fee all contain transportation costs. (Coop. Exhibit No. 9 at 8-9.) At the hearing, Mr. Peterson indicated that only one employee would be sent to, for example, conduct a connection and wire inspection. While Bluebonnet insisted that no double counting of costs would be made in such a circumstance, the examiner is not persuaded that such is indeed the fact; the record reflects that a double counting for at least transportation costs will occur. Although the purpose of the wiring inspection fee is valid - that of ascertaining that the wiring at certain premises was done in accordance with electrical codes, the examiner cannot recommend approval of the fee in light of the double counting of costs and thus recommends its denial.

4. Section III, Sheet No. 44, Item 305.

The examiner makes the same recommendation as 3 above. However, should the Commission approve the tariff revision regarding wiring inspection, the Cooperative has amended its application to delete the phrase "(not required for water and oil well)" from this item.

5. Section III, Sheet No. 45, Item B.

The examiner is persuaded that the Cooperative's proposed language regarding customer deposits is not expressly delineated in this item. Mr. Peterson testified as to certain policies and practices adhered to by the Cooperative which, in his opinion, would correspond to the concerns raised by Mr. Irish in his recommendations. Nevertheless, the policies or practices of Bluebonnet should be expressly noted in the Cooperative's written tariffs so that all of its customers and BEC itself clearly understand their rights and

obligations. Bluebonnet, in its brief, did not so much object to Mr. Irish's recommendations, but rather objected to being required to mirror the approved tariff provision regarding customer deposits found in Item 302 of Kimble's tariff. (Although Mr. Irish noted such provisions as Item 304 in his testimony, the Item regarding establishment of credit for Kimble is numbered Item 302, which provisions are appended to Mr. Irish's testimony.) While not recommending that the Cooperative mirror word for word the tariff provision on customer deposits found in Kimble's tariff, the examiner recommends that the Cooperative reduce to writing its practices and policies regarding customer deposits so that its written tariffs clearly reflect that Bluebonnet is in compliance with P.U.C. SUBST. R. 23.43. In that regard, Bluebonnet should address and incorporate in its tariff revisions those recommendations regarding customer deposits reflected on pages 10-11 of Mr. Irish's testimony.

6. Section III, Sheet No. 54, Item 306.K.

For the reasons discussed in 3 above, the examiner recommends adoption of Mr. Irish's recommendation except for one portion. The following language should remain in the Cooperative's proposed tariff to reflect the Cooperative's incurrence of reinspection fees: "The reinspection will result in an additional \$5.00 charge."

7. Section IV, Sheet No. 75, Item 401.

Section IV, Sheet No. 78, Item 401.

For the reasons discussed in 3 above, Mr. Irish's recommendations to these provisions should be adopted.

8. Section IV, Sheet No. 79, Item 402.

The examiner recommends that the Cooperative's easement form remain unchanged. Because the Cooperative has a separate form to secure easement rights for transmission rights-of-way, inclusion of the staff's proposed language is not only unnecessary but may confuse or alarm Bluebonnet's members.



9. Section IV, Page No. 2, Agreement for Electric Service, American Pipeline Company, Item 2.

The examiner recommends that the contract remain unchanged because it is already in force. No evidence was introduced at the hearing to demonstrate that the Cooperative need consider an amendment to the contract.

V. Energy Efficiency Plan

A. Cooperative Position

Mr. Peterson testified as to the Cooperative's efforts in conservation. Bluebonnet's Energy Efficiency Plan (EEP) is comprised of BEC's utility controlled options and end-user programs. The Cooperative's End-User programs consist of the Energy Audit Program, the Air Conditioning (A/C) and Heat Pump (H/P) Rebate Program, the Good Cents Program and the Commercial Lighting Program.

The Energy Audit Program consists of inspecting the members' premises and recommending certain actions which would render the residences more energy efficient. BEC offers the A/C and H/P rebate program to its members in an attempt to improve the efficiency of the cooling units and thus reduce the demand on the system. While BEC administers the program, LCRA actually pays the rebates associated with these programs.

The Good Cents Program is also administered by BEC, with LCRA sponsoring the program. The program is designed to improve the energy efficiency level of new home construction. To date, no data are available on this program.

The Commercial Lighting Rebate Program is a new program which LCRA sponsors and Bluebonnet administers. It is designed to reduce kW consumption by reducing lighting loads.

The Cooperative, in furtherance of its energy efficiency plan, provides its members a newsletter which informs them of different measures by which energy can be conserved. BEC also provides demonstrations and presentations which encourage conservation. BEC further participates in two experimental programs involving water heaters. One test includes measuring performance of water heaters; the other includes controlling water heater switches. To date, no data are available.

Mr. Peterson additionally testified that the Cooperative is involved in a number of utility controlled options, which have consistently resulted in reduction in line losses to the system over the last several years. Such programs also optimize the Cooperative's operations through consistent low outage times. These programs are the Transformer Loss Evaluation, Economic Conductor Use, Meter Maintenance and Testing, Substation Delivery Point Evaluations, Delivery Point Analysis, Distribution Voltage Conversions, and SCADA system.

Mr. Peterson, in his rebuttal testimony, noted that any capacity savings BEC experiences has a direct effect on LCRA's generation. While no specific goals were stated in his plan, implicitly, the goal in conservation is to provide energy savings to the consumer which will benefit the utility. Regarding BEC's methods to evaluate energy savings, he indicated that the cost of such measures for the Energy Audit Program outweighs the costs of measuring such program. Because the Commercial Lighting and Good Cents Program have recently been implemented, data on participation levels do not exist. Mr. Peterson further noted that the Cooperative maintains an accounting system to reflect the costs of its various programs.

#### B. Staff Position

Staff witness Carol Biedrzycki testified regarding the Cooperative's conservation and load management activities. Conservation reduces a customer's energy use requirements through more efficient utilization. Load management regulates the operating hours of equipment to restrict its use during peak

hours. Ms. Biedrzycki reviewed the Cooperative's end-user plans which focussed upon customer conservation and load management. She did not review BEC's utility-controlled options.

Ms. Biedrzycki had a number of comments regarding BEC's filing. She noted that Bluebonnet did not delineate its goals for its conservation programs in its Energy Efficiency Plan. Further, BEC relied on LCRA's data which is not separated to reflect the impact on each cooperative on LCRA's system. Ms. Biedrzycki further noted that the test year administrative costs of LCRA were \$27,126, with test year costs relating to the Energy Audit Program of \$10,080. These costs exclude any transportation or material costs related to these programs.

The Cooperative did provide benefit/cost data and analyses for its Cooling Efficiency, Commercial Lighting and Good Cents Programs; the data it does have were obtained from LCRA. No data were provided for its Energy Audit Program. She explained that because of LCRA's role in BEC's conservation programs, i.e. LCRA's participation in rebate programs, the benefit/cost formula was modified to reflect this relationship. Such modification, however, still provided valid results. Ms. Biedrzycki found that the programs' benefits exceeded their costs.

As to the Cooperative's compliance with P.U.C. SUBST. R. 23.22, Ms. Biedrzycki testified that Bluebonnet should establish goals that are compatible with those of LCRA and provide more detail as to the goals selected and status of those goals. Moreover, she noted that BEC's process and criteria for program selection is not reflected in its Energy Efficiency Plan. She suggested that BEC determine its conservation potential independently of LCRA, work to maximize LCRA's programs and supplement them with its own programs, and supply its data to LCRA, which would be included in LCRA's capacity resource plan filed with the Commission. She further suggested that BEC provide data for benefit/cost analysis for its Energy Audit program and for its test and demonstration programs. Ms. Biedrzycki noted that, with the exception of customer participation data, BEC relies solely upon LCRA for data; the data provided by LCRA are system-wide and not BEC specific. Ms. Biedrzycki stated that BEC

should be conducting independent evaluations of the impact of its programs on Bluebonnet.

Ms. Biedrzycki also found deficient Bluebonnet's accounting system to track the costs of its conservation and load management programs. She believed it appropriate for BEC to establish separate accounts for each program and include in its Energy Efficiency Plan a description of the system used to ensure the proper accounting of all program costs. She further suggested that BEC project a budget for costs associated with its programs.

Ms. Biedrzycki recommended that BEC be allowed to recover its test year costs for its conservation and load management programs. She further recommended the following actions:

1. BEC evaluate all conservation alternatives for its service area to determine conservation potential;
2. BEC collect end-use data for all classes of customers to identify conservation options;
3. BEC comply with accounting provisions set forth in P.U.C. SUBST. R. 23.22;
4. BEC study impacts of all programs offered to its customers, whether offered exclusively by BEC or in conjunction with LCRA; and
5. BEC supply its program evaluation data to LCRA in conjunction with LCRA's capacity resource plan and program planning.

C. Examiner's Discussion and Recommendation

BEC has attempted to conserve its energy sources by offering certain conservation programs and by implementing certain utility-controlled options. The examiner concurs with the staff recommendation that Bluebonnet be permitted

to recover in its cost of service the expenses associated with its energy efficiency efforts which total \$37,206. She further makes the following recommendations regarding BEC's energy and conservation efforts. First, the Cooperative should evaluate all conservation alternatives for its service area to determine conservation potential.

Second, pursuant to P.U.C. SUBST. R. 23.22, BEC should delineate goals for its conservation programs listed in its Energy Efficiency Plan and include in its next filed Energy Efficiency Plan detailed analysis as to how the goals were selected, the status of the goals, and the process and criteria utilized in its program selection.

Third, BEC should collect end-use data for all classes of customers to identify conservation options. Such data should be collected so that the Cooperative can determine the impact of conservation on its customers without relying solely upon LCRA data, which are not Bluebonnet specific.

Fourth, in conjunction with collecting data, BEC should study the impact of all programs offered to its customers, to include benefit/cost analyses, whether offered exclusively by BEC or in conjunction with LCRA. At the hearing Mr. Peterson testified that the Cooperative had not undertaken such endeavor, i.e. obtained and utilized BEC specific data, due to the costs involved. However, an inexpensive method, that of analyzing billing records, would be possible if two years of data were available. Mr. Peterson indicated that such method could possibly be used when two years of data become available for its Energy Audit Program, Cooling Efficiency (A/C and H/P) Program, Commercial Lighting, Water Heater Cycle Test and Good Cents Program. While BEC should undertake such an endeavor, the examiner recommends that BEC determine from the alternatives it finds available, such as that described above, the best means by which it can measure the success of its programs without incurring an unreasonable level of costs.

Fifth, BEC should supply its program evaluation data to LCRA in conjunction with LCRA's capacity resource plan and program planning unless such data are of a proprietary nature and adequate protection cannot be accorded.

And sixth, BEC's next-filed Energy Efficiency Plan should contain a detailed description of the specific accounts to be used and the cost-accounting system to be employed to ensure that the costs of the various programs are accurately and separately identified as required under P.U.C. SUBST. R. 23.22(b)(8). At the hearing, Mr. Peterson testified that BEC had established accounts for its programs. In his rebuttal testimony, he testified that account numbers had been assigned to the Commercial Lighting Program, the Good Cents Program and the Water Heater Cycling Program. (Coop. Ex. No. 9 at 5.)

It is not clear from the record that accounts have been established for all of the Cooperative's programs. P.U.C. SUBST. R. 23.22(b)(8) requires the establishment of a system of accounts for all of a utility's programs, regardless of whether the program has incurred significant costs. The system of accounts must be in place so that when and if costs are incurred, all costs can be accurately verified. For example, implicit in all of the Cooperative's programs is some level of administrative costs necessarily incurred to manage the programs. Thus, these costs should be reflected in the Cooperative's system of accounts for each of its programs.

## VI. Invested Capital

### A. Net Plant in Service

#### 1. Original Cost of Plant in Service

##### a. Staff Position.

Staff accountant Jim Benner and Staff engineer Mel Eckhoff, Jr. made several adjustments to the Company's test year plant in service figure of \$80,904,938.00. First, Mr. Benner removed \$144,399 from BEC's plant in service.

This amount represented a prior period adjustment which resulted from over accruing compensatory leave. Mr. Benner indicated that the Cooperative arbitrarily created the prior period adjustment to open Construction work in Progress (CWIP) work orders. He further indicated that the original work order to which the leave accruals related was not specifically identified, although the leave accruals were applicable for the period 1978 to 1984. The Cooperative's test year end CWIP balance consisted of work orders after July 1985. Therefore, Mr. Benner testified that it was reasonable to assume that the CWIP work orders issued prior to July 1985 have been completed and closed to Plant in Service prior to the test year. Because the prior period adjustment for leave over accrued is therefore related to work orders that have been closed to Plant in Service which were closed prior to the test year, he testified that the prior period adjustment should be removed from BEC's plant in service.

Second, Mr. Eckhoff agreed with Bluebonnet that reclassification from CWIP of \$2,415,506 to plant in service is appropriate to the extent the plant was in use and useful at the end of the test year, but had not yet been transferred to plant accounts. Although Bluebonnet had transferred the entire amount of \$2,415,506 from CWIP to plant in service, Mr. Eckhoff made several adjustments to the reclassified CWIP. He disallowed \$358,714 of the reclassified CWIP as not being used and useful. Mr. Eckhoff removed \$348,361 of the \$358,714 for a Bastrop District Office which was completed in the last month of the test year but which was not fully occupied until several months later. Mr. Eckhoff also disallowed \$10,353 for a distribution line which was completed in the month following the test year. The total staff recommended plant in service figure is \$82,700,818.

b. Cooperative Position.

The Cooperative concurred with the Staff adjustment to distribution plant in the amount of \$144,399. The Cooperative also did not oppose the \$10,353 adjustment for the distribution line. BEC did oppose the \$348,361 adjustment for the Bastrop District Office.

Mr. Umscheid testified that the building in question was totally completed during the test year. Only the paving around the front of the building, including the drive-up customer window, was not completed and thus that area was not open to the public. Due to inclement weather, paving could not be completed during the test year. However, the building was partially in service and ready to be totally occupied during the test year. Mr. Umscheid noted that the paving contract which delayed the full occupation of the building is not part of the Cooperative's instant request.

c. Examiner's Discussion and Recommendation.

The examiner concurs with the staff recommended decrease in plant in service of \$144,399 for the adjustment which took place prior to the Cooperative's test year, the reclassification, in general, of CWIP to plant in service, and the disallowance of \$10,353 for the distribution line which was not completed until the month following the test year.

The examiner further finds that total disallowance of the Bastrop District Office which was used during the test year is not appropriate. At the hearing, Mr. Umscheid testified that materials were stored in the building and that approximately 20 BEC employees used the building during the test year. Access, however, to the customer services section of the building was not permitted due to the fact that inclement weather prevented the paving around the front of the building. While no evidence was introduced at the hearing to reflect the square footage of the building so that a proration of the used and useful portion of the building could be determined, the evidence in the record reflects that the building was substantially used and useful during the test year. As Mr. Eckhoff noted in his testimony, he disallowed the inclusion of the total value of the building from BEC's Plant in Service because it was not fully occupied until several months after the test year. (Staff Exhibit No. 5 at 7.) For the reasons discussed above, the examiner recommends inclusion of \$348,361 for the Bastrop District Office in BEC's Plant in Service, for a total allowance for Plant in Service of \$83,049,179.



## 2. Accumulated Depreciation

The staff proposed a \$14,233 increase to the Cooperative's test year accumulated depreciation figure of \$12,527,087. First, the staff increased accumulated depreciation by \$5,198 associated with the staff's adjustment to prior period annual leave credit. In computing the depreciation, Mr. Benner utilized a depreciation rate of 3.6 percent, the rate for Distribution Plant Services. Second, accumulated depreciation was increased by \$9,035 to reflect the depreciation associated with the disallowance of the CWIP reclassified to plant in service proposed by Mr. Eckhoff, for a total increase in accumulated depreciation of \$14,233 for a total in accumulated depreciation of \$12,496,341. The Cooperative did not oppose the staff's recommendations. The examiner concurs.

## 3. Net Plant in Service

Based upon the plant in service figure of \$83,049,179 and accumulated depreciation of \$12,496,341, the net plant in service for the Cooperative is \$70,552,838.

### B. CWIP

The staff and the Cooperative agreed that the Cooperative had a CWIP balance of \$ -0-. While test year end CWIP was \$4,866,825, the Cooperative, as indicated earlier, had reclassified \$2,415,506 from CWIP to Plant in Service. Aside from the adjustments the staff recommended be made, the staff found that BEC's plant in service was used in rendering electric utility service. The remainder of CWIP in the amount of \$2,451,319 was not included in BEC's plant in service or CWIP requests. The examiner was puzzled by the Cooperative's decision not to request inclusion of \$2,451,319 of CWIP in its rate base. Nevertheless, because no testimony was offered as to the construction project's prudence and no testimony was offered as to the effect removal of CWIP would exert on BEC's financial integrity, no level of CWIP is included in Bluebonnet's invested capital. (Coop. Exhibit No. 4A, Stover at 14 and Lambert at 8.)

### C. Working Cash Allowance

The staff's working cash allowance is a function of the staff's adjusted purchased power expense and adjusted operation and maintenance expense. Utilizing a purchased power factor based on BEC's 15-day lag, which the staff found reasonable, and an operation and maintenance factor of 1/8, as permitted under P.U.C. SUBST. R. 23.21(c)(2)(B)(iii), provides a working cash allowance of \$1,378,857, which is a decrease of \$147,922 to BEC's request of \$1,526,779. The Cooperative did not contest the staff's methodology.

Utilizing the examiner's recommended purchased power and operations and maintenance expense levels and the staff's methodology produces a working cash allowance of \$1,386,561.

### D. Materials and Supplies

The Cooperative requested a materials and supplies expense of \$1,612,260 which the staff did not oppose. The examiner concurs.

### E. Prepayments

The Cooperative requested prepayments in the amount of \$130,489 which the staff did not oppose. The examiner concurs.

### F. Customer Deposits

The staff increased the Cooperative's customer deposits by \$5,298 to reflect customer deposits BEC attempted to refund but which were not excluded from rate base. The Cooperative does not oppose this adjustment. The examiner concurs and recommends a Customer Deposit amount of \$1,257,431.

#### G. Other Cost Free Capital

The staff increased the Cooperative's other cost free capital in the amount of \$427,136. This adjustment represents amounts Bluebonnet received for customer advances from wiring inspection fees, connection fees, and special equipment installation. Mr. Benner performed an aging of the accounts and noted that the majority of advances were approximately one year old. He therefore included the balances in these accounts at September 30, 1986, for a recommended amount of \$2,950,346. The Cooperative did not oppose the staff's adjustment. The examiner concurs.

#### H. Summary

The total invested capital for the Cooperative of \$69,474,371 is computed as follows:

Plant in Service	\$83,049,179
Accumulated Depreciation	<u>12,496,341</u>
Net Plant	70,552,838
CWIP	-0-
Working Cash Allowance	1,386,561
Materials and Supplies	1,612,260
Prepayments	130,489
Customer Deposits	1,257,431
Other Cost Free Capital	<u>2,950,346</u>
TOTAL INVESTED CAPITAL	\$69,474,371

#### VII. Return

In her discussion regarding return, the examiner will first discuss the fallout financial indicators and assumptions in the parties' financial models. The examiner will then discuss, due to its importance, one assumption in the

staff's model, the refund of fuel over-recoveries, which was highly contested in this case.

A. Financial Indicators and Assumptions in the Financial Models

1. Staff Position

Staff Financial Analyst Reuben McDaniel testified as to the proper rate of return on invested capital for Bluebonnet. Mr. McDaniel indicated that he analyzed Bluebonnet's proposed rate of return of 8.86 percent in light of the Cooperative's expected rate of growth and its borrowing requirements through 1989, and especially reviewed BEC's times interest earned ratio (TIER), debt service coverage (DSC), and equity ratio. He noted that the Cooperative's financial ratios are in the low end of the ranges recommended by the Rural Electrification Administration (REA) and the Cooperative Finance Corporation (CFC). Moreover, BEC's September 30, 1986 values are low compared to the 1985 U.S. and Texas Medians:

	TIER	DSC	EQUITY
Bluebonnet	2.2X	2.25X	31.4%
U.S. Median	2.43X	2.26X	38.5%
Texas Median	2.59X	2.36X	34.3%

(Staff Exhibit No. 4, Schedule II)

Additionally, the Cooperative's ratios have been steadily declining since 1982. Mr. McDaniel further testified that it is important for member cooperatives to target and achieve ratios higher than the default levels for TIER of 1.5X and for DSC of 1.25X. As of September 30, 1986, BEC had a TIER of 2.22X and a DSC of 2.25X.

Under his financial model which generates pro forma financial statements for the Cooperative for the three years following the test year, he analyzed several rate of return alternatives to obtain a rate of return that would allow

BEC to maintain its financial integrity in light of its expected growth, recent financial developments, and target indicators. His model incorporated the following assumptions:

1. Bluebonnet will implement new rates sometime during the month of August 1987. Therefore, the rate increase will be in effect for only one month of the 12 months following test year. For the first year after the test year, the Cooperative's financial situation would be similar to its condition for the year ending September 30, 1986.
2. The interest rate on new loans from CFC was assumed to be the current CFC long-term fixed interest rate of 8.75 percent.
3. The Cooperative's growth in net plant will be 15 percent for the three years following the test year. This is the growth rate projected by the Cooperative which is in line with the historical growth rate of the Cooperative.
4. Bluebonnet will have a 70/30 borrowing ratio for REA and CFC loans.
5. The Cooperative will rotate \$159,451, \$222,739, and \$213,110 in capital credits in 1987, 1988, and 1989, respectively. This is in line with the capital rotation policy that Bluebonnet has implemented.
6. The Cooperative will maintain a general funds to total plant ratio of 4 percent in 1988 and 1989. This is consistent with the Cooperative's long range financial forecast.
7. The staff's recommended refund to Bluebonnet's customers that stems from the Lower Colorado River Authority (LCRA) fuel over-recovery refund as a one-time payout of additional capital credit was included in the model.
8. The Bluebonnet portion of the Texland settlement as a reduction in the Cooperative's debt liability to CFC was also included in his model. The remaining portion of the settlement was allocated between the general fund account and non-operating revenues.
9. The model reflected the staff recommended rate base.

(Staff Exhibit No. 4 at 6-7.)

Utilizing the Cooperative's request of a rate of return of 8.86 percent in his model, Mr. McDaniel determined that the Cooperative will experience a TIER

in 1988, the first full year of the rate increase, of 1.991X, a DSC of 2.189X, and an equity level of 28.5 percent. In 1989, these ratios will decline with the Cooperative experiencing a TIER of 1.624X, a DSC of 1.963X, and an equity level of 26.7 percent. He testified that his projected financial ratios are below the target levels for two reasons. First, the Cooperative's target indicators must be tempered by the effect exerted by higher indicators upon BEC's customers' rates. Second, the model does not take into account the increase in revenues due to an anticipated growth of 15 percent.

Mr. McDaniel further testified that another indicator of the financial condition of the Cooperative is its equity level. Bluebonnet's test year equity level was 31.4 percent; the Cooperative has set a target equity level of 35-40 percent. He opined that the Cooperative should attempt to maintain an adequate equity level because, due to federal budget constraints, the availability of low cost financing such as that provided by the REA may be jeopardized. He suggested that the Cooperative attempt to prepare for such a situation and pay attention to its equity level, because in such a circumstance, it would then need to rely on CFC and other nongovernmental sources for its financing. Implicit in Mr. McDaniel's statement is his belief that the Cooperative's equity level is important to such financial institutions in their decision to issue credit to cooperatives. Borrowing from these sources will result in higher financing costs to Bluebonnet.

Aside from financing costs, an adequate equity level must also be maintained in order for Bluebonnet to be able to rotate patronage capital, which he defined as the accumulated excesses of customers' payments over the cost of furnishing service. The rotation of patronage capital results in the systematic replacement of existing equity whereby the equity investors in the Cooperative are gradually repaid their earlier investment. Should a cooperative not rotate patronage capital, it could jeopardize its tax exempt status. Moreover, fairness requires capital rotation because if credits are not rotated, customers who have left the system would not obtain the capital credits they are due. Further, those customers who are on the system the longest have financed more of the Cooperative than those who have recently come on the system.

Mr. McDaniel noted that the Cooperative presently rotates patronage capital on a 20 year, first in - first out (FIFO) basis; i.e., the Cooperative is paying capital credits equal to the dollar amount of patronage capital that was accumulated 20 years ago. He found BEC's method appropriate for the time being.

## 2. Cooperative Position

Mr. Umscheid testified regarding the Cooperative's debt capital. He indicated that historically REA cost of debt has been 2 percent; it is now 5 percent. The rate for CFC debt is currently approximately 9 percent. The CFC component of BEC's total loans varies from 10 to 30 percent. While the default level for TIER is 1.5X and for DSC is 1.25X, Mr. Umscheid testified that CFC recommends a TIER of 2.5X to 3.5X as the level necessary to be able to obtain funds from money markets at reasonable rates.

Cooperative witness Carl N. Stover, who also testified as to the necessary financial ratios for the Cooperative, considered the following assumptions in his horizon planning model:

1. 15 percent increase in net plant;
2. 70/30 percent concurrent borrowing with REA debt cost at 5 percent and CFC debt cost at 9 percent;
3. Capital credit refunds of approximately \$159,000 in 1987, \$223,000 in 1988, and \$213,000 in 1989;
4. A TIER target of 2.0X;
5. Rates in effect in September 1987. Estimated rate of return for eleven months at 5 percent and estimated return for one month at 8.91 percent;
6. Rate of return for second and third years at 8.91 percent.

(Coop. Exhibit No. 4A, Stover at 12-13.)

To reach the above objectives, the Cooperative would require a rate of return of 10.3 percent to 10.8 percent, which would result in an increase in rates of 13

percent. Based on mitigating the rate increase to its customers to 10 percent, with a TIER of approximately 2.0X, Mr. Stover testified that a rate of return of approximately 8.86 percent is necessary. He noted that the rate of return is a fallout number based on the return dollars needed. The staff, on the other hand, merely incorporated the BEC requested rate of return and applied it to the staff recommended rate base. (Coop. Exhibit No. 10 at 8-9.) Utilizing an 8.86 percent rate of return would result in the 1987 equity level of 28 percent, which would increase slightly in 1988 and 1989 to 28.7 percent. Mr. Stover noted that he did not object to the staff's adjustment relating to the Texland settlement.

As to the Cooperative's equity level, Mr. Umscheid testified that such is a function of four factors: the desired equity level, the relationship between the existing equity ratio and the desired ratio, the growth rate of the Cooperative, and the rotation of equity capital. He stated that the Cooperative's desired equity level is between 35 to 40 percent. Mr. Stover testified that in 1984, the Cooperative's equity level, which is an indicator of the Cooperative's financial soundness, was approximately 34.8 percent. In 1985 and 1986 this level declined and as of the end of the test year, BEC had an equity level of 31.4 percent. As of the end of calendar 1986, the equity level declined even further to 30.66 percent. He noted that the Cooperative hopes to reach a 35 percent equity level over the next several years.

Mr. Umscheid indicated that REA and CFC prohibit, with few exceptions, the distribution of capital credits unless a cooperative has a 40 percent equity level. Moreover, in today's market, financial soundness is a necessity in order to obtain debt from CFC and other lenders. Under the Cooperative's FIFO method, it returned \$195,501 of capital credits during the test year, which represents the capital credits assigned for the 1965 fiscal year. While Mr. Stover agreed with BEC's FIFO method in returning patronage capital, he noted that any amounts over \$700,000 could not reasonably be rotated within the current 20 year rotation schedule and that the schedule would need to be extended at that time. The first such instance when this would occur under the present 20 year rotation



schedule is in 1991, when the Cooperative is scheduled to return \$724,391 of capital credits. (Coop. Exhibit No. 4B, Schedule R-2.0.)

The Cooperative is anticipating capital additions over the next three years of approximately \$48.3 million, which results in a 15 percent growth in its net plant investment. Such growth is predominately precipitated by the addition of new residential customers. Mr. Stover noted that the Cooperative's anticipated growth rate of 15 percent is reasonable in light of the average annual growth of 14.5 percent for the period 1977 through 1986, and 16.3 percent for the period 1981 through 1986.

#### B. Fuel Refund Over-recoveries

##### 1. Legal Argument

###### a. Staff position.

Mr. Irish recommended that the Cooperative immediately return the fuel refunds in the total amount of \$1,982,790 which BEC received from LCRA in December 1985 and July 1986 as required under P.U.C. SUBST. R. 23.23(b)(3)(B). In Mr. Irish's opinion, unless the Cooperative has received prior Commission approval, it must refund the fuel over-recoveries to its customers. Mr. Benner and Mr. Kol also recommended that the Cooperative refund the fuel over-recoveries to its members pursuant to P.U.C. SUBST. R. 23.23(b)(3)(B).

In addition, Mr. McDaniel, who also recommended that the Cooperative be required to refund the fuel over-recoveries, stated that while the Cooperative indicated it utilized the refunds in order to defer its short-term financing needs, he believed that such needs should have been addressed in a request to increase rates rather than in the retention of fuel over-recoveries. Mr. McDaniel testified that the return of the fuel refunds was an assumption in his financial model in determining the appropriate return for the Cooperative.

b. Cooperative position.

The Cooperative offered a legal argument for the retention of the fuel over-recoveries. The Cooperative argued that P.U.C. SUBST. R. 23.23(b)(3)(B), which requires refunds for fuel over-recoveries, is not applicable to it because that rule was effective September 1, 1983, and could only be applied prospectively. (Cooperative Exhibit No. 8.) Because Bluebonnet did not have a fuel clause fashioned under that rule at the time of the refunds, the rule is not applicable to it.

2. Policy Argument

The Cooperative strenuously objected to making the refunds for a number of reasons, aside from its legal argument. First, Mr. Umscheid testified that the refund was retained for the purpose of establishing a contingency fund to provide interim financing of CWIP, to avoid short-term borrowing costs, to provide a "self-insurance" fund to bolster the BEC's declining level of liability coverage in mitigating high premium costs, and to provide a contingency fund to cover unanticipated natural disasters, such as wind or ice storms, which could affect the system. (Coop. Exhibit No. 12 at 6.)

Second, the Cooperative's membership had unanimously voted at two annual meetings, subsequent to the Cooperative's receiving the refunds, to permit the Cooperative to retain the fuel refunds and thus defer the need to increase rates as long as possible. Mr. Umscheid explained that when the Cooperative received the fuel refunds of \$1,982,790 in December 1985 and July 1986, they were credited to BEC's cost of power, which thereby reduced BEC's expenses and increased its margins and equity in a like amount. The increase in equity generated by retention of the refund was credited to each member's patronage account based upon the member's actual usage during the period of accrual. (Coop. Brief at 3.)

Third, conversely, Mr. Stover testified that if the refunds had been made, the assignment to patronage capital of the net margins would not be \$2,930,836, but rather \$805,656. (Coop. Exhibit No. 10, Schedule B.) He testified that had the fuel refunds been made, in 1985 BEC's TIER would decrease from 2.2X to 1.5X, and at test year end from 2.07X to 1.2X.<sup>1</sup> (Coop. Exhibit No. 10, Schedule A & B.) At year end 1986, with the assumption that a refund was made for the 1986 fuel over-recoveries, BEC's TIER would decrease from 1.49X to 1.13X. In his analysis, Mr. Stover testified that he included costs associated with increased insurance premiums and the effect on BEC's short-term interest cost and interest income which would have resulted if BEC had made the fuel refunds. Because BEC was able to utilize the funds for its self-insurance and short-term financing needs, Bluebonnet did not incur these additional expenses. He noted that the staff's analysis, which does not include the effect of the fuel refund on BEC's rate of return or on the resultant increase to BEC's insurance premiums and interest costs, would reflect an even further decrease to BEC's equity level than is currently depicted in the staff's schedules, namely a decrease to 27.85 percent in 1987.

Fourth, the membership has enjoyed quality service without a need to increase rates for a longer period of time due to the Cooperative's retention of the fuel over-recoveries. The Cooperative believed that some deference should be given to the the wishes of its members who approved BEC's treatment of the refunds.

#### D. Examiner's Discussion and Recommendation

The most heated area in determining the Cooperative's return level was the staffs' recommendation that Bluebonnet be required to return to its members immediately the fuel refund over-recoveries it received from LCRA. The other

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<sup>1</sup>The examiner notes that Mr. Stover's schedules at test year end include the 1986 refunds. However, Mr. Umscheid testified that the fuel refund in 1986 was received in December of that year. Mr. Umscheid testified at the hearing that the 1985 refund was approximately \$1.2 million and the 1986 refund approximately \$730,000.

area of contention between the staff and the Cooperative concerned the staff's utilization of Bluebonnet's requested rate of return of 8.86 percent, rather than computing a fallout return number in the staff's financial model.

Addressing the fuel refund, the Cooperative argued that P.U.C. SUBST. R. 23.23(b)(3)(B) regarding recovery of fuel expense by cooperative-owned electric utilities is not applicable to it because Bluebonnet does not have a Power Cost Recovery Factor (PCRF) clause as defined in that rule. This provision of the Commission's rule states:

Any difference between the actual costs to be recovered through the PCRF and the actual PCRF revenues recovered shall be credited or charged to the utility's rate payers in the second succeeding billing month unless otherwise approved by the Commission.

The examiner agrees that the clear language of the rule is directed to the recovery of fuel costs by electric cooperatives through a Commission-approved PCRF. However, in the case where a cooperative chooses not to seek rate relief, for whatever reason, can it claim "Kings-X" and state that it cannot be made to refund the amount because it does not have a PCRF clause? The examiner finds that it is unnecessary to reach a determination on this issue because the Cooperative's current tariffs required it to pass the fuel refunds to its customers. Examiner's Attachment Nos. 1 and 2 reflect the Cooperative's Fuel Cost Adjustment (FCA) and Power Cost Adjustment (PCA) clauses. In particular, the applicable FCA includes the following component in determining fuel costs:

D = Difference between actual and calculated FCA revenue collected in previous periods  
(Examiner's Attachment No. 1.)

The applicable PCA includes the following language in its formula to compute the monthly purchased power charges:

C = Adjustment to be applied to the current monthly billing to account for differences in PCA related costs and revenue for previous periods.

(Examiner's Attachment No. 2.)

In the examiner's opinion, the Cooperative is required under its current tariffs to reconcile fuel and purchased power expense and revenues. Without a doubt, a fuel refund affects the Cooperative's revenues and should have properly been reconciled by use of its existing tariffs. Thus although arguably P.U.C. SUBST. R. 23.23(b)(3)(B) may not have required Bluebonnet to make refunds to its customers, Bluebonnet's own tariffs clearly did.

[1] Notwithstanding Bluebonnet's tariffed obligation to return the fuel over-recoveries to its members, the examiner recommends that Bluebonnet not be ordered to do so because Bluebonnet has demonstrated good cause to except it from making these refunds.<sup>2</sup> While it would have been preferable for Bluebonnet to have requested Commission approval prior to retaining the fuel refunds, the Commission is faced with an after-the-fact situation which requires resolution. In that regard, the examiner believes that this issue should be resolved in Bluebonnet's favor for a number of reasons. First, while the staff's model reflects that refunds of fuel over-recoveries were made as a one-time return of capital credits (Staff Exhibit No. 4 at 6-7), it does not reflect the increase in insurance premiums and impact on short-term interest costs and interest income which would have arisen from the inclusion of the fuel refunds. Thus, implicitly, the staff's TIER ratios would by necessity be lower if the interest and insurance adjustments were included in the staff model. This assessment, to a certain extent, is validated in Mr. Stover's exhibits to his rebuttal testimony which, taking into consideration the refunds and adjustments on

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<sup>2</sup> Thus, even were the examiner to find P.U.C. SUBST. R. 23.23(b)(3)(B) applicable to Bluebonnet, the Cooperative has provided sufficient evidence to grant it an exception for good cause, pursuant to P.U.C. SUBST. R. 23.2.

interest and insurance, demonstrate that the Cooperative's TIER levels would drop. (Coop. Exhibit No. 10 at 5-8.)

Second, at the hearing, Mr. Umscheid testified that if refunds were ordered, the Cooperative would need to borrow funds in order to make the refunds. Such additional cost is not appropriate where the Cooperative is attempting to increase its equity level and improve its ratios. This is especially true in light of Mr. McDaniel's comment that federal budget constraints may limit the availability of future low interest loans to cooperatives. Thus, the Commission should attempt to maintain the best ratios achievable by the Cooperative while mitigating the impact of its rates on its customers. This can be assisted by permitting the Cooperative to retain the fuel over-recoveries and apply them as it has done.

Third, Mr. Umscheid further testified that the Cooperative does not intend to retain future fuel refunds but, rather, the Cooperative will be governed by P.U.C. SUBST. R. 23.23(b)(3)(B). Because the Cooperative is requesting implementation of a PCRFB clause in this proceeding to reflect its recovery of fuel and purchased power expenses, BEC will be making refunds, if any, in accordance with the above rule. The unique request in this case will not, according to BEC, be repeated.

Fourth, the record does not reflect that the Commission and Cooperative have received complaints regarding Bluebonnet's treatment of the fuel refunds. Moreover, at annual member meetings held in May 1986 and May 1987, the Cooperative's members approved of the Cooperative's treatment of assigning the refunds to the members' capital credits in hopes of delaying the need for the Cooperative to seek rate relief. While the examiner does not believe a cooperative should refrain from seeking rate relief when warranted, it is understandable for the Cooperative to forestall a rate request as long as possible and to consider available means to meet this goal.

Fifth, the equity increase generated by retention of the refund was assigned as patronage capital to each member's account based upon the member's

actual usage during the accrual period. Thus, the refund, in a certain respect, has been assigned pro rata to each member in the form of patronage capital, which will eventually be returned as a portion of capital credits. In the interim, the Cooperative has had the opportunity to utilize this source of funds for their short-term financing and self-insurance needs, while saving its members incurrance of insurance and interest expense.

For the above reasons, the examiner believes it appropriate for Bluebonnet to retain the fuel over-recoveries and assign the resultant increase in equity to its members' patronage capital. The examiner would note that she makes this recommendation in view of the peculiar and particular circumstances presented in this case. No precedential value should be assigned to the examiner's recommendation in this regard.

The examiner believes it appropriate to utilize the staff's model in determining the cooperative's return because such model includes an adjustment relating to the Texland settlement. (The general counsel in brief argued that this amount is approximately \$1.4 million.) While the Cooperative does not object to such inclusion, it does not appear that its model reflects this adjustment.<sup>3</sup> Also, unlike the Cooperative's model, the staff's model includes an assumption relating to the general funds to total plant ratio of BEC. Moreover, while Mr. Stover recommended a rate of return of 8.86 percent, he utilized a rate of return of 8.91 percent in his model. (Coop. Exhibit No. 4A, Stover at 13.) At the hearing, he indicated that the 8.91 percent used in his financial model resulted from "rounding". The staff utilized the Cooperative requested rate of return of 8.86 percent. (Staff Exhibit No. 4 at 8.) Thus, while the only adjustment necessary in the staff's model relates to the deletion of the fuel refund, at least two adjustments are necessary under BEC's model to reflect the examiner's recommendations.

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<sup>3</sup> Although Bluebonnet argues in its reply brief that it, too, included the Texland settlement in its model, the examiner had not been provided specific testimony or evidence regarding this allegation. Therefore, she feels it more appropriate to rely on the staff's direct evidence which expressly indicates that this assumption was included in its financial model.

As to the other issue regarding the Cooperative's return, the examiner recommends adoption of the Cooperative's requested return of 8.86 percent. While the Cooperative testified to a rate of return of between 10.3 to 10.8 percent, the examiner is not convinced that such a level of return is necessary.

Mr. Stover testified that under his financial model a 10 percent increase in rates would result in a TIER of 2.173X at 9/30/88 and 2.138X at 9/30/89, and a rate of return of 8.86 percent. (Coop. Exhibit No. 4b, Schedule N-2.0 at 1.) Under the staff's model, which included the fuel refund and an 8.86 percent rate of return, the Cooperative would obtain a TIER of 2.45X at 9/30/87, of 1.99X at 9/30/88 and of 1.62X at 9/30/89. These TIER levels do not take into consideration the growth in revenues anticipated by the Cooperative, nor do they take into consideration the effect of reversing the staff's entry on the fuel refunds. Moreover, at page 11 of the Cooperative's brief, the Cooperative stated the following:

"The amount of return should be \$94,788 greater (BEC Exhibit 10, p. 9). This additional amount will result in a reasonable level of return only if the Cooperative is not required to make the refund urged by the staff."

The examiner interprets such statement to mean that the 8.86 percent level in rate of return is appropriate only if BEC is not requested to make the fuel refunds. Conversely, because the examiner has recommended that BEC not make the fuel refunds, the 8.86 percent rate of return utilized by the staff should result in an appropriate return level and financial indicators for BEC. (Examiner's Attachment No. 3.) An appropriate level of return and financial ratios are especially important where, as in BEC's case, the financial ratios have been steadily declining.

The Cooperative's use of the FIFO method in returning capital credits to its members has merit. However, the examiner is concerned that under BEC's current 20 year rotation schedule, the Cooperative will be required to return over \$700,000 in capital credits in 1991, 1992, 1998, 1999, and 2000, and approximately 10 million dollars during the early years of the twenty-first century. (Coop. Exhibit No. 4B, Schedule R-2.0.) While the return of patronage



capital in the 21st Century may not be a pressing issue today, the return of the \$700,000 plus in approximately four years does require attention by Bluebonnet, especially in view of the length of time between its rate filings. The examiner therefore recommends that the Cooperative consider, prior to its next filed rate case, various alternatives to address the timely return of capital credits of over approximately \$700,000 where such return cannot be effectuated under BEC's current 20 year rotation Schedule. The examiner makes this recommendation so that BEC is placed on notice that this Commission expects BEC to exercise proper management in that BEC will study available alternatives and implement those they feel are appropriate.

#### VIII. Cost of Service

##### A. Purchased Power Expense

Mr. Benner made two adjustments to the Cooperative's proposed purchased power expense of \$23,529,550. First, Mr. Benner decreased BEC's request by \$2,842,412 to reflect a disallowance of BEC's increase in purchased power expense, which was based upon an anticipated rate increase for LCRA arising from Docket No. 7512. Second, he adjusted BEC's purchased power expense to reflect the fact that the Wolf Lane delivery point replaced the Garfield delivery point in May 1986. Using the actual invoiced amounts at Garfield resulted in a decrease of \$90,814, for a total decrease to BEC's request of \$2,933,266, and a total purchased power expense of \$20,596,324. The Cooperative did not oppose the staff's recommendation. The examiner concurs.

##### B. Operations and Maintenance

###### 1. Payroll Expense

Mr. Benner reduced the Cooperative's payroll expense by \$97,052. While BEC utilized an annualized July 1, 1987 payroll wage and salary level, Mr. Benner utilized a March 15, 1987 annualized figure. The July 1, 1987 figure included an anticipated 2½ percent merit increase in employee wages and salaries. Because

Mr. Benner was not certain that all employees would receive a performance increase by that date, he utilized the March 15, 1987 payroll wage and salary level. He made four other adjustments to the Cooperative's payroll expense request. First, he disallowed four full-time post test year positions totaling \$86,960 because they are new positions and not replacements: a Communications Specialist in Giddings, a Lineman II position in Bastrop, a Clerk I position in Bastrop, and a Mechanic position in Bastrop.

Second, he adjusted BEC's overtime ratio. Mr. Benner found the four year mean average unreasonable for it was based on skewed data; the overtime payroll figures for 1984 and 1985 were unusually high compared to the other periods. He utilized a five year smoothed average which resulted in an overtime ratio of 6.9877 percent, compared to the company's ratio of 7.261 percent, which resulted in a decrease of \$271,426.

Third, Mr. Benner used a seven year mean average to determine the appropriate level for summer help wages; the Cooperative has consistently incurred expenses for summer help during the last seven years. This adjustment resulted in an increase of \$14,370 to BEC's base payroll.

And fourth, he disallowed the temporary employee wages because they are contingent and not consistently known. This resulted in a \$17,852 decrease to payroll expense. The annualized March 15, 1987 payroll and four adjustments resulted in an adjusted gross test year payroll of \$4,187,029 to which the payroll expense ratio of 50.293 percent was applied to obtain the adjusted test year payroll expense of \$2,105,782. Subtracting the Cooperative's test year payroll expense of \$2,017,812 from the staff recommended adjusted test year payroll expense of \$2,105,782 resulted in an increase of \$87,970 to BEC's test year payroll expense for a total staff recommended payroll expense of \$2,105,782.

Cooperative witness Lambert did not agree with the staff's payroll expense recommendations for a number of reasons. First, while the Cooperative does not dispute the disallowance of the mechanic position because such position had not

been filled, the Cooperative did hire the other three excluded employees after the test year. Bluebonnet indicated that the payroll expense for other cooperatives has been developed in the past at this Commission using wage levels which were outside of the test year. BEC believed the salary and wage level of the three excluded employees are known and measurable and thus recommended the inclusion of the three employees in determining BEC's payroll expense.

Second, Mr. Umscheid testified that even with the addition of these employees, the Cooperative's present staff level of 233 employees is down from 245 as of the end of the test year.

Third, while the 2½ percent salary and wage increase is based on merit, Mr. Umscheid testified that a majority of the employees will receive the increase. He explained that each department head is given the funds to allot a 2½ percent increase per employee; the department head will spread the increase as he deems appropriate. Because the funds are actually appropriated, Mr. Umscheid believed that the 2½ percent increase in salary and wages is known and measurable.

Fourth, Ms. Lambert agreed with Mr. Benner's overtime ratio, adjustment to temporary wages and summer help wages, and noted that the staff included the Christmas bonuses as requested by the Cooperative. However, Mr. Umscheid testified that the staff limited the Christmas bonus adjustment to the identical bonus dollars that were paid during the test year without regard to payroll changes. BEC has paid its full-time employees one percent of their base wages and its part-time employees \$25.00 as a Christmas bonus. Thus, it is this formula which should be used in determining the appropriate level for BEC's Christmas bonuses.

The examiner finds that in determining BEC's level of payroll expense, the annualized March 15, 1987 wage and salary level utilized by the staff is appropriate and reasonable. The July 1, 1987 payroll level, which included the Cooperative's proposed 2½ percent salary and wage increase, is not reasonable given the fact that this proposed increase is not known and measurable. Specifically, although Mr. Umscheid explained that BEC's department heads are

allocated a 2½ percent increase per employee to award their employees' performance, should a department head supervise employees who do not merit an increase, in all likelihood, these department heads would not award such employees a merit increase. Even Mr. Umscheid admitted that not all of Bluebonnet's employees will receive a merit increase. (Coop. Exhibit No. 12 at 1-2.) Moreover, at the hearing, the Cooperative provided no evidence that an increase in salary based upon merit had been recommended for any of its employees.

Regarding the three employee positions filled after BEC's test year, the salary and wages of these three employees should be included in determining the Cooperative's payroll level. Although the general counsel argued in brief that such additional employees are the result of growth and that one employee's wages should be capitalized because his employment is related to a construction project, the examiner does not recall that the points raised by the general counsel were developed in testimony or at the hearing on the merits and the general counsel had not referenced in his brief where such evidence may be found in the record.

Regarding the Christmas bonuses, the Cooperative's past formula in determining Christmas bonuses, i.e. one percent of base wages for full-time employees and \$25.00 for part-time employees, should be allowed. In reviewing the Company's request, the examiner reasonably concludes that the staff included the Christmas bonuses as a component of an appropriate overall salary and wage level for BEC's employees. The examiner did not discern that the staff found BEC's practice unreasonable, but rather the staff merely limited its recommendation to the test year dollars Bluebonnet incurred for this expense. Use of the Cooperative's formula is more reflective of that level of costs the Cooperative will incur during the period the rates are in effect.

The examiner concurs with the staff's treatment relating to Bluebonnet's overtime ratio, and summer and temporary wages. Incorporating the changes recommended herein provides an adjusted payroll expense for BEC of \$2,158,061.

2. Medical insurance expense, test year retirement expense and test year savings plan expense

The staff adjusted the above expenses as a result of its adjustment to the Cooperative's payroll expense. First, Mr. Benner decreased medical insurance expense by \$8,410 based on his employee level, 168 full-time employees with dependent coverage and 38 employees with single coverage, for a total medical insurance expense of \$200,175. Second, he multiplied the staff's recommended base payroll amount of \$3,845,717 by the Cooperative's retirement contribution ratio of 12.7599 percent, which resulted in a decrease of \$6,246, for a total retirement expense of \$250,661. Third, Mr. Benner multiplied the adjusted payroll amount of \$3,845,717 by the savings plan contribution ratio of 2.08457442725 percent, which resulted in an adjusted test year savings plan contribution of \$80,167. Mr. Benner then multiplied \$80,167 by the payroll expense ratio of 50.293 percent, which resulted in a test year savings plan expense of \$40,318.

Ms. Lambert disagreed with Mr. Benner's recommendations for several reasons. First, Ms. Lambert testified that the Cooperative has 212 full-time employees. While three employees do not enroll for medical insurance, 170 employees have dependent coverage and 39 employees have single coverage. Using annualized 9/30/86 monthly premium levels, Ms. Lambert recommended a medical insurance expense of \$202,758, which is \$2,583 greater than the staff's recommendation. Second, Ms. Lambert utilized the July 1987 levels of base wages, excluding Christmas bonuses, part-time employees and summer help, and a payroll expense ratio of 50.293 percent to obtain an adjusted retirement expense of \$261,625, which is \$10,964 greater than the staff's recommendation. Third, Ms. Lambert found inappropriate Mr. Benner's use of the 2.0846 percent ratio for the savings plan contribution expense since this ratio was based on total payroll. While the staff applied this ratio to the adjusted payroll exclusive of part-time wages, overtime, and summer help, Ms. Lambert believed that because the ratio was developed on total payroll, the contribution rate should also be applied to the total adjusted or gross payroll, for a total savings plan expense of \$45,915.

The examiner recommends that her employee level be utilized in calculating the Cooperative's medical insurance expense. Utilizing that employee level with the monthly premium levels of 9/30/86, which the examiner assumes is the same level utilized by the staff, as reflected in Ms. Lambert's rebuttal testimony provides a medical insurance expense of \$201,273.

Regarding the retirement expense, the examiner recommends adoption of the staff's methodology in computing this expense. Utilizing the staff's methodology and multiplying the examiner's adjusted base payroll exclusive of part-time wages and bonuses by the retirement contribution ratio of 12.7599 percent results in a total retirement expense of \$257,403.

The examiner further recommends adoption of the staff's methodology in determining savings plan contribution because she was not persuaded that the staff's methodology is unreasonable. (Staff Exhibit No. 6 at 10.) Utilizing the staff methodology and the examiner's adjusted base payroll provides a total savings plan expense for Bluebonnet of \$41,403.

### 3. LCRA rate intervention expense

[2] Mr. Benner disallowed \$129,146 of LCRA rate case intervention costs which the Cooperative incurred in its intervention in Docket No. 6027. This docket was filed by LCRA in November 30, 1984 and the final order was issued on June 10, 1985. BEC requested that this amount be amortized over a three-year period and thus requested inclusion of \$43,049 in its cost of service. Mr. Benner disallowed the entire amount of the expenses because they were incurred prior to the test year and, in his opinion, inappropriately booked during the test year. Mr. Benner did allow inclusion of \$28,173 of rate case intervention costs which were incurred in Docket Nos. 6500 and 6515 during the test year, to be amortized over a three-year period, resulting in an increase to test year expense for rate case intervention expenses of \$9,391 for a total expense of \$9,391.

The Cooperative disagreed with the Staff's adjustment. Ms. Lambert indicated that while the rate intervention expenses were incurred prior to the test year, they were included in the Cooperative's test year. Moreover, BEC anticipates incurring similar expenses since LCRA appears to periodically file for rate increases with this Commission.

The examiner agrees with the staff adjustment to rate intervention expense because she was not convinced that an out-of-test year adjustment is appropriate for the reasons provided by the Cooperative.

First, rate intervention expenses are litigation expenses. In this case, those expenses were incurred prior to Bluebonnet's test year. In that regard, although these expenses were incurred outside of its test year, the staff noted that Bluebonnet improperly booked these expenses in its test year. The only reasonable conclusion the examiner could reach regarding this fact is that the Cooperative deferred these expenses. Yet, the record does not reflect that that is indeed what occurred; the Cooperative never fully explained to the Commission why expenses incurred prior to the test year were booked during the test year. Furthermore, there is nothing in the record which reflected that Bluebonnet sought and obtained prior Commission approval for deferred accounting, if that is indeed what the Cooperative did.

Second, there is no evidence in the record as to the reasonableness of those expenses. While the Cooperative attempted to argue their reasonableness in its brief, no record evidence exists. And while the examiner can readily admit that the Commission's records will demonstrate that the Cooperative participated in Docket No. 6027, the precise nature of its intervention, the hourly rate for its consultants and attorneys and the reasonableness of these charges, the time necessary for hearing, briefs, etc., are not a matter of record in this docket. There is no testimony in this case as to the reasonableness of those expenses.

Third, the granting of a pre-test year adjustment is not the general practice at this Commission given the historical test year criterion required

under the PURA. Insufficient facts in the record exist upon which to determine that BEC's requested relief would not constitute a violation of that practice.

The examiner therefore recommends that BEC be limited to rate intervention expenses of \$25,173 to be amortized over a three-year period which results in inclusion of \$9,391 in BEC's cost of service.

#### 4. BEC rate case expenses

Mr. Benner agreed with BEC's request for rate case expenses of \$25,000 but did not agree with BEC's proposed two-year amortization period. Based upon BEC's last rate request, which was filed five years ago, Mr. Benner used a five-year amortization period, resulting in inclusion of \$5,000 for rate case expenses.

Mr. Umscheid indicated that the five-year period is not reasonable considering the financial ratios of the company. Further, five years is an unreasonable period of time given the unusual filing pattern of Bluebonnet. Ms. Lambert further testified that because BEC anticipates filing a rate request in two years, the Cooperative's two-year amortization period is reasonable.

The only disputed issue regarding this expense is the appropriate amortization period. The examiner finds unrealistic BEC's proposed two-year amortization given BEC's filing history. Even if BEC filed a rate request in two years, such filing will constitute two filings in the last seven years, for an average filing period of three and one-half years. The examiner therefore recommends that Bluebonnet's rate case expenses in the amount of \$25,000 be amortized over a three-year period, which results in inclusion of \$8,333 for BEC rate case expenses.

#### 5. Reclassification of Franchise Tax Expense and Removal of Franchise Tax

Mr. Benner disallowed \$1,689 for franchise tax in BEC's cost of service. Mr. Benner based the disallowance on the fact that BEC individually surcharges



its municipal customers pursuant to its tariffs for franchise taxes, and thus an expense adjustment is not necessary. Mr. Benner also allowed no amount for franchise requirement as a tax expense.

The Cooperative indicated that Mr. Benner adjusted out franchise taxes twice, once to operations and maintenance expense and again to the Cooperative's tax expense. (Staff Exhibit No. 6, Schedule II and Schedule III.) At the hearing, Ms. Lambert testified that to correct the staff's error, only one adjustment is proper. Ms. Lambert requested that the Cooperative be allowed to include franchise taxes equal to 0.0813 percent of its total allowed revenue requirement as a tax expense.

Mr. Umscheid testified that the Cooperative intends to discontinue surcharging individual customers for the franchise tax and to include the franchise tax amount in its rate base so that BEC can spread this tax expense to all of its ratepayers effective with the final order in this case. Mr. Umscheid noted, as reason for the change in recovery, that the higher densities of Bluebonnet's franchise tax areas enhance the financial stability of the Cooperative to the good of Bluebonnet as a whole. Moreover, the surcharge creates a disparity in rates and has caused dissention among its ratepayers.

The examiner agrees with the Cooperative that the staff had adjusted the franchise fee requirement of Bluebonnet twice. Because Bluebonnet is requesting that it be allowed to spread its franchise requirement to all of its customers, it is appropriate to allow BEC a certain level for this tax. In keeping with the Commission's past practice, because the franchise requirement should be reclassified from operation and maintenance expense and remain a revenue related tax so that the changes in the revenue requirement will be appropriately reflected in Bluebonnet's franchise requirement, the examiner recommends adoption of the staff's adjustment of franchise tax in BEC's operations and maintenance expense and further recommends that BEC be allowed an amount for franchise tax calculated by multiplying the examiner's recommended revenue requirement by the Cooperative's proposed franchise factor of 0.0813 percent for a total franchise tax amount of \$28,194.

6. Uncollectible Expense

Mr. Benner proposed a bad debt effective rate of .312774 percent versus the Cooperative's proposed .3764 percent. Mr. Benner explained that the Cooperative's ratio is based on bad debt accruals which do not appear reasonable when compared to actual accounts written off, less recoveries over billed revenue. Applying his ratio to the total recommended revenue resulted in an uncollectible expense of \$109,391.

Ms. Lambert indicated that the current bad debt ratio experienced by the Cooperative is .3764 percent which is based on dividing the accrued bad debt expense by test year revenues which resulted in a bad debt expense of \$132,864. (Coop. Exhibit No. 11, Schedule A-9.0.)

The examiner recommends adoption of the staff's bad debt factor. Actual bad debts written off are more known and measurable than estimated accrued bad debts. Applying the bad debt ratio of .312774 to the examiner's recommended revenue requirement provides a total uncollectible expense of \$109,816.

7. Other Operations and Maintenance Expenses

The Cooperative requested other operations and maintenance expenses in the following amounts:

Other Operations and Maintenance	\$1,886,859
Annual Leave Credit	\$ -0-
Long Term Disability	\$ 13,274
Life Insurance	\$ 4,832
Workers Compensation and Liability	\$ 285,205
Audit Expenses	\$ 20,000
Legislative Advocacy	\$ -0-

Mr. Benner included these amounts in his recommendation. The examiner concurs.

## 8. Summary

Including the adjustments recommended by the examiner, the total recommended operations and maintenance expense for the Cooperative is \$4,990,828, which is comprised of the following:

Operations and Maintenance not adjusted	\$1,886,859
Payroll	2,158,061
Annual Leave Credit	\$ -0-
Medical	201,273
Long Term Disability	\$ 13,274
Retirement	257,403
Savings Plan	41,403
Life Insurance	\$ 4,832
Workers Compensation and Liability	\$ 285,205
Audit Expenses	\$ 20,000
LCRA Rate Intervention	\$ 9,391
Rate Case	\$ 8,333
Reclassification of franchise tax	\$ (1,689)
Legislative Advocacy	\$ -0-
Uncollectible Expense	<u>109,816</u>
TOTAL	\$4,990,828

### C. Depreciation Expense

Mr. Eckhoff testified as to the proper depreciation expense for the Cooperative. The range of rates recommended by the Cooperative are within the range accepted by the Rural Electrification Administration (REA) Bulletin 183-1. He recommended a change in the depreciation rate for Account 391, General Plant; the staff proposed rate is a weighted composite rate for office furniture at 6 percent and for computer equipment at 16 percent. This results in a decrease in depreciation expense of \$15. Mr. Eckhoff noted that the depreciation rate for Account 393, General Plant, is equal to zero because the investment in the account is fully depreciated.

Regarding the \$144,399 which was removed from plant in service, because the Cooperative was not able to identify the work orders associated with plant accounts for this adjustment, the staff used a 3.6 percent depreciation rate (Distribution Plant, Services) which resulted in a \$5,198 decrease to BEC's request. Mr. Benner further reduced BEC's depreciation expense by \$10,266 to reflect Mr. Eckhoff's adjustment to plant regarding the exclusion of the Bastrop District Office and distribution line for a net effect of an increase in BEC's test year depreciation expense of \$213,248 for a total depreciation expense of \$2,709,658. (Staff Exhibit No. 6 at 13-14.)

The Cooperative did not object to Mr. Eckhoff's adjustment to Account 391 but did disagree with several of the staff's depreciation adjustments. First, although the Cooperative did not oppose the reduction to plant of \$144,399, it did not agree with the staff-proposed depreciation expense for this plant of 3.2 percent. Ms. Lambert testified that the annual leave credits had been spread to all distribution plant accounts. She therefore recommended using the composite distribution plant rate of 3.2 percent. Second, and while the Cooperative also did not object to the staff's disallowance of \$10,353 for a distribution line, Ms. Lambert indicated that one-half of this plant had been classified to Account 364 - Poles, Towers and Fixture, and one-half to Account 365 - Overhead Conductors. Bluebonnet used the depreciation rates of 3.5 percent, and 2.8 percent, respectively for these two accounts. Third, because the company believed that the Bastrop District Office should be included in its rate base, Ms. Lambert recommended employing the 2.5 depreciation rate associated with this facility.

The examiner concurs with the staff's adjustment to the depreciation rate for Account 391 and also with BEC's proposed depreciation adjustment to the excluded plant accounts, i.e., the prior period adjustment and distribution line, for the reasons set forth by Bluebonnet.<sup>4</sup> Lastly, because the Bastrop District Office is included in the Cooperative's plant in service, the Cooperative's recommended depreciation rate of 2.5 percent for this plant should be applied in determining BEC's depreciation expense. With the examiner's

adjustments recommended herein, the depreciation expense for the Cooperative is \$2,719,269.

D. Other Taxes

1. Payroll tax expense

Mr. Benner adjusted the Cooperative's payroll tax expense to reflect his adjustment to Bluebonnet's payroll wage and salary levels. The only material effect was to BEC's proposed adjustment to test year FICA expense. Staff's adjusted test year payroll subject to FICA is \$4,131,083 compared to BEC's figure of \$4,329,395. Mr. Benner proposed an increase to test year FICA expense of \$16,111.

The Cooperative ostensibly agreed with Mr. Benner's methodology to determine payroll taxes, but reached a different result based upon the level of salary and wages used.

Using the examiner's recommended payroll level and the methodology outlined in Mr. Benner's testimony provides a payroll tax expense of \$161,763.

2. P.U.C. Assessment

The P.U.C. assessment tax rate of .1667 percent applied to the examiner's recommended total revenue requirement provides a P.U.C. Assessment expense of \$58,508.

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<sup>4</sup> The record does not reflect the depreciation rate the staff utilized for the excluded distribution line. The examiner notes, however, that Mr. Eckhoff recommended only one change to BEC's depreciation rate and that is to Account 391. (Staff Exhibit No. 5 at 6.) The rates proposed by the examiner for the distribution line could be those rates utilized by the staff.

### 3. Franchise Taxes

The issue of franchise taxes was previously discussed under Section VIII.B.5. of the Examiner's Report.

### 4. Ad Valorem Taxes

The Cooperative recommended \$321,075 in ad valorem taxes be permitted. The staff made no adjustments. The examiner concurs.

#### E. Return Dollars

The examiner's recommended rate of return of 8.86 percent applied to the recommended invested capital of \$69,474,371, provides a total in return dollars of \$6,158,899.

#### F. Interest on Customer Deposits

Ms. Lambert computed an interest on customer deposits expense of \$75,128, which reflects the annual interest expense at 6.00 percent per year for the customer deposits held by BEC at test year end of \$1,252,133. This interest expense is included in BEC's revenue requirement since the balance of customer deposits is deducted from rate base as a cost-free source of capital. The staff did not oppose this amount. The examiner concurs.

#### G. Other Electric Revenue

The Cooperative included \$110,000 of revenues related to the proposed residential late payment fee. If the fee is disallowed, the other electric revenues will be reduced from \$598,151 to \$488,151. (Coop. Exhibit No. 11 at 10.) While staff consumer analyst Paul Irish recommended exclusion of the fee, Mr. Benner did not remove this amount from his schedule. (Staff Exhibit No. 6, Schedule I.) Because the examiner has recommended that this fee not be allowed, BEC's "Other Electric Revenues" should remain at \$488,151.

#### H. Summary

The recommended revenue requirement of \$35,110,339 for BEC is comprised of the following:

Purchased Power	\$20,596,324
Operations and Maintenance	\$ 4,990,828
Depreciation and Amortization	\$ 2,719,269
Other Taxes	\$ 569,891
Interest on Customer Deposits	\$ 75,128
Return	<u>\$ 6,158,899</u>
MINUS	
Other Electric Revenue	<u>\$ 488,151</u>
Base Rate Revenue	\$34,622,188

#### IX. Cost of Service Study

Mr. Pheng Kol evaluated Bluebonnet's cost of service study and cost allocation methodology and found them generally acceptable. He did recommend, however, that different allocation factors be used for the allocation of General Plant Accounts.

Mr. Kol recommended that the Cooperative's General Plant Accounts be allocated on the basis of a composite payroll allocator because payroll represents a weighted distribution of general support functions among different functional categories. Moreover, the composite payroll allocator, because it is based on the payroll-related portion of all of the Cooperative's operations and maintenance expense, better reflects the general support function inherent in these plant accounts. Mr. Kol thus found the Cooperative's use of a composite transmission and distribution plant allocator less appropriate than his composite payroll allocator. The Cooperative did not object to Mr. Kol's modification. The examiner concurs and recommends that BEC's cost of service study and cost allocation methodology be modified as recommended by the staff.

Additionally, Mr. Kol recommended that no customer class experience an increase more than 1.5 times the system average increase and no customer class receive a decrease. (Staff Exhibit No. 1A at Revised Schedule 1-PK.) The Cooperative posed no objection to Mr. Kol's recommendations but further had also recommended that the rate increase to its customers not be greater than 1.5 times the system average and no class experience a rate decrease. (Coop. Exhibit 4.A, Stover at 21.) The examiner concurs in Mr. Kol's recommendations. This revenue assignment is reasonable and appropriate in order to mitigate the rate increase upon Bluebonnet's customers.

Mr. Kol noted that revisions to his schedules were necessary to reflect that Account 598 included operations exclusive to the Security Lighting Class, which he had not included in his original schedules. Assigning this account to this class caused minor modifications in Mr. Kol's rate schedules which are reflected in his revised exhibits. The examiner finds such adjustment appropriate.

#### X. Rate Design

Mr. Kol noted that BEC is requesting a PCRf clause. One factor of that clause includes the computation for BEC's base power cost, which is the purchased power cost divided by the kwh. The Cooperative's purchased power expense of \$20,596,324 divided by 600,083,058 kwh provides a base power cost for BEC of \$.03432/kwh.

Mr. Kol testified that while he agreed with Bluebonnet's proposed class rate structure, due to the different amount of targeted revenues, a new rate calculation was required for each customer class. The Cooperative did not oppose the staff's recommendations.

Based upon BEC's cost of service study and cost allocation methodology as modified by Mr. Kol, and the examiner's recommended revenue assignments and revenue requirement, the examiner finds the rate structure attached as Examiner's Attachment No. 4 appropriate and recommends its approval.



## XI. Findings of Fact and Conclusions of Law

The examiner recommends that the Commission adopt the following Findings of Fact and Conclusions of Law:

### A. Findings of Fact

1. BEC is a member-owned Cooperative providing electric utility service in Austin, Bastrop, Burleson, Caldwell, Colorado, Fayette, Guadalupe, Hays, Lee, Travis, Washington and Williamson counties to approximately 45,381 customers.
2. On March 2, 1987, BEC filed a statement of intent to increase its revenues by 14.2 percent or \$4,757,694 over its adjusted test year revenues. After being docketed, the case was assigned to Hearings Examiner Howard V. Fisher.
3. The Commission received four rate protests to the rate increase.
4. All Texas customers and classes of customers over which the Commission exercises original rate jurisdiction will be affected by the Cooperative's proposed changes.
5. There were no appeals taken from city rate making ordinances which were consolidated with this docket.
6. The appeal of BEC from the ratemaking ordinance of the City of Manor was docketed as Docket No. 7568. This docket was not consolidated with the instant proceeding.
7. By order dated March 13, 1987, implementation of the proposed rates and other tariff changes was suspended until September 4, 1987, or 150 days beyond their otherwise effective date.

8. This docket was assigned to the undersigned examiner on June 3, 1987. This examiner presided over the hearing on the merits in this case and has read the record in this case.

9. The Cooperative's test year is from October 1, 1985, to September 30, 1986.

10. BEC published notice of the proposed rate increase once each week for four consecutive weeks in a newspaper of general circulation in each county containing service territory affected by the proposed changes, provided individual notice to all affected customers and to the Commissioners' Courts in each affected county. No interested persons intervened.

11. BEC provided the Commission publishers' affidavits confirming its publication of notice.

12. Pursuant to a motion filed by the General Counsel, BEC amended its rate filing package to include testimony and exhibits relating to the Cooperative's Energy Efficiency Plan.

13. Pursuant to notice, the hearing on the merits was convened on June 22, 1987, and adjourned on June 23, 1987.

14. It is reasonable and appropriate to include the modifications to BEC's service rules as recommended by the examiner for those reasons set forth in Section IV.C. of the Examiner's Report.

15. It is not appropriate to permit BEC to impose a 5 percent late payment fee on residential bills for the reasons set forth in Section IV.C. of the Examiner's Report.

16. BEC's quality of service is adequate and not such that it should be considered either favorably or adversely in fixing the Cooperative's rate of return on invested capital.

17. It is reasonable and appropriate to permit BEC to recover its expenses relating to its conservation programs in the total amount of \$37,206.

18. It is reasonable and appropriate for BEC to comply with the following recommendations for the reasons set forth in Section V.B. and C. of the Examiner's Report:

a. BEC should evaluate all conservation alternatives for its service area to determine conservation potential.

b. BEC should delineate goals for its conservation programs listed in its Energy Efficiency plan and provide in its next filed Energy Efficiency Plan detailed analyses as to how the goals were selected, the status of the goals, and the process and criteria utilized in its program selection.

c. BEC should collect end-use data for all classes of customers to identify conservation options.

d. BEC should study the impact of all of its programs, to include benefit/cost analyses, whether offered by BEC or in conjunction with the LCRA, by the least expensive means available.

e. BEC should supply its program evaluation data to LCRA in conjunction with LCRA's resource plan and program planning unless such data is of a proprietary nature to which adequate protection cannot be accorded.

f. BEC should include a detailed description of the specific accounts to be used and the cost accounting system to be employed to record costs associated with its energy programs in its next filed Energy Efficiency Plan.

19. BEC has a total invested capital of \$69,474,371 as illustrated below:

Electric Plant in Service	\$ 83,049,179
Accumulated Depreciation	<u>(12,496,341)</u>
Net Plant in Service	70,552,838
CWIP	-0-
Working Cash Allowance	1,386,561
Materials and Supplies	1,612,260
Prepayments	130,489
Minus	
Customer Deposits	1,257,431
Other Cost Free Capital	<u>2,950,346</u>
Total Invested Capital	\$ 69,474,371

20. BEC's plant in service in the amount of \$83,049,179 is reasonable and appropriate for the reasons set forth in Section VI.A.1.c. of the Examiner's Report.

21. BEC's accumulated depreciation in the amount of \$12,496,341 is reasonable and appropriate for the reasons set forth in Section VI.A.2. of the Examiner's Report.

22. No CWIP should be included in determining BEC's level of invested capital because no testimony exists in the record as to the prudence of the construction projects and the effect of CWIP upon BEC's financial integrity.

23. BEC's working cash allowance should be set at \$1,386,561 for the reasons set forth in Section VI.C. of the Examiner's Report.

24. BEC's materials and supplies expense in the amount of \$1,612,260 is reasonable and appropriate.

25. BEC's prepayment expense in the amount of \$130,489 is reasonable and appropriate.

26. Customer deposits in the amount of \$1,257,431 should be deducted from BEC's rate base for the reasons set forth in Section VI.F. of the Examiner's Report.

27. Other Cost Free Capital in the amount of \$2,950,346 should be deducted from BEC's rate base for the reasons set forth in Section VI.G. of the Examiner's Report.

28. A rate of return of 8.86 percent on BEC's invested capital, which will provide an annual dollar return of \$6,158,899 is just and reasonable.

29. BEC received fuel refunds in December 1985 and July 1986 which totaled \$1,982,790, which BEC did not refund to its members.

30. P.U.C. SUBST. R. 23.23(b)(3)(B) requires electric utility cooperatives, who recover fuel through a Power Cost Recovery Factor, to reconcile full over- or under-recoveries in the utility's second succeeding billing month unless otherwise approved by the Commission.

31. BEC did not request or obtain prior Commission approval for BEC's retention of the fuel refunds or its assignment of the fuel refunds to its members' capital credits which was based upon each member's actual usage during the accrual period.

32. For the reasons set forth in Section VII.D. of the Examiner's Report, it is appropriate for BEC to retain the December 1985 and July 1986 fuel refund over-recoveries in the amount of \$1,982,790 and assign the equity resulting from their retention to its member's patronage capital based upon the member's actual usage during the over-recovery periods.

33. It is reasonable and appropriate for BEC to consider, prior to its next filed rate case, various alternatives to address the timely return of capital

credits over approximately \$700,000 where such return cannot be effectuated under BEC's current 20 year rotation schedule.

34. BEC's purchased power expense of \$20,596,324 is reasonable.

35. The following operations and maintenance expenses for BEC are reasonable and necessary for the reasons set forth by the examiner in Section VIII.B. of the Examiner's Report:

Operations and Maintenance not adjusted	\$1,886,859
Payroll	2,158,061
Annual Leave Credit	-0-
Medical	201,273
Long Term Disability	13,274
Retirement	257,403
Savings Plan	41,403
Life Insurance	4,832
Workers Comp and Liability	285,205
Audit Expenses	20,000
LCRA Rate Intervention	9,391
Rate Case	8,333
Reclassification of Franchise Tax	(1,689)
Legislative Advocacy	-0-
Uncollectible Expense	<u>109,816</u>
TOTAL	\$4,990,828

36. A depreciation expense in the amount of \$2,719,269 is reasonable and appropriate for the reasons set forth by the examiner in Section VIII.C. of the Examiner's Report.

37. BEC has a reasonable and necessary ad valorem tax expense of \$321,075.

38. BEC has a reasonable and necessary payroll tax expense of \$161,763 based upon the examiner's recommended payroll level.

39. The Cooperative's franchise tax expense of \$28,194, calculated in accordance with the examiner's recommendations in Section VIII.B.5. of the Examiner's Report, is a reasonable and necessary expense and should be included as a revenue related tax for the reasons set forth in that section.

40. BEC's P.U.C. assessment of \$58,508, calculated in accordance with the examiner's recommendations set forth in Section VIII.D.2. of the Examiner's Report, is reasonable and necessary.

41. BEC's interest on Customer Deposits in the amount of \$75,128 should be deducted from BEC's invested capital for the reasons set forth in Section VIII. F. of the Examiner's Report.

42. A rate of return of 8.86 percent applied to BEC's invested capital of \$69,474,371 provides a total in return dollars of \$6,158,899.

43. BEC's other electric revenue in the amount of \$488,151 is reasonable and appropriate for the reasons set forth in Section VIII.G. of the Examiner's Report.

44. BEC's appropriate and reasonable revenue requirement is comprised of the following:

Purchased Power	\$20,596,324
Operations and Maintenance	4,990,828
Depreciation and Amortization	2,719,269
Other Taxes	569,891
Interest on Customer Deposits	75,128
Return	<u>6,158,899</u>
Revenue Requirement	\$35,110,339
MINUS	
Other Electric Revenue	<u>488,151</u>
Base Rate Revenue	\$34,622,188

45. BEC's cost of service study and cost allocation methodology, as adjusted by the staff, is reasonable and appropriate and should be utilized in this case.

46. To mitigate rate increases on BEC's customer classes, the following revenue assignment guidelines should be applied:

- a. No class receives a decrease;
- b. No class receives an increase greater than one and a half times the system average increase.

47. The Base Power Cost, the base component of the Power Cost Recovery Factor (PCRF), for BEC of \$ .03432/kwh is appropriate.

48. Based on the examiner's revenue requirement, the rates reflected in Examiner's Attachment No. 3 are reasonable and appropriate, in accordance with Section VII.D. of the Examiner's Report, and appropriate.

#### B. Conclusions of Law

1. BEC is a public utility as that term is defined in Section 3(c) of PURA.
2. The Commission has jurisdiction over this application pursuant to Sections 16(a), 17(e), 37 and 43(a) of PURA.
3. On March 2, 1987, BEC filed a statement of intent to change its rates in accordance with Section 43(a) of the Act.
4. BEC published and mailed notice of its application as required by Section 43(a) of PURA and P.U.C. PROC. R. 21.22(b).
5. The rates recommended herein should only be charged to BEC's customers who take service in BEC's unincorporated service area pursuant to the Commission's jurisdiction under Section 17(e) of PURA.



6. Section 27(b) of the Act requires the Commission to fix proper and adequate rates and methods of depreciation, amortization, or depletion of the several classes of property of each utility.

7. Section 41(a) of the Act sets forth the statutory test to be applied in determining the amount of CWIP to be included in rate base.

8. BEC provided no evidence which would demonstrate that its construction projects meet the criteria found in Section 41(a) of the Act.

9. BEC's base power cost and resultant PCRf, as calculated by the staff, is appropriate pursuant to P.U.C. SUBST. R. 23.23(b)(3).

10. Pursuant to Section 40 of PURA, BEC has the burden of proving its proposed rates are just and reasonable. To the extent recommended herein, BEC has met its burden of persuasion.

11. The recommendation of the examiner will allow BEC to recover its reasonable and proper operating expenses, together with a reasonable return on its invested capital pursuant to Section 39 of the Act.

12. The examiner's recommended changes to BEC's proposed operating rules and policies are reasonable and non-discriminatory, and in conformance with Commission rules.

13. The rates and rate design guidelines recommended in this Examiner's Report, if properly implemented, will be just and reasonable and not be unreasonably preferential, prejudicial, or discriminatory; and will be sufficient, equitable

and consistent in application to each class of customers, as required under Section 38 of PURA.

SIGNED AT AUSTIN, TEXAS on this the 23<sup>rd</sup> day of July 1987.

PUBLIC UTILITY COMMISSION OF TEXAS

Paula Cyr Pugsley  
PAULA CYR PUGSLEY  
HEARINGS EXAMINER

APPROVED on this the 23<sup>rd</sup> day of July 1987.

Phillip A. Holder  
PHILLIP A. HOLDER  
DIRECTOR OF HEARINGS

jb

Attachments

BLUEBONNET ELECTRIC COOPERATIVE, INC.  
Giddings, Texas

DOCKET NO. 7415  
EXAMINER'S ATTACHMENT NO. 1

<p><u>SECTION TITLE:</u></p> <p>RATE SCHEDULES</p> <p>BILLING ADJUSTMENTS</p>	<p>PUBLIC UTILITY COMMISSION OF TEXAS APPROVED</p> <p>FEB - 8 '82 DOCKET 4070</p> <p><u>E-11-2</u> BY _____ TARIFF CLERK</p>	<p>Section No. <u>401</u></p> <p>Sheet No. <u>43B</u></p> <p>Effective Date _____</p>
<p><u>APPLICABILITY:</u></p> <p>All Areas Served</p>	<p>Revision No. _____</p> <p>Page <u>1</u> of <u>2</u></p>	

The Billing Adjustments shown below are kWh charges in all rates and do not apply in satisfying either monthly or annual minimum charges.

1. Fuel Cost Adjustment (FCA) - The monthly charges shall be increased by an amount equal to the total fuel cost incurred in providing service. The applicable fuel cost will be based upon power purchased for the most recent month and shall be computed as follows:

$$A = \frac{(C \div D)}{B}$$

Where:

- A = Total Fuel Cost Adjustment Factor (\$ per kWh)
- B = Total estimated energy sold (kWh)
- C = Total estimated fuel cost in wholesale power bills
- D = Difference between actual and calculated FCA revenue collected in previous periods.

<b>SECTION TITLE:</b>  RATE SCHEDULES  BILLING ADJUSTMENTS	PUBLIC UTILITY COMMISSION OF TEXAS APPROVED  FEB-8 '82 DOCKET 4070 E-11-2 BY _____ TARIFF CLERK	Section No. 401
		Sheet No. 43C
<b>APPLICABILITY:</b>  All Areas Served		Effective Date _____  Revision No. _____  Page 2 of 2

2. Power Cost Adjustment (PCA) - The monthly charges shall be increased by an amount equal to the following:

$$PCA = \frac{(A - B + C)}{kWh_s}$$

Where:

- PCA = Power Cost Adjustment in \$/kWh applied to estimated energy sales for the billing period.
- A = Total estimated purchased power cost from all suppliers excluding fuel for the billing period.
- B = Total estimated purchased power cost from all suppliers excluding fuel which are included in the Cooperative's base rates. The base power cost is computed as:
- $$B = (D)(kWh)_s$$
- D = Base power cost in \$/kWh sold of \$0.013941
- $kWh_s$  = Total estimated energy sales for billing period.
- C = Adjustment to be applied to the current monthly billing to account for differences in PCA related costs and revenue for previous periods.

DOCKET NO. 7415

SCHEDULE I  
Page 1 of 5 Pages

PUBLIC UTILITY COMMISSION OF TEXAS

COOP FINANCIAL PLANNING MODEL

Bluebonnet Examiner's Run

ASSUMPTIONS OVER THE PLANNING HORIZON

GROWTH IN NET PLANT	0.0000	0.1500	0.1500	0.1500
EXPECTED INT RATE ON CFC DEBT	0.0000	0.0875	0.0875	0.0875
DEPRECIATION RATE	0.0328	0.0328	0.0328	0.0328
RATIO OF DEBT THAT IS REA 5%	0.0000	0.7000	0.7000	0.7000
WEIGHTED AVG COST OF EXISTING CFC DEBT	0.0814	0.0814	0.0814	0.0814

THE NON-ZERO OBJECTIVE IS BINDING

DESIRED EQUITY RATIO	0.0000	0.0000	0.0000	0.0000
DESIRED TIER	0.0000	0.0000	0.0000	0.0000
DESIRED ROR	0.0000	0.0733	0.0887	0.0887
CONSTANT DOLLAR RETURN	0.0000	0.0000	0.0000	0.0000

DOCKET NO. 7415

SCHEDULE I  
 Page 2 of 5 Pages

KEY FINANCIAL DATA

	Examiner's Run			
	9/30/86	9/30/87	9/30/88	9/30/89
DEBT BALANCE	50,741,189	59,675,326	70,064,317	83,149,991
TOTAL MARGINS AND EQUITIES	24,247,602	27,870,493	31,018,618	33,459,766
TOTAL CAPITALIZATION	74,988,791	87,545,820	101,082,934	116,609,757
DEBT RATIO	0.6767	0.6816	0.6931	0.7131
EQUITY RATIO	0.3233	0.3184	0.3069	0.2869
TOTAL	1.0000	1.0000	1.0000	1.0000
EQUITY MAINTENANCE	0	4,060,311	4,309,584	4,764,608
EQUITY LEVEL GROWTH	0	-437,420	-1,161,459	-2,323,460
CAPITAL CREDITS TO BE ROTATED	0	159,451	222,739	213,110
INTEREST	2,489,814	2,506,579	3,136,397	3,891,504
TOTAL SOURCES REQUIRED	5,418,962	6,288,921	6,507,261	6,545,762
RETURN	5,068,855	5,068,855	6,127,338	6,127,338
INTEREST	2,489,814	2,506,579	3,136,397	3,891,504
OPERATING MARGIN	2,579,041	2,562,276	2,990,941	2,235,834
NON-OPERATING REVENUE	220,923	1,090,882	250,739	289,240
G & T CREDITS	129,184	129,184	129,184	129,184
NET MARGIN	2,929,148	3,782,342	3,370,864	2,654,258
RATE BASE	69,118,306	69,118,306	69,118,306	69,118,306
ROR	0.0733	0.0733	0.0887	0.0887
ROE	0.1064	0.0919	0.0964	0.0668
WEIGHTED AVG DEBT	0.0433	0.0465	0.0492	0.0515
TIER	2.1765	2.5090	2.0748	1.6821
TIER W/O G & T	2.1246	2.4574	2.0336	1.6489
TIER W/O G & T AND NON OPER REV	2.0358	2.0222	1.9536	1.5745
DSC	2.3096	2.5390	2.2539	2.0158
DSC W/O G & T	2.2734	2.5045	2.2253	1.9916
DSC W/O GT AND NON OPER REV	2.2114	2.2129	2.1699	1.9375

DOCKET NO. 7415

SCHEDULE I  
 Page 3 of 5 Pages

Examiner's Run

BALANCE SHEET

	9/30/86	9/30/87	9/30/88	9/30/89
TOTAL UTILITY PLANT	85,671,673	97,852,668	112,148,274	128,885,430
ACCUMULATED DEPRECIATION	12,526,997	13,736,291	15,414,440	17,641,521
NET UTILITY PLANT	73,144,676	84,116,377	96,733,834	111,243,909
ENDING GENERAL FUNDS	2,568,414	3,872,030	4,485,931	5,155,417
GENERAL FUNDS EXCL ITEMS	1,536,781	1,689,308	1,865,881	2,083,959
INV IN ASSOC ORG - PAT CAP	490,504	619,688	748,872	878,056
OTHER ASSETS	4,790,073	4,790,073	4,790,073	4,790,073
<b>TOTAL ASSETS</b>	<b>82,530,448</b>	<b>95,087,477</b>	<b>108,624,591</b>	<b>124,151,414</b>
TOTAL MARGINS AND EQUITIES	24,247,602	27,870,493	31,018,618	33,459,766
LT DEBT - REA 2%	15,546,328	14,780,239	14,015,883	13,257,365
LT DEBT - REA 5%	31,228,657	37,985,390	45,745,805	55,400,992
LT DEBT - OTHER	3,966,204	6,909,698	10,302,629	14,491,634
OTHER LIABILITIES	7,541,656	7,541,656	7,541,656	7,541,656
<b>TOTAL LIAB &amp; EQUITY</b>	<b>82,530,447</b>	<b>95,087,476</b>	<b>108,624,590</b>	<b>124,151,413</b>

STATEMENT OF OPERATIONS

	9/30/86	9/30/87	9/30/88	9/30/89
DEPRECIATION EXPENSE	2,809,791	3,209,294	3,678,149	4,227,081
INTEREST	2,489,814	2,506,579	3,136,397	3,891,504
OPERATING MARGIN	2,579,041	2,562,276	2,990,941	2,235,834
NON-OPERATING REVENUE	220,923	1,090,882	250,739	289,240
CASH BEFORE DEBT SERVICE	8,099,569	9,369,031	10,056,226	10,643,660
DEBT SERVICE	3,562,789	3,740,928	4,518,954	5,344,302
<b>CASH AFTER DEBT SERVICE</b>	<b>4,536,780</b>	<b>5,628,103</b>	<b>5,537,273</b>	<b>5,299,357</b>

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SCHEDULE I  
 Page 4 of 5 Pages

Examiner's Run

GENERAL FUNDS SUMMARY

	9/30/86	9/30/87	9/30/88	9/30/89
BEGINNING GENERAL FUNDS	0	2,568,414	3,872,030	4,485,931
CASH AFTER DEBT SERVICE	4,536,780	5,628,103	5,537,273	5,299,357
GENERAL FUNDS AVAILABLE	0	8,196,517	9,409,303	9,785,288
PURCHASE OF EXCLUDABLE ITEMS	0	152,527	176,573	218,077
CAPITAL CREDITS TO BE ROTATED	0	159,451	222,739	213,110
GENERAL FUNDS INVESTED	0	4,012,508	4,524,059	4,198,684
TOTAL USE OF GENERAL FUNDS	0	4,324,487	4,923,372	4,629,871
ENDING GENERAL FUNDS	2,568,414	3,872,030	4,485,931	5,155,417

PLANT INVESTMENT & SOURCES OF FINANCING

	9/30/86	9/30/87	9/30/88	9/30/89
BEGINNING TOTAL UTILITY PLANT	0	85,671,673	97,852,668	112,148,274
TOTAL ADDITIONS	0	14,180,995	16,295,606	18,737,156
PLANT RETIREMENTS	0	2,000,000	2,000,000	2,000,000
TOTAL UTILITY PLANT	85,671,673	97,852,668	112,148,274	128,885,430
NEW DEBT - REA 5%	0	7,117,941	8,240,083	10,176,931
NEW DEBT - OTHER	0	3,050,546	3,531,464	4,361,542
TOTAL LOAN FUNDS REQUIRED	0	10,168,487	11,771,547	14,538,472
GENERAL FUNDS INVESTED	0	4,012,508	4,524,059	4,198,684
TOTAL ADDITIONS	0	14,180,995	16,295,606	18,737,156



DOCKET NO. 7415

Examiner's Run

SCHEDULE I  
 Page 5 of 5 Pages

DEBT AND DEBT SERVICE SUMMARY

	9/30/86	9/30/87	9/30/88	9/30/89
<b>REA 2%</b>				
BEGINNING BALANCE	0	15,546,328	14,780,239	14,015,883
INTEREST	0	310,927	295,605	280,318
PRINCIPAL REPAYMENT	0	766,089	764,355	758,518
LT DEBT - REA 2%	15,546,328	14,780,239	14,015,883	13,257,365
<b>REA 5%</b>				
BEGINNING BALANCE	0	31,228,657	37,985,390	45,745,805
CUMULATIVE NEW DEBT	0	7,117,941	15,358,023	25,534,954
INTEREST	0	1,739,381	2,105,272	2,541,713
PRINCIPAL REPAYMENT	0	361,208	479,668	521,743
LT DEBT - REA 5%	31,228,657	37,985,390	45,745,805	55,400,992
<b>CFC-OTHER</b>				
BEGINNING BALANCE	0	3,966,204	6,909,698	10,302,629
NEW DEBT, FIRST YEAR	0	3,050,546	3,035,582	3,019,308
NEW DEBT, SECOND YEAR	0	0	3,531,464	3,514,141
NEW DEBT, THIRD YEAR	0	0	0	4,361,542
INTEREST	0	456,271	735,521	1,069,473
PRINCIPAL REPAYMENT	0	107,052	138,534	172,537
LT DEBT - OTHER	3,966,204	6,909,698	10,302,629	14,491,634
<b>TOTAL DEBT</b>				
BEGINNING BALANCE	0	50,741,189	59,675,326	70,064,317
TOTAL LOAN FUNDS REQUIRED	0	10,168,487	11,771,547	14,538,472
INTEREST	2,489,814	2,506,579	3,136,397	3,891,504
PRINCIPAL REPAYMENT	1,072,975	1,234,349	1,382,556	1,452,798
DEBT BALANCE	50,741,189	59,675,326	70,064,317	83,149,991

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEBONNET ELECTRIC COOPERATIVE, INC.  
 COST OF SERVICE STUDY  
 STAFF PROPOSED CLASS REVENUE  
 DOCKET No. 7415

Schedule I-PK  
 Page 1 of 1  
 Revised 7-22-87

Class	Present Revenue	Staff C. O. S.	Increase		Proposed Adjustment		Proposed Revenue Requirement	Adjusted Rate of Return	Relative ROR Index
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
General Service	20,532,541	24,001,517	3,468,976	16.90	2,911,555	14.18	23,444,096	7.80	0.88
Commercial	2,590,689	2,528,181	(62,508)	(2.41)	25,907	1.00	2,616,596	10.57	1.19
Pumping Service	3,828,939	3,445,522	(383,417)	(10.01)	0	0.00	3,828,939	16.22	1.83
Large Power	3,693,862	3,658,181	(35,681)	(0.97)	55,408	1.50	3,749,270	11.07	1.25
Industrial	261,266	294,298	33,032	12.64	35,924	13.75	297,190	9.69	1.09
Public Lighting	18,106	30,393	12,287	67.86	2,667	14.73	20,773	(5.18)	(0.58)
Lighting	602,108	664,102	61,994	10.30	63,221	10.50	665,330	8.93	1.01
<b>Total</b>	<b>31,527,512</b>	<b>34,622,194</b>	<b>3,094,682</b>	<b>9.82</b>	<b>3,094,682</b>	<b>9.82</b>	<b>34,622,194</b>	<b>8.86</b>	<b>1.00</b>

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEBONNET ELECTRIC COOPERATIVE, INC.  
 COST OF SERVICE STUDY  
 REVENUE REQUIREMENT  
 DOCKET No. 7415

Schedule II-PK  
 Page 1 of 1  
 Revised 7-22-87

DESCRIPTION	REQUEST AMOUNT	STAFF ADJUSTMENT	PROPOSED AMOUNT	Gen. Service	Commercial	Pumping	Large Power	Industrial	Pub. Lighting	Sec. Lighting	Total System
Purchased Power	23,529,550	(2,933,226)	20,596,324	13,741,916	1,516,600	2,006,863	2,793,341	233,810	10,062	291,723	20,596,324
Operations and Maintenance	5,134,834	(144,007)	4,990,827	3,448,868	358,905	738,018	313,127	15,161	9,673	107,076	4,990,827
Depreciation & Amortization	2,725,123	(5,853)	2,719,270	2,046,273	202,241	220,123	156,448	12,034	4,204	77,065	2,719,270
Other taxes	580,508	(10,617)	569,891	420,304	42,579	55,843	36,242	2,573	545	11,006	569,891
Interest on Customer Deposits	75,120	0	75,120	68,082	3,954	3,050	0	0	35	0	75,120
Return	6,222,126	(75,680)	6,146,446	4,659,170	460,951	461,821	365,869	31,097	6,073	173,924	6,146,446
Revenue Requirement	38,267,269	(3,169,383)	35,110,343	24,384,612	2,585,230	3,485,725	3,665,028	294,683	30,673	664,394	35,110,343
Other Electric Revenue	(598,151)	0	(598,151)	(479,844)	(64,675)	(45,363)	(7,262)	(388)	(327)	(292)	(598,151)
Adjustment	0	110,000	110,000	96,748	7,627	5,160	416	2	47	0	110,000
Base Rate Revenue	37,669,118	(3,059,383)	34,622,192	24,001,517	2,528,181	3,445,522	3,658,181	294,298	30,393	664,102	34,622,192

PUBLIC UTILITY COMMISSION OF TEXAS  
BLUESHEDNET ELECTRIC COOPERATIVE, INC.  
COST OF SERVICE STUDY  
RATE BASE ALLOCATION  
DOCKET No. 7415

Schedule III-PK  
Page 1 of 1  
Revised 7-22-87

DESCRIPTION	REQUEST AMOUNT	STAFF ADJUSTMENT	PROPOSED AMOUNT	Gen. Service	Commercial	Pumping	Large Power	Industrial	Pub. Lighting	Sec. Lighting	Total System
	(8)	(8)	(8)								
Plant In Service	83,203,932	(154,752)	83,049,180	63,365,858	6,184,139	6,095,327	4,830,899	393,410	106,553	2,071,002	83,049,187
Accumulated depreciation	(12,510,372)	14,233	(12,496,339)	(9,514,995)	(934,750)	(983,988)	(780,881)	(62,539)	(39,878)	(179,307)	(12,496,337)
Net Plant In Service	70,693,360	(140,519)	70,552,841	53,850,863	5,251,389	5,111,339	4,050,018	330,870	66,676	1,891,695	70,552,850
Other Rate Base Items:											
Materials & Supply	1,612,260	0	1,612,260	1,229,945	120,097	118,566	93,785	7,626	2,064	40,178	1,612,260
Prepayment	130,489	0	130,489	99,546	9,720	9,596	7,591	617	167	3,252	130,489
Cash Working Capital-DEM	546,381	(50,179)	496,202	340,500	34,719	72,872	30,996	1,549	918	14,648	496,202
Cash Working Capital-PPMR	980,398	(90,839)	890,359	594,434	64,253	86,880	122,916	10,210	416	12,141	890,360
Customer Advances	(11,847,348)	(427,136)	(12,274,484)	(2,000,478)	(157,701)	(106,686)	(8,596)	(51)	(972)	0	(2,274,484)
Customer Advances-IP	(162,000)	0	(162,000)	0	0	0	(162,000)	0	0	0	(162,000)
Customer Deposits	(1,252,133)	(5,298)	(1,257,431)	(1,105,949)	(87,184)	(58,981)	(4,752)	(28)	(537)	0	(1,257,431)
Energy Prepayment	(513,862)	0	(513,862)	(451,957)	(35,629)	(24,103)	(1,942)	(12)	(220)	0	(513,862)
Subtotal	(505,815)	(713,171)	(1,078,467)	(1,293,958)	(51,721)	98,144	77,097	19,919	1,835	70,218	(1,078,466)
Total Rate Base	70,187,545	(853,690)	69,474,374	52,556,904	5,199,668	5,209,483	4,127,114	350,790	68,511	1,961,913	69,474,384
Return	6,222,126	(73,680)	6,158,903	4,659,170	460,951	461,821	365,869	-31,097	6,073	173,924	6,158,904

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEBONNET ELECTRIC COOPERATIVE, INC.  
 DOCKET NO. 7415  
 RATES & PROFORMA REVENUE

SCHEDULE IV-PA  
 PAGE 1 OF 3  
 Revised 7-22-07

Rate Class	Billing Determinants	Proposed Rate	Pro Forma Revenue
		(¢)	(¢)
<b>1. General Service</b>			
Customer Charge	469,149	0.50	3,987,767
Base Rate Energy Charge All kWh	399,121,635	0.048748	19,456,381
Subtotal			23,444,148
<b>2. Commercial</b>			
Customer Charge-Single Phase	35,130	10.00	351,300
Customer Charge-Three Phase	1,849	25.00	46,225
Base Rate Energy Charge All kWh	47,968,710	0.046261	2,219,081
Subtotal			2,616,606
<b>3. Pumping Service</b>			
Total connected HP	677,288	2.3	1,557,762
Base Rate Energy Charge All kWh	57,912,022	0.039218	2,271,194
Subtotal			3,828,956

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEMOUNT ELECTRIC COOPERATIVE, INC.  
 DOCKET NO. 7415  
 RATES & PROGRAM REVENUE

SCHEDULE IV-PK  
 PAGE 2 OF 3  
 Revised 7-22-07

Rate Class	Billing Determinants	Proposed Rate	Pro Forma Revenue
		(9)	(8)
<b>4. Large Power</b>			
<b>Large Power-Secondary</b>			
Customer Charge	1,823	90.00	164,070
Demand Charge-KW	164,240	5.00	821,200
Base Rate Energy Charge All KWH	37,632,348	0.028660	1,078,543
Subtotal			2,063,813
<b>Large Power-Primary/NO Discount</b>			
Customer Charge	119	90.00	10,710
Demand Charge-KW	56,411	5.00	282,055
Base Rate Energy Charge All KWH	18,998,644	0.028660	544,502
Subtotal			837,267
<b>Large Power-Primary/W Discount</b>			
Customer Charge	74	90.00	6,660
Demand Charge-KW	52,888	5.00	264,440
Base Rate Energy Charge All KWH	21,043,620	0.028660	603,110
3X Primary Service Discount			(26,027)
Subtotal			848,184
Total			3,749,263

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEGRASS ELECTRIC COOPERATIVE, INC.  
 DOCKET NO. 7415  
 RATES & PROFORMA REVENUE

SCHEDULE IV-PK  
 PAGE 3 OF 3  
 Revised 7-22-87

Rate Class	Billing Determinants	Proposed Rate	Pro Forma Revenue
<b>5. Industrial</b>			
Customer Charge	12	400.00	4,800
Demand Charge-KW	19,536	6.50	126,984
Base Rate Energy Charge All KWH	6,897,600	0.023980	165,404
Subtotal			297,188
<b>6. Public Lighting</b>			
Base Rate Energy Charge All KWH	348,285	0.059644	20,773
Subtotal			20,773
<b>7. Lighting</b>			
175 Watt Light	137,076	4.8537	665,326
Subtotal			665,326
Total Base Rate Revenue			34,622,261
Total Other Revenue			488,151
Total Pro Forma Operating Revenue			35,110,412
Proposed Revenue Requirement			35,110,339
Revenue Mismatch			73

DOCKET NO. 7415

APPLICATION OF BLUEBONNET ELECTRIC  
COOPERATIVE, INC. FOR AUTHORITY  
TO CHANGE RATES

SEP 17 11:53  
PUBLIC UTILITY COMMISSION  
OF TEXAS

ORDER

In public meeting at its offices in Austin, Texas, the Public Utility Commission of Texas finds that, after statutory notice was provided to the public and interested persons, the application in this case was processed by an examiner in accordance with Commission rules and applicable statutes. An Examiner's Report containing Findings of Fact and Conclusions of Law was submitted, which report is hereby ADOPTED and made a part of this Order. The Commission further issues the following Order:

1. The following sentence appearing on page 24 of the Examiner's Report is deleted:

Nevertheless, because no testimony was offered as to the construction project's prudence and no testimony was offered as to the effect removal of CWIP would exert on BEC's financial integrity, no level of CWIP is included in Bluebonnet's invested capital.

2. Finding of Fact No. 14(a) is adopted and reads as follows:

It is appropriate to allow BEC to impose a \$15 wiring inspection fee in order to reflect the costs BEC incurs in performing this service. Such fee is reflected in the following schedules:

Section III, Sheet No. 42, Item 304.A  
Section III, Sheet No. 44, Item 305  
Section III, Sheet No. 54, Item 306.K  
Section IV, Sheet No. 75, Item 401.  
Section IV, Sheet No. 78, Item 401.



3. Finding of Fact No. 22 should be amended to read as follows:

BEC did not request that any level of CWIP be included in its level of invested capital.

4. Finding of Fact No. 35 is amended to read as follows:

35. The following operations and maintenance expenses for BEC are reasonable and necessary:

Operations and Maintenance	
not adjusted	\$1,886,859
Payroll	2,158,061
Annual Leave Credit	-0-
Medical	201,273
Long Term Disability	13,274
Retirement	257,403
Savings Plan	41,403
Life Insurance	4,832
Workers Comp and Liability	285,205
Audit Expenses	20,000
LCRA Rate Intervention	43,049
Rate Case	8,333
Reclassification of Franchise	(1,689)
Tax	
Legislative Advocacy	-0-
Uncollectible Expense	<u>109,934</u>
TOTAL	\$5,027,937

5. Finding of Fact No. 39 is amended to read as follows:

39. The Cooperative's franchise tax expense of \$28,575 calculated in accordance with the examiner's

recommendations in Section VIII.B.5. of the Examiner's Report to BEC's revenue requirement is a reasonable and necessary expense and should be included as a revenue related tax for the reasons set forth in that section.

6. Finding of Fact No. 40 is amended to read as follows:

40. BEC's P.U.C. assessment of \$58,571 calculated in accordance with the examiner's recommendations set forth in Section VIII.D.2. of the Examiner's Report to BEC's revenue requirement is reasonable and necessary.

7. Finding of Fact No. 44 is amended to read as follows:

44. BEC's appropriate and reasonable revenue requirement is comprised of the following:

Purchased Power	\$20,596,324
Operations and Maintenance	5,024,486
Depreciation and Amortization	2,719,269
Other Taxes	569,984
Interest on Customer Deposits	75,128
Return	<u>6,159,311</u>
Revenue Requirement	35,147,953
MINUS	
Other Electric Revenue	<u>488,151</u>
Base Rate Revenue	34,659,802

8. Finding of Fact No. 48 is amended to read as follows:

Based on the revenue requirement of \$35,147,953, the rates reflected in the attached rate schedules are reasonable and appropriate for the reasons set forth in Section X of the Examiner's Report.

9. The petition of Bluebonnet Electric Cooperative Inc. (BEC) is hereby GRANTED in part and DENIED in part, as reflected by the terms of this order.
  
10. Within twenty (20) days after the date of this Order, BEC SHALL file revised tariff sheets in accordance with the directives of this Order, and SHALL serve one copy upon the general counsel. No later than ten (10) days after the date of the tariff filing by BEC, the general counsel SHALL file the staff's comments recommending approval or rejection of the individual sheets of the tariff proposal. No later than fifteen (15) days after the date of the tariff filing by BEC, BEC SHALL file in writing any responses to the previously filed comments of the general counsel. The Hearings Division SHALL by letter approve, modify or reject each tariff sheet, effective the date of the letter, based upon the materials submitted to the Commission under the procedures established herein. The tariff sheets shall be deemed approved and shall become effective upon expiration of twenty (20) days after the date of filing, in the absence of written notification of approval, modification or rejection by the Hearings Division. In the event that any sheets are modified or rejected, the Company SHALL file proposed revisions of those sheets in accordance with the Hearings Division letter within ten (10) days after the date of that letter, with the review procedures set out above once again to apply. Copies of all filings and of the Hearings Division letter(s) under this procedure SHALL be served on all parties of record and the general counsel.
  
11. The revised and approved rates shall be charged for service in all unincorporated areas wherein this Commission exercises its exclusive original jurisdiction. Said rates may be charged only for service rendered in the above areas after the tariff approval date. Should the tariff approval date fall within BEC's billing

period, BEC shall be authorized to prorate each customer's bill to reflect that customer's charge, demand charge, and daily energy consumption at the appropriate new rates.

The Commission further issues the following order:

1. BEC SHALL evaluate all conservation alternatives for its service area to determine conservation potential.
2. BEC SHALL delineate goals for its conservation programs listed in its Energy Efficiency Plan and provide in its next filed Energy Efficiency Plan detailed analyses as to how the goals were selected, the status of the goals, and the process and criteria utilized in its program selection.
3. BEC SHALL collect end-use data for all classes of customers to identify conservation options.
4. BEC SHALL study the impact of all of its programs, to include benefit/cost analyses, whether offered by BEC or in conjunction with the LCRA, by the least expensive means available.
5. BEC SHALL supply its program evaluation data to LCRA in conjunction with LCRA's resource plan and program planning unless such data is of a proprietary nature to which adequate protection cannot be accorded.
6. BEC SHALL include a detailed description of the specific accounts to be used and the cost accounting system to be employed to record costs associated with its energy programs in its next filed Energy Efficiency Plan.
7. BEC shall consider, prior to its next filed rate case, various alternatives to address the timely return of capital credits over

approximately \$700,000 where such return cannot be effectuated under BEC's current 20 year rotation schedule.

8. All motions, applications, and requests for entry of specific findings of fact and conclusions of law and other requests for relief, general or specific, if not expressly granted herein are DENIED for want of merit.

SIGNED AT AUSTIN, TEXAS on this the 17<sup>th</sup> day of August 1987.

PUBLIC UTILITY COMMISSION OF TEXAS

SIGNED: Dennis L. Thomas  
DENNIS L. THOMAS

SIGNED: Jo Campbell  
JO CAMPBELL

I dissent with regard to the treatment of BEC's rate intervention expenses because I believe the examiner's recommendation should have been upheld for the reasons set forth by the examiner in her report.

SIGNED: Peggy Rosson  
PEGGY ROSSON

ATTEST:

Phillip A. Holder  
PHILLIP A. HOLDER  
SECRETARY OF THE COMMISSION

jb

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEBONNET ELECTRIC COOPERATIVE, INC.  
 COST OF SERVICE STUDY  
 RATE BASE ALLOCATION  
 DOCKET No. 7415

Schedule III-PK  
 Page 1 of 1  
 Revised 8-14-87

DESCRIPTION	REQUEST	STAFF	PROPOSED	Gen. Service	Commercial	Pumping	Large Power	Industrial	Pub. Lighting	Sec. Lighting	Total System
	AMOUNT	ADJUSTMENT	AMOUNT								
	(8)	(9)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Plant In Service	83,203,932	(154,752)	83,049,180	63,365,858	6,186,139	6,095,327	4,830,899	393,410	106,553	2,071,002	83,049,187
Accumulated depreciation	(12,510,572)	14,233	(12,496,339)	(9,514,995)	(934,750)	(983,988)	(780,881)	(62,539)	(39,878)	(179,307)	(12,496,337)
<b>Net Plant in Service</b>	<b>70,693,360</b>	<b>(140,519)</b>	<b>70,552,841</b>	<b>53,850,863</b>	<b>5,251,389</b>	<b>5,111,339</b>	<b>4,050,018</b>	<b>330,870</b>	<b>66,676</b>	<b>1,891,695</b>	<b>70,552,850</b>
<b>Other Rate Base Items:</b>											
Materials & Supply	1,612,260	0	1,612,260	1,229,945	120,097	118,566	93,785	7,626	2,064	40,178	1,612,260
Prepayment	130,489	0	130,489	99,546	9,720	9,596	7,591	617	167	3,252	130,489
Cash Working Capital-OLM	546,381	(48,519)	497,862	341,639	34,835	73,116	31,100	1,554	921	14,697	497,862
Cash Working Capital-PPWR	980,398	(87,061)	893,337	596,422	64,470	87,171	122,424	10,252	417	12,182	893,338
Customer Advances	(1,847,348)	(427,136)	(2,274,484)	(2,000,478)	(157,701)	(106,686)	(8,596)	(51)	(972)	0	(2,274,484)
Customer Advances-LP	(162,000)	0	(162,000)	0	0	0	(162,000)	0	0	0	(162,000)
Customer Deposits	(1,252,133)	(5,298)	(1,257,431)	(1,105,949)	(87,184)	(58,981)	(4,752)	(28)	(537)	0	(1,257,431)
Energy Prepayment	(513,862)	0	(513,862)	(451,957)	(35,629)	(26,103)	(1,942)	(12)	(220)	0	(513,862)
<b>Subtotal</b>	<b>(505,815)</b>	<b>(708,533)</b>	<b>(1,073,829)</b>	<b>(1,290,831)</b>	<b>(51,390)</b>	<b>98,679</b>	<b>77,609</b>	<b>19,958</b>	<b>1,840</b>	<b>-70,308</b>	<b>(1,073,828)</b>
<b>Total Rate Base</b>	<b>70,187,545</b>	<b>(849,052)</b>	<b>69,479,012</b>	<b>52,560,032</b>	<b>5,199,999</b>	<b>5,210,018</b>	<b>4,127,626</b>	<b>350,829</b>	<b>68,515</b>	<b>1,962,003</b>	<b>69,479,022</b>
<b>Return</b>	<b>6,222,126</b>	<b>(73,268)</b>	<b>6,159,314</b>	<b>4,659,447</b>	<b>460,980</b>	<b>461,868</b>	<b>365,914</b>	<b>31,101</b>	<b>6,074</b>	<b>173,932</b>	<b>6,159,315</b>

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEBONNET ELECTRIC COOPERATIVE, INC.  
 COST OF SERVICE STUDY  
 REVENUE REQUIREMENT  
 SOCKET No. 7415

Schedule II-PK  
 Page 1 of 1  
 Revised 8-14-87

DESCRIPTION	REQUEST AMOUNT	STAFF ADJUSTMENT	PROPOSED AMOUNT	Gen. Service	Commercial	Pumping	Large Power	Industrial	Pub. Lighting	Sec. Lighting	Total System
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Purchased Power	23,529,330	(2,933,226)	20,596,324	13,741,916	1,516,600	2,006,063	2,793,341	233,818	10,062	293,723	20,596,324
Operations and Maintenance	5,134,834	(106,898)	5,027,936	3,474,615	361,609	741,708	317,127	15,483	9,704	107,690	5,027,938
Depreciation & Amortization	2,725,123	(5,853)	2,719,270	2,046,273	202,241	220,123	156,448	12,034	4,284	77,865	2,719,270
Other taxes	580,500	(10,524)	569,974	420,370	42,585	55,851	36,251	2,573	545	11,808	569,984
Interest on Customer Deposits	75,128	0	75,128	68,082	3,954	3,058	0	0	35	0	75,128
Returns	6,222,126	(75,268)	6,159,314	4,659,447	460,980	461,868	365,914	31,101	6,074	173,932	6,159,315
<b>Revenue Requirement</b>	<b>38,267,269</b>	<b>(3,131,769)</b>	<b>35,147,956</b>	<b>24,410,703</b>	<b>2,587,970</b>	<b>3,489,472</b>	<b>3,669,081</b>	<b>295,010</b>	<b>30,704</b>	<b>665,018</b>	<b>35,147,959</b>
Other Electric Revenue	(598,151)	0	(598,151)	(479,844)	(64,675)	(45,363)	(7,262)	(388)	(327)	(292)	(598,151)
Adjustment	0	110,000	110,000	96,748	7,627	5,160	416	2	47	0	110,000
<b>Base Rate Revenue</b>	<b>37,669,118</b>	<b>(3,021,769)</b>	<b>34,659,805</b>	<b>24,027,607</b>	<b>2,530,922</b>	<b>3,449,268</b>	<b>3,662,235</b>	<b>294,625</b>	<b>30,425</b>	<b>664,726</b>	<b>34,659,808</b>

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEGRASS ELECTRIC COOPERATIVE, INC.  
 COST OF SERVICE STUDY  
 STAFF PROPOSED CLASS REVENUE  
 DOCKET No. 7415

Schedule I-PK  
 Page 1 of 1  
 Revised 8-14-87

Class	Present Revenue	Staff C.O.S.	Increase		Proposed Adjustment		Proposed Revenue Requirement	Adjusted Rate of Return	Relative ROR Index
	(6)	(6)	(6)	(2)	(6)	(2)	(6)	(2)	
General Service	20,532,541	24,027,607	3,495,066	17.02	2,940,314	14.32	23,472,056	7.81	0.88
Commercial	2,590,689	2,530,922	(59,768)	(2.31)	29,108	1.12	2,619,797	10.57	1.19
Pumping Service	3,828,939	3,449,268	(379,671)	(9.92)	0	0.00	3,828,939	16.15	1.82
Large Power	3,693,862	3,662,235	(31,627)	(0.86)	59,972	1.62	3,753,834	11.08	1.25
Industrial	261,266	294,625	33,359	12.77	36,247	13.87	297,513	9.69	1.09
Public Lighting	18,106	30,425	12,318	68.03	2,689	14.85	20,796	(5.19)	(0.59)
Lighting	602,108	664,726	62,618	10.40	63,963	10.62	666,074	8.93	1.01
<b>Total</b>	<b>31,527,512</b>	<b>34,659,808</b>	<b>3,132,296</b>	<b>9.94</b>	<b>3,132,296</b>	<b>9.94</b>	<b>34,659,808</b>	<b>8.86</b>	<b>1.00</b>



PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEBONNET ELECTRIC COOPERATIVE, INC.  
 DOCKET NO. 7415  
 RATES & PROFORMA REVENUE

SCHEDULE IV-PK  
 PAGE 2 OF 3  
 Revised 8-14-87

Rate Class	Billing Determinants	Proposed Rate	Pro Forma Revenue
		(\$)	(\$)
<b>4. Large Power</b>			
<b>Large Power-Secondary</b>			
Customer Charge	1,823	90.00	164,070
Demand Charge-KW	164,240	5.00	821,200
Base Rate Energy Charge All KWH	37,632,348	0.028719	1,080,763
Subtotal			2,066,033
<b>Large Power-Primary/NO Discount</b>			
Customer Charge	119	90.00	10,710
Demand Charge-KW	56,411	5.00	282,053
Base Rate Energy Charge All KWH	18,998,664	0.028719	545,623
Subtotal			838,386
<b>Large Power-Primary/N Discount</b>			
Customer Charge	74	90.00	6,660
Demand Charge-KW	52,888	5.00	264,440
Base Rate Energy Charge All KWH	21,043,620	0.028719	604,352
XX Primary Service Discount			(26,064)
Subtotal			849,388
Total			3,753,809

PUBLIC UTILITY COMMISSION OF TEXAS  
 BLUEBONNET ELECTRIC COOPERATIVE, INC.  
 DOCKET NO. 7415  
 RATES & PROFORMA REVENUE

SCHEDULE IV-PK  
 PAGE 3 OF 3  
 Revised 8-14-87

<u>Rate Class</u>	<u>Billing Determinants</u>	<u>Proposed Rate</u>	<u>Pro Forma Revenue</u>
<b>5. Industrial</b>			
Customer Charge	12	400.00	4,800
Demand Charge-KW	19,536	6.50	126,984
Base Rate Energy Charge All KWH	6,897,600	0.024027	165,729
Subtotal			297,513
<b>6. Public Lighting</b>			
Base Rate Energy Charge All KWH	348,285	0.059710	20,796
Subtotal			20,796
<b>7. Lighting</b>			
175 Watt Light	137,076	4.8600	666,189
Subtotal			666,189
Total Base Rate Revenue			34,659,968
Total Other Revenue			488,151
Total Pro Forma Operating Revenue			35,148,119
Proposed Revenue Requirement			35,147,953
Revenue Mismatch			166

APPLICATION OF HILL COUNTY ELECTRIC  
COOPERATIVE, INC. FOR AUTHORITY  
TO CHANGE RATES

§  
§

DOCKET NO. 7154

April 16, 1988

Examiner's Report adopted with modifications; request for rate increase approved in part.

[1] RATEMAKING - COST OF SERVICE - RATE OF RETURN

The rate of return for an electric cooperative was set at a level which would allow it to achieve 40 percent equity as a percentage of assets calculated by including generation and transmission credits.

DOCKET NO. 7154

APPLICATION OF HILL COUNTY	I	PUBLIC UTILITY COMMISSION
ELECTRIC COOPERATIVE, INC.	I	
FOR AUTHORITY TO CHANGE RATES	I	OF TEXAS

EXAMINER'S REPORT

I. Procedural History

On October 22, 1986, Hill County Electric Cooperative, Inc. (Hill County or the Coop) filed an application to increase rates in all areas not within the incorporated limits of a municipality. Hill County is asking to increase rates by approximately \$1,015,608, or 10.01 percent, over test year revenues. Hill County used a test year ending December 31, 1985. All customers and classes of customers will be affected.

By order dated October 29, 1986, a prehearing conference was scheduled for November 18, 1986. In addition, the operation of the proposed rate schedule was suspended for 150 days from the effective date of November 26, 1986, until April 25, 1987.

On November 17, 1986, the City of Glenn Heights filed a motion to intervene.

At the prehearing conference on November 18, 1986, Mr. Campbell McGinnis appeared for Hill County and Commission Deputy General Counsel Bret Slocum appeared on behalf of the public interest. No one appeared for the City of Glenn Heights. That city's motion to intervene was granted without objection. In addition, a procedural schedule was established.

On November 26, 1986, the City of DeSoto filed a motion to intervene. This motion was granted without objection by order dated December 11, 1986.

The hearing on the merits was held on January 21, 1987. Mr. McGinnis and Mr. Slocum appeared. No one appeared on behalf of the intervenor cities. Aside from filing a motion to intervene, the cities did not participate in the Commission proceedings.

At the hearing, Mr. McGinnis and Mr. Slocum stated that they had reached a settlement with respect to all but one issue: rate of return (ROR). Mr. McGinnis indicated that Hill County would not contest (although it did not necessarily agree with) the staff recommendations with respect to the other issues. The examiner is therefore treating such issues as stipulated. The testimony of the Hill County and staff witnesses testifying on subjects other than ROR was admitted into evidence without objection or cross-examination. The hearing on the ROR issue lasted for one day. At the hearing, one issue discussed was whether or not the examiner could utilize the assistance of staff experts in computing the dollar effect of her ROR recommendation, if it differed from that of both Hill County and the staff. Mr. Slocum stated that all staff experts who could compute such numbers had discussed the case with staff witnesses. Mr. McGinnis proposed that a second hearing be held to address such calculations. After some discussion, however, Mr. McGinnis and Mr. Slocum agreed to submit as a joint late filed exhibit a matrix which would indicate the dollar effect of different variables relating to ROR. Deadlines for filing this matrix and briefs were established.

By order dated February 5, 1987, the deadlines for filing the matrix and briefs were extended by approximately one week, at the request of the parties.

The matrix was filed February 9, 1987. A copy is attached to the Examiner's Report as Appendix A. It was admitted into evidence by an order dated February 20, 1987.

Hill County and general counsel filed briefs on February 13, 1987, and reply briefs on February 20, 1987. On February 23, 1987, Hill County filed a response to general counsel's reply brief. Responses to reply briefs were not provided for in the briefing schedule established at the hearing. However, since general counsel has not objected to Hill County's response, the examiner has considered it.

Hill County's rate filing package (RFP) recites that copies of it were submitted to municipalities in the Coop's service area simultaneously with the filing at the Commission. However, no appeals of municipal ratesetting decisions have been received. Thus, this docket concerns only service provided by Hill County in areas other than those within the limits of cities which have not ceded their original jurisdiction over Hill County's rates to the Commission.

Hill County provided proof of notice in substantial compliance with the requirements of P.U.C. PROC. R. 21.22 and Section 43(a) of the Public Utility Regulatory Act (PURA), Tex. Rev. Civ. Stat. Ann. art. 1446c (Vernon Supp. 1987). (Publication in a newspaper having general circulation in one county served by Hill County (Dallas County) was completed one day late. However, there were neither objections to this nor requests to intervene or to participate in the case which were filed late as a result.)

The Commission has jurisdiction over this case pursuant to PURA Sections 16, 17(e) and 37.

## II. Opinion

### A. Description of the System

Hill County is a member-owned electric utility cooperative (coop). It provides electric utility service to its members in Dallas, Ellis, Hill, Johnson and McLennan Counties of Texas under a certificate of convenience and necessity issued by the Commission. Hill County serves approximately 11,250 members. Its customers include residential, small commercial, large power, and governmental entities, churches and Diamond Shamrock. Hill County does not generate power. It receives wholesale power from Brazos Electric Power Cooperative (Brazos), a generation and transmission (G&T) coop of which Hill County is a member. Hill County owns and operates approximately 2,229 miles of line. Its system is served by 5 substations and 6 metering points which are owned or serviced by Brazos.

### B. Invested Capital

Total invested capital as proposed and as stipulated to by the parties is as follows:

Table I

	<u>Coop Amount</u>	<u>Staff Amount</u>	<u>Stipulated Amount</u>
Plant in Service	\$15,148,118	\$15,148,118	\$15,148,118
Accumulated Depreciation	3,384,745	3,384,745	3,384,745
Net Plant in Service	11,763,373	11,763,373	11,763,373
Construction Work in Progress	0	0	0
Working Cash Allowance	157,808	156,253	156,253
Materials and Supplies	173,848	173,848	173,848
Prepayments	31,454	31,454	31,454
Customer Deposits	108,925	108,925	108,925
Other Cost Free Capital	240,891	240,891	240,891
 Total Invested Capital	 \$11,776,667	 \$11,775,112	 \$11,775,112

Ms. Judy K. Lambert of C. H. Guernsey Company testified for Hill County regarding invested capital. As the above table indicates, the staff proposed only a \$1,555 downward adjustment to working cash allowance. Staff Accountant Anthony Meridith testified that this adjustment to working cash allowance results from the staff adjustments to operations and maintenance expense (O&M). He explained that the cash working capital figure was derived by performing a limited days lag study on purchased power expense and by applying a 1/8 of O&M working cash allowance factor as allowed by the Commission's Substantive Rules. Mr. Meridith accepted the factors requested by Hill County and applied them to the staff's recommended test year expense for purchased power and O&M. As indicated previously, Hill County does not contest this adjustment.

The examiner finds the stipulated amount for invested capital to be reasonable and supported by the evidence, and recommends adoption of a total invested capital figure of \$11,775,112 for Hill County.

#### C. Rate of Return

Three witnesses in this case testified as to the appropriate ROR: Hill County General Manager Sam Houston; Hill County Consultant Carl N. Stover of C. H. Guernsey & company;

and Staff Financial Analyst Raymond R. Orozco. Hill County proposed a 12.5 percent ROR. The staff recommended a 10 percent ROR. The difference in the effect on Hill County's revenues of these two ROR proposals is approximately \$300,000 per year. The examiner recommends approval of Hill County's requested 12.5 percent ROR.

1. Financial Characteristics of Coops in General and Definitions of Financial Terms

By way of background, the witnesses testified concerning coops in general. Evidence was also presented clarifying the meaning of certain financial terms as used in this case. Based on this testimony, which for the most part is not contested, the examiner concludes the following.

A coop's capital structure includes debt and equity. The primary source of debt capital for coops historically has been long-term mortgage loans from the Rural Electrification Administration (REA), which administers federal loan funds. Recent federal policy favors inducing coops to obtain financing from other sources by reducing the amount of REA debt capital available to less than a coop's total financing requirement and increasing the interest rate on REA loans from 2 to 5 percent. The Cooperative Finance Corporation (CFC) was formed under the auspices of REA in order to satisfy those financing needs of coops which are not met by REA. CFC is a finance cooperative composed of member electric coops. It obtains its funds by selling bonds at the going rate in normal commercial credit markets. These bonds are secured by mortgage notes issued to CFC by its members in exchange for loan funds advanced to members by CFC. Coops are increasingly reliant on CFC funds.

A coop's return must cover its interest cost on outstanding debt, as well as on loan funds advanced during the period rates are in effect. In addition, it must allow the coop to satisfy financial performance standards defined in its debt obligations and mortgage indentures. The following such standards have been established:



	<u>REA Default Levels</u>	<u>CFC- Recommended Levels</u>
Times Interest Earned Ratio (TIER)	1.5	2.5 - 3.5
Debt Service Coverage Ratio (DSC)	1.25	

These standards are calculated as follows:

$$\text{TIER} = \frac{\text{Patronage Capital Margins} + \text{Interest Expense}}{\text{Interest Expense}}$$

$$\text{DSC} = \frac{\text{Patronage Capital Margins} + \text{Interest Expense} + \text{Depreciation} + \text{Amortization Expense}}{\text{Sum of All Payments of Principal and Interest Made Annually}}$$

An issue arose in this case as to what type of TIER and DSC figures are appropriate in analyzing Hill County's ROR. Hill County has some non-operating revenues. Interest received from investment of general funds is an example. Also, as a member of Brazos, Hill County accrues G&T capital credits. There are three types of TIER and DSC figures: net TIER and DSC (which include G&T credits and non-operating revenues), TIER and DSC without G&T credits (which include non-operating revenues) and operating TIER and DSC (which exclude G&T credits and non-operating revenues). The REA and CFC standards shown above are for net TIER and DSC.

Mr. Orozco testified that non-operating revenues are cash and should be taken into account in analyzing ROR. In brief, general counsel questions why Hill County ignored "non-operating income, which is cash income" (emphasis in original) in its analysis. However, Mr. Stover testified that non-operating revenues can be cash or non-cash and that he included cash non-operating revenues in his analysis. In brief, Hill County states that because the staff inputs were used in the stipulated matrix (Examiner's Exhibit A), cash non-operating income was included. The matrix does not include specific variables for cash or non-cash operating income. The examiner concludes from all of the above that cash non-operating income is incorporated in the figures set forth in Examiner's Exhibit A, and that, unlike G&T credits, non-operating income is not a disputed issue in this case.

A coop's equity capital (known as patronage capital) represents the sum of its members' net operating margins. Such margins are the portion of rates which exceeds the cost of providing electric service. Each coop begins operation with 100 percent debt. As the coop accumulates margins, it builds to the desired equity ratio. The REA recommends at least 40 percent equity, and the CFC recommends at least 30 percent equity.

Like TIER and DSC, equity can be calculated including or excluding G&T credits. Which of the two is the more appropriate is a contested issue in this case. In addition, there are two types of equity ratios, which can be expressed as follows:

$$\text{Equity as a Percentage of Assets} = \frac{\text{Equity}}{\text{Total Assets}}$$

$$\text{Equity as a Percentage of Capitalization} = \frac{\text{Equity}}{\text{Equity} + \text{Long-Term Debt}}$$

The REA and CFC standards refer to equity as a percentage of assets. For clarity, except where indicated otherwise, the equity figures described in the rest of the Examiner's Report refer to equity as a percentage of assets. This will permit ready comparison to the REA and CFC standards. However, the equity figures contained in the stipulated matrix (Examiner's Exhibit A) refer to equity as a percentage of capitalization. For Hill County, equity as a percentage of assets can be converted to equity as a percentage of capitalization by adding approximately three percentage points. For example, 43 percent equity as a percentage of assets is approximately 46 percent equity as a percentage of capitalization.

At the close of each year, total margins accumulated by a coop are allocated to each member based on that member's actual contribution to margins during the year. Margins so allocated are known as capital credits. The cooperative concept contemplates rotation of equity by retiring old capital credits as new ones accumulate. Such rotation is intended to ensure that each member bears an equal proportion of the equity capital burden over time. A coop's tax-exempt status is based on this concept. However, a coop can distribute such credits to its members only when its realized net margins exceed its equity maintenance and building requirements. With certain exceptions, the REA and CFC mortgages prohibit distributions of capital credits unless the coop has 40 percent equity.

A coop's return may be viewed as the formula:

Interest  
+ Net Margin for Equity Objectives  
+ Net Margin for Capital Credit Rotation  
Return

In this case, the Interest and Net Margin for Capital Credit Rotation components of the above formula are not contested. The three ROR witnesses also agreed that attainment of a coop's financial goals must be balanced against the impact of a sizable rate increase on its customers.

## 2. Hill County's Financial Condition and Objectives

Based on undisputed testimony, the examiner further concludes the following. Hill County was a 70 percent REA and 30 percent CFC borrower (a 70/30 borrower) on its last loan. It is expected to remain a 70/30 borrower over the next three years.

As of December 31, 1985, Hill County's net TIER was 2.86. This compares with a median net TIER of 2.43 for United States (U.S.) coops and 2.59 for Texas coops. Hill County's objective is to maintain its operating TIER in the 2.5 to 3.5 range. As of December 31, 1985, Hill County's net DSC was 2.93. This compares with a median net DSC of 2.26 for U.S. coops and 2.36 for Texas coops.

Hill County's equity as a percentage of capitalization was 46.53 percent as of December 31, 1985, 46.06 percent as of the time the rate case was filed, and, based on a preliminary 1986 REA Form 7, 44.15 percent as of the time of the hearing. Comparable equity figures are 38.52 percent for U.S. coops and 34.34 percent for Texas coops. Hill County's equity ratio has declined steadily since 1982, when it was 50.69 percent. Hill County considers its optimum and desired equity as a percentage of capitalization to be 46 to 50 percent.

In the past, Hill County has rotated back to its membership 20 percent of the prior year's margins. Mr. Orozco comments that this methodology is generally used during the period between a coop's attainment of 30 percent equity and its attainment of 40 percent equity (both expressed as a percentage of assets). Hill County's board of directors recently

approved an objective of maintaining a 20-year rotation cycle. Mr. Orozco stated that this is appropriate considering Hill County's present equity ratio.

### 3. Hill County's Financial Model

Mr. Stover's ROR recommendation is based on his evaluation of a three-year (1986-1988) planning horizon model. This model incorporates the following assumptions relevant to the dispute over ROR in this case:

- (1) Additions in Hill County's net plant of \$6.3 million through 1988, which corresponds to a compound rate of growth in net plant of 12 percent per year;
- (2) An increase in Hill County's ratio of general funds to total utility plant from 2.71 percent during the test year to 4.8 percent in 1986, and to 8.0 percent in 1987 and 1988;
- (3) Equity as a percentage of assets of 41.5 percent as of December 31, 1986, increasing one percentage point per year for 1987 and 1988; and
- (4) Maintenance of an operating TIER of at least 2.5.

In order to realize these objectives, Mr. Stover testified, an ROR of 12 to 13.6 percent is needed.

Mr. Stover testified that assuming a 5.068 percent ROR is earned in the first year of the planning horizon, and that Hill County's requested 12.5 percent ROR is earned in the second and third years, equity would be 41.5 percent in 1986, 41.6 percent in 1987 and 43.0 percent in 1988. The operating TIER would be 2.48.

### 4. Staff's Financial Model

Like Mr. Stover, Mr. Orozco based his ROR recommendation on a three-year planning horizon model. However, he also discussed another approach. According to Mr. Orozco, one formula which would allow quantification of the growth and capital credit rotation determinants of the return on equity (ROE) for a coop is expressed as follows:

$$K_e = g + 1/n$$

where:

Ke = Required ROE

g = Annual Rate of Growth in Total Capitalization

n = Desired Capital Credit Rotation Period

This formula allows the coop to rotate  $1/n$  (where  $n$  is the number of years in the rotation cycle) of the equity balance which exists at the beginning of each year regardless of size. Also, by combining the rotation component ( $1/n$ ) with the rate of growth in capitalization ( $g$ ) in the formula, the coop will be able to rotate on the basis of an increasing equity dollar balance. This formula yields a 17 percent ROE given a growth rate of 12 percent and a 20-year rotation period. When this ROE is used in Hill County's capital structure as of the end of the test year to determine an average weighted cost of capital, the ROR is 11.11 percent.

Mr. Orozco testified that this formula assumes that the dollar amount in rate base and the coop's total capitalization are the same value. Differences in these figures, such as those which exist in this docket, will result in some inaccuracy in estimating the required ROE. However, he concluded, the above formula can be utilized to check the reasonableness of the ROE computation which "falls out" of the staff's planning horizon model.

The assumptions incorporated in the staff's planning horizon model which differ from the previously described assumptions in Hill County's model are as follows:

- (1) Use of an annual growth rate for net plant of 7.54 percent in 1986, based on more recent figures concerning the 1986 growth rate than those used by Hill County. Mr. Orozco used Hill County's 12 percent figure for 1987 and 1988;
- (2) An increase in Hill County's ratio of general funds to total utility plant from 2.71 percent in 1986 to 3.5 percent in 1987 and 5 percent in 1988;
- (3) Equity as a percentage of assets of 40 percent throughout the three-year period;
- (4) Maintenance of net TIER and DSC ratios higher than the REA and CFC default levels and generally comparable to the U.S. and Texas medians; and
- (5) Maintenance of TIER and DSC ratios without G&T credits at a level which represents a safe compromise between U.S. and Texas median net TIER and DSC levels and cash payment capability.

Mr. Orozco used a 1986 ROR of 6.9 percent and the rate base recommended by the staff accountant. He determined the ROR for 1987 and 1988 through an analysis using the staff financial planning model. Mr. Orozco assumed an effective date for the rate increase of March 1, 1987.

Mr. Orozco testified that using Hill County's requested 12.5 percent ROR in the staff model yields the following results:

	<u>1987</u>	<u>1988</u>
Net TIER	3.77	3.66
Net DSC	3.65	3.57
Equity	47.81%	48.58%

(The equity figure is as a percentage of capitalization.) He characterized these figures as unnecessarily high. According to Mr. Orozco, RORs ranging from 9.0 percent to 11.25 percent result in strong net TIER, net DSC, and equity ratios for Hill County.

Mr. Orozco testified he believes a 10 percent ROR is the most appropriate for Hill County. He explained his reasoning as follows. At a 10 percent ROR, Hill County's 1987 projected net TIER of 3.29 is higher than both the U.S. and Texas median TIERS. In 1988, the net TIER is still a strong 3.08. TIERS without G&T credits will remain above 2.0 through 1988. Net DSCs of 3.27 and 3.10 for 1987 to 1988 are well above both the U.S. and Texas medians. DSCs without G&T credits are very close to both the U.S. and Texas medians for net DSC. Equity as a percent of capitalization remains very close to 46 percent. Finally, the 10.0 percent ROR compares favorably with the 11.07 percent obtained using the  $1/n + g$  formula.

##### 5. Issues Concerning Differences in ROR Analyses

The horizon planning models of Hill County and the staff produce the same results when the variables are the same. (Joint Exhibit 1.) Hill County has chosen not to dispute some of the staff's inputs. The dispute over ROR focuses on disagreement as to four inputs:

- (1) The amount of growth in net plant in 1986;
- (2) The ratio of general funds to total utility plant;
- (3) The appropriate equity objective; and
- (4) The treatment of G&T credits.

These inputs are discussed in the sections which follow.

a. 1986 Growth in Net Plant. Hill County's RFP (Schedule N-1.0 at 3) indicates that when the rate case was filed, Hill County was expecting an average 12 percent growth in net plant over the period 1986-1988. Mr. Stover stated that Hill County's average compound growth rate was 13.2 percent for the period 1975-1985 and 14.26 percent for the period 1980-1985.

For 1987 and 1988 Mr. Orozco adopted Hill County's proposed 12 percent growth figure, but for 1986 he used a 7.54 percent figure. Mr. Orozco reasoned that, based on recent data, his 1986 figure appears more likely to be the actual growth experienced in that year.

Mr. Stover testified in rebuttal that Hill County was not suggesting that the growth in each year would be 12 percent, but that over a three-year period it would average 12 percent.

At the hearing, Mr. Houston testified that Hill County prepares work plans for two-year periods. Two such work plans were for the years 1985-1986 and 1987-1988. According to Mr. Houston, these work plans must be approved by Hill County's consulting engineers, its board of directors, and REA. Hill County must obtain REA's permission before revising an approved work plan. It has revised its work plans in the past. Mr. Houston stated that REA has approved both the 1985-1986 and the 1987-1988 work plans. Mr. Houston indicated that if a coop spends less than that indicated in its approved work plan, the amount of the associated REA loan is based on the amount spent. REA will not loan money to cover expenditures in excess of 130 percent of the amount indicated in the approved work plan. Mr. Houston commented that if a coop does not complete a project described in a work plan and the project is proposed in the next work plan, REA approval for

the project must be reobtained. Mr. Houston did not have any data on how well Hill County's approved work plans have predicted reality.

Mr. Houston further testified that on a five- or ten-year compound average basis, Hill County has experienced stable net plant growth of approximately 13 to 14 percent. However, on an annual basis, this growth rate is lumpy, varying considerably from year to year. He stated that the reason the 1986 figures were atypically low is that in 1985 Hill County performed some of the work scheduled for 1986 in the 1985-1986 work plan, because it had a contractor available. None of the work for the 1985-1986 work plan was carried over to the 1987-1988 work plan. Mr. Houston stated that Hill County's 1987-1988 work plan indicates that Hill County will spend approximately \$2.4 million in each of the years 1987 and 1988. This would amount to a total of \$6.3 million during the period 1986-1988, resulting in an average growth rate of 12 percent during the three-year period.

At the hearing, Mr. Orozco stated that he had not reviewed Hill County's work plans. In general, he accepted a 12 percent growth rate as reasonable based on historical figures for Hill County. Mr. Orozco testified that he is not saying that Hill County will not spend the \$6.3 million in question. He noted that Hill County's figure is an estimate, but agreed that he does not have a better estimate. However, he felt, Hill County has an option to delay spending part of that amount by deferring some of its construction until 1989. He agreed that, in general, coops' plant investment patterns are lumpy.

In brief, general counsel argues that the slowdown in the Texas economy is likely to reduce Hill County's growth rate. General counsel also appears to suggest that Hill County might have deliberately overestimated growth projections in its work plans to minimize the possibility that the cost of work performed will exceed REA's 130 percent lending limit. Finally, general counsel notes that the actual work done in 1986 was less than Hill County projected in its RFP, and that now planned for 1987-1988 is higher than that projected in the RFP. General counsel disputes Hill County's contention that these projected increases in work for 1987-1988 will occur, given Mr. Houston's testimony that no work was carried over from the 1985-1986 work plan to the 1987-1988 work plan.

The examiner recommends approval of Hill County's proposed 12 percent net plant growth rate for 1986 through 1988. As Hill County notes, this figure is conservative given Hill County's historical net plant growth rate. (See Schedule R-1.0 of the RFP.) The



unusually low 1986 growth rate was adequately explained by Mr. Houston. Hill County has experienced individual years of low growth bracketed by years of much higher growth. (Id.) Estimates of growth for the period 1987-1988 which, if they materialize, will result in an average growth rate of 12 percent for the period 1986-1988 have been approved by Hill County's consulting engineers, its board of directors and the REA. These estimates are based on the expected cost of specific projects planned. The examiner finds no reliable basis to believe that Hill County deliberately overestimated its growth projections. Finally, while the record reflects that Mr. Orozco is an experienced financial analyst, on the net plant growth issue, Mr. Houston is the more credible witness in light of his demonstrated familiarity with Hill County's particular plant investment needs and plans and his years of experience in the management of coops.

b. Ratio of General Funds to Total Utility Plant. As noted previously, in its model Hill County increased its ratio of general funds to total utility plant from 2.71 percent during the test year to 4.8 percent in 1986, and to 8.0 percent in 1987 and 1988. Mr. Orozco used a more gradual increase of 2.71 percent in 1986, 3.5 percent in 1987, and 5 percent in 1988. In his direct testimony, Mr. Orozco noted that there is no current standard of adequacy for this ratio. Absent any standard, he stated, Hill County may wish to increase the ratio to 8 percent over time. Mr. Orozco indicated that his purpose was to moderate the increase over a longer period to ensure that it is not burdensome to ratepayers.

At the hearing, Mr. Houston testified that in his opinion, Hill County needs a minimum ratio of 8 percent. He explained that Hill County's power cost is 70 to 75 percent of its operating revenues, and thus represents a large payment which must be made once a month. He stated that in addition, Hill County's construction expenditures run a little over \$100,000 per month. According to Mr. Houston, Hill County operated on an 8 percent ratio for many years. He also stated that at one time coops could not draw any funds from REA if the ratio exceeded 8 percent. However, that requirement has been dropped, and there currently is no standard.

Mr. Stover testified at the hearing that general funds represent cash available for ongoing operation of the system. He stated that having a lower level of general funds affects interest income, because the interest income component of non-operating income consists of interest from general fund investments. He acknowledged, however, that by investing general funds in plant, interest expense can be reduced.

Mr. Orozco testified at the hearing that he is not arguing that Hill County should not try to reach the 8 percent ratio eventually. However, since Hill County has been maintaining a high net plant growth rate with low ratios in recent years, he saw no need to advance the ratio to 8 percent as rapidly as Hill County proposes. Mr. Orozco stated he is not saying that from the ratepayers' point of view, Hill County's proposed 10 percent rate increase is too high an increase to be achieved all at once.

Mr. Orozco agreed that general funds are a cash item, and analogized them to cash working capital. He stated that he had not analyzed Hill County's cash flows on a month to month basis. Mr. Orozco acknowledged that since REA and CFC loans work on a reimbursement basis, in the short term Hill County must finance construction. However, he stated, loan proceeds applicable to two-year work plans overlap, so that a coop receives loan funds from CFC associated with a previous work plan while it carries out its present work plan. Mr. Orozco testified that until loan proceeds for the present work plan are received, construction can be financed using general funds or the loan proceeds for the previous work plan.

Mr. Orozco stated that the issue of how much of a construction program should be financed with internal general funds and how much should be financed from outside sources is one which confronts many businesses. One factor in this decision is the interest rate. For instance, Mr. Orozco stated, at present given a choice between financing construction using CFC loan proceeds and general funds, one would use general funds because the 9 percent CFC interest rate would exceed the return one could receive from investing an equivalent amount of general funds. Mr. Orozco was not proposing to substitute his experience for that of Hill County's general manager.

In brief, Hill County notes that its current rate schedules were approved in April 1982. (Schedule Q-8.0 of the RFP.) Hill County comments that a 10 percent rate increase, if approved in the present docket, would constitute an average annual rate increase of only 2 percent over the last five years. Hill County also argues that some experience with or analysis of its cash flows is required to express an opinion on the level of cash needed by Hill County.

In brief, general counsel notes that historically, 8 percent was the maximum ratio established by REA. Also, Hill County's ratio of general funds to net utility plant has been as follows:

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Ratio	3.26%	2.56%	3.22%	2.71%

General counsel notes that Hill County experienced a healthy rate of growth for net plant during these years, and has pointed to no specific problems which have resulted from its low ratios during this time.

In the examiner's opinion, the evidence as to the appropriate ratio of general funds to total utility plant is not particularly overwhelming for either side. For instance, there is no evidence that ratepayers would be unduly harmed by the magnitude of the rate increase proposed by Hill County, which is modest given that it is the first in five years. Moreover, Mr. Orozco performed no cash flow analysis for Hill County, and is not proposing that his judgment as to such matters be substituted for that of Mr. Houston. On the other hand, the 8 percent level used to be the maximum established by REA. Hill County has been sustaining a high rate of growth in net plant with much lower ratios. Hill County has not cited specific examples of problems this situation has caused. Overall, the staff produced evidence which raised doubts in the examiner's mind as to the need to achieve an 8 percent ratio as rapidly as Hill County proposes. Hill County's evidence, for the most part very general in nature, did not dispel these doubts. Under the PURA, only that level of rates shown to be necessary is to be approved, and the utility has the burden of persuasion on such matters. The examiner recommends that the staff's figures for the ratio of general funds to net utility plant be used in this case.

c. Background Concerning Hill County's G&T Credits. Since the appropriateness of considering G&T credits in choosing a recommended ROR for Hill County is an issue pervading the discussion of equity, TIER and DSC ratios, some background concerning such credits is presented in this section.

Hill County presented evidence that for Hill County, G&T credits are a non-cash item. Mr. Stover stated that, unlike distribution coops, G&T coops rarely pay capital credits. In order to minimize rates, G&T coops seek to minimize their equity level. Mr. Houston explained that he serves on Brazos' board of directors and is familiar with Brazos' policies. According to Mr. Houston, there is no prospect that the credits allocated by Brazos to Hill County will ever be paid. Brazos began operating in 1941, and has never paid any capital credits. Brazos' board of directors has decided to retain net margins to help boost its equity

so that it can borrow money on terms most favorable to its membership. Brazos would need a rate increase to cover the cost of rotating capital credits.

Hill County also presented evidence showing that there is considerable uncertainty as to the amount, if any, of G&T credits which will be allocated to Hill County in the future. That amount has been much higher recently than in the past. (Schedule R-2 of the RFP.) In a number of years, the most recent of which is 1981, Brazos allocated no G&T credits. Except for a \$130,985 allocation in 1978, G&T credits allocated to Hill County have been below \$100,000 every year from 1950-1983. However, G&T credits allocated to Hill County were \$270,820 in 1984, \$674,273 in 1985 and (based on the preliminary 1986 REA Form 7) \$888,878 in 1986. Mr. Houston explained that Brazos owns 3.8 percent of Comanche Peak, a nuclear power plant the construction of which is being managed by its principal owner, Texas Utilities Electric Company (TUEC). Brazos is in litigation with TUEC, and has not paid TUEC for Brazos' share of the construction costs since May 1985. Mr. Houston stated that this has considerably increased Brazos' operating margins, and thus the G&T credits it has allocated to its members.

At the hearing Mr. Orozco testified that he used a conservative estimate of G&T credits by assuming that such credits would continue at the 1985 level of \$674,273 throughout 1986-1988. He noted that the preliminary 1986 figure is considerably higher. Mr. Orozco also stated that he was unaware of Brazos' litigation with TUEC over Comanche Peak. (Mr. Houston's live rebuttal presenting for the first time information concerning that litigation was allowed over general counsel's objection.)

The examiner concludes that Hill County's G&T credits are a non-cash item. The examiner also finds that the amount of such credits during 1987 and 1988 is highly uncertain. The outcome and duration of the litigation between Brazos and TUEC over Comanche Peak are unknown. However, the possibilities appear to include: (1) continuation of the status quo, in which case Mr. Orozco's \$674,273 per year figure is probably conservative; or (2) any outcome in which Brazos begins to pay its current bills, or even to repay its past unpaid bills, relating to Comanche Peak, in which case Brazos' operating margins could be so low that few or no G&T credits are allocated to Hill County. The record is insufficient for the examiner to gauge the likelihood of either of these possibilities.

d. Equity Objective. Hill County's model predicts that with the assumptions included in that model, its requested rate increase would result in equity of 41.5 percent in 1986, 41.6 percent in 1987 and 43.0 percent in 1988. The staff's model predicts that with the assumptions included in its own model, the staff's recommended rate increase would result in equity of nearly 43 percent. These figures appear to indicate no disagreement. However, Hill County disputes assumptions in the staff's model. Hill County contends that if the correct assumptions are used, the staff's rate recommendation excluding G&T credits results in equity of 32.3 percent, and should be rejected for that reason. Since Hill County and the staff disagree as to the appropriate minimum equity ratio for Hill County, that has become an issue in this case.

Hill County wants to achieve equity of at least 43 percent, excluding G&T credits. The staff wants Hill County to achieve equity of at least 40 percent including G&T credits. At the hearing, Mr. Orozco acknowledged that unless a coop's equity is excessive, one of its goals should be to minimize a reduction in equity. He stated that while 43 percent equity is higher than that of most coops, it is not unreasonable. Mr. Orozco observed that with respect to equity ratios, coops are progressing at different rates. However, according to Mr. Orozco, Hill County is in "excellent shape" financially and, although it is good for a coop to achieve 43 percent equity, that goal should not be accomplished regardless of cost.

The evidence indicates that Hill County's equity should be at a level which will: (1) allow Hill County to rotate its capital credits on a twenty-year cycle; and (2) minimize the cost of capital to its ratepayers. With respect to the first purpose of equity (allowing capital credit rotation), Hill County and the staff agree, and the examiner concludes, that: (1) equity should be established at a level which will allow Hill County to rotate its capital credits on a twenty-year cycle; and (2) if equity falls below 40 percent, REA approval would have to be obtained for such rotation to be implemented, and REA could require Hill County to revert to rotating capital credits of 20 to 25 percent of the previous year's operating margin. Hill County and the staff disagree as to whether or not: (1) an equity cushion of approximately 3 percentage points should be included to ensure that Hill County's equity does not fall below 40 percent; and (2) G&T credits should be included when calculating equity for this purpose.

With respect to the cushion, Mr. Stover stated that to ensure that equity does not fall below 40 percent, most coops, including Hill County, try to maintain equity in the range of

42 to 43 percent. He explained that in reality, a coop's equity ratio will fluctuate and not behave in the way modelled. With respect to inclusion of G&T credits, Mr. Stover stated that equity ratios in Hill County's model for years prior to and including 1985 include G&T credits, and those for years 1986 through 1988 include G&T credits accumulated through 1985 but not afterward. Mr. Orozco emphasized that REA's 40 percent equity standard for full capital rotation includes G&T credits.

The examiner is persuaded that since REA's 40 percent standard includes G&T credits, for the purpose of ensuring full capital credit rotation, the target equity level should include G&T credits. However, the examiner is also convinced by Hill County's evidence that a cushion of approximately 3 percentage points above REA's 40 percent standard is appropriate to ensure that Hill County's full capital credit rotation program is not endangered by fluctuations in its equity, including fluctuations in G&T credits. As discussed later in this section, the above equity level is not the examiner's bottom line equity recommendation.

With respect to the second purpose of equity (minimizing the cost of capital), Mr. Stover testified that there is an optimum equity ratio which yields the lowest composite cost of capital to ratepayers. As indicated previously, in direct testimony, Mr. Houston stated that Hill County believes its optimum equity as a percentage of assets is between 43 and 47 percent. In brief, general counsel notes the scantiness of the evidence produced on this point and characterizes Mr. Houston's statement as conclusory.

The examiner agrees with general counsel that Hill County did not produce much evidence on the optimal equity issue. On the other hand, the staff did not cross-examine Mr. Houston concerning this statement or present direct testimony or other evidence to counter his statement. The examiner finds Hill County's evidence to be the most credible in the record on this issue, and recommends that a 1988 equity ratio of 43 percent be used as a guideline in developing an ROR in this docket. For this purpose equity should be calculated excluding G&T credits, for two reasons. First, since in general Hill County's statements concerning equity refer to equity excluding G&T credits, Mr. Houston's statement concerning the optimal equity level presumably was no exception. Second, only cash equity should be considered in establishing the optimal equity level, since paper G&T credits could not, for example, substitute for CFC loan proceeds in financing plant investment or other cash needs. Thus overall, the examiner agrees with Hill County that the target equity ratio to use in establishing an ROR in this case should be 43 percent excluding G&T credits.

e. TIER and DSC objectives. As mentioned previously, in his analysis Mr. Stover used a minimum operating TIER of 2.5. Mr. Orozco considered sufficient a recommendation which resulted in: (1) a net TIER of about 2.5 and a net DSC of about 2.3; and (2) TIER and DSC ratios without G&T credits which represent a safe compromise between the ratios indicated in (1) and sufficient cash payment capability for Hill County. The dispute as to TIER and DSC thus centers on: (1) whether or not G&T credits should be considered in calculating TIER and DSC for Hill County; and (2) the function TIER and DSC should serve in the selection of the appropriate ROR.

With respect to the first issue, Mr. Orozco reasoned that the REA and CFC appear to be interested only in net TIER and DSC figures. In response, Mr. Houston testified that it is inappropriate to plan around coverages which coops' lenders define as the default level. He stated that good financial planning and responsible regulation must recognize the importance of establishing a revenue requirement which will achieve reasonable financial goals. According to Mr. Houston, for a healthy coop, operating TIER and DSC figures are more meaningful. Mr. Houston also stated that it is important to have a common basis for evaluating coops' financial condition. He indicated that in many cases the Commission has determined return requirements based on a coop's operating TIER and DSC.

With respect to the second issue, in rebuttal Mr. Stover testified that one should first identify the equity and capital credit objectives and then determine the return dollars needed to meet them. After return is defined, he continued, one should evaluate the resultant coverage ratios (TIER and DSC). If they are not acceptable, return must be defined based on coverage criteria rather than on equity or capital credit criteria. The reason for this approach, Mr. Stover testified, is that it is very difficult to make an independent evaluation to determine what constitutes a reasonable TIER and DSC for a coop. Mr. Stover testified that he believes Mr. Orozco placed too much emphasis on the coverage criteria without first considering the return necessary to satisfy the equity and capital credit objectives.

The examiner agrees with staff that considering both net and operating TIER and DSC levels is appropriate. However, since the examiner is recommending approval of Hill County's requested ROR, she has not undertaken either to define the precise TIER and DSC figures appropriate for Hill County or to prepare an extensive cash flow analysis. As discussed subsequently, the examiner finds that a 12.5 percent ROR will result in net and operating TIER and DSC ratios which are adequate and reasonable.

f. Use of "Ke = g + 1/n" Formula. In rebuttal testimony, Mr. Stover expressed agreement with Mr. Orozco's caveat concerning the value of the formula quoted in Mr. Orozco's testimony and in Section II.C.4. of the Examiner's Report. Given this caveat, Mr. Stover wondered at Mr. Orozco's use of the formula as a check of the ROR resulting from the staff horizon planning analysis. Mr. Stover explained that as of December 31, 1985, Hill County's capitalization was 24 percent greater than its rate base. For example, Mr. Stover continued, applying the formula reflected on Schedule 1 of Mr. Orozco's testimony, weighted equity return is 7.83 percent and debt is 3.28 percent. Applying these values to a rate base of \$11,775,000 results in a return component of \$922,000 and a debt component of \$386,000. Mr. Stover testified that Hill County's actual interest cost for the test year was approximately \$456,000 and its adjusted interest cost is \$595,000. He stated that the weighted interest component applied to the rate base obviously does not provide funds sufficient to pay the interest cost.

For reasons discussed by Mr. Stover and Mr. Orozco, the examiner concludes that Mr. Orozco's formula does not appear to be a very effective check of the ROR appropriate for Hill County.

g. Examiner's ROR Recommendation. In brief, Hill County discusses the stipulated matrix (Examiner's Exhibit A). Hill County argues that in looking at return values, 1988 is the key year, since values for 1987 will reflect returns based on Hill County's current rates for part of the year and its new rates for the rest of the year. Hill County expresses the belief that Case 14 in the matrix most nearly represents the variables desired by staff. That case yields an ROR of 7.5035 percent. According to Hill County, because of the inadequate TIER coverages resulting from such a low ROR, staff recommended a 10 percent ROR in this docket. Hill County states that Case 21A represents the variables desired by Hill County. That case produces an ROR of 20.2546 percent. Hill County comments that while its financial objectives reflected in that case are reasonable, it has chosen to request a lower ROR than it could justify. In addition, Hill County continues, the 20.2546 percent ROR is artificially high because rate base has been held constant in the staff model. Hill County notes that Cases 5 to 8 are the cases driven by Hill County's requested 12.5 percent ROR. It objects to use of Cases 10, 11, 12, 13, 18, 19, 20 and 21 on the grounds that they contain a 15 or 16 percent ROR for 1986 which is unsupported in the record and about three times higher than the 1986 ROR reflected on the preliminary 1986 REA Form 7.



The sum of the examiner's recommendations is represented by Case 20A. That case produces a 1988 ROR of 18.3042 percent. The examiner accordingly recommends approval of Hill County's requested ROR of 12.5 percent. Since all of the cases in the matrix driven off a 12.5 percent ROR (Cases 5 through 8) include G&T credits of \$674,273 for each year 1985-1988, the matrix does not reflect the exact impact of the examiner's ROR recommendation. Case 7 represents the examiner's recommendation, except that it includes the G&T credits in 1985-1988. That case results in the following:

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Equity (% of Capitalization)	46.1%	44.9%	45.1%	45.7%
Equity (% of Assets)	42.9%	42.2%	42.7%	43.6%
Net TIER	2.86	3.00	3.23	3.36
Operating TIER	1.20	1.54	1.95	2.10
Net DSC	2.93	3.00	3.24	3.35
Operating DSC	1.63	1.87	2.22	2.33

The examiner concludes that a 12.5 percent ROR will result in net TIERS within the CFC's recommended range of 2.5 to 3.5, and equity levels including G&T credits which will enable Hill County to rotate its capital credits fully. Overall, the examiner finds a 12.5 percent ROR to be reasonable and supported by the evidence and recommends its adoption.

As discussed previously, Hill County's equity has been above 40 percent for at least five years. The examiner does not know why Hill County has not begun rotating its capital credits on a twenty-year cycle before now. The examiner's recommended rates will allow Hill County to do so. The examiner recommends that Hill County be ordered to institute capital credit rotation on a twenty-year cycle within sixty days after the Commission's order in this case. The examiner further recommends that in case Hill County finds it necessary in the future to depart from such a rotation schedule, that it be required to apply for Commission authority to do so at least thirty days before departing from that schedule.

#### D. Cost of Service

The parties stipulated to every item in the cost of service except return (due to the dispute over the appropriate ROR). The following table presents the proposed and stipulated amounts in detail.

Table II

	<u>Coop Test Year</u>	<u>Staff Test Year</u>	<u>Stipulated Test Year</u>
Purchased Power	\$ 7,948,824	\$ 7,948,824	\$7,948,824
Operations and Maintenance	1,178,555	1,166,117	1,166,117
Depreciation and Amortization	412,826	412,826	412,826
Other Taxes	144,931	143,852	143,852
Interest on Customer Deposits	7,941	6,536	6,536
Return	<u>1,472,083</u>	<u>1,177,511</u>	<u>1</u>
Revenue Requirement	\$11,165,160	\$10,855,665	1

<sup>1</sup>Figures not stipulated.

1. Cost of Service Other than Return

Ms. Lambert testified for Hill County concerning cost of service items other than ROR. As the above table indicates, Staff Witness Meridith made a number of adjustments to Hill County's figures. First, Mr. Meridith decreased O&M by \$12,438. This figure represents the net effect of staff adjustments to five components of O&M. Three of his adjustments to O&M resulted from use of more recent data than that used by Hill County: a \$3,233 decrease to Payroll Expense, a \$5,799 decrease to Employee Benefits Expense and a \$1,065 decrease to General Liability and Worker's Compensation Expense. His fourth adjustment to O&M is an increase of \$44 to Legislative Advocacy Expense (which is deducted from O&M allowable in rates), based on his use of 1986 dues paid rather than use of the test year cost. His fifth adjustment is a \$2,297 reduction in Uncollectible Expense, which results from applying Hill County's uncollectible expense factor of .0074230 to the staff recommended revenue requirement of \$10,855,665. The examiner notes that while Hill County did not contest the staff's adjustment to Uncollectible Expense, that adjustment is a flow-through of the staff's reduction to Hill County's proposed revenue requirement. That reduction primarily results from the staff's decrease to return due to use of a lower ROR. Thus, arguably, Uncollectible Expense should be adjusted if the staff's ROR figure is not the one approved. However, the examiner does not recommend such an adjustment to Uncollectible Expense in this case, for two reasons. First, the staff figure for Uncollectible

Expense is the one stipulated to by Hill County and the staff. Second, the dollar amount of such an adjustment would be trivial.

Second, Mr. Meridith reduced Other Taxes by \$1,079, based on adjustments to two items. First, he reduced Payroll Tax Expense by \$563 based on his use of current tax rates and the staff's Payroll Expense figure. Second, he reduced PUC Assessment Tax Expense by \$516 based on the staff's recommended revenue requirement multiplied by the statutory rate of .001667 which was used by Hill County. Thus, as with Uncollectible Expense, the staff's adjustment to PUC Assessment Tax Expense is a flow-through adjustment which primarily results from the staff's reduction in Hill County's proposed ROR. As a result, arguably this figure should be changed if the staff's ROR figure is not the one ultimately adopted. The examiner has not recommended such a change to the stipulated figure for PUC Assessment Tax Expense for the same reasons as those described in the above paragraph with respect to Uncollectible Expense.

Third, Mr. Meridith decreased Interest on Customer Deposits by \$1,406 due to the reduction in the Commission prescribed interest rate from 7.29 to 6 percent.

The examiner finds the stipulated cost of service figures to be reasonable and supported by the evidence, and recommends their adoption.

## 2. Return and Overall Cost of Service

Applying the examiner's recommended 12.5 percent ROR to the stipulated figure for total invested capital of \$11,775,112 results in a return of \$1,471,889. Adding this to the other components listed in Table II results in an overall revenue requirement of \$11,150,044. This is an increase of \$1,000,492 over test year revenues.

### E. Cost of Service Study

With its application, Hill County submitted a new cost of service study, which was supported by Ms. Lambert's testimony. Staff Senior Rate Analyst Jeffrey D. Rudolph proposed several adjustments to the results of this study. First, he recommended allocation of Account Nos. 920 (Salaries), 925 (Injuries and Damages), and 926 (Employee Pensions and Benefits) based on a composite payroll allocator, rather than based on expenses as Hill

County had proposed. Second, he recommended allocation of Account Nos. 923 (Outside Service Employed) and 928 (Regulatory Commission Expenses) based on operating revenues, rather than based on expenses as Hill County had proposed. Third, he recommended allocation of Account Nos. 408.2 (Federal Unemployment Tax), 408.3 (Federal Insurance Contributions Act Tax) and 408.4 (State Unemployment Tax) based on a composite payroll allocator, rather than based on expenses as Hill County had proposed. Hill County did not contest these adjustments.

The examiner finds Hill County's cost of service study as adjusted by the staff to be reasonable and supported by the evidence and recommends that it be approved for use in this case.

#### F. Customer Class Revenue Requirements

The Coop's proposed customer class revenue requirements were supported by Ms. Lambert's testimony. She stated that Hill County's Board of Directors concluded that each class should receive the increase required to bring the class to a 12.5 percent ROR, and that no class should receive a decrease. Hill County's proposed class increases range from no change for Security Lights to a 14.5 percent increase for Churches. Mr. Rudolph testified that based on an equalized ROR of 10 percent (the staff recommended ROR), two classes, Diamond Shamrock and Churches, would receive a significant rate increase, and two classes, Small Commercial and Security Lighting, would receive a rate decrease. In light of this, Mr. Rudolph recommended the following base rate revenue assignment guidelines:

1. An increase of approximately one-fourth the system average for the customer classes Small Commercial and Security Lighting;
2. An increase of approximately one and one-fourth the system average for the customer class Churches; and
3. An increase of approximately one and one-half the system average for the customer class Diamond Shamrock.

The Coop did not contest use of these guidelines.

The examiner recommends that customer class revenue requirements be established based upon the guidelines recommended by Mr. Rudolph, which she finds to be reasonable and supported by the evidence.

### G. Rate Design

Hill County's proposed rate design was supported by Ms. Lambert's testimony. Mr. Rudolph discussed the fact that, under existing rates, Hill County's Residential Service Customer Charge is \$6 and includes 30 kilowatt-hours (kWh). Hill County proposed a \$6 charge without the embedded 30 kWh. Mr. Rudolph concluded that Hill County's proposed Residential Service Customer Charge is appropriate.

The examiner finds Hill County's proposed rate design to be reasonable and supported by a preponderance of the evidence, and recommends its adoption.

### H. Service Rules

Mr. Houston testified in support of Hill County's proposed service rules. Staff Consumer Analyst Paul G. Irish and Staff Utility Specialist Mel Eckhoff, Jr., recommended a number of changes to these proposed rules. Among other things, Mr. Irish recommended that Section III, Sheet No. 5, Item 302.3 of Hill County's proposed tariff be amended to provide that the required deposit for permanent residential, commercial, industrial or irrigation service shall not exceed an amount equal to one-sixth of the annual billings "as estimated by the applicant after discussion of usage history with the Cooperative's personnel." Mr. Irish noted that tariff language allowing the customer to estimate his usage had been approved (with Commissioner Jo Campbell dissenting) in numerous dockets. Hill County did not contest Mr. Irish's or Mr. Eckhoff's recommended changes in its proposed service rules.

The examiner finds Hill County's service rules, with the changes recommended by Mr. Irish and Mr. Eckhoff, to be reasonable and supported by a preponderance of the evidence, and recommends their adoption.

### I. Quality of Service

Hill County's efforts and record with respect to quality of service are described in Schedule L of the rate filing package. Mr. Irish and Mr. Eckhoff testified concerning Hill County's quality of service. The information provided by Hill County and the staff testimony reveal no significant quality of service problems with regard to Hill County. The examiner concludes that Hill County's quality of service is adequate.

### III. Findings of Fact and Conclusions of Law

The examiner further recommends adoption of the following Findings of Fact and Conclusions of Law.

#### A. Findings of Fact

1. As described in Section II.A. of the Examiner's Report, Hill County is a cooperative corporation owning or operating for compensation in this State equipment or facilities for transmitting, distributing, selling or furnishing electricity.
2. On October 22, 1986, Hill County filed an application to increase rates in all areas not within the incorporated limits of a municipality. Hill County is asking to increase rates by approximately \$1,015,608, or 10.01 percent, over revenues for the test year ending December 31, 1985. All customers and classes of customers will be affected.
3. By order dated October 29, 1986, the operation of Hill County's proposed rate schedule was suspended for 150 days from the effective date of November 26, 1986, until April 25, 1987.
4. The only motions to intervene filed in this case, those of the Cities of Glenn Heights and DeSoto, were granted. However, these intervenors did not otherwise participate in the case.
5. A prehearing conference was held on November 18, 1986, and the hearing on the merits was held on January 21, 1987. Notice of these proceedings was given by publication in the Texas Register, as well as by written notice to the parties at least ten days in advance of each proceeding.
6. Hill County published notice of its application in a newspaper having general circulation in each county containing territory affected by the proposed change no later than November 27, 1986. It also sent notice of the application to its customers no later than November 21, 1986. Both types of notice contained the effective date of the proposed rate change, the dollar amount and percentage increase over test year revenues requested, the classes and numbers of customers affected, and the language quoted in P.U.C. PROC.

R. 21.22(b)(1). Hill County also sent a copy of its application to each affected municipality simultaneously with the filing of that application at the Commission.

7. No appeals of municipal rate setting decisions have been received at the Commission.

8. All issues in this case except ROR were settled. Under the settlement, Hill County did not contest the staff recommendations with respect to the other issues.

9. As discussed in Section II.B. of the Examiner's Report, Hill County's invested capital is that contained in Table I under the column "Stipulated Amount."

10. As discussed in Section II.C.5.a. of the Examiner's Report, Hill County's ROR should be calculated based on 12 percent net plant growth during 1986 through 1988.

11. As discussed in Section II.C.5.b. of the Examiner's Report, Hill County did not show that its requested increases in its ratio of general funds to total utility plant should be approved for use in calculating its ROR. Rather, the staff's proposed increases in that ratio should be used for this purpose.

12. As discussed in Section II.C.5.c. of the Examiner's Report, Hill County's G&T credits are non-cash, and the amount of such credits which will be allocated to Hill County in the future is highly uncertain.

13. As discussed in Section II.C.5.d. of the Examiner's Report, Hill County's ROR should be set at a level which will allow Hill County to achieve 43 percent equity as a percentage of assets calculated by excluding G&T credits.

14. As discussed in Section II.C.5.f. of the Examiner's Report, the  $K_e = g + 1/n$  formula described in Mr. Orozco's testimony is not an effective check of the reasonableness of an ROR for Hill County in this case.

15. The figures shown in Examiner's Exhibit A representing the consequences of the different sets of variables set forth in that exhibit are appropriate for use in determining Hill County's ROR in this docket.

16. As discussed in Section II.C.5.e and II.C.6. of the Examiner's Report, a 12.5 percent ROR will produce appropriate ratios for net and operating TIER and DSC, as well as a level of equity which is appropriate and which will allow Hill County to rotate its capital credits on a twenty-year cycle and to approach minimization of its cost of capital to its ratepayers.

17. As discussed in Section II.C. of the Examiner's Report and subsections thereof, a 12.5 percent ROR, which would provide an annual dollar return of \$1,471,889, is fair, just and reasonable.

18. As discussed in Section II.C.6. of the Examiner's Report, it is reasonable to require Hill County to institute capital credit rotation on a twenty-year cycle within sixty days after the Commission's order in this case, and, should it appear necessary to Hill County to depart from such a rotation schedule, to require Hill County to seek Commission approval of such a departure at least thirty days before departing from that schedule.

19. As discussed in Section II.D., II.D.1. and II.D.2. of the Examiner's Report, Hill County's cost of service is as follows:

Purchased Power	\$ 7,948,824
Operations and Maintenance	1,166,117
Depreciation and Amortization	412,826
Other Taxes	143,852
Interest on Customer Deposits	6,536
Return	1,471,889
Revenue Requirement	11,150,044

20. As discussed in Section II.E. of the Examiner's Report, rates in this case should be set in accordance with the results of Hill County's cost of service study as adjusted by the staff.

21. As discussed in Section II.F. of the Examiner's Report, customer class revenue requirements in this case should be established in accordance with the guidelines recommended by the staff.

22. As discussed in Section II.G. of the Examiner's Report, rates set in this case should be designed in accordance with Hill County's rate design proposals.



23. As discussed in Section II.H. of the Examiner's Report, Hill County's service rules should be as proposed by Hill County with the changes recommended by the staff.

24. As discussed in Section II.I. of the Examiner's Report, Hill County's quality of service is adequate.

**B. Conclusions of Law**

1. Hill County is a public utility as defined in PURA Section 3(c)(1).
2. The Commission has jurisdiction over this case pursuant to PURA Sections 16, 17(e) and 37.
3. By order dated October 29, 1986, the operation of Hill County's proposed rate schedule was properly suspended for 150 days pursuant to PURA Section 43(d) and P.U.C. SUBST. R. 23.24(i).
4. Notice of Hill County's application and of proceedings held in this docket was given in substantial compliance with PURA Section 43(a) and P.U.C. PROC. R. 21.22.
5. Rates are established in this docket only in areas served by Hill County other than those within the limits of cities which have not ceded their original jurisdiction over Hill County's rates to the Commission.
6. Hill County has met its burden of proof under PURA Section 40 to show that it is entitled to recover the additional revenues recommended herein.
7. The rates recommended herein will allow Hill County to recover its reasonable and necessary operating expenses with a reasonable return on its invested capital pursuant to the requirements of PURA Section 39(a).
8. The rates recommended herein are reasonable and non-discriminatory and comply with the ratemaking mandates of Article VI of the PURA.

9. The service rules and regulations recommended herein are reasonable and non-discriminatory. They conform with the Commission's substantive rules.

Respectfully submitted,

Elizabeth Hagan Drews  
ELIZABETH HAGAN DREWS  
ADMINISTRATIVE LAW JUDGE

APPROVED on this the 31<sup>st</sup> day of March 1987.

Phillip A. Holder  
PHILLIP A. HOLDER  
DIRECTOR OF HEARINGS

mg

**Public Utility Commission of Texas** EXAMINER'S EXHIBIT A

**Memorandum**

RECEIVED  
1987 FEB -9 PM 4:09  
PUBLIC UTILITY COMMISSION  
FILED

TO: General Counsel/Bret Stocum

FROM: ORD/Bob Orozco *BRO*

DATE: February 6, 1987

SUBJECT: Matrix of Variables for Hill County Elec. Coop - Docket 7154

Attached is the matrix of variables requested by the Hearings Examiner in Docket 7154. Mr. Stover and I are agreed that his model and mine produce the same results when variables are the same.

This matrix addresses 5 major variables in dispute in this case:

- A. Rate of Return
- B. The treatment of G&T Capital Credits
- C. The amount of Growth in Net Plant for 1986
- D. The ratio of General Funds to Total Utility Plant
- E. Equity as Percent of Capitalization/Assets

The summary titled "Matrix of Variables Over the Planning Horizon" lists the variable amounts for each year with alpha-numeric (A1, B1a, D2, etc.). Each case in the matrix is listed with variables in code that are included in each case. Cases 1 through 8 include combinations of rate of return, growth rate, and general funds ratio with G&T credits included. Cases 10 through 13A are similar to the rate filing package Schedule N-1 in which rate of return is varied with the end of obtaining a 43% Equity to Capitalization ratio in 1988. Variable B1 removes all G&T credits, past, present and future from the model. Variable B1a includes past G&T capital credits and those in the test year but eliminates the credits for years 1986 and forward. Cases 14 through 17 are similar to cases 10 through 13A in targeting a 43% equity ratio in 1988 and have G&T capital credits included. Variable B2 includes all G&T credits in the past, the test year, and assumes they will be received in the future in the same amounts as in the test year. Cases 18 through 21A are similar to cases 10 through 13A except that the equity target is 46% in 1988. Variables B1 and B1a operate the same as above. Cases 22 through 25 are similar to cases 14 through 17 except that 46% percent equity is targeted for 1988.

This matrix does not cover all possible combinations of variables. Since the model contains 28 variables with 4 values for each year, there are 479 million combinations of values. I believe that C.H. Guernsey has agreed to use all my numbers except for the variables in the matrix. We may need to confirm this. If the Hearing Examiner needs the results of values not included in the matrix, I'm certain either model will provide the same result if the variables are properly inputted. I think both parties should run the final results of the Hearing Examiner's decisions to assure we agree on the final numbers.

DKT # 7154, Hill Co. EC  
Joint EX # 1  
ADMITTED  
DATE 2/20/87 BY HPD

If you need additional help, give me a call.

HILL COUNTY ELECTRIC COOPERATIVE, INC.

MATRIX OF VARIABLES OVER THE PLANNING HORIZON

	RATE OF RETURN		G & T CAPITAL CREDITS			NET PLANT GROWTH RATE		GENERAL FUNDS RATIO		EQUITY % OF CAPITALIZATION	
	A1 (NOTE 1)	A2 (NOTE 2)	B1 (NOTE 3)	B1a (NOTE 4)	B2 (NOTE 5)	C1 (NOTE 6)	C2	D1	D2	E1 (NOTE 7)	E2 (NOTE 8)
1985	4.64%	4.64%	0	674,273	674,273			2.71%	2.71%		
1986	6.89%	6.89%	0	0	674,273	7.54%	12.00%	2.71%	5.00%		
1987	8.70%	10.16%	0	0	674,273	12.00%	12.00%	3.50%	8.00%		
1988	10.00%	12.50%	0	0	674,273	12.00%	12.00%	5.00%	8.00%	43.00%	46.00%

- NOTES: (1) Return for 1987 is weighted average of 1986 ROR for 5 months and 10% for 7 months.  
 (2) Return for 1987 is weighted average of 1986 ROR for 5 months and 12.5% for 7 months.  
 (3) G & T Capital Credits were not used and removed from Balance Sheet.  
 (4) Prospective G&T Capital Credits after 1985 were not used. Test year and previous paper G&T credits retained in Balance Sheet.  
 (5) Test year G&T Capital Credits assumed to be constant through horizon. G&T credits used on Balance Sheet.  
 (6) Test year actual plant data used (Growth factor not used).  
 (7) Rates of return used with the object of attaining 43% equity in 1988.  
 (8) Rates of return used with the object of attaining 46% equity in 1988.

	CASE 1	CASE 2	CASE 3	CASE 4	CASE 5	CASE 6	CASE 7	CASE 8
VARIABLES	A1B2C1E1	A1B2C1E2	A1B2C2D1	A1B2C2E2	A2B2C1E1	A2B2C1E2	A2B2C2D1	A2B2C2E2
43% EQUITY EXCLUDING G&T CAPITAL CREDITS								
	CASE 10	CASE 10A	CASE 11	CASE 11A	CASE 12	CASE 12A	CASE 13	CASE 13A
VARIABLES	B1C1D1E1	B1AC1D1E1	B1C1D2E1	B1AC1D2E1	B1C2D1E1	B1AC2D1E1	B1C2D2E1	B1AC2D2E1
43% EQUITY INCLUDING G&T CAPITAL CREDITS								
	CASE 14	CASE 15	CASE 16	CASE 17				
VARIABLES	B2C1D1E1	B2C1D2E1	B2C2D1E1	B2C2D2E1				
46% EQUITY EXCLUDING G&T CAPITAL CREDITS								
	CASE 18	CASE 18A	CASE 19	CASE 19A	CASE 20	CASE 20A	CASE 21	CASE 21A
VARIABLES	B1C1D1E2	B1AC1D1E2	B1C1D2E2	B1AC1D2E2	B1C2D1E2	B1AC2D1E2	B1C2D2E2	B1AC2D2E2
46% EQUITY INCLUDING G&T CAPITAL CREDITS								
	CASE 22	CASE 23	CASE 24	CASE 25				
VARIABLES	B2C1D1E2	B2C1D2E2	B2C2D1E2	B2C2D2E2				

	CASE 1	CASE 2	CASE 3	CASE 4	CASE 5	CASE 6	CASE 7	CASE 8
<b>REQUIRED RATE OF RETURN</b>								
1985	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%
1986	6.8959%	6.8959%	6.8959%	6.8959%	6.8959%	6.8959%	6.8959%	6.8959%
1987	8.7066%	8.7066%	8.7066%	8.7066%	10.1650%	10.1650%	10.1650%	10.1650%
1988	10.0000%	10.0000%	10.0000%	10.0000%	12.5000%	12.5000%	12.5000%	12.5000%
<b>GT CASH CREDITS</b>								
1985	674,273	674,273	674,273	674,273	674,273	674,273	674,273	674,273
1986	674,273	674,273	674,273	674,273	674,273	674,273	674,273	674,273
1987	674,273	674,273	674,273	674,273	674,273	674,273	674,273	674,273
1988	674,273	674,273	674,273	674,273	674,273	674,273	674,273	674,273
<b>NET PLANT GROWTH</b>								
1985	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
1986	7.5372%	7.5372%	12.0000%	12.0000%	7.5372%	7.5372%	12.0000%	12.0000%
1987	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%
1988	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%
<b>GEN FUNDS RATIO</b>								
1985	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%
1986	2.7100%	5.0000%	2.7100%	4.5440%	2.7100%	5.0000%	2.7100%	4.9440%
1987	3.5000%	8.0000%	3.5000%	7.7150%	3.5000%	8.0000%	3.5000%	8.0000%
1988	5.0000%	8.0000%	5.0000%	8.0000%	5.0000%	8.0000%	5.0000%	8.0000%
<b>EQUITY % CAPITALIZATION</b>								
1985	46.0602%	46.0602%	46.0602%	46.0602%	46.0602%	46.0602%	46.0602%	46.0602%
1986	45.5332%	45.4049%	44.9077%	43.8428%	46.5332%	45.4049%	44.9077%	43.8428%
1987	45.9301%	43.7451%	44.1592%	42.1674%	46.8891%	44.6616%	45.0871%	42.9355%
1988	45.4044%	43.7113%	43.4907%	41.8644%	47.7259%	45.9687%	45.7373%	44.0333%
<b>EQUITY % TOTAL ASSETS</b>								
1985	42.9332%	42.9332%	42.9332%	42.9332%	42.9332%	42.9332%	42.9332%	42.9332%
1986	43.6676%	42.6678%	42.2266%	41.2799%	43.6676%	42.6678%	42.2266%	41.2799%
1987	43.4460%	41.4713%	41.8438%	40.0392%	44.3528%	42.3418%	42.7227%	40.7737%
1988	43.2500%	41.6920%	41.4908%	39.9897%	45.4614%	43.8445%	43.6534%	42.0608%
<b>NET TIER</b>								
1985	2.8637	2.8637	2.8637	2.8637	2.8637	2.8637	2.8637	2.8637
1986	3.0988	3.0271	2.9955	2.9279	3.0988	3.0271	2.9955	2.9279
1987	3.1175	2.9214	2.9232	2.7530	3.4470	3.2282	3.2502	3.0326
1988	3.0505	2.8461	2.8561	2.6766	3.5984	3.3500	3.3621	3.1373
<b>TIER W/O GT CREDITS</b>								
1985	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880
1986	1.7732	1.7322	1.7141	1.6755	1.7732	1.7322	1.7141	1.6755
1987	1.9537	1.8310	1.8321	1.7255	2.2721	2.1279	2.1292	1.9990
1988	2.0529	1.9153	1.9221	1.8013	2.5687	2.3913	2.4000	2.2395
<b>OPERATING TIER</b>								
1985	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965
1986	1.5961	1.5594	1.5431	1.5083	1.5961	1.5594	1.5431	1.5083
1987	1.7492	1.6580	1.6560	1.5624	2.0657	1.9533	1.9545	1.8349
1988	1.7422	1.6255	1.6312	1.5287	2.2479	2.0928	2.1003	1.9599
<b>NET DSC</b>								
1985	2.9283	2.9283	2.9283	2.9283	2.9283	2.9283	2.9283	2.9283
1986	3.0611	3.0061	3.0035	2.9505	3.0611	3.0061	3.0035	2.9505
1987	3.1311	2.9710	2.9934	2.8503	3.3915	3.2169	3.2395	3.0770
1988	3.0812	2.8694	2.9402	2.7849	3.5195	3.3104	3.3513	3.1637
<b>DSC W/O GT CREDITS</b>								
1985	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812
1986	2.0389	2.0014	2.0069	1.9715	2.0389	2.0014	2.0069	1.9715
1987	2.2379	2.0970	2.1192	2.0179	2.4633	2.3365	2.3589	2.2406
1988	2.2815	2.1542	2.1827	2.0674	2.6990	2.5448	2.5752	2.4310
<b>DSC W/O GT CRED &amp; NCF ECV</b>								
1985	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324
1986	1.9015	1.8675	1.8739	1.8409	1.9015	1.8675	1.8739	1.8409
1987	2.0477	1.9083	1.9605	1.8658	2.3160	2.1967	2.2192	2.1070
1988	2.0074	1.9190	1.9488	1.8440	2.4474	2.3038	2.3034	2.2020

	CASE 10	CASE 10A	CASE 11	CASE 11A	CASE 12	CASE 12A	CASE 13	CASE 13A	CASE 14	CASE 15	CASE 16	CASE 17
<b>REQUIRED RATE OF RETURN</b>												
1985	4.64291	4.64291	4.64291	4.64291	4.64291	4.64291	4.64291	4.64291	4.64291	4.64291	4.64291	4.64291
1986	15.85251	6.87691	15.80121	6.89731	15.87951	6.89781	16.08131	6.93301	6.89701	6.89751	6.67771	6.93561
1987	10.22131	10.60601	11.34681	11.68441	11.30231	11.80251	12.40201	12.84801	7.25111	8.44751	8.41821	9.46241
1988	12.67551	13.25371	14.26901	15.10311	14.56111	15.30381	16.16761	17.15471	7.50351	9.01451	9.50421	11.35311
<b>G&amp;T CAP CREDITS</b>												
1985	0	674,273	0	674,273	0	674,273	0	674,273	674,273	674,273	674,273	674,273
1986	0	0	0	0	0	0	0	0	674,273	674,273	674,273	674,273
1987	0	0	0	0	0	0	0	0	674,273	674,273	674,273	674,273
1988	0	0	0	0	0	0	0	0	674,273	674,273	674,273	674,273
<b>NET PLANT GROWTH</b>												
1985	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001
1986	7.53721	7.53721	7.53721	7.53721	12.00001	12.00001	12.00001	12.00001	7.53721	7.53721	12.00001	12.00001
1987	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001
1988	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001	12.00001
<b>GEN FUNDS RATIO</b>												
1985	2.71001	2.71001	2.71001	2.71001	2.71001	2.71001	2.71001	2.71001	2.71001	2.71001	2.71001	2.71001
1986	2.71001	2.71001	5.00001	5.00001	2.71001	2.71001	5.00001	5.00001	2.71001	2.71001	2.71001	5.00001
1987	3.50001	3.50001	8.00001	8.00001	3.50001	3.50001	8.00001	8.00001	3.50001	8.00001	3.50001	8.00001
1988	5.00001	5.00001	8.00001	8.00001	5.00001	5.00001	8.00001	8.00001	5.00001	8.00001	5.00001	8.00001
<b>EQUITY &amp; CAPITALIZATION</b>												
1985	37.92921	46.06021	37.92921	46.06021	37.92921	46.06021	37.92921	46.06021	46.06021	46.06021	46.06021	46.06021
1986	44.21501	44.21501	43.09401	43.09401	42.60101	42.60101	41.54601	41.54601	46.53401	45.40601	44.90901	43.84501
1987	43.05501	43.05501	41.56401	41.56401	42.06901	42.06901	40.60201	40.60201	44.97401	43.58101	43.97701	42.53001
1988	43.02601	43.02601	43.08101	43.08101	43.04101	43.04101	43.02601	43.02601	43.08901	43.01001	43.04701	43.03301
<b>EQUITY % TOTAL ASSETS</b>												
1985	34.99601	42.93321	34.99601	42.93321	34.99601	42.93321	34.99601	42.93321	42.93321	42.93321	42.93321	42.93321
1986	41.06831	41.38111	40.04671	40.39321	39.62251	39.95771	38.71351	39.02531	43.66781	42.66891	42.22791	41.28331
1987	40.26931	40.55471	38.99331	39.25271	39.43731	39.70561	38.18161	38.41791	42.54201	41.31771	41.67121	40.36971
1988	40.53701	40.79151	40.67681	40.89781	40.65211	40.87071	40.71241	40.91801	41.04591	41.02331	41.06761	41.10561
<b>NET TIER</b>												
1985	1.3880	2.8637	1.3880	2.8637	1.3880	2.8637	1.3880	2.8637	2.8637	2.8637	2.8637	2.8637
1986	4.0662	1.7735	4.0083	1.7325	3.9847	1.7146	3.9395	1.6831	3.0990	3.0275	2.9959	2.9358
1987	2.5969	2.3696	2.6831	2.4431	2.6775	2.4694	2.7428	2.5229	2.7949	2.8675	2.8632	2.6938
1988	2.9349	2.7308	3.0872	2.9184	3.1639	2.9716	3.2923	3.1333	2.5366	2.6645	2.7593	2.9200
<b>TIER W/O GT CREDITS</b>												
1985	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880	1.3880
1986	4.0662	1.7735	4.0083	1.7325	3.9847	1.7146	3.9395	1.6831	1.7735	1.7326	1.7146	1.6837
1987	2.5969	2.3696	2.6831	2.4431	2.6775	2.4694	2.7428	2.5229	1.6423	1.7788	1.7740	1.6644
1988	2.9349	2.7308	3.0872	2.9184	3.1639	2.9716	3.2923	3.1333	1.5691	1.7412	1.8366	2.0335
<b>OPERATING TIER</b>												
1985	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965
1986	3.8708	1.5965	3.8233	1.5597	3.8017	1.5436	3.7608	1.5160	1.5966	1.5597	1.5435	1.5166
1987	2.3849	2.1826	2.4842	2.2668	2.4702	2.2929	2.5556	2.3563	1.4595	1.6061	1.6012	1.7011
1988	2.5730	2.4069	2.7443	2.6102	2.8187	2.6614	2.9653	2.8382	1.2678	1.4536	1.5414	1.7575
<b>NET DSC</b>												
1985	1.7812	2.9283	1.7812	2.9283	1.7812	2.9283	1.7812	2.9283	2.9283	2.9283	2.9283	2.9283
1986	3.7854	2.0302	3.7545	2.0017	3.7615	2.0073	3.7307	1.9774	3.0613	3.0064	3.0038	2.9567
1987	2.7391	2.5407	2.7975	2.5898	2.8168	2.6323	2.8597	2.6663	2.8751	2.9277	2.9452	2.9644
1988	3.0034	2.8292	3.1164	2.9723	3.2028	3.0390	3.2989	3.1632	2.6652	2.7613	2.8610	2.9852
<b>DSC W/O GT CREDITS</b>												
1985	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812
1986	3.7894	2.0382	3.7545	2.0017	3.7615	2.0073	3.7307	1.9774	2.0382	2.0017	2.0073	1.9779
1987	2.7391	2.5407	2.7975	2.5898	2.8168	2.6323	2.8597	2.6663	1.9609	2.0540	2.0723	2.1308
1988	3.0034	2.8292	3.1164	2.9723	3.2028	3.0390	3.2989	3.1632	1.8852	2.0111	2.1071	2.2603
<b>DSC W/O GT CRED &amp; W/O P&amp;V</b>												
1985	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324
1986	3.6456	1.9916	3.6133	1.8576	3.6213	1.8743	3.5930	1.8468	1.9017	1.8576	1.8743	1.8473
1987	2.5759	2.3931	2.6423	2.4490	2.6615	2.4915	2.7119	2.5319	1.8158	1.9163	1.9337	1.9605
1988	2.7217	2.5717	2.8467	2.7251	2.9316	2.7905	3.0393	2.9247	1.6423	1.7774	1.8723	2.0345

	CASE 18	CASE 19	CASE 20	CASE 21	CASE 22	CASE 23	CASE 24	CASE 25
<b>REQUIRED RATE OF RETURN</b>								
1985	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%	4.6429%
1986	15.6235%	6.8969%	15.6012%	6.8973%	15.8795%	6.8978%	16.0813%	6.9330%
1987	11.7488%	12.3258%	12.9093%	13.4339%	12.8628%	13.5519%	14.0245%	14.6571%
1988	15.3570%	16.2059%	16.9980%	18.1040%	17.2941%	18.3042%	18.9965%	20.2566%
<b>EST CAP CREDITS</b>								
1985	0	674,273	0	674,273	0	674,273	674,273	674,273
1986	0	0	0	0	0	0	674,273	674,273
1987	0	0	0	0	0	0	674,273	674,273
1988	0	0	0	0	0	0	674,273	674,273
<b>NET PLANT GROWTH</b>								
1985	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
1986	7.5372%	7.5372%	7.5372%	7.5372%	12.0000%	12.0000%	12.0000%	7.5372%
1987	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%
1988	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%	12.0000%
<b>GEN FUNDS RATIO</b>								
1985	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%	2.7100%
1986	2.7100%	2.7100%	5.0000%	5.0000%	2.7100%	2.7100%	5.0000%	5.0000%
1987	3.5000%	3.5000%	8.0000%	8.0000%	3.5000%	3.5000%	8.0000%	8.0000%
1988	5.0000%	5.0000%	8.0000%	8.0000%	5.0000%	5.0000%	8.0000%	8.0000%
<b>EQUITY &amp; CAPITALIZATION</b>								
1985	37.9292%	46.0602%	37.9292%	46.0602%	37.9292%	46.0602%	46.0602%	46.0602%
1986	44.2150%	44.2150%	43.0940%	43.0940%	42.6010%	42.6010%	41.5460%	41.5460%
1987	44.2740%	44.2740%	42.7480%	42.7480%	43.2660%	43.2660%	41.7840%	41.7840%
1988	46.0630%	46.0630%	46.0670%	46.0670%	46.0110%	46.0110%	46.0040%	46.0040%
<b>EQUITY &amp; TOTAL ASSETS</b>								
1985	34.9960%	42.9332%	34.9960%	42.9332%	34.9960%	42.9332%	42.9332%	42.9332%
1986	41.6683%	41.3811%	40.0467%	40.3932%	39.6225%	39.9577%	38.7135%	39.0253%
1987	41.3963%	41.7624%	40.1037%	40.3705%	40.5590%	40.8349%	39.2927%	39.5359%
1988	43.4084%	43.6592%	43.4950%	43.7315%	43.4562%	43.6899%	43.5292%	43.7491%
<b>NET TIER</b>								
1985	1.3680	2.8637	1.3880	2.8637	1.3680	2.8637	1.3680	2.8637
1986	4.0602	1.7735	4.0083	1.7325	3.9847	1.7146	3.9395	1.6831
1987	2.9879	2.7552	3.0592	2.8135	3.0536	2.8406	3.1109	2.8958
1988	3.6160	3.3974	3.7518	3.5696	3.8367	3.6290	3.9570	3.7853
<b>TIER W/O GT CREDITS</b>								
1985	1.3680	1.3680	1.3880	1.3880	1.3680	1.3680	1.3680	1.3680
1986	4.0602	1.7735	4.0083	1.7325	3.9847	1.7146	3.9395	1.6831
1987	2.9879	2.7552	3.0592	2.8135	3.0536	2.8406	3.1109	2.8958
1988	3.6160	3.3974	3.7518	3.5696	3.8367	3.6290	3.9570	3.7853
<b>OPERATING TIER</b>								
1985	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965	1.1965
1986	3.0708	1.5965	3.8233	1.5597	3.8017	1.5434	3.7608	1.5160
1987	2.7734	2.5650	2.8580	2.6353	2.8521	2.6221	2.9216	2.7173
1988	3.2415	3.0406	3.3955	3.2495	3.4781	3.3068	3.6174	3.4790
<b>NET USE</b>								
1985	1.7812	2.9283	1.7812	2.9283	1.7812	2.9283	2.9283	2.9283
1986	3.7694	2.0382	3.7545	2.0017	3.7615	2.0073	3.7307	1.9774
1987	3.0405	2.8460	3.0912	2.8863	3.1106	2.9294	3.1508	2.9597
1988	3.5238	3.3594	3.6369	3.4937	3.7295	3.5653	3.8237	3.6887
<b>OSC W/O GT CREDITS</b>								
1985	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812	1.7812
1986	3.7694	2.0382	3.7545	2.0017	3.7615	2.0073	3.7307	1.9774
1987	3.0405	2.8460	3.0912	2.8863	3.1106	2.9294	3.1508	2.9597
1988	3.5238	3.3594	3.6369	3.4937	3.7295	3.5653	3.8237	3.6887
<b>OSC W/O GT CRED &amp; NOP REV</b>								
1985	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324	1.6324
1986	3.6425	1.8016	3.6133	1.8576	3.6213	1.8743	3.5930	1.8468
1987	2.9359	2.6779	2.9346	2.7442	2.9539	2.7073	2.9016	2.6741
1988	3.2433	3.0736	3.3590	3.2320	3.4500	3.3090	3.5652	3.4428

DOCKET NO. 7154

APPLICATION OF HILL COUNTY  
ELECTRIC COOPERATIVE, INC.  
FOR AUTHORITY TO CHANGE RATES

I  
I  
I

PUBLIC UTILITY COMMISSION  
OF TEXAS

ORDER

In public meeting at its offices in Austin, Texas, the Public Utility Commission of Texas finds that the above styled and numbered application was processed in accordance with applicable statutes by an examiner who prepared and filed a report containing Findings of Fact and Conclusions of Law, which Examiner's Report, with the following modifications, is ADOPTED and made a part of this Order.

a. Finding of Fact No. 13 is hereby AMENDED to read:

- [1] 13. Hill County's ROR should be set at a level which will allow Hill County to achieve 40 percent equity as a percentage of assets calculated by including G&T credits.

b. Finding of Fact No. 16 is hereby AMENDED to read:

16. A 10 percent ROR will produce appropriate ratios for net and operating TIER and DSC, as well as a level of equity which is appropriate.

c. Finding of Fact No. 17 is hereby AMENDED to read:

17. A 10 percent ROR, which would provide an annual dollar return of \$1,177,511, is fair, just and reasonable.

d. Finding of Fact No. 18 is hereby DELETED.



e. Finding of Fact No. 19 is hereby AMENDED to read:

19. Hill County's cost of service is as follows:

Purchased Power	\$ 7,948,824
Operations and Maintenance	1,166,117
Depreciation and Amortization	412,826
Other Taxes	143,852
Interest on Customer Deposits	6,536
Return	1,177,511
Revenue Requirement	10,855,666

f. Conclusion of Law No. 6 is hereby AMENDED to read:

6. Hill County has met its burden of proof under PURA Section 40 to show that it is entitled to recover the additional revenues provided for in this Order.

g. Conclusion of Law No. 7 is hereby AMENDED to read:

7. The rates provided for in this Order will allow Hill County to recover its reasonable and necessary operating expenses with a reasonable return on its invested capital pursuant to the requirements of PURA Section 39(a).

h. Conclusion of Law No. 8 is hereby AMENDED to read:

8. The rates provided for in this Order are reasonable and non-discriminatory and comply with the ratemaking mandates of Article VI of the PURA.

The Commission further issues the following Order:

1. The application of Hill County Electric Cooperative, Inc. (the Coop) for authority to change rates is hereby GRANTED to the extent provided for in the Examiner's Report as modified by this Order.
2. Except with respect to rate of return, the Commission's order in this case is based upon a stipulation which was reached by negotiations among the parties in this case; however, the Commission has not and should not be deemed to have endorsed, accepted, agreed to, or approved any ratemaking or underlying methodology which provides the basis for the stipulation. The results of the stipulation as a whole are found to be reasonable, and the Commission has adopted it for that reason alone. This order is not to be regarded as a binding or precedential holding as to the appropriateness of any theories or methodologies underlying the stipulation, and the Commission reserves the right to scrutinize more closely any and all such theories and methodologies in future cases.
3. Within 20 days after the date of this Order, the Coop shall file with the Commission five copies of all pertinent tariff sheets revised to incorporate all the directives of this Order, and shall serve one copy upon each party of record. No later than 10 days after the date of the tariff filing by the Coop, the general counsel shall file in writing the staff's comments recommending approval, modification or rejection of the individual sheets of the tariff proposal. No later than 15 days after the date of the tariff filing by the Coop, the Coop shall file in writing any responses to the previously filed comments of general counsel and the staff. The Hearings Division shall by letter approve, modify or reject each tariff sheet, effective the date of the letter, based upon the materials submitted to the Commission under the procedure established herein. The tariff sheets shall be deemed approved and shall become effective upon expiration of 20 days after the date of filing, in the absence of written notification of approval, modification or rejection by the Hearings Division. In the event that any

sheets are rejected, the Coop shall file proposed revisions of those sheets in accordance with the Hearings Division letter within 10 days after the date of that letter, with the review procedures set out above again to apply. Copies of all filings and of the Hearings Division letter(s) under this procedure shall be served on all parties of record and the general counsel.

4. All motions, applications and requests for entry of specific findings of fact and conclusions of law as well as any other relief, general or specific, if not expressly granted herein, are DENIED for want of merit.
5. This Order is deemed effective on the date of signing.

SIGNED AT AUSTIN, TEXAS on this the 16<sup>th</sup> day of April 1987.

PUBLIC UTILITY COMMISSION OF TEXAS

SIGNED: Dennis L. Thomas  
DENNIS L. THOMAS

SIGNED: Jo Campbell  
JO CAMPBELL

I dissent from the above order on one point. The current Commission practice is to determine the appropriate rate of return for electric cooperatives through the use of computer models which presume future, projected expenses and capital expenditures. In my opinion, this contravenes the strict provisions of the Public Utility Regulatory Act in that, as a practical matter, it allows the use of a future, rather than historic, test year and includes in rate base construction which may be in progress or may only be contemplated. While I realize that the present Public Utility Regulatory Act is directed toward the regulation of for-profit investor-owned utilities and neither recognizes nor allows for the unique financing needs of member-owned non-profit cooperatives, until the Act is amended by the Legislature, it is the law of the State of Texas. The Commission does not have the



#### TELEPHONE MEMORANDUM DECISIONS

Tatum Telephone Company, Docket No. 7839. Examiner's Report adopted April 12, 1988. Applicant's request to provide telephone service to six residences in Rusk, Panola, and Harrison Counties granted.

General Telephone Company of the Southwest, Docket No. 7998. Examiner's Report adopted April 12, 1988. Applicant's request to expand the La Grange base rate area in Fayette County granted.

General Telephone Company of the Southwest, Docket No. 8008. Examiner's Report adopted April 12, 1988. Applicant's request to establish the Harmon Hills special rate area in Hays County granted.

#### ELECTRIC MEMORANDUM DECISIONS

Texas Utilities Electric Company, Docket No. 7639. Examiner's Report adopted April 11, 1988. Applicant's request to construct a transmission line and associated substation in Garland, Dallas County, Texas, granted.

Texas Utilities Electric Company, Docket No. 7735. Examiner's Report adopted April 11, 1988. Applicant's request to construct a transmission line and rearrange existing lines in Dallas County granted.

Deep East Texas Electric Cooperative, Inc., Docket No. 7910. Examiner's Report adopted April 11, 1988. Applicant's request to construct a transmission line and associated substation in Nacogdoches County granted.





