

Date Mailed January 15, 2002

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

2002 Annual Review of the Earnings of Small Telecommunications
Utilities

05-GF-119

ORDER

Target Return on Equity for Small Telecommunications Utilities

The 1989 Wisconsin Act 344 created Wis. Stat. § 196.215(5)(b)(4), which states:

Annually no later than January 31, the commission shall issue an order adjusting the Moody's average of yields on Baa public utility bonds used to determine the target rate by taking the most recent 12-month average of Moody's average of yields on Baa public utility bonds. The order shall take effect on February 1 immediately following the order. The commission may issue the order without a hearing.

In July 1998, Mergent, Inc., acquired the division of Moody's Investors Service, which published Moody's Bond Record. Mergent, Inc., now publishes the Moody's Bond Record data as the Mergent's Bond Record. The Mergent's average yield on public utility bonds is used to calculate the rate of return range on common equity for small telecommunications utilities, and the return on equity used for setting or evaluating transfer prices between telecommunications utilities and their affiliates.

Because the December 2001 Mergent's average of yields on Baa public utility bonds is not yet available, the most recent 12-month average of Mergent's average of yields on Baa public utility bonds is computed as follows:

<u>Month</u>	<u>Baa Public Utility Bonds</u> <u>Average of Yields</u>
December 2000	8.01 %
January 2001	7.99 %
February 2001	7.94 %
March 2001	7.85 %
April 2001	8.06 %
May 2001	8.11 %
June 2001	8.02 %
July 2001	8.05 %
August 2001	7.95 %
September 2001	8.12 %
October 2001	8.02 %
November 2001	7.96 %
<i>AVERAGE</i> December 2000-November 2001	8.01%

The Commission, therefore, adjusts the Mergent's average of yields on public utility bonds to 8.01 percent pursuant to Wis. Stat. § 196.215(5)(b)(4), effective February 1, 2002.

Return on Equity Used for Setting or Evaluating Transfer Prices Between Telecommunications Utilities and Their Affiliates

In its order dated April 18, 1996, in file 496 PROC, the Commission rescinded all ordering paragraphs within previously issued orders approving affiliated interest contracts or arrangements which prescribe the methodology for calculating and/or employing a reasonable return on equity to be used in setting or evaluating transfer prices between a particular utility and its affiliates.

The April 18, 1996, order set forth a method for prescribing rates of return on common equity to be used in place of the rescinded order provisions, based on the established process for calculating target returns under Wis. Admin. Code § PSC 174.01, and directed that the resulting

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guidelines be issued annually prior to January 31. The order directed that, for small telecommunications utilities, the rate of return on common equity is to be calculated using Moody's average yield on "Baa" public utility bonds. For telecommunications utilities that have 150,000 or fewer access lines in use in this state but are not small telecommunications utilities, the Moody's average yield on "A" public utility bonds is to be used. For telecommunications utilities that have in excess of 150,000 access lines in use in this state, the Moody's average yield on "Aa" public utility bonds is to be used.

For telecommunications utilities in multi-utility holding companies, the Commission's April 18, 1996, order directed that "the rate of return on common equity to be used by the Wisconsin utilities shall be the weighted average of the rates of return on common equity for all Wisconsin utilities of the holding company. The ratio of the utility's total company equity to the sum of the total company equity for all of the holding company's Wisconsin utilities should be used for the basis of weighting."

The Moody's average bond yields on which the guidelines for 2002 affiliated interest transactions are to be based are 8.01, 7.76, and 7.60 percent, for the "Baa," "A," and "Aa" public utility bonds, respectively. Using these respective average bond yields and the percentages prescribed in Wis. Admin. Code § PSC 174.01(2), the resulting rates of return on equity for 2002 affiliated interest transactions are ordered as follows:

Return on Equity for 2002 Affiliated Transactions

<u>Common Equity</u>	<u>Less than 50,000 Access Lines</u>	<u>50,000 to 150,000 Access Lines</u>	<u>More than 150,000 Access Lines</u>
70% or more	11.66 %	11.41 %	11.25 %
65% to 69.99%	12.16 %	11.91 %	11.75 %
60% to 64.99%	12.66 %	12.41 %	12.25 %
55% to 59.99%	13.16 %	12.91 %	12.75 %
50% to 54.99%	13.66 %	13.41 %	13.25 %
45% to 49.99%	14.16 %	13.91 %	13.75 %
40% to 44.99%	14.66 %	14.41 %	14.25 %
35% to 39.99%	15.66 %	15.41 %	15.25 %
30% to 34.99%	16.16 %	15.91 %	15.75 %
29.99% or less	16.66 %	16.41 %	16.25 %

Dated at Madison, Wisconsin, _____

For the Commission:

David Albino
Administrator
Telecommunications Division

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98