SIXTY-FIFTH REPORT

OF THE

NORTH CAROLINA UTILITIES COMMISSION ORDERS AND DECISIONS

Issued from

January 1, 1975, through December 31, 1975

Marvin R. Wooten, Chairman

Ben E. Roney, Commissioner

Tenney I. Deane, Jr., Commissioner

George T. Clark, Jr., Commissioner

J. Ward Purrington, Commissioner

W. Lester Teal, Jr., Commissioner

Barbara A. Simpson, Commissioner

NORTH CAROLINA UTILITIES COMMISSION

Office of the Chief Clerk

Mrs. Katherine M. Peele
Post Office Box 991
Raleigh, North Carolina 27602

The Statistical and Analytical Report of the North Carolina Utilities Commission is printed separately from the volume of Orders and Decisions and will be available from the Office of the Chief Clerk of the North Carolina Utilities Commission upon order.

LETTER OF TRANSMITTAL

December 31, 1975

The Governor of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to the provisions of Section 62-17 (b) of the General Statutes of North Carolina, providing for the annual publication of the final decisions of the Utilities Commission on and after January 1, 1975, we hereby present for your consideration the report of the Commission's decisions for the twelve-month period beginning January 1, 1975, and ending December 31, 1975.

The additional report provided under G.S. 62-17(a), comprising the statistical and analytical report of the Commission, is printed separately from the volume and will be transmitted immediately upon completion of printing.

Respectfully submitted,

NORTH CAROLINA UTILITIES COMMISSION

Marvin R. Wooten, Chairman

Ben E. Roney, Commissioner

Tenney I. Deane, Jr., Commissioner

George T. Clark, Jr., Commissioner

J. Ward Purrington, Commissioner

W. Lester Teal, Jr., Commissioner

Barbara A. Simpson, Commissioner

Katherine M. Peele, Chief Clerk

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of the

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DOCKET NO. M-100, SUB 52

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Monthly Fuel Use Report for Sample Participating Motor Carriers of Passengers and Freight	) ORDER CANCELING) MONTHLY FUEL) USE REPORT

BY THE COMMISSION: On February 13, 1974, the Commission issued an Order granting a 6% emergency fuel surcharge to all for-hire motor carriers of property and passengers operating in North Carolina. In a subsequent Order of March 19, 1974, the Commission implemented a Monthly Fuel Use Report so that it could monitor the fuel surcharge revenue impact on the participating sample carriers and determine the adequacy of the 6% fuel surcharge.

The participating sample carriers were as follows:

Burris Express, Inc.
Burton Lines, Inc.
Carolina Coach Company
Carolina Delivery Service Company, Inc.
Continental Southeastern Lines, Inc.
Eastern Oil Transport, Inc.
Epes Transport System, Inc.
Estes Express Lines
Forbes Transfer Company, Inc.
Fredrickson Motor Express Corporation
Greyhound Lines, Inc.
Harper Trucking Company
Kenan Transport Company, Inc.
Morgan Drive-Away, Inc.
National Trailer Convoy, Inc.
Overnite Transportation Company
Seashore Transportation Company
Standard Trucking Company
Southern Oil Transportation Company, Inc.
Thurston Motor Lines, Inc.
Widenhouse, A. C., Inc.

Based on the data collected in the Monthly Fuel Use Report, the fuel surcharge was lowered to 4% and scheduled to expire on June 30, 1975, by Order of the Commission dated November 13, 1974.

The Commission is aware that many of the participating sample carriers have received increases in their tariff rates in lieu of the fuel surcharge since it was authorized.

The Commission is of the opinion that while fuel usage information should be readily available from carrier records the Monthly Fuel Use Report as established for the aforementioned carriers by Commission Order is no longer necessary.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the outstanding Order of the Commission of March 19, 1974, implementing the Monthly Fuel Use Report for the aforementioned carriers be, and is hereby canceled.

2. The aforementioned sample carriers should keep their books and records in such a manner that will enable said carriers to furnish the Commission fuel use and cost information identical to that required by the canceled Monthly Fuel Use Report on no more than thirty (30) days' notice by the Commission.

ISSUED BY ORDER OF THE COMMISSION.

This the 24th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. M-100, SUB 58

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Proposed Amendments to Commission Rules R1-17 and R1-24 Requiring Data With Filing of Rate Application	) ORDER ADOPTING MODIFIED AMENDMENTS TO RULE R1-17 AND R1-24 APPLICABLE TO CLASS A AND B ELECTRIC, TELEPHONE AND NATURAL GAS GENERAL RATE CASES

BY THE COMMISSION: On September 19, 1974 the Commission on its own motion proposed the adoption of amendments to Rule R1-17(b) and R1-24(g)(2). The proposed amendments would have required electric and telephone utilities under the jurisdiction of the Commission to file with their rate applications the direct testimony of witnesses and information needed by the Commission to perform a complete, thorough and orderly investigation of the rate relief being sought. The proposed amendments were attached to the Commission's orders entered September 19, 1974 as NCUC Form P-1 for telephone utilities and NCUC Form E-1 for electric utilities.

In its orders issued September 19, 1974 the Commission gave notice of the proposed amendments to all electric and telephone companies and allowed any interested party until October 4, 1974 to file written comments relating to the proposed amendments. Written comments were filed by several utilities; however, motions from certain utilities were received for additional time within which to file comments. Accordingly, by orders issued on October 2 and 4, 1974, all utilities involved were allowed an additional thirty (30)

days extension of time within which to file original or additional comments.

After consideration of the written comments filed by the electric and telephone utilities it became apparent to the Commission that certain items of legislation would be considered by the 1975 General Assembly having specific bearing upon this rulemaking proceeding. Accordingly, the Commission concluded that it would be in the interest of all parties to defer any action in this proceeding until such time as specific legislative proposals were considered and acted upon by the General Assembly.

There are several newly-enacted laws which relate to this proceeding such as the repeal of the future test period under G. S. 62-133(c) effective April 30, 1975. It should be pointed out that no final rate increases have been approved under the future test period statute.

The most significant new law which bears directly upon this proceeding involves the addition of a new subsection under G. S. 62-134(e), ratified June 9, 1975, which provides as follows:

> "The Commission may adopt rules prescribing the information and exhibits required to be filed with any applications, or tariff for an increase in utility rates, including but not limited to all of the evidence or proof through the end of the test period which the utility will rely on at any hearing on such increase, and the Commission may suspend such increase until such data, information or exhibits are filed, in addition to the time provided for suspension of such increase in other provisions of this Chapter." (Chapter 510, House Bill 506).

After a review of this newly-enacted law and other legislation, including the amendments to G. S. 62-133 establishing a seven-member Commission to function in panels of three, the Commission recognizes a clear legislative mandate that regulatory lag in proceedings before the Commission should be minimized in the interest of the public and regulated utilities. Regulatory lag has resulted from a considerable increase in the frequency of rate proceedings before the Commission and their complexity.

Although not included in the original rulemaking order, it is apparent to the Commission that under G. S. 62-134(e) it is in the public interest and that of the natural gas utilities that the rule changes made herein should be applicable to certain natural gas companies. It would be anticipated that written comments by natural gas utilities would raise substantially the same points as the written comments filed by the electric and telephone utilities. However, the Commission will allow the affected natural gas utilities to file written comments as provided hereinafter.

The action taken herein is specifically designed to substantially meet the abovementioned legislative mandate by carrying out the provisions of G. S. 62-134(e) which authorizes the Commission to adopt rules to require information and exhibits to be filed with any rate application including but not limited to all of the evidence upon which the utility will rely at any hearing on such increase. The adoption of this procedure will substantially reduce regulatory lag and will permit the Commission to require at an early date all information bearing upon the reasonableness of a utility's general rate application and will permit hearings to be scheduled earlier than would be the case in the absence of this procedure and, ultimately, will result in final orders being entered more timely.

We have reviewed all written comments filed by the electric and telephone utilities and all items of legislation enacted by the 1975 General Assembly bearing upon this proceeding.

Based upon consideration of the written comments and the entire record herein, the Commission makes the following

FINDINGS OF FACT

1. That the Commission has authority under the provisions of G. S. 62-31 and G. S. 62-134(e) and related statutes to adopt and enforce rules and regulations in the furtherance of the Commission's responsibilities under Chapter 62 of the North Carolina General Statutes.

2. That notice of proposed amendments to Rules R1-17 and R1-24 has been heretofore provided to all electric and telephone utilities.

3. That written comments relating to the amendments proposed herein have been filed by all electric and telephone utilities desiring to do so and considered by the Commission.

4. That the data required for general rate applications for Class A & B electric, telephone and natural gas utilities contained as modified in NCUC Forms E-1, P-1 and G-1 respectively constitute relevant and material information essential to a proper review of general rate applications.

5. That all testimony and exhibits and other data upon which an affected utility filing a general rate application will rely at any hearing should be filed at the time of filing the application unless otherwise ordered by the Commission.

6. That it is in the public interest and that of the Class A & B electric, telephone and natural gas utilities to substantially minimize regulatory lag by the adoption and implementation of the requirements herein.

7. That the expense of preparing testimony, exhibits and other information and filing the same with a general rate application is far outweighed by the benefits to be achieved for the public and the affected utilities in the reduction of delays in the investigation and disposition of general rate proceedings.

Based on the foregoing Findings of Fact, the Commission makes the following

CONCLUSIONS

We conclude that the modified amendments to Rule R1-17(b) and R1-24(g)(2) reflected herein and attached hereto as Appendices A, B & C* should be adopted and are necessary and essential in the public interest and that of the affected utilities for the purpose of substantially reducing regulatory lag and allowing complete, thorough and adequate investigation of all rate applications filed under the Rules and will result in more effective consideration and disposition of cases by the Commission.

The originally proposed amendments have been modified to take into account the written comments filed by the electric and telephone utilities, legislative changes enacted by the 1975 General Assembly, to eliminate material not directly relevant or essential to a review of general rate cases and to make implementation of rule changes more effective.

The rule changes adopted herein should be made applicable only to Class A & B electric, telephone and natural gas utilities. While comments by the natural gas utilities would likely be substantially the same as those filed by the electric and telephone utilities, nevertheless, the Commission will afford Class A & B natural gas utilities a period of time within which to file written comments. However, the Commission concludes that it is in the public interest that the rule changes adopted herein should be made effective for any application filed on or after the date of this Order subject to the review by the Commission of the written comments filed by Class A & B natural gas utilities.

It is significant to note that virtually all of the information and data involved in the adopted rule changes has, in fact, heretofore been provided by the principal electric, telephone and natural gas utilities under the jurisdiction of the Commission. Such data and information heretofore has been obtained on a case-by-case basis by individual orders issued by the Commission. This past procedure is deemed undesirable for data essential to a review of general rate proceedings. The rule changes adopted herein are considered by the Commission to be the minimum data essential for a review of general rate proceedings and should not be construed as limiting the Commission from requiring other information or data which it deems necessary in a particular case by means of further Commission or Staff requests or a specific order.

The Commission is of the opinion that to further assist in more timely and effective disposition of general rate cases filed by affected utilities that the Staff, Attorney General and all other Intervenors or Protestants should file all testimony, exhibits and other information which is to be relied upon at the hearing 20 days in advance of the scheduled hearing.

IT IS, THEREFORE, ORDERED as follows:

1. That Rule R1-17 be amended by adding at the end of subsection (b) thereof the following additional paragraphs and subparagraphs:

"(13) All general rate applications of Class A & B electric, telephone and natural gas utilities shall be accompanied by the information specified in the following Commission forms respectively:

For Class A & B Electric Utilities:

(a) NCUC Form E-1, Rate Case Information Report - Electric Companies

For Class A & B Telephone Utilities:

(b) NCUC Form P-1, Rate Case Information Report - Telephone Companies

For Class A & B Natural Gas Utilities:

(c) NCUC Form G-1, Rate Case Information Report - Natural Gas Companies

"(14) Class A & B electric, telephone and natural gas utilities shall file with and at the time of any general rate application all testimony, exhibits and other information which any such utility will rely on at the hearing on such increase. The Staff, Attorney General and all other Intervenors or Protestants shall file all testimony, exhibits and other information which is to be relied upon at the hearing 20 days in advance of the scheduled hearing.

In the event any affected utility wishes to rely on G. S. 62-133(c), enacted April 30, 1975, which allows the Commission in its discretion to consider 'circumstances and events occurring up to the time the hearing is closed,' such utility shall file with any general rate application detailed estimates of any such data and such estimates shall be presented in the context of a twelve (12) month period of time ending the last day of the month nearest 120 days from the date of application.

Said period of time shall contain the necessary normalizations and annualizations of all revenues, expenses, and rate base necessary for this Commission to properly investigate any individual circumstances or events occurring after the test period by the applicant in support of its application. Any estimate made shall be filed with any general rate application in sufficient detail for review by the Commission. Failure to file estimated data in accordance with this section may result in such information not being allowed in evidence."

2. That Rule R1-24(g) (2) is hereby amended by adding at the end of the existing provisions the following: "Class A & B electric, telephone and natural gas utilities shall file with and at the time of any general rate application all testimony, exhibits and other information which any such utility will rely on at the hearing on such increase. The Staff, Attorney General and all other Intervenors or Protestants shall file all testimony, exhibits and other information which is to be relied upon at the hearing 20 days in advance of the scheduled hearing."

3. That the amendments referred to hereinabove and attached hereto as Appendices A, B & C and incorporated herein to Rule R1-17 and R1-24 are herewith adopted in the public interest.

4. That the rules adopted herein as modified shall be effective with respect to any general rate application filed by any affected utility from and after the date of this Order.

5. That Rule R1-17(f) shall not apply to Class A & B electric, telephone and natural gas utilities.

6. That Class A & B natural gas utilities desiring to do so may file written comments with respect to NCUC Form G-1 on or before September 1, 1975.

ISSUED BY ORDER OF THE COMMISSION.

This 18th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See official Order in the Office of the Chief Clerk.

DOCKET NO. M-100, SUB 61

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Petition of Roselle Lighting Company, Inc.) ORDER
for Modification of the Order of the) ALLOWING
Commission Regarding Billing Procedure) PETITION

BY THE COMMISSION: On February 26, 1975 the Commission received a petition from Roselle Lighting Company, Inc. (hereinafter referred to as "Roselle") requesting that the Commission's billing and disconnect order in Docket No. M-100, Sub 61 be modified in two particulars for Roselle. Roselle petitioned that they not be required to establish a credit code classification system but rather, for purposes of disconnection, treat all customers as "credit good" as detailed in the Commission's order in Docket No. M-100, Sub 61. Roselle further requested that they not be required to show prior account balances on second and third months' bills, the cost of showing such balances creating an undue financial burden on Roselle.

The Commission is of the opinion, and so concludes, that the petition of Roselle should be allowed. It is emphasized, however, that the "prior account balance" is the amount on which disconnect action hinges, regardless of whether or not such a balance appears on subsequent bills.

IT IS, THEREFORE, ORDERED:

1. That the petition of Roselle Lighting Company, Inc. for modification of the Order of the Commission Regarding Billing Procedure in Docket No. M-100, Sub 61, be, and is hereby, allowed as filed.

2. That tariffs filed by Roselle Lighting Company, Inc. in Docket No. M-100, Sub 61 shall reflect the modification as set forth hereinabove.

ISSUED BY ORDER OF THE COMMISSION.

This the 26th day of March, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. M-100, SUB 61

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Promulgation of a Rule to Establish Tariff Provisions with Respect to the Disconnection of a Residential Customer's Natural Gas or Electric Service	)	ORDER MODIFYING RULE

HEARD IN: The Commission Hearing Room, One West Morgan Street, Raleigh, North Carolina, on September 3, 1975

BEFORE: Chairman Marvin R. Wooten, Presiding, and Commissioners Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, and W. Lester Teal, Jr.

APPEARANCES:

For the Respondents:

Carolyn S. Parlato and W. E. Graham
Carolina Power and Light Company
P. O. Box 1551
Raleigh, North Carolina 27602
For: Carolina Power and Light Company

W. Edward Poe, Jr.
Duke Power Company
P. O. Box 2178
Charlotte, North Carolina 28242
For: Duke Power Company

G. Clark Crampton
Joyner & Howison
Attorneys at Law
906 Wachovia Bank Building
Raleigh, North Carolina 27602
For: Nantahala Power and Light Company

Alfred E. Cleveland
McCoy, Weaver, Wiggins, Cleveland & Raper
Attorneys at Law
P. O. Box 1688
Fayetteville, North Carolina
For: N.C. Natural Gas Corporation

F. Kent Burns
Boyce, Mitchell, Burns & Smith
Attorneys at Law
P. O. Box 1406
Raleigh, North Carolina 27602
For: Public Service Company of N.C., Inc.

Jerry W. Amos
Brooks, Pierce, McLendon, Humphrey & Leonard
Attorneys at Law
P. O. Drawer U
Greensboro, North Carolina 27402
For: Piedmont Natural Gas Company and
United Cities Gas Company

Henry S. Manning, Jr.
Joyner & Howison
Attorneys at Law
P. O. Box 109
Raleigh, North Carolina
For: Virginia Electric & Power Company

Allen C. Barringer
Hunton, Williams, Gay & Gibson
Attorneys at Law
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric & Power Company

For the Commission Staff:

Antoinette R. Wike
Associate Commission Attorney
N. C. Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

John R. Molm
Assistant Commission Attorney
N. C. Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On January 30, 1975, the North Carolina Utilities Commission promulgated modified schedules and rules of payment for gas and electric service subject to further findings by the Commission at a public hearing set for July 22, 1975, and later rescheduled for September 3, 1975.

The following electric and gas utility companies appeared and presented information relevant to the implementation of the modified rules: Carolina Power & Light Company (CP&L), Duke Power Company (Duke), Nantahala Power & Light Company (Nantahala), Virginia Electric and Power Company (VEPCO), North Carolina Natural Gas Corporation (N. C. Natural), Piedmont Natural Gas Company (Piedmont), Public Service Company of North Carolina (Public Service), and United Cities Gas Company (United Cities).

Both CP&L and Nantahala presented data showing an increase in numbers and sizes of past due accounts since promulgation of the modified rules on January 30, 1975, as compared with

the same period in 1974. They also reported an increase in the age of past due accounts under the rules.

Like the electric utility companies, the gas companies presented data showing increases in age of total accounts receivable past due and deterioration in age of receivables. They also showed increases in accounts written off as uncollectible through the summer of 1975.

All of the utility companies reported additional costs to administer the modified rules.

VEPCO suggested a modification of the rules to allow the company to omit credit code information from bills and instead to invite customer inquiries about credit code classification.

It was stipulated by CP&L and the Commission Staff that the rule with respect to disconnection of utility service be amended to allow a utility to refuse to accept partial payment on the day service is to be disconnected. The Commission is of the opinion that, once the meter reader has left the local office with a list of customers whose service is to be disconnected, the utility is authorized, through its meter reader or its local office, to collect payment by cash or check for bills past due and in arrears, and for current bills, unless the day on which the meter reader has left the local office with such a list is prior to the third day preceding the past due date of the current bill of any customer whose service is to be disconnected in which case the utility is authorized to collect payment only for bills past due and in arrears.

A "current bill" is defined as a bill rendered through normal company billing procedures but not past due. A "bill in arrears" is defined as a bill rendered and past due.

Each of the three large gas companies recommended restoring the due and payment period to 15 days. Public Service further proposed commencing delinquency proceedings immediately after the past due date and disconnecting service when a customer tenders a bad check and after notice refuses to redeem it.

Piedmont proposed replacement of customers whose service has been disconnected. Piedmont later filed additional comments proposing the elimination of credit codes and reminder notices and the redefinition of deposit rules to set a maximum for all classes at not more than the estimated sum of charges for the two highest bills for service during the ensuing twelve months.

In its own investigation it has come to the attention of the Commission that certain matters should be clarified. First, the Commission believes a clarification is necessary with respect to the past due date. By previous order the Commission has fixed the past due date at not less than

twenty-five (25) days after the billing date. The billing date should be no earlier than the mailing date. Starting with the billing date, the customer should have twenty-five (25) days within which to make payment. "Payment" is defined as delivery of the amount due by 5:00 p.m. on the twenty-fifth (25th) day unless such day is a Saturday, Sunday, or legal holiday in which event the last day for payment runs until the end of the next day which is not a Saturday, Sunday, or a legal holiday.

Present Rule R12-9 provides that the past due date shall be disclosed on the bill. A typical bill rendered by CP&L indicates a date on which the bill is past due. Payment on that date, however, is subject to a finance charge because the date shown on the bill is actually the twenty-sixth (26th) day after the approved billing date. Electric and gas utilities should be authorized to print bills that disclose the date after which the bill is past due. In other words, the customer would have until 5:00 p.m. on the date shown to make payment and avoid a finance charge.

Based upon the information presented at the hearing, and the entire record in this matter, the Commission makes the following

FINDINGS OF FACT

1. That the underlying purpose of the Commission's Order modifying schedules and rules of payment for gas and electric service was to lessen the potential for harm to health and personal well-being due to service interruption.

2. That the rising cost of energy and the continued climate of economic uncertainty have increased the possibility of service interruption to electric and gas customers for nonpayment of bills.

3. That the modified schedules and rules of payment for gas and electric service have afforded customers a longer period of time in which to pay their bills and have decreased the number of customers whose service is disconnected for nonpayment.

4. That some customers have taken advantage of the modified rules in order to prolong the payment period for gas and electric service.

5. That the modified rules have contributed to increased ages and amounts of accounts receivable, increased administrative costs, and decreased cash flow for the electric and gas utility companies.

6. That the imposition of a 1% interest, finance or service charge for late payment would tend to alleviate some of the adverse effects reported by the companies.

7. That the modified rules have been of overall benefit to customers and have improved customer relations with the companies.

CONCLUSIONS OF LAW

1. The modified rules of payment for gas and electric service have achieved their overall objective and should be made permanent subject to further modifications herein described and attached as Appendix "A".

2. The requirement that the past due date be not less than twenty-five (25) days after the billing date is just and reasonable to both the utilities and to their customers and should be retained.

3. The requirements with respect to credit code classifications and notice to customers serve a useful purpose, are not unduly burdensome to implement, and should be retained.

4. The requirement of local office efforts, on the forty-second (42nd) day after the meter is read, to contact delinquent customers whose credit is "not good" is a burdensome and essentially useless procedure and should be deleted.

5. The utilities should be allowed to collect deposits consistent with large seasonal use of gas and electric service.

6. The electric and gas utilities should be encouraged to file tariffs with the Commission pursuant to Rule R12-9(d) and to impose a 1% charge for late payment of bills.

7. Those acts which constitute payment should be clearly defined for purposes of these rules.

8. The electric and gas utilities should be authorized to impose a charge of five dollars ($5.00) for bad checks tendered on a customer's account.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the modified schedules and rules of payment for gas and electric service promulgated by the Commission's Order in this Docket issued January 30, 1975, be further modified as shown in Appendix "A" and be made applicable to residential customers of electric and gas utilities in the State of North Carolina.

2. That all rules and regulations contained in the tariffs of public electric and gas utility companies in North Carolina relating to customer classifications which are in conflict with the rules adopted herein are hereby disapproved and any such rules for customer disconnection procedures and customer credit code classifications in

company tariffs in conflict with the rules adopted herein shall be deleted from such utility company tariffs, and amended tariffs shall be filed with the Commission.

ISSUED BY ORDER OF THE COMMISSION.

This the 17th day of November, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

APPENDIX "A"

1. The date after which the bill is due, or the past due after date, shall be disclosed on the bill and shall not be less than twenty-five (25) days after the billing date. Payment within this twenty-five day period will either maintain or count toward improvement of the customer's credit code classification. Payment of a bill after the specified due date could result in the lowering of a customer's credit code relating to one which permits the utility to disconnect on an earlier date.

2. For purposes of this rule, payment shall be defined as delivery of the amount due to a company business office during regular business hours by 5:00 p.m. on the twenty-fifth (25th) day, unless such day is a Saturday, Sunday, or legal holiday in which event the last day for payment runs until the end of the next day which is not a Saturday, Sunday, or legal holiday.

3. Those customers from whom deposits are required under the provisions of Commission Rules R12-2 or R12-3 and who receive their largest bills seasonally (such as customers who use natural gas or electricity for heating) may be considered seasonal customers in determining the amount of deposit under Rule R12-4. The deposits collectible from such customers shall not exceed one-half (1/2) of the estimated charge for service for the season involved. For purposes of this provision the heating season shall be the calendar months October through March.

4. Each electric and gas utility shall file tariffs with the Commission to impose charges not to exceed five dollars ($5.00) for checks tendered on a customer's account and returned for insufficient funds. This charge shall apply regardless of when the check is tendered.

5. Each gas and electric utility, through its meter reader or local office, is authorized to collect payment by cash or check for bills past due and in arrears, and for current bills once the meter reader has left the local office with a list of customers whose service is to be disconnected, unless the day on which the meter reader has

left the local office with such list is prior to the third day preceding the past due date of the current bill of any customer whose service is to be disconnected, in which case the utility is authorized only to collect payment for bills past due and in arrears.

"Current bill" is defined as a bill rendered but not past due. "Bill in Arrears" is defined as a bill rendered and past due.

6. Each gas and electric utility operating under the jurisdiction of the North Carolina Utilities Commission shall immediately revise, where necessary, its billing procedures to conform to the following schedules:

A. Customers with "credit good"

Approximate Calendar Date	Standard Procedure
1	Meter Read.
5	Bill Mailed.
31	Meter Read.
35	Second bill mailed, showing 1-month prior account balance and current bill.
61	Meter Read.
65	Third bill mailed with a reminder notice.
72	Local office efforts to contact delinquent customers.
79	Disconnect notices reviewed in local offices before mailing to customers. Seven days allowed to make credit arrangements.
89	Review of accounts to determine if customer has taken necessary action to avoid disconnection. Supervisory approval given to final disconnect orders.
91	Meter read and the field representative makes the effort to notify the customer, receive payment, make satisfactory credit arrangements, agree to defer action because of death or illness, or disconnects. Field representative may require payment of all past due portions of bill, consistent with the rules set forth above. Customer has immediate recourse to

the local office for reconnect action.

B. Customers with credit "not good" will have delinquency started on the 35th rather than the 65th day. The billing schedule will then be approximately as follows:

Approximate Calendar Date	Standard Procedure
1	Meter Read.
5	Bill Mailed.
31	Meter Read.
35	Second bill mailed, showing 1-month prior account balance, current bill, and with a reminder notice.
49	Disconnect notices reviewed in local offices before mailing to customers. Seven days allowed to make credit arrangements.
59	Review of accounts to determine if customer has taken necessary action to avoid disconnection. Supervisory approval given to final disconnect orders.
61	Meter read and the field representative makes the effort to notify the customers, receive payment, make satisfactory credit arrangements, agree to defer action because of death or illness or disconnects. Field representative may require payment of all past due portions of bill, consistent with the rules set forth above. Customer has immediate recourse to the local office for reconnect action.

7. The delinquency procedures for these customers will be as described above. This procedure ensures that no disconnect proceeding will be instituted prior to issuance of a second month's bill.

8. No disconnects will be made prior to their being personally reviewed and ordered by a supervisor.

9. The disconnect notice to the customer will state that the local office can be contacted within a 7-day period to

discuss credit arrangements if payment of the bill is not possible.

10. Each gas and electric utility shall submit its system of residential customer credit code classification to the Commission for approval. With regard further to the classifications "credit good" and "credit not good", no customer shall be classified at a level below "credit not good".

11. Following approval by the Commission, each gas and electric utility using a system of credit codes to classify its customers shall advise each customer of the method by which the code operates, the customer's present classification in the credit code, and at any time when a customer's classification changes.

DOCKET NO. M-100, SUB 62

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Exempting From Regulation the Transportation) GENERAL
of Wrecked or Disabled Motor Vehicles) ORDER

BY THE COMMISSION: By Order in Docket No. 4066-M, dated January 29, 1962, the Commission exempted the transportation of wrecked or disabled motor vehicles by equipment designed for use and ordinarily used in wrecker service from regulation under the North Carolina Truck Act.

Further, by Order in Docket No. T-1410, dated November 15, 1967, in the matter of Application by Ivan Secrest, t/a Ivan Secrest Wrecker Service, the Commission found and concluded that it had become a general practice for operators of heavy cargo bearing trucks to send able replacement vehicles by the wrecker service which it sends to retrieve vehicles wrecked or disabled; that this is a necessary service to the owner of the wrecked or disabled vehicle because in most cases it permits the cargo to move to destination without delay and with the same driver, thereby protecting the cargo and mitigating losses, both to shippers and consignees and the carrier; and, that the towing of a replacement vehicle to, as well as towing the wrecked or disabled vehicle from, the location of the latter, falls within the administrative exemption provided in the General Order in Docket No. 4066-M.

Upon consideration of the record in this matter as a whole, the Commission is of the opinion, finds and concludes, that its Rule R2-50 of the Rules and Regulations in connection with Exemption for transportation of wrecked vehicles which reads:

"Transportation of wrecked or disabled motor vehicles by equipment designed for use and ordinarily used in wrecker

service is exempted from regulation under the Public Utilities Act."

should be amended to read as follows:

"Transportation of wrecked or disabled motor vehicles and the transportation of replacement units by equipment designed for use and used in wrecker service is exempt from regulations under the Public Utilities Act."

IT IS, THEREFORE, ORDERED AS FOLLOWS:

That Rule R2-50 of the Commission's Rules and Regulations be, and the same is hereby, amended to read as follows:

"Rule R2-50. Exemption for transportation of wrecked vehicles. - Transportation of wrecked or disabled motor vehicles and the transportation of replacement units by equipment designed for use and ordinarily used in wrecker service is exempt from regulation under the Public Utilities Act."

BY ORDER OF THE COMMISSION.

This the 15th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. M-100, SUB 63

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Classification of Transportation of Wood Shavings as a Native Wood Lumber Product) ADMINISTRATIVE ORDER

This matter is before the Commission for an interpretation of Rule R2-52 (3) and the transportation of wood shavings thereunder as an exempt commodity.

From a review and study of the matter, it appears to the Commission that wood shavings are a native wood lumber product of the nature contemplated in G.S. 62-260(14) and Rule R2-52; and that wood shavings should be included in the identification of lumber products under said rule.

IT IS, THEREFORE, ORDERED:

That Subsection (3) of Rule R2-52 be amended to read as follows:

"(3) Lumber or lumber products, native wood, in truckloads, viz: Lumber, rough or dressed, ceiling,

flooring, sheathing or weatherboarding, wood chips and wood shavings."

ISSUED BY ORDER OF THE COMMISSION.

This the 17th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. M-100, SUB 64

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Specification of Numbers	) ORDER CHANGING NUMBERS OF
and Organization of Copies	) COPIES REQUIRED FOR FILINGS
of Filings	) AND SPECIFYING ORGANIZATION
	) OF DATA RESPONSES

BY THE COMMISSION: The numbers of copies of filings presently required and the organization of filings of certain data responses have posed a burden on the Commission and its Staff. The Commission is of the opinion that such burden can be relieved by changing the numbers of copies required of certain filings and specifying the organization of data responses.

IT IS, THEREFORE, ORDERED:

1. That Rule R1-5. Pleadings, generally., paragraph (g) Copies Required. - is hereby amended to delete the words "original plus seventeen copies" and substitute therefor the words "original plus twenty (20) copies". Exception 1 to that paragraph is amended to delete the words "original plus twenty-five (25) copies" and substitute therefor the words "original plus twenty-seven (27) copies".

2. That Rule R1-17. Filing of increased rates; application for authority to adjust rates. - is hereby amended, to specify organization of data responses required under subsection (b), paragraph 13, by the additions to Rate Case Information Reports, NCUC Forms E-1, P-1, and G-1 of the wording contained in attached Appendices "A", "B", and "C", respectively, and that numbers of copies specified in Section C of each report are hereby amended accordingly.

3. That Rule R1-17. is further amended by adding to subsection (b) paragraph 14 the following wording: "The application, testimony and exhibits and other information shall be filed in sets which are separately numbered and separately bound, boxed, or rubber-banded. The originals shall be in Set No. 1." These sentences shall be inserted between the phrases "on such increase." and "The Staff,"

and shall become the second and third sentences of that paragraph.

4. That Rule R1-24 Evidence, be amended by adding the following additional paragraph (j) as follows:

(j) Numbering of testimony lines - Each individual sheet of testimony and, where practical, exhibits and other supporting materials, of all parties shall have each line numbered in the left-hand margin and shall be punched to fit a three-ring binder. See sample attached.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"

Additions to Section B, General Instruction 3 of NCUC Form E-1, Rate Case Information Report - Electric Companies

"The number of responses filed shall be in accordance with Rule R1-5 unless a smaller number is specified in Section C. The responses shall be provided in sets which are separately numbered and separately bound, boxed or rubber-banded. Where reduced numbers of responses are specified, they shall be included with the sets as numbered below:

SECTIONS OF DATA REQUEST

Set No.	2	13a8	13a9	24	31	32	55	39c(1)	39c(2)
1,2	x	x	x	x	x		x		x
3	x	x	x	x	x				
4	x	x	x	x					x
5				x			x	x	x
6				x			x		x
7,8				x					
9				x		x			

10	x	x
11-13	x	

The above sets 1 through 13 and the remaining sets shall include a response to each section not included in the above table."

APPENDIX "B"

Additions to Section B, General Instruction 3 of NCUC Form P-1, Rate Case Information Report - Telephone Companies

"The number of responses filed shall be in accordance with Rule R1-5 unless a smaller number is specified in Section C. The responses shall be provided in sets which are separately numbered and separately bound, boxed or rubber-banded. Where reduced numbers of responses are specified, they shall be included with the sets as numbered below:

SECTIONS OF DATA REQUEST

Set No.	2	13a8	13a9	27	28f	33-38	43-46	47a	51	58	51c(1)	51c(2)
1,2	x	x	x	x	x	x	x	x	x	x		x
3	x	x	x	x	x	x	x		x			x
4	x	x	x	x	x				x			
5,6				x	x	x	x	x				
7				x		x	x		x			
8								x				
9									x			
10,11				x	x				x	x		x
12									x		x	
13-15				x	x							

The above sets 1 through 15 and the remaining sets shall include a response to each section not included in the above table."

APPENDIX "C"

Additions to Section B, General Instruction 3 of NCUC Form G-1, Rate Case Information Report - Gas Companies

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"The number of responses filed shall be in accordance with Rule R1-5 unless a smaller number is specified in Section C. The responses shall be provided in sets which are separately numbered and separately bound, boxed or rubber-banded. Where reduced numbers of responses are specified, they shall be included with the sets as numbered below:

SECTIONS OF DATA REQUEST

Set No.	2	13a8	13a9	24	37
1,2	x	x	x	x	x
3,4	x	x	x	x	
5,6				x	x
7-11				x	

The above sets 1-11 and the remaining sets shall include a response to each section not included in the above table."

Center the page number

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( )
( )
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( )
(Text of answer continued)
(from previous page)
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( )
( )
( )
( )
( )

Q.( )
( )
(Text of question)
( )
( )

A.( )
( )

22	(	Text of answer)
23	(	)
24	(	)
25	(	)
26	(	)

DOCKET NO. E-100, SUB 20

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Adoption of Rules and Regulations to Establish Procedures for Fuel Based Electric Rate Cases Pursuant to Chapter 243 of the Session Laws of 1975	))))	ORDER PROMULGATING RULES OF PROCEDURE FOR FUEL BASED ELECTRIC RATE CASES

BY THE COMMISSION: This proceeding for adoption of procedural and administrative Rules is before the Commission upon the Commission's own motion, to establish administrative and procedural Rules for implementation of the provisions of Chapter 243 of the Session Laws of 1975 for fuel based electric rate cases of public utilities.

Chapter 243 of the Session Laws of 1975 amends the Public Utilities Act as follows:

"Sec. 8. G.S. 62-134 is hereby amended by adding a new subsection (e) to read as follows:

'(e) Notwithstanding the provisions of this Article, upon application by any public utility for permission and authority to increase its rates and charges based solely upon the increased cost of fuel used in the generation or production of electric power, the commission shall suspend such proposed increase for a period not to exceed 90 days beyond the date of filing of such application to increase rates. Upon motion of the commission or application of any person having an interest in said rate, the commission shall set for hearing any request for decrease in rates or charges based solely upon a decrease in the cost of fuel. The commission shall promptly investigate applications filed pursuant to provisions of this subsection and shall hold a public hearing within 30 days of the date of the filing of the application to consider such application, and shall base its order upon the record adduced at the hearing, such record to include all pertinent information available to the commission at the time of hearing. The order responsive to an application shall be issued promptly by the commission but in no event later than 90 days from the date of filing of such application. A proceeding under this subsection shall not be considered a general rate case. All monthly fuel adjustment rate increases based solely upon the increased cost of fuel, as to each public utility, as presently approved by the commission shall fully terminate effective September 1,

1975, except that the same shall be earlier terminated as to each such public utility upon the effective date of any final order of the commission under this section; provided, however, that the termination date of September 1, 1975, shall not apply to any public utility which has filed an application under this subsection on or before July 1, 1975, and where the commission has not issued a final order by September 1, 1975.'"

Upon consideration of the above amendment to the North Carolina Public Utilities Act, and the Commission's present Rules of Practice and Procedure, and the need to adopt additional Rules of Practice and Procedure to implement said changes in the Public Utilities Act, the Commission is of the opinion and so finds and concludes that the Rules of Practice and Procedure of the Commission should be amended by adding a new Rule R1-36 as set forth in Appendix A adopted in the ordering paragraphs below, and by amending Rule R8-45 as set out in Appendix B adopted in the ordering paragraphs below.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Rules and Regulations of the Commission are hereby amended by adding a new Rule R1-36 as published and promulgated herein in Appendix A attached to this Order.

2. That the Rules and Regulations of the Commission are hereby amended by adding a new Article 10 in Chapter 8 of said Rules, including new Rule R8-45 as hereby promulgated and adopted and set forth in Appendix B of this Order.

3. That the above amendments to the Commission's Rules are in full force and effect upon the issuance of this Order, subject to modification upon the Commission's own motion or upon motion filed in this docket by anyone having an interest therein.

ISSUED BY ORDER OF THE COMMISSION.

This 17th day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

APPENDIX A

Rule R1-36. Applications for Change in Rates Based on Cost of fuel (a) Applications by a public utility for permission and authority to change its rates and charges based solely upon changes in the cost of fuel used in the generation or production of electric power, pursuant to G.S. 62-134(e), will be considered by the Commission as follows:

(1) The application shall be verified and shall contain, among other things, the following data, either embodied in the application or attached thereto as exhibits:

(i) A statement showing the cost of fuel used in the computation of the rates and charges of the applicant presently in effect.

(ii) A statement showing the amount of the change in the cost of fuel from the cost of fuel used in the computation of the rates and charges of the application presently in effect.

(iii) A statement showing in detail the method by which the applicant proposes to modify its present rates and charges.

(iv) A description of the applicant's fuel purchasing practices during the period upon which the computations in (ii) and (iii) above are based.

(2) Public hearing on applications pursuant to G.S. 62-134(e) shall be held in the Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, at 2:00 P.M. on the third Monday of the month next following the month in which the application is filed unless otherwise ordered. The issues to be determined will be whether the applicant has reasonably taken into account in its proposed charges solely the change in the cost of fuel and whether the applicant has been reasonable in its fuel purchasing practices during the period upon which the computations in (ii) and (iii) are based.

(3) The public utility making application under the provisions of this Rule shall publish a notice in a newspaper or newspapers of general circulation in its service area at least ten (10) days prior to the hearing, notifying the public that said public utility has made such application to the Commission under the provisions of G.S. 62-134(e), and setting forth the date for the public hearing.

(4) Unless the Commission otherwise orders, proposed charges in applications made pursuant to G.S. 62-134(e) shall be suspended for a period not to exceed ninety (90) days.

(5) The applicant's proposed initial direct testimony and exhibits shall be filed at the same time that the application is filed.

(6) A public utility having a decrease in the cost of fuel shall file an application to decrease its rates accordingly in the month immediately following said

decrease in fuel costs, on the same procedures and time schedules as provided in this section for increases in rates based on an increase in the cost of fuel.

(7) Persons having an interest in said application may file a petition to intervene setting forth such interest, which may be allowed in the discretion of the Commission up to the time of the hearing.

(b) Applications by a person affected by a public utility's rates and charges based solely upon the cost of fuel, or by motion of the Commission, that such rates and charges be decreased solely because of the decreased cost of fuel used in the generation or production of electric energy below the cost of fuel used in the computation of such rates and charges of the utility presently in effect, will be considered by the Commission as follows:

(1) Applications shall be verified and shall set forth in numbered paragraphs:

(i) The full name and post office address of the person making the application.

(ii) The full name of the public utility with respect to which the application relates.

(iii) The manner by which the applicant is affected by such rates and charges of said public utility.

(iv) A clear, concise statement of the basis for applicant's belief that the cost of fuel used in the generation or production of electric power by said public utility has decreased below the amount used in the computation of the present rates and charges of the public utility.

(2) Upon receipt of an application by an interested person under subparagraph (b) (1) hereof, the Commission shall mail a copy thereof to the public utility with respect to which such application relates, and any response of the public utility to the matters set forth in such application shall be filed with the Commission and a copy mailed to the applicant. Public hearing on such application shall be held in the Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, at 2:00 P.M. on the third Monday of the month next following the month in which the application is filed, unless otherwise ordered by the Commission. Notice of such hearing shall be as ordered by the Commission. At such hearing, the issues to be considered by the Commission shall be limited to the following:

(i) Whether the cost of fuel to the public utility has decreased below the amount used in the computation of the present rates and charges of such public utility and, if so, the amount of such decrease;

(ii) Whether the public utility has been reasonable in its fuel purchasing practices; and

(iii) The extent to which, if any, the rates and charges of the public utility should be changed so as to take into account solely the decreased cost of fuel.

(3) Upon receipt of an application by an interested person which appears to raise issues other than those set forth in subparagraph (2) above, the Commission, in its discretion, shall treat such application as a complaint and deal with it in accordance with the provisions of G.S. 62-73 and N.C.U.C. Rule R1-9.

APPENDIX B

ARTICLE 10

FUEL BASED RATE CHANGES

Rule R8-45, Monthly Fuel Cost Reports - Every electrical public utility which uses fossil or nuclear fuel, or both, in the generation of electric power shall, on or before the 25th day of each month, furnish the Commission with a report of fuel costs for the preceding month, on such form as shall from time to time be approved by the Commission showing in reasonable detail the following information with respect to the month covered by said report:

1. Total actual cost of fuel burned during the month.

2. Total generation during the month (KWH).

3. Total sales during the month (KWH).

4. Actual cost of fuel per KWH (sales and generation) for month.

5. Cost of fuel per KWH included in rates in effect during month.

6. Difference (plus/minus) in actual fuel cost per KWH and fuel cost per KWH included in rates in effect.

7. The generation mix for the month (% fossil, % nuclear).

8. The system average generating plant efficiency, the "heat rate" i.e., the number of Btu which must be

consumed to produce one KWH of electric energy.

9. The average heat content of coal burned expressed in Btu per pound.

10. Amount billed under rate increase for fuel cost increase applicable to North Carolina retail sales month of _____, ____, if any.

11. Coal received during the month of _____.

	Percent	¢/m Btu
Contract	_____	_____
Spot	_____	_____

DOCKET NO. G-100, SUB 22
DOCKET NO. G-9, SUB 143
DOCKET NO. G-21, SUB 134
DOCKET NO. G-5, SUB 109
DOCKET NO. G-3, SUB 64
DOCKET NO. G-1, SUB 52

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Rulemaking Proceeding and Investigation into the Feasibility of Increasing the Supply of Natural Gas in the State of North Carolina	) FURTHER ORDER ESTABLISHING NATURAL GAS EXPLORATION RULES

BY THE COMMISSION: On January 17, 1975, in Docket No. G-9, Sub 143, Piedmont Natural Gas Company, Inc. (Piedmont) filed with the Commission an application for authority to increase its rates by a surcharge of 1¢ per Ccf on all rate schedules, the proceeds of which were to be exclusively devoted to an exploration program to discover new sources of natural gas independent of the sources of Piedmont's principal pipeline supplier, Transcontinental Gas Pipeline Corporation (Transco). The Commission, being of the opinion that a rulemaking investigation should be instituted to inquire into the feasible ways to increase the supplies of natural gas available to North Carolina, established Docket G-100, Sub 22, and made the five North Carolina intrastate gas distributing utility companies and the Attorney General parties thereto by Order issued on February 17, 1975.

Thereafter, applications for a 1¢ per Ccf surcharge to be used for exploration and drilling activities were filed by the other gas companies as follows:

Docket No.	Company	Filing Date
G-21, Sub 134	North Carolina Natural Gas Company	March 5, 1975
G-5, Sub 109	Public Service Company of North Carolina, Inc.	March 14, 1975
G-3, Sub 64	Pennsylvania and Southern Gas Company (North Carolina Gas Service Division)	March 14, 1975
G-1, Sub 52	United Cities Gas Company	March 18, 1975

Notices of Intervention on behalf of the using and consuming public were filed with the Commission by the Attorney General of North Carolina on March 14, 1975.

On March 20, 1975, the Commission ordered the consolidation for hearing of the rulemaking and proposed surcharge dockets above cited (G-100, Sub 22; G-9, Sub 143; G-21, Sub 134; G-5, Sub 109; G-3, Sub 64; and G-1, Sub 52).

Public hearings were held May 13-15, 1975, at which time company witnesses testified with respect to exploration and drilling programs and the need for extraordinary methods of financing them. The witnesses stated that the primary source of funds would be the proposed surcharge on customers' bills. Piedmont and Public Service stated that their stockholders would provide one-third of the total funds used to finance exploration programs and that the remaining two-thirds would come from customers through the proposed surcharge. N. C. Natural advised that its stockholders would provide one-fourth of the funds for its exploration programs.

On June 26, 1975, the Commission issued an Order in the above-captioned dockets, concluding that the natural gas utilities are unable to raise sufficient capital through traditional methods of financing to fund exploration and drilling programs of the size needed to obtain additional gas supplies for North Carolina customers and establishing natural gas exploration rules. The Commission further concluded that "tracking" is more desirable from a regulatory standpoint than the proposed surcharge advancement as a method of funding such programs. The Order therefore provided that the companies would file for a rate increase or decrease due to exploration activities, approximately every six months, based upon the costs of such activities as offset by revenues. Although the Order did not specify the percentage contributions of customer and stockholder funds, the Commission nevertheless anticipated that the gas utilities would continue stockholder participation as previously testified, since the benefits of

exploration programs accrue to both stockholders and customers.

Upon further consideration of the evidence adduced at the hearing, and the entire record in this matter, the Commission is now of the opinion, and so finds and concludes, that in the interest of fairness and uniformity, the natural gas exploration rules previously issued in these dockets should be amended to provide that participation in the financing of exploration programs be in the ratio of 75% customer funds to 25% stockholder funds.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the contribution of customer and stockholder funds by the five natural gas utilities companies in North Carolina to natural gas exploration and development ventures approved by the Commission in these dockets shall be in the ratio of 75% to 25% respectively.

2. That the Applications filed November 28, 1975, in Docket No. G-5, Sub 16, by Public Service Company of North Carolina, Inc., and December 1, 1975, in Docket No. G-9, Sub 152, by Piedmont Natural Gas Company, Inc., seeking authority to adjust their rates and charges, may be withdrawn and refiled consistent with the provisions of this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the 11th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NOS. G-100, SUB 22, G-9, SUB 143, G-21, SUB 134, G-5, SUB 109, G-3, SUB 64, G-1, SUB 52

PURRINGTON, COMMISSIONER, CONCURRING IN PART AND DISSENTING IN PART: Not having participated in the decision rendered in these dockets on June 26, 1975, this further order affords the first appropriate opportunity for me to comment on the matters under consideration here.

Investment in exploration for natural gas by a gas distribution company is no different from investment in a coal mine by an electric utility, except that the risks in the former investment are many times greater. Both investments can be advantageous to the company in carrying out its utility function, but neither <u>are</u> utility functions. Therefore, the cost of neither should be treated as a utility expense. For in so doing (and thereby passing through the cost thereof to the consumer in his rate), the

source of capital funds is shifted from the investor to the consumer.

In a free enterprise economy, investment decisions must be voluntary rather than imposed by regulatory authority. In my view, both the prior order in this docket and this further order require the consumer to become an involuntary investor in one of the most speculative enterprises known. Insofar as this further order reduces the proportion of investment funds to be provided by the consumer, I concur. Insofar as it requires the consumer to provide any investment funds at all, I dissent. The company should bear the burden alone of raising investment capital.

J. Ward Purrington
Commissioner

DOCKET NO. G-100, SUB 23

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Minimum Federal Safety Standards for Pipeline Facilities and Transportation of Gas Under Natural Gas Pipeline Safety Act as Codified in 49 USC 1671 et. seq.	) ORDER ADOPTING AN AMENDMENT TO THE MINIMUM FEDERAL SAFETY STANDARDS

BY THE COMMISSION: The office of Pipeline Safety of the United States Department of Transportation promulgated Minimum Federal Safety Standards for pipeline facilities and the transportation of gas in 49 CFR Part 192.

On December 30, 1970, the North Carolina Utilities Commission issued an order under Docket No. G-100, Sub 13 adopting the Minimum Federal Safety Standards for Natural Gas Pipeline Safety as adopted by the Department of Transportation in 49 CFR Part 192. Since that time, several amendments have been proposed and adopted to the Minimum Federal Safety Standards by the Office of Pipeline Safety and subsequently adopted by the North Carolina Utilities Commission.

Under the provisions of G.S. 62-50, the North Carolina Utilities Commission has pipeline safety jurisdiction over all natural gas public utilities and municipal gas facilities. On February 25, 1975, the Office of Pipeline Safety adopted an amendment to Part 192 of Title 49 of the Code of Federal Regulations as follows:

1. Section 192.65(a) is amended to read as follows:

§192.65 Transportation of pipe.

In a pipeline to be operated at a hoop stress of 20 percent or more of SMYS, an operator may not use pipe having

an outer diameter to wall thickness ratio of 70 to 1, or more, that is transported by railroad unless--

(a) The transportation is performed in accordance with the 1972 edition of API RP5L1, except that before February 25, 1975, the transportation may be performed in accordance with the 1967 edition of API RP5L1.

* * * * *

2. In Section II.A of Appendix A to Part 192, item 4 is amended to read as follows:

APPENDIX A--INCORPORATED BY REFERENCE

* * * * *

II. Documents incorporated by reference.

A. American Petroleum Institute:

* * * * *

4. API Recommended Practice 5L1 entered "API Recommended Practice for Railroad Transportation of Line Pipe" (1967 and 1972 editions).

* * * * *

The Commission is of the opinion that in many instances the state safety standards and the North Carolina Law under the authority of the Commission exceeds Minimum Federal Safety Standards; however, the Commission concludes that in the interest of cooperative regulation with appropriate Federal agencies and in review of the specific legislature mandate under provisions of G.S. 62-2 and G.S. 62-50 that the above stated amendments, and new additions as adopted by the Department of Transportation in 49 CFR Part should be adopted and made applicable to such pipeline facilities and facilities for transportation of natural gas under the jurisdiction of this Commission. Accordingly, under authority of G.S. 62-31,

IT IS THEREFORE, ORDERED AS FOLLOWS:

1. That the following amendment as listed to the Minimum Federal Safety Standards pertaining to gas pipeline safety and the transportation of natural gas as adopted in 49 CFR Part 192 as are in effect as of the date of this order be, and the same hereby is adopted by the Commission to be applicable to all natural gas facilities under its jurisdiction except as to those requirements of North Carolina Law which exceed or are more stringent than the standards set forth in the above mentioned Federal enactment and further with the exception of any subsequent modification or amendment to the North Carolina Safety Standards.

Part 192 of Title 49 of the Code of Federal Regulations is amended as follows, effective February 25, 1975:

1. Section 192.65(a) is amended to read as follows:

§192.65 Transportation of pipe.

In a pipeline to be operated at a hoop stress of 20 percent or more of SMYS, an operator may not use pipe having an outer diameter to wall thickness ratio of 70 to 1, or more, that is transported by railroad unless--

(a) The transportation is performed in accordance with the 1972 edition of API RP5L1, except that before February 25, 1975, the transportation may be performed in accordance with the 1967 edition of API RP5L1.

* * * * *

2. In Section II.A of Appendix A to Part 192, item 4 is amended to read as follows:

APPENDIX A--INCORPORATED BY REFERENCE

* * * * *

II. Documents incorporated by reference.

A. American Petroleum Institute:

* * * * *

4. API Recommended Practice 5L1 entered "API Recommended Practice for Railroad Transportation of Line Pipe" (1967 and 1972 editions).

* * * * *

2. That a copy of this order be mailed to all natural gas utilities and the municipal gas operators under the jurisdiction of this Commission.

3. That a copy of this order be transmitted to the Department of Transportation, Washington, D.C.

ISSUED BY ORDER OF THE COMMISSION.

This the 10th day of March, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. G-100, SUB 24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Rulemaking Proceeding for Curtailment of) ORDER REVISING
Gas Service Due to Gas Supply Shortage) RULE R6-19.2

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on June 24, 1975.

BEFORE: Governor James Holshouser; Chairman Marvin R. Wooten, Commissioners Ben E. Roney, George T. Clark, Jr., and Tenney I. Deane, Jr.

APPEARANCES:

For the Gas Distributing Companies:

Jerry W. Amos
Attorney at Law
Brooks, Pierce, McLendon, Humphrey & Leonard
P. O. Drawer U
Greensboro, North Carolina 27402
Appearing for: Piedmont Natural Gas Company, Inc.

F. Kent Burns
Attorney at Law
Boyce, Mitchell, Burns & Smith
P. O. Box 1406
Raleigh, North Carolina 27602
Appearing for: Public Service Company of North Carolina, Inc.

Donald W. McCoy
Attorney at Law
McCoy, Weaver, Wiggins, Cleveland & Raper
P. O. Box 1688
Fayetteville, North Carolina 28302
Appearing for: North Carolina Natural Gas Corporation

James T. Williams, Jr.
Attorney at Law
Brooks, Pierce, McLendon, Humphrey & Leonard
P. O. Drawer U
Greensboro, North Carolina 27402
Appearing for: United Cities Gas Company and Penn & Southern (N. C. Gas Service Division)

For the Pipeline Company:

Thomas F. Ryan, Jr.
Attorney at Law
Gallagher, Connor & Boland
821 15th St., N. W.
Washington, D. C. 20005
Appearing for: Transcontinental Gas Pipe Line Corporation

For the Attorney General:

I. Beverly Lake, Jr.
Deputy Attorney General
Ruffin Building
Raleigh, North Carolina 27609
Appearing for: The Using and Consuming Public and State of North Carolina

Jesse C. Brake
Associate Attorney General
P. O. Box 629
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public and State of North Carolina

For the Commission Staff:

Edward B. Hipp
Commission Attorney
217 Ruffin Building
Raleigh, North Carolina

Robert F. Page
Assistant Commission Attorney
P. O. Box 991
Raleigh, North Carolina 27602

Morton L. Simons
Attorney at Law
Simons & Simons
1629 K Street, N. W.
Washington, D. C. 20006
Appearing for: State of North Carolina and North Carolina Utilities Commission (Washington Counsel)

Counsel appearing for Industries:

K. Jacqueline Bernat
Aluminum Company of America
1501 Alcoa Building
Pittsburgh, Pa. 15219
Appearing for: Aluminum Company of America

Henry S. Manning, Jr.
Attorney at Law
Joyner & Howison
P. O. Box 109
Raleigh, North Carolina 27602
Appearing for: Aluminum Company of America

J. Melville Broughton, Jr.
Attorney at Law
Broughton, Broughton, McConnell & Boxley
Box 2387
Raleigh, North Carolina 27602
Appearing for: The Ball Corporation

James G. Kennedy
Vice President & General Counsel
Laurens Glass Company
Drawer 9
Laurens, South Carolina 29360
Appearing for: Laurens Glass Company
Henderson, North Carolina Plant

J. R. Morris
Vice President and Counsel
2410 Randolph Avenue
Greensboro, North Carolina 27420
Appearing for: Carolina By-Products

Keith R. McCrea
Attorney at Law
Grove, Jaskiewicz, Gilliam & Cobert
1730 M Street, N. W.
Washington, D. C. 20036
Appearing for: Owens-Illinois, Inc.

Daniel W. Fouts
Attorney at Law
Adams, Kleemeier, Hagan, Hannah & Fouts
P. O. Box 3463
Greensboro, North Carolina 27402
Appearing for: Pomona Corporation

Harold H. Smith
Attorney at Law
Cannon Mills Company
P. O. Box 830
Concord, North Carolina 28025
Appearing for: Cannon Mills Company

Thomas W. Steed, Jr.
Attorney at Law
Allen, Steed & Pullen, P. A.
Box 2058
Raleigh, North Carolina 27602
Appearing for: Owens-Illinois

Thomas R. Eller, Jr.
Attorney at Law
Hovis, Hunter & Eller
801 American Building
Charlotte, North Carolina 28286
Appearing for: American Bakeries Company
The Great Atlantic & Pacific Tea Company

Mary Ellen Offer
Attorney at Law
The Great Atlantic & Pacific Tea Company, Inc.
2 Paragon Drive
Montvale, New Jersey
Appearing for: The Great Atlantic & Pacific Tea Company, Inc.

Wallace C. Murchison
Attorney at Law
Murchison, Fox & Newton
16 N. 5th Ave.
Wilmington, North Carolina 28401
Appearing for: General Electric Company
Nuclear Fuel Department

Alfred C. Jones, III
Attorney at Law
161 E. 42nd Street
New York, New York 10017
Appearing for: Babcock & Wilcox

Sanford Wadler
Attorney at Law
Wake Forest, North Carolina 27587
Appearing for: Huyck Corporation

R. R. Bonczek
Senior Counsel
DuPont Company
Wilmington, Delaware 18898
Appearing for: DuPont Company

Jack Elam
General Counsel
Cone Mills Corporation
1201 Maple Street
Greensboro, North Carolina 27405
Appearing for: Cone Mills Corporation

William H. McCullough
Attorney at Law
Sanford, Cannon, Adams & McCullough
333 Fayetteville Street
Raleigh, North Carolina 27602
Appearing for: Farmers Chemical Association, Inc.

David R. Hillier
Attorney at Law
326 E. Stadium Drive
Eden, North Carolina 27288
Appearing for: Fieldcrest Mills, Inc.

Donald E. Gillespie
Beaunit Corporation
P. O. Box 12234
Research Triangle Park
Raleigh, North Carolina 27612
Appearing for: Beaunit Corporation

Charles B. Winberry
Attorney at Law
Biggs, Meadows, Batts & Winberry
Drawer 153
Rocky Mount, North Carolina 27801
Appearing for: Masonite Corporation

Alan R. Eisele
Attorney at Law
Raymer, Lewis, Eisele & Patterson
P. O. Box 127
Statesville, North Carolina 28677
Appearing for: Hunt Manufacturing Company
Statesville, North Carolina
28677

BY THE COMMISSION: On April 24, 1975, this Commission instituted a Proceeding for the purpose of evaluating Revised Rule R6-19.2, entitled Priorities for Curtailment of Service, in light of anticipated 1975-1976 increases in curtailment of natural gas supplies available to North Carolina from Transcontinental Gas Pipeline Corporation (TRANSCO), the sole supplier of natural gas to North Carolina and in consideration of North Carolina's operating experience since December 1973 under the current Rule R6-19.2.

On March 7, 1975, TRANSCO submitted to North Carolina's five natural gas distribution companies its estimated systemwide curtailment averages of between 42% and 50% for the winter period November 16, 1975, through April 15, 1976.

The Commission anticipated that, under either the interim settlement plan or the 467B Federal Power Commission Plan, the level of curtailment for North Carolina companies for the upcoming winter will be in the order of from 49% to 69% of contract demand quantities. The Commission further anticipated that no final order establishing a permanent curtailment plan for the Transcontinental system would be issued by the Federal Power Commission in Docket No. RP72-99, prior to November 16, 1975.

The Commission, therefore, set the matter for public hearing on June 10, 1975, and ordered each natural gas

utility operating in North Carolina to file data exhibits showing the impact on its North Carolina customers of TRANSCO's expected curtailment under both the settlement plan and the 467B Plan, and on a normal and design temperature basis.

The hearing was rescheduled for June 24, 1975, at which time representatives of TRANSCO, the Federal Power Commission, the Federal Energy Administration, the State Energy Office, the five distribution companies, the customers and the Commission Staff testified concerning the impact of anticipated curtailment on production and employment in North Carolina, and measures being taken by TRANSCO, the gas utilities, and the Federal and State Governments to increase the available supply of natural gas to TRANSCO and to North Carolina.

The Commission Staff, by Assistant Commission Attorney Robert F. Page, described the events leading up to North Carolina's current natural gas crises and summarized the actions taken by the Commission to deal with the situation, particularly the promulgation of Revised Rule R6-19.2 in Docket No. G-100, Sub 18, and intervention in Federal Power Commission Docket No. 72-99, involving a permanent curtailment plan for TRANSCO. The attorney who represents the N. C. Utilities Commission before the FPC, Mr. Mort Simon, testified that the parties have encountered difficulties in negotiating a permanent plan in view of increased curtailment from TRANSCO.

Mr. W. J. Bowen, President of TRANSCO, testified that TRANSCO has only 6 billion MCF of proven gas reserves under contract and a throughput of approximately .7 million MCF per year. TRANSCO's supply is 30% onshore, and the remaining 70% comes from offshore wells in the Gulf Area. Although half of the new gas being found today is onshore, TRANSCO's new gas purchases are effectively limited to offshore due to the regulated price differential of offshore with unregulated onshore gas.

For the last several years TRANSCO has found less gas on an annual basis than it sells. The company has signed advance payment contracts with producers for offshore exploration and has invested about $180 million in exploration efforts of its own. Despite optimism for the future, neither of these endeavors is expected to yield immediate results. TRANSCO expects, for the coming winter period, to be able to deliver systemwide 350 to 375 million cubic feet per day less than it delivered last winter.

Mr. Bowen testified that he is hopeful that the Federal Power Commission will allow TRANSCO to buy emergency gas onshore, for a 60-day period, at competitive prices and to pass the increased cost on to its customers. Unless it acquires emergency supplies, TRANSCO will have gas only for residential and small commercial customers under the proposed FPC 467B allocation plan.

Mr. Frank C. Allen, Chief, Bureau of Natural Gas, Federal Power Commission, testified that in his opinion the Commission has limited authority under the Federal Power Act and the Natural Gas Act in dealing with the natural gas shortage nationwide.

He stated that the FPC's proposed rulemaking policy statement in Docket No. 75-25 will encourage industrial customers to buy gas in the intrastate market and transport it by interstate pipeline for their own use but added that there are jurisdictional questions involved in this procedure.

Mr. Allen further testified that the FPC's provision whereby pipelines were allowed to buy emergency gas in the intrastate market for 180 days was shown not to have been prudent and has been struck down by the Court of Appeals for the District of Columbia Circuit.

Absent changes in legislation governing the FPC, Mr. Allen foresees little possibility of short-term improvement regarding the impact of the gas shortage on North Carolina industry.

Mr. Donald B. Craven, Acting Administrator of the Energy Resource Development Division of the Federal Energy Administration, testified that the crux of the gas problem lies in the continued regulation of wellhead prices.

The largest portion of natural gas supplies will continue to come from domestic gas production, which declined 6% last year and will decline as much as 40% by 1985 if no action is taken. The FEA proposes deregulation in order to improve the gas supply/demand situation and to encourage exploration.

For the short-term, the President's Energy Resources Council has established an interagency Natural Gas Policy and Contingency Planning Task Force to assess options for immediately increasing domestic gas supply, reducing demand, and revising allocation procedures of both natural gas and alternate fuels. The Task Force will make administrative and legislative recommendations to the President in September.

The curtailment impact on industrial customers was illustrated by the testimony of Mr. Paul Hitchcock, Acting Director of the State Energy Office. Mr. Hitchcock stated that of the 1500 North Carolina plants using natural gas, approximately 283 do not have alternate fuel capability. Most of these plants fall in Priorities O, P and Q, which historically have been firm customers.

Mr. Jerry Amos, representing Piedmont Natural Gas Company, testified that, under the 467B Plan and TRANSCO's expected 43% systemwide deficiency, Piedmont will be curtailing 100%

of all usage through existing Priorities 0 customers and approximately 5|% of Priority P.

If the interim settlement plan is approved, and assuming normal weather, Piedmont will be able to supply all of Priority P customers but only about |0% of Priority 0. Mr. Amos further testified that if North Carolina experiences a colder than normal winter period |975-76, Piedmont's high priority customers will require an additional 675,000 MCF.

Mr. F. Kent Burns, for Public Service Company of North Carolina, testified that assuming a 467B Plan and normal temperatures, Public Service will be able to supply only 93% of its Priority R commercial customers' requirements. Under the interim settlement plan the company will be able to serve all of Priority R and Q and a portion of Priority P customers.

Mr. Donald McCoy, representing North Carolina Natural Gas Corporation, testified that under the 467B Plan, assuming a normal winter, NCNG will be able to serve all of its Priority Q and R customers and 40% of its P customers. Under a colder than normal winter N. C. Natural Gas will be able to serve residential and commercial customers in Priority R but only 7% of its firm industrial customers in that category.

Mr. James T. Williams, representing the Penn and Southern Gas Company and United Cities Gas Company, testified that the impact of TRANSCO's curtailment upon the two companies would be as follows: for United Cities, under the 467B Plan service of only |3% to Priority P and under the settlement plan no service to Priority P customers; for Penn and Southern, under the 467B Plan service to 90% of Priority P and under the settlement plan only 36%.

The three large natural gas companies filed affidavits recommending changes in Revised Rule R6-|9.2, Priorities 0 through R, including the consolidation of Priorities 0 and P and the subdivision of Priority R.

Approximately 30 industrial customers filed affidavits concerning employment figures, plant and process gas requirements, and alternate fuel capabilities. The majority opposed the combining of Priorities 0 and P, and almost all agreed that these priorities should not be combined with the interruptible priorities since they lack alternate fuel capability and utilize processes in which precise temperature control is required which can only be maintained by an uninterrupted supply of natural gas.

Based on the foregoing, the prefiled affidavits and exhibits, the testimony at the hearing, and the entire record in this docket, the Commission now makes the following:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. That the critical shortage in the supply of natural gas available to North Carolina customers continues unabated, threatening disastrous consequences to the economy of this State.

2. That TRANSCO's current systemwide deficiency is estimated to be 43% for the 1975-76 winter period, and under the Federal Power Commission 467B Plan the curtailment to North Carolina utilities will range from 49.18% to 69.10%. Under the present interim settlement plan, the curtailment range will be from 49.48% to 68.09%. The outlook for a final settlement in RP72-99 by November 16, 1975, by FPC remains uncertain.

3. That propane gas will be in short supply during the 1975-76 heating season as an alternate fuel supply, and present Priorities L and M should be switched to Priorities M and L respectively, in the Revised Rule R6-19.2, as adopted in Exhibit 1 herein, to recognize the additional need of customers whose alternate fuel requirements can be met only by propane.

4. That, since the promulgation of Revised Rule R6-19.2, the gas shortage has worsened and the impact of curtailment for the winter period of 1975-76 will fall on firm industrial customers in present Priorities N, O, and P as well as on those customers in Priorities A through M.

5. That most customers in present Priorities N, O, and P do not have alternate fuel capability or allocations of alternate fuels from the Federal Energy Administration.

6. That present Priorities O and R should be subdivided into Priorities O.1 and O.2 and R.1 and R.2 respectively, as set forth in Revised Rule R6-19.2, as adopted in Exhibit 1 herein, to properly separate the classes of customers in accordance with their needs as gas volume declines.

7. That if customers in Priorities N, O.1, O.2, and P do not have alternate fuel capability or a supply of alternate fuel as of November 16, 1975, the beginning of the winter period, and it is necessary to curtail industrial users in Priorities N, O.1, O.2, and P, plant closings will result. The Commission is of the opinion that fairness and equity first require the sharing of available gas on a pro rata basis to customers within these priorities.

8. That the Commission's Revised Rule R6-19.2, as amended by this Order and herein attached as Exhibit 1, provides a system of priorities that is a fair, just, reasonable and equitable method of allocation to retail gas customers such volumes of gas as will be available to gas distribution companies in this State from TRANSCO.

9. That customers in all priorities conserved 18% of base period volumes during the 1973-74 winter period thus making these volumes available for industrial purposes and temporarily averting a crisis, and that such conservation will continue to be necessary for the foreseeable future.

IT IS, THEREFORE, ORDERED:

1. That Revised Rule R6-19.2, as amended by this Order, is hereby adopted by the Commission as its Priorities for Curtailment of Service.

2. That each gas utility, when necessary to curtail customers in Priorities N, O.1, O.2, P, and Q, shall be authorized to first curtail customers pro rata in Priorities N, O.1, O.2, and P by up to 35% and in Priority Q by up to 25% before further curtailment of service to any one customer within these Priorities is permitted. These percentages shall be calculated on base period volumes from November 1, 1972, through March 31, 1973.

After this level of pro rata curtailment is reached, each utility shall follow the curtailment priorities established by Revised Rule R6-19.2, as amended herein.

3. Any customer in Priorities N, O.1, O.2, P, Q, which exceeds its pro rata allocation as established by this Order shall pay for such excess the applicable rates charged in accordance with tariffs filed by TRANSCO with the Federal Power Commission on such overruns.

4. On or before November 10, 1975, each utility shall inform the Commission and its customers in Priorities N, O.1, O.2, P, Q of the required level of pro rata curtailment and thereafter shall advise the Commission and its customers at least 3 days in advance of any variation in curtailment caused by changes in weather conditions or supply.

5. That the Commission's Order of December 5, 1973, in Docket No. G-100, Sub 18 requiring a mandatory 15% conservation by all users shall remain in effect, and further that the suspension of penalty provisions contained in the Commission Order in that Docket dated December 20, 1973, shall remain in effect, but if the 15% rate of conservation is not achieved, the Commission may reimpose such penalties at any time.

6. That, except as inconsistent with this Order, the Order issued by this Commission in Docket No. G-100, Sub 18, on September 20, 1974, shall remain in effect.

7. That each natural gas utility shall send to each of its customers in Priorities A through Q a copy of this Order along with a copy of the supply and demand report to be filed with the Commission on September 5, 1975, as adjusted for the priorities herein established.

8. That this proceeding shall remain open for further Orders of the Commission.

ISSUED BY ORDER OF THE COMMISSION.

This the 9th day of September, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Exhibit 1

Rule R6-19.2 Priorities for curtailment of service. - (a) In the event that the volumes of natural gas available to any North Carolina gas distribution company are insufficient to supply the demands of all the customers of that company, the company shall curtail gas service to individual customers in accordance with the following order of priorities:

Priority Class		Description
Curtailed First	A.	Interruptible requirements of more than 10,000 MCF per day*
	B.	Interruptible requirements of more than 3,000 MCF per day through 10,000 MCF per day*
	C.	Interruptible requirements of more than 1,500 per day through 3,000 MCF per day*
	D.	Interruptible requirements of more than 300 MCF per day through 1,500 MCF per day*
	E.	Interruptible requirements of more than 300 MCF per day* where propane is the only alternate fuel
	F.	Firm industrial requirements for boiler fuel use of more than 3,000 MCF per day*
	G.	Firm industrial requirements for boiler fuel use of more than 300 MCF per day through 3,000 MCF per day
	H.	Interruptible requirements of more than 50 MCF per day through 300 MCF per day*
	I.	Interruptible requirements of more than 50 MCF per day through 300 MCF per day* where propane is the only alternate fuel
	J.	Interruptible requirements through 50 MCF

per day*

K. Industrial requirements for non-boiler direct flame process application where oil is the alternate fuel

L. Essential human needs requirements of less than 300 MCF on peak day which have alternate fuel capability

M. Industrial requirements for non-boiler direct flame process application where propane (or other gaseous fuels) is the only alternate fuel

N. Firm industrial non-boiler fuel requirements of more than 300 MCF per day* not in higher priority classes

O.1 Firm industrial requirements of more than 2,000 MCF per day for feedstock, direct flame process or plant protection

O.2 Firm industrial requirements of more than 300 MCF per day through 2000 MCF/day* for feedstock, direct flame process or plant protection

P. Firm industrial requirements of more than 50 MCF per day through 300 MCF per day*

Q. Firm commercial requirements of more than 50 MCF per day,* other than essential human needs requirements

R.1 Essential human needs requirements of less than 300 MCF per day without alternate fuel and firm industrial and commercial of 50 MCF or less per day

Curtailed Last R.2 Residential Requirements

*Calculated by dividing highest billing cycle usage during the period of May 1, 1972, through April 30, 1973, by the number of days in the billing cycle.

(b) 1. Gas shall not be considered available on a day by day basis for any interruptible priority class until requirements for emergency gas sales, current demands of higher priority classes and necessary storage for protection of firm service and system integrity are met.

2. Except for emergency gas service, all customers within a priority class must be interrupted

completely prior to the interruption of any customer in a higher priority class.

3. In the event that it is not necessary to completely interrupt all customers in a priority class, each customer in that class shall, wherever practical, be curtailed on a pro rata basis for the season (Winter - November 16 through April 15 and Summer - April 16 through November 15).

4. In the event that gas supplies are not sufficient to support requests for emergency gas service from customers, such service shall be curtailed according to the above priorities.

Within a priority class emergency gas service shall be supplied on a first-request basis.

(c) Definitions to be used in conjunction with Rule R6-19.2.

1. Boiler Fuel - Is considered to be natural gas used for a fuel for the generation of steam or electricity, including the utilization of gas turbines for the generation of electricity.

2. Commercial - Service to customers engaged primarily in the sale of goods or services including institutions and local and federal government agencies for uses other than those involving manufacturing or electric power generation.

3. Direct Flame Process Gas - Is defined as gas use for which alternate fuels are not technically feasible such as in applications requiring precise temperature controls and precise flame characteristics for those customers who have contracted for service under specific rate schedules applicable only to this class of customers.

4. Emergency Service - Is natural gas service which if denied would cause shut down of an operation which would result in plant closing.

5. Essential Human Needs - Is defined as hospitals, nursing homes, orphanages, prisons, sanatoriums, gas used for water and sewage treatment, boarding schools for gas volumes used for residential purposes, for those customers who have contracted for service under specific rate schedules applicable only to this class of customer.

6. Feedstock Gas - Is defined as natural gas used as a raw material for its chemical properties in creating an end product, including atmospheric generation for those customers who have contracted for service under specific rate schedules applicable only to this class of service.

7. Firm Service - Service from schedules or contracts under which seller is expressly obligated to deliver specific volumes within a given time period and which anticipates no interruptions, but which may permit unexpected interruption in case the supply to higher priority customers is threatened.

8. Industrial - Service to customers engaged primarily in a process which creates or changes raw or unfinished materials into another form or product including the generation of electric power.

9. Interruptible Service - Service from schedules or contracts under which seller is not expressly obligated to deliver specific volumes within a given time period, and which anticipates and permits interruption on short notice, or service under schedules or contracts which expressly or impliedly require installation of alternated fuel capability.

10. Plant Protection Gas - Is defined as minimum volumes required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of an alternate fuel.

11. Residential - Service to customers which consists of direct natural gas usage in a residential dwelling for space heating, air conditioning, cooking, water heating, and other residential uses.

DOCKET NO. G-100, SUB 25

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Investigation into the Use of Natural Gas in Gas Torches and Gas Lights During a Period of Natural Gas Shortage	ORDER TERMINATING THE USE OF NATURAL GAS IN TORCHES AND PROHIBITING THE ADDITION OF NEW GAS LIGHT CUSTOMERS

BY THE COMMISSION: The Commission on its own motion of January 9, 1975, began an investigation into the use of natural gas for gas lighting and torches. A summary of the

data submitted by the five natural gas utilities operating in North Carolina showed that there were a total of 10,642 gas lights presently in use, which consumed 223,382 Mcf on an annual basis. This volume represents .1 of 1% of the current annual supply of natural gas available to these companies. In addition to the above, the report indicates that there were 101 torches which consumed 6,192 Mcf on an annual basis. The reports filed indicated that many of the gas lights are needed for safety and security, because no other lighting is present. After considering the data as filed in this docket, the Commission is of the opinion that the gas utilities in North Carolina should not be allowed to connect any new gas lights on their systems even though, in many cases, the usage of natural gas for gas lighting may be for security purposes. It is also the Commission's opinion that the use of natural gas in torches should be absolutely prohibited and the present use eliminated.

IT IS, THEREFORE, ORDERED as follows:

1. That the use of natural gas in torches be, and the same is hereby, terminated. Each natural gas utility within ninety (90) days from the date of this Order shall notify the customers affected by this Order and shall eliminate all gas service being used in torches.

2. That no additional gas lighting service beyond that presently being offered shall be allowed from and after the date of this Order and each natural gas company shall revise its rules and regulations or tariffs as required to implement this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of Concord Telephone Company.	)	REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS

and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 2820[, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southern Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1, 1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G.S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order

in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell shall furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975, shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for Concord Telephone Company of $17,546, $19,460 and $18,219 respectively for the months of July, August and September for a three-month average of $18,408, or $220,896 annualized.

Concord Telephone Company in its letter of September 15, 1975 contended they should be allowed to retain the revenues as outlined in the above paragraph since they say it is obvious that Bell's return for intrastate toll settlements cannot be restored to the 9.01% level considered in their Docket No. P-16, Sub 124, prior to the calendar year 1976 and that their cost study for 1976 will probably be finalized in the third quarter of 1977, and therefore, no present local service decrease is warranted.

The Commission after considering the Company's contentions, concluded that Concord Telephone Company should flow through one-half or $110,448 by reducing zone charges and in so doing, have a flat charge seven miles and beyond.

IT IS, THEREFORE, ORDERED that Concord Telephone Company shall file revised tariffs on or before February 1, 1976 to be effective on all billings on and after February 15, 1976 to reduce zone charges and in so doing have a flat charge seven miles and beyond up to $110,448.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of Heins Telephone Company	)	REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 28201, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates

and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southern Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1, 1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G.S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975,

shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for Heins Telephone Company of $7,997, $9,267 and $8,597 respectively for the months of July, August and September for a three-month average of $8,620 or $103,440, annualized.

Heins Telephone Company in its letter of September 16, 1975 contended they should be allowed to retain the revenues as outlined in the above paragraph because the retention of these revenues would not bring their earnings above the minimum required to efficiently operate their company. They contend further, that inflation and other factors have eroded their earnings below their requirements, both on investment and on net worth, and that they would take into consideration toll facilities investment in their next general rate application, which they planned to file within a short period of time.

The Commission after considering the Company's contentions, concludes that Heins Telephone Company should flow through one-half or up to $51,720 by reducing or eliminating color charges.

IT IS, THEREFORE, ORDERED that Heins Telephone Company shall file revised tariffs on or before February 1, 1976, effective on all billings on and after February 15, 1976 to reduce color charges on telephone hand sets up to $51,720.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of Mebane Home Telephone Company.	)	REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 28201, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southern Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1, 1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G.S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell shall furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975, shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for Mebane Home Telephone Company of $512, $551 and $559 respectively for the months of July, August and September for a three-month average of $541, or $6,492 annualized.

Mebane Home in its letter of September 12, 1975 contended they should be allowed to retain the revenues as outlined in the above paragraph in that it was de minimis.

The Commission after considering the Company's contentions, concluded that Mebane Home Telephone Company should flow through one-half or $3,246 by reducing or eliminating color charges.

IT IS, THEREFORE, ORDERED that Mebane Home Telephone Company shall file revised tariffs on or before February 1, 1976 to be effective on all billings on and after February 15, 1976 to reduce color charges up to $3,246.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of Mid-Carolina Telephone Company.	)))))	REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 28201, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if

Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southern Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1, 1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G. S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell shall furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall

furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975, shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for Mid-Carolina Telephone Company of $1,881, $2057 and $1914 respectively for the months of July, August and September for a three-month average of $1,951, or $23,412 annualized.

Mid-Carolina in its letter of September 30, 1975 contended they should be allowed to retain the revenues as outlined in the above paragraph since Mid-Carolina Telephone Company's 1974 rate of return was 6.56%, while the anticipated rate of return for 1975 was 6.84% with like returns on equity of 12.3% and 10.8%. They contend further, that the increase in toll revenue expected would merely offset the present increasing level of expenses.

The Commission after considering the Company's contentions, concluded that Mid-Carolina Telephone should flow through one-half or $11,706 by reducing zone charges and miscellaneous rates to unify these rates and charges for all exchanges of the merged company, which was accomplished in 1973 by combining four existing companies.

IT IS, THEREFORE, ORDERED that Mid-Carolina Telephone Company shall file revised tariffs on or before February 1, 1976 to be effective on all billings on and after February 15, 1976 to reduce zone charges and miscellaneous rates to

unify these rates and charges for all exchanges of the merged company up to $11,706.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of Norfolk & Carolina Telephone Company.	) REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 28201, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southern Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1, 1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G.S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell shall furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975, shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for Norfolk and Carolina Telephone and Telegraph Company of $11,321, $13,119 and $12,086 respectively for the months of July, August and September for a three-month average of $12,175, or $146,100 annualized.

Norfolk and Carolina in its reply of September 12, 1975 contended they should be allowed to retain the revenues as outlined in the above paragraph since it is de minimis.

The Commission after considering the Company's contention concluded that Norfolk and Carolina Telephone and Telegraph Company should flow through one-half or $73,050 by reducing the local rates of the Kill Devil Hills, Buxton and Waves exchanges to the level of the rates authorized for the Manteo exchange.

In addition to the foregoing Norfolk and Carolina has a request before the Commission to place into effect, rates recently authorized for the Carolina Telephone and Telegraph Company in its Gatesville service area. It is represented that the proposed rates for Gatesville will produce $9,345.24 annually. The Commission will approve the establishment of the Gatesville rates in Docket No. P-40, Sub 139 to become effective January 11, 1976 with the provisions that the revenue shall be offset by reduction of other rates or charges. This reduction will cause the rates in these three exchanges to be more equitable until expanded extended area service, now under consideration, can be provided by the Company, at which time the rates will revert to the rates now in effect to compensate for the additional investment required thereby.

In view of the Gatesville situation herein described the Commission adds the $9,345.24 to the $73,050 for a total of $82,395.24 to be offset by reduced rates and charges. The Commission using the rate case units in Docket No. P-40, Sub 134 calculates that the reduction of the Kill Devil Hills, Buxton and Waves exchange rates will amount to $67,194 leaving a balance of $15,201. In Docket No. P-40, Sub 134 the company reported receiving $24,624.60 in colored handset

charges. A 60% reduction of these charges would amount to $14,774.76.

IT IS, THEREFORE, ORDERED that Norfolk and Carolina Telephone and Telegraph Company shall file revised tariffs on or before February 1, 1976 to be effective on all billings on and after Febraury 15, 1976 to reduce the local exchange rates of the Kill Devil Hills, Buxton and Waves exchanges to the level of the Manteo local exchange rates and reduce the telephone handset color charge by 60%.

Upon the establishment of total extended area service between the Kill Devil Hills, Buxton, Waves and Manteo exchanges, the rates of the Kill Devil Hills, Buxton and Waves exchanges herein reduced shall revert back to their previous level as approved in Commission Docket No. P-40, Sub 134.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of North Carolina Telephone Company	)	REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 28201, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars

by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southern Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1, 1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G.S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell shall furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly

report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975, shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for North Carolina Telephone Company of $14,246, $14,038 and $13,963 respectively for the months of July, August and September for a three-month average of $14,082, or $168,948 annualized.

North Carolina Telephone Company in its letter of September 30, 1975 contended they should be allowed to retain the revenues as outlined in the above paragraph since the traffic factors which influence the level of retention of toll revenues for North Carolina Telephone Company are all showing downward trends, which have acted to reduce the level of toll retention. The Company recognized that recent authorized increases in intrastate toll rates will increase toll retention, it being the company's belief that any such increases would merely tend to retard the present declining amount of toll retention and would serve to only partially offset the presently declining rates of return.

The Commission is aware of the points made by North Carolina Telephone Company and in consideration thereof concludes that only approximately one-half or $84,492 of the increased intrastate toll revenues should flow through to the ratepayers.

IT IS, THEREFORE, ORDERED that North Carolina Telephone Company shall file revised tariffs on or before February 1, 1976, to be effective on all billings on and after February 15, 1976, to reduce rural zone charges on an overall

percentage basis, after making a flat zone charge, seven miles and beyond, to flow through $84,492, or as an option reduce color charges up to 1/3 of the amount, the balance to be on zone charges.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of North State Telephone Company.	)))))	REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 28201, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated

Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southen Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1, 1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G.S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell shall furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975, shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for North State Telephone Company of $7,419, $8,599 and $8,394 respectively for the months of July, August and September for a three-month average of $8,137, or $97,644 annualized.

North State Telephone Company in its letter of September 22, 1975 contended they should be allowed to retain the revenues as outlined in the above paragraph for among other reasons that the amount was de minimis, would have a negligible effect upon the going-level results of the company and that the company has low basic exchange rates.

The Commission is aware of North State Telephone Company's low basic exchange rates but is also aware that they have the highest or among the highest zone charges in North Carolina; that they have made no major extension of base rate areas in over ten years; and that they have continued to have a substantial rate of return.

The Commission is of the opinion and concludes that North State Telephone Company should use the $97,644 to 1) expanded base rate areas to include the contiguous developed sections surrounding the present base rate areas and 2) reduce rural zone charges.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

(1) That North State Telephone Company shall file revised base rate area maps to include the contiguous developed section surrounding the present base rate areas, on or before February 1, 1976 to be effective on all billings on and after February 15, 1976. Supporting detail data shall be submitted to show the revenue reduction as the result of the base rate area extensions.

(2) That any of the $97,644 not used to extend the base rate areas shall be used to make a percentage reduction in rural zone charges with revised tariffs to be filed on or before February 1, 1976 to be effective on all billings on and after February 15, 1976 with supporting data as to the reduction.

ISSUED BY ORDER OF THE COMMISSION.

This 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of The Flowing Through of Intrastate Toll, WATS and Interexchange Private Line Rates and Charges Revenue to the Rate Paying Public In the Service Area of Old Town Telephone Systems, Inc.	)	REQUIREMENT OF FLOWING THROUGH OF REVENUES

BY THE COMMISSION: On July 1, 1975, the Commission issued its order in Docket Numbers P-55, Sub 742 and P-100, Sub 34 giving notice of requirements for submission of information relating to an investigation of intrastate toll rates, WATS and interexchange private line rates and charges, the order reading as follows:

"On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 28201, (hereinafter Southern Bell) filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate toll, WATS and interexchange private line rates and charges amounting to approximately $8,000,000 in additional annual revenues. The independent telephone companies would realize, if Southern Bell's rate application were finally approved as requested, additional annual revenues of 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates.

By Order of August 5, 1974, the Commission separated Southern Bell's request to adjust its North Carolina intrastate toll, WATS and interexchange private line rates and charges from Docket No. P-55, Sub 742 and assigned those matters to Docket No. P-100, Sub 34 and set the same for investigation, hearing and decision. The Order of the Commission made all other telephone companies under the jurisdiction of the Commission parties and consolidated Docket No. P-100, Sub 34 for hearing with Docket No. P-55, Sub 742.

On June 25, 1975, Southern Bell advised the Commission by letter and tariff filing that pursuant to G.S. 62-134(b) Southern Bell would place into effect on or after July 1,

1975, the schedule of rates for intrastate toll, WATS and interexchange private line as applied for in its application of July 19, 1974. Following Southern Bell's notice to the Commission the other telephone companies which the Commission had heretofore made parties to this proceeding also filed tariffs to place the same toll rates and charges into effect on July 1, 1975. The filings by the independent companies follow the historical policy of maintaining uniform toll rates in the public interest.

The Commission recognizes that Southern Bell and the independent telephone companies have placed these rates for intrastate service into effect under G.S. 62-134(b).

The Commission concludes that Southern Bell and the independent companies should file certain information regarding the reasonableness of their retention of the toll rate increases placed into effect under G.S. 62-134(b), and, specifically, if each independent telephone company's local ratepayers should not receive offsetting reductions in their rates and charges.

Hearings were held in Docket P-100, Sub 34 on January 2nd and 3rd, 1975. In accordance with the procedure used in the past, the Commission does not anticipate entering any order in Docket No. P-100, Sub 34 until after hearings have been held and a decision has been entered in Docket No. P-55, Sub 742.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell shall furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and in intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Southern Bell shall furnish each connecting company the revenue effect applicable to it. Prior to filing the required monthly report with the Commission Southern Bell shall obtain written agreement to be filed at that time of each independent company with regard to the accuracy of the filed revenue effect data in Docket No. P-100, Sub 34.

2. That each independent company not having a general rate application before the Commission on June 30, 1975, shall file within ninety (90) days from the date of this order a detailed report showing clearly justification for retention of toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates based on the increased toll rate revenue effect.

3. That each telephone company having a general rate application before the Commission pending on June 30, 1975, shall file monthly revenue reports as required for other companies and the data filed by such companies will be

proformed into the appropriate test year established by the Commission in such pending rate cases.

4. For each telephone company whose position is that the amount of additional revenue placed into effect under G.S. 62-134(b) is de minimis or for other reasons such company should not flow through such increases to its local ratepayers, any such company shall file data supporting its position in detail within ninety (90) days from the date of this order."

The monthly reports submitted by Southern Bell show revenue increases for Old Town Telephone Systems, Inc., of $3,237, $3,467 and $3,489 respectively for the months of July, August and September for a three-month average of $3,398, or $40,776 annualized.

Old Town Telephone Systems, Inc., in its letter of September 30, 1975, contended they should be allowed to retain the revenues as outlined in the above paragraph since the traffic factors which influence the level of retention of toll revenues for Old Town Telephone Systems, Inc., are all showing downward trends, which have acted to reduce the level of toll retention. The Company recognized that recent authorized increases in intrastate toll rates will increase toll retention, it being the company's belief that any such increases would merely tend to retard the present declining amount of toll retention and would serve to only partially offset the presently declining rates of return.

The Commission is aware of the points made by Old Town Telephone Systems, Inc., and in consideration thereof concludes that only approximately one-half or $20,388 of the increased intrastate toll revenues should flow through to the ratepayers.

IT IS, THEREFORE, ORDERED that Old Town Telephone Systems, Inc., shall file revised tariffs on or before February 1, 1976, to be effective on all billings on and after February 15, 1976, to reduce all residence main station telephones by 15¢ a month.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-55, SUB 742
DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Southern Bell Telephone and Telegraph Company for Authority to Adjust Its Intrastate Telephone Rates and Charges and Investigation of Intrastate Toll Rates and Charges of All Telephone Companies Under the Jurisdiction of the North Carolina Utilities Commission	) ORDER GRANTING INCREASE IN INTRASTATE TOLL RATES AND CHARGES AND OTHER RELATED TOLL ITEMS FOR ALL TELEPHONE COMPANIES UNDER THE JURISDICTION OF THE NORTH CAROLINA UTILITIES COMMISSION

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on January 2, 1975

BEFORE: Chairman Marvin R. Wooten, Presiding, and Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

R. C. Howison, Jr.
Joyner & Howison
Attorneys at Law
Wachovia Bank Building
Raleigh, North Carolina
For: Southern Bell Telephone and Telegraph Company

R. Frost Branon, Jr.
Southern Bell Telephone and Telegraph Company
67 Edgewood Avenue
Atlanta, Georgia
For: Southern Bell Telephone and Telegraph Company

John F. Beasley
Southern Bell Telephone and Telegraph Company
1245 Hurt Building
Atlanta, Georgia 30303
For: Southern Bell Telephone and Telegraph Company

For the Respondents:

Jerry W. Amos
Brooks, Pierce, McLendon, Humphrey & Leonard
Attorneys at Law
P. O. Drawer U
Greensboro, North Carolina
For: North State Telephone Company

Donald W. Glaves
Ross, Hardies, O'Keefe, Babcock & Parsons
Attorneys at Law
| IBM Plaza, Room 3|00
Chicago, Illinois
For: Central Telephone Company

A. Terry Wood
Attorney at Law
P. O. Box 765
Hickory, North Carolina 2860|
For: Central Telephone Company

William W. Aycock, Jr.
Taylor, Brinson & Aycock
Attorneys at Law
P. O. Box 308
Tarboro, North Carolina 27886
For: Carolina Telephone and Telegraph Company

James M. Kimzey
Kimzey, Mackie & Smith
Attorneys at Law
Wachovia Bank Building
P. O. Box |50
Raleigh, North Carolina
For: Carolina Telephone and Telegraph Company
United Telephone Company of the Carolinas

W. W. Hill
United Telecommunications
2330 Johnson Drive
Kansas City, Kansas
For: Carolina Telephone Company
United Telephone Company

Ward W. Wueste, Jr.
Attorney at Law
Box |4|2
Durham, North Carolina 27702
For: General Telephone Company of the
Southeast

Richard M. Cahill
Attorney at Law
One Stamford Forum
Stamford, Connecticut
For: General Telephone Company of the Southeast

Lowry M. Betts
Pittman, Staton & Betts
Attorneys at Law
P. O. Box 142
Sanford, North Carolina 27330
For: Heins Telephone Company

F. Kent Burns
Boyce, Mitchell, Burns & Smith
Attorneys at Law
P. O. Box 1406
Raleigh, North Carolina 27602
For: N. C. Telephone Company
Mid-Carolina Telephone Company

Philip J. Smith
Van Winkle, Buck, Wall, Starnes,
Hyde & Davis, PA
Attorneys at Law
P. O. Box 7376
Asheville, North Carolina
For: Western Carolina Telephone Company
Westco Telephone Company

For the Protestants:

Thomas R. Eller, Jr.
Cansler, Lassiter, Lockhard & Eller, PA
Attorneys at Law
1010 N. C. N. B. Building
Charlotte, North Carolina 28105
For: North Carolina Merchants Association, Inc.

For the Intervenors:

Robert P. Gruber
N. C. Attorney General's Office
P. O. Box 609
Raleigh, North Carolina
For: Using and Consuming Public

For the Commission Staff:

Maurice W. Horne
Deputy Commission Attorney
Ruffin Building
Raleigh, North Carolina

Lee Movius
Associate Commission Attorney
Ruffin Building
Raleigh, North Carolina

BY THE COMMISSION: On July 19, 1974, Southern Bell Telephone and Telegraph Company, P. O. Box 240, Charlotte, North Carolina 2820l (hereinafter called Southern Bell), filed an application with the Commission for authority to adjust its intrastate rates and charges to its North Carolina customers. Included in the application was a request to increase intrastate message toll, WATS and interexchange private line service rates and charges amounting to approximately 8 million dollars in additional annual revenue. Southern Bell indicated that in addition to this amount that the independent telephone companies would realize, if Southern Bell's toll rate application was finally approved as requested, additional annual revenues of approximately 8.2 million dollars by virtue of contractual agreements regarding toll settlements under the historical policy of uniform toll rates making the total message toll, WATS, and private line annual revenue increase to be approximately 16.2 million dollars.

By letter of August 19, 1975 to Mr. Maurice W. Horne, Deputy Commission Attorney, from Mr. R. Frost Branon, Jr. attorney for Southern Bell, the Commission was provided actual data as of December 31, 1974, regarding units and revenues covering intrastate message toll, WATS and interexchange private line service rates and charges. This updating of data to the end of the new test period (December 31, 1974) resulted in a total increase of $16,155,093 for the above mentioned services rather than the $16,521,123 as reported prior thereto. This revision changed the allocation of revenue from $8,607,506 for the connecting companies and $7,913,617 for Southern Bell to $8,134,636 and $8,020,457 respectively.

The Commission being of the opinion that it is in the best interest of the users of North Carolina telephone service that Southern Bell's request for adjustment in message toll, WATS and interexchange private line service rates and charges be separated from Docket No. P-55, Sub 742 into a separate proceeding to consider these items with all telephone companies under the Commission's jurisdiction made parties thereto, and by order of August 5, 1974, in Docket No. P-100, Sub 34 took such action, also suspending the rates and requiring public notice.

On January 2, 1975, in public hearing the Commission heard from representatives of most telephone companies and Commission staff witnesses regarding message toll, WATS and interexchange private line service rates and charges. Mr. B. A. Rudisill, Independent Company Relations Supervisor for Southern Bell explained the toll settlements procedure between Southern Bell and the connecting companies in North Carolina and how the dollar amount was determined. Also, Mr. David B. Denton, Rate Planning Supervisor for Southern Bell and the connecting company witnesses generally testified that intrastate message toll, WATS and interexchange private line service rates and charges ought to be uniform throughout North Carolina. Further, the independent telephone companies settling on a cost basis with Southern Bell believe that they should be able to earn a fair rate of return on their intrastate toll investment and the majority believe they should be allowed to retain any additional revenues as a result of rate increases in this docket even if they have not filed an application for additional revenues in a general rate case while a few were agreeable to a flow through plan. There was also discussion of Southern Bell's toll rate of return as it relates to a cost settlement company. Mr. Denton explained the reasons why the company had proposed a one minute initial period rate for DDD calls, a new schedule for evening, nights and weekend rate periods, a limitation of 240 hours per month on WATS service and the substituting of a flat rate channel termination charge in place of the present mileage rated local channels associated with interexchange channels.

Witness V. W. Chase, the Chief Engineer for the Commission's Telephone Rate Section, favored a simplified schedule if the Commission should allow an increase in toll rates stating that the proposed schedule was more complicated than the present schedule. He suggested a schedule like the then applicable schedule in the state of Nebraska where only three sets of rates DDD, operator handled, and person to person are shown, with the same overtime minutes applicable to all three categories. Listed below the schedules are discounts to the basic rates for various days of the week and various hours of the day. This witness also discussed the merits of one minute initial period rate versus three minute initial period rates with no recommendation. William F. Irish, economist with the North Carolina Utilities Commission, testified regarding a comparison of revenues generated by intrastate WATS service and intrastate message toll service. The Commission notes with interest that Southern Bell filed a schedule of interstate toll rates with the Federal Communications Commission which became effective March 9, 1975, and which was even more simplified than the schedule recommended by Witness Chase.

On July 1, Southern Bell and its connecting companies placed the message toll, WATS, and interexchange private line service rates and charges into effect under G.S. 62 since a decision had not been rendered by the Commission.

As a result of this action, the Commission issued its Order of July 1, 1975, giving Notice of Requirement for Submission of Information.

Southern Bell was required to furnish written monthly reports beginning September 1, 1975, to the Commission showing the total effect in billed intrastate toll revenues and intrastate toll settlements resulting from the increases in all intrastate toll rates for each telephone company including Southern Bell. Prior to filing the required monthly reports with the Commission, Southern Bell was required to obtain written agreement from each of the independent telephone companies with regard to the accuracy of the filed revenue effect. Each independent telephone company not having a general rate application before the Commission on June 30, 1975, was required to file within 90 days from the date of the order a detailed report showing clearly justification for retention of the toll revenues and a plan to flow through ultimately to its local ratepayers decreased rates on the increased toll rate revenue effect. Each telephone company having a general rate application before the Commission pending on June 30, 1975, was required to file monthly revenue reports as required for other telephone companies and the data filed by such companies was to be proformed into the appropriate test periods established by the Commission in such pending rate cases.

The Commission finds and concludes as follows:

1. That it is in the public interest that intrastate message toll, WATS and interexchange private line service rates and charges be uniform for all telephone companies serving North Carolina. Disparity in intrastate toll rates charged by Bell and other North Carolina telephone companies inevitably leads to an unmanageable number of intrastate toll tariffs; creates operating, facility and equipment problems; and results in inequities and discrimination in the cost of a call between two points, inasmuch as the difference in charges depends only upon the point of origin; creates confusion for the telephone using and consuming public as well as the companies involved; and results in greater operating expense to be borne ultimately by the ratepayers.

2. That any new message toll, WATS, or interexchange private line service revenues for companies other than Southern Bell shall be considered outside of this proceeding on an individual company basis. The only revenue need established as of this date is that of Southern Bell in related Docket No. P-55, Sub 742 and the findings in that docket in regard to that issue are incorporated herein by reference.

3. That the settlement procedure between Southern Bell and the connecting companies settling on a cost basis leaves much to be desired in that the time interval between when

the service is rendered and when the settlements are finalized is entirely too long.

4. That this proceeding points up again that in practice, the intrastate toll settlements as it relates to each company settling with Bell on a cost basis is a pooling of investment, expenses and revenues into one pool, thereby, forming a limited partnership.

5. That Southern Bell failed to show justification for the proposed flat rate channel termination charges which would cover the local portion of interexchange channels in lieu of the present charges based on mileage distance.

6. That some increase should be granted on the local portion of interexchange channels using the present method which is based on mileage distance and that the revenue increase proposed by Southern Bell in this area which will not be produced by the increases granted in existing interexchange private line services shall be considered in a revised intrastate toll rate schedule.

7. That it is in the public interest to require the filing of the simplified intrastate toll rate schedule in this proceeding.

8. That it is in the public interest to require Southern Bell and the connecting companies settling on a cost basis to regularly finalize intrastate toll settlements for each quarterly or monthly period within 90 days of the end of each such period.

9. That Southern Bell shall file with the Commission the rate of return which is used for intrastate toll settlement purposes for each month as soon as it is finalized.

10. That Southern Bell shall submit monthly reports to the Commission on the current status of finalization of intrastate toll settlements with each cost company including Norfolk and Carolina Telephone and Telegraph Company.

11. That the increase in message toll, WATS and interexchange private line service rates and charges as requested should be granted other than the channel termination charges as indicated above in items 5 and 6.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Applicant, Southern Bell Telephone and Telegraph Company and the other telephone companies in North Carolina under the Commission's jurisdiction are hereby authorized to increase the North Carolina intrastate message toll, WATS and interexchange private line service rates and charges to produce additional annual gross revenues not exceeding $16,155,093 based upon Southern Bell's long distance toll rate study for the year 1973 which is a

sampling of actual toll messages as hereinafter set forth in Appendix "A"*.

2. That the rates and charges prescribed and set forth in Appendix "A" hereto attached, which will produce $16,155,093 additional gross intrastate toll revenues, WATS and interexchange private line service, are hereby approved to be charged by Southern Bell and all other telephone companies in North Carolina under the jurisdiction of this Commission on a uniform basis effective on service to be rendered on and after the date of this order.

3. That Southern Bell Telephone and Telegraph Company shall file appropriate revised tariffs reflecting the above increases and decreases within ten days of the date of this order to be effective as of the dates prescribed above.

4. That all companies other than Southern Bell shall file concurrence tariffs in accordance with Appendixes "B", "C" and "D"* within ten days of the date of this order with appropriate tariff cancellations to cancel existing toll, WATS and interexchange private line rates, charges and regulations.

5. That Southern Bell shall file a simplified intrastate toll rate schedule on or before March 1, 1976, using as its example, the present interstate toll rate schedule which became effective on March 9, 1975. The amount of gross revenues the schedule shall produce is $16,155,093 plus $48,789 (deficiency in channel termination charges) for a total of $16,203,882 and shall be based on the same Southern Bell long distance toll rate study for the year 1973 as was used to arrive at the schedule filed by Southern Bell in Docket P-55, Sub 742 using the December 31, 1974 units and revenues.

6. That Southern Bell and the connecting companies settling on a cost basis shall coordinate their efforts to finalize intrastate toll settlements for each quarterly or monthly period within 90 days of the end of such period. Joint reports shall be submitted every 60 days relating the detailed progress of their joint effort.

7. That Southern Bell shall file with the Commission the rate of return which is used for intrastate toll settlement purposes for each month as soon as it is known.

8. That Southern Bell shall file monthly reports with the Commission on the current status of finalization of intrastate toll settlements with each cost company including Norfolk and Carolina Telephone and Telegraph Company.

9. That Southern Bell shall continue to provide written monthly reports as required by Ordering Clause One in Commission Order of July 1, 1975 in this docket through March 31, 1976.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* For Appendices A, B, C, and D, see official Order in the Office of the Chief Clerk.

DOCKET NO. P-55, SUB 742
DOCKET NO. P-100, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Southern Bell Telephone and Telegraph Company for Authority to Adjust Its Intrastate Telephone Rates and Charges and Investigation of Intrastate Toll Rates and Charges of All Telephone Companies Under the Jurisdiction of the North Carolina Utilities Commission	)	ERRATA ORDER

BY THE COMMISSION: On December 19, 1975, the Commission issued its Order Granting Increase in Intrastate Toll Rates and Charges and Other Related Toll Items for all Telephone Companies Under the Jurisdiction of the North Carolina Utilities Commission in the above captioned dockets. It has come to the Commission's attention that certain errors appear in "Appendix A" of said Order and the Commission is of the opinion that these errors should be corrected.

IT IS, THEREFORE, ORDERED:

1. That the rates for "Private Line Service And Channels" on Page 7 of Appendix "A" be corrected to read as follows:

PRIVATE LINE SERVICE AND CHANNELS

	Half-Duplex	Duplex
Interexchange		
Local Channel associated with Interexchange Channels		
Full Period Service		
First airline mile or fraction----	$ 6.00	$12.00
Each additional 1/4 mile----------	1.50	3.00

Installation charge----------	30.00	30.00
Move charge----------	15.00	15.00

30 Baud, 60, 75, 100 Speed and 150 Baud Teletypewriter

First airline mile or fraction----	6.00	12.00
Each additional 1/4 mile----------	.50	3.00
Installation charge----------	30.00	30.00
Move charge----------	15.00	15.00

2. That in all other respects the Commission's Order of December 19, 1975, in these dockets shall be and remain in full force and effect as written.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-100, SUB 35

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Investigation of Commission Being Paid to Subscribers on Intrastate Telephone Toll Calls.) ORDER PROHIBITING THE PAYING OF COMMISSIONS ON INTRASTATE TELEPHONE TOLL CALLS TO HOTELS, MOTELS AND HOSPITALS

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on March 25 and 26, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Respondents:

Henry S. Manning, Jr.
Joyner & Howison
Attorneys at Law
P. O. Box 109
Raleigh, North Carolina 27602
For: Southern Bell Telephone and Telegraph Company

Thomas C. Cartwright
Southern Bell Telephone and Telegraph Company
1245 Hurt Building
Atlanta, Georgia 30303
For: Southern Bell Telephone and Telegraph Company

Robert W. Sterrett, Jr.
Southern Bell Telephone and Telegraph Company
1245 Hurt Building
Atlanta, Georgia 30303
For: Southern Bell Telephone and Telegraph Company

Lowry M. Betts
Pittman, Staton & Betts
Attorneys at Law
P. O. Box 1320
Sanford, North Carolina 27330
For: Heins Telephone Company

William W. Aycock, Jr.
Taylor, Brinson & Aycock
Attorneys at Law
P. O. Box 308
Tarboro, North Carolina 27886
For: Carolina Telephone and Telegraph Company

W. C. Fleming
General Telephone Company of the Southeast
P. O. Box 1412
Durham, North Carolina 27702
For: General Telephone Company of the Southeast

Donald W. Glaves
Ross, Hardies, O'Keefe, Babcock & Parsons
Attorneys at Law
One I.B.M. Plaza
Chicago, Illinois
For: Central Telephone Company

A. Terry Wood
Attorney at Law
P. O. Box 765
Hickory, North Carolina 28601
For: Central Telephone Company

For the Intervenors:

J. Mac Boxley
Robert B. Broughton
Broughton, Broughton, McConnell & Boxley
Attorneys at Law
P. O. Box 2387
Raleigh, North Carolina 27602
For: N.C. Motel Association

R. Roy Mitchell, Jr.
Attorney at Law
First Union National Bank Building
Durham, North Carolina
For: Governor's Inn and NCIA

For the Commission Staff:

Maurice W. Horne
Deputy Commission Attorney
North Carolina Utilities Commission
Ruffin Building
One West Morgan Street
Raleigh, North Carolina 27602

Wilson B. Partin, Jr.
Assistant Commission Attorney
North Carolina Utilities Commission
Ruffin Building
One West Morgan Street
Raleigh, North Carolina 27602

BY THE COMMISSION: The Commission, on its own motion, issued an Order on November 27, 1974, initiating an investigation of commissions being paid by certain telephone companies to hotels, motels and hospitals on intrastate telephone toll calls. The Order set the matter for formal hearing, made all regulated telephone companies respondents, allowing those companies not paying commission or allowing rebates in any form to any subscriber on intrastate toll calls to file a certified statement, so stating, and thereby being excused from participating in the proceedings. (Later by Order of March 4, 1975, respondent telephone companies were placed on notice that if excused from the hearing they would still be bound by the outcome of the proceeding.) The November 27, 1974, Order stated that the burden of proof would be upon respondent telephone companies to show that paying commissions on intrastate toll calls and the level of commissions is just, reasonable and not discriminatory or preferential; that respondents should file testimony forty-five (45) days and the Commission Staff fifteen (15) days before the hearing; that respondents paying commissions were reguired to file tariffs to cover same in the event tariffs were not already on file; and that a copy of the Commission Order should be provided to all subscribers receiving commissions on intrastate toll calls.

On December 16, 1974, Central Telephone Company filed a Motion to have the filing of tariffs deferred until the Commission resolves the question: "...if the practice of paying commissions on Intrastate Toll Calls is reasonable." Further, that if the Commission does not see fit to grant the request, that Central Telephone Company be granted an extension of time to file such a tariff. By Order of December 17, 1974, the Commission denied Central Telephone Company's request.

On December 17, 1974, Southern Bell Telephone and Telegraph Company filed its tariff as required by Commission Order of November 27, 1974, under protest and requested that the Commission issue a Supplemental Order striking paragraph 7 from the Order of November 27, 1974; that the appropriateness of the requirement that a tariff be filed be an issue for consideration in the form of Hearing Schedules; that the Commission return to Southern Bell its tariff filing which was filed under protest. On January 13, 1975, the Commission denied Southern Bell's request to strike paragraph 7 and indicated that the issue as to whether or not the paying of commissions on intrastate toll calls to hotels and motels is just, reasonable and nondiscriminatory and whether the same should be subject to tariff provisions or contract would be considered in the investigation; that Southern Bell's tariff filed under protest with its Motion remain on file pending the decision of the Commission in this docket; and that such tariffs filed by other telephone companies in the docket shall become conditionally effective pending the decision in the proceeding.

On February 11, 1975, the North Carolina Motel Association, through its counsel, petitioned the Commission pursuant to Rule R1-19 for leave to intervene in the proceedings. By Order of February 13, 1975, the intervention of the North Carolina Motel Association was allowed.

By Order of March 4, 1975, the Commission excused from the hearings the following companies but gave notice that they would be bound by the outcome of the proceeding:

Chapel Hill Telephone Company
Citizens Telephone Company
Concord Telephone Company
Ellerbe Telephone Company
First Colony Telephone Company
Lexington Telephone Company
Mebane Home Telephone Company
Mid-Carolina Telephone Company
Norfolk & Carolina Telephone & Telegraph Company
North Carolina Telephone Company
Oldtown Telephone System
Randolph Telephone Company
Saluda Mountain Telephone Company
United Telephone Company of the Carolinas, Inc.
Westco Telephone Company
Western Carolina Telephone Company

Also in the March 4, 1975, Order, the Commission gave notice to Barnardsville Telephone Company, Pineville Telephone Company, Sandhill Telephone Company and Service Telephone Company that they must either file a written statement regarding commissions or rebates on intrastate toll calls on or before March 14, 1975, and otherwise comply with the Commission's Order of November 27, 1974, or have present at the hearing on March 25, 1975, a representative

of their respective companies, familiar with the company's practices which are the subject of the proceeding.

On March 4, 1975, the North Carolina Motel Association, intervenor, moved that the Commission accept the late filing of testimony of witnesses on behalf of the Association. By Order of March 10, 1975, the Commission allowed the North Carolina Motel Association to and including March 17, 1975, in which to file testimony of its witnesses in the proceedings.

On March 10, 1975, Central Telephone Company filed a Motion requesting that Mr. Donald W. Glaves be permitted to appear on its behalf as an attorney in the proceeding; the Motion was allowed by Commission Order of March 11, 1975.

On March 21, 1975, the North Carolina Motel Association filed a Motion for leave to file late testimony by E. H. Lewis, Executive Vice President of the Association; the Motion was allowed by Commission Order of March 24, 1975.

The matter came on for hearing at the time and place designated in the Commission Order of November 27, 1974. The respondents offered testimony of the following witnesses:

Mr. W. C. Harris, President of Lexington Telephone Company, testified that "Lexington Telephone Company feels very strongly that no commissions should be paid to hotels, motels, hospitals or any other subscriber as these are its customers, not agents. That the provision of room telephone service is at the election of the operators of these establishments and they add sufficient amounts to their room rates to cover their costs in providing such services. In our opinion, allowing commissions to be paid to such establishments is discriminatory against other users of intrastate toll service.

"Lexington Telephone Company urges the Commission to take no action that would require it to pay a commission in intrastate toll service to any of its subscribers."

Mr. T. P. Williamson, Jr., Assistant Vice President, Carolina Telephone and Telegraph Company, testified that "We consider these commission credits to be an appropriate recognition of the collection work performed and the related expenses incurred by our hotel and motel customers related to message toll calls made by their guests. Our motel and hotel customers must pay for all toll charges made by them and their guests without regard to whether the motel or hotel collects from the guests for the calls they have made. Our motel customers must maintain facilities and personnel for keeping records of the calls made by their guests and must collect, safeguard and remit to us those charges when they are due. In addition, our motel and hotel customers sometimes assist us in promoting the use of our message toll services."

Mr. Thomas S. Moncho, North Carolina Division Commercial Manager of Central Telephone Company, testified that his company adopted the practice of paying commissions on toll calls to hotels and motels during 1959. He stated that at that time much of the telephone industry had been paying the commissions for some time and payment of the commissions was the generally accepted practice throughout the industry.

Mr. F. Gordon Maxson, Vice President, Revenue Requirements of General Telephone Company of the Southeast, testified that his company had been paying commissions to hotel and motel operators on intrastate calls for the past ten years and that during the year 1974 they had paid $5,252.08 to twenty-five hotels and motels in North Carolina.

Mr. James E. Heins, President of Heins Telephone Company, testified his company paid commission to motels in their service areas. In reply to a question as to the practice being just and reasonable and not discriminatory he replied, "To the extent that we are reimbursing the hotel or motel for services rendered in the handling of toll calls the collection of money from his customer, and remittance to the telephone company, I would say that the practice is just and reasonable. It may be discriminatory to the extent that the cost incurred in this process does not accrue to the person receiving the service; that is to say perhaps the person making the call should bear this cost and not the general ratepayer."

Mr. William C. Hilton, Commercial Manager of North State Telephone Company, testified that his company has paid a commission on intrastate toll calls for more than thirty years to the Sheraton Hotel but had refused to pay a like commission to motels and advocated the continuation of such an arrangement. Mr. Hilton justified paying the commission to the Sheraton Hotel because of the contract that was negotiated with this hotel at the time the equipment was installed more than thirty years ago.

Mr. R. G. Embry, Rate and Tariff Supervisor for Southern Bell Telephone and Telegraph Company, testified that his investigation had revealed a copy of a 1926 Southern Bell contract that showed that commissions were recognized almost fifty years ago; that just as the current contract does, the 1926 contract gave terms and conditions of providing service and among other conditions that the subscriber was responsible for all charges including toll messages; that in essence the telephone company is contracting for work done much as it might engage other firms with services for hire; that the commissions have been and are presently being paid in recognition of certain functions performed in the handling, billing, collecting, and remitting of guests' and patients' toll charges; also that as stated in the contracts, hotel and hospital subscribers are responsible for guests' and patients' toll charges associated with sent-paid and received-collect messages.

The Commission Staff offered the testimony of Vern W. Chase, Chief Engineer of the Telephone Rate Section. Mr. Chase testified that only 6 of the 26 companies under the Commission's jurisdiction pay commissions on intrastate toll calls or rebates in one form or another. The 6 companies are Southern Bell Telephone and Telegraph Company, Carolina Telephone and Telegraph Company, North State Telephone Company, General Telephone Company of the Southeast, Central Telephone Company, and Heins Telephone Company. As of November 27, 1974, none of these companies had tariffs on file with the Commission covering the paying of commissions or permitting rebates on intrastate calls to hotels, motels, or hospitals. He testified that the reason given by the companies for paying commissions or rebating hotels, motels and hospitals on intrastate toll service was because the hotels and motels provide collection and internal operator services. He testified that he believes that the paying of commissions is neither fair nor reasonable, his position being that the providing of telephone service to guests and clients of hotels, motels and hospitals is at the election of the operators of the establishments and if provided should not be at the expense of the general body of ratepayers but should be considered in the same manner as heat, air conditioning, television, swimming pools, etc.; that in his opinion telephone service is provided to attract guests and remain competitive. Mr. Chase testified that any commissions paid decreases the company's total revenue and must be recovered by the telephone companies. He stated that from the information submitted by the companies, the amount of money is insignificant on a room-night basis. In Central Telephone Company's data for October 1974, using a 20-room fill for 30 days a month, the amount per room-night would be less than 4¢. For Southern Bell it was .069¢ per room-night. He testified that he had purposely taken a low-room-fill stating that if a 40-room average had been used (which he believed was more realistic), the commission would have been cut in half on a room-night basis. Even the 40-room fill was challenged by motel operators as being too low. He also pointed out the inconsistency of the practice of paying commissions on intrastate toll calls and that only 6 of the 26 companies under the Commission's jurisdiction paid commission; that even these 6 do not pay on a consistent formula and that one of the 6 companies pays commission to but one of its many hotels and motels.

The Commission also heard from Mr. E. H. Lewis, Jr., Executive Vice President of the North Carolina Motel Association; Mr. Lee Overman Gregory, Jr., Manager of the College Inn Motor Lodge, Raleigh, North Carolina; and Mr. Fletcher Yates, Manager of the Howard Johnson Motel located at Crabtree Valley, Raleigh, North Carolina.

Mr. Gregory testified that his motel has telephones in its 126 rental units for the purpose of making calls to other rooms in the motor lodge and other facilities offered by the College Inn and can be used for direct dialing of long distance calls and local calls. Mr. Gregory testified that

at the present time Southern Bell pays the College Inn a 15% commission which is deducted from the bill each month and is for the services rendered to the telephone company in connection with the handling of calls that are placed through the switchboard.

Mr. Yates testified that his motel has telephones in its 176 rooms. Mr. Yates testified that if the present arrangements were altered by the Commission they would very possibly have to increase the overall rates so far as all guests are concerned which in his opinion would make every guest, regardless of whether he used the phone or not, have to pay a portion of the cost so that the motel might make a profit.

Mr. Lewis, who has been Executive Vice President of the Motel Association for 16 years, testified that the Association has approximately 300 members, which he is in contact with periodically by newsletters, direct mail, personal contacts and at an annual meeting on matters of interest to the membership. As the result of the Commission's investigation, Mr. Lewis made a survey of the members receiving approximately eighty (80) replies within ten (10) days. The results of his survey indicated that the average number of rooms per motel was 101; that 74 motels provided room telephones while 7 did not; that 44 had direct dialing - 37 did not; that 62 received commissions; that 8 were compensated in other ways; that 45 considered the commission reasonable - 12 did not; and that no motel considered it was making a profit from the commission paid to them.

Based upon the entire record of this proceeding, the Commission makes the following:

FINDINGS OF FACT

1. That there are 26 telephone companies operating under the jurisdiction of the North Carolina Utilities Commission.

2. That of the 26 telephone companies under the Commission's jurisdiction, three pay a commission or rebate to both hotels and motels on intrastate toll calls; one pays commission to motels; one to one hotel only; and one to hotels, motels and hospitals. The remaining 20 companies pay no commission to hotels, motels or hospitals.

3. That the same formulas are not used in all instances to calculate the amount of commission or rebate to be paid to subscribers in item 2 above.

4. That none of the companies in item 2 above had tariff authority to pay commissions or rebate on intrastate toll calls to hotels, motels or hospitals as of November 27, 1974, the date the Commission issued its Order of investigation.

5. That most hotels and motels provide room telephone service for their guests for internal and outgoing service.

6. That those companies paying commissions on intrastate toll calls do so under an agreement between the subscriber and the telephone company.

7. That one or more telephone companies covered in item 2 above credit the subscriber's account for "skipper" calls (calls not paid for by guest because they skipped out without paying for room or telephone or both) in spite of the contract and tariff provision that the subscriber agrees to pay for all toll messages sent-paid from, and received-collect at, all telephones associated with the service covered by the contract.

8. That on a room-night basis the commissions or rebates on intrastate toll calls paid to hotels and motels are a de minimis amount.

9. That the profitability of intrastate toll calls made from hotels, motels and hospitals must be questioned where commissions are allowed, considering the commissions as well as other services furnished by the regulated telephone utility.

10. That the Commission action herein changing the contracts between the telephone companies and hotels, motels and hospitals because discrimination has been found to exist does not constitute an impairment of contractual obligations and is specifically authorized by law.

11. That the allowance of commissions on intrastate toll calls to hotels, motels and hospitals is unduly discriminatory, unjust and unreasonable and has a direct effect on the rates of all telephone subscribers who should not be required to subsidize the provision of telephone service to hotels, motels and hospitals.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT #2

The evidence for findings of fact no. 2 comes from verified documents in the official file of the Commission wherein certain companies responded that they do not pay commissions on intrastate toll calls to hotels, motels or hospitals and six companies responded that they did pay commissions to one or more classes of these subscribers.

Witnesses from the six companies testified as follows regarding the payment of commissions on intrastate toll calls to hotels, motels and hospitals:

Witness Williams of Carolina Telephone Company that his company allowed commissions to hotels and motels who provide guest room service.

Witness Moncho of Central Telephone Company that his company adopted the practice of paying commissions to hotels and motels during 1959.

Witness Maxson of General Telephone Company that his company has paid commissions to hotels and motels for the past ten years.

Witness Heins of Heins Telephone Company that his company pays commissions to motels.

Witness Hilton of North State Telephone Company that his company has paid a commission to one hotel for over 30 years but has not entered into any other such arrangements with hotels, motels or hospitals.

Witness Embry of Southern Bell that his company pays a commission to hotels, motels and is the only telephone company paying commissions to hospitals.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 3

The evidence for finding of fact no. 3 is in the following form:

Central Telephone Company's motion of December 12, 1974, wherein a request was made for an extension of time to file a tariff in accordance with the Commission's original order of investigation until such time as the Commission might determine that such a tariff was reasonable, respondent readily admitting the paying of commissions without tariff authorization. The request was denied and thereafter the company filed on December 19, 1974, the following tariff which became conditionally effective pending the decision in this docket:

PRIVATE BRANCH EXCHANGE SERVICE

HOTEL AND MOTEL COMMISSION

Hotel or motel private branch exchange service subscribers who agree to furnish intrastate message toll telephone service through the hotel or motel branch exchange on the subscriber premises, and make telephones available in convenient locations to customers, and assist customers in placing and receiving intrastate calls, and who provide a billing and collection service for the Company subject to lawfully established rates and regulations, will be paid commissions for said service subject to the following conditions and rates:

The Subscriber will be responsible for and will pay to the Company all charges at the regular Tariff rates for toll telephone messages sent-paid from or received-collect at telephones of the hotel or motel branch.

The Subscriber will not make any charges to its patrons or to others in connection with their use of intrastate toll telephone service in addition to the charges set forth in the Tariffs of the Company.

The Subscriber maintains rooms equipped with hotel branch exchange telephones for occupancy by guests, tenants, or members for periods of less than one month, and that a substantial proportion of its rooms are regularly so maintained.

The Company will pay to the Subscriber a Commission of ten per cent of the amounts paid to the Company by the Subscriber for intrastate sent-paid and received-collect telephone messages of less than $2.00 each and twenty cents per message for intrastate sent-paid and received-collect messages of more than $2.00 per message. The Company will pay the following Commissions on a per message basis:

.15 cents per Credit Card Message
.05 cents per Sent Collect Message
.05 cents per Third Number Message

The Company will pay the Commission set forth above, only if the Subscriber pays the statement rendered by the Company before the same becomes delinquent.

Southern Bell's protest of December 17, 1974, contending that the fundamental issue that should be considered in this proceeding is whether the practice of paying commissions such as covered by this proceeding is properly a matter for inclusion within a tariff filing, or whether such practice is more appropriately a matter of contract between the company and the hotels, motels and hospitals involved. Southern Bell's tariff attached to the motion which was filed under protest was ordered by the Commission to remain on file pending the Commission decision in this docket. That tariff is as follows:

LONG DISTANCE MESSAGE TELECOMMUNICATIONS SERVICE

Rate of Commission

The Company will pay the subscriber to message rate hotel PBX service or message rate hospital PBX service a commission for long distance telecommunications messages placed or accepted by others than the subscriber at PBX telephones in guest or patient rooms or other accommodations.

A commission of fifteen per cent (15%) is allowed on sent-paid or received-collect messages placed from or accepted at guest or patient telephones; fifteen cents (15¢) per message for calls charged to a Company credit card from guest telephones; and five cents (5¢) per message for calls sent-

collect or charged to a third telephone number from guest telephones.

This tariff is filed, under protest, pursuant to Docket P-100, Sub 35.

The filing of an original tariff by North State Telephone Company covering the payment of commission as follows:

Special Commissions Paid on Local Calls and Intrastate Toll Calls

As compensation for special provisions relating to floor space, power, heating, cooling and other items furnished by the below-listed owner or lessor of the premises at the location of the specified Company-owned equipment, the indicated commissions on local calls and intrastate toll calls will be paid to the designated owner or lessor as herein provided:

SHERATON HOTEL, 400 NORTH MAIN STREET, HIGH POINT, N.C.

Commission on revenues derived from Public Pay Telephones and from sent-paid calls placed through the Private Branch Exchange:

Monthly commission on local calls: None
Monthly commission on intrastate toll calls:
10% of total revenues derived from toll calls over Company-owned (non-Bell) toll circuits.

Conditionally effective pending decision in this docket.

The filing of an original tariff by Heins Telephone Company covering the paying of commissions as follows:

RATE OF COMMISSION

The Company will pay the Subscriber to message rate hotel or motel PBX service a commission for long distance telecommunications messages placed or accepted by others than the Subscriber at PBX telephones in guest rooms or other accommodations.

A commission of ten percent (10%) on each call under $2.00, twenty cents (20¢) on each call $2.00 and over is allowed on sent-paid or received-collect messages placed from or accepted at guest telephones; fifteen cents (15¢) per message for calls charged to a Company credit card from guest telephones, and five cents (5¢) per message for calls sent-collect or charged to a third telephone number from guest telephones.

This Tariff is filed, under protest, pursuant to Docket No. P-100, Sub 35.

Conditionally effective pending decision in P-100, Sub 35.

The filing of an original tariff by General Telephone Company covering the paying of commission as follows:

Hotel-Motel Commissions

A commission of 10 per cent, not to exceed 20 cents on any one message, is allowed on the following types of intrastate telephone messages by other than the customer, its agents, servants and employees at such private branch exchange telephone in guest rooms:

Sent Paid
Received Collect
Third Number Inward Transfer
Credit Card - Outward Transfer

Conditionally effective pending decision in P-100, Sub 35.

The filing of an original tariff by Carolina Telephone and Telegraph Company covering the paying of commissions as follows:

Hotel and motel subscribers who maintain rooms, equipped with private branch exchange extension telephones, for occupancy by guests or members for periods of less than one month will receive a 15% commission on all sent-paid or received-collect toll messages billed at the subscriber's private branch exchange telephone number. This in no way relieves the hotel or motel subscriber of the obligation to pay all charges billed for service in accordance with a. above.*

* Reference to a provision to the tariff then on file.

Conditionally effective pending decision in P-100, Sub 35.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 4

The evidence as to the consistency and uniformity of the calculation of the amount of commission or rebate to be paid to subscribers is borne out in evidence and conclusions for findings of fact nos. 2 and 4 in that only six of the twenty-six regulated telephone companies pay commissions to hotels, motels or hospitals on intrastate toll calls and the tariff filing as set out in conclusion no. 4.

The following is a brief analysis on commissions paid on various types of service by each company.

Central
10% sent paid, received collect, up to $2.00
15¢ credit card
5¢ sent collect and third party
conditioned on subscriber paying statement rendered before it becomes delinquent

Bell
15% sent paid, received collect, no limit
15¢ credit card charged to room
5¢ credit card not charged to room
5¢ sent collect and third party

North State
10% of total revenue derived from messages over ~~company-~~owned (non-Bell) toll circuits to Sheraton Hotel, only.

Heins
Same as Central without special condition.

General
10%, not to exceed 20¢ per message on sent paid, received collect, third number inward transfer and credit card, outward transfer.

Carolina
15%, sent paid, and received collect, only.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 5

The testimony of witnesses Gregory, Lewis and Yates specifically, and the testimony of all other witnesses in this proceeding, verify that hotels and motels provide room telephone service for their guest for internal and outgoing telephone service as a part of the overall provision of room service.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 6

The evidence for finding of fact number 6 comes from the following exhibits offered into the record:

Southern Bell Exhibit No. 1
Maxson Exhibit No. 2, and
Staff Cross-examination Exhibits No. b, c, and e.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 7

Evidence of witness Chase on pages 88 and 89 of the transcript in this proceeding indicates that at least a part of the regulated telephone companies credit motels and hotels for what are referred to as "skipper" calls. Skipper calls are those calls made by a guest who leaves without paying (a) any of the bill or (b) pays for the room but not the telephone charges.

On Southern Bell's Exhibit No. | covering hotel 2-tier, private branch exchange system, Item 7 states as follows: "The subscriber will pay the company all charges applicable for this hotel PBX service, including all charges for local messages and for all toll messages sent-paid from, and received-collect at, all telephones associated with the service covered by this contract".

In Maxson Exhibit No. 2, page | of 2, Item |, it states as follows: "The customer will pay the telephone company all charges applicable for this private branch exchange service including all charges for toll messages sent - paid from and received - collect, at all stations associated with the service covered by this contract".

In staff cross-examination Exhibit c which covers motels, hotels private branch exchange contract for telephone service for Carolina Telephone and Telegraph Company. Item |2 states as follows: "The subscriber will be responsible for and will pay to the company all charges at the regular tariff rate for telephone messages, telegraphs, cablegrams, radiograms sent paid or received collect as extension station of the private exchange whether sent or received by the subscriber for its own account or by or for others."

Central Telephone Company's tariff hereinabove quoted original page |0, section ||, item | states as follows:

"The subscriber will be responsible for and will pay to the company all charges at the regular tariff rates for tolls telephone messages sent-paid from or received-collect at telephones of the hotel or motel branch".

The Commission concludes that it is not the responsibility of the telephone utility to collect from guests of subscribers who use subscriber's telephone facilities while on the subscriber's premises, be it a hotel, motel or otherwise. To the extent this practice exists it should be stopped, and the foregoing contract and tariff provision should be enforced by all regulated telephone companies. The subscriber is responsible for all toll messages originating at the subscriber's station and for toll messages received at the subscriber station on which the charges had been reversed with the consent of the person called.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 8

Staff Witness Chase testified that from the information submitted by the companies, the commissions paid are insignificant on a room-night basis. In Central Telephone Company's data for October, |974, using a twenty room fill for thirty days a month, the amount for room-night would be less than four cents. For Southern Bell it was .069 cents per room-night. He testified he had purposely taken a low room fill, stating that if a forty room average had been used, which he believed was more realistic, the commission

would have been cut in half on a room-night basis. Even the forty room fill was challenged by motel operators as being too low.

Witness Lewis testified he had made a survey of the membership of the North Carolina Motel Association and that from the eighty-one responses received, the average number of rooms for motels that responded to the survey was 10| per room night. Based on intervenor Lewis's exhibit, Witness Chase's estimate of less than four cents per room-night for Central Telephone Company would be two and one-half times too high or approximately one cent per room-night.

The Commission concludes that on a room-night basis the commissions are a de minimis amount, particularly in light of other services rendered by hotels and motels to their guests, such as air conditioning and television charges and electric service which are included in the basic room rate.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 9

Witness Chase raised the question on cross-examination (page 3| of the transcript) if hotel-motel intrastate toll service business was profitable after the telephone utility had rebated 15% of the revenue to any customer. We note that Southern Bell has been providing long distance trunks to carry toll calls from the motel or hotel to the central office, and providing dedicated circuit for quoting time and charges for automatic time and charge reporting service, in use by hotels, motels and hospitals, all without charge to the customer.

The Commission concludes that if this toll service is profitable the probability has been reduced in the instance of Southern Bell. The Commission further concludes that any circuits or equipment provided to hotels, motels or hospitals should be billed at the authorized tariff charges for like circuits or equipment.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 10

At least one respondent telephone company in pleadings filed with the Commission indicated that the Company's position was that the paying of commissions to hotels, motels, and hospitals is a contractual matter, the obvious inference being that the Commission does not have authority to change any such contract.

In Utilities Comm. v. Power Co., 285 N.C. at pages 406-407, the Supreme Court stated that:

"...it is well settled in this State that rates for public utility service fixed by an order of the Commission, otherwise lawful, supersede contrary provisions in private contracts concerning rates for such service. (citations omitted) The enforcement of such an order of the Commission does not constitute an impairment of the

obligation of such contract, in violation of the Contract Clause of the United States Constitution, since contracts of public utilities, fixing rates for service, are subject to the police power of the State."

"...It is in the public interest that a public utility company charge for its services rates will enable it to maintain its financial ability to render adequate service and to attract the capital necessary for expansion and improvement of its service as needed. It is also in the public interest that there be no unreasonable discrimination between the users of such service. The police power of the state extends to the raising of rates fixed by private contract so as to accomplish either or both of these purposes..."

While this decision involved a general rate case, it clearly authorizes the Commission to change contractual provisions by allowing or disallowing rates in circumstances such as here where undue discrimination has been found to exist.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 11

G.S. 62-140 provides that:

"§62-140. Discrimination prohibited.--(a) No public utility shall, as to rates or services, make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates or services either as between localities or as between classes of service. The Commission may determine any questions of fact arising under this section.

(b) The Commission shall make reasonable and just rules and regulations:

(1) To prevent discrimination in the rates or services of public utilities.
(2) To prevent the giving, paying or receiving of any rebate or bonus, directly or indirectly, or misleading or deceiving the public in any manner as to rates charged for the services of public utilities.

(c) No public utility shall offer or pay any compensation or consideration or furnish any equipment to secure the installation or adoption of the use of such utility service except upon filing of a schedule of such compensation or consideration or equipment to be furnished and approval thereof by the Commission, and offering such compensation, consideration or equipment to all persons within the same classification using or applying for such public utility service; provided, in considering the reasonableness of any such schedule filed by a public

utility the Commission shall consider, among other things, evidence of consideration or compensation paid by any competitor, regulated or nonregulated, of the public utility to secure the installation or adoption of the use of such competitor's service. Provided, further, that nothing herein shall prohibit a public utility from carrying out any contractual commitment in existence at the time of the enactment hereof, so long as such program does not extend beyond December 3|, |963. For the purpose of this subsection, "public utility" shall include any electric membership corporation operating within this State, and the terms "utility service" and "public utility service" shall include the service rendered by any such electric membership corporation. (|899, c. |64, s. 2, subsecs. 3, 5; Rev., s. |095; |9|3, c. |27, s. 6; C.S., s. |054; |933, c. |34, s. 8; c. 307, s. 6; |94|, c. 97; |963, c. ||65, s. |; |965, c. 287, s. 8.)"

Additionally, G.S. 62-|38(a) (e) provides that:

"Utilities to file rates, service regulations and service contracts with Commission; publication.-- (a) Under such rules as the Commission may prescribe, every public utility:

(|) Shall file with the Commission all schedules of rates, service regulations and forms of service contracts, used or to be used within the jurisdiction of the Commission; and

(2) Shall keep copies of such schedules, service regulations and contracts open to public inspection."

"(e) No public utility, unless otherwise provided by this chapter, shall engage in service to the public unless its rates for such service have been filed and published in accordance with the provisions of this section."

The Commission concludes from the record of this proceeding that the allowance of commissions on intrastate toll calls by certain telephone companies documented herein is unduly discriminatory, unjust and unreasonable.

As set forth in the findings and conclusions hereinabove the percentage formulas and methods for determining the amounts of such commissions are different among the six companies which have allowed commissions. Twenty telephone companies have not heretofore paid such commissions. One telephone company pays commissions to motels, another pays commissions to hotels, and only one telephone company pays such commissions to hospitals.

Not only has the amount of such commissions varied but there has been unequal treatment of ratepayers within the franchised area of one telephone company, North State. The record indicates that North State paid such commissions to

only one particular hotel and to no others in its service area.

Accordingly, there has been discriminatory treatment of customers within telephone service areas, between the six service areas of such companies that have allowed such commissions, and between those six service areas and the 20 telephone companies which have not allowed such commissions.

It is apparent that provision of telephone service by motels and hotels is essential to attract business for room service. All other items related to room service, such as air conditioning, for example, and other utility services such as electric service are taken into account by the motel or hotel when they establish the rates for room service, which rates are entirely under their control. The Commission concludes that the general body of ratepayers of any given utility should not be required to economically subsidize telephone service provided to motels and hotels.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the provisions of this order shall be applicable to all telephone companies under the Commission's jurisdiction and shall be effective fifteen days from the date of this order.

2. That no further commissions, rebates or discounts shall be allowed to hotels, motels or hospitals on intrastate toll calls.

3. That hotels, motels and hospitals shall be charged the authorized rates and charges in accordance with tariffs on file for all classes of intrastate toll calls sent-paid from, and received-collect at, all telephones associated with the service rendered to the hotels, motels or hospitals.

4. That any circuits or equipment being provided to hotels, motels or hospitals without charge or at a lesser charge than is authorized by tariff shall be billed at the tariff charges for like circuits or equipment.

5. That all telephone companies shall file tariff revisions within fifteen days from the date of this order to cancel all provisions authorizing a commission or rebate specifically or by reference to hotels, motels or hospitals on intrastate telephone calls. This includes the provision of providing circuits, equipment or any other services at no charge or at a discount rate or charge.

6. That hotels, motels and hospitals subscriber shall pay the telephone companies all intrastate toll charges applicable to their PBX or other services for intrastate messages sent-paid from, and received-collect at, all telephones associated with the service rendered on the same basis as other subscribers in general. That the fact that a

hotel, motel or hospital has not collected from its guests or other entities for said intrastate toll calls shall not be cause for credit by the telephone company.

7. That this order cancels all contract provisions between hotels, motels or hospitals relating to commission or rebates on intrastate toll messages and/or circuits and equipment without charge or at a reduced rate than is authorized.

8. That all telephone companies shall file a certified statement with the Commission on or before thirty days after the date of this Order attesting that they have complied with all ordering clauses in this Order signed by a responsible official of each company.

ISSUED BY ORDER OF THIS COMMISSION.

This the 12th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. W-100, SUB 4

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Investigation and Promulgation of Rules Relating to Availability Charges for Water and Sewer Service.	)	ORDER ADOPTING RULES FOR AVAILABILITY OF WATER AND SEWER SERVICE

BY THE COMMISSION: On October 14, 1974, the Commission issued an Order entitled, "Notice of Rulemaking Order Relating to Availability Charges". This Order set forth proposed Rule R7-36, Availability Charges for Water Service, and Proposed Rule R10-23, Availability Charges for Sewer Service; accompanying these proposed Rules were Subscription Forms for Availability Service. In its Order, the Commission recited the recently enacted G.S. 62-133.1(b), which authorized water and sewer companies to impose a charge on its customers for the availability of water and sewer service. The Order also noted the Court of Appeals decision of March 20, 1974, holding that the Commission had authority to approve the use of an availability charge for water service provided by a utility to a recreational development, Utilities Commission vs. Carolina Forest Utilities, 21 N.C. App. 146. The Commission's Order then stated:

"The Commission, on its own Motion, proposes to investigate and promulgate rules relating to the availability charge for water and sewer service for all

water and sewer utilities under its jurisdiction. In so doing, the Commission recognizes the need for an orderly development in the administration of the availability charge.

"These proposed rules provide that no utility shall impose an availability charge unless and until a tariff providing for such charge has first been filed with, and approved by, the Commission. The proposed rules also require the utility to give its customers adequate and reasonable notice of any availability charge, the amount of such charge, and the duration thereof. The customer of a utility must certify in writing that he understands the availability charge and the amount of such charge and that he subscribes to the imposition of such charge. It is hoped that the adoption of these rules will benefit both the customers and the water and sewer utilities, and will prevent abuses and misunderstanding from arising thereunder."

The Commission invited all persons interested in the proposed rules to file comments thereon on or before November 15, 1974. The Order, and the proposed rules and subscription forms, were mailed to all water and sewer utilities regulated by the Commission.

Thereafter, the Commission received comments from the following utilities: Jackson Utility Company, Lake Sagamore Water Company, Inc., Russwood, Inc., and Transylvania Utility Company. These utilities discussed the proposed rules, offered criticism, and suggested changes. The utilities also requested a hearing on the proposed rules. Accordingly, the Commission by Order of November 25, 1974, scheduled a hearing on the proposed Rules R7-36 and R10-23. The utilities who had filed comments on the rules were made parties of record.

The matter came on for hearing on December 18, 1974, before the Full Commission. The intervenor utilities and the Commission Staff were present and represented by counsel. Mr. David F. Creasy, Chief of the Water and Sewer Section of the Commission, testified on behalf of the Commission Staff. Mr. Creasy stated:

"The proposed rules require the utility to give notice to each customer of what he is <u>getting</u> into, not what he has already <u>gotten</u> into. Even if the amount of the availability charge is acceptable, the Commission should not approve an availability charge which can be applied to a customer who does not want the availability service. The now familiar dispute over whether or not a particular customer wanted the service at the time the contract was signed will continuously plague this Commission unless the Commission prescribes the manner of subscribing to availability service, just as the Commission already prescribes the manner of seeking other types of utility service."

At the conclusion of Mr. Creasy's testimony, the Commission ordered the Staff and intervenors to meet in a conference and discuss their differences with respect to the proposed rules. The Commission also directed that the Staff and intervenors report to the Commission the results of their discussion in order that the Commission might decide whether or not further hearings were necessary in this docket. On February 26, 1975, the Commission Staff and the intervenors jointly filed a "Report of the Parties and Submission of Proposed Rules R7-36 and R10-23 and Subscription Forms". The Staff and the intervenors stated in the Report that they had met in numerous conferences since the December 1974 hearing in order to resolve their differences with respect to the proposed rules. As a result of these conferences, the parties were able to agree upon a set of rules and subscription forms which the parties now submitted to the Commission. The intervenors also submitted supplementary proposals for the consideration of the Commission.

FINDINGS OF FACT

(1) The 1973 General Assembly enacted G. S. 62-133.1(b), which provides that:

> "A water or sewer utility may enter into uniform contracts with nonusers of its utility service within a specific subdivision or development for the payment by such nonusers to the utility of a fee or charge for placing or maintaining lines or other facilities or otherwise making and keeping such utility's service available to such nonusers; or such a utility may, by contract of assignment, receive the benefits and assume the obligations of uniform contracts entered into between the developers of subdivisions and the purchasers of lots in such subdivisions whereby such developer has contracted to make utility service available to lots in such subdivision and purchasers of such lots have contracted to pay a fee or charge for the availability of such utility service; provided, however, that the maximum nonuser rate shall be as established by contract, except that the contractual charge to nonusers of the utility service can never exceed the lawfully established minimum rate to user customers of the utility service."

(2) On March 20, 1974, the Court of Appeals issued its decision in Utilities Commission vs. Carolina Forest Utilities, 21 N.C. App. 146, holding that the Commission has authority to approve the use of an availability charge for water service provided by a utility to a recreational development.

(3) Over the past few years, the Commission has been confronted with a number of utility companies who have imposed an availability charge to nonuser customers for the availability of water or sewer service; the availability charge is imposed upon the customers whether or not the customers used any water or tapped onto the lines of the

utility. The availability charge has been primarily used in subdivisions developed for recreational purposes.

(4) The Commission is aware of complaints by customers of availability service who were unaware of the consequences of subscribing to an availability service at the time that they entered into contracts for such availability service.

(5) Sound public policy requires that prospective customers of water and sewer availability service be informed of the nature of such service prior to subscribing to the service. Such policy may be implemented by rules requiring disclosure to the prospective customer of the nature of the availability service. Examples of information which should be disclosed to the prospective customer include the following: The definition of the proposed service, the cost of the availability service, and the duration of such service.

(6) On October 14, 1974, the Commission issued a Notice of Rulemaking Order proposing rules for the availability of water and sewer service. Several utility companies intervened in the Rulemaking Proceeding and filed comments and requested a hearing. Thereafter, as a result of a hearing, the intervenors and the Commission Staff submitted to the Commission on February 26, 1975, proposed Rules R7-36 and R10-23 and subscription forms for availability charges. The Commission adopts these rules submitted by the intervenors and Staff, with certain exceptions to be set forth in the Conclusions below.

CONCLUSIONS

The Commission has carefully considered the "Report of the Parties" filed by the Staff and the intervenors on February 26, 1975. The Commission adopts the proposed Rules R7-36 and R10-23 and the subscription forms submitted by the parties, except for the following changes:

I. Rules R7-36(D) and R10-23(D), are changed to read as follows:

> (D) Improper Disclosure is Grounds for Denial of Franchise and Rates -- In the event the Utilities Commission finds that disclosure of the availability rate has not been made in accordance with the provisions of this rule, the Commission may conclude that the availability rate in whole or in part should not be allowed.

II. A New Section is added to the rules, to be denominated (J), and to read as follows:

> (J) Denial of User Service -- No utility may deny water (sewer) user service to its customers for nonpayment of availability rates imposed under

> contracts entered into prior to the effective date of this rule, except where such availability rates had been authorized under a Commission order.

New section (J) is added to these rules in order to afford protection to those customers who subscribed to availability service that had not been approved by this Commission. The Commission is of the opinion that vitally-needed water or sewer service should not be denied to customers by a utility seeking to enforce availability charges not approved by this Commission. There are other remedies available to enforce payment.

The Commission has also carefully considered the supplementary proposals filed by the intervenors. The Commission adopts Supplementary Proposal 2, which is incorporated in paragraph 2 of the "Subscription for Availability of Water and Sewer Service" form attached to this Order as Exhibit C*. The Commission is of the opinion that Supplementary Proposals 1,3 and 4 should not be incorporated in the rules for this reason: The proposals are adequately taken care of by the rules adopted herein, or by other rules of the Commission, or by existing statutes.

The Commission is of the opinion, and so concludes, that the Rules R7-36 and R10-23 and the subscription forms, all of which are attached to this Order as Exhibits A, B and C*, should be adopted as the rules of the Commission relating to availability of water and sewer service. The Commission is further of the opinion that the adoption of these rules will serve the public interest and will further the Commission's policy of assuring that prospective customers of availability of water and sewer service will be given adequate disclosure of what such service entails. The rules define "Availability of Water and Sewer Service" and "Customer" or "Subscriber" of such service. Each utility must insure that its customers were given adequate disclosure of such availability service, in accordance with these rules, prior to accepting a subscriber for availability service. The rules describe the form of disclosure and set forth in detail the information to be contained in the disclosure forms. (See Exhibit C). The rules prescribe adequate disclosure forms, but they sanction a procedure whereby other disclosure forms may be submitted for Commission approval. These rules are fair both to the utility and the consumer. The Commission concludes that these rules will result in the orderly development of the administration of availability services.

IT IS, THEREFORE, ORDERED:

(1) That Chapter 7 of the Commission's Rules and Regulations, entitled "Water Companies", is hereby amended by adding at the end thereof a new rule entitled "R7-36, Availability Rates", as more fully set out in Exhibit A of this Order.

(2) That Chapter 10 of the Commission's Rules and Regulations entitled "Sewer Companies" is amended by adding at the end thereof a new rule entitled "R10-23, Availability Rates", as more fully set out in Exhibit B of this Order.

(3) That the three subscription forms attached to this Order as Exhibit C shall be made an Appendix to Chapter 7 of the Rules and Regulations of this Commission entitled "Water Companies", and the Appendix shall be placed at the end of said Chapter 7.

(4) That Rule R7-36 and Rule R10-23, and the subscription forms, shall become effective on and after the date of this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the 2nd day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See official Order in the Office of the Chief Clerk.

DOCKET NO. E-2, SUB 229

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Carolina Power and Light Company for Authority to Adjust Its Electric Rates and Charges.	))))	ORDER APPROVING RATES PRESENTLY IN EFFECT; REDUCING CERTAIN RATES AND INCREASING CERTAIN RATES UNDER MODIFIED RATE DESIGN

HEARD IN: Commission Hearing Room, Raleigh, North Carolina, and the Cities of Wilmington and Asheville, North Carolina

DATE: July 9, 1974, through September 19, 1974

BEFORE: Chairman Marvin R. Wooten, presiding, Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

R. C. Howison, Jr.
Joyner and Howison
Attorneys at Law
Wachovia Bank Building
Raleigh, North Carolina 27602

William E. Graham & Sherwood H. Smith, Jr.
Carolina Power and Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

For the Protestants:

Thomas R. Eller, Jr.
Cansler, Lassiter, Lockhart & Eller, P. A.
Attorneys at Law
1010 NCNB Building
Charlotte, North Carolina 28105
For: The N.C. Textile Manufacturers Association, Inc.

For the Intervenors:

Robert C. Hudson
Office of General Counsel
Department of Navy Counsel
Atlantic Division
Naval Facilities Engineering Command
Norfolk, Virginia 23511
For: Executive Agencies of United States of America

Andrew G. Williamson
Mason, Williamson, Etheridge & Moser
Attorneys at Law
600 E. South Main Street
Laurinburg, North Carolina 28352
For: Southern Tri-County Ginners Association

J. Melville Broughton, Jr.
Broughton, Broughton, McConnell & Boxley
Attorneys at Law
P. O. Box 2387
Raleigh, North Carolina 27602
For: Ball Corporation, Asheville, N. C.

I. Beverly Lake, Jr.
Jerry J. Rutledge and Robert Gruber
Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: The Using and Consuming Public

For the Commission Staff:

Wilson B. Partin, Jr.
Assistant Commission Attorney
Jerry B. Pruitt
Associate Commission Attorney
N. C. Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: This proceeding is before the Commission upon the application of Carolina Power and Light Company (hereinafter referred to as "CP&L") filed with the Commission on October 29, 1973, for an increase in retail rates on electricity sold in North Carolina. Said requested increase in retail rates total approximately $51,676,434 being an increase of approximately 21 per cent overall on all North Carolina retail operations.

By Order of November 9, 1973, the Commission suspended the proposed increases in CP&L's rates and charges, set the proceeding for investigation and hearing, and advanced the test period to the twelve (12) months ending December 31, 1973. In its application filed with the Commission on October 29, 1973, CP&L applied for an 11 per cent interim rate increase, and after notice and public hearing, the Commission by Order dated January 25, 1974, authorized an across-the-board increase of 5.94 per cent to produce approximately $12,675,745 of increased revenue on an annual basis, subject to refund, hearing and final determination.

On January 25, 1974, CP&L filed an application in Docket E-2, Sub 234 for authority to adjust its retail electric rates and charges by the addition of a fossil fuel adjustment clause. By Commission Order of February 5, 1974, the Commission authorized and permitted CP&L to place into effect an interim fossil fuel cost adjustment clause. The Commission further consolidated Docket E-2, Sub 234 with Docket E-2, Sub 229 and ordered that all evidence heretofore presented in this matter be subject to cross-examination and further review before final disposition as a part of Docket E-2, Sub 229.

By Order dated March 3, 1974, the Commission modified its Order of February 5, 1974, to provide for an undertaking for refund pending final determination of all revenue collected under the fossil fuel adjustment clause.

CP&L on February 22, 1974, filed a Motion and application with the Commission for authority to increase its allowed rates and charges to its North Carolina retail customers by an additional interim increase of 5.06 per cent, and on April 1, 1974, after notice and public hearings, the Commission authorized the additional requested interim increase in Docket E-2, Sub 229, of 5.06 per cent, subject to refund.

The Commission recognized the Notice of Intervention of the Attorney General and allowed Petitions to Intervene by the North Carolina American Federation of Labor and Congress of Industrial Organizations, (A.F.L. - C.I.O.); North Carolina Textile Manufacturers Association, Inc.; North Carolina Consumer Council, Inc.; United States of America, Department of the Navy, Atlantic Division, Naval Facilities Engineering Command; The City of Asheville; Southern Tri-County Ginners Association; and Ball Corporation.

On March 18, 1974, the City of Asheville filed an application for leave to withdraw as an Intervenor. By Commission Order dated March 25, 1974, the Commission allowed the application of the City of Asheville to withdraw as an Intervenor.

The Attorney General appealed the Commission's Order of April 1, 1974, in Docket No. E-2, Sub 229, allowing CP&L an additional 5.06 per cent interim rate increase. The Attorney General also appealed the Commission Order of February 5, 1974, Docket No. E-2, Sub 234, authorizing CP&L to implement a fossil fuel adjustment clause on an interim basis. The Court of Appeals allowed Motions to dismiss the appeals from both Orders and subsequent efforts by the Attorney General to obtain review in the Supreme Court by appeal and by certiorari were unsuccessful. File No. 74108UC724, and File No. 74108UC539, respectively.

On May 10, 1974, CP&L gave notice of intention to place rate increases up to 20 per cent but not to exceed the filed for rates into effect in Docket E-2, Sub 229, as provided in G.S. 62-135. The Commission approved the undertaking for said bonded rate increase on May 16, 1974, and on June 1, 1974, CP&L placed the bonded rates into effect, producing an overall increase of 20 per cent on CP&L's North Carolina retail operations.

On June 6, 1974, the Commission issued an Order requiring publication of the final Notice setting the case for public hearing including publication of the maximum increases proposed under alternative rate designs to produce equal rates of return between rate classifications, and to promote economic efficiency and reflect incremental cost.

The Commission held public hearings for nineteen days beginning on July 9, 1974, and going through September 19, 1974, in Raleigh, Wilmington, and Asheville.

Briefs were filed in this proceeding on October 31, 1974.

At the public hearings, the Commission received the prefiled direct testimony of all witnesses of the Applicant, the Staff and the Intervenors, and each witness was tendered for cross-examination and the transcript will show a full and ample right of all parties to introduce all relevant evidence and exhibits and to cross-examine all proposed evidence and exhibits of all other parties.

CP&L offered the testimony of the following witnesses: Shearon Harris, Chairman of the Board, President and Chief Executive Officer of CP&L, testifying on the financial needs and operations of CP&L; Robert R. Nathan, President of Robert R. Nathan Associates, Inc., Economic Consultant testifying on the economic and financial condition of CP&L; Bruce C. Netschert, Economic Consultant, testifying on energy economics of CP&L; Edwin E. Utley, Vice President of the Bulk Power Supply Department of CP&L, testifying on fuel

purchasing practices and generating facilities; Paul S. Bradshaw, Manager of Budgets and Statistics for CP&L, testifying on the accounting records and financial statements of CP&L; John J. Langum, Economic Consultant, testifying on cost of capital, capital structure and rate of return; John J. Reilly of Ebasco Services Incorporated, testifying on the trended original cost and depreciation of CP&L's plant; Edward G. Lilly, Jr., Senior Vice President-Finance with CP&L, testifying on the financial condition of CP&L; James M. Davis, Jr., Assistant Director of Rates and Regulations with CP&L, testifying on jurisdictional allocations; Eugene W. Meyer, Vice President and Director of Kidder, Peabody & Company, Inc., testifying on financing, and the marketing of public utility securities; Samuel Behrends, Jr., Vice President and Director of Rates and Regulation for CP&L, testifying on rate design, fuel clause, actual operating results, adjustments, and cost of service studies; and Gregory L. Pittillo, Industrial Power Engineer for CP&L in the Henderson District testified concerning the Company's program to encourage customers to conserve energy.

The Commission Staff offered the testimony of Dr. Edward Erickson, Professor of Economics, North Carolina State University at Raleigh, testifying on cost of service and rate design; Dr. Robert M. Spann, Professor of Economics, Virginia Polytechnic Institute testifying on cost of service and rate design; William E. Carter, Jr., Staff Accountant, testifying on financial statements, audit reports and accounting records; George M. Duckwall, Staff Electrical Engineer, testifying on growth to year end adjustment and jurisdictional allocation; William F. Irish, Staff Economist, testifying on weather adjustment and the homogeneity of CP&L's service area; Allen L. Clapp, Staff Chief Engineering Economist, testifying on cost of service and rate design; Edwin A. Rosenberg, Staff Economist, testifying on cost of capital and rate of return; Andrew W. Williams, Staff Chief Electrical Engineer, testifying on the fossil fuel adjustment clause and generation reserves; and M. D. Coleman, Staff Director of Accounting, testifying on Allowance for Funds During Construction.

The Department of the Navy, Atlantic Division, offered the testimony of William Parkerson, a Consultant of Sanderson & Porter, Inc., on cost allocation studies.

The Attorney General offered the testimony of David A. Kosh, President of David A. Kosh & Associates, Inc., testifying on economics, cost of capital, and fair rate of return for CP&L; and Richard J. Lurito, Senior Economist with David A. Kosh & Associates, Inc., testifying on trended original cost of CP&L's plant.

The Southern Tri-County Ginners Association offered the testimony of Wallace Johnson, Marketing Specialist for the North Carolina Department of Agriculture on energy cost for cotton ginning.

The North Carolina Textile Manufacturers Association, Inc., offered the testimony of Jerry T. Roberts, Corporate Secretary of the North Carolina Textile Manufacturers Association, Inc., testifying on return on common equity and cost of service. The North Carolina Textile Manufacturing Association, Inc. also offered the testimony of the following witnesses in protest and opposition to certain aspects of CP&L's proposed rate increases: Arthur Weiner, Corporate Vice President of Burlington Industries; Herbert Cunningham, Plant Manager of Kerilor, Inc.; Edward F. Cunningham, Assistant Regional Manager of Production for the Linde Division of Union Carbide Corporation; Walter C. Leist, Energy Consultant for Linde Division of Union Carbide Corporation; W. C. Gay, Assistant Treasurer of J. P. Stevens & Co., Inc.; H. G. Waddell, Chief Supervisor in the Engineering Section of the Dupont Plant at Kinston, North Carolina; Ralph L. Gaffney, Cranston Print Works Company, Fletcher, North Carolina; Leigh C. Woodall, Jr., Manager of Environmental Affairs and Utilities for Collins & Aikman Corporation. The Textile Manufacturers Association also offered the testimony of Dr. Charles E. Olson, Professor of Public Utility Economics at the University of Maryland, testifying on rate of return and rate design.

Lillian Woo testified on behalf of the North Carolina Consumers Council on the impact of rate increases on consumers, management of CP&L and financial matters.

Wilbur F. Hobby, President A.F.L. - C.I.O., testified on the impact of rate increases on customers.

The Commission conducted additional public hearings in Wilmington and Asheville to receive the testimony of public witnesses and also received testimony of public witnesses on designated days during the public hearings in Raleigh.

Thirty-one witnesses testified at the Wilmington hearing in protest and opposition to the proposed rate increase and certain billing practices of CP&L and citing the impact of rate increases on the witnesses. Two public witnesses testified in support of some increase.

Thirty-eight witnesses testified at the Asheville hearing in protest and opposition to the proposed rate increase, certain billing practices, and the proposed nuclear site at Sandy Mush located in the Asheville area. Two public witnesses testified in support of some increase.

Pursuant to G.S. 62-134, the entire requested increase applied for by CP&L under its proposed rates became effective on service rendered on and after October 1, 1974.

By Commission Order dated November 27, 1974, the Commission set further hearings in Docket E-2, Sub 234, for January 30, 1975, and separated said docket from this docket (E-2, Sub 229) for decision and further hearings, and

ordered that the record of the consolidated hearings be made a part of the record in both dockets.

There are five basic issues to be decided in this case:

(1) CP&L's reasonable original investment in its properties devoted to the public use in North Carolina.

(2) The fair value of CP&L's properties devoted to the public use in North Carolina.

(3) CP&L's reasonable operating expenses.

(4) The level of return on the fair value of its properties required to enable CP&L to compete in the market for capital funds.

(5) The just and reasonable rates by which CP&L may derive the revenues that it needs to obtain the rate of return to which it is entitled.

This Order will treat each basic issue in numerical order.

1. Reasonable Original Investment. We have reviewed the original investment in CP&L's properties devoted to the public use in North Carolina. We find that CP&L has acquired, purchased and constructed its properties in a manner and with results which meet the statutory standards of reasonable original cost.

2. Fair Value. On balance, the evidence in this and previous recent dockets involving CP&L would persuade us that the fair value of CP&L's properties devoted to the public use in North Carolina is not significantly greater than its reasonable original cost. After careful consideration of recognized translators of original cost, we reach a result which recognizes (a) general historic inflationary pressures, and (b) improvements in design and progressive construction efficiencies.

3. Reasonable Operating Expenses. In a separate docket (E-2, Sub 234), the Commission has considered and dealt with CP&L's dominant operating expense, i.e., the cost of fossil fuel used in the generation of electric power. In that docket, the findings and conclusions of which are binding here, the Commission allowed CP&L to invoke upon its basic rates a fossil fuel cost surcharge (adjustment) to enable it to equitably and expediently recoup those costs of fossil fuel which exceed the base costs found to be reasonable in this docket. In determining CP&L's reasonable base cost of fossil fuel found and concluded herein, we have carefully weighed all the creditable evidence before us, including the broad implications of the current and expected supply of fossil fuel, current and expected market prices, and CP&L's fossil fuel procurement policies and practices. We have further weighed and considered CP&L's other reasonable operating expenses, and we find that there are certain areas

in which CP&L should be able to achieve further operating efficiencies and savings. After having carefully considered the current economic environment, the rapidly escalating cost of fuels, and general inflationary trends, we conclude that CP&L should begin immediately to institute the most careful review of its entire operating budget to effect and carry out savings in every possible area of operation.

4. Level of Return. The dynamics of the present economy, while demanding the most careful judgment, do not require, any more today than it ever did, a guaranteed rate of return for CP&L or any other public utility. The best that is required of us is our reasoned and careful judgment of what return will enable CP&L to compete in the market for those capital funds which it must have to continue to provide reliable electric service, where and when it may be needed in its North Carolina service area. We have carefully weighed and considered all the evidence before us in this and other recent dockets involving CP&L, as well as other public utilities of similar characteristics doing business in North Carolina and the United States, where CP&L must compete for its needed capital funds. We carefully weighed and considered CP&L's required and anticipated construction program for the foreseeable future and the relationship of this program to the need for additional capital funds. By our findings and conclusions herein, we seek not to guarantee CP&L or its stockholders any rate of return, but rather to offer CP&L's management a rate structure and level within which, with prudent management, CP&L may earn the reasonable return herein found necessary.

5. Rate Design. Basic and inherent to CP&L's ability to meet its reasonable operating expenses and earn a reasonable return on the fair value of its properties devoted to the public use in North Carolina is the design of its rate structure. In attempting to enable CP&L to construct and implement a rate design which would fairly and equitably distribute the cost of service among its various customer groups and classifications, we previously ordered CP&L to carry out detailed cost of service studies. These studies were put in evidence in this docket. Additionally, the Commission's staff, through its own expertise and the assistance of expert consultants, has offered voluminous testimony on the subject of CP&L's rate design and the relationship of rate design to the overall cost of service. Additionally, testimony was offered by intervenors in this docket on this very vital aspect of regulation. The many refinements and subtle implications of rate design are too numerous to treat in detail in this Order; we emphasize that all such criteria have been carefully weighed and considered. Our objective has been to achieve a reasonable and equitable rate of return for each customer class vis a vis that rate of return earned for each other customer class and the company-wide rate of return found to be reasonable herein. We have notably found that the demands upon CP&L for increased capacity of generation and transmission facilities and the demands for large amounts of fuels

generated by heavy-use customers are the principal factors behind CP&L's needs for increased revenues. After careful consideration of all of the evidence, we do not see or feel that the small and medium-use residential customer on CP&L's system is responsible for the pressures upon CP&L for increased revenues, and this Order will, therefore, reflect our decision to allow no increase in basic rates in the residential low-use blocks (up to 300 KWH per month affecting 82,000 households, which customers will receive base rate reductions from present existing rates); and our decision to allow reduced increases lower than that requested by CP&L, in basic rates in the residential medium-use blocks (up to 725 KWH per month affecting 142,000 additional households, which customers will also receive a base rate reduction from present existing rates. We have carefully considered and weighed the proposition of seasonal rates as a method or means of inhibiting the growth of air conditioning load on CP&L's system, and have reached the conclusion that there is not a sufficient showing to persuade us at this time to invoke this ratemaking device in CP&L's North Carolina service territory. In this connection, however, the Commission wishes to emphasize to both CP&L and its customers and to the public in general in North Carolina, the continuing urgent need for the conservation of electric energy and indeed all forms of energy in this State and in this Nation. It is abundantly clear that the United States is still confronted with an energy crisis, the solution to which is not yet in sight. Due to market forces beyond the control of this Commission, all forms of energy have reached record price levels, and it does not appear to us that the pressure on energy prices will soon abate. It is, however, our opinion that reasonable and prudent conservation measures on the part of all our people will speed the day when energy prices will begin to level off and perhaps recede in the direction of the levels of the early 1970's. We cannot, of course, promise that conservation will achieve these goals; but we can certainly predict that lacking conservation, the pressures on energy prices will continue to grow and energy prices will continue to escalate. We urge all concerned to investigate every avenue of energy conservation and savings and to practice conservation as a way of life for the predictable and foreseeable future.

Based upon the record herein and the evidence adduced at the public hearings, the Commission makes the following

FINDINGS OF FACT

1. That CP&L is duly organized as a public utility company under the laws of North Carolina, holding a franchise to furnish electric power in a major portion of the State of North Carolina under rates and service regulated by the Utilities Commission as provided in Chapter 62 of the General Statutes.

2. That the reasonable original cost of CP&L's property used and useful in providing retail electric service in North Carolina is $891,313,000 the reasonable accumulated provision for depreciation is $161,065,000 and the reasonable original cost approximately depreciated is $730,248,000.

3. That the reasonable allowance for working capital is $59,023,000.

4. That the reasonable original cost of CP&L's property used and useful in providing retail electric service in North Carolina ($891,313,000), less accumulated depreciation ($161,065,000) and contributions in aid of construction ($3,843,000), plus an allowance for working capital ($59,023,000) is $785,428,000.

5. That the reasonable replacement cost of CP&L's property used and useful in providing retail electric service in North Carolina is $1,026,000,000.

6. That the fair value of CP&L's electric plant used and useful in providing retail electric service in North Carolina should be derived from giving two-thirds (2/3) weighting to the original cost of CP&L's depreciated electric plant in service and one-third (1/3) weighting to replacement cost of CP&L's electric plant. By this method, using the depreciated original cost of $726,405,000 (excludes $3,843,000 of contributions in aid of construction) and a replacement cost of $1,026,186,000, the Commission finds that the fair value of said electric plant devoted to retail service in North Carolina is $826,332,000.

7. To the fair value of CP&L's property used and useful in providing retail electric service to the public within North Carolina at the end of the test year should be added the reasonable allowance for working capital in the amount of $59,023,000.

8. That CP&L's approximate gross revenues for the test year after accounting and pro forma adjustments under present rates are $232,829,000 and after giving effect to the company's proposed rates are $284,505,000.

9. That the level of operating expenses after accounting and pro forma adjustments, including taxes, and interest on customer deposits, is $183,616,000 which includes an amount of $22,247,000 for actual investment currently consumed through reasonable actual depreciation before annualization to year-end level.

10. That the fair rate of return which CP&L should have the opportunity to earn on the fair value of its North Carolina investment for retail operations is 8.24 per cent which requires additional annual revenue from North Carolina retail customers of $51,676,000 and requires approval of the increased revenues as filed in the application and which are

presently in effect; provided that the rate design for said increases is modified as hereafter provided.

11. That the fair rate of return on the fair value equity of CP&L is 10.44 per cent.

12. That under the rates in effect prior to the authorization of the interim rates herein and the bonded rates herein, CP&L was not and would not be earning an adequate rate of return on the property used and useful in its service to the public in North Carolina and under said prior rates CP&L could not continue in operation as a viable electric utility in North Carolina, and that if said interim rates and bonded rates are not approved, CP&L cannot maintain its ability to compete in the market for capital funds on terms reasonable and fair to its customers and its existing investors, and could not continue the construction of plants presently being built and necessary for the continued service to the public in its service area, and the $51,676,000 applied for and the retention of the interim and bonded rates is necessary to continuation of adequate service in CP&L's service area.

13. That the rate of return which would have been earned by CP&L during the test period under the rates in effect prior to the interim rates would be 5.56 per cent on the fair value of its plant in service in North Carolina, which would have been inadequate to pay the interest on CP&L's debt and cost of capital to support the plant then in service, and if CP&L were required to refund any of the interim rate increases being collected during the test period and during the hearing, said refunds would cause a financial crisis and jeopardize the continued ability of CP&L to meet its expenses in providing reliable and adequate electric service in its service area in North Carolina.

14. That during the last general rate case of CP&L, i.e., Docket E-2, Sub 201, 1972, the Commission authorized rates which the Commission calculated would allow CP&L to earn a 12 per cent return on actual equity. Due to increasing expenses after the rate case greater than the expenses of the test period utilized, CP&L has not earned the allowed rate of return and has operated over the last approximately two and one-half (2 1/2) years at a rate of return less than the return authorized by the Utilities Commission as a just and reasonable rate of return.

15. That it is necessary for CP&L to compete in the market for capital funds on terms which are reasonable and fair to its customers and to its existing investors in accordance with G.S. 62-133(4) in order to meet its capital requirements and maintain facilities and services in accordance with the reasonable requirements of its customers, and under the rates in effect prior to the increases herein, CP&L would not be able to compete in the capital market on such terms.

16. That the rates filed herein in Docket No. E-2, Sub 229, are found to be just and reasonable rates for all amounts heretofore collected thereunder and for all amounts to be collected thereunder, without any refund therefor, pending implementation of the modified rate designs provided and approved in this Order.

17. That CP&L's interim and temporary rates are not unlawfully discriminatory and that the revenues collected by CP&L under provisions of refund should be retained by CP&L, in that the total annualized amount of revenue collected does not exceed the allowed annual general rate increase of $51,676,000 granted in this Order.

18. That the rates of return between rate classifications produced by CP&L's proposed rates reflect that variations in rates of return still exist but have been reduced.

19. That CP&L's proposed rate designs are substantially effective in accurately charging the cost of service but can be made more effective in promoting economic efficiencies and in conserving our scarce energy resources.

20. A rate design should (1) reflect costs of service, (2) recognize changes in long run incremental costs, (3) require classes of customers to pay their fair share of the costs to serve them, and (4) enable the utility to earn a fair rate of return on the fair value of its property including a return on equity sufficient to attract necessary new capital. The rate design approved in this case and attached hereto in Exhibit 1 will substantially achieve these objectives and result in more equitable and efficient pricing of electric power to CP&L's customers.

21. CP&L and the Staff should continue to study the refinement of metering techniques, pricing mechanisms and conservation measures so that CP&L's customers will have incentives to use power as efficiently and conservatively as possible, and in these ways reduce the demands being placed on the company and its ratepayers in the building of generating facilities.

22. That the fair rate of return on CP&L's fair value rate base is 8.24 per cent, which will allow CP&L to continue to pay a reasonable dividend on its common stock attributable to its North Carolina retail operations, and retain a sufficient surplus for capital needs or other application by its shareholders and directors.

23. That the reasonable base cost of fossil fuel included in the rates fixed as just and reasonable rates in this docket is .513 cents per kilowatt-hour.

24. The Commission considered the use of seasonal rates with a summer-winter differential for the summer air conditioning peak demand costs, but finds this ratemaking method is not justified at this time, as being

insufficiently tested to justify the difficulty and misunderstanding possible from such a rate system.

25. That the schedules showing the derivation and application of such findings are set forth and included as part of these findings as follows:

CAROLINA POWER & LIGHT COMPANY
DOCKET NO. E-2, SUB 229
NORTH CAROLINA RETAIL OPERATIONS
STATEMENT OF RETURN
(000's OMITTED)

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross operating revenues	$232,829	$51,676	$284,505
Operating Revenue Deductions			
Operation and maintenance expenses	126,231		126,231
Depreciation	24,129		24,129
Taxes other than income	23,609	3,100	26,709
Income taxes - state	797	2,915	3,712
Income taxes - Federal	772	21,917	22,689
Investment tax credit - net	3,066		3,066
Deferred income taxes - net	4,924		4,924
Interest on customer deposits	88		88
Total operating revenue deductions	183,616	27,932	211,548
Net operating income for return	$ 49,213	$23,744	$ 72,957
Original Cost Net Investment			
Net Plant in Service			
Electric plant in service	$882,952		$882,952
Net nuclear fuel	8,361		8,361
	891,313		891,313
Less: Accumulated provision for depreciation	161,065		161,065
Contributions in aid of construction	3,843		3,843
Net electric plant in service	726,405		726,405

Allowance for Working Capital		
Material and supplies	41,962	41,962
Cash	22,464	22,464
	64,426	64,426
Less: Average Federal and state income tax accruals	3,646	3,646
Customer deposits	1,757	1,757
Total allowance for working capital	59,023	59,023
Total original cost net investment	$785,428	$785,428
Fair value rate base	$885,355	$885,355
Return on fair value rate base	5.559	8.240

CAROLINA POWER & LIGHT COMPANY
DOCKET NO. E-2, SUB 229
NORTH CAROLINA RETAIL OPERATIONS
(000's OMITTED)

	Fair Value Rate Base	Ratio %	Embedded Cost or Return on Common Equity %	Net Operating Income
	Present Rates - Fair Value Rate Base			
Capitalization				
Long-term debt	$411,965	46.531	7.008	$28,870
Preferred stock	104,438	11.796	7.178	7,497
Common equity (including 197 job development credits)	350,416	39.579	3.666	12,846
Deferred income taxes and investment tax credits (1962 Revenue Act)	18,536	2.094		
Total capitalization	$885,355	100.000		$49,213
	Approved Rates - Fair Value Rate Base			
Long-term debt	$411,965	46.531	7.008	$28,870
Preferred stock	104,438	11.796	7.178	7,497
Common equity (including 197 job development credits)	350,416	39.579	10.442	36,590
Deferred income taxes and investment tax credits (1962 Revenue Act)	18,536	2.094		
Total capitalization	$885,355	100.000		$72,957

CAROLINA POWER AND LIGHT COMPANY
NORTH CAROLINA RETAIL OPERATIONS
REVENUE REQUIREMENTS CORRELATED TO
ORIGINAL COST AND FAIR VALUE COMMON EQUITY
"000's" OMITTED

Item	Original Cost Net Investment Prior to Adjustment for Fair Value Increment
Revenue Requirements:	
Gross Revenues - present rates	$232,829
Additional gross revenue required to provide 12.5% return on original cost common equity	$ 40,190
Total revenue requirements	$273,019
Net Income Available for Return on Equity	$ 31,312
Equity Component	$250,489
Return on Actual Common Equity	12.50%

Revenue Requirements:	Fair Value Rate Base
Gross Revenues - Present Rates	$232,829
Additional Gross Revenue Required to Provide 12.5% return on original cost common equity	$ 40,190
Additional Gross Revenue Required For fair value common equity	$ 11,486
Total Additional Revenue	$ 51,676
Total Revenue Requirements	$284,505
Net Income Available for Return on Equity	$ 36,590
Equity Component	$350,416
Return on Fair Value Equity	10.44%

CONCLUSIONS

The Commission concludes from all of the evidence in this proceeding that it is necessary and essential and in the public interest to approve the revenues presently being collected from interim rates, temporary rates under provisions of G.S. 62-135, and the rates presently being

collected under G.S. 62-134, and that it is further necessary and essential in the public interest to modify the rate designs upon which said rates are structured, for collection of such revenues in the future. Failure to approve said rates, and the revenues collected thereunder, as just and reasonable, would jeopardize adequate service to the public, and would place CP&L in a weakened financial condition to compete in the market for capital funds. The public interest requires that North Carolina continue to be provided with adequate and reliable electric service to maintain a sound economy and that CP&L be financially able to continue the operation of electric service which is essential to the health and welfare of the public of North Carolina. The present rates in effect under G.S. 62-134 are approved only until such time as modified rate designs to produce the same additional revenues can be placed into effect as provided hereafter in this Order.

The Commission concludes that the company's evidence with respect to replacement cost is correct. The Commission further concludes the company's method of computing the depreciation reserve applicable to the trended original cost is correct.

G.S. 62-134(b) authorizes the Commission to suspend rates filed by CP&L for a period of 270 days from the time they would otherwise have gone into effect. The rates filed in Docket No. E-2, Sub 229, on October 29, 1973, went into effect on October 1, 1974, and the Commission Order suspending said rates for 270 days expired on August 28, 1974, being 270 days after the original effective date.

On July 1, 1974, the North Carolina Supreme Court remanded the Duke rate application in Docket No. E-7, Sub 145 to the Commission on the Court's finding that the Utilities Commission's calculation of rate of return on the fair value of Duke's property was not in accord with the statutory formula for rate of return on equity as required by the Supreme Court in Utilities Commission v. General Telephone, 281 N. C. 318. This most recent requirement of the Supreme Court for a revised method of calculating the rate of return on the fair value of the equity, in effect, permits approval of the 21 per cent overall increase to produce $51,676,000 of additional annual revenue on North Carolina retail electric operations. Anything less than the $51,676,000 annual increase applied for in this application would fail to meet the provisions of the Supreme Court in Utilities Commission v. Duke, 285 N. C. 277 (1974) and would be inadequate under North Carolina law.

In considering the various accounting adjustments that were presented in CP&L's testimony and in the Staff's testimony, the Commission concludes that this proceeding should be decided on the basis of the accounting adjustments recognized in the last CP&L rate case in Docket No. E-2, Sub 201, as decided on appeal in the North Carolina Court of Appeals in State of North Carolina, ex rel. Utilities

Commission and CP&L Company v. Robert Morgan, Attorney General, 16 N. C. App. 445 (1972), as well as adopting the following additional accounting adjustments contended for by CP&L: (a) Adjust fuel expense to the base cost in the fossil fuel adjustment clause, (b) Adjustment for normalization of hydro-generation, (c) Adjustment to amortize the 1969 investment tax credit, (d) Adjustment to include 197% investment tax credit in the common equity component of the capital structure, (e) Adjustment to normalize test year as a result of conservation, (f) and an adjustment to bring CP&L's fuel inventory up to a 70-day level at the September, 1974, prices (based on the monthly reports submitted to the Commission in Docket E-2, Sub 234 and consolidated with this docket and made a part of the record in this docket). However, the Commission also feels that certain of the Staff Accounting adjustments are also correct and that they should be adopted in addition to the adjustments adopted above. The Staff accounting adjustments accepted by the Commission are: (a) Adjustment to normalize test period because of abnormal weather conditions, (b) Adjustment to reduce income taxes applicable to capitalized taxes and fringe benefits, (c) Adjustment to exclude contingency income from income tax calculations, (d) Adjustment to amortize Craven County abandoned project over a three-year period, (e) Adjustment to exclude claimed depreciation expense on contributed property, (f) Adjustment to include interest expense on customer deposits as an operating expense. The adjustments not accepted in this docket are left open without prejudice to such consideration of accounting adjustments as the Commission Staff or other parties may seek in any subsequent rate proceedings. This includes the adjustments for the allowance for funds during construction (AFDC), for deferred income taxes, and for such other accounting adjustments as were included in the Staff testimony or the testimony of other parties and which are not adopted in this decision. The Staff and said parties are free to present studies in support of such adjustments in other cases involving CP&L or other utilities regulated by the Utilities Commission, and this decision shall not be construed to be a precedent or res judicata as to the treatment of the accounting adjustments allowed in this decision or not allowed in this decision, and they are specifically not rejected for consideration in future cases.

We find that a rate of return of 10.44 per cent on the fair value equity of CP&L is a just and reasonable rate of return on the appreciated equity of CP&L. It requires gross revenue of $11,486,000 in addition to the $40,190,000 necessary to produce a return of 12.5 per cent on the book common equity of CP&L. The $11,486,000 is additional revenue permitted by the decision in Commission v. Duke, 285 N. C. 377 (1974), as the return on the appreciated equity from the fair value appreciation in the rate base, referred to by the Court as the "paper profit." The $40,190,000 of revenue would have produced a return on actual common equity of 12.5 per cent for the test year 1973 and would have allowed CP&L to compete in the market on terms reasonable to

its existing stockholders and to its customers, and the $11,486,000 more revenue from additional rate increases is deemed to comply with the provision for additional earnings from such paper profits in the fair value rate base. The book common equity is increased by the entire $99,927,000 of the increment for the fair value rate base. This changes the ratio of equity from 31.89 per cent to 39.58 per cent in the capital structure of CP&L, as proformed for the fair value equity. The required rate of return on fair value equity is reduced by the resulting change in capital structure, based upon the reduced risk to the equity component, and the Commission finds that the fair rate of return on the resulting fair value equity of 10.44 per cent. This will require a rate increase of $51,676,000 and is found to be fair on the original cost equity and results in the stockholders receiving additional earnings attributable to the paper profit included in the fair value equity of $11,486,000. This results in the stockholders actually having rates set to produce 14.60 per cent return for the test period ending December 31, 1973, on the actual equity they have invested instead of the 12.5 per cent which the Commission finds to be a fair return on actual common equity in compliance with the Court's decision in Commission v. Duke, supra.

This Order is based upon a test period of twelve months ending December 31, 1973, and fixes rates to produce a fair rate of return on the fair value of all property used and useful in providing service to the public at the end of the test period on December 31, 1973.

However, the Commission in granting the above rate of return has considered and weighted the fact that it is based on old historical data for the twelve-month period ending December 31, 1973, and that the records of the Commission clearly reflect that additional financings in the interim and those anticipated in the near term future as well as additional plant coming on line in the near future will have the natural effect of reducing the rate of return on actual equity to somewhere in the range of 12.5 per cent.

The rate schedules filed by CP&L for its test year ending December 31, 1973, were designed to produce $51,676,434 of additional annual revenue from its North Carolina retail customers during the twelve months ending December 31, 1973. The interims and temporary rates in this docket, which are in effect subject to refund, are not unlawful. The Commission is of the opinion that since the total additional revenues obtained by CP&L from rates that were in effect in this docket subject to refund would be no greater than the $51,676,000 of additional annual revenue found herein to be just and reasonable, and since the interim and temporary increases are found to be lawful, none of the revenue collected subject to refund in this docket should be refunded.

The rates proposed by CP&L in this proceeding are not on an across-the-board basis as in prior years but vary with particular regard to the recent financial results from the various customer classes. The relative increases to the classes are designed to recognize the areas where cost increases of providing service are the most prominent.

Under CP&L's proposed rates within the residential class the largest percentage increase would be placed on the all-electric rate schedule R-2, and the smallest percentage increases among the residential class would be placed on the R-4 schedule under which service is provided to the lower-use customers having neither water heating nor space heating. CP&L's proposed rates in the small general service class would produce a percentage increase for that class which would be less than the average increase requested in this docket. This lesser increase is in recognition of the relationship of the return of the small general service class to the average return from total retail service. The largest percentage increase to a customer class under CP&L's proposed rates is on those customers served under the various large general service schedules. Generally speaking, under CP&L's proposed rates the larger percentage increases are placed on those customers having larger kilowatt-hour usage.

The Commission concludes that an appropriate rate design should reflect long-run incremental costs, conserve energy resources, and promote economic efficiencies. The Company's proposed rate schedules are appropriately oriented to cost of service; and, therefore, are substantially approved as filed. The Commission, however, concludes that the demands upon CP&L for increased capacity of generation and transmission facilities and the demands for large amounts of fuels generated by heavy-use customers are the principal factors behind CP&L's needs for increased revenue. The Commission also concludes that there is an urgent need for additional conservation of electric energy. The Commission, therefore, concludes that CP&L's proposed residential rate schedules should be redesigned to meet the above objectives. This can be accomplished by placing a heavier burden on larger residential customers than that placed on the small and medium-use customers. Rate schedules that meet their objectives are listed as "Approved Rates" in Exhibit I attached. The approved rate schedules attached are designed with pricing changes to reflect a more equitable and efficient rate design.

The residential rates are designed such that all residential customers who use less than 300 KWH monthly will receive practically no increase in basic rates. In addition, residential customers who use less than 725 KWH monthly will receive rate increases in amounts less than the rates presently in effect. Monthly bills for usage over 725 KWH will be somewhat greater than the amount proposed by CP&L for the general residential and water heating customers; bills for the all-electric customers will be

approximately equal to the amount proposed by CP&L for usage over 725 KWH. (NOTE: The rate portion of the RF schedule shall be the same as the rate for the R-4 schedule.) These rates will produce total revenues slightly less (approximately $26,000) than would be produced by CP&L's rate proposal. Additional increases will be applied across-the-board on the area lighting schedule to recover these revenues. These revenues will produce a return in the area lighting schedules which will be closer to the retail average return.

Under this rate design, approximately 50.5 per cent of the bills rendered in North Carolina on the basic residential schedule, R-4, during 1973 would receive no increase, and 84.4 per cent would receive an increase less than that proposed by CP&L. Approximately 12.0 per cent of the North Carolina bills on the residential water heating schedule, R-3, would receive no increase, with 48.5 per cent receiving less than the full increase proposed by CP&L. On the residential all-electric schedule, R-2, in North Carolina, about 6.0 per cent of the bills would receive no increase, with 17.3 per cent receiving increases less than CP&L proposed. In total, an average of 82,000 residential households in North Carolina would receive no increase in rates, with an average of approximately 142,000 additional residential households receiving less than the full increase proposed by the company. All customers will continue to be affected by the operation of the automatic fossil fuel cost adjustment clause which will result in increases or decreases on the basic rates varying with monthly fossil fuel costs.

The Commission is of the opinion that more incentive to conserve electricity would exist in the general service schedules if the ratchet provisions were changed. Changing the perpetual ratchet provision of CP&L's proposed general service rates to a twelve-month 90 per cent ratchet would increase the amount charged for demand under the ratchet provision. Customers would have additional incentive to decrease their demand for electricity. The twelve-month provision would automatically recognize a reduction of demand whereas the current ratchet does not. CP&L shall reprice the rate in each general service schedule affected so that the increase in revenues produced by each schedule with inclusion of a twelve-month 90 per cent ratchet shall be equal to but no greater than the increased revenues proposed by CP&L for that schedule.

The Commission concludes that although CP&L's interim and temporary rates are not unlawful, it is necessary to reprice the residential and general service schedules in such a manner that the rates more efficiently promote conservation of energy resources. The Commission is of the opinion that the rate schedules listed as "Approved" in Exhibit 1 would produce this result and, therefore, should be substituted for CP&L's proposed rate schedules under the rate section of the appropriate tariffs. Changes should be made in the

general service schedules and the area lighting schedule to incorporate the Commission's decision stated herein for those schedules. All other terms and conditions of those schedules, as well as all other tariffs included in this Application, shall be approved as filed. The total additional annual revenues obtained by CP&L from the rate schedules approved will be no greater than $51,676,000.

The Commission concludes that there is an urgent need for additional conservation of electrical energy in North Carolina as well as in the Nation and that an incentive toward the accomplishment of such a desirable goal would be the implementation of a substantially inverted rate structure. For this State or Commission to proceed herein to implement inverted rate structures would be inappropriate for the reason that such action would place North Carolina in a totally non-competitive position with all other states in the Nation. This Commission, however, admonishes the National Administration and Congress to implement an energy conservation program embracing, to the extent appropriate, inverted rate structures in order that all States in compliance therewith would be in a reasonably competitive position one with another.

In recognition of the large number of protests received in this proceeding from low and middle income customers who presented evidence that an increase in electric rates would further worsen their financial plight in this inflationary period, this Commission admonishes the National and/or State government to implement a program similar to the food stamp program whereby a qualified person could receive, what would in effect be a credit toward or discount from his cost incurred for basic light, heat, cooking and hot water facilities. This Commission has agonized at length as to whether there is some way to equitably administer the public utility laws and make some provision for relief for low income, elderly and handicapped people insofar as their utility expenses are concerned, and conclude that we cannot do so without creating more inequities. The Commission strongly urges some legislative relief for those in need, either at the National or State level, for the reason that the burden of such a subsidy, if it is to be borne at all, should be borne by the entire taxpayer body, and not merely by the fellow subscribers to a certain service.

One means of funding such a program might entail the use of some of the extensive income tax revenue collected by the Federal government from electric utilities, or as an alternative at the State and local level funding could be accomplished by drawing upon the large tax payments made in gross receipts taxes to the State or the huge property taxes paid by the utilities to local governmental bodies.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That effective for all retail service rendered in North Carolina on and after the date of this Order, CP&L is

hereby allowed to place into effect the increased rates described in Paragraphs 2 and 3 below, subject to the provisions set forth therein, which rates are designed to produce additional annual revenues in the amount of $5|,676,434.

2. That the rates approved in this Order are to be designed as follows: The rate schedules listed as "Approved" in Exhibit | and attached to this Order (R-2, R-3 and R-4) shall be substituted for CP&L's proposed rate schedules R-2, R-3 and R-4 under the "Monthly Rate" section of the respective tariffs. The rate schedule listed as "Approved R-4" on Exhibit | shall also be substituted for CP&L's proposed rate in the "Monthly Rate" section of Schedule RF. The area lighting schedule shall be increased by approximately $26,000 over CP&L's proposed rate schedule. This increase is to be applied across-the-board. All other terms and conditions of these tariffs and all provisions of all other tariffs filed in this Application with the exception of the general service schedules with demand ratchet provisions are hereby approved as filed.

3. That the demand ratchet provision of all proposed general service schedules which include a ratchet provision shall be changed to a twelve-month 90 per cent ratchet. The rates in each general service schedule affected shall be repriced to reflect this change in ratchets while maintaining the same level of revenues proposed by the company in each schedule. General service rate schedules which reflect these changes shall be filed with the Commission no later than thirty (30) days from the date of this Order to become effective on bills rendered forty-five (45) days from the date of this Order. All other terms and conditions of these tariffs are approved as filed.

4. That the revenues collected by CP&L under the interim and temporary rates filed in this docket as well as under G.S. 62-|34 are hereby affirmed as just and reasonable and the undertakings filed with said rates are hereby discharged and cancelled.

5. That CP&L and the Commission Staff are hereby directed to study the refinement of metering techniques, pricing mechanisms, and conservation measures so that CP&L's customers will have incentives to use power as efficiently and conservatively as possible, and in these ways reduce the demands being placed on the company and its ratepayers in the building of generating facilities.

6. That CP&L should give public notice of the rate increase approved herein by mailing a copy of the Notice attached as Appendix "A" by first class mail to each of its North Carolina retail customers during the next normal billing cycle.

ISSUED BY ORDER OF THE COMMISSION.

This 6th day of January, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Exhibit 1
Approved Residential Rates
Schedule R-2 All - Electric

4.99	¢	Per	KWH	For	The	First	50 KWH
3.71	¢	per	KWH	for	the	next	100 KWH
2.43	¢	per	KWH	for	the	next	50 KWH
1.79	¢	per	KWH	for	the	next	50 KWH
1.28	¢	per	KWH	for	the	next	50 KWH
2.10	¢	per	KWH	for	the	next	500 KWH
1.75	¢	per	KWH	for	the	next	1700 KWH
1.63	¢	per	KWH	for	all	over	2500 KWH

Minimum bill will be $2.00

Schedule R-3 Water - Heating

4.99	¢	Per	KWH	For	The	First	50 KWH
3.71	¢	per	KWH	for	the	next	100 KWH
2.43	¢	per	KWH	for	the	next	50 KWH
1.79	¢	per	KWH	for	the	next	50 KWH
1.28	¢	per	KWH	for	the	next	50 KWH
2.10	¢	per	KWH	for	the	next	500 KWH
2.40	¢	per	KWH	for	all	over	800 KWH

Minimum bill will be $2.00

Schedule R-4 General

4.99	¢	Per	KWH	For	The	First	50 KWH
3.71	¢	per	KWH	for	the	next	100 KWH
2.43	¢	per	KWH	for	the	next	100 KWH
1.92	¢	per	KWH	for	the	next	50 KWH
2.65	¢	per	KWH	for	the	next	400 KWH
2.40	¢	per	KWH	for	all	over	700 KWH

Minimum bill will be $2.00

APPENDIX "A"

DOCKET NO. E-2, SUB 229

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Carolina Power and Light Company for Authority to Adjust Its Electric Rates and Charges	)))	NOTICE TO CUSTOMERS

On October 29, 1973, Carolina Power and Light Company filed an Application with the North Carolina Utilities Commission to increase electric rates to its North Carolina retail customers. This Application requested approval of an overall 21 per cent increase in rates that would produce $51,676,434 of additional annual revenues from North Carolina retail customers. The rates proposed by Carolina Power and Light were placed into effect on October 1, 1974.

On January 6, 1975, the Commission issued the final decision in this docket. That Order requires that the proposed rates presently in effect be rolled back to approximately the original rates prior to this application for residential customers using less than 300 KWH a month, and be rolled back partially for residential customers using less than 725 KWH a month, effective for service rendered after January 6, 1975. The bills for usage over 725 KWH monthly will be equal to or somewhat higher than CP&L's proposed charges which are presently in effect. This rate design results in bills which will be lower, exclusive of fuel charges, than those currently being charged for all households with a monthly usage under 725 KWH. On the average, approximately 82,000 households in North Carolina will receive a decrease back to their prior rates, and approximately 142,000 more households will receive some reduction in their present rate. The rural farm schedule has been changed in the same manner as the general residential schedule. All customers will be affected by the automatic fossil fuel clause which results in increases or decreases on the basic rate varying with fossil fuel costs.

The area lighting schedule proposed by CP&L will be charged rates slightly in excess of those proposed by the company. This rate design will result in raising the rate of return on this schedule of service closer to the average retail rate of return and, therefore, will cause the area lighting schedule to more nearly pay its fair share of costs.

In order to increase the incentive to conserve energy, the Commission ordered that the demand ratchets of CP&L's general service rate schedules be redesigned to include a twelve-month ratchet with a 90 per cent provision. General service rate schedules which include the redesigned ratchet provision will become effective on bills rendered on and after February 20, 1975. The redesigned general service

schedules will produce the same levels of revenue as the schedules proposed by the Company.

The Order found that the revenue collected from the interims and temporary rates were required to maintain service, and the roll-back in low-use residential rates and the slight increase in area lighting rates was ordered effective for service rendered after January 6, 1975, without refund.

The Commission emphasized to both CP&L and its customers and to the public in general in North Carolina the continuing urgent need for the conservation of electric energy, and indeed all forms of energy in this State. The Commission stated that it is clear that the United States is still confronted with an energy crisis, the solution to which is not yet in sight. The Commission expressed its opinion that reasonable and prudent conservation measures on the part of all people will speed the day that the energy prices will begin to level off and perhaps recede in the direction of the levels of the early 1970's. The Commission stated that lacking conservation, the pressures on energy prices will continue to grow and energy prices will continue to escalate, and urged all concerned to investigate every avenue of energy conservation and savings and to practice conservation as a way of life for the predictable and foreseeable future.

Copies of the schedules may be obtained at Carolina Power and Light Company's offices.

Issued January 6, 1975.

CAROLINA POWER AND LIGHT COMPANY

DOCKET NO. E-2, SUB 229

WELLS, COMMISSIONER, DISSENTING: In dissenting to the majority Order, I wish to emphasize my disagreement both with the result of the Order and with the manner in which it has been reached.

The majority has given Carolina Power and Light Company every red cent it asked for in this case, and in doing so, they (the Commission majority) have gone around Robin Hood's barn to get where they and CP&L wanted to go.

I have carefully followed the progress of this case, but even with my intimate knowledge of the evidence and the facts, I cannot determine how the majority got to their final result. There are many adjustments given such broad-brush treatment that it is not possible to trace the evolution of the Order, but it is clear that all that has gone on is for CP&L and against the every-day citizens of this State who must pay the bill, citizens who are being

pushed and shoved by every economic indicator into a cruel corner of hardship and heartbreak.

To be sure, power companies must have money on which to operate and with which to build, and just as surely, there is but one ultimate source of such money--John Q. Citizen, ratepayer. I assume that the John Q.'s in CP&L country want to pay their fair share, but some, if not most, are wondering: who's keeping score? With this Commission as the referee, the game so far seems to be a citizen shutout:

SCORE BOARD

	Won by CP&L	Won by John Q.
Round One: 5.94 % interim increase granted 1/25/73	x	
Round Two: Fossil fuel adjustment clause granted 2/5/74	x	
Round Three: 5.06% additional interim increase granted 4/1/74	x	
Round Four: CP&L puts increased bonded rates into effect 6/1/74	x	
Round Five: CP&L puts into effect increase 10/31/74	x	
Round Six: Utilities Commission confirms all coal clause revenues collected to date, 10/1/74	x	
Round Seven: Commission confirms and grants entire requested increase 1/6/75	x	
FINAL RESULT:	CP&L declared winner of fifty-two million dollar prize	Technical knockout

I am deeply disturbed by the results of the Order, for CP&L is getting about twenty-two million dollars more than it has shown the need for; but I am just as disturbed by the manner in which the result has been reached. The majority has apparently tailored the customer to fit the suit, for when you compare the Commission Staff audit in this case with the results reached by the majority, it makes one wonder what the starting point was. The Commission Staff audit shows that on CP&L's new rates, they stand to earn net annual income of almost seventy-four million dollars, not

the approximately fifty-two million "found" by the Commission majority.

In addition to giving CP&L too much money, the majority in an altogether haphazard fashion has approved a rate structure which houses glaring inequities. For instance, all-electric apartment dwellers will be paying rates which will earn CP&L a rate of return of 8.4%, while all-electric apartment owners (those who are master metered and in turn charge the tenant for utilities) will be paying rates which are designed to earn CP&L a rate of return of 4.8%. The owner of the local service station or independent grocery store will be paying rates which will earn CP&L a rate return of |2.35% while owners of shopping centers will be paying rates which will earn a rate of return of only 9.67%. Such inequities are indefensible.

The Conclusions in this Order are not supported by adequate Findings of Fact. Such Findings of Fact as there are, are not supported by the evidence. This Order is one which deserves the closest possible review, for I believe it indicates from its four corners that the majority has indeed been roaming at large in an unfenced field, a form of exercise long since prohibited in general rate cases. See Utilities Commission v. Public Service Company, 257 NC 233.

Hugh A. Wells, Commissioner

DOCKET NO. E-2, SUB 229

ERRATA OPINION

WELLS, COMMISSIONER: In wording my Dissenting Opinion in the above-captioned docket, I misspoke one aspect of the result of the majority opinion. In the second paragraph on page 2 of my Dissent, I indicated that the Staff Audit in this docket would show that CP&L would earn almost $74,000,000 net income on the rates granted by the majority. This is not correct. What the Staff Audit does show is that in order for CP&L to earn the rate of return on common equity found appropriate by the Commission majority (|2.5%), it would be necessary for CP&L to realize additional annual gross revenues of $30,790,000, rather than the $5|,676,000 granted by the majority, which supports my contention that the majority granted about $22,000,000 more than CP&L has shown the need for.

Hugh A. Wells, Commissioner

DOCKET NO. E-2, SUB 234

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Carolina Power & Light Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	))))	ORDER IMPLEMENTING FUEL CLAUSE

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on January 30 and 31, 1975, and February 18 through 21, 25 and 26, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

R. C. Howison, Jr., Esq.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Clarence W. Walker, Esq.
Kennedy, Covington, Lobdell & Hickman
122 North Carolina National Bank Building
Charlotte, North Carolina 28202
For: Duke Power Company

Steve C. Griffith, Jr., Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

W. H. Grigg, Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Allen C. Barringer, Esq.
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

John N. Ogburn, Jr., Esq.
Bell, Ogburn & Redding
P. O. Box 967
Asheboro, North Carolina 27203
For: Greater Asheboro Electrical Conservation Association

William W. Ivey, Esq.
111 Worth Street
Asheboro, North Carolina 27203
For: Greater Asheboro Electrical Conservation Association

Robert A. Byrd, Esq.
Byrd, Byrd, Ervin & Blanton, C. A.
P. O. Drawer 1269
Morganton, North Carolina 28655
For: Great Lakes Carbon Corporation

Ms. Ann S. Beddingfield
Denison Ray, Esq.
Legal Aid Society of Durham County
P. O. Box 2101
Durham, North Carolina 27702
For: Carolina Action
N.C.P.I.R.G.
Durham Welfare Rights Organization

John C. Brooks, Esq.
516 North Blount Street
Raleigh, North Carolina 27604
For: N.C. A.F.L. & C.I.O.
Consumer Center of North Carolina

R. C. Hudson, Esq.
Office of General Counsel
Department of Navy
Atlantic Division
Naval Facilities Engineering Command
Norfolk, Virginia 23511
For: United States of America

Thomas L. Barringer, Esq.
Barringer and Howard
P. O. Box 2334
Raleigh, North Carolina 27601
For: N. C. Consumers Council, Inc.

Ms. Ruth Greenspan Bell
Powe, Porter, Alphin & Whichard, P. A.
First Union Bank Building
Durham, North Carolina 27701
For: Duke University

Thomas R. Eller, Jr., Esq.
Cansler, Lassiter, Lockhart & Eller
1010 NCNB Building
Charlotte, North Carolina 28202
For: N. C. Textile Manufacturers
Association, Inc.
Chemstrand Research Center, Inc.

J. Ruffin Bailey, Esq.
Kenneth Wooten, Jr., Esq.
Bailey, Dixon, Wooten, McDonald & Fountain
P. O. Box 2246
Raleigh, North Carolina 27602
For: R. J. Reynolds Tobacco Company

Rufus L. Edmisten, Esq.
Attorney General of North Carolina
North Carolina Department of Justice
Justice Building
Raleigh, North Carolina 27602
For: State of North Carolina Using
and Consuming Public

I. Beverly Lake, Jr., Esq.
Jerry Rutledge, Esq.
Robert Gruber, Esq.
Jesse Brake, Esq.
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using
and Consuming Public

For the Commission Staff:

Edward B. Hipp, Esq.
Wilson B. Partin, Jr., Esq.
Jerry B. Fruitt, Esq.
John R. Molm, Esq.
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On January 25, 1974, Carolina Power & Light Company (CP&L) filed with the North Carolina Utilities

Commission an application for authority to adjust its retail electric rates and charges by the addition of a fossil fuel adjustment clause. By Commission Order dated February 5, 1974, the Commission authorized and permitted CP&L to place into effect a fossil fuel cost adjustment clause effective on service rendered on or after February 6, 1974, and further consolidated the fuel clause Docket No. E-2, Sub 234 with Docket No. E-2, Sub 229 ordering that all evidence heretofore presented in this matter would be subject to cross-examination and further review before final disposition as a part of Docket No. E-2, Sub 229. CP&L was also required by this same February 5, 1974 Order to report to the Commission on a monthly basis the amount of the fuel cost adjustment factor and the factors and computations used in its derivation. Said reports have been submitted monthly to the Commission and have been reviewed by the Commission and its Staff on an on-going basis as part of a continuing surveillance program.

The Commission held public hearings on the appropriateness of a fuel cost adjustment clause as part of CP&L's rate structure beginning on July 9, 1974, and going through September 19, 1974, in Raleigh, Wilmington and Asheville.

At a Conference of the Commission held on September 30, 1974, the Commission on its own motion as an extension of its surveillance program directed the Staff to broaden the scope of its surveillance program to include the fossil fuel purchasing procedures and policies of Duke Power Company, Virginia Electric and Power Company, and CP&L; and the effect that these practices have had or will have upon each company's respective fossil fuel cost adjustment factors with the view toward conducting such hearings or show cause proceedings as the Commission deemed appropriate. At this same September 30, 1974, Conference, the Commission specifically noted the large differences between the fossil fuel cost adjustment factors of the three major electric utilities, and instructed the Staff to investigate the reasons for these differences.

On November 4, 1974, subsequent to the above actions, James H. Carson, Jr., Attorney General of North Carolina filed a complaint with the North Carolina Utilities Commission alleging that during the preceding ten (10) months, the coal purchasing procedures and policies of Carolina Power & Light Company had been based on poor judgment. The complaint also alleged that the decision of Carolina Power & Light Company not to purchase coal in March, April and May, 1974, resulted in Carolina Power & Light Company's having to purchase large quantities of coal in the late summer of 1974 at prices substantially greater than those Carolina Power & Light Company would have paid had those purchases been made in March, April and May, 1974. The complaint prayed the Commission, among other things, to institute a formal proceeding to investigate all of the coal purchase procedures and policies of Carolina Power & Light Company which have been in effect since January 1, 1974.

The Commission on its own had previously discussed these matters in its September 30, 1974, Conference and the investigation then initiated includes all the matters subsequently raised by the Attorney General.

For the reasons stated above, the Commission by Order dated November 27, 1975, merged the Attorney General's complaint in Docket No. E-2, Sub 247 into Docket No. E-2, Sub 234 for investigation, further hearing and decision. The Commission was also of the opinion that further hearings should be scheduled in CP&L's fuel clause Docket No. E-2, Sub 234 as part of a joint hearing on the fossil fuel clause issue which included Virginia Electric and Power Company's fuel clause Docket No. E-22, Sub 161 and Duke's fuel clause Docket No. E-7, Sub 161.

INTRODUCTION

Fuel clauses have been a part of the rate structures of the utilities under this Commission's jurisdiction for almost half a century. As early as 1926 Vepco had in effect a fuel clause made applicable to certain large users which was permitted due to the increased cost of coal. State ex rel Utilities Commission v. Municipal Corporation, 243 N.C. 193, 90 S.E. 2d 519 (1955). In 1947 the Commission allowed a fuel adjustment clause for Piedmont Natural Gas [Re Piedmont Natural Gas Company, 71 P.U.R. (N.S.) 19 (1947)]. And, in 1948 the Commission allowed coal adjustment clauses for both Duke and CP&L [Re Duke Power Company, 75 P.U.R. (N.S.) 33 (1948), Re Carolina Power & Light Company, 73 P.U.R. (N.S.) 33 (1948)].

The Commission has declined to approve fuel clauses as well. In 1962 the Commission disapproved a fuel clause proposed by CP&L because the Commission found defects in the particular clause submitted. [Re Carolina Power & Light Company, 52 N.C. Utilities Commission Report 903 (1962)]. And again, in 1970 the Commission declined to approve a fuel clause tendered by Duke in Docket No. E-7, Sub 114.

The Commission takes judicial notice that the Supreme Court of North Carolina has dismissed appeals based upon a contention that fuel clauses were discriminatory, unjust and unreasonable. See State ex rel Utilities Commission v. Municipal Corporation, 243 N.C. 193, 90 S.E. 2d 519 (1955). State ex rel Utilities Commission v. Carolina's Committee, 250 N.C. 421 (1959).

FINDINGS OF FACT

Reasonableness of Fuel Procurement Activities

1. That the cost of coal during the first and second quarters of 1974, when CP&L reduced its purchases, was substantially less than during the third and fourth quarters, when CP&L increased its purchases.

2. That CP&L reduced its purchases of coal in the first and second quarters for several reasons: first, the quality of coal available for purchase on the spot market had deteriorated to an unacceptable and, in many instances, unusable level; second, the price of spot coal was constantly increasing to record high levels, while conversely, the quality of coal received was decreasing; and third, the institution in March, 1974 of the penalty premium provision on poor quality coal resulted in less coal being available for purchase by CP&L.

3. That CP&L paid more for coal in 1974 occasioned by its procurement policies of reduced purchases in the second quarter and very heavy purchases in the third quarter than it would have had they been able to make constant purchases of coal throughout the year, at first and second quarter prices.

4. While the predicting of prices in the coal market is not an exact science, the factors affecting the coal market which were generally known in the second quarter of 1974 indicates that the decisions made by CP&L regarding its coal procurement policies were not unreasonable at the time of the decisions even though these decisions subsequently proved less prudent than other courses of action.

5. The building of coal inventories to a ninety days' supply level was not unreasonable in the face of an impending UMWA strike.

6. That the twenty-five per cent rollback on the pass-through of fuel expenses to residential customers for the months of February and March, 1975, effected by the Commission has required the company to bear a portion of the increased fuel expenses by absorbing approximately 3 million dollars of these increased expenses.

Application of the Fuel Adjustment Clause

7. That the "fuel stock" account (Federal Power Commission Uniform System of Accounts No. 151) is more appropriate for the determination of monthly fuel expenses in the computation of the monthly fuel adjustment factor than the "fuel expense" accounts (FPC Account No. 501 and No. 547). Only fuel costs and associated freight should be included in fuel adjustment clause pass-throughs; no labor costs or salaries related to fuel procurement should be included.

8. That amounts recovered by the company in lawsuits, in arbitration, or in settlement against coal or oil suppliers should be treated as a credit toward the fuel expenses incurred in the month of recovery.

9. That based on the public record in this proceeding, the application of the fuel adjustment clause in effect has been appropriate and that the revenues collected pursuant to

the application of the clause have been just and reasonable based upon recovery of actual expenses incurred by the company.

10. That it is in the public interest to conduct public hearings on a monthly basis with regard to the application of the fuel clause and the reasonableness of the fuel purchasing practices of the company.

11. That the fuel clause is a reasonable method to adjust rates to reflect changes in fuel expenses experienced by the company in providing electric service during periods when the price of fuel fluctuates dramatically up and/or down, particularly in view of the fact that such expense constitutes over 50 percent of the company's annual operating expenses.

CONCLUSIONS

Reasonableness of Fuel Procurement Activities

One of the primary questions to be resolved from hearings conducted in this matter is the appropriateness of the coal procurement policies and practices of CP&L during the first three quarters of 1974. It was recognized by this Commission long before the Attorney General's Complaint that the three electric companies involved in this hearing had a large discrepancy in the level of their fuel adjustment clauses, beginning in the early summer of 1974. We had the matter under investigation at the time of the Attorney General's Complaint. It is for this Commission now to decide whether or not CP&L exercised "poor judgment or bad management" as alleged by the Attorney General or if CP&L exercised reasonable fuel procurement policies.

The record in this case establishes to the satisfaction of the Commission that Carolina Power & Light Company paid substantially more for coal in 1974 than it would have paid following a different course of action. By reinstating the penalty premium guarantee and limiting purchases by other means, coal receipts were substantially reduced during the spring and early summer of 1974 resulting in greater than normal purchases in the late summer and fall of 1974 to rebuild coal stockpiles in face of the impending United Mine Workers' strike in November. The prices paid during this period of purchases were greater than the level of prices during the spring and early summer when CP&L reduced its purchases; however, continued purchases by CP&L during the spring would have exerted an unquantified upward pressure on the price of coal.

It is also noted, that at the time CP&L elected not to buy coal during the spring of 1974, there was in effect a fossil fuel adjustment clause which allowed the company to pass on coal cost increases to its customers, albeit at that time under bond subject to refund; yet the company exercised its management judgment based upon its reasonable appraisal of

the market at that point, thereby exercising judgment and restraint rather than recklessly purchasing at any price.

The company decisions leading to smaller coal purchases in the spring and early summer and larger coal purchases in the late summer and fall were not unreasonable in light of generally known factors affecting the coal market in the spring of 1974. The lifting of the Arab oil embargo, the increasing coal stockpiles of neighboring utilities and industries indicated that coal prices would stabilize or decrease by the late summer. As late as February 22, 1974, Attorney General Witness Paul Fahey, a coal procurement expert, predicted a softening of the coal market and a lowering of coal prices by late summer of 1974. Thus the Attorney General's own witness saw the coal market much as CP&L saw it at that particular point in time. In addition, the coal being received without quality guarantees in early 1974 was of such poor quality as to limit generating unit capability during a peak period. The procurement policy was not unreasonable at the time it was established.

The decision to build coal stockpiles to inventories in excess of 90 days' supply in view of the impending United Mine Workers' strike instead of normal 70 days' supply was not unreasonable in view of the then existent oil shortages and the Federal Power Commission's insistence upon converting oil fired units to coal.

The Commission, by its twenty-five percent rollback on the pass-through of fuel expenses to residential customers, has required the company to bear a portion of the increased fuel expense incurred. The rollback in effect for February and March, 1975 required the company to absorb approximately 3 million dollars of increased fuel costs.

Application of the Fuel Adjustment Clause

The Commission has determined that only actual fuel cost and transportation expenses should be included in the determination of the monthly fuel adjustment factor. In this regard, it is more appropriate for CP&L to use the "Fuel Stock" account or FPC Account No. 151 instead of Fuel Expense Accounts of FPC Account Nos. 501 and 547. The fuel expense accounts include fuel handling, associated labor and miscellaneous items. The monthly fuel adjustment factors calculated using fuel stock accounts will vary only minimally, if at all, from the factors calculated with the expense accounts and, thus no historical adjustment is necessary. However, in the future, CP&L's monthly fuel factors should be calculated using the fuel stock account (FPC 151) adjusted to remove any salaries or labor expense involved in fuel procurement and any other nonfuel or transportation cost. CP&L will be allowed the opportunity to present evidence supporting a revision in the base cost in its fossil fuel clause to reflect this change in the first monthly fuel clause hearing provided for in Ordering Paragraph No. 1.

Amounts recovered by the company in litigation against coal and oil suppliers are amounts arising from lawsuits brought by the company with respect to fossil fuel expenses already passed on to the ratepayer through application of the fuel clause. All such recoveries should flow back through to the benefit of the ratepayers.

The fuel cost adjustment clause is a reasonable method to adjust rates to reflect changes in fuel expenses experienced by the utility company in providing electric service during periods of dramatically fluctuating prices. Based on the public record in this docket, the application of the fuel adjustment clause has been appropriate and in accordance with the Commission's Order implementing the clause. The fuel expenses passed on to the electric ratepayers through the proper application of this clause were actually incurred by the company and should be recovered to the extent allowed in this docket. The revenues collected pursuant to the fuel clause formula should therefore be approved and affirmed.

The Commission is of the opinion that public hearing on a regular monthly basis should be conducted to eliminate misunderstandings and uncertainties in the minds of the consuming public that the current costs of fuel are accurate and that the company has acted prudently in exercising the rights under the clause. Revenues collected during the month of the public hearing pursuant to the fuel clause would be subject to refund pending formal approval by this Commission after consideration of the facts at each public hearing.

Based upon the above findings and conclusions, the coal procurement policies during the period here in issue were reasonable and the application of the fuel clause followed by the company was in accordance with the orders thus far issued in this docket.

IT IS, THEREFORE, ORDERED as follows:

1. That public hearing be held in the Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on the third Monday of each month at 2:00 P.M., commencing April 21, 1975, to determine whether CP&L has reasonably applied the fuel clause and whether CP&L has been reasonable in its fuel purchasing practices during the second preceding month prior to the month during which the hearing is held; and pending the Commission's decision the revenues collected pursuant to the fuel clause during the month of the hearing shall be subject to refund. The evidence to be presented shall be based upon fuel procurement practices and fossil fuel prices incurred during the second preceding month prior to the month during which the hearing is held.

2. That CP&L shall henceforth compute its monthly fuel adjustment factor based upon monthly fuel expenses recorded in the "fuel stock" accounts (FPC Uniform System of Accounts

No. 151). At the first monthly hearing, the Commission will allow the company to present evidence relevant to the effect this change has with respect to base rates and to the base in the fuel clause.

3. That CP&L shall henceforth exclude from the operation of the fuel clause all salary expenses involved in the procurement of fuel. At the first monthly hearing the Commission will allow the company to present evidence relevant to the effect this exclusion has with respect to base rates and to the base in the fuel clause.

4. That CP&L shall treat amounts recovered in litigation, in arbitration, or in settlement against coal or oil suppliers as a credit toward fuel expenses incurred during the month of recovery.

5. That revenues thus far collected pursuant to the fuel clause are, hereby, affirmed.

6. That CP&L shall give Notice of the April hearing by publishing in sufficient newspapers giving general coverage of its entire service area in North Carolina. This Notice shall be published immediately. CP&L shall give Notice of all remaining hearings by enclosing adequate and sufficient Notice in its next billing.

ISSUED BY ORDER OF THE COMMISSION.

This the 2nd day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Commissioner Wells Dissents.

DOCKET NO. E-2, SUB 234

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Carolina Power & Light Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	) ORDER APPROVING) FUEL CLAUSE AND) CONFIRMING REVENUES) COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on April 24, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

R. C. Howison, Jr., Esq.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Steve C. Griffith, Jr., Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Edward B. Hipp, Esq.
Wilson B. Partin, Jr., Esq.
Jerry B. Fruitt, Esq.
John R. Molm, Esq.
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975 the Commission issued an order requiring public hearings monthly to decide whether

CP&L had reasonably applied the fuel clause and whether CP&L had been reasonable in its fuel purchasing practices. The first such hearing was held April 24, 1975. With regard to the application of the fuel clause the Commission ordered CP&L to compute its monthly fuel adjustment factor based upon monthly fuel expenses recorded in the "fuel stock" accounts (FPC Uniform System of Accounts No. 151).

Based upon the evidence presented at the hearing, the Commission makes the following

FINDINGS OF FACT

Reasonableness of Fuel Procurement Activities

Carolina Power & Light's continuing need for a fossil fuel clause was demonstrated by the evidence presented at the public hearing on this matter. Fossil fuel is CP&L's primary fuel source and will remain so during the next four or five years. During 1974, approximately 66.3 percent of CP&L's total generation was produced through the use of coal, 8.0 percent through the use of No. 6 residual fuel oil, 1.4 percent through the use of No. 2 fuel oil; and .9 percent from natural gas. It is expected that of CP&L's total generation requirement for 1975, 72.6 percent will be met by the use of fossil fuel, and the remainder from nuclear (24.4 percent) and hydro (3.0 percent).

In 1973, CP&L burned approximately 6.44 million tons of coal, approximately 12 percent more than the amount burned in 1972. In 1974, CP&L burned approximately 6.80 million tons of coal, an increase of approximately 5.6 percent over that burned in 1973. For 1973, CP&L's cost for coal burned, including freight, was about $11.91 per ton, while in 1974, the cost including freight was $25.58 per ton, a 115 percent increase over the 1973 burned cost.

The burned cost of all fossil fuel for the test period ending June 30, 1973, in Docket E-2, Sub 229 was 48.54¢ per MBtu. By December 1974, the burned cost of all fossil fuel had increased to 175.46¢ per MBtu. For 1975, CP&L estimates that each increase of 1¢ per MBtu in the cost of fossil fuel means an additional expense to CP&L of approximately $1.86 million.

The Commission is of the opinion that the following factors will tend to increase the price of coal; (a) the escalation in labor costs, (b) conversion of oil and gas burning to coal fired generation, and (c) increased rail rates already placed into effect in 1975 amounting to 7 percent. Since the cost of fossil fuel accounts for a major portion of this Company's operating cost, it is essential that the Company be permitted to continue to recoup increases above the base cost of fossil fuel.

The Company's power estimate for the month of February 1975 required a burn of the following amounts of fossil fuel:

Coal	690,000 tons
No. 2 fuel oil	2,207,750 gallons
No. 6 residual oil	0 gallons

The Company had contracts for 483,333 tons of coal for the month of February 1975 and in light of productivity history and other probabilities of force majeure incidents excusing performance, expected to receive 313,000 tons from its contract suppliers. During February and March 1975 the Company received 317,040 tons of the February purchased contract coal into inventory.

The Company estimated its spot coal purchase needs for February 1975 as 250,000 tons. On January 24, 1975, the Company mailed bid solicitations to 62 producers requesting spot bids for February. Thirty-seven coal producers responded with bids from $18.00 per ton to $32.00 per ton. During February the Company accepted spot coal bids at purchase prices ranging from $18.00 per ton to $22.00 per ton f.o.b. mines. The bids, in delivered ¢ MBtu (including freight) which were accepted ranged from approximately 87¢ MBtu to 128¢ MBtu with an average spot coal cost of 113¢ MBtu. The Commission is of the opinion that CP&L purchased the lowest price spot coal from the coal offered by reliable producers. Of the 248,300 tons of spot coal which the Company ordered in February 1975, the Company received approximately 200,228 tons of such coal in February and March 1975.

As of February 1, 1975, the Company's system-wide physical coal inventory was 1,837,812 tons. CP&L's closing physical coal inventory at February 28, 1975, was 1,627,355 tons. CP&L's objective is to reduce its coal inventory to a 70 day projected burn supply, approximately 1,450,000 tons.

Application of the Fuel Adjustment Clause

The factor for April was correctly calculated by use of the "fuel stock" account (Federal Power Commission Uniform System of Accounts No. 151), rather than through the use of FPC Account Nos. 501 and 547 which had previously been used. This change was made as a result of the Commission's Order of April 2, 1975, entered in this Docket. The revenues collected from the fuel clause during April will be less than the actual cost of fossil fuel that was burned in February.

The reason the revenues collected under the fuel clause in April will not fully recover the actual cost of fossil fuel burned in February is because the fossil fuel base does not reflect the change in accounting ordered by the Commission with respect to the use of FPC Account No. 151 instead of FPC Account No. 501 and 547. The base of the fossil fuel

clause should be changed so that the revenues which it recovers are comparable to the costs incurred by the Company. In order to do this, it is necessary for CP&L to recalculate the base cost as of the month of June, 1973. The base cost of 5.13 mills per KWH was computed by the use of FPC Accounts 501 and 547. Recalculation of the base cost excluding the labor and miscellaneous charges as required by the Order of April 2, 1975 results in a new base of 5.06 mills per KWH.

The Commission concludes that CP&L was reasonable in its fuel procurement activities and that CP&L correctly and appropriately applied the fuel clause as approved by this Commission.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the revenues collected by CP&L during the month of April pursuant to the fossil fuel clause are confirmed as permanent revenues for the company.

2. That CP&L compute its monthly fuel adjustment factor using a new base of 5.06 mills per KWH effective for bills rendered on and after May 1, 1975.

ISSUED BY ORDER OF THE COMMISSION.

This 30th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-2, SUB 234

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Carolina Power & Light Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	) ORDER APPROVING) APPLICATION OF FUEL) CLAUSE AND) CONFIRMING REVENUES) COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on May 19, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

R. C. Howison, Jr., Esq.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and
Consuming Public

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring monthly public hearings to decide whether Carolina Power & Light Company had reasonably applied its fossil fuel clause and whether CP&L had been reasonable in its fuel purchasing practices. The second such hearing under this Order was held on May 19, 1975.

At this hearing CP&L offered the testimony of the following witnesses: Samuel Behrends, Jr., Director of Rates & Regulation for CP&L; and Larry E. Smith, Manager - Fuel Section of Bulk Power Supply Department for CP&L, responsible for the management of fossil as well as nuclear fuel. Mr. Behrends testified with respect to whether CP&L had reasonably applied the fuel clause in determining the fossil fuel factor for May 1975, which is .631¢ per kilowatt-hour. Mr. Smith testified with respect to whether CP&L had been reasonable in its fuel purchasing practices during the month of March 1975.

The Commission Staff offered the testimony of Andrew W. Williams, Chief, Electrical Section. Mr. Williams testified that he examined the evidence presented by CP&L in support of its May fossil fuel charge of .631¢ per kilowatt-hour. Mr. Williams recommended that the revenues collected in May 1975 under the fuel adjustment charge should be confirmed.

FINDINGS OF FACT

Reasonableness of CP&L's Fuel Procurement Activities for February 1975

(1) In March 1975 a total of 451,721.85 tons of coal purchase orders were added to CP&L's coal inventory. Over thirty-six per cent (36.9%) of the coal purchase orders added to inventory in March were purchased on the spot market. There was a noticeable improvement in the availability and quality of spot coal during the month; this was reflected in the somewhat lower prices paid for spot coal during March. The average price for the spot coal purchase orders added to inventory during March for CP&L were $25.17 per ton and $23.65 per ton for contract.

(2) During March 1975 CP&L received 223,403 gallons of No. 2 fuel oil under contract at a cost of 244.4¢ MBTU and

119,867 gallons of No. 2 fuel oil on the spot market at a cost of 207.7¢ MBTU.

(3) CP&L did not receive any No. 6 fuel oil during March 1975.

Application of the Fuel Adjustment Clause

(4) The proposed fossil fuel factor for May 1975 is .631¢ per kilowatt-hour.

(5) The fossil fuel charge for May 1975 was correctly calculated by use of Account No. 151, the "Fuel Stock" account.

CONCLUSIONS

(1) The Commission finds and concludes that CP&L was reasonable in its fossil fuel purchasing practices during the month of March 1975 and that such practices for the month of March 1975 should be affirmed.

(2) The Commission finds and concludes that the fossil fuel factor for the month of May 1975 of .631¢ per kilowatt-hour should be confirmed.

IT IS, THEREFORE, ORDERED that the revenues collected by CP&L during the month of May 1975 pursuant to the fossil fuel adjustment charge of .631¢ per kilowatt-hour are hereby confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-2, SUB 234

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Carolina Power & Light Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause	) ORDER APPROVING) APPLICATION OF FUEL) CLAUSE AND) CONFIRMING REVENUES) COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on June 16, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring monthly public hearings to decide whether Carolina Power & Light Company had reasonably applied its fossil fuel clause and whether CP&L had been reasonable in its fuel purchasing practices. The third such hearing under this Order was held on June 16, 1975.

At this hearing CP&L offered the testimony of the following witnesses: Samuel Behrends, Jr., Director of Rates & Regulation for CP&L; and Larry E. Smith, Manager - Fuel Section of Bulk Power Supply Department for CP&L, responsible for the management of fossil as well as nuclear fuel. Mr. Behrends testified with respect to whether CP&L had reasonably applied the fuel clause in determining the fossil fuel factor for June 1975, which is .616¢ per kilowatt-hour. Mr. Smith testified with respect to whether CP&L had been reasonable in its fuel purchasing practices during the month of April 1975.

The Commission Staff offered the testimony of George M. Duckwall, Utilities Engineer. Mr. Duckwall testified that he examined the evidence presented by CP&L in support of its June fossil fuel charge of .616¢ per kilowatt-hour. Mr. Duckwall recommended that the revenues collected in June 1975 under the fuel adjustment charge should be confirmed.

FINDINGS OF FACT

Reasonableness of CP&L's Fuel Procurement Activities for April 1975

(1) In April 1975 a total of 512,100.93 tons of coal purchase orders were added to CP&L's coal inventory cost. Over forty-three per cent (43.18%) of the coal purchase orders added to inventory in April were purchased on the spot market. The average price for the spot coal purchase orders added to inventory during April for CP&L were $24.80 per ton and $23.85 per ton for contract.

(2) During April 1975 CP&L received 343,671 gallons of No. 2 fuel oil at a cost of 170.9¢/MBTU.

(3) CP&L did not receive any No. 6 fuel oil during April 1975.

Application of the Fuel Adjustment Clause

(4) The proposed fossil fuel factor for June 1975 is .616¢ per kilowatt-hour.

(5) The fossil fuel charge for June 1975 was correctly calculated by use of Account No. 15, the "Fuel Stock" account.

CONCLUSIONS

(1) The Commission finds and concludes that CP&L was reasonable in its fossil fuel purchasing practices during the month of April 1975 and that such practices for the month of April 1975 should be affirmed.

(2) The Commission finds and concludes that the fossil fuel factor for the month of June 1975 of .616¢ per kilowatt-hour should be confirmed.

IT IS, THEREFORE, ORDERED that the revenues collected by CP&L during the month of June 1975 pursuant to the fossil fuel adjustment charge of .616¢ per kilowatt-hour are hereby confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. E-2, SUB 234

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Carolina Power & Light Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	ORDER APPROVING APPLICATION OF FUEL CLAUSE AND CONFIRMING REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on July 21, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, III, Barbara A. Simpson, and W. Lester Teal, Jr.

APPEARANCES:

For the Applicants/Respondents:

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power and Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

John T. Bode, Esq.
Bode & Bode, P.A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power and Light Company

Robert C. Harrison, Jr., Esq.
Joyner & Howison
P. O. Box 109
Raleigh, North Carolina 27602
For: Carolina Power and Light Company

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and
Consuming Public

For the Commission Staff:

Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring monthly public hearings to decide whether Carolina Power & Light Company had reasonably applied its fossil fuel clause and whether CP&L had been reasonable in its fuel purchasing practices. The fourth such hearing under this Order was held on July 21, 1975.

At this hearing CP&L offered the testimony of the following witnesses: Samuel Behrends, Jr., Director of Rates & Regulation for CP&L; and Larry E. Smith, Manager - Fuel Section of Bulk Power Supply Department for CP&L, responsible for the management of fossil as well as nuclear fuel. Mr. Behrends testified with respect to whether CP&L had reasonably applied the fuel clause in determining the fossil fuel factor for July 1975, which is .723¢ per kilowatt hour. Mr. Smith testified with respect to whether CP&L had been reasonable in its fuel purchasing practices during the month of May 1975.

The Commission Staff offered the testimony of George M. Duckwall, Utilities Engineer. Mr. Duckwall testified that he examined the evidence presented by CP&L in support of its July fossil fuel charge of .723¢ per kilowatt hour. Mr. Duckwall recommended that the revenues collected in July 1975 under the fuel adjustment charge should be confirmed.

FINDINGS OF FACT

Reasonableness of CP&L's Fuel Procurement Activities for May 1975

(1) In May 1975 a total of 582,639 tons of coal purchase orders were added to CP&L's coal inventory. Over thirty-seven per cent of the coal purchase orders added to inventory in May were purchased on the spot market. The average price for the spot coal purchase orders added to inventory during May for CP&L were $24.08 per ton and $27.14 per ton for contract.

(2) During May 1975 CP&L received 263,208 gallons of No. 2 fuel oil at a cost of 230.9¢/MBTU.

(3) CP&L did not receive any No. 6 fuel oil during May 1975.

Application of the Fuel Adjustment Clause

(4) The proposed fossil fuel factor for July 1975 is .723¢ per kilowatt hour.

(5) The fossil fuel charge for July 1975 was correctly calculated by use of Account No. 151, the "Fuel Stock" account.

CONCLUSIONS

(1) The Commission finds and concludes that CP&L was reasonable in its fossil fuel purchasing practices during the month of May 1975 and that such practices for the month of May 1975 should be affirmed.

(2) The Commission finds and concludes that the fossil fuel factor for the month of July 1975 of .723¢ per kilowatt hour should be confirmed.

IT IS, THEREFORE, ORDERED that the revenues collected by CP&L during the month of July 1975 pursuant to the fossil fuel adjustment charge of .723¢ per kilowatt hour are hereby confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-2, SUB 234

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Carolina Power & Light Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	ORDER APPROVING APPLICATION OF FUEL CLAUSE AND CONFIRMING REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on August 18, 1975.

BEFORE: Commissioner W. Lester Teal, Jr., Presiding; Commissioners Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power and Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power and Light Company

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

For the Intervenors:

Jesse Brake, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring monthly public hearings to decide whether Carolina Power & Light Company had reasonably applied its fossil fuel clause and whether CP&L had been reasonable in its fuel purchasing practices. The fifth such hearing under this Order was held on August 18, 1975.

At this hearing CP&L offered the testimony of the following witnesses: Samuel Behrends, Jr., Director of Rates & Regulation for CP&L; and Larry E. Smith, Manager - Fuel Section of Bulk Power Supply Department for CP&L, responsible for the management of fossil as well as nuclear fuel. Mr. Behrends testified with respect to whether CP&L had reasonably applied the fuel clause in determining the fossil fuel factor for August 1975. Mr. Smith testified with respect to whether CP&L had been reasonable in its fuel purchasing practices during the month of June 1975.

The Commission Staff offered the testimony of Andrew W. Williams, Chief, Electric Section. Mr. Williams testified that he examined the evidence presented by CP&L in support of its August fossil fuel charge. Mr. Williams recommended that the revenues collected in August 1975 under the fuel adjustment charge should be confirmed.

FINDINGS OF FACT

Reasonableness of CP&L's Fuel Procurement Activities for June 1975

(1) In June 1975 a total of 660,952 tons of coal were burned by CP&L plants at an average cost, including freight, of $27.12 per ton.

(2) During June 1975 CP&L received 293,656 gallons of No. 2 fuel oil at a cost of 238.6¢/MBTU.

(3) CP&L did not receive any No. 6 fuel oil during June 1975.

(4) CP&L burned 350,604 2mcf of natural gas in June 1975.

Application of the Fuel Adjustment Clause

The proposed fossil fuel factor for August 1975 is .530¢ per kilowatt-hour.

The fossil fuel charge for August 1975 was correctly calculated by use of Account No. 151, the "Fuel Stock" account.

CONCLUSIONS

(1) The Commission finds and concludes that CP&L was reasonable in its fossil fuel purchasing practices during the month of June 1975 and that such practices for the month of June 1975 should be affirmed.

(2) The Commission finds and concludes that the fossil fuel factor for the month of August 1975 of .530¢ per kilowatt-hour should be confirmed.

IT IS, THEREFORE, ORDERED that the revenues collected by CP&L during the month of August 1975 pursuant to the fossil

fuel adjustment charge of .530¢ per kilowatt-hour are hereby confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 25th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. E-2, SUB 234
DOCKET NO. E-7, SUB 16
DOCKET NO. E-22, SUB 16

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

DOCKET NO. E-2, SUB 234)	
Application of Carolina Power and Light)	
Company for Authority to Adjust its)	
Electric Rates and Charges - Fossil Fuel)	
Adjustment Clause)	
)	
DOCKET NO. E-7, SUB 16)	
Application of Duke Power Company for)	ORDER LIMITING
Authority to Adjust its Electric Rates)	MONTHLY CHARGES
and Charges - Fossil Fuel Adjustment)	UNDER AUTOMATIC
Clause)	FOSSIL FUEL COST
)	ADJUSTMENT
DOCKET NO. E-22, SUB 16)	CLAUSES ON RESI-
Application by Virginia Electric and)	DENTIAL CUSTOMERS
Power Company for Authority to Adjust)	
and Increase its Electric Rates and)	
Charges - Fossil Fuel Adjustment Clause)	

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street on January 30 and 31, 1975, at 9:30 A. M.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

R. C. Howison, Jr., Esq.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina
For: Carolina Power and Light Company

William E. Graham, Jr., Esq.
Carolina Power and Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Clarence W. Walker, Esq.
Kennedy, Covington, Lobdell & Hickman
1200 North Carolina National Bank Building
Charlotte, North Carolina
For: Duke Power Company

Steve C. Griffith, Jr., Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

W. H. Grigg, Esq.
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Allen C. Barringer
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

John N. Ogburn, Jr., Esq.
Bell, Ogburn & Redding
P. O. Box 967
Asheboro, North Carolina
For: Greater Asheboro Electrical Conservation Association

Mr. William W. Ivey
111 Worth Street
Asheboro, North Carolina
For: Greater Asheboro Electrical Conservation Association

Robert A. Byrd, Esq.
Byrd, Byrd, Ervin & Blanton, C. A.
P. O. Drawer 1269
Morganton, North Carolina 28655

For: Great Lakes Carbon Corp.

Ms. Ann S. Beddingfield &
Denison Ray, Esq.
Legal Aid Society of Durham County
P. O. Box 2101
Durham, North Carolina
For: Carolina Action
N. C. P. I. R. G.
Durham Welfare Rights Organization

John C. Brooks, Esq.
516 North Blount Street
Raleigh, North Carolina 27604
For: N. C. A.F.L. & C.I.O.
Consumer Center of North Carolina

R. C. Hudson, Esq.
Office of General Counsel
Department of Navy
Atlantic Division, Naval Facilities Engineering Command
Norfolk, Virginia 23511
For: United States of America

Thomas L. Barringer, Esq.
Barringer and Howard
P. O. Box 2334
Raleigh, North Carolina
For: N. C. Consumers Council, Inc.

Ruth Greenspan Bell, Esq.
Powe, Porter, Alphin & Whichard, P.A.
First Union Bank Building
Durham, North Carolina
For: Duke University

Thomas R. Eller, Jr., Esq.
Cansler, Lassiter, Lockhard & Eller
1010 NCNB Building
Charlotte, North Carolina 28202
For: N. C. Textile Manufacturers Association, Inc., Chemstrand Research Center, Inc.

J. Ruffin Bailey, Esq.
Kenneth Wooten, Jr., Esq.
Bailey, Dixon, Wooten, McDonald & Fountain
P. O. Box 2246
Raleigh, North Carolina 27602
For: R. J. Reynolds Tobacco Company

Rufus L. Edmisten
Attorney General
Justice Building
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

I. Beverly Lake, Jr., Esq.
Jerry Rutledge, Esq.
Robert Gruber, Esq.
Jesse Brake, Esq.
Attorney General
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Edward B. Hipp, Esq.
Jerry B. Fruitt, Esq.
John R. Molm, Esq.
N. C. Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On November 30, 1973, Duke Power Company (Duke) filed with the North Carolina Utilities Commission an application for authority to adjust its retail electric rates and charges by the implementation of an automatic coal cost adjustment clause. By Commission Order dated December 19, 1973, the Commission authorized and permitted Duke to place into effect on an interim basis a coal cost adjustment clause effective on service rendered after December 19, 1973. Subsequent to extensive public hearings on the appropriateness of fuel adjustment clauses as a part of Duke's basic electric rate structure, the Commission by its Order of October 10, 1974, lifted the interim provisions and approved a modified fossil fuel cost adjustment clause for Duke.

On January 25, 1974, Carolina Power and Light Company (CP&L) filed an Application for authority to adjust its retail electric rates and charges by the addition of a fossil fuel cost adjustment clause. By Commission Order dated February 5, 1974, the Commission authorized and permitted CP&L to place into effect on an interim basis a fossil fuel cost adjustment clause effective on service rendered on and after February 6, 1974. After extensive public hearings on the appropriateness of fuel adjustment clauses as a part of CP&L's basic electric rate structure, the Commission by its Order of December 19, 1974, approved the fossil fuel clause for CP&L and lifted the interim provisions through September 30, 1974.

On January 30, 1974, Virginia Electric and Power Company (VEPCO) filed an Application for authority to increase its electric rates and charges by the addition of a fossil fuel cost adjustment clause. By Commission Order dated February 8, 1974, the Commission authorized and permitted VEPCO to place into effect on an interim basis a fossil fuel cost adjustment clause effective on service rendered on and after February 9, 1974. Public hearings on this matter are now scheduled for later this year.

The Commission is currently involved in an investigation, including public hearing, into the reasonableness of each utility's fuel adjustment clause. At a conference of the Commission held on September 30, |974, the Commission, on its own motion, as an extension of its surveillance program, directed the staff to broaden the scope of its surveillance program to include the fossil fuel purchasing procedures and policies of Duke Power Company, Virginia Electric and Power Company and Carolina Power and Light Company, and the effect that these practices have had or will have upon each company's respective fossil fuel cost adjustment factor, with the view toward conducting such hearing or show cause proceedings as the Commission deemed appropriate. During the course of the Commission's investigation, the Attorney General filed a formal complaint against CP&L alleging mismanagement in its coal procurement practices. On November 27, |974, the Commission issued Orders in each of the above dockets setting public hearings for January 30 and 3|, |975, on the above matters, including the Attorney General's complaint.

The Commission concludes that the fuel clauses were necessary and appropriate for the financial stability of these electric utilities during the past year, in a fuel market affected by many things beyond the control of the utilities or this Commission.

At the convening of the hearings on Friday, January 3|, |975, it became clear that these hearings would have to be extended through February and perhaps into March, indicating some postponement of our ultimate decision in these dockets. The Commission recognizes the severe economic impact on residential consumers because of the seasonal application of the fuel adjustment clause on the residential class of customers. The Commission concludes that some interim relief should be granted in the residential schedules until such time as the hearings are complete and a final order entered.

We have carefully reviewed the operation of these fuel clauses over the period of December |9, |973, to date, and the evidence, information, and issues now before us; and we Find and Conclude that for the interim period between February |, |975 and our final order herein [but for not more than sixty (60) days] the fuel clause adjustments permitted by previous order should be limited for residential customers to a seventy-five (75) percent recovery level.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

|. That, effective with bills rendered on and after February |, |975, Carolina Power and Light Company, Duke Power Company and Virginia Electric and Power Company, be allowed to adjust their residential customers' monthly bills by a fossil fuel adjustment factor not to exceed seventy-five (75) percent of their cost, such cost to be computed in

the manner previously approved and now in use. The fossil fuel adjustment clause shall remain in effect as presently provided for industrial and commercial customers pending the further hearings.

2. Our previous orders in Docket No. E-2, Sub 234, (CP&L), E-7, Sub 161 (Duke) and E-22, Sub 161 (VEPCO) are hereby modified as set forth in ordering paragraph 1 above.

3. This Order shall remain in effect until our further Order in these dockets, but in any event for not more than sixty (60) days.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of February, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-2, SUB 260

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Carolina Power & Light Company for Authority to Adjust its Electric Rates and Charges - Fossil Fuel Adjustment Clause	) ORDER APPROVING ADJUSTMENT IN RATES AND CHARGES PURSUANT TO G. S. 62-134(e)

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on July 7, 14, 21 and 22, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding and Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, Barbara A. Simpson and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

William E. Graham, Jr.
P. O. Box 1551
Raleigh, North Carolina 27602
General Counsel for the Applicant

R. C. Howison, Jr.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602

John T. Bode
Bode & Bode, P. A.
Attorneys at Law
P. O. Box 391
Raleigh, North Carolina 27602

For the Intervenors:

Thomas R. Eller
Hovius, Hunter and Eller
Attorneys at Law
801 American Building
Charlotte, North Carolina 28280
Appearing for: N. C. Textile
Manufacturers Association, Inc.

J. Stuart Gruggel, Jr.
Office of General Counsel
Department of Navy
Atlantic Division
Naval Facilities Engineering Command
Norfolk, Virginia 23511
Appearing for: Department of Navy

I. Beverly Lake, Jr.
Deputy Attorney General
Jerry J. Rutledge
Associate Attorney General
Attorney General's Office
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming
Public

For the Commission Staff:

Jerry B. Fruitt
Associate Commission Attorney
One West Morgan Street
Raleigh, North Carolina 27602

BY THE COMMISSION: On June 4, 1975 Carolina Power and Light Company (hereinafter referred to as "CP&L") filed an application for adjustment in rates and charges based solely upon increased cost of fossil fuel above the cost for fossil fuel currently included in CP&L's general rate schedules. The application was filed to comply with the recently enacted General Statute 62-134(e). CP&L seeks through its application to replace its present fuel clause by the addition of .5869¢ per kilowatt-hour to all metered retail rate schedules. In addition to the .5869¢ adjustment to the general rate schedules the application further seeks to recover deferred fuel expenses for the months of May and June, 1975. This recovery would be spread over a twelve (12) month period at the rate of .089¢ per kilowatt-hour as proposed in the application. The Company alleges that this temporary charge would result in additional billings to an

average retail customer using 905 KWH's per month of 8|¢ per month.

On June ||, |975 the Attorney General of North Carolina filed Notice of Intervention on behalf of the Using and Consuming Public. On June |2, |975 the Attorney General filed a Motion to Require Notice of Hearing to ratepayers and an Opportunity for the Presentation of Witnesses.

On June |3, |975 the Commission issued an Order Suspending the Proposed Rates, Setting Hearing on the Application and requiring public notice, and recognizing the intervention of the Attorney General.

On June 30, |975 the Attorney General of North Carolina filed a Motion with the Commission asking the Commission to declare CP&L's application a general rate increase in accordance with G. S. 62-|37, that the application be handled under the Rules and Procedures followed for general rate increases, that the Commission find CP&L's application not to be an appropriate filing under G. S. 62-|34(e), that the Commission not consider |974 costs of fossil fuel as a basis for or factor in any decision in this proceeding, that the Commission consider the average cost of generation of all sources of fuel, and finally that the fossil fuel cost of the fuel component in any rates approved be based upon the average cost of all fossil fuels purchased by CP&L during the three months immediately preceding the filing of the application.

On July 7, |975 at the start of the proceeding the Department of the Navy and The North Carolina Textile Manufacturers Association, Inc., through their respective attorneys made oral motions to intervene. Said motions were allowed. On July 2|, |975 the Department of the Navy filed a written Petition to Intervene. The Commission on July 22, |975 issued an order confirming the intervention of the Department of the Navy.

On July 2|, |975 the Attorney General filed a Brief or Memorandum of Law and Argument in support of his motions. Also on July 2|, |975 CP&L filed a Response to the Motion of the Attorney General filed on June 30, |975.

The hearing was commenced at the scheduled time and place. CP&L offered the testimony of Samuel Behrends, Jr., Vice President of CP&L and its Director of Rates and Regulation testifying as to the implementation of the fossil fuel clause, the current level of fuel costs, and the need and manner to recover deferred fossil fuel expenses; John D. McClellan of Haskins & Sells, testifying as to the need to adjust the fuel clause base as proposed by CP&L to a current cost level that CP&L's proposed |2-mill base is reasonable and appropriate and that the deferred expenses under the fossil fuel clause should be recovered; Larry E. Smith, Manager - Fuel Section of Bulk Power Supply Department of CP&L testifying on the Company's actual and anticipated cost

of fossil fuel, and contract versus spot coal prices and availability; and finally Sherwood Smith, Jr., Vice President for CP&L testifying on the problems encountered at the Brunswick Nuclear Plant near Southport, North Carolina.

The Commission Staff offered the testimony of Andrew W. Williams, Chief of the Electric Section in the Engineering Division of the North Carclina Utilities Commission testifying on the Staff's interpretation of the most appropriate method of handling CP&L's application under G. S. 62-134(e) and recommending a format for handling future filings under G. S. 62-134(e).

Mr. Gray Ingram of New Bern and Mr. J. B. Floyd of Garner appeared as public witnesses and expressed opposition to any further increases in CP&L's rates.

Based upon the record and the evidence therein, the Commission makes the following

FINDINGS OF FACT

1. That with the elimination of currently approved fuel charges, CP&L's retail electric rates will no longer be designed to fully recover its fuel expenses.

2. That CP&L's basic retail electric rates should be adjusted by the addition thereto of 0.530¢/KWH to allow rates to fully recover reasonable expenditures for fuel.

3. That fuel cost based electric rate cases pursuant to N. C. G. S. 62-134(e) can be reviewed and processed more efficiently if applications are based on approved formulas.

4. That on September 1, 1975, CP&L will have approximately $15,000,000 of deferred fuel expenses that will become unrecoverable. CP&L should be allowed to collect these deferred expenses by a temporary surcharge over a period of twelve months.

5. That deferred expense accounting to reflect the lag in recovery of increased fuel costs should be disallowed in the future.

6. That bills rendered on and after September 1, 1975 should show basic rate charges and "approved fuel charge" charges separately.

CONCLUSIONS

With the elimination of currently approved fuel adjustment charges from CP&L's retail electric rates on September 1, 1975 pursuant to recently enacted N. C. G. S. 62-134(e), said rates will no longer be designed to fully recover fuel expenses incurred by CP&L in providing electric utility service to its North Carolina retail consumers. The basic rates currently in effect were designed to reflect fuel cost

levels existing in June 1973. Current fuel costs are approximately double this level.

CP&L's basic retail electric rates should be adjusted by the addition of 0.530¢/KWH, said adjustment being based on generating and fuel cost statistics for June, 1975 and reflecting a reasonable estimate of the increase in fuel costs above those currently being recovered in CP&L's basic rate design.

Should generating and fuel cost statistics of subsequent months reflect fuel cost levels lower than those reflected in the adjusted basic rates, then CP&L should immediately file for further adjustment to its rates to reflect these lower cost levels.

Future filings for rate increases based solely on the cost of fuel pursuant to N. C. G. S. 62-134(e) can be reviewed more efficiently if such filings are based on CP&L's current fuel adjustment formula using generating and fuel cost statistics in the third month preceding the billing month. This formula may be used to facilitate processing until such time as it may be modified in a general rate case. CP&L should continue to file on a monthly basis the computations on the monthly fuel adjustment charge report and the supporting monthly fuel cost and supply report to assist the Commission and the staff in monitoring fuel costs and their possible effects on future retail electric rates.

With the elimination of the so called "automatic" fuel adjustment charge, CP&L will have approximately $15,000,000 of fuel expenses deferred because of accounting procedures that will become unrecoverable under existing rates. These expenses are reasonable expenses incurred in the providing of electric utility service to North Carolina retail consumers and deferred under accounting practices previously approved by this Commission. CP&L should be allowed to recover these deferred fuel expenses by a surcharge designed to recover the total deferral over a period of twelve months.

Deferred expense accounting to reflect the lag in recovery of increased fuel costs should be disallowed in the future. These practices were appropriate under an automatic fuel adjustment clause but are not appropriate for a rate case, either general or cost of fuel only.

Bills after September 1, 1975 should show charges under the basic rate schedules and an "approved fuel charge" separately. The approved fuel charge is effectively an adjustment to the basic rate to reflect changes in the cost of fuel and is stated separately only to facilitate individual customers in the computation and verification of their bills. The temporary surcharge designed to collect deferred fuel expenses may be included in the "approved fuel charge" portion of the bill because of computer limitations.

IT IS, THEREFORE, ORDERED:

1. That effective on bills rendered on and after september 1, 1975, Carolina Power and Light Company is hereby authorized to adjust its basic retail electric rates by the addition thereto of 0.530¢/KWH based solely on increased fuel costs pursuant to North Carolina G. S. 62-134(e).

2. That following any decrease in fuel cost levels below those existing in the basic rates as adjusted for fuel cost increases, Carolina Power and Light Company shall immediately file for a downward adjustment to reflect these decreased fuel costs.

3. That carolina Power and Light Company shall continue to file on a monthly basis the computaticns of the fuel adjustment report and the supporting fuel cost and supply report.

4. That effective on bills rendered on and after September 1, 1975, Carolina Power and Light Company is hereby authorized to apply a temporary surcharge designed to recover the fuel expenses deferred as of August 31, 1975 as a result of the lag in the old fuel adjustment clause on its North Carolina retail jurisdictional service. The surcharge should be designed on a ¢/KWH basis to recover the total deferral plus associated gross receipts taxes over a period of approximately twelve (12) months. The surcharge shall begin on September 1, 1975 and be terminated when the actual deferred expenses total attributable to North Carolina retail jurisdictional service is recovered. Total dollar billings under this surcharge shall be reported to the Commission monthly.

5. That the deferred expense accounting due to the lag in the old fuel clause is no longer approved by this Commission and should hereby be eliminated in this jurisdiction.

6. That bills after september 1, 1975 show the basic rate charges and "approved fuel charge", so entitled, separately. The temporary surcharge may be included under the "approved fuel charge".

ISSUED BY ORDER OF THE COMMISSION.

This the 27th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-2, SUB 260

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Carolina Power and Light Company for Authority to Adjust Its Electric Rates and Charges Pursuant to G.S. 62-134(e)	) ORDER APPROVING) ADJUSTMENT IN RATES AND) CHARGES PURSUANT TO) G.S. 62-134(e)

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, October 20, 1975 at 2:00 P.M.

BEFORE: Commissioner J. Ward Purrington, Presiding and Commissioners Barbara A. Simpson and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

William E. Graham, Jr.
Attorney at Law
Carolina Power and Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

For the Intervenors:

Jerry B. Fruitt
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: Using and Consuming Public

For the Commission Staff:

John R. Molm
Associate Commission Attorney
One West Morgan Street
Raleigh, North Carolina 27602

BY THE COMMISSION: On September 25, 1975, Carolina Power and Light Company (hereinafter referred to as "CP&L") filed an Application for authority to adjust and increase its retail electric rates and charges based solely upon the increased cost of fuel used in the generation of electric power pursuant to G.S. 62-134(e). CP&L sought approval of Fuel Charge Rider 36B to increase by 0.014 cents the charge for each kilowatthour of electricity sold as North Carolina retail service effective with the billing month of November, 1975.

On September 30, 1975, the Commission issued an Order setting hearing on the Application and requiring public notice.

The hearing was commenced at the scheduled time and place. CP&L offered the testimony of Mr. James M. Davis, Jr., Assistant Director of Rates of CP&L testifying as to the computation of the fossil fuel adjustment factor, and Mr. Larry E. Smith, Manager-Fuel of CP&L testifying as to the changes in the cost of fuel used in the generation of electric power. Mr. Smith testified that the introduction of "weigh bills" into the coal distribution system should help prevent mistakes in the delivery of coal, for example, Southern Railway's delivery of a carload of coal in 1974 by mistake.

The Commission Staff offered the testimony of Andrew W. Willisms, Chief of the Electric Section in the Engineering Division of the N.C.U.C. testifying on the Staff's review of the evidence presented by CP&L in support of Fuel Charge Rider 36B.

After careful consideration and scrutiny of the evidence and testimony offered by both Carolina Power and Light Company and the Commission Staff, the Commission is of the opinion, and so concludes, that the adjustment in rates, as shown on Fuel Charge Rider 36B, proposed by CP&L is correct and appropriate.

IT IS, THEREFORE, ORDERED That in lieu of the previously approved adjustment for increased fuel costs to Carolina Power and Light Company's basic rates of 0.485¢/KWH, Fuel Charge Rider 36B which adjusts CP&L's basic rates by an increase of 0.499 cents for each kilowatthour based solely on the increased cost of fuel, is approved effective for bills rendered beginning with the November billing month.

ISSUED BY ORDER OF THE COMMISSION.

This the 24th day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-7, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Duke Power Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	)	ORDER IMPLEMENTING FUEL CLAUSE

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on January 30, and 31, 1975, and February 18 through 21, 25 and 26, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

Same As In Docket No. E-2, Sub 234.

BY THE COMMISSION: The matters under investigation and consideration in this docket were consolidated for hearing with Docket No. E-2, Sub 234.

Considering the record in its entirety, the Commission is of the opinion, finds and concludes that the procurement policies of Duke Power Company during the period in issue were reasonable and the application of the fuel clause followed by the company was in accordance with the Orders thus far issued in this docket.

The Commission further finds and concludes, that certain modifications in the application and administration of the fuel adjustment clause by Duke should be made consistent with the simultaneous Order issued this day in Docket No. E-2, Sub 234.

IT IS, THEREFORE, ORDERED as follows:

1. that public hearing be held in the Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on the third Monday of each month at 2:00 P.M., commencing April 21, 1975, to determine whether Duke has reasonably applied the fuel clause and whether Duke has been reasonable in its fuel purchasing practices during the second preceding month prior to the month during which the hearing is held; and pending the Commission's decision the revenues collected pursuant to the fuel clause during the month of the hearing shall be subject to refund. The evidence to be presented shall be based upon fuel procurement practices and fossil fuel prices incurred during the second preceding month prior to the month during which the hearing is held.

2. That Duke shall henceforth exclude from the operation of the fuel clause all salary expenses involved in the procurement of fuel. At the first monthly hearing the Commission will allow the company to present evidence relevant to the effect this exclusion has with respect to base rates and to the base in the fuel clause.

3. That Duke shall treat amounts recovered in litigation, in arbitration, or in settlement against coal or

oil suppliers as a credit toward fuel expenses incurred during the month of recovery.

4. That revenues thus far collected pursuant to the fuel clause are, hereby, affirmed.

5. That Duke shall give Notice of the April hearing by publishing in sufficient newspapers giving general coverage of its entire service area in North Carolina. This Notice shall be published immediately. Duke shall give Notice of all remaining hearings by enclosing adequate and sufficient Notice in its next billing.

ISSUED BY ORDER OF THE COMMISSION.

This the 2nd day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Commissioner Wells Concurs.

DOCKET NO. E-7, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Duke Power Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	) ORDER APPROVING) FUEL CLAUSE AND) CONFIRMING REVENUES) COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on April 24, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

Same as in Docket No. E-2, Sub 234.

BY THE COMMISSION: On April 2, 1975 the Commission issued an order requiring public hearings monthly to decide whether Duke had reasonably applied the fuel clause and whether Duke had been reasonable in its fuel purchasing practices. The first such hearing was held April 24, 1975. With regard to the application of the fuel clause the Commission ordered Duke to exclude from its computation of the monthly fuel adjustment factor all salary expenses involved in the procurement of fuel. Duke's continuing need for a fossil

fuel clause was demonstrated by the evidence presented at the public hearing on this matter.

FINDINGS OF FACT

Reasonableness of Fuel Procurement Activities

Contract/Captive Coal

During the month of February 1975, the Fuel Purchasing Department of Mill Power Supply Company engaged in negotiations, calculations, studies and investigations associated with a number of long-term contracts that were subject to escalation resulting from the December 6, 1974, wage increase occasioned by the UMW settlement and other escalated costs and/or market renegotiation clauses. Settlement was reached on one of these on February 27, 1975, following an extension of a 3-month allowable renegotiation period which began on November 13, 1974. The price adjustment was effective back to December 6, 1974. Additionally, one of Duke's major contracts was opened for renegotiation effective February 1, 1975, at which time Duke requested a renegotiated price of $6.42 per ton below the existing price. Concurrently, the supplier requested a renegotiated price of $6.58 higher than the existing price. The contract allows 60 days for the renegotiation effort to take place. If not accomplished in that period, either party can terminate the contract on ten months' notice. Two other major contracts were under investigation and efforts were being made to settle the applicable escalation on the basis of cost components. All contract settlements concluded in February 1975 resulted in higher f.o.b. mine prices.

During the first half of February, contract suppliers, as a group, performed approximately 73% on the average. Weather conditions during the first part of the month had some effect on production, especially surface operations.

Spot Coal

The spot coal market price continued its downward trend in February. This was the result of reduction in demand caused by the slowdown in domestic industries as well as exports. Moreover, many coal users had stockpiled heavily prior to the UMWA strike and had high inventories. Suppliers substantially increased their offers of spot coal for February. The projected burn and inventory position indicated Duke would need limited amounts of spot coal for February. However, with the uncertainties of weather, production and market conditions, Duke considered it prudent to place orders for approximately 200,000 tons. Since the amount of coal offered was more than double that which Duke planned to order, Duke did a careful study of spot suppliers' performances over the past year, taking into consideration price, quality and shipments. To those suppliers who met applicable criteria, Duke offered to buy

tonnage at a negotiated price. The results of these negotiations can be seen in the following comparison:

	Total Tons	Average f.o.b. Mine Price/Ton
Suppliers' Original Offers	450,000	$27.44
Orders Placed	212,000	19.67
Savings per ton		7.77

Bad weather conditions in the coal fields reduced the quantity of spot shipments during the first week of February. However, these conditions improved the second week and shipments increased to the point that by mid-month Duke had received approximately 88% of tonnage scheduled for that period.

The shipments over the last two weeks of the month continued to improve. For the entire month of February approximately 92% of the total spot coal ordered was shipped.

Oil and Natural Gas

February 1975, availability of #2 oil was more than adequate to furnish the demand for this product on the Duke system. Duke required only about 1-1/4 million gallons of this product during February 1975, compared to about 5-1/2 million gallons in the same month of 1974. Average purchase price declined slightly from the previous month due to a few modest price reductions as well as purchase distribution.

Availability of natural gas in North Carolina for use in Combustion Turbines during the month of February was zero.

Summary

During the month of February, the short-term availability of fossil fuels was favorable. Duke was able to negotiate prices for spot coals at levels up to 50% below those negotiated in the fall of 1974. Escalation and renegotiation clauses in long-term coal contracts during the month of February, however, did push contract prices upward. With the addition of coal and nuclear base load capacity in 1974 and early 1975, Duke's projected fuel requirements for combustion turbine peaking units will be far less in 1975 than they were in 1974. The Commission is of the opinion that during the month of February Duke was reasonable in its fuel procurement activity; accordingly, the basis for the fossil fuel factor developed by Duke for the month of April was fully supported.

Application of the Fossil Fuel Clause

The derivation of the fossil fuel cost adjustment factor for the month of April, 1975, was computed using the cost of fossil fuel burned during February, 1975, the second preceding month. The factor of +.4652¢ per KWH was computed on the same basis as before, that is, the Company's procedures, controls, and accounting, have not changed since February, 1975.

As coal purchase orders are placed by Mill-Power, computer controls are set up for subsequent receipt and payment. Coal as received at each power plant is weighed and such weights are matched with those set forth on the railroad waybills. The waybills are transmitted to the general accounting office for matching against the computer purchase order controls and the controls developed from the computerization of the freight bills rendered by the railroad. From this match up of independently prepared documents, a billing and payment is prepared and executed.

Each power plant site is equipped with coal sampling equipment and a test laboratory. Samples are taken from each shipment to determine BTU, ash, moisture content, etc. for compliance with purchase contracts. Price adjustments are made for variances in BTU content. Also, where there have been shortages in the tonnage, e.g., due to leaking cars, claims are filed against the railroad.

For the determination of coal consumption, each power plant is equipped with weighing devices so that as the coal is conveyed into the coal bunkers inside the plant, the weight and moisture is recorded. These weights are compiled and reported to the general office for calculating the amount by which the inventory is cleared. The moisture tests are used to determine whether a moisture-weight adjustment to the consumption is necessary.

To price the consumption during the month, the following formula is used for each separate plant.

$$\frac{\text{Beginning of the month inventory \$ + purchase \$}}{\text{Beginning of the month tons + purchased tons}} = \text{average cost per ton}$$

The tons consumed times the computed average cost per ton is extended and represents the amount by which the inventory, account 151, is credited.

As a further and final test and control, an annual physical inventory is taken of each coal pile via aerial survey in conjunction with engineering survey, and appropriate adjustments made, if necessary.

Besides the cost of fuel consumed, the other major factor in the fossil fuel adjustment clause is the KWH generated during the month. This data compiled from meters at each

plant on a day-by-day basis, is then summarized by the Operating Steam Department for use by the general accounting office in its various statistical reports.

During February, 1975 Duke purchased 1,108,230 tons of coal, while burning 1,045,752 tons. The total cost of fossil fuel burned during February, 1975 was $29,139,444 which generated a total of 2,771,564,000 KWH of electricity.

Since Duke Power Company uses a moving average for pricing coal burned and with a coal supply of around 70 days, the burned costs reflect the average of the purchased coal cost for the past 2-3 months, which is summarized as follows:

	Purchased	Burned
December, 1974	134,486¢	120.254¢
January, 1975	117.216¢	121.303¢
February, 1975	107.187¢	111.778¢

The BTU content of the coal burned February was 11,619 per MBTU per pound which compares with 11,906 per MBTU per pound which was the heat content of the coal base used in developing the fuel clause base.

In the month of February, the fossil fuel heat rate was 9358 which compares very favorably, for the benefit of the customers, with that of 9676 used as the base in the fossil fuel adjustment factor. This improvement can be attributed in the main to the addition of Belews Creek and Oconee to the system.

In its Order of April 2, 1975 the Commission directed Duke to exclude from the operation of the fuel clause the fuel procurement fee paid to Mill-Power Supply Company. Accordingly, with the close of the accounting period ending April 30, 1975 Duke shall make the appropriate adjustment to reflect the elimination of the fuel procurement fee from the revenues collected pursuant to the fossil fuel clause.

The Commission concludes that Duke was reasonable in its fuel procurement activities and that Duke correctly and appropriately applied the fuel clause as approved by this Commission.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the revenues collected by Duke during the month of April pursuant to the fossil fuel clause are confirmed as permanent revenues for the company.

2. That Duke is directed to make the appropriate adjustment to reflect the elimination of the fuel procurement fee from the revenues collected pursuant to the fossil fuel clause.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-7, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Duke Power Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	) ORDER APPROVING) APPLICATION OF FUEL) CLAUSE AND) CONFIRMING REVENUES) COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on May 19, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

For the Applicants/Respondents:

R. C. Howison, Jr., Esq.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Pruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975 the Commission issued an order requiring public hearings monthly to decide whether Duke had reasonably applied the fuel clause and whether Duke had been reasonable in its fuel purchasing practices. The first such hearing was held April 24, 1975. With regard to the application of the fuel clause the Commission ordered Duke to exclude from its computation of the monthly fuel adjustment factor all salary expenses involved in the procurement of fuel. Duke's continuing need for a fossil fuel clause was demonstrated by the evidence presented at the public hearing on this matter.

Duke offered the testimony of William R. Stimart, Treasurer and Chief Accounting Officer of Duke Power Company, and R. H. Hall, Jr., Assistant Manager - Fuel Purchasing, Mill-Power Supply Company. The Commission Staff

offered the testimony of Andrew W. Williams, Chief, Electrical Section.

FINDINGS OF FACT

Reasonableness of Fuel Procurement Activities

(1) Capital/Contract Coal

Duke continued its negotiations and investigations with respect to long term contracts that were subject to escalation under both or either cost or market renegotiation clauses.

Strikes and weather conditions during the month reduced both the production and shipment of coal, consequently only 59% of scheduled tonnage was shipped to Duke.

(2) Spot Coal

Spot coal prices continued to decline during the month of March. Strikes and weather conditions also affected the production of coal sold on the spot market. Approximately 73% of tonnage ordered on the spot market was shipped.

(3) Oil and Natural Gas

The supply of #2 oil continued to be more than adequate to meet the reduced demand for oil on the Duke system. Natural gas is unavailable in North Carolina for use in combustion turbines.

(4) The improvement in the fossil fuel cost adjustment (April + .4652¢ vs. May + .385|¢) is attributable to the improvement in the generation from the Oconee nuclear unit and the high level of hydro production. The total generation, including purchased and interchanged, for March was 7% higher than February, while the fossil generation for March was 20% less than that required in February.

Application of the Fossil Fuel Clause

(5) The Commission Staff verified the mathematical calculation of Duke's proposed charge and cross-checked the data and statistics used by Duke with comparable information contained in other Commission records and recommended that the revenues collected in May from the fuel adjustment clause be confirmed.

(6) The derivation of the fossil fuel cost adjustment factor for the month of May, 1975, was computed using the cost of fossil fuel burned during March, 1975, the second preceding month. The factor of .385|¢ per KWH was computed on the same basis as testified to under Docket No. E-7, Sub 161, in February and again on April 24, 1975. Duke's

procedures, controls, and accounting have not changed since February 1975.

The pricing of consumption during the month was predicated on using the following formula for each separate plant. This is consistent with Duke's past accounting practices.

$$\frac{\text{Beginning of the month inventory \$} + \text{purchase \$}}{\text{Beginning of the month tons} + \text{purchased tons}} = \text{average cost per ton}$$

The total fossil fuel burned during March, 1975 was $23,248,861, with a fossil fuel generation of 2,187,874,000 KWH. The burned cost of coal for the month of March, 1975 was 111.497¢ per MBTU which is down slightly from the February figure of 111.778¢ per MBTU.

(7) The BTU content of the coal burned March was 11,601 BTU per pound which compares with 11,906 BTU per pound which was the heat content of the coal base used in developing the fuel clause base.

In the month of March, the fossil fuel heat rate was 9501 which compares very favorably, for the benefit of the customers, with that of 9676 used as the base in the fossil fuel adjustment factor. This improvement can be attributed in the main to the addition of Belews Creek and Oconee to the system.

CONCLUSIONS

The Commission concludes that Duke's fuel purchasing practices were reasonable and in accordance with historical practices and that Duke correctly and appropriately applied the fuel clause as approved by this Commission.

IT IS, THEREFORE, ORDERED that the revenues collected by Duke during the month of May pursuant to the fossil fuel clause are confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-7, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Duke Power Company for	)	ORDER APPROVING
Authority to Adjust Its Electric	)	FUEL CLAUSE AND
Rates and Charges - Fossil Fuel	)	CONFIRMING REVENUES
Adjustment Clause.	)	COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on June 16, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

For the Applicants/Respondents:

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On 2 April 1975 the Commission issued an order requiring public hearings monthly to decide whether Duke had reasonably applied the fuel clause and whether Duke had been reasonable in its fuel purchasing practices. The first such hearing was held 24 April 1975. The June hearing was heard 16 June 1975.

Duke offered the testimony of William R. Stimart, Treasurer and Chief Accounting Officer of Duke Power Company, and R. H. Hall, Jr., Assistant Manager - Fuel Purchasing, Mill-Power Supply Company. The Commission Staff offered the testimony of George M. Duckwall, Engineer, Electrical Section.

FINDINGS OF FACT

Reasonableness of Fuel Procurement Activities

(1) Contract/Captive Coal

During April, 1975 Duke reached a settlement in price renegotiations concerning one major contract. Although the final settlement resulted in a price increase, Duke was able to keep the price below that which was originally asked by the Contract supplier.

Strikes which idled mines during March carried over through the first part of April. This resulted in reduced shipments of coal, especially from Virginia and Eastern Kentucky contract mines.

During the last half of April, shipments improved as the strikes subsided and also because better weather conditions were conducive to production. Contract suppliers as a group, shipped about 73% of their scheduled tonnage for the

month. Contract coal received in April on a delivered basis was again at a higher price than spot coal.

(2) Spot Coal

Spot coal prices for the month of April remained at approximately the same level as March. All spot orders for April were priced at $20 per ton f. o. b. mine or less. Duke ordered more spot coal in April than in March for two reasons. First, Duke scheduled an outage at the Belews Creek Station for its first annual equipment inspection. This resulted in high coal consumption at other stations more dependent upon spot coal. Secondly, Duke was of the belief that it would be economically prudent to get this coal shipped before the 7% freight rate increases scheduled to go into effect at the end of April.

(3) Coal Freight Rates

The railroads were allowed to increase coal freight rates 7% effective 27 April 1975. This increase in freight rates will amount to more than 1¢ per million BTU increase in Duke's delivered cost of coal. This 7% increase will be applied to all of Duke's rates except Southern Railway unit train rates, which will not escalate until 1 July 1975. The railroads have petitioned the Interstate Commerce Commission for additional freight rate increases to be made in two steps. The first step would be a 5% increase effective 8 June 1975, and the second step would add another 2.5% effective 1 October 1975.

(4) Oil and Natural Gas

The use of #2 for electric generation on the Duke system continues to decline. Only 300,000 gallons were purchased during April 1975, compared to 500,000 purchased during March, 1975, and over 4-1/2 million gallons in April, 1974. The average price for April was 29.27¢ per gallon while the March price was 28.98¢ per gallon. The April increase in the average price of over 1/4¢ per gallon can be attributed to a 1-1/2¢ per gallon increase from one supplier and distribution of burn.

Purchases of #2 oil in 1975 for peaking use in combustion turbines and in boilers for flame stabilization are 20 million gallons less than purchases for the same four months in 1974. There continues to be no natural gas available for Duke's use in North Carolina.

(5) The changes in the fossil fuel cost adjustment (April + .4652¢ vs. May + .3851¢ vs. June + .4118¢) is attributable to the generation variations at the Oconee nuclear station, hydro production, and the availability of Belews Creek Unit #1. While the nuclear generation at the Oconee was up in generation for March vs. April (1,068,567 vs. 1,110,748 thousands KWH), the generation for Belews Creek #1 went from 567,292 to 103,012 thousands KWH. Belews Creek #1 was shut

down April 6 for its first annual inspection and will be back in late June.

Application of the Fossil Fuel Clause

(6) The Commission Staff verified the mathematical calculation of Duke's proposed charge and cross-checked the data and statistics used by Duke with comparable information contained in other Commission records and recommended that the revenues collected in June from the fuel adjustment charge of 0.4118¢/KWH be confirmed.

(7) The derivation of the fossil fuel cost adjustment factor for the month of June, 1975, was computed using the cost of fossil fuel burned during April, 1975, the second preceding month. The factor of .4118¢ per KWH was computed on the same basis as testified to under Docket No. E-7, Sub 161, on 19 May 1975.

The pricing of consumption during the month was predicated on using the following formula for each separate plant. This is consistent with Duke's past accounting practices.

$$\frac{\text{Beginning of the month inventory \$} + \text{purchase \$}}{\text{Beginning of the month tons} + \text{purchased tons}} - \text{average cost per ton}$$

The total fossil fuel burned during April, 1975 was $22,703,622 with a fossil fuel generation of 2,027,682,000 KWH. The burned cost of coal for the month of April, 1975 was 1201.238¢ per MBTU which is higher than the March figure as a result of the generation availability mix.

(8) The BTU content of the coal burned March was 11,509 BTU per pound which compares with 11,906 BTU per pound which was the heat content of the coal base used in developing the fuel clause base.

In the month of March, the fossil fuel heat rate was 9230 which compares very favorably, for the benefit of the customers, with that of 9676 used as the base in the fossil fuel adjustment factor.

CONCLUSIONS

The Commission concludes that Duke's fuel purchasing practices for April were reasonable and in accordance with historical practices and that Duke correctly and appropriately applied the fuel clause as approved by this Commission.

IT IS, THEREFORE, ORDERED that the revenues collected by Duke during the month of June pursuant to the fossil fuel factor of .4118¢ per KWH are confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. E-7, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Duke Power Company for Authority to Adjust Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	) ORDER APPROVING) FUEL CLAUSE AND) CONFIRMING REVENUES) COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on July 21, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr., J. Ward Purrington, III, Barbara A. Simpson, and W. Lester Teal, Jr.

For the Applicants/Respondents:

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

Robert C. Howison, Jr., Esq.
Joyner & Howison
P. O. Box 109
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using
and Consuming Public

For the Commission Staff:

Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On 2 April 1975 the Commission issued an order requiring public hearings monthly to decide whether Duke had reasonably applied the fuel clause and whether Duke had been reasonable in its fuel purchasing practices. The first such hearing was held 24 April 1975. The July hearing was heard 21 July 1975.

Duke offered the testimony of William R. Stimart, Treasurer and Chief Accounting Officer of Duke Power Company, and William T. Robertson, Jr., Manager - Fuel Purchasing, Mill-Power Supply Company. The Commission Staff offered the testimony of George M. Duckwall, Engineer, Electrical Section.

FINDINGS OF FACT

Reasonableness of Fuel Procurement Activities

(1) Contract/Captive Coal

During May, 1975 Duke did not have any coal contracts involved in price renegotiations or escalations. All formal outstanding contract renegotiations/escalations have been settled. In view of current coal prices in the spot market, Duke approached each contract supplier and sought price reductions. This achieved no direct reductions in price during the month of May.

Contract suppliers shipped about 85% of their scheduled tonnage for the month. Contract coal received in May on a delivered basis was again at a higher price than spot coal.

(2) Spot Coal

Spot coal prices for the month of May were lower than those for April, 1975. Duke ordered less spot coal in May than in April for the following reasons:

1. Improved levels of inventory
2. Lower coal consumption estimate for May than April (845,000 versus 985,000)
3. Increase in nuclear and hydro generation.
4. Improved performances by contract suppliers in the absence of general labor strikes and better availability of car supply materials.
   Spot coal was more readily available in May and shipments were very good.
   Good weather conditions and reduced demand for coal both helped to improve performance.

(3) Oil and Natural Gas

The use of #2 for electric generation on the Duke system continues to decline. Only 220,000 gallons were purchased during May 1975, compared to 300,000 purchased during April, 1975, and over 5-1/2 million gallons in May, 1974.

There continues to be no natural gas available for Duke's use in North Carolina.

(4) The monthly changes in the fossil fuel cost adjustment are attributable to the generation variations at the Oconee nuclear station, hydro production, and the availability of Belews Creek Unit #1. While the nuclear generation at Oconee was up in generation for April vs. May (1,110,748 vs. 1,435,660 thousands KWH), the generation for Belews Creek #1 went from 103,012 to 0 thousands KWH. Belews Creek #1 was shut down April 6 for its first annual inspection and will be back in late June.

Application of the Fossil Fuel Clause

(5) The Commission Staff verified the mathematical calculation of Duke's proposed charge and cross-checked the data and statistics used by Duke with comparable information contained in other Commission records and recommended that the revenues collected in July from the fuel adjustment charge of 0.4326¢/KWH be confirmed.

(6) The derivation of the fossil fuel cost adjustment factor for the month of July, 1975, was computed using the cost of fossil fuel burned during May, 1975, the second preceding month. The factor of .4326¢ per KWH was computed on the same basis as testified to under Docket No. E-7, Sub 161, on 19 May 1975.

The pricing of consumption during the month was predicated on using the following formula for each separate plant. This is consistent with Duke's past accounting practices.

$$\frac{\text{Beginning of the month inventory \$} + \text{purchase \$}}{\text{Beginning of the month tons} + \text{purchased tons}} = \text{average cost per ton}$$

The total fossil fuel burned during May, 1975 was $22,904,687 with a fossil fuel generation of 1,960,501,000 KWH. The burned cost of coal for the month of May, 1975 was 124.391¢ per MBTU which is higher than the April figure as a result of the generation availability mix.

(7) The BTU content of the coal burned in May was 11,432 BTU per pound which compares with 11,906 BTU per pound which was the heat content of the coal base used in developing the fuel clause base.

In the month of May, the fossil fuel heat rate was 9385 which compares very favorably, for the benefit of the customers, with that of 9676 used as the base in the fossil fuel adjustment factor.

CONCLUSIONS

The Commission concludes that Duke's fuel purchasing practices for May were reasonable and in accordance with historical practices and that Duke correctly and appropriately applied the fuel clause as approved by this Commission.

IT IS, THEREFORE, ORDERED that the revenues collected by Duke during the month of July pursuant to the fossil fuel factor of .4326¢ per KWH are confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-7, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Duke Power Company	) ORDER APPROVING
for Authority to Adjust Its	) FUEL CLAUSE AND
Electric Rates and Charges -	) AND CONFIRMING
Fossil Fuel Adjustment Clause.	) REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on August 18, 1975.

BEFORE: Commissioner W. Lester Teal, Jr., Presiding, Commissioners Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

For the Intervenors:

Jesse Brake, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On 2 April 1975 the Commission issued an order requiring public hearings monthly to decide whether Duke had reasonably applied the fuel clause and whether Duke had been reasonable in its fuel purchasing practices. The first such hearing was held April 24, 1975. The August hearing was heard August 18, 1975.

Duke offered the testimony of William R. Stimart, Treasurer and Chief Accounting Officer of Duke Power Company, and William T. Robertson, Jr., Manager - Fuel Purchasing, Mill-Power Supply Company. The Commission Staff offered the testimony of Andrew W. Williams, Chief, Electric Section.

FINDINGS OF FACT

Reasonableness of Fuel Procurement Activities

(1) Contract/Captive Coal

During June, 1975 Duke did not have any coal contracts involved in price renegotiations or escalations. All formal outstanding contract renegotiations/escalations have been settled. In view of current coal prices in the spot market, Duke approached each contract supplier and sought price reductions. This achieved no direct reductions in price during the month of June.

Contract suppliers shipped about 87% of their scheduled tonnage for the month. Contract coal received in June on a delivered basis was again at a higher price than spot coal.

(2) Spot Coal

Duke ordered no spot coal in June for the following reasons:

1. Improved levels of inventory.
2. Lower coal consumption estimate for June than May.

3. Good nuclear and hydro generation.
4. Improved performances by contract suppliers in the absence of general labor strikes and better availability of car supply and materials.

(3) Oil and Natural Gas

The use of #2 for electric generation on the Duke system continues to decline. For the first six months of 1975, Duke purchased about 4 million gallons compared with 35 million gallons for the same period in 1974.

There continues to be no natural gas available for Duke's use in North Carolina.

Application of the Fossil Fuel Clause

(4) The Commission Staff verified the mathematical calculation of Duke's proposed charge and cross-checked the data and statistics used by Duke with comparable information contained in other Commission records and recommended that the revenues collected in August from the fuel adjustment charge of 0.418¢/KWH be confirmed.

(5) The derivation of the fossil fuel cost adjustment factor for the month of August, 1975, was computed using the cost of fossil fuel burned during June, 1975, the second preceding month. The factor of .418¢ per KWH was computed on the same basis as testified to under Docket No. E-7, Sub 161, on 19 May 1975.

The total fossil fuel burned during June, 1975 was 24,181,006 with a fossil fuel generation of 2,083,081,000 KWH. The burned cost of coal for the month of June, 1975 was 212.959¢ per MBTU which is lower than the May figure as a result of the generation availability mix.

(6) The BTU content of the coal burned in June was 11,517 BTU per pound which compares with 11,906 BTU per pound which was the heat content of the coal base used in developing the fuel clause base.

In the month of June, the fossil fuel heat rate was 9512 BTU/KWH which compares very favorably, for the benefit of the customers, with that of 9676 BTU/KWH used as the base in the fossil fuel adjustment factor.

CONCLUSIONS

The Commission concludes that Duke's fuel purchasing practices for June were reasonable and in accordance with historical practices and that Duke correctly and appropriately applied the fuel clause as approved by this Commission.

IT IS, THEREFORE, ORDERED that the revenues collected by Duke during the month of August pursuant to the fossil fuel

factor of .4181¢ per KWH are confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 25th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. E-7, SUBS 161 AND 173

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matters of E-7, Sub 173 - Application by Duke Power Company for Authority to Increase its Electric Rates and Charges for its Retail Customers in North Carolina, and E-7, Sub 161 - Duke Power Company Fuel Clause Investigation Docket.	)	ORDER GRANTING RATE INCREASE

HEARD: Commission Hearing Room, One West Morgan Street, Raleigh, North Carolina, and the Cities of Charlotte, Hickory, Burlington and Graham, North Carolina

DATE: July 9, 1975 through July 31, 1975

BEFORE: Chairman Marvin R. Wooten, Presiding, Commissioners Ben E. Roney, Tenney I. Deane, George T. Clark, Jr., J. Ward Purrington, Barbara A. Simpson, and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

Steve C. Griffith, Jr.
General Counsel
Duke Power Company
P. O. Box 2178
Charlotte, North Carolina 28242
Appearing for: Duke Power Company

George W. Ferguson, Jr.
Associate General Counsel
Duke Power Company
P. O. Box 2178
Charlotte, North Carolina 28242
Appearing for: Duke Power Company

Clarence W. Walker
Attorney at Law
Kennedy, Covington, Lobdell & Hickman
3300 NCNB Plaza
Charlotte, North Carolina 28280
Appearing for: Duke Power Company

John M. Murchison, Jr.
Attorney at Law
Kennedy, Covington, Lobdell & Hickman
3300 NCNB Plaza
Charlotte, North Carolina 28280
Appearing for: Duke Power Company

For the Protestants:

Thomas R. Eller, Jr.
Attorney at Law
Hovis, Hunter & Eller
801 American Building
Charlotte, North Carolina 28286
Appearing for: The North Carolina Textile Manufacturers Association, Inc.

E. K. Powe
Attorney at Law
Powe, Porter, Alphin & Whichard, P. A.
P. O. Box 3843
Durham, North Carolina 27702
Appearing for: Duke University

David H. Permar
Attorney at Law
Hatch, Little, Bunn, Jones, Few & Berry
Box 527
Raleigh, North Carolina
Appearing for: N. C. Oil Jobbers Association, and Joe Berry

Thomas L. Barringer
Attorney at Law
305 First Federal Building
Raleigh, North Carolina
Appearing for: North Carolina Consumers Council, Inc.

Robert B. Byrd
Attorney at Law
Byrd, Byrd, Ervin & Blanton, P. A.
Drawer 1269
Morganton, North Carolina
Appearing for: Great Lakes Carbon Company

For the Using and Consuming Public:

I. Beverly Lake, Jr.
Deputy Attorney General
P. O. Box 629
Raleigh, North Carolina 27602

Jerry J. Rutledge
Robert P. Gruber
Jesse C. Brake
Associate Attorney Generals
P. O. Box 629
Raleigh, North Carolina 27602

For the Commission Staff:

Edward B. Hipp
Commission Attorney
Ruffin Building
Raleigh, North Carolina 27602

John R. Molm
Assistant Commission Attorney
Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: This proceeding is before the Commission upon the application of Duke Power Company (hereinafter referred to as "Duke") filed with the Commission on 29 November 1974 for authority to adjust and increase its electric rates and charges to produce an increase of approximately $131,000,000 applicable to North Carolina retail operations, applied to the test year of the twelve months ended 31 December 1975, or approximately 23.6% increase in revenues. As a part of its application, Duke requested permission to implement, effective 31 December 1974, an across-the-board increase of 19.7% in revenues on metered service subject to refund in the event the rates sought in its application were suspended.

By Order issued 20 December 1974 the Commission set the application of Duke for investigation and hearing and declared the same to be a general rate case. The Commission further suspended the proposed rate increases for a period of 270 days and set for hearing the proposed across-the-board interim increase of 19.7% on all retail rates to begin on 13 February 1975.

By motion filed 7 February 1975 the Commission Staff moved that the hearing on the application of Duke for interim increase set for 13 February 1975 be postponed for a period of thirty days. By order issued 7 February 1975 the Commission postponed the application of Duke for an interim rate increase, said hearing to be rescheduled by further order of the Commission at a date and time available on the Commission's calendar thirty days after 13 February 1975.

By order issued 18 February 1975 the Commission required Duke to provide information for Staff investigation in this matter. On 11 March 1975 the Commission issued an amended order requiring certain additional information be provided to the Staff for its investigation.

The Commission issued orders up through the time set for hearing recognizing the intervention of the Attorney General and allowing the interventions of Joe L. Berry of Greensboro, North Carolina; The North Carolina Oil Jobbers Association; Great Lakes Carbon Corporation; PPG Industries, Inc.; Senior Citizens Clubs of Winston-Salem, North Carolina; The North Carolina Textile Manufacturers Association, Inc.; The North Carolina Consumer's Council, Inc.; and Duke University.

By Motion filed 25 February 1975 Great Lakes Carbon Corporation moved the Commission to conclude as a matter of law that it did not have the authority to hold a hearing on the proposed interim increase, or, in the alternative, that should the Commission conclude that it did have the authority that it exercise its discretion not to conduct or set any hearing on the proposed interim rate increase, or, further that the Commission deny the interim request in toto. On 4 March 1975 Duke filed a reply to the motion of Great Lakes Carbon Corporation. By letter of the same date the Commission Chairman advised Mr. Robert B. Byrd, Attorney for Great Lakes Carbon Corporation, that as Chairman he had ruled that the motion would be taken under advisement by the Commission at a later time.

On 25 February 1975 Intervenors, North Carolina Oil Jobbers Association and Joe L. Berry filed a motion requesting the Commission to order Duke to publish a notice to customers which contained alternative rate structure proposals in addition to those proposed by Duke Power Company. The alternative rate structure proposals included a rate structure designed to produce equal rates of return between rate classifications using Duke's present rate structure, and a rate structure designed to produce equal rates of return between rate classifications and a flat rate within each class or sub-class. Duke Power Company and intervenors, North Carolina Textile Manufacturers Association, Inc., and Great Lakes Carbon Corporation filed responses to the motion of the North Carolina Oil Jobbers Association. On 4 March 1975 intervenors' North Carolina Oil Jobbers Association and Joe L. Berry directed interrogatories to the applicant, Duke Power Company, and requested that answers thereto be served upon them within thirty (30) days. By order issued 13 March 1975 the Commission denied the motion of the North Carolina Oil Jobbers Association and Joe L. Berry. Furthermore, the Commission decided not to direct the applicant Duke Power Company to answer the interrogatories propounded by the same intervenors. In its order the Commission set forth its reasons denying the motion by noting first that the 1974 cost of service study to be prepared by Duke would not be

completed until 31 March 1975, and second, that increasing generation by nuclear units within Duke's system would significantly affect the allocation of cost between demand and energy charges thereby affecting the rate of return earned on each class of service under the present rate structure. The Commission concluded that an analysis of Duke's current rate design would be based upon incomplete data, that a thorough examination of Duke's rate design could be made after a determination of the impact of Duke's current rate design and after the cost of service studies reflected the impact of nuclear generation costs. The Commission did note in its order that the Commission Staff or intervenors may offer minor modifications with respect to Duke's current rate design to promote greater economic efficiencies and to ensure that the rates more closely recovered the cost imposed upon the system by individual customers.

By order issued 13 March 1975 the Commission set for hearing the application of Duke Power Company to begin on Tuesday, 15 July 1975 in the Commission Hearing Room, Raleigh, North Carolina. The Commission further ordered Duke to give notice of the hearing on its application by publishing in sufficient newspapers giving general coverage of its entire service area in North Carolina the notice attached to the order as Exhibit A. By order issued 6 May 1975 the Commission consolidated for hearing Docket Nos. E-7, Sub 173 and Sub 161 which had to do with Duke's automatic fuel clause. The Commission consolidated the dockets for hearing for the purpose of considering (a) whether the base cost of the fossil fuel in Duke's fuel clause should reflect current fossil fuel costs so that amounts being collected by Duke pursuant to its fuel clause would instead be collected as a part of its base rates; (b) whether Duke's fuel clause should be changed to include nuclear as well as fossil fuels; and (c) other matters relating to Duke's fuel clause.

At the request of the Commission Staff Attorney the Commission by order issued 16 June 1974 designated a time and a place for a prehearing conference to be held on Friday, 27 June 1975 in the Commission Hearing Room, Raleigh, North Carolina.

On 2 June 1975 Duke filed with the Commission notice that pursuant to G.S. 62-135 Duke intended to exercise its statutory rights by placing into effect on service rendered on and after 30 June 1975, rates which would result in an increase of no more than twenty per cent (20%) on any single rate classification or the total bill of any customer. Duke further undertook to refund any amount collected pursuant to its undertaking in excess of the rate or rates finally determined by the Commission to be just and reasonable. By Order issued 16 June 1975 the Commission approved the undertaking as filed by Duke pursuant to its statutory right set forth in G.S. 62-135 and required Duke to give notice to its customers of said rate increase placed into effect under said undertaking in newspapers of general circulation in its

service area at least ten days prior to the time said increase was to become effective. On 2 July 1975 the Attorney General filed exceptions to the Commission Order approving the undertaking; requiring notice to the customers of placing rate increase into effect under undertaking. The Attorney General excepted to the Order alleging that the order was in excess of the statutory authority of the Commission and was affected by error of law in that contrary to the notice filed by Duke which stated that the proposed rates increased rates 23.6%, the rate increase proposed by Duke is in fact a 29.307% average increase in existing rates approved in Duke's last general rate case, E-7, Sub 159. The Attorney General further excepted to the order alleging that it was affected by other areas of law in that it was not in compliance with and violates the provisions of G.S. 62-135, including subsection (b) thereof, upon the ground that in purporting to comply with said statute Duke proposed to compute the twenty per cent (20%) increase limitation on each customer's bill after including and adding to the revenue collected under the present or proposed rates the revenue collected from each customer under Duke's present fuel cost adjustment clause.

By motion filed 6 June 1975 the Attorney General of North Carolina requested that the Commission set hearings in Charlotte, Greensboro and Marion (or some other city similarly situated in the Western Piedmont). By Order issued 16 June 1975 the Commission set the application for public hearings in Charlotte, Hickory and Burlington, North Carolina.

PUBLIC HEARINGS

Initially the Commission had set the application of Duke power Company for public hearings in the cities of Charlotte, Hickory and Burlington, North Carolina. Because of space confinement and inclement weather the Commission moved the hearing from Burlington to the Alamance County Courthouse in Graham, North Carolina, on 11 July 1975, and set an additional further hearing in Graham which was heard on 25 July 1975. The parties to this proceeding had agreed at the prehearing conference that those Commissioners not sitting at the public hearings could participate by a reading of the record. At the Charlotte hearing on 9 July 1975 the Commission, Tenney I. Deane, Jr., presiding, Barbara A. Simpson and J. Ward Purrington heard from a total of sixty members of the public. At the Hickory hearing on 10 July 1975 the Commission, Tenney I. Deane, Jr., presiding, W. Lester Teal, Jr., Barbara A. Simpson, and J. Ward Purrington heard from ninety public witnesses. At the Burlington-Graham hearing on 11 July 1975 chaired by Commissioner Marvin R. Wooten, the Commission heard from forty-seven members of the public. Upon return to Graham on 25 July 1975 the Commission heard from twenty-five witnesses and had tendered to it thirty-five witnesses who had adopted the testimony of others who had already appeared before the Commission. The Commission recognizes the difficulty with

hearing from each member of the public desiring to testify in the public hearings, however, the Commission is of the belief that it heard from an adequate representation of a cross-section of customers of Duke Power Company. At these public hearings the Commission observed many public witnesses who gave reasons and responsible positions both for and against the rate application of Duke.

The hearings which began on 15 July 1975 in the Hearing Room of the North Carolina Utilities Commission, Raleigh, North Carolina, were assigned to the full Commission by the Chairman. Several motions were filed during the course of the hearing and those motions not ruled on from the bench are deemed to have been ruled on by the Commission consistent with its findings and conclusions as set forth herein.

Duke Power Company offered the testimony and exhibits of the following witnesses: Mr. Carl Horn, Jr., President and Chief Executive Officer of Duke Power Company with respect to Duke's need for the proposed rate increase, its construction program and the efficiency of its operations; Mr. William H. Grigg, Senior Vice President - Legal and Finance of Duke Power Company, with respect to the financial condition of Duke Power Company and its need for the requested rate relief; Mr. William R. Stimart, Treasurer of Duke Power Company, with respect to the results of the company's operations under the present and proposed rates on the basis of an historical test year ending 31 December 1974, and also on the basis of a forward test year ending 31 December 1975; Mr. John B. Gillett, Manager of Rates and Valuation with Whitman, Requardt and Associates of Baltimore, Maryland, with respect to his estimate of the replacement cost of the capital plant of the company derived by trending the original cost of said palnt; Dr. Arthur T. Dietz, Professor of Business Administration, Emory University, Atlanta, Georgia, with respect to the fair rate of return required by Duke Power Company and Mr. M. T. Hatley, Jr., Manager of the Rate Department of Duke Power Company with respect to rate design, the fossil fuel adjustment clause, and the jurisdictional allocation of the company's operating income for return and original cost investment.

The Commission Staff offered the testimony and exhibits of the following witnesses: Mr. George M. Duckwall, Utilities Engineer, North Carolina Utilities Commission, with respect to jurisdictional allocation of the company's plant, expenses and revenues; Mr. Donald R. Hoover, Staff Accountant, North Carolina Utilities Commission, with respect to the Staff's examination of the books and records of Duke Power Company for the twelve-month period ending 31 December 1974; Mr. M. D. Coleman, Director of Accounting, North Carolina Utilities Commission, with respect to a Staff examination of the projected operating results of Duke Power Company for the twelve-month period ending 31 December 1975 and with respect to the results of the Staff's study of the

rate net of income taxes used by Duke Power Company to determine the allowance for funds during construction (AFUDC) during the calendar years ending 31 December 1973, 1974 and projected 1975; Mr. William F. Irish, Economist, North Carolina Utilities Commission, with respect to projections of future test year KWH sales and gross revenues generated from those sales for a twelve-month period ending 31 December 1975; Mr. Edwin A. Rosenberg, Economist, Operations Analysis Section, North Carolina Utilities Commission, with respect to the cost of capital required by Duke Power Company and the rate of return which Duke should be allowed the opportunity to earn on its investment in serving the people of North Carolina; Mr. N. Edward Tucker, Utilities Engineer, North Carolina Utilities Commission, with respect to the results of the Staff's investigation of the rate schedules and rate design proposed by the company in this docket for its commercial and industrial customers and with respect to pricing alterations to the company's proposed rate design necessary to reflect changes in the fuel adjustment clause as described by Mr. Williams in his testimony; Mr. Dennis W. Goins, Economist, Operation Analysis Section, with respect to the Staff analysis of the rate schedules and designs for Duke's residential customers; Mr. Allen L. Clapp, Chief, Operations Analysis Section, with respect to the fair value rate base and the applicable fair rate of return; and Mr. Andrew W. Williams, Chief of the Electrical Section, North Carolina Utilities Commission, with respect to a recommended format for utility filings for rate increases based solely on the cost of fuel pursuant to the recently enacted G.S. 62-134 (e) and the appropriateness of certain land holdings included in Duke's electric plant in service account.

Intervenors North Carolina Textile Manufacturers Association offered the testimony and exhibits of the following witnesses: Mr. Jerry T. Roberts, Corporate Secretary of the North Carolina Textile Manufacturers Association, with respect to the effect of the proposed rate increase upon the textile industry located in the State of North Carolina; Mr. W. C. Gay, Assistant Treasurer and Divisional Controller for J. P. Stevens and Company, Inc., Greensboro, North Carolina, with respect to the effect of the proposed rate increase upon the J. P. Stevens Company; Mr. Leslie W. Gaulden, Controller for Cone Mills Corporation, Greensboro, North Carolina, with respect to past and the proposed rate increases and their effect upon the Cone Mills Corporation; Mr. Jerry Selvaggi, a consultant electrical engineer with the Talon Division of Textron, with respect to the computation of demand charge applied to the Talon Division and the load management practiced by Talon; Mr. Edmund R. Gant, Vice President of Glen Raven Mills, Inc., with respect to the effect of past and proposed rate increases upon the Glen Raven Mills, Inc., of Glen Raven, North Carclina; Mr. William A. Stevens, Manager of the Cost Department, Cannon Mills Company, with respect to the effect of the proposed rate increase upon Cannon Mills; Mr. James R. Baldwin, Controller and Assistant Treasurer, Marion

Manufacturing Company, with respect to the load management practices of the company and the effect the proposed rate increase would have upon the company; Mr. Cameron Cooke, Attorney and Assistant Secretary for Burlington Industries, Inc., with respect to the effect of the proposed rate increase upon Burlington Industries; and Mr. Graham D. Lacy, Jr., Director of Legal Services and Assistant Secretary for Texfi Industries, Inc., with respect to the effect the proposed rate increase would have upon Texfi Industries.

The Attorney General offered the testimony and exhibits of Mr. Jesse L. Riley, a senior research associate with a textile firm located in Charlotte, North Carolina, with respect to his examination of the factors governing peak electric demands, the causes of prior rate increases, the relation of electrical sales and demands to rates and finally the action he recommends the Commission should take with respect to the current rate request.

The North Carolina Consumers Council offered a statement of Mr. Paul Verkuil, President of the Council, with respect to the need for conservation measures and load management techniques that should be implemented by the electric utilities operating in North Carolina.

In rebuttal Duke offered the testimony and exhibits of the following witnesses: Mr. Richard Walker, a certified public accountant and partner in the firm of Arthur Anderson and Company, Chicago, Illinois, with respect to the concepts and standards that the Commission should consider in determining the working capital allowance to be included in the rate base and the rate that the Commission should use to compute the allowance for funds used during construction; Mr. William R. Stimart, with respect to certain Staff adjustments made to the company's proposed rate base and operating expenses; and Mr. William H. Grigg, with respect to the Staff position that no allowance or weight should be given to the company's low ratio of common equity to total capitalization and to the Staff's rate of return testimony.

Based upon the record herein and the evidence adduced at the public hearing, the Commission makes the following

FINDINGS OF FACT

1. That Duke is duly organized as a public utility company under the laws of North Carolina, holding a franchise to furnish electric power in a major portion of the State of North Carolina under rates and service regulated by the Utilities Commission as provided in Chapter 62 of the General Statutes.

2. That the test period for purposes of this proceeding is the 12 months ended 31 December 1974.

3. That the reasonable original cost of Duke's property used and useful in providing retail electric service in

North Carolina is $1,931,317,000, the reasonable accumulated provision for depreciation is $462,325,000, and the reasonable original cost less depreciation, is $1,468,992,000.

4. That the reasonable replacement cost of Duke's property used and useful in providing retail electric service in North Carolina is $1,880,910,000.

5. That the fair value of Duke's electric plant used and useful in providing retail electric service in North Carolina should be derived from giving seven-tenths (7/10) weighting to the original cost of Duke's depreciated electric plant in service and three-tenths (3/10) weighting to the replacement cost of Duke's electric plant. By this method, using the depreciated original cost of $1,468,992,000 and a replacement cost of $1,880,910,000 the Commission finds that the fair value of said electric plant devoted to retail service in North Carolina is $1,592,567,000, comprised of the reasonable original cost less depreciation of $1,468,992,000 and the reasonable fair value increment of $123,575,000.

6. That the reasonable allowance for working capital is $113,816,000.

7. That the fair value of Duke's plant in service used and useful in providing retail electric service to the public within North Carolina at the end of the test year of $1,592,567,000 plus a reasonable allowance for working capital of $113,816,000 yields the reasonable fair value of Duke's property in service to North Carolina retail customers of $1,706,383,000.

8. That Duke's approximate gross revenues for the test year after accounting and pro forma adjustments under present rates are $474,794,000, and after giving effect to the company proposed rates are $597,464,000.

9. That the level of operating expenses after accounting and pro forma adjustments, including taxes, interest on customer deposits, and after exclusion of the consulting fee paid to a retired officer ($49,000), is $381,760,000 which includes an amount of $61,256,000 for actual investment currently consumed through reasonable actual depreciation after annualization to year-end level.

10. That the common equity portion of the year-end 1974 capital structure of Duke Power Company was inadequate. The capital structure of Duke was as follows:

	%
Long term Debt	54.64
Preferred Stock	12.64
Common Equity	29.05
Cost free Capital	3.67

11. That a higher proportion of common equity is desirable in that it would increase investor confidence and ease the financial difficulties of Duke Power. The Commission has determined a reasonable capital structure for Duke Power Company upon which the Commission will set rates and directs Duke Power to move toward such capital structure as conditions permit. The following capital structure is the one used by the Commission:

	%
Long term Debt	53.14
Preferred Stock	12.29
Common Equity	31.00
Cost free Capital	3.57

12. That the proper embedded cost rates for long term debt and preferred stock are 7.30% and 7.22% respectively, and that cost free capital should be assigned a zero weight in the capital structure. These cost rates are those which existed at year end 1974 and are consistent with the other end of test period figures.

13. That the cost of equity to Duke Power Company when used in conjunction with the 31% equity ratio and applied to the original cost common equity would be 13.5% which requires additional annual revenue from North Carolina retail customers of $105,889,000 based on the historical test year (calendar year 1974) level of operations.

14. That the fair rate of return that Duke should have the opportunity to earn on the fair value of its North Carolina investment for retail operations is 8.45% which requires the additional annual revenue from North Carolina retail customers of $111,336,000 based upon the historical test year (calendar year 1974) level of operations. This rate of return on the fair value of Duke's property yields a fair rate of return on the fair value equity of Duke Power Company of approximately 11.20%.

15. That the guidelines for computation of Allowance for Funds Used During Construction (AFUDC) as set forth in the evidence and conclusions for finding of fact number 15 are just and reasonable and will appropriately ensure that tomorrow's customers pay just and reasonable rates.

16. That the relative revenue levels between classes of service as proposed by Duke are appropriate because the rates of return on the embedded rate base are very close to being equal.

17. That the rate design proposed by Duke is not unreasonably discriminatory as between classes of service. The general and industrial rate schedules should be approved with appropriate reductions to reflect the reduced increase in revenue herein allowed.

18. That the residential rate schedules require pricing changes to reflect a more equitable and efficient rate design and that rate schedules designed to recover a basic facilities charge are a means to this end.

19. That the basic rates proposed by Duke in these dockets are premised upon the continuation of the automatic fossil fuel adjustment clause based upon the October 1973 base fuel cost level and thus do not reflect more current fuel cost levels. The Commission finds that the basic rates proposed should be adjusted to incorporate into the basic rates a total fuel costs component of 0.7923¢/KWH, that, in effect, rolls the 1974 annualized automatic fuel adjustment charges into the basic rates and further adjusts the basic rates to reflect more current fuel costs.

20. That the rate schedules attached as Exhibit A are just and reasonable and appropriately reflect a total fuel cost component of 0.7923¢/KWH and are designed to produce an increase in revenues of approximately $111,336,000 based upon the 1974 test period.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 2

Duke's application in this docket was filed on the basis of a forward test year ending December 31, 1975, pursuant to provisions of G.S. 62-133 which have since been repealed. The Commission then ordered Duke also to file test year data based on the 12 months ending December 31, 1974. Inasmuch as the Legislature, subsequent to the filing of the application in this docket, repealed the use of a forward test year in future cases before the Commission [See 1975 N. C. Session Laws, Ch. 184], it is appropriate for this Commission to decide the issues in this case on the basis of a historical test year for the 12 months ended December 31, 1974, taking into consideration in establishing the rate of return in this case the significant attrition that the evidence in this case shows will occur in the future and which has already occurred since the end of the historical test year.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The figure found by the Commission to be the reasonable original cost of Duke's property used and useful in providing retail electric service in North Carolina is the amount computed by the company on Stimart Exhibit I net of Staff Witness Duckwall's adjustment revised to reflect system peak in August 1974. Before the North Carolina Utilities Commission can determine a just and reasonable level of rates for Duke's North Carolina retail customers, the company's plant, expenses and revenues must be separated to obtain that portion of the utilities operation applicable to these customers. This separation between State and regulatory jurisdictions is accomplished by a jurisdictional allocation study for the Duke system. Electric plant and service was functionalized into production, transmission,

distribution and general plant. Production plant was allocated using the demand-production level factor except for the nuclear fuel and the reactor which was allocated on the energy factor, transmission plant was allocated using the demand-transmission level factor, distribution plant was directly assigned and general plant was allocated using related plant and expense factors. Duke calculated the demand allocation factors based upon the average non-coincident demand for twelve months. On the other hand, the Staff testified that a more appropriate method of determining the demand factors would be to base the calculation of such demand factors upon the coincidental peak method. This method, more closely than other methods, allocates demand related plant and expenses needed to supply the maximum system load to those customers who are causing the load. The amount found by the Commission to be a reasonable accumulated provision for depreciation is net of Staff Witness Duckwall's adjustment to said depreciation after determining demand factors based upon the coincidental peak method. Staff Witness Hoover testified that the accumulated provision for depreciation should be increased to the end of period level consistent with the company's treatment of bringing the depreciation expense to the end of period level.

The Commission concludes it is appropriate to determine the demand allocation factors based upon the coincidental peak method of determining such factors. The Commission further concludes that it would be inappropriate to allow the company to increase its depreciation expense to reflect end of period level, while not making the corollary adjustment to the accumulated provision for depreciation; thus, the adjustment proposed by Staff Witness Hoover is determined to be just and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The trended original cost study prepared by company witness Gillett has several deficiencies which make it unacceptable as a complete and reasonable method for determining replacement cost. The witness computed a depreciated trended original cost of the properties rather than performing a true "replacement cost study." The trend factors developed and used by Mr. Gillett were based upon static weighting of separate sub-component indexes. These weightings were derived from recent construction and were applied to each past year's sub-component trend factors. Staff Witness Clapp testified that such static weighting is incorrect and that trend factors are correct only if developed by applying the actual sub-component weights which occurred in each year to the sub-component trend factors for that year. Mr. Gillett included no adjustment for savings on labor costs that could be achieved by large scale construction of distribution lines and the like. The existing facilities have been constructed piecemeal over the years. He made no adjustments for savings which could be realized from mass purchases as a result of large scale

construction for replacement of the existing facilities. He failed to make adjustments for increases in productivity in methods of construction, or, for increases in efficiency and usefulness of plant which have been developed since the older plant was constructed. Furthermore, Mr. Gillett did not compare the economic value of the existing generation facilities as though constructed using today's construction costs and unit efficiencies to his trended original cost figures. Thus the Commission does not have before it a comparison of the value of the existing facilities to the value of a completely modern system. In the face of rising fuel prices, the cost of operating the less efficient plants has increased, and correspondingly the replacement cost of the remaining usefulness of these plants has decreased. In view of these facts, the Commission cannot agree with Mr. Gillett's valuation of Duke's facilities. The Commission has stated its belief in previous orders that replacement cost is more than just a "brick-for-brick" reproduction cost. Based upon these considerations the Commission finds that the trended original cost method as employed by Mr. Gillett insufficient as a complete and reasonable determination of replacement cost.

The Commission believes the replacement cost which was determined merely by trending the depreciated original cost without proper consideration for improvements and plant design and efficiency is excessive. After consideration of the evidence in this case, the Commission concludes the reasonable replacement cost less depreciation for the plant in service to North Carolina ratepayers is $1,880,910,000.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

The Commission concludes upon consideration of the original cost less depreciation, the replacement cost less depreciation, the impact of weighting upon the financing capability of the company and the economic welfare of its ratepayers, both long term and short term, the reasonable weighting of original cost less depreciation is seven-tenths (7/10) and the reasonable weighting of the replacement cost less depreciation is three-tenths (3/10) in the calculation of the fair value of the plant in service to the ratepayers of North Carolina.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The company proposed that the allowance for working capital be computed by use of the traditional formula method of 45 days operating and maintenance expense, plus required bank balances, plus materials and supplies less tax accruals.

The Staff proposed a computation of working capital by a "balance sheet analysis" which involves allocating to North Carolina retail operations the various balance sheet accounts involved, and treating as working capital the

excess of current assets and deferred debits over current liabilities and deferred credits.

The Commission concludes that customer deposits should be deducted in arriving at working capital and that the associated interest cost should be included as an operating expense. This treatment will ensure that the company has an opportunity to recover the cost of these funds and no more. In the company's response to the order requiring information for staff investigation, Item 4-p, page 102, the Commission finds the balance for customer deposits as of 31 December 1974 to be $1,595,000.

In the last Duke case, Docket No. E-7, Sub 159 the Commission concluded that rates should be set upon the basis of accounting adjustments recognized in the previous Duke rate case, Docket No. E-7, Sub 145. The Commission reserved until a later date its decision with respect to a reasonable method of computing working capital. The Commission reserved the same decision in the last Carolina Power & Light rate case, Docket No. E-2, Sub 229, as well. In this proceeding the Commission seeks to make clear that it is of the opinion that Duke's proposed method of computing working capital is reasonable.

The Commission agrees with Mr. Stimart wherein he testified that electric utility balance sheets are not prepared with a view to the determination of working capital, and as the result of conservative financial reporting such balance sheets do not record receivables as readily or as promptly as payables. Thus, a balance sheet analysis will always tend to understate working capital requirements. There was further testimony that the "balance sheet" approach gave no effect to the pro forma adjustments or to higher current assets resulting from the gross adjustment and the increased rates proposed. The Commission also recognizes that this approach involves an intricate and detailed allocation of numerous individual accounts, each involving judgment as to the basis of allocation, which unduly complicates the analysis. Further, the approach gives no effect to unrecorded receivables and thus does not account for the cost to the company of rendering service prior to the time the meter is read and the bill is sent.

Mr. Richard Walker, a senior partner in the accounting firm of Arthur Anderson and Company, testified for the company that a majority of the regulatory commissions in this country use some version of the formula method for computing working capital, such as the company used in this proceeding. Mr. Walker was further of the opinion that even the formula method employed by the company may tend to understate working capital requirements in today's economic climate. On the basis of this evidence the Commission concludes that the company's method of computing working capital was reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

To the Commission's determination of a reasonable fair value of Duke's property used and useful in providing retail electric service in North Carolina must be added an allowance for working capital. The Commission concludes that the fair value in electric plant in service plus an allowance for working capital is $1,706,383,000.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 8 AND 9

The Commission concludes that the reasonable level of operating revenues and operating revenue deductions are those as testified to by Staff Accountant Hoover with the exception of Witness Hoover's adjustment to flow through the income tax effect of overhead costs capitalized. The Commission believes it is proper to normalize this item of cost. After revision of the jurisdictional allocation adjustments as testified to by Staff Witness Duckwall the staff adjustments are spread over operating revenue and operating revenue deductions as follows:

> Adjustments to gross operating revenues, purchase power, operation and maintenance expenses (excluding fuel and purchase power), depreciation, taxes - other than income, taxes - State income, taxes - Federal income and taxes - deferred income.

Witness Duckwall's adjustments reflect the coincidental peak method of determining the demand factors which the Commission has herein found to be more appropriate.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 10 AND 11

Mr. William H. Grigg of Duke Power Company testified with respect to the significance of the company's common equity ratio. The Commission agrees with Mr. Grigg wherein he stated that the common equity ratio is one of the major determinants of the cost of new long-term capital and of the company's ability to raise such capital. Investors, security analysts and financial rating agencies view it as one of the principal factors (together with fixed charge coverage ratios) to be considered in assessing the relative investment merit of a company's securities.

The Commission recognizes the importance of the common equity ratio to the rating and marketing of securities. First, the amount of common equity in a company's capital structure establishes the degree of cushion or protection that it is afforded in senior securities (e.g. first mortgage bonds and preferred stock). The higher the common equity ratio the greater the likelihood that the holder of the senior securities will receive his interest and principal when due. Second, the common equity ratio has direct bearing on the company's ability to maintain adequate coverage of its fixed charges. The relationship between the investor's perception of his risk or his security in

investing in Duke Power stock and the rates the consumer will ultimately pay for electric service has been well established.

The Commission realizes that an increase in the common equity ratio cannot be accomplished overnight. At the same time, however, the advantages of such an increase cannot be discounted. To ensure that some progress can be made toward a higher proportion of common equity in the capital structure of Duke Power Company, the Commission concluded that fixing rates based upon a proformed capital structure with a 31% common equity ratio would be fair and reasonable to both the company and its customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 12 AND 13

The embedded cost rates that the Commission concludes are just and reasonable for long-term debt and preferred stock are taken directly from the company's books and records.

By statute the Commission is bound to fix such rate of return on the fair value of the property as will enable the company, inter alia, to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors. In the final analysis, the fairness and reasonableness of a rate of return in any particular proceeding is a matter for informed and impartial judgment and must be made by giving adequate consideration to all the testimony in the proceeding. Two rate of return witnesses were presented, Dr. Arthur T. Dietz of Emory University testified for the company and Mr. Edwin A. Rosenberg testified for the Commission Staff.

Dr. Dietz testified that his studies led him to conclude that the cost of equity to Duke is in the range of 14.5 - 15.0% given Duke's 1974 capitalization adjusted for 1975 financing. He further testified that if Duke's equity ratio were to increase from the actual (projected) 27.8% to the 40% range, the cost of equity would fall to the 14.0 - 14.5% range. Dr. Dietz based these conclusions on a number of studies which he made. Among these studies were an examination of equity earnings available in both the regulated and nonregulated sectors of the U. S. economy, studies of long-run interest rates and an examination of Duke's performance in the equity market.

Mr. Rosenberg concluded that the cost of equity to Duke was in the 13.50% range. He based his conclusion on a study which consisted of using the Discounted Cash Flow technique to estimate the cost of equity to a group of fourteen electric utilities (including Duke) which he considered to be of essentially the same risk to an investor. He stated that a return of 13.50% on original cost common equity, if earned, would allow Duke to attract capital and compete in the capital markets on terms which are reasonable. He also stated that the 13.50% return on common equity would be adequate only if the operating expenses and revenues were

brought up to 1975 levels as in the use of a future test year. If historic (1974) test year data were used, he stated that the return to common equity would need to be higher in order to allow the company a reasonable opportunity to earn a fair return. The Commission recognizes that neither rate of return witness testified directly to the effect of the Commission's determination of fair value and resulting increase in revenue, nor to the Commission's use of a higher common equity ratio.

The Commission has given serious consideration to all of the relevant evidence presented in this case. With respect to the cost of capital and the company's need for a competitive position in the capital market in order to pursue the programs of expansion which will provide both additional and improved service to the ratepayers, based on the foregoing and the entire record in this matter and by applying its informed judgment, the Commission believes that a return of 13.5% on book common equity would be reasonable.

As previously mentioned the Commission reserved its decision with respect to several accounting adjustments in the last Duke and Carolina Power and Light rate cases. One of these decisions was with respect to the treatment of cost-free capital. Both the company and the Staff agree that accumulated deferred taxes and unamortized investment tax credit are "cost-free" capital. Their treatment of this cost-free capital differs in two respects.

The company carries cost-free capital in the capital structure at zero cost, while the staff proposes to deduct it from the rate base. As Mr. Stimart and Mr. Richard Walker both testified, this different treatment, in and of itself, does not give significantly different results, and does not affect operating income.

However, there is substantial difference in the way this cost-free capital is allocated between jurisdictional and non-jurisdictional investment. The Staff allocates all the cost-free capital to utility operations--none to non-utility (notably construction work in progress). The company carries cost-free capital as an integral part of the total capital structure, thus allocating a proportionate part to non-utility property and construction work in progress. This difference results in the Staff's deducting $16,426,000 more from the rate base (or allocating it to North Carolina retail cost-free capital) than the company.

The Commission concludes that it is inappropriate to allocate 100% of the cost-free capital to utility operations and none to construction work in progress. Clearly the cash made available by tax timing differences is devoted to total company operations. Moreover, the source and basis of the deferred tax account is a government willingness to forego the collection of income taxes (by permitting accelerated depreciation), which was clearly aimed at stimulating investment. The Commission concludes that it is reasonable

to include cost-free capital in the capital structure at zero cost, consistent with previous orders of this Commission.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

The Supreme Court of North Carolina has interpreted the law to mean that an additional dollar return on common equity be given to the company to account for the addition of a fair value increment to the equity component of the capital structure. The Commission has previously found the fair value rate base to be $1,706,383,000. To calculate the fair value increment the Commission subtracts the net investment in electric plant in service plus the allowance for working capital from the previously found fair value rate base. The fair value increment amounts to $123,575,000. The addition of the fair value increment to book equity results in a larger proportion of common equity in the capital structure upon which the Commission fixes a fair rate of return. The larger equity component results in a reduced risk to the common equity holder. Thus the Commission can set a rate of return on the fair value common equity lower than what would have been required had the Commission set a rate of return on book common equity. With the addition of the fair value increment, the Commission concludes that a fair return on the fair value equity of Duke Power Company is approximately 11.20%. This amounts to an 8.45% rate of return on the company's fair value rate base. It is to be noted that the total revenue requirements for the company have increased as a result of setting a rate of return on the fair value equity. There was a total revenue requirement of $580,683,000 for a 13.50% rate of return on actual common equity. On the other hand, there is a total revenue requirement of $586,130,000 for an 11.19% rate of return on fair value equity.

The Commission concludes that the rates in effect prior to the authorization of the interim rates herein and the bonded rates herein, would not allow Duke to earn an adequate rate of return on the property used and useful in its service to the public of North Carolina and under said prior rates Duke could not continue in operation as a viable electric utility in North Carolina, and that if said interim rates and bonded rates are not approved Duke cannot maintain its ability to compete in the market for capital funds on terms reasonable and fair to its customers and its existing investors and could not continue the construction of plants presently being built and necessary for the continued service to the public in its service area.

The rate of return which Duke would have earned during the test period under the rates in effect prior to the interim rates was 5.45% on the fair value of its plant in service in North Carolina, which would have been inadequate to pay the interest on Duke's debt and cost of capital to support the plant then in service.

The Commission observes that in the last four general rate cases with respect to Duke Power Company, Sub 120, Sub 128, Sub 145, and Sub 159, it has authorized rates which were calculated to allow Duke to earn a 12% return on actual equity in the first two dockets, an 11% return on actual equity in the third docket, and a 12.35% return on actual equity in the last docket. The increase in the level of cost incurred by the company following each rate case has been far in excess of the increase in the level of revenues. Thus, Duke has not earned the allowed rate of return and has operated over the last four years at a rate of return less than the return authorized by the Utilities Commission as a just and reasonable rate of return.

In its deliberations with respect to the rate of return the applicant company should be allowed to earn through efficient operation, the Commission considered the quality of service rendered by the utility and the ability of the utility's management in dealing with rising cost and changing conditions. The Commission takes judicial notice of evidence in this proceeding, as well as previous proceedings, and concludes that the levels and quality of service provided by the applicant are satisfactory.

The Commission also concludes that the ability of the applicant's management to deal with erratically rising costs in the past several years has been satisfactory to this time. Evidence presented by the Commission staff and others in prior cases has pointed out the reliable efficiency of Duke's management. The Commission notes that a recent study by the National Association of Regulatory Utilities Commissioners entitled "The Measurement of Electric Utility Efficiency" indicates that in four out of eight areas of efficiency the applicant rates in the top 25% of utilities in the United States in its category. The applicant did not fall in the bottom 25% in any area.

Notwithstanding this evidence of efficiency, the Commission recognizes its responsibility to Duke's ratepayers in the future. Following the past four rate increases, Duke has not earned the rate of return allowed by the Commission. Some of the reasons Duke has cited are regulatory lag, inflation, increasing prices, higher interest costs, etc. In each instance, a new rate case has been filed in a short period of time and the cycle has been repeated.

The streamlining of scheduling and procedures that this Commission has recently implemented will significantly reduce regulatory lag. Moreover, inflation rates have fallen and are not expected to rise to former levels. Demand for products and services of all kinds has fallen as a result of the slowdown in our economy. Prices have either fallen or drastically slowed their former rate of increase. Interest costs would appear to be stabilizing. The combination of these factors result in a far less erratic set of conditions. In light of these more stabilized

conditions, the Commission expects Duke to be able to more effectively counteract the push for increases in its expenses and costs of utility plant construction.

Notwithstanding all the evidence of past efficiency in Duke's management, when compared to its fellow utilities, the Commission seeks to assure itself and Duke's ratepayers that Duke will have a continuous mechanism in use for assuring that it goes the "extra mile" to hold down avoidable costs. In approving the level of earnings in this docket, this Commission concludes that Duke should take prompt and effective action to assure itself and this Commission that it will make all efforts to earn the rate allowed. Methods of expense control that will allow management to know in advance the amounts of expenditures allowed for the expected levels of KWH sales and revenues should be constantly utilized to maintain a continuing surveillance of the expenditures of the company.

The Commission is of the opinion that whenever expenses reach a level that will cause the company not to earn the rate of return allowed, Duke should show cause to this Commission why it cannot reduce expenses and still maintain a satisfactory level of service to the public. If this condition arises and Duke cites price increases of items purchased or services used as reasons, a showing should be made to the Commission that Duke has sought, as far as possible, to acquire equally useful materials or services at lower unit prices from the same or alternate sources; that substitute materials or services of the quality necessary for the job have been considered; that waste and duplication are not significant and that the material or service is indeed justified.

Forecasts of revenues, expenses and sales upon which decisions are based should be conservative and take consumer conservation into consideration so that shortfalls in expected revenue will be cited rarely as a reason for shortfalls in rate of return. To keep this requirement from becoming unduly burdensome, the company should not be required to report to this Commission so long as the rate of return earned on common equity during the preceding 12 months, first computed one year from the effective date of the rates approved in this order, are within 1 1/2% of the rate of return on common equity allowed. The company should report to the Commission on these matters whenever the moving 12-month period rate of return is insufficient for consecutive months.

To be clear, this Commission expects Duke to react promptly and efficiently to counteract rises in either operating or construction costs. The Commission has no desire to place itself in the position of usurping management prerogatives. On the other hand, the Commission believes that Duke management has the burden of proving to the satisfaction of the Commission that tough management decisions are being made on a continuing basis and that rate

increase requests are not a substitute therefor. Control of costs can only be made before, and not after, expenditure. This control must be a tool used in the decision-making process. The measurement of the effectiveness of control, however, is a historical process, and historical measurement is the tool with which we must gauge the performance of the company. Nothing in these conclusions should indicate that this Commission intends that Duke restrict its growth of service to less than that required by its ratepaying consumers. Rather, the Commission expects Duke to control its costs with maximum vigor in order that its customers can afford the services they require. The Commission is confident that Duke can do so.

The Commission concludes that the rates filed herein by Duke Power Company are unjust and unreasonable to the extent that they produce any increase in annualized revenue at the end of the test year in excess of $111,336,000. The Commission further concludes that Duke's interim and temporary rates are not unreasonably discriminatory and that the revenues collected by Duke under the provisions of refund should be retained in that the total annualized amount of revenue collected does not exceed the amount granted by the Commission in this order.

The following schedules show the derivation and application of the above findings and are to be incorporated as part of those findings:

DUKE POWER COMPANY
North Carolina Retail Operations
STATEMENT OF RETURN
Twelve Months Ended December 31, 1974
("000" Omitted)

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross operating revenues	$ 474,794	$111,336	$ 586,130
Operating Revenue Deductions			
Fuel expense	149,778		149,778
Purchased power	3,933		3,933
Operation and maintenance expenses (excluding fuel and purchased power)	87,813		87,813
Depreciation	61,256		61,256
Taxes - other than income	46,303	6,680	52,983
Taxes - state income	234	6,279	6,513
Taxes - Federal income	1,766	47,221	48,987
Taxes - deferred income	30,820		30,820
Amortization of investment tax credit	(251)		(251)
Total operating revenue deductions	381,652	60,180	441,832
Net operating income	93,142	51,156	144,298
Less: Interest on customer deposits	108		108
Net operating income for return	$ 93,034	$ 51,156	$ 144,190

Investment in Electric Plant		
Electric plant in service	$1,931,317	1,931,317
Less: Accumulated depreciation	462,325	462,325
Net investment in plant	1,468,992	1,468,992
Allowance for Working Capital		
Materials and supplies	72,098	72,098
Cash	33,136	33,136
Required bank balances	11,070	11,070
Less: Federal income tax accruals	893	893
Customer deposits	1,595	1,595
Total allowance for working capital	113,816	113,816
Net investment in electric plant in service plus allowance for working capital	$1,582,808	$1,582,808
Fair value rate base	$1,706,383	$1,706,383
Rate of return on fair value rate base	5.45%	8.45%

DUKE POWER COMPANY

North Carolina Retail Operations

RETURN ON COMMON EQUITY

Twelve Months Ended December 31, 1974

("000" Omitted)

	Fair Value Rate Base	Ratio %	Embedded Cost or Return on Common Equity %	Net Operating Income for Return
	Present Rates - Fair Value Rate Base			
Capitalization				
Long-term debt	$ 841,104	49.29	7.30	$ 61,401
Preferred stock	194,527	11.40	7.22	14,045
Common equity	614,246 1/	36.00	2.86	17,588
Cost-free	56,506 2/	3.31	-	-
Total	$1,706,383	100.00	-	$ 93,034
	Approved Rates - Fair Value Rate Base			
Long-term debt	$ 841,104	49.29	7.30	$ 61,401
Preferred stock	194,527	11.40	7.22	14,045
Common equity	614,246 1/	36.00	11.19	68,744
Cost-free	56,506 2/	3.31	-	-
Total	$1,706,383	100.00	-	$144,190

1/ Excludes common stock equity in subsidiaries of $28,778,000.

2/ Excludes $2,370,000 of Job Development Investment tax credit.

DUKE POWER COMPANY
North Carolina Retail Operations
REVENUE REQUIREMENTS CORRELATED TO
ORIGINAL COST AND FAIR VALUE COMMON EQUITY
Twelve Months Ended December 31, 1974
("000" Omitted)

Item	Original Cost Net Investment Prior to Adjustment for Fair Value Increment
Revenue Requirements:	
Gross revenues - present rates	$474,794
Additional gross revenue required to provide 13.50% return on original cost common equity	$105,889
Total revenue requirements	$580,683
Net income available for return on equity	$ 66,241
Equity component	$490,671
Return on actual common equity	13.50%

Revenue Requirements:	Fair Value Rate Base
Gross revenues - present rates	$474,794
Additional gross revenue required to provide 13.50% return on original cost common equity	$105,889
Additional gross revenue required for fair value common equity	$ 5,447
Total additional revenue	$111,336
Total revenue requirements	$586,130
Net income available for return on equity	$ 68,744
Equity component	$614,246
Return on fair value equity	11.19%

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The staff presented testimony and exhibits concerning the method which it believed should be employed to calculate the rate used to capitalize allowance for funds used during construction (AFUDC). The staff testified that the AFUDC rate used should include the same capital components that are used by the Commission in fixing rates except the staff recommended short-term debt be assigned 100% to construction since it is not included in the fixing of rates. The staff further testified that the cost rates assigned each of these

capital components should be calculated the same way they are calculated in the fixing of rates. Thus, the staff testified the AFUDC rate should permit capitalization of the cost of funds supporting construction work in progress, the costs of which were not included in the fixing of rates. The staff testified further that the interest component should be net of income taxes since the income taxes for rate-making purposes are increased by the tax effects of interest currently capitalized on the books but deducted for tax purposes. The staff further testified that the allowance for funds used during construction was a proper cost of construction and as such, the amount should be compounded. Exhibit No. 3 presented by the staff is an FPC rulemaking which, if adopted by the Federal Power Commission (FPC), would prescribe a formula method for calculating AFUDC.

The company witness on rebuttal testified that an incremental cost rate should be used for debt and preferred stock cost. Incremental cost as used by the company means the cost rate of the most recent debt or preferred stock issue. In addition, the company testified an objective capital structure rather than the actual capital structure should be used to calculate the AFUDC rate. Further, the company maintains that assignment of short-term debt 100% to construction would not be accurate because short-term debt is used to finance the fuel inventory and materials and supplies.

The Commission has carefully considered the testimony of both staff and company witnesses concerning the development of the rate which should be used to capitalize AFUDC. The Commission recognizes that the proper development of this rate is a complex subject. The purpose of permitting capitalization of an allowance for funds used during construction is to provide the company with an opportunity to include as a cost of plant the cost of funds used to build plant today for future customers. It is for the most part impossible to specifically trace the source of funds used to finance construction.

Therefore, it seems that the basic objective of AFUDC is to enable a company to construct new facilities without causing significant or adverse effects on its earnings from utility operations. The calculation of the AFUDC rate should conform to rate-making practices so that the company will be permitted to earn on its total utility operations including its construction program at the approximate level permitted in the rate case. Based on the testimony and exhibits presented in this docket, the Commission concludes that the AFUDC rate used by Duke in 1973 and 1974 did permit capitalization of the cost of funds used during construction; that the rate should not be increased without prior approval of the Commission; and, that the Commission will review the AFUDC rate which results from any formula prescribed by the FPC prior to the use of that formula by the company to calculate the AFUDC rate.

The Commission further concludes that when the AFUDC rate used conforms to the rate-making process by including the appropriately weighted embedded cost of long-term debt and preferred stock, the appropriate amount of short-term debt, cost-free funds at zero cost, and a fair return on common equity, that it will be proper to compound the amount of capitalized funds on an annual basis.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 16 AND 17

The cost of service studies performed by Duke Power support the Commission's finding that Duke's proposed rates produce almost equal rates of return between classes of service. In light of this finding and in consideration of Duke's proposal to increase its rates essentially across-the-board, thereby maintaining the historical rate structure, the Commission concludes that Duke's proposed rate designs are not unreasonably discriminatory and thus are approved for industrial and general service customers. The rate schedules for industrial and general service customers attached as a part of Exhibit A basically reflect the rate structure proposed by Duke. Schedules T and T-2 are the same as those proposed by Duke except for adjustments to update the fuel component. The revenues to be produced by the other industrial and general service classes are across-the-board percentage reductions of the revenues proposed by Duke.

The Commission recognizes that certain problems exist in the internal pricing of the major general service and industrial rates. The internal pricing of these rates should be redesigned in order to ensure that each customer more closely pays the cost he imposes upon the system. This design study will require a detailed analysis (including results of an incremental cost study) and will take a considerable period of time. The Commission directs Duke Power to work with the Commission Staff in this regard. Until such study and analysis is completed, Duke's proposed rates for industrial and general service customers, as adjusted, (based upon historical rate design) should be used.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 18

The rates proposed by Duke in this docket are based upon the general format of the residential rate schedules previously in effect. The proposed increases were applied to the existing rate design, resulting in raising the price per KWH in each block of each rate schedule by the same percentage.

The Commission concludes that an appropriate rate design should reflect the costs of providing electric service to customers, conserve energy resources, and promote economic efficiencies. The approved residential rate schedules attached are designed with pricing changes to reflect a more equitable and efficient rate design.

The cost of serving electric users may be divided into customer, demand, and energy costs. The customer cost component varies with the number of customers being served. The demand cost component varies with the load imposed on the system facilities by the customer. The energy cost component varies with kilowatt-hour consumption.

Customer costs, which include billing costs and such plant items as the meter and service drop and part of the distribution plant, are costs incurred by Duke regardless of the kilowatt hours (KWH) of electricity sold to customers. However, Duke does not have a separate charge in its residential rate schedules to recover customer costs. Duke attempts to recover these customer costs through minimum bills and in the early blocks of the rate schedules. Under the present Duke rate schedules, the minimum bills are $3.40, $3.65, and $3.81 for R, RW, and RA customers, respectively. In the proposed rate schedules, the minimum bills are raised to $4.39, $4.71, and $4.93 for R, RW, and RA customers, respectively. Attempting to recover customer costs in the early blocks inflates the early block rates above those rates necessary to recover energy and demand costs.

In order to recover customer costs through a separate charge, the approved rate schedules attached introduce a $4.30, a $4.69, and a $5.19 per month basic facilities charge in Schedules R, RW, and RA, respectively. These basic facilities charges are collected from all customers each month regardless of KWH consumption. Customer costs are fixed costs, and the basic facilities charges will enable Duke to recover most of these particular fixed costs outside of the KWH blocks.

The introduction of the basic facilities charge and the approved KWH block charges will eliminate some of the intraclass cross-subsidization which presently exists in the residential rate schedules. Monthly bills assigned to vacation or second homes which are vacant much of the year will more accurately reflect the costs of serving these dwellings. In addition, the approved rates include the approved fuel charge. The attached exhibits show that customers using 350 KWH per month will receive an increase in their monthly bills of approximately 16 per cent, 24 per cent, and 22 per cent on Schedules R, RW, and RA, respectively. The percentage increases in monthly bills for higher usage customers are substantially greater for Schedule R customers and slightly less for Schedules RW and RA customers. The rates in each rate schedule are designed to reflect more accurately the costs of providing electric service to all customers.

The introduction of the basic facilities charge also eliminates the need for two of the early KWH blocks in each of the residential rate schedules. Schedules R and RA will now have four KWH blocks instead of six, and Schedule RW will have three KWH blocks instead of five.

The Commission concludes that although Duke's interim and temporary rates are not unlawful, it is necessary to restructure the residential schedules to reflect a more equitable and efficient rate design. The Commission is of the opinion that the residential rate schedules listed as "Approved" in Exhibits A (R, RW and RA rate schedules) would produce this result and, therefore, should be substituted for Duke's proposed rate schedules under the rate section of the appropriate tariffs. All other terms and conditions of those schedules, as well as all other tariffs included in this Application, should be approved as filed.

No evidence was presented in this case dealing with estimates of marginal or long-run incremental costs or time-of-day pricing. The Commission has ordered Duke to present evidence dealing with these topics in Docket No. E-100, Sub 21, which is scheduled to begin in December, 1975.

In Docket No. E-100, Sub 21, this Commission will investigate peak-load pricing, time-of-day metering, conservation, and load management for electric utilities operating in North Carolina and will consider regulatory initiatives directed towards the promotion of energy conservation through system load management and control of peak demand. Pending that hearing, however, the Commission is of the opinion that the electric utilities subject to its jurisdiction can and should take steps to balance their system loads by promoting reduced consumption of electricity during periods of anticipated system peak demand.

Much of the increased need for electric generating capacity can be attributed to growth in demand for electricity during system peak periods. Therefore, the Commission seeks to slow the growth of the system peak for electric utilities operating in North Carolina by creating awareness among consumers of their contribution to system peak and consequently, their contribution to the need for additional generating plant; and further to encourage consumers to help slow the growth in the system peak by voluntarily restricting their consumption of electricity during periods of peak demand and deferring such consumption to off-peak periods.

The Commission believes that greater consumer awareness of the relationship between electricity usage at the time of system peak and the need for additional electric generating facilities can lead consumers to voluntarily refrain from unnecessary consumption of electricity at such time of system peak and while the Commission is aware that such voluntary restriction of electric consumption at the time of system peak will not eliminate the need for additional generating facilities, it may retard the growth in demand for such facilities.

Chapter 780 of the Session Laws of 1975 (S.B. 420) authorizes the Commission to "direct each electric public utility to notify its customers by the most economical means

available of the anticipated periods in the near future when its generating capacity is likely to be near peak demand and urge its customers to refrain from using electricity at these peak times of the day." In accordance therewith, the Commission herein directs Duke Power Company to develop and implement plans for reduction of system peak through

1. Continuing education of its customers and the general public in the need and means to control system peak;

2. Use of mass communication to promote conservation of energy at anticipated peak periods of demand and to instruct in ways and means of reducing wasteful use of electricity and postponing non-essential usage;

3. Promotion of effective load management and efficient use of electricity by offering direct assistance to customers.

Such plans should take maximum advantage of the opportunity for public service announcements undertaken in cooperation with service area news media, and other such means as may present themselves, in order to follow the statutory mandate to employ the most economical means available for notifying and educating the public. Such plans should additionally demonstrate the willingness of the utility to encourage its customers to restrict electric consumption during periods of anticipated peak demand. The Commission herein directs Duke to furnish the Commission with the plan required hereunder within 90 days of the date of this Order.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19

In its application Duke requested a continuation of its automatic fossil fuel cost adjustment clause. The base rates proposed by Duke are premised upon a continuation of the monthly adjustment to the proposed base rates for the variance in the cost of fossil fuel from the base cost in the fuel adjustment formula. The fuel cost reflected in the proposed rates and in the base of the proposed fuel clause are based upon October 1973 fuel cost levels. Absent some adjustment to reflect more current fuel costs, the basic rates proposed by Duke are not designed to fully recover fuel expenses incurred by Duke in providing electric utility service to its North Carolina retail customers.

Recently enacted G.S. 62-134 (e) which provides in part:

> "all monthly fuel adjustment rate increases based solely upon the increased cost of fuel as to each public utility as presently approved by the Commission shall fully terminate effective September 1, 1975 except that the same shall be earlier terminated as to each such public utility upon the effective date of any final order of the Commission under this section;..."

proscribes automatic monthly adjustments by the fossil fuel adjustment clause but allows electric rate cases based only on the cost of fuel. Duke currently has an adjustment to its basic rates pursuant to G.S. 62-134(e) to reflect fuel cost changes since the 1973 fuel cost levels in the existing basic rates.

The most appropriate rate design for Duke would be a rate design including total current fuel costs in the basic rate structure. The rates can then be designed considering all factors occurring in the adjusted test year and known up to the time the hearing is closed. The General Assembly ratified legislation that allows the Commission to consider relevant, material and competent evidence based upon circumstances and events occurring up to the time the hearing is closed. The Duke hearings began after this legislation was ratified and the Commission is of the opinion that it can best keep within the spirit and intent of such legislation by utilizing such information where appropriate.

Staff Witness Williams testified that fuel cost levels on a KWH sales basis for the projected period ending December 31, 1975 were 0.7923¢/KWH, including nuclear fuel, fossil fuel and the energy portion of purchased power and interchange power. In consideration of evidence showing a fuel cost at the time of the hearing on this matter in excess of 0.8¢/KWH, and evidence indicating a slight downward trend in fuel costs, the Commission concludes that the projected fuel cost level is an appropriate amount to include in the basic rate design and rates should be designed to reflect a total fuel cost component of 0.7923¢/KWH. This adjustment is obtained by rolling in annualized fossil fuel adjustment charges for the 1974 test year in the amount of 0.2017¢/KWH to yield a total fuel cost component of 0.6196¢/KWH based on annualized 1974 fuel costs and by adding an additional 0.1837¢/KWH total fuel costs, including gross receipts tax adjustment, to reflect increased fuel costs to current levels. The Commission concludes this adjustment to said proposed rates as proper.

The adjustment to the existing basic rates pursuant to G.S. 62-134(e) should be terminated with the effective date of the rates approved herein, because these new approved rates reflect updated fuel cost levels. Should generating and fuel cost statistics of subsequent months reflect fuel cost levels different from those reflected in the updated basic rates, then Duke may file for adjustments to its rates pursuant to N.C.G.S. 62-134(e) and Commission Rule R1-36. (If the generating and fuel cost statistics for the third month preceding the month these new rates become effective indicate a reduction in fuel costs when applied to the formula attached as Exhibit B, then Duke should file for downward adjustment for the first billing month.)

Future filings for rate increases based solely on the cost of fuel pursuant to G.S. 62-134(e) can be reviewed more

effectively if such filings are made pursuant to the formula attached as Exhibit B. This formula includes nuclear, as well as fossil fuel, and the energy portion of purchased power and interchange power. This formula may be used to facilitate processing of applications pursuant to G.S. 62-134(e). Duke should file on a monthly basis computations required for this formula to assist the Commission and the Staff in monitoring fuel cost and their possible effects on future retail electric rates.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That effective for service rendered in North Carolina on and after the date of this Order, Duke Power Company is hereby allowed to place into effect the increased rates described in paragraph 2 below, which are designed to produce additional annual revenues in the amount of $111,336,000.

2. That the rates approved are to be designed as set forth in Exhibit A, and the rate schedules listed as approved in Exhibit A shall be substituted for Duke's proposed rate schedules.

3. That the revenues collected by Duke under the interim and temporary rates filed in this docket are hereby affirmed as just and reasonable and the undertakings filed with said rates are hereby discharged and cancelled.

4. That Duke is directed to assist and work with the staff in undertaking a study and analysis of the internal pricing of the major general and industrial service rates.

5. That Duke is directed to implement the programs with respect to cost control and consumer information as set forth hereinbefore in the evidence and conclusions for findings of fact nos. 14 and 18.

6. That the adjustment to the existing basic rates pursuant to G.S. 62-134(e) should be terminated with the effective date of the rates approved herein. Future filings for rate increases based solely on the cost of fuel pursuant to G.S. 62-134(e) should be made pursuant to the formula attached as Exhibit B.

7. That Duke Power Company should give public notice of the rate increase approved herein by mailing a copy of the Notice attached as Appendix "1" by first class mail to each of its North Carolina retail customers during the next normal billing cycle.

ISSUED BY ORDER OF THE COMMISSION.

This 3rd day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

EXHIBIT A
RESIDENTIAL SERVICE - GENERAL
Schedule R

1, 2

Present Rates

$3.40	for the first 80 KWH or less
2.47¢	per KWH for the next 220 KWH
2.36¢	per KWH for the next 50 KWH
2.88¢	per KWH for the next 950 KWH
2.61¢	per KWH for the next 200 KWH
2.05¢	per KWH for all over 1500 KWH

2

Proposed Rates

$4.39	for the first 80 KWH or less
3.19¢	per KWH for the next 220 KWH
3.05¢	per KWH for the next 50 KWH
3.73¢	per KWH for the next 950 KWH
3.38¢	per KWH for the next 200 KWH
2.65¢	per KWH for all over 1500 KWH

3

Approved Rates

$4.30	Basic Facilities Charge
2.57¢	per KWH for the first 350 KWH
4.11¢	per KWH for the next 950 KWH
3.87¢	per KWH for the next 200 KWH
3.19¢	per KWH for all over 1500 KWH

Sample Bills - Schedule R

KWH Usage	Present Rates[1] Monthly Bill[4] ($)	Approved Rates[1] Monthly Bill[3] ($)	Increase Over Present (%)
0	3.40	4.30	26.47
80	3.73	6.36	70.30
100	4.31	6.87	59.47
200	7.20	9.44	31.18
350	11.47	13.30	15.92
500	16.42	19.47	18.57
700	23.02	27.69	20.30
1000	32.91	40.02	21.60
1300	42.81	52.35	22.30
1500	48.86	60.09	22.98
2000	61.20	76.03	24.23
3000	85.88	107.93	25.68

1 Rates approved in Commission order dated October 10, 1974

2 Rates do not include fossil fuel adjustment charge

3 Approved fuel charge included

4 Includes fossil fuel adjustment charge; fossil fuel factor of 0.418¢/KWH (August, September, and October 1975 fuel factor) used to compute fuel adjustment charge to be added to monthly bills

RESIDENTIAL SERVICE - WITH WATER HEATING
Schedule RW

Present Rates[1, 2]

$3.65	for the first 80 KWH or less
2.47¢	per KWH for the next 70 KWH
1.83¢	per KWH for the next 200 KWH
2.24¢	per KWH for the next 950 KWH
2.05¢	per KWH for all over 1300 KWH

Proposed Rates[2]

$4.71	for the first 80 KWH or less
3.20¢	per KWH for the next 70 KWH
2.36¢	per KWH for the next 200 KWH
2.90¢	per KWH for the next 950 KWH
2.65¢	per KWH for all over 1300 KWH

[3]

Approved Rates

$4.69	Basic Facilities Charge
2.38¢	per KWH for the first 350 KWH
3.15¢	per KWH for the next 950 KWH
3.05¢	per KWH for all over 1300 KWH

Sample Bills - Schedule RW

[1]

KWH Usage	Present Rates[4] Monthly Bill ($)	Approved Rates[3] Monthly Bill ($)	Increase Over Present (%)
0	3.65	4.69	28.49
80	3.98	6.59	65.39
100	4.56	7.07	55.11
200	7.13	9.45	32.61
350	10.50	13.02	24.02
500	14.49	17.75	22.49
700	19.81	24.05	21.42
1000	27.78	33.50	20.59
1300	35.76	42.95	20.12
1500	40.69	49.05	20.54
2000	53.03	64.30	21.25
3000	77.71	94.80	21.99

[1] Rates approved in Commission order dated October 10, 1974

[2] Rates do not include fossil fuel adjustment charge

[3] Approved fuel charge included

[4] Includes fossil fuel adjustment charge; fossil fuel factor of 0.418¢/KWH (August, September, and October 1975 fuel factor) used to compute fuel adjustment charge to be added to monthly bills

RESIDENTIAL SERVICE - ALL ELECTRIC
Schedule RA

[1, 2]

Present Rates

$3.81	for the first 80 KWH or less
2.47¢	per KWH for the next 120 KWH
1.83¢	per KWH for the next 150 KWH
2.16¢	per KWH for the next 950 KWH
1.79¢	per KWH for the next 200 KWH
1.51¢	per KWH for all over 1500 KWH

Proposed Rates [2]

$4.93	for the first 80 KWH or less
3.20¢	per KWH for the next 120 KWH
2.36¢	per KWH for the next 150 KWH
2.79¢	per KWH for the next 950 KWH
2.32¢	per KWH for the next 200 KWH
1.95¢	per KWH for all over 1500 KWH

Approved Rates [3]

$5.19	Basic Facilities Charge
2.34¢	per KWH for the first 350 KWH
3.10¢	per KWH for the next 950 KWH
2.74¢	per KWH for the next 200 KWH
2.30¢	per KWH for all over 1500 KWH

Sample Bills - Schedule RA

KWH Usage	Present Rates [1] Monthly Bill [4] ($)	Approved Rates Monthly Bill [3] ($)	Increase Over Present (%)
0	3.81	5.19	36.22
80	4.14	7.06	70.35
100	4.72	7.53	59.60
200	7.61	9.87	29.76
350	10.98	13.38	21.82
500	14.85	18.03	21.41
700	20.01	24.23	21.11
1000	27.74	33.53	20.87
1300	35.48	42.83	20.73
1500	39.89	48.31	21.11
2000	49.53	59.81	20.76
3000	68.81	82.81	20.35

[1] Rates approved in Commission order dated October 10, 1974

[2] Rates do not include fossil fuel adjustment charge

[3] Approved fuel charge included

[4] Includes fossil fuel adjustment charge; fossil fuel factor of 0.418¢/KWH (August, September, and October 1975 fuel factor) used to compute fuel adjustment charge to be added to monthly bills

GENERAL SERVICE

Schedule G

For the First 125 KWH per KW Billing Demand per Month

$1.51 for the first	10 KWH or less
7.50¢ per KWH for the next	40 KWH
4.91¢ per KWH for the next	1,220 KWH
4.03¢ per KWH for the next	1,730 KWH
3.51¢ per KWH for the next	27,000 KWH
3.35¢ per KWH for the next	30,000 KWH
3.17¢ per KWH for the next	30,000 KWH
2.54¢ per KWH for the next	910,000 KWH
2.52¢ per KWH for all over	1,000,000 KWH

For the Next 275 KWH per KW Billing Demand per Month

3.32¢ per KWH for the first	3,000 KWH
2.51¢ per KWH for the next	3,000 KWH
1.89¢ per KWH for the next	20,000 KWH
1.77¢ per KWH for the next	75,000 KWH
1.59¢ per KWH for the next	89,000 KWH
1.43¢ per KWH for all over	190,000 KWH

For All Over 400 KWH per KW Billing Demand per Month

1.43¢ per KWH for the first	1,000,000 KWH
1.37¢ per KWH for all over	1,000,000 KWH

Schedule W

3.50¢ per KWH for the first	100 KWH
2.29¢ per KWH for all over	100 KWH

Schedule 9

4.90¢ per KWH

Schedule BC

$1.44 for the first		10 KWH or less
7.52¢ per KWH for the next	40 KWH	
2.29¢ per KWH for all over	50 KWH	

Schedule GA

For the First 125 KWH per KW Billing Demand per Month

$6.97 for the first	100 KWH or less
4.90¢ per KWH for the next	1,170 KWH
4.03¢ per KWH for the next	1,730 KWH
3.50¢ per KWH for the next	27,000 KWH
3.35¢ per KWH for the next	30,000 KWH
3.16¢ per KWH for the next	30,000 KWH
2.54¢ per KWH for the next	910,000 KWH
2.53¢ per KWH for all over	1,000,000 KWH

For the Next 275 KWH per KW Billing Demand per Month

1.78¢ per KWH for the first	140,000 KWH
1.59¢ per KWH for the next	60,000 KWH
1.44¢ per KWH for all over	200,000 KWH

For All Over 400 KWH per KW Billing Demand per Month

1.43¢ per KWH for the first	1,000,000 KWH
1.37¢ per KWH for all over	1,000,000 KWH

Schedule T2 (As Filed by Duke plus)

Bracket Mounted

4,000 Lumen	$.15
7,500 Lumen	.30
20,000 Lumen	.60

Post Top

4,000 Lumen	.15
7,500 Lumen	.30

Incandescents

6,000 Lumen	.50

Schedule T2X (As Filed by Duke plus)

4,000 Lumen	.15

Schedule TS

$1.44 for the first	10 KWH or less
7.52¢ for KWH for the next	40 KWH
2.29¢ per KWH for all over	50 KWH

T (As Filed by Duke plus)

Bracket Mounted

4,000 Lumen	$.15
7,500 Lumen	.30
20,000 Lumen	.60
11,500 Lumen	.40
55,000 Lumen	1.40
50,000 Lumen	.60

Post Top

4,000 Lumen	.15
7,500 Lumen	.30

Incandescents

1,000 Lumen	.10
2,500 Lumen	.25
4,000 Lumen	.40
6,000 Lumen	.50

INDUSTRIAL SERVICE

Schedule I

For the First 125 KWH per KW Billing Demand per Month

$7.53 for the first	100 KWH or less
5.30¢ per KWH for the next	1,170 KWH
4.34¢ per KWH for the next	1,730 KWH
3.78¢ per KWH for the next	27,000 KWH
3.56¢ per KWH for the next	30,000 KWH
3.41¢ per KWH for the next	30,000 KWH
2.72¢ per KWH for the next	910,000 KWH
2.66¢ per KWH for all over	1,000,000 KWH

For the Next 275 KWH per KW Billing Demand per Month

1.87¢ per KWH for the first	140,000 KWH
1.67¢ per KWH for the next	60,000 KWH
1.47¢ per KWH for all over	200,000 KWH

For All Over 400 KWH per KW Billing Demand per Month

1.43¢ per KWH for the first	1,000,000 KWH
1.36¢ per KWH for all over	1,000,000 KWH

Schedule IP

Same as I above plus filed 5¢ Surcharge

EXHIBIT B
FUEL COST FORMULA

$$F = \left(\frac{E}{S} - \$0.007923 \right) (T) (100)$$

Where:

F = Fuel adjustment in cents per kilowatt-hour.
E = Fuel costs experienced during the third month preceding the billing month, as follows:

(A) Fossil and nuclear fuel consumed in the utility's own plants, and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants.
The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees.
The cost of nuclear fuel shall be that as shown in Account 518, except that if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

Plus

(B) Purchased power fuel costs such as those incurred in unit power and Limited Term power purchases where the fossil and nuclear fuel costs associated with energy purchased are identifiable and are identified in the billing statement.

Plus

(C) Interchange power fuel costs such as Short Term, Economy and other where the energy is purchased on economic dispatch basis; costs such as fuel handling fuel additives and operating and maintenance may be included.

Energy receipts that do not involve money payments such as Diversity energy and payback of storage energy are not defined as purchased or Interchanges power relative to the Fuel Clause.

Minus

(D) The cost of fossil and nuclear fuel recovered through intersystem sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Energy deliveries that do not involve billing transactions such as Diversity energy and payback of storage are not defined as sales relative to the Fuel Clause.

S = total kilowatt-hour sales during the third month preceding the billing month.

$0.007923 = Base cost of fuel per KWH sold.

T = adjustment for state taxes measured by gross receipts: 1.06383

APPENDIX "1"

DOCKET NO. E-7, SUB 161
DOCKET NO. E-7, SUB 173

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Duke Power Company for Authority to Adjust its Electric Rates and Charges	)))	NOTICE TO CUSTOMERS

On 29 November 1974 Duke Power Company filed an Application with the North Carolina Utilities Commission for authority to increase electric rates to its North Carolina retail customers. The Application requested approval of approximately a 23.6% increase in revenues. On 30 June 1975 Duke exercised its statutory rights by placing into effect on service rates which would result in an increase of no more than twenty per cent (20%) on any single rate classification or a total bill of any customer.

On 3rd October 1975 the Commission issued the final decision in this docket. The Order approved rates designed to roll in the 1974 annualized automatic fuel adjustment charge into the basic rates which would reflect a more current fuel cost. The Commission also approved residential rates designed to recover the cost for Duke of providing electric service to its customers, to conserve energy resources, and to promote economic efficiencies. The approved residential rate schedules reflect a more equitable and efficient rate design. The Order directed Duke Power Company to assist and work with the Commission Staff in undertaking a study and analysis of the internal pricing of the major general and industrial service rates.

The Commission directed Duke Power Company to undertake a program to inform its customers with respect to their consumption of electricity during system peak periods. The Commission believes that an awareness of wise conservation measures on the part of Duke's customers can result in a stabilization of electric rates. The Commission further directed Duke Power Company to undertake measures to control increases in costs, thereby holding electric rates down.

Copies of the rate schedules may be obtained at your Duke Power Company offices.

Issued 3rd October 1975.

DUKE POWER COMPANY

DOCKET NO. E-7, SUBS 16 AND 173

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of E-7, Sub 173 - Application by Duke Power Company for Authority to Increase its Electric Rates and Charges for its Retail Customers in North Carolina, and E-7, Sub 16 - Duke Power Company Fuel Clause Investigation Docket	ORDER CLARIFYING ORDER GRANTING RATE INCREASE

BY THE COMMISSION: It has come to the attention of the Commission that ordering paragraph no. six as set forth in the Commission's Order 3 October 1975 is subject to more than one reasonable interpretation. Pursuant to G.S. 62-134 (e) Duke requested approval of an increase based solely upon fuel costs and for approval of a temporary surcharge that would allow Duke to recover two months' fossil fuel cost which had been incurred but uncollected. In its Order issued 27 August 1975 approving the adjustment in rates and charges pursuant to G.S. 62-134 (e) the Commission authorized Duke to adjust its basic retail electric rates by the addition of 0.418¢/KWH based solely on increased fuel cost and authorized Duke to apply a temporary surcharge designed to recover the unbilled revenues accrued as of August 31, 1975. In the Order issued 3 October 1975 the Commission spoke directly to the adjustment to Duke's basic retail rates and directed Duke to roll its annualized fossil fuel adjustment charge into its basic rates. The Commission did not speak to nor did it intend by its ordering paragraph no. six to terminate the temporary surcharge approved pursuant to G.S. 62-134(e). The Commission is of the opinion that it should be made clear that said surcharge is to remain effective to allow Duke to recover unbilled revenues accrued as of 31 August 1975 over a period of approximately twelve (12) months.

It has further come to the attention of the Commission that it omitted to speak to Duke's request for approval of internal research and development expenditures of approximately $770,000, and to Duke's request of increased research and development contributions by EEI member companies to the Liquid Metal Fast Breeder Reactor Demonstration Program and to the Electric Power Research Institute in the amount of approximately $3,100,000. It is the opinion of the Commission that the final order of 3 October 1975 also should be clarified in this regard.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Order of 3 October 1975 in the above docket did not terminate the Commission's approval of Duke's request for a temporary surcharge approved by Order of the Commission 27 August 1975 pursuant to G.S. 62-134(e), said surcharge to remain in effect over a period of approximately twelve (12) months.

2. The Commission approves Duke's request for approval of internal research and development expenditures and research and development contributions to Liquid Metal Fast Breeder Reactor Demonstration Program and to the Electric Power Research Institute.

ISSUED BY ORDER OF THE COMMISSION.

This 10th day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-7, SUBS 16 AND 173

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of E-7, Sub 173 - Application by Duke Power Company for Authority to Increase Its Electric Rates and Charges for its Retail Customers in North Carolina and, E-7, Sub 16 - Duke Power Company - Fuel Clause Investigation Docket	)	ORDER CORRECTING ERROR

BY THE COMMISSION: On October 3, 1975, the Commission issued an Order in the above dockets approving rates and charges for electric service rendered to North Carolina retail customers. The Commission, in Finding of Fact 9, established the total fuel cost component of 0.7923¢/KWH based on projected 1975 fuel costs. This fuel cost component appropriately excludes the interest expense on leased nuclear fuel. The nuclear fuel interest expense should have been included in the basic rates. However, in the calculation of the adjustment to the basic rates to reflect more current fuel costs to the 0.7923¢/KWH level, the Commission omitted the interest expense associated with $35 million of nuclear fuel sold and leased back in December of 1974. This interest expense in the amount of $4,285,000 ($2,570,284 N.C. Retail jurisdiction) would have increased basic rates by an average of 0.0109¢/KWH if the interest expense had been appropriately reflected in the basic rates. The Commission concludes that Duke's basic retail electric rates should be adjusted by the addition of 0.109¢/KWH to

each rate block to reflect the omitted nuclear fuel interest expenses. In addition the Fuel Cost Formula attached as Exhibit B to the Commission's Order issued October 3, 1975 should be clarified by the insertion of "excluding interest on leased nuclear fuel and" on the 8th line of item "A".

IT IS, THEREFORE, ORDERED:

1. That Duke shall adjust its North Carolina basic retail electric rates by the addition of 0.01094¢/KWH to become effective on bills rendered on and after December 1, 1975.

2. That the Fuel Cost Formula attached as Exhibit B to the Order issued on October 3, 1975 be amended as shown in Exhibit A attached hereto.

ISSUED BY ORDER OF THE COMMISSION.

This the 17th day of November, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine N. Peele, Chief Clerk

(SEAL)

EXHIBIT A
FUEL COST FORMULA

$$F = \frac{E}{S} - \$0.007923 \quad (T) \quad (100)$$

Where:

F = Fuel adjustment in cents per kilowatt-hour.
E = Fuel costs experienced during the third month preceding the billing month, as follows:

(A) Fossil and nuclear fuel consumed in the utility's own plants, and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants. The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 518 excluding interest on leased nuclear fuel and except that if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

Plus

(B) Purchased power fuel costs such as those incurred in unit power and Limited Term power purchases where the fossil and nuclear fuel costs associated with energy purchased are

identifiable and are identified in the billing statement.

Plus

(C) Interchange power fuel costs such as Short Term, Economy and other where the energy is purchased on economic dispatch basis; costs such as fuel handling, fuel additives and operating and maintenance may be included.

Energy receipts that do not involve money payments such as Diversity energy and payback of storage energy are not defined as purchased or Interchanges power relative to the Fuel Clause.

Minus

(D) The cost of fossil and nuclear fuel recovered through intersystem sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Energy deliveries that do not involve billing transactions such as Diversity energy and payback of storage are not defined as sales relative to the Fuel Clause.

S = total kilowatt-hour sales during the third month preceding the billing month.

$0.007923 = Base cost of fuel per KWH sold.

T = adjustment for state taxes measured by gross receipts: 1.06383

DOCKET NO. E-7, SUB 186

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Duke Power Company for Authority to Adjust its Electric Rates and Charges - Fossil Fuel Adjustment Clause	) ORDER APPROVING) ADJUSTMENT IN RATES) AND CHARGES PURSUANT) TO G. S. 62-134(e)

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on July 21 and 22, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding and Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, Barbara A. Simpson and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

Steve C. Griffith, Jr.
General Counsel

George W. Ferguson, Jr.
Associate General Counsel
Duke Power Company
P. O. Box 2|78
Charlotte, North Carolina 28242

Clarence W. Walker
Attorney at Law
Kennedy, Covington, Lobdell
and Hickman
3300 NCNB Plaza
Charlotte, North Carolina 28280

For the Intervenors:

I. Beverly Lake, Jr.
Deputy Attorney General

Jerry J. Rutledge
Associate Attorney General
Attorney General's Office
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public

For the Commission Staff:

John R. Molm
Associate Commission Attorney
One West Morgan Street
Raleigh, North Carolina 27602

BY THE COMMISSION: On 30 June |975 Duke Power Company (hereinafter referred to as "Duke") filed an application for adjustment in rates and charges based solely upon increased cost of fossil fuel above the cost for fossil fuel currently included in Duke's general rate schedules. The application was filed to comply with the recently enacted General Statute 62-|34(e). Duke seeks through its application to replace its present fuel clause by the addition of .4326¢ per kilowatt-hour to all metered retail rate schedules. In addition to the .4326¢ adjustment to the general rate schedules the application further seeks to recover deferred fuel expenses for the months of April and May, |975. This recovery would be spread over a twelve (|2) month period at the rate of .069¢ per kilowatt-hour as proposed in the application.

On 3 July |975 the Commission issued an Order Suspending the Proposed Rates, Setting Hearing on the Application and requiring public notice.

On 2| July |975 the Attorney General of North Carolina filed Notice of Intervention on behalf of the Using and Consuming Public. By order the Commission allowed the intervention on the same date.

On 2| July |975 the Attorney General of North Carolina filed a Motion with the Commission asking the Commission to declare Duke's application a general rate increase in accordance with G. S. 62-|37, that the application be handled under the Rules and Procedures followed for general rate increases and that the Commission find Duke's application not to be an appropriate filing under G. S. 62-|34(e). On July 2|, |975 the Attorney General filed a Brief or Memorandum of Law and Argument in support of his motions.

The hearing was commenced at the scheduled time and place. Duke offered the testimony of William R. Stimart, Treasurer of Duke Power Company and its Chief Accounting Officer testifying as to the fossil fuel cost reflected in the present rates, the determination of the amount of the change in the cost of fuel, the Company's proposed method for recovery of this increased fuel cost after the present fossil fuel clause terminates, the Company's proposed method for recovery of the fossil fuel costs unbilled at the time that the new procedures will be effective, and how this application will be compatible with the rates proposed in Docket E-7, Sub |73; and W. T. Robertson, Jr., Vice President and Manager - Fuel Purchasing, Mill-Power Supply Company, a wholly-owned subsidiary of Duke Power Company, which acts as purchasing agent for its principal, Duke Power Company, testifying to show that Duke's fossil fuel purchasing practices during the month of May, |975, were reasonable.

The Commission Staff offered the testimony of Andrew W. Williams, Chief of the Electric Section in the Engineering Division of the North Carolina Utilities Commission, testifying on the Staff's interpretation of the most appropriate method of handling Duke's application under G. S. 62-|34(e) and recommending a format for handling future filings under G. S. 62-|34(e).

On July 30, |975, Duke filed an application updating its request to show cost results of June generating and operating statistics, resulting in an amended request for a 0.4|8|¢/KWH adjustment to its basic rates and charges rather than the previously requested 0.4326¢/KWH based on May generating and operating statistics.

FINDINGS OF FACT

|. That with the elimination of currently approved fuel charges, Duke's retail electric rates will no longer be designed to fully recover its fuel expenses.

2. That Duke's basic retail electric rates should be adjusted by the addition thereto of 0.418¢/KWH to allow rates to fully recover reasonable expenditures for fuel.

3. That fuel cost based electric rate cases pursuant to N. C. G. S. 62-134(e) can be reviewed and processed more efficiently if applications are based on approved formulas.

4. That on September 1, 1975, Duke will have approximately $17,000,000 of unbilled fuel charge revenues that will become unrecoverable. Duke should be allowed to collect these unbilled revenues by a temporary surcharge over a period of twelve months.

5. That accrued accounting for unbilled revenues to reflect the lag in recovery of increased fuel costs should be disallowed in the future.

6. That bills rendered on and after September 1, 1975 should show basic rate charges and "approved fuel charge" charges separately.

CONCLUSIONS

With the elimination of currently approved fuel adjustment charges from Duke's retail electric rates on September 1, 1975, pursuant to recently enacted N. C. G. S. 62-134(e), said rates will no longer be designed to fully recover fuel expenses incurred by Duke in providing electric utility service to its North Carolina retail consumers. The basic rates currently in effect were designed to reflect fuel cost levels existing in October 1973. Current fuel costs are approximately double this level.

Duke's basic retail electric rates should be adjusted by the addition of 0.418¢/KWH, said adjustment being based on generating and fuel cost statistics for June, 1975 and reflecting a reasonable estimate of the increase in fuel costs above those currently being recovered in Duke's basic rate design.

Should generating and fuel cost statistics of subsequent months reflect fuel cost levels lower than those reflected in the adjusted basic rates, then Duke should immediately file for further adjustment to its rates to reflect these lower cost levels.

Future filings for rate increases based solely on the cost of fuel pursuant to N. C. G. S. 62-134(e) can be reviewed more efficiently if such filings are based on Duke's current fuel adjustment formula using generating and fuel cost statistics in the third month preceding the billing month. This formula may be used to facilitate processing until such time as it may be modified in a general rate case. Duke should continue to file the monthly fuel adjustment charge report and the supporting monthly fuel cost and supply report to assist the Commission and the Staff monitoring

fuel costs and their possible effects on future retail electric rates.

With the elimination of the so called "automatic" fuel adjustment charge, Duke will have approximately $17,000,000 of unbilled fuel charge revenues accrued because of accounting procedures that will become unrecoverable under existing rates. These unbilled revenues result from reasonable expenses incurred in the providing of electric utility service to North Carolina retail consumers and were accrued under accounting practices previously approved by this Commission. Duke should be allowed to recover these unbilled revenues by a surcharge designed to recover the total accrual over a period of twelve months.

Accrual of unbilled revenues accounting to reflect the lag in recovery of increased fuel costs should be disallowed in the future. These practices were appropriate under an automatic fuel adjustment clause but are not appropriate for a rate case, either general or cost of fuel only.

Bills after September 1, 1975 should show charges under the basic rate schedules and an "approved fuel charge" separately. The approved fuel charge is effectively an adjustment to the basic rate to reflect changes in the cost of fuel and is stated separately only to facilitate individual customers in the computation and verification of their bills. The temporary surcharge designed to collect unbilled revenues may be included in the "approved fuel charge" portion of the bill because of computer limitations.

IT IS, THEREFORE, ORDERED:

1. That effective on bills rendered on and after September 1, 1975, Duke Power Company is hereby authorized to adjust its basic retail electric rates by the addition thereto of 0.418¢/KWH based solely on increased fuel costs pursuant to North Carolina G. S. 62-134(e).

2. That following any decrease in fuel cost levels below those existing in the basic rates as adjusted for fuel cost increases, Duke Power Company shall immediately file for a downward adjustment to reflect these decreased fuel costs.

3. That Duke Power Company shall continue to file on a monthly basis the computations of the fuel adjustment report and the supporting fuel cost and supply report.

4. That effective on bills rendered on and after September 1, 1975, Duke Power Company is hereby authorized to apply a temporary surcharge designed to recover the unbilled revenues accrued as of August 31, 1975 as a result of the lag in the old fuel adjustment clause on its North Carolina retail jurisdictional service. The surcharge should be designed on a ¢/KWH basis to recover the total deferral plus associated gross receipts taxes over a period of approximately twelve (12) months. The surcharge shall

begin on September 1, 1975 and be terminated when the actual unbilled revenue total attributable to North Carolina retail jurisdictional service is recovered. Total dollar billings under this surcharge shall be reported to the Commission monthly.

5. That accrued accounting of unbilled revenues due to the lag in the old fuel clause is no longer approved by this Commission and should hereby be eliminated in this jurisdiction.

6. That bills after September 1, 1975 show the basic rate charges and "approved fuel charge", so entitled, separately. The temporary surcharge may be included under the "approved fuel charge".

ISSUED BY ORDER OF THE COMMISSION.

This the 27th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-7, SUB 192

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Duke Power Company for Authority to Adjust and Decrease its Electric Rates and Charges Pursuant to G.S. 62-134(e)	)) ORDER) APPROVING) DECREASE

BY THE COMMISSION: In the Order Granting Rate Increase, issued on October 3, 1975, and subsequent Order Correcting Error, issued on November 17, 1975, the Commission in Docket No. E-7, Subs 161 and 173, established the fuel cost component of the basic rates at 0.7923¢/KWH. Commission Rule R1-36 requires Duke, and the other electric utilities, to immediately file for a downward adjustment to reflect any decrease in the cost of fuel below the level existing in the basic rates.

On December 1, 1975, Duke Power Company filed an application pursuant to G.S. 62-134(e) to decrease the cost of each kilowatt-hour sold to its North Carolina retail customers to reflect more recent fuel costs of 0.6846¢/KWH. With the application, the Company filed the affidavit of William R. Stimart, Treasurer and Chief Accounting Officer of Duke, and W. T. Robertson, Jr., Vice President and Manager - Fuel Purchasing, Mill-Power Supply Company. Mr. Stimart offered information as to the determination of the ¢/KWH decrease. Mr. Robertson reviewed Duke's fuel purchasing practices for the month of October 1975.

The difference in the 0.7923¢/KWH included in the basic rates for fuel and the more recently experienced fuel costs of 0.6846¢/KWH is 0.1077¢/KWH, or 0.11746¢/KWH including the gross receipts tax adjustment. This decrease in fuel charges is 0.0148¢/KWH lower than the decrease of 0.0998¢/KWH adjustment approved for Duke's December billings. Duke's application shows the effect of a temporary surcharge of 0.0690¢/KWH to recover unbilled revenues approved in a previous docket. This temporary surcharge is not the subject of this docket though it may be shown as part of the "approved fuel charge" on customers' bills because of computer limitations.

After careful consideration and scrutiny of the affidavits filed by Duke Power Company, the Commission is of the opinion, and so concludes, that the downward adjustment in rates proposed by Duke, after correction for the surcharge which occurred in another docket, of -0.11746¢/KWH in lieu of the previously approved -0.0998¢/KWH is correct and appropriate.

IT IS, THEREFORE, ORDERED That Duke Power Company make a downward adjustment, based solely on the decreased cost of fuels, to its North Carolina retail electric rates of 0.11746¢/KWH in lieu of the previously approved downward adjustment of 0.0998¢/KWH, to become effective on bills rendered on and after January 2, 1976.

ISSUED BY ORDER OF THE COMMISSION.

This the 9th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-13, SUB 23

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Nantahala Power and Light Company for Authority to Adjust and Increase its Electric Rates and Charges	)))	ORDER GRANTING PARTIAL RATE INCREASE

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina.

DATES: October 1-4, 10, 11, 21 and 22, 1974

BEFORE: Chairman Marvin R. Wooten, presiding, Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, George T. Clark, Jr.

APPEARANCES:

For the Applicant:

Robert C. Howison
Joyner and Howison
Attorneys at Law
Wachovia Bank Building
Raleigh, North Carolina

G. Clark Crampton
Joyner and Howison
Attorneys at Law
Wachovia Bank Building
Raleigh, North Carolina

For the Using and Consuming Public:

Jerry Rutledge
Associate Attorney General
Department of Justice
P. O. Box 629
Raleigh, North Carolina

For the Commission Staff:

Edward B. Hipp
Commission Attorney
Ruffin Building
Raleigh, North Carolina

John R. Molm
Associate Commission Attorney
Ruffin Building
Raleigh, North Carolina

BY THE COMMISSION: This proceeding is before the Commission upon the application of Nantahala Power and Light Company (hereinafter referred to as "Nantahala") filed with the Commission on 29 March 1974 for an increase in retail rates and for a Purchased Power Adjustment Clause which are designed to increase its retail revenues by approximately 24%.

By Order dated 26 April 1974 the Commission suspended the proposed increases in Nantahala's rates and charges, suspended the Purchased Power Adjustment Clause rate, set the proceeding for investigation and hearing and set the test period to be the twelve months ending 30 June 1973. By Order dated 19 June 1974 the Commission issued an Order Requiring Information (for) Staff Investigation.

By Order dated 12 August 1974 the Commission issued an Order recognizing the Intervention of the Attorney General.

By letter dated 24 January 1975 W. T. Walker, President, Nantahala Power and Light Company, advised the Commission

that pursuant to the provisions of G.S. 62-134(b) the proposed changes in rates and charges under the revised tariffs were put into effect for service rendered on and after 24 January 1975. In its application the company proposed rates designed to produce an additional $1,523,544 in annual revenue. By this Order the Commission fixes rates designed to produce an additional $668,000 in annual revenue. The Commission observes that by putting the proposed rates into effect for about two and one-half months until this final order has allowed Nantahala to earn approximately $171,000 in additional revenue.

WITNESSES

Nantahala offered the testimony and exhibits of the following witnesses: Mr. William T. Walker, President of Nantahala, as to the financial needs and operations of Nantahala; Mr. Robert D. Buchanan; Assistant Controller, Taxes and Financial Accounting, Aluminum Company of America, as to the accounting records and financial statements of Nantahala; Mr. John J. Reilly, Ebasco Services Incorporated, as to estimating the trended original cost, the depreciation, the fair value and economic value of Nantahala's plant; Mr. Wallace W. Carpenter, Ebasco Services Incorporated, as to jurisdictional cost of service and rate design; Mr. J. R. Crespo, Ebasco Services, Incorporated, as to fully allocated costs by classes of service; Mr. George Popovich, Technical Analyst-Power Division, Aluminum Company of America, as to hydrology and hydroelectric power operations; Mr. Robert L. Schlesinger, Ebasco Services, Incorporated, as to the reasonable cost of money and fair rate of return for Nantahala; and Mr. Roland August Kampmeir, Consulting Engineer, as to the 1941 Fontana Agreement and the New Fontana Agreement.

The Commission Staff offered the testimony and exhibits of the following witnesses: Mr. Donald R. Hoover, Staff Accountant, as to an examination of the books and records of Nantahala; Mr. John Reed Bumgarner, Jr., Staff Engineer, as to an investigation of Nantahala's plant; Mr. N. Edward Tucker, Staff Engineer, as to the jurisdictional allocation study prepared by Ebasco; Mr. Allen L. Clapp, Staff Engineer, as to the valuation of Nantahala's plant and Nantahala's retail cost allocation study.

The Attorney General of North Carolina did not offer any witnesses.

Based upon the record herein and the evidence adduced at the public hearing, the Commission makes the following

FINDINGS OF FACT

1. That Nantahala Power and Light Company is duly organized as a public utility company under the laws of North Carolina, holding a franchise to furnish electric power in the western portion of the State of North Carolina

under rates and service regulated by the Utilities Commission as provided in Chapter 62 of the General Statutes.

2. That the reasonable original cost of Nantahala's property used and useful in providing retail electric service in North Carolina is $20,019,010, which is composed of electric plant in service of $41,730,208 less accumulated depreciation of $21,788,947, and contribution in aid of construction of $72,605, plus an allowance for working capital of $150,354.

3. That the reasonable allowance for working capital is $150,354.

4. That the reasonable replacement cost of Nantahala's utility plant used and useful in providing retail electric service in North Carolina is $34,411,000. That the fair value of Nantahala's property used and useful in providing retail electric service to the public within North Carolina at the end of the test year considering the net investment in electric plant in service of $19,868,656 plus an allowance for working capital and the reasonable replacement cost of $34,411,000 is $24,866,458.

5. That Nantahala's approximate gross revenues for the test year after accounting and pro forma adjustments under present rates are $6,554,348 and after giving effect to the company proposed rates are $8,077,892.

6. That the level of operating expenses after accounting and pro forma adjustments, including taxes and interest on customer deposits is $5,935,317 which includes an amount of approximately $1,014,435 for actual investment currently consumed through reasonable actual depreciation before annualization to year end.

7. That the fair rate of return which Nantahala should have the opportunity to earn on the fair value of its North Carolina retail investment is 3.72% which requires additional annual gross revenue from North Carolina retail customers of $668,000, and that the fair rate of return which Nantahala should have the opportunity to earn on its fair value equity investment in its North Carolina retail operations is 4.60%.

8. That the New Fontana Agreement and resultant Apportionment Agreement between Nantahala and Tapoco is reasonable.

9. That a purchased power adjustment clause is a just and reasonable rate and a reasonable method by which Nantahala can recover a part of its reasonable operating expenses.

10. That the rate design proposed by Nantahala shall be modified as set forth in the Commission's evidence and conclusions for this finding of fact.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

The Commission will now analyze the testimony and exhibits presented by Company Witness Carpenter and Staff Witness Hoover concerning the original cost net investment. The following chart summarizes the amount each of these witnesses contended was proper in the exhibits and testimony as originally filed.

ORIGINAL COST NET INVESTMENT

Line No.	Item	Company Witness Carpenter	Staff Witness Hoover
1.	Investment in electric plant in service	$41,730,208	$41,730,208
2.	Less: Accumulated depreciation and amortization	21,788,947	21,788,947
3.	Contributions in aid of construction	72,605	72,605
4.	Accumulated deferred income taxes	-	4,812,559
5.	Unamortized investment tax credit - pre 1971	-	92,968
6.	Customer deposits	-	176,552
7.	Net investment in electric plant in service	$19,868,656	$14,786,577

As the above chart shows the witnesses agree as to the amounts properly includable for investment in electric plant in service, accumulated depreciation and amortization, and contributions in aid of construction. They disagree with respect to net investment in electric plant. This results from the fact that Mr. Hoover deducted deferred income taxes, investment tax credits - pre 1971 and customer deposits in determining his net investment in electric plant. Mr. Hoover stated that he deducted these items in determining his original cost net investment because they represent cost-free capital to the company which has been supplied by the company's ratepayers through the payment of rates, and the ratepayers should not be required to pay a return on property which they have contributed to the company. A regulated utility should be allowed an opportunity to earn a fair rate of return on investment in electric plant in service which is supported by capital provided by the debt and equity investors; a utility should not earn a return on investment provided by capital obtained from sources other than the debt and equity investor.

Mr. Carpenter did not speak to these issues. In rebuttal Company Witness Buchanan, however, disagreed with Mr.

Hoover's deduction for deferred taxes, investment tax credits, and customer deposits in determining the company's net original cost of plant in service. Mr. Buchanan contended that these items should be treated as investor-supplied funds, and that the company should be permitted to earn a return on capital obtained from these sources. It was his opinion that Congress intended that the benefit from taking rapid depreciation pursuant to Section 124 of the Revenue Code should flow solely to the stockholders of the company.

The Commission cannot say with any degree of certainty what the intent of Congress was back in 1946. The company charged this depreciation to operations over a five-year period. Thus when these items were charged to operations, no attempt was made by the company to follow normalization accounting for the associated income tax effects. There is no loss carried forward occasioned by the taking of this rapid amortization. Witness Buchanan did testify that he thought losses had been incurred in each of these years but he offered no operating or financial data to show this in fact had occurred. Mr. Buchanan would have the Commission permit it to charge the customer today for depreciation on property which was completely depreciated for both book and tax purposes and earn a return on the balance which would remain had straight-line depreciation been taken for book purposes.

In other words the Commission should assume the property has not been depreciated for rate-making purposes, but should assume that the customers did not pay the higher normalized Federal income taxes because of losses which Mr. Buchanan believes occurred when the accelerated write-off under Section 124 was charged to operations. The Commission cannot accept this logic. In fact the Commission questions whether the company should be allowed to charge any depreciation on this property to current operations and whether the full depreciation reserve actually shown on the books should be deducted in arriving at original cost net investment. For rate-making purposes, however, the Commission has consistently required utilities to follow straight-line accounting for depreciation and normalization accounting for the income tax effects of liberalized depreciation. These normalized income tax effects either can be included in the capital structure at zero cost or deducted from the original cost net investment. The Commission concludes that for purposes of this case this item of cost-free capital should be included in the capital structure at zero cost.

The next item of noninvestor-supplied cost-free capital deducted by Witness Hoover in arriving at net investment was the unamortized balance of the investment tax credit in the amount of $92,968. This Commission has previously issued a general rule-making order which permits utilities to follow what is commonly referred to as "normalization accounting" for investment tax credits. By this accounting procedure

the company reflects for financial reporting and regulatory purposes a greater Federal income tax expense than it actually incurs. Concurrently, a corresponding credit is set up on the balance sheet in an unamortized investment tax credit account to reflect the difference between the normalized book income tax expense and the actual income tax liability. The investment tax credit is then amortized as a reduction to book Federal income tax expense over the useful life of the qualifying property.

The unamortized balance of the investment tax credit represents a source of cost-free capital which has been provided by the ratepayer. This is so because in setting rates the Commission has consistently included the normalized book Federal income tax expense in the company's cost of service. The cost of service of any public utility is defined as the sum total of proper operating expenses, depreciation expense, taxes, and a reasonable return on the net valuation of property. It would be inequitable and unreasonable to include in this utility's cost of service a return on investment supported by noninvestor-supplied cost-free capital. Therefore, in arriving at the overall cost of capital the Commission will include the unamortized balance of the investment tax credit (pre-1971) of $92,968 in the Applicant's capital structure at zero cost.

The final controverted item is customer deposits. Mr. Hoover deducted $176,552 in arriving at the original cost net investment but included the interest paid these customers in operating expenses. This method Mr. Hoover states would insure the company would recover the cost of these funds and no more. The Commission concludes that this item should not be deducted from the original cost net investment but should be deducted in calculating the working capital allowance for purposes of this case.

Based upon the discussion above the Commission concludes that the original cost net investment is $19,868,656.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

Company Witness Carpenter and Staff Witness Hoover included different amounts in their exhibits as an allowance for working capital, Mr. Buchanan determined the working capital requirements for total company operations to be $452,665 and Mr. Carpenter allocated $442,872 to the North Carolina retail operations. Mr. Hoover determined the working capital requirement to be $412,287 with no breakdown between cash, material and supplies, or any other components.

The principle underlying the Staff computation of working capital is that to the extent capital provided solely by the debt and equity investor exceeds net investment in utility plant in service is capital provided by the debt and equity investor specifically for working capital. Conversely, if net investment in utility plant in service exceeds capital

provided by the debt and equity investor, then the company has a negative working capital requirement.

In developing his recommended working capital allowance, Mr. Hoover stated that the Applicant's required working capital is not provided in total by the debt and equity investors; therefore, an analysis is required to distinguish between the working capital provided by the debt and equity investors and that provided by others. Mr. Hoover began his analysis by allocating the total investor-supplied capital of $16,696,000 consisting of long-term debt, preferred stock, common equity, and accrued dividends to North Carolina retail operations. Mr. Hoover developed an allocation ratio of 90.57% by relating North Carolina retail net investment in service per books of $14,709,280 to total company net investment of $16,240,411 comprised of net utility plant and other plant and investments. The 90.57% related to the total investor-supplied capital of $16,696,000 resulted in an allocation of $15,121,567 of investor-supplied capital to North Carolina retail operations. Mr. Hoover then compared the $15,121,567 of North Carolina retail investor-supplied capital to the North Carolina retail net investment in electric plant supported by debt and equity investors of $14,709,280. This resulted in a difference of $412,287.

Mr. Hoover stated that the $412,287 of investor-supplied capital in excess of the company's net investment in North Carolina retail utility plant in service represents capital provided by the debt and equity investor to enable the company to meet current obligations as they arise and to allow the company to operate efficiently and effectively. In essence, this excess investor-supplied capital constitutes the Applicant's allowance for working capital for rate-making purposes.

Mr. Carpenter's exhibits show that his working capital allowance of $442,872 consisted of materials and supplies in the amount of $218,115, prepayments of $7,613, cash in the amount of $418,003 representing 60 days of operation and maintenance expense excluding purchased power and a deduction of $200,859 for Federal income tax accruals.

In rebuttal Mr. Buchanan recommended that if Mr. Hoover's method were adopted an additional $60,270 should be added to recognize construction work in progress as an element in computing the allowance for working capital. In addition, Mr. Buchanan made an analysis of one component of cost, i.e., power purchased from TVA and concluded another $88,719 should be added to working capital. The calculation of this amount was not shown. According to Witness Buchanan the basis for including this amount was supported by survey taken showing the lag between the date revenues are collected from the customer and the date the cost of producing those revenues is incurred by the company. If the company prefers this approach as a method of computing working capital, the company should perform a Lead Lag

Study. The practice of combining a balance sheet approach (including materials and supplies and prepayments) with a survey of revenue collection and one item of cost represents a mixed approach to working capital and is unacceptable to this Commission.

The Commission has carefully considered the allowance for working capital proposed by both Company Witness Carpenter and Staff Witness Hoover, as well as taking judicial notice of the method used by this Commission in determining the Applicant's working capital requirement in Docket No. E-|3, Sub 20. Based on the foregoing discussion, the Commission believes the working capital requirement for purposes of this proceeding should be calculated using the method employed in Docket No. E-|3, Sub 20, except that customer deposits should be deducted in calculating the Applicant's working capital requirement. The Commission concludes the proper working capital requirement is $|50,354, which is composed of materials and supplies of $2|8,||5, cash of $309,650, less average tax accruals of $200,859, and customer deposits of $|76,552.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

Replacement Cost.

Nantahala presented the testimony of John J. Reilly, Director of Valuation and Appraisal Studies, Ebasco Services Incorporated, with respect to the trended original cost, and the economic and fair values of Nantahala's property devoted to providing electric service in North Carolina. Mr. Reilly testified that trended original cost of total electric plant in service was $|43,300,984 which is comprised in part of the trended original cost of the hydraulic production plant amounting to $|||,685,|74. The Commission finds this figure incredible.

It is a simple calculation to divide this figure by the nameplate rating of 99,460 KW for Nantahala to determine that replacing the existing system, based upon Mr. Reilly's trended original cost, would cost Nantahala $||22.92 per KW. This would be unreasonable. The Commission does not accept the trended original cost study set forth by Mr. Reilly.

In the alternative Mr. Reilly proposed that the Commission determine the economic value of Nantahala's hydraulic production plant by comparing it with the cost of obtaining the power it needs for its system from another source. On page two of Exhibit four, Mr. Reilly presents the economic value of Nantahala's production plant based on the assumption that CP&L would furnish the entire capacity and energy demanded by Nantahala for |2 months ending 6-30-73. This assumption is faulty because Nantahala purchased a considerable amount of its generation from T.V.A., and did not, in fact, could not, generate the energy required by its customers. Moreover, the economic value based on total system net input assumes an average service life of 50

years, far longer than the remaining service life of Nantahala's production plant.

On page three of Exhibit No. four, Mr. Reilly estimates the economic value of Nantahala's production based upon purchasing only the generated, as opposed to the total, net input from CP&L. Mr. Reilly again assumes an average service life of 50 years. The Commission does not accept this unrealistic service life estimate. Mr. Reilly's estimate assumes that Nantahala's plant is new and that it will last 50 years. Even Mr. Reilly states, however, that book depreciation amounts to 55 percent of the original cost of the system. The Commission concludes that a more reasonable remaining service life would be 25 years. This average life results in a sinking fund amount of |.07 percent, instead of the .26 percent indicated on page five of Exhibit four. The economic value of the existing production plant of Nantahala then becomes $25,567,047. If purchased from TVA the economic value of the existing production plant of Nantahala becomes $24,939,028. The Commission is cognizant that this figure assumes that CP&L or TVA rates of return are applicable to Nantahala. The Commission recognizes, however, that Nantahala incurs far less risk in its operations than either of these two utilities. For one thing, Nantahala does not use nuclear or fossil fuel, and, for another, Nantahala is not faced in an enormous construction budget comprised of primarily production plant. What additional generation Nantahala requires it can purchase from TVA.

With respect to the transmission, distribution and general plant of Nantahala the Commission concludes that the deficiencies inherent in Mr. Reilly's study of the trended original cost of Nantahala's production plant are also present in these accounts, but to a lesser extent because of their more recent replacement and addition. The Commission observes that approximately 78% of Mr. Reilly's trended original cost figure is represented by production plant.

The Commission concludes that the net replacement cost of Nantahala's total plant is $36,239,589, and, on a jurisdictional basis is $34,4||,000.

Fair Value.

The fair value of Nantahala's property used and useful in providing electric service in North Carolina is $24,866,458, consisting of the fair value of the electric plant in service of $24,7|6,|04, plus a working capital allowance of $|50,354. This determination is not an exact science, and such determination is not based on the application of a precise mathematical formula. It generally consists of weighting two components: investment in electric plant in service less accumulated depreciation and amortization and contributions in aid of construction. The Commission concludes that the appropriate fair value is determined by weighting the net investment in electric plant in service of

$19,868,656 by two-thirds; and by weighting replacement cost of $34,411,000 by one-third.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Company Witness Carpenter and Staff Witness Hoover presented testimony concerning the appropriate level of annualized operating revenues under present rates as of June 30, 1973. Mr. Carpenter determined the amount of revenues to be $6,364,619 while Mr. Hoover arrived at end-of-period revenues of $6,554,348, or a difference of $189,729. The difference of $189,729 in the amount included by the two witnesses for annualized revenues results from Mr. Carpenter's failure to annualize revenues to end-of-period level for which no reason was offered. Company Witness Buchanan contended that Mr. Hoover's annualization adjustment should be rejected. In rebuttal he stated that Mr. Walker had testified that operating expenses were currently increasing faster than operating revenues and as such the company did not agree that any adjustment should be made for the annualization factor.

Staff Witness Hoover did annualize revenues to end-of-period level. He testified that he followed the same procedure used by the Commission in the last case. The procedure followed was to adjust net operating income using a factor based on customer growth calculated by relating average customers to end-of-period customers. The Commission finds the adjustment to bring the revenues to an end-of-period level recommended by Witness Hoover to be proper and concludes the level of gross revenue on an end-of-period basis under present rates to be the $6,554,348 recommended by Witness Hoover.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

Staff Witness Hoover offered two adjustments to operating expense. First he recommended that interest on customer deposits be included as an operating expense. The reason for this was that Staff Witness Hoover recommended deduction of customer deposits from the rate base. He testified this treatment would insure the company would recover no more than its cost of these funds. The Commission finds this adjustment to be proper.

The other adjustment was to reduce operating expenses for the income tax effects of interest cost in the amount of $265,824 associated with the capital structure (excluding cost-free capital) used by the company cost of capital witness in arriving at his recommended rate of return. Company Witness Buchanan in rebuttal stated that Nantahala did not in fact have outstanding interest bearing debt and, therefore, he did not believe it practicable to assume that Nantahala would have received a tax deduction for the interest expense. He went on to say, however, that the company was not questioning the appropriateness of the hypothetical debt-equity capitalization utilized by the cost

of capital witness. In other words Buchanan says to give Nantahala rates to cover interest and higher equity cost associated with the hypothetical capital structure, but don't include the Federal income taxes which would normally be associated with such a capital structure.

The Commission, however, has used the company's actual capital structure in arriving at the fair rate of return. Therefore, Witness Hoover's adjustment to reflect the income tax effect of interest expense associated with the hypothetical capital structure is not applicable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The Commission now comes to the segment of the case which is one of the most difficult and perplexing problems faced by a regulatory commission in a rate proceeding. At the same time it is the most basic and purposeful duty of the regulatory commission. In order to reach a decision in this segment of the case, it is necessary for the Commission to carefully scrutinize and review the evidence presented by the company witnesses. This Commission has learned from experience that there are no absolutes in arriving at a determination of what is a proper rate of return. Thus, in the Bluefield Case, the Supreme Court stated that "a regulated entity must be allowed to earn a rate of return comparable to the returns earned by other businesses with corresponding risks and uncertainties and that the allowance should provide sufficient earnings to assure the financial integrity of the enterprise and permit it to attract the necessary capital." (Bluefield Water Works and Improvement Company vs. West Virginia Public Service Commission, 262 US 679). Later, in the Hope Decision, the Court refined these guidelines, holding that from the investor point of view, "It is important that there be enough revenue, not only for operating expenses, but also for the capital cost of the business." (Federal Power Commission vs. Hope Natural Gas, 320 US 591).

The principle laid down in the Bluefield Case is well recognized by the Supreme Court of North Carolina. In State ex rel. Utilities Commission vs. Morgan, 278 N. C. 235, 238 (1971), the Court said:

> "In this State the test of a fair rate of return is that laid down by the Supreme Court of the United States in Bluefield Water Works & Improvement Company vs. Public Service Commission of State of West Virginia, 262 U. S. 679, 43 S. Ct. 675, 67 L.Ed. 1176; that is, if the company continues to earn such a rate of return, will it be able to attract on reasonable terms the capital it needs for the expansion of its service to the public? See, G.S. 62-133 (b) (4)."

The Bluefield and Hope Cases have in essence established guidelines to be followed by a regulatory commission. However, in the final analysis, the fairness and

reasonableness of the rate of return in any particular proceeding is a matter for informed and impartial judgment and must be made by giving adequate consideration to all testimony in the proceeding, which the Commission has done and will comment on in the following pages. The Company presented Mr. Robert L. Schlesinger, Director of Financial Services of Ebasco Services, Inc., a utility consulting firm. Mr. Schlesinger's testimony concerned the reasonable cost of money and the fair rate of return for Nantahala Power and Light Company. Mr. Schlesinger testified that Nantahala should be permitted to earn a return that would enable it to compete favorably with other utilities and companies for investor funds in the capital markets.

Mr. Schlesinger testified with respect to the "fair" return on equity to Nantahala by using the "comparative earnings" test. He compared Nantahala to a group of six small electric companies. In addition he reviewed the earnings on book equity of Moody's 125 industrials, and the manufacturing industry for the period 1964 through 1973. As indicated on Schlesinger's tables 19 and 25 the average return for the six electric utilities was 11.3 percent, for the manufacturing industry 10.5 percent, and for Moody's 125 industrials 13.1 percent.

In his study Mr. Schlesinger relied upon an assumed capital structure because Nantahala's actual capital structure which is composed of 100 percent equity capital supplied by ALCOA is incomparable to other electric utilities. The assumed capital structure allowed Witness Schlesinger to compare Nantahala to the six company comparison group all of which had actual capital structures composed of debt, preferred and common equity capital similar to that selected for Nantahala. To show the effect of a layer of debt and preferred stock capital Witness Schlesinger selected a capital structure consisting of 55 percent long-term debt, 5 percent preferred stock and 40 percent common equity.

The Commission recognizes that a capital structure consisting of 100 percent common equity fails to make use of the relatively lost cost of debt capital, and, therefore, does not represent the most efficient and economical capital structure. With this hypothetical capital structure, it was necessary to assign a cost rate for the debt and preferred stock portions. Mr. Schlesinger testified that he believed it would be proper to use the 6.22 percent embedded cost rate on long-term debt issues of ALCOA as the cost rates for both long-term debt and preferred stock in the assumed capitalization. He felt that this was reasonable because it was unlikely that Nantahala would have lower embedded costs than its parent corporation.

Mr. Schlesinger recommended a cost rate of 13 percent on common equity. This recommendation was based on a study which he performed to estimate the cost of equity to a small electric utility such as Nantahala. He examined the rates

of return which had been earned by the electric utility industry in general and by his group of six small electrics comparable to Nantahala. He stated that the returns earned in recent years by the above groups were indicative of neither their needs nor their allowed returns due to inflation and regulatory lag. He then reviewed the equity earnings of the companies included in the group compiled by Moody's Investors Services, generally known as Moody's Industrials. This group had earned an average return on book common equity during the 1964 to 1973 period of 13.1 percent. The average return of this group for 1973 was 15.1 percent.

Mr. Schlesinger concluded that a 13 percent return on common equity was reasonable based on the above and on his estimation of the deteriorating position of the electric utility industry in the equity markets. He then applied the cost rates for debt, preferred stock and common equity to his hypothetical capital structure excluding cost-free capital and arrived at an overall cost rate of 8.60 percent. After including cost-free capital in the capital structure at zero cost the overall return indicated was 6.83 percent.

Under the company's estimated fair value, Mr. Schlesinger testified that the cost of equity would be no less than the current cost of long-term debt, that is, 11 percent. Mr. Schlesinger also stated that the allowed return may need to be higher than the figures he recommended because of probable erosion of the earnings of the Company in the future and lag in the regulation process.

During cross-examination, Mr. Schlesinger stated that he considered Nantahala to be somewhat more risky from the investor's standpoint than the average electric utility but that "purchased power" clause was one of the few favorable factors which might induce the investor to commit his funds to a company such as Nantahala if it were to enter the capital market for investment dollars. Other factors were the Fontana Agreement which allows the Company to secure its power from the TVA system and the existence of hydroelectric generation on the Nantahala system. A factor which he felt made the Company less attractive was its small size which would tend to make its securities less marketable. Throughout Mr. Schlesinger's direct testimony and cross-examination, he speaks of the ills of the electric utility industry in general. This Commission is of the opinion that many of the current ills in the industry can be attributed to the large construction projects which have been undertaken and the long lead time required in the construction of major power plants. These problems do not affect Nantahala directly and even the indirect effects are lessened with the implementation of a purchased power pass-through. The construction which Nantahala plans to undertake is in the nature of transmission and distribution facilities which do not require the extremely long period of expenditures without revenue generation which characterizes the construction of electric generation facilities by the

electric industry in general. Insulated as it is from such major pressures on earnings, this Commission does not agree with Mr. Schlesinger's statement that Nantahala is more risky than the average electric utility.

When viewed in its entirety, Mr. Schlesinger's testimony becomes a mere assertion of his judgment. He compares Nantahala to a group of six comparable electric companies but concludes that their earnings on equity are inadequate. The Commission is of the opinion that the six electric companies used for comparison are not sufficiently similar to warrant the conclusion of comparability for rate of return purposes. He also compared the equity earnings of Nantahala to the equity earnings of the electric utility and the manufacturing industry. The only equity return similar to his recommendation of 13 percent is the 1964 to 1973 average earnings for the Moody's Industrials. Even though this figure is presented, however, Mr. Schlesinger did not show that it was in fact a reasonable return for a company such as Nantahala. It should be noted here that there are two requirements or conditions that must be met under the comparable earnings approach. They are: (1) the enterprise to be compared must be of similar, not identical, but of generally the same risk; and (2) the rates of earnings used in the guide must be those being earned under effective competition, on investments in these enterprises of similar risk. It is obvious that both economic logic and the law as laid down in Bluefield and Hope require that substantial similarity of risk be established. The Commission takes notice of its criticism of the use of Moody's Industrials as enterprises comparable to the utility industry. (Docket No. P-55, Sub 733).

The Commission does not agree with Mr. Schlesinger's statement that the return on fair value equity can never be below the long-term bond yield of 11 percent. The return on fair value must provide the company with revenues sufficient, under sound management, to cover reasonable operating expenses, maintain its facilities and services in accordance with the reasonable requirements of its customers, and compete in the capital market on terms which are fair to its customers and to its existing investors. A return may well be below the current long-term bond yield and yet meet the tests by which a reasonable return is to be judged.

In making its determination of the fair return to Nantahala, the Commission takes into consideration the benefits which flow to ALCOA from the Fontana Agreement and the consequent Apportionment Agreement. These benefits are indirect but flow from ALCOA's ownership of both Nantahala and Tapoco. These benefits are of considerable value and are in addition to the direct benefits and returns which ALCOA receives from its ownership of Nantahala and Tapoco.

The Commission recognizes that ALCOA has the right to choose the capital structure it prefers for Nantahala but

this choice should not be allowed to interfere with the provision of electric service to the customers of Nantahala at the least cost. Mr. Schlesinger recommended that the overall cost of capital to Nantahala should be 6.83 percent based upon his assumed capital structure (including cost-free capital). The Commission concludes that a return considerably less than 6.83 percent is fair when the rate is set on the actual capital structure. When consideration is given to both direct and indirect returns and benefits which flow to ALCOA from its ownership of Nantahala, the Commission concludes that an overall return of less than 6 percent on the actual capital structure and book value would be sufficient. In order that proper weight be given to the fair value component of capital, rates set will be based upon a return on fair value rate base of 3.72 percent which equates to a return of 4.62% on the original cost net investment.

The Commission takes this opportunity to emphasize that this company is unique. By its operation, its ownership and its capital structure, Nantahala is incomparable to other electric utilities. Nantahala is insulated from many of the hardships which have befallen the rest of the electric power industry. There is no massive need to build new generation facilities and any increase in the cost of power purchased from the TVA is covered under a purchased power pass-through. The return herein granted results in a 6.05 percent return on common equity using the actual capital structure of the company composed of 80.99 percent common and 19.01 percent cost-free capital and equates back to approximately 10 percent return on common equity based on a hypothetical capital structure composed of 30.55 percent common equity 42.02 percent debt 3.82 percent preferred stock and 23.61 percent cost-free capital.

The Commission has given serious consideration to all of the relevant evidence presented in this case. With respect to the cost of capital and the company's need for a competitive position in the capital market in order to pursue the programs of expansion which will provide both additional and improved service to the ratepayers. Based on the foregoing and the entire record in this matter, and applying its informed judgment, the Commission believes that a return of 5.75 percent on book common equity is reasonable.

The Law of the State requires, however, that an additional dollar return on common equity be given to the company to account for the addition of the fair value increment to the equity component of the capital structure. The addition of fair value increment to book equity results in a larger overall common equity and the return which should be granted to the equity component decreases in percentage but not in dollar terms. With the addition of the fair value increment, the Commission concludes that a return of 4.60 percent on fair value equity is reasonable. The 4.60 percent return on fair value common equity will result in

the company actually having rates set to produce a 6.05 percent return on common equity, rather than the 5.75 percent the Commission believes is fair. However, because of the fair value statute and its proper application the Commission feels compelled to grant the higher 6.05 percent return on common. As shown on the attached schedule this results in additional gross revenues of $101,504 being required to service the fair value paper equity component.

The return of 4.60 percent on the fair value equity component of capital should enable the company to attract sufficient capital to discharge its obligations to the consuming public and maintain an adequate level of service. The Commission cannot, of course, guarantee that the company will earn the allowed rate of return, but it is the Commission's belief that there is a reasonable opportunity that the company will be able to reach that level of return given efficient management. The Commission concludes that the fair rate of return on the fair value rate base is 3.72 percent.

The following charts summarize the rates of return which the company will be able to achieve based on the approved increase:

NANTAHALA POWER & LIGHT COMPANY
North Carolina Retail Operations
Statement of Return
For the Twelve Months Ended June 30, 1973

Item	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Total Sales of Electricity	$ 6,508,424	$668,000	$ 7,176,424
Other Operating Revenue	45,924		45,924
Total Operating Revenue	$ 6,554,348	668,000	7,222,348
Operating Expenses			
Operations and Maintenance	3,504,680		3,504,680
Depreciation Expense	1,044,675		1,044,675
Amortization and Depletion of Utility Plant	1,942		1,942
Taxes Other than Income Taxes	772,699	40,080	812,779
Federal Income Taxes	528,792	283,318	812,110
State Income Taxes	72,908	37,675	110,583
Investment Tax Credit Normalization	60,563		60,563
Income Taxes Deferred-Prior Years	(50,085)		(50,085)
Investment Tax Credit Adjustment	(8,473)		(8,473)
Total Operating Expenses	5,927,701	361,073	6,288,774
Net Operating Income	626,647	306,927	933,574
Less - Interest on Customer Deposits	7,616		7,616
Net Operating Income for Return	$ 619,031	$306,927	$ 925,958
Investment in Electric Plant			
Electric Plant in Service	$ 41,730,208		$ 41,730,208
Less: Accumulated Depreciation	(21,788,947)		(21,788,947)
Contributions in Aid of Construction	(72,605)		(72,605)
Net Investment in Electric Plant	19,868,656		19,868,656

Allowance for Working Capital		
Materials and Supplies	$ 2|8,||5	$ 2|8,||5
Cash	309,650	309,650
Less: Average Tax Accruals	(200,859)	(200,859)
Customer Deposits	(|76,552)	(|76,552)
Total Allowance for Working Capital	|50,354	|50,354
Net Investment in Electric Plant in Service Plus Allowance for Working Capital	$20,0|9,0|0	$ 20,0|9,0|0
Fair Value Rate Base	$24,866,458	$ 24,866,458
Rate of Return on Fair Value Rate Base	2.49%	3.72%

NANTAHALA POWER & LIGHT COMPANY
Docket No. E-|3, Sub 23
North Carolina Retail Operations
For the Twelve Months Ended June 30, |973

Capitalization	Pair Value Rate Base	Ratio (%)	Embedded Cost or Return on Fair Value Equity (%)	Net Operating Income
	Present Rates - Fair Value Rate Base			
Cost-Free Capital	$ 4,726,488	|9.0|	-	$
Fair Value Equity	20,|39,970	80.99	3.07	6|9,03|
	$24,866,458	|00.00	2.49	$6|9,03|
	Approved Rates - Fair Value Rate Base			
Cost-Free Capital	$ 4,726,488	|9.0|	-	-
Fair Value Equity	20,|39,970	80.99	4.60	$925,958
	$24,866,458	|00.00	3.72	$925,958

NANTAHALA POWER & LIGHT COMPANY
Docket No. E-13, Sub 23
North Carolina Retail Operations

REVENUE REQUIREMENTS CORRELATED TO ORIGINAL COST AND FAIR VALUE COMMON EQUITY

Twelve Months Ended June 30, 1973

Item	Original Cost Net Investment Prior to Adjustment for Fair Value Increment
Revenue Requirements	
Gross Revenues - Present Rates	$ 6,554,348
Additional Gross Revenues Required to Provide 5.75% Return on Original Cost Common Equity	566,496
Total Revenues Requirements	$ 7,120,844
Net Income Available for Return on Equity	$ 879,320
Equity Component	$15,292,522
Required Return on Common Equity	5.75%

Revenue Requirements	Fair Value Rate Base
Gross Revenues-Present Rates	$ 6,554,348
Additional Gross Revenues Required to Provide 5.75% Return on Original Cost Common Equity	566,496
Additional Gross Revenues Required for Fair Value Common Equity	101,504
Total Additional Revenues	668,000
Total Revenue Requirements	$ 7,222,348
Net Income Available for Return on Equity	$ 925,958
Fair Value Equity Component	$20,139,979
Return on Fair Value Equity	4.60%

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The New Fontana Agreement is a contractual arrangement effective from January 1, 1963 to December 31, 1982 between the Tennessee Valley Authority (TVA) and the Aluminum Company of America (ALCOA), Tapoco, Inc., (Tapoco), and Nantahala Power and Light Company (Nantahala) which provides, among other things, for the coordinated operation of the power production and transmission facilities owned by TVA, Nantahala and Tapoco. Nantahala and Tapoco are wholly owned subsidiaries of ALCOA, established by ALCOA to develop

certain of the hydroelectric sites in Western North Carolina and adjacent areas. The Companies were founded to produce and supply large quantities of low cost electricity to ALCOA's aluminum smelting facility at Alcoa, Tennessee. Nantahala assumed the public utility load in Southwestern North Carolina in addition to transporting power to ALCOA.

The New Fontana Agreement was formalized to provide TVA with peaking power and additional energy and to "firm up" power available to Nantahala and Tapoco. The generating capacity of Nantahala and Tapoco is all hydroelectric and required "firming up" to make the power available less dependent on stream flow conditions.

Nantahala has an assured capacity of 42.6 MW when considered as an individual system. Its entitlements under the New Fontana Agreement and the apportionment agreement are 54.3 MW; 11.7 MW greater than its individual assured capability. Nantahala also receives an associated energy entitlement of 41.1 average MW; the average amount of energy (primary + primary equivalent of secondary) it would produce on its own under average rainfall conditions. Nantahala's entitlement includes a capacity allowance for the "peaking deviation" given to TVA by Nantahala.

"Apportionment Agreement" Between Nantahala and Tapoco

The New Fontana Agreement makes electric power available jointly to Nantahala and Tapoco but does not specify what each of them is entitled to receive. Prior to June 1, 1971, Nantahala "took" what energy and capacity it needed to meet its utility load. This involved subtracting the public utility load and losses plus the generation of the three small plants not under the New Fontana Agreement from 36,583,333 KWH per month and "selling" any "excess" to ALCOA. It became necessary to apportion the entitlements under the New Fontana Agreement when Nantahala's load grew sufficiently to make this excess nil. On June 1, 1971, Nantahala and Tapoco entered into an agreement, the "Apportionment Agreement", to <u>apportion</u> the power and energy available to Nantahala and Tapoco under the New Fontana Agreement and to apportion the obligations of Nantahala and Tapoco thereunder. Under this Agreement, Nantahala receives up to 41.1 MW of primary power and the associated energy; in addition, Nantahala receives up to 13.2 MW of peaking power, 6.6 MW of which constitute peaking power to which Tapoco would be "entitled" except for this agreement of the parties which states that Nantahala shall be entitled to this power in lieu of 1,522.5 MWH of deviation energy. Deviation energy is energy granted in return for the value of energy storage capabilities of certain hydroelectric facilities. Tapoco receives all power and energy available under the New Fontana Agreement that remain after Nantahala takes its "entitlements".

The rationale of the Apportionment Agreement is that it allocates on the basis of each company's contributions with

the provision that Nantahala does no worse than it would operating by itself. The agreement apportions 47.7 MW of assured capacity to Nantahala, plus 6.6 MW of peaking deviation from Tapoco in return for Nantahala's share of peaking deviation energy. Tapoco receives 19.6 MW of assured capacity, 75.0 MW of interruptible capacity and 90.0 MW of curtailable capacity.

Nantahala contributes 41.1 Avg. MW of primary energy (adjusted); primary energy being defined as hydroelectric energy which is available from continuous power. Tapoco contributes 86.1 Avg. MW of primary energy (adjusted) and 82.8 Avg. MW of secondary energy (intermediate grade - adjusted); secondary energy defined as all hydroelectric energy other than primary energy, frequently limited to that portion of secondary energy available over a specified percentage of time. The apportionment agreement by the company entitles Nantahala to 41.1 Avg. MW of primary energy and no secondary energy, secondary energy not considered suitable for public utility load because of its inconsistent availability. Tapoco receives 81.2 Avg. MW of high grade secondary energy (energy associated with interruptible capacity), 82.8 Avg. MW of intermediate grade secondary energy (energy associated with curtailable capacity), and no primary energy.

The Apportionment Agreement was done in a reasonable and acceptable manner using proper engineering techniques. Previous Commission Staff studies have shown that self-generation by Nantahala to complement its own resources to enable it to individually meet its own load is not economically feasible at this time. In addition, it does not appear as if Nantahala could secure a better deal in purchasing additional power from either of the two other major utilities in the area (comparisons of resale rate schedules and informal conversation with Duke and CP&L) or in dealing individually with TVA. Inasmuch as the apportionment was done in a reasonable manner and Nantahala gains over its own resources, the Commission has no substantial problem or disagreement with the New Fontana Agreement or the Apportionment Agreement.

Questions have been raised regarding the price charged by Tapoco to ALCOA. The prices are low relative to prices paid by Nantahala for the additional energy it must purchase. In his supplemental affidavit testimony, Mr. Popovich explains that the prices charged by Tapoco to ALCOA were negotiated, not at arms length, because it is simply "money out of one pocket into another". He then, however, went through a process of converting the cost of the low quality energy sold to ALCOA by Tapoco to its equivalent value if it were firmed up to high quality energy. (Result Comparable to Energy Cost of Nantahala).

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

Nantahala's application included a request for approval of a Purchased Power Adjustment Clause. The clause applied for would be applicable to all of the Company's retail rate schedules and would automatically adjust the charges to retail customers to reflect changes in the price of power purchased by Nantahala from the TVA. The requested clause would adjust kilowatt-hour charges on monthly bills by a factor (a) calculated as follows:

$$a = \frac{(b-c)e \times 100}{d}$$

where

a = Amount of the adjustment to current monthly bills, in cents per KWH.

b = Total cost of power purchased during the 12 months period ended 3 months prior to the current billing month, adjusted for power purchase rates effective during the billing month, in dollars.

c = Total cost of power purchased during the same 12 months period adjusted for power rates effective January 2, 1974, in dollars.

d = Total sales of energy during the same period, in KWH.

e = Adjustment for gross receipts taxes = 1.06

The effect of this factor is to adjust currently monthly charges to customers to reflect any change in Nantahala's current purchased power costs either above or below the January 2, 1974 cost level.

At the present time, the fuel market is highly unstable and rapid changes in the cost of fuel to the TVA could occur. These changes in fuel costs would automatically be passed on to Nantahala through its purchased power costs causing large uncontrollable changes in Nantahala's operating expenses. For these reasons, the Commission is of the opinion that the Purchased Power Adjustment Clause requested by the Company should be approved as filed with the exception that the factor "e", Adjustment for gross receipts taxes, should be increased from 1.06 to 1.0638 to accurately adjust for the effects of the gross receipts taxes.

The Commission concludes that price fluctuations in an item of expense of this magnitude could seriously impair the company's ability to earn the return set by the Commission as reasonable and fair.

A monthly monitoring of purchased power costs and resulting purchased power adjustment factors will limit the possibility of Nantahala achieving earnings beyond a fair

rate of return and will keep the Commission cognizant of the effect of the purchased power clause on the ratepayers.

The Commission concludes that a purchased power adjustment clause is a part of the rate to be fixed by the Commission pursuant to G.S. 62-133. North Carolina General Statutes 62-133(b) (5) directs the Commission to fix rates to be charged as will earn in addition to reasonable operating expenses the rate of return on the fair value of the property which produces a fair profit. Thus, the Commission concludes that for the purpose of approving a fossil fuel adjustment clause, the Commission need only determine whether the company's operating expenses are reasonable in that the clause will not increase Nantahala's rate of return, but will merely slow attrition of the rate of return. The rate of return on the fair value of the property used and useful in providing service has been determined as set forth above.

The Commission concludes that a system of monitoring the operation of the purchased power clause will protect the ratepayers of North Carolina from Nantahala recovering more through the purchased power clause than its reasonable operating expenses as they relate to the increase in purchased power above the base cost in the purchased power clause.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

Nantahala's application included proposed rate schedules designed to produce an additional annual revenue of $1,523,544.

These rate schedules included several structural changes but not any radical modifications which could have caused drastic changes in bills to individual customers. The rate structures were simplified and the number of schedules was reduced.

The proposed Residential schedule, R, was increased by an average of 26.03 percent. The rate was modified and the amount of the decline in price of the rate blocks was lessened. The minimum bill was increased to $2.00 and $3.75 for 2- and 3-wire customers respectively.

The Small General Service schedule, SG, is a combination of the present SC and PS schedules. The SG schedule was designed by increasing each block of the old SC schedule by approximately 14.5 percent. The total revenue effect of combining the two rates was an average increase of 13.95 percent.

The Large General Service schedule, LG, was designed for customers with demands of 20 KW or more and replaces the old LC and PL rate schedules. The proposed rate is a Hopkinson type with 3 demand blocks and 3 energy blocks representing a large reduction in the number of rate blocks. Also, the

decline in price of the energy blocks was lessened. The average revenue increase for this schedule was 27.8 percent.

The lighting schedules were increased by approximately 25 percent across-the-board.

The average rate of return on investment prior to the application was 2.98 percent. The returns on investment ranged from a low for the residential class of 0.96 per cent to a high for the small general service class of 8.06 percent. The rates proposed by the Company were designed to reduce the variations in rate of return between classes.

The Commission has reviewed the rate schedules proposed by Nantahala in this case and is in basic agreement with most of the rate structure changes proposed. The variations in rates of return among rate classes, however, remains large. The rate schedules proposed by the Company were designed to produce the additional annual revenue requested in the Application and must be revised to reflect the Commission's decision with respect to total annual increase granted herein. The Commission is of the opinion that Nantahala should redesign its proposed rate schedules to produce an annual increase of no greater than $668,000 based on the test year ending 30 June 1973. In redesigning its rates, Nantahala should place no increase on its lighting schedules. The Small General Service schedule shall be redesigned to produce approximately $1,222,200 annually which represents no increase in total revenue; however, the SC and PS schedules should be combined into one schedule, SG. The Large General Service schedule shall be redesigned to produce an annual revenue of approximately $1,615,656 for an annual increase of approximately $85,000 (5.6%). In the design, the LC and PL schedules should be combined into one schedule. The residential schedule should be redesigned to produce approximately $3,969,578 in annual revenue for an approximate annual increase of $583,000 (17.2%). In designing this rate, the minimum bills should be $2.00 and $3.75 for 2- and 3-wire service respectively. Using these guidelines for the redesign of Nantahala's rates will preserve many of the proposed rate structure changes found to be appropriate and will greatly reduce the variations in rates of return among classes.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That on, or before 1 May 1975 Nantahala shall file for approval by this Commission rate schedules designed pursuant to the guidelines set forth above to produce additional annual revenues of $668,000.

2. That the Purchased Power Adjustment Clause, attached hereto as Appendix 1*, is hereby approved.

3. That the company shall file monthly with the Commission the information required to be set forth on the Purchased Power Adjustment Clause Report Form, attached hereto as Appendix 2*.

ISSUED BY ORDER OF THE COMMISSION.

This 23rd day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See official Order in the Office of the Chief Clerk.

DOCKET NO. E-13, SUB 23

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Nantahala Power and Light Company for Authority to Adjust and Increase its Electric Rates and Charges	) ORDER RECONSIDERING) COMMISSION ORDER) GRANTING PARTIAL) RATE INCREASE

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Tuesday, June 10, 1975 at 9:30 A.M.

BEFORE: Chairman Marvin R. Wooten, Presiding, and Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

R. C. Howison, Jr.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina

For the Commission Staff:

John R. Molm
Associate Commission Attorney
N. C. Utilities Commission
P. O. Box 991
Raleigh, North Carolina

BY THE COMMISSION: On 23 April 1975 the Commission issued an Order Granting Partial Rate Increase in the matter of the application by Nantahala Power and Light Company for an increase in its electric rates and charges. Upon motion for

reconsideration the Commission called the matter for oral argument on 10 June 1975. In its Order Setting Oral Argument issued 21 May 1975 the Commission stayed the implementation of the purchased power adjustment clause pending its reconsideration.

In reconsideration the Commission takes judicial notice of the rate of return on average common equity of Moody's 24 electric utilities for the year 1973 was 10.64%, and the average rate of return over the years 1965-1973 was 11.6%. The return the Commission allowed Nantahala resulted in a 6.05 percent return on common equity using the actual capital structure of 80.99 percent fair value common equity and 19.01 percent cost free capital.

The Commission recognizes that Nantahala will have to approximately double its existing transmission and distribution plant in order to adequately provide the service demanded by its customers. The Commission agrees with counsel for the applicant that the test for a fair rate of return is what it would require for the company to attract capital, and not whether in fact the company needs to attract capital. The fair rate of return required for Nantahala is at least that rate of return on average common equity of Moody's 24 electric utilities. Moreover, the Commission observes that ALCOA may not, in the future, supply Nantahala with its requisite need for capital, thus, sending Nantahala to the market place to secure the capital it needs.

Nantahala relied on the historic test year ending 30 June 1973 in this proceeding. Although the Commission cannot fix rates based on factors occurring outside the test year, the Commission would be blind to ignore the effects of inflation upon the company's cost to serve its customers since that time.

The rates applied for were designed to allow Nantahala to earn an 8.63 percent return on the actual capital structure composed of 76.39 percent common stock and 23.61 percent cost free capital. Rates designed to allow Nantahala to earn this return for the year ending 30 June 1973 will not allow Nantahala to achieve that return at any time thereafter, thus, said return is just and reasonable.

The financial pressure Nantahala will face in attracting the capital required to construct plant large enough to adequately serve its customers will be great. This fact emerges as primary in the Commission's reconsideration of this matter. The Commission is not able to ignore that all the admitted factors reducing the risk to Nantahala do not outweigh the risk it faces in attracting the capital needed to build facilities adequate to serve its customers. The Commission takes notice of the low electric rates Nantahala charges its customers notwithstanding the extremely difficult terrain and weather conditions affecting the company's ability to serve its customers. The Commission

believes that Nantahala's service contributes to the quality of life enjoyed by its customers.

Upon reconsideration of the Order of April 23, 1975 the Commission concludes and so finds that the rate of return approved in its order of April 23, 1975, is inadequate and will not allow adequate service by Nantahala, and that the proposed rates as filed in the application to produce additional revenue of $1,523,544 based on a test year ending June 30, 1973, will produce test year net operating income for return of $1,319,057, and a rate of return of 5.30% on the fair value rate base, and that said rates and said return are just and reasonable and necessary to allow an adequate rate of return for Nantahala to compete in the market for capital funds on terms which are reasonable and fair to its customers and to its existing investors, as provided in G. S. 62-133(b) (4).

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Order of the Commission entered in this docket on April 23, 1975 is hereby amended to approve the increases in Nantahala's rates and charges as filed, to produce additional annual revenue of $1,523,544 and a 5.30 percent return on the fair value rate base of $24,866,458, based on the test year ending June 30, 1973.

2. That the rate schedules filed herein by Nantahala on March 29, 1974, and placed into effect on January 24, 1975, and as presently being charged pursuant to the notice of Nantahala dated January 24, 1975, are hereby approved, and shall remain in effect as the final rates fixed and approved by the Commission in this proceeding.

3. That the Purchased Power Adjustment Clause, attached hereto as Appendix 1, is hereby approved.

4. That the company shall file monthly with the Commission the information required to be set forth on the Purchased Power Adjustment Clause Report Form, attached hereto as Appendix 2.

ISSUED BY ORDER OF THE COMMISSION.

This the 8th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Commissioners Purrington, Simpson and Teal did not participate in the decision in this matter.

APPENDIX 1
NANTAHALA POWER AND LIGHT COMPANY
PURCHASED POWER COST ADJUSTMENT CLAUSE

APPLICABILITY

This clause is applicable to and is a part of all the Company's retail electric rate schedules.

ADJUSTMENT OF BILL

Current monthly bills shall be increased or decreased, per kilowatt-hour billed, by an amount, (a.below), to the nearest one ten thousandths of a cent, determined by use of the equation.

$$a = \frac{(b-c)e \times 100}{d}$$

where

a = Amount of the Adjustment to current monthly bills, in cents per KWH.

b = Total cost of power purchased during the 12 months' period ended 3 months prior to the current billing month, adjusted for power purchase rates effective during the billing month, in dollars.

c = Total cost of power purchased during the same 12 months' period adjusted for power rates effective January 2, 1974, in dollars.

d = Total sales of energy during the same period, in KWH.

e = Adjustment for gross receipts taxes = 1.0638.

APPENDIX 2
NANTAHALA POWER AND LIGHT COMPANY
PURCHASED POWER ADJUSTMENT CLAUSE

Reporting Form

The factor for the billing month of _____ is _____¢/KWH.

Purchased Power Billing for 12 months, 3 months prior to the billing month:

Month	KW Demand	KWH

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Total Sales of energy during 12-month period _____KWH.
Purchased Power rates effective during billing month:

Purchased Power rates effective January 2, 1974:

Cost of Purchased Power during 12-month period used in formula:
a) under current billing $_____
b) under rates effective January 2, 1974 $_____

Data for _____, the second month prior to billing month:

Purchased Power _____ KW
_____ KWH
Purchased Power Costs $_____

Total Sales _____ KWH

Revenue Collect under Purchased Power Adjustment Clause $_____

DOCKET NO. E-15, SUB 24

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Pamlico Power and Light) ORDER GRANTING
Company, Inc., by Tideland Electric) PASS-ALONG OF
Membership Corporation, Lessor, for an) PURCHASED POWER
Adjustment in its Rates and Charges) COST INCREASE

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Friday, May 16, 1975, at 10:00 a.m.

BEFORE: Chairman Marvin R. Wooten, presiding, and Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr.

APPEARANCES:

For the Applicant:

William T. Crisp
Crisp, Bolch, Smith & Clifton
602 BB&T Building, P. O. Box 751
Raleigh, North Carolina 27602

For Protestants, Harry J. Jarvis et al

Darris W. Koonce
Box 37
Trenton, North Carolina 28585

Lee W. Movius
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION. On December 9, 1974, Pamlico Power and Light Company, Inc., (Pamlico) filed an Application with this Commission for an increase in its rates and charges for electric service to its retail customers in Dare and Hyde Counties, North Carolina. The stated purpose of the requested increase is to recover increased purchased power expenditures resulting from action by the Federal Power Commission in Virginia Electric and Power Company's wholesale rate case before that Commission. On December 18, 1974, the Commission entered an Order in the above captioned matter which, among other things, approved the proposed rates under undertaking, set the matter for hearing, and required public notice.

On February 26, 1975, in Docket No. E-15, Sub 25, Pamlico Power and Light Company, Inc. and Tideland Electric Membership Corporation filed a joint application requesting this Commission's approval for an arrangement whereby Tideland would operate the electric facilities of Pamlico under lease and eventually acquire the same. On March 18, 1975 this Commission issued an Order approving that arrangement subject to the provision that until such time as Tideland became the owner of Pamlico's electric plant, the rates and service provided to customers served by that plant would be subject to the full jurisdiction of this Commission.

As a result of the above arrangement, power purchased at wholesale from Virginia Electric and Power Company for resale to Pamlico's customers became eligible for the wholesale rate for Electric Membership Corporations.

On Friday, May 16, 1975, a hearing was held on the matter of Pamlico's rate application. Applicant offered the testimony of Mr. Joseph R. Plott, of Arthur Young and Company, an accounting firm, and of Mr. Steve Daniel a

consulting engineer with Southern Engineering Company of Georgia. Mr. Plott and Mr. Daniel testified as to the reasonableness of the proposed increase and to the financial necessity for said increase.

The Commission Staff offered the testimony of Mr. Reed Bumgarner, Utilities Engineer, with the Electric Section of the Engineering Division of the Commission. Mr. Bumgarner also testified as to the reasonableness of the proposed increase.

Darris W. Koonce, Attorney, representing protestants, Harry J. Jarvis et al, submitted a petition signed by numerous residents of Hyde County, asking the Commission to answer certain questions pertinent to the lease transfer arrangement between Tideland and Pamlico.

Based on the Application as filed, the testimony and evidence offered at the hearing and the record in this docket, the Commission makes the following

FINDINGS OF FACT

1. That Tideland Electric Membership Corporation, Lessor of Pamlico Power and Light Company, Inc., is subject to the jurisdiction of this Commission with respect to the rates and service provided to the customers served by the leased facilities of Pamlico Power and Light Company.

2. That Pamlico has experienced an increase in its cost of purchased power as a result of the action of the Federal Power Commission in Virginia Electric and Power Company's wholesale rate case before that Commission.

3. That an across-the-board charge of .655 cents per kilowatt-hour would increase Pamlico's revenues only to the extent occasioned by increased purchased power expenditures plus the related gross receipts taxes.

The Commission therefore concludes that an across-the-board charge of .655 cents per kilowatt-hour is a just and reasonable method of recovering applicant's increased purchased power expenditures.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Applicant, Pamlico Power and Light Company, Inc., is hereby authorized to place into effect a .655 cent per kilowatt-hour increase on electric service rendered on or after May 28, 1975. This increase shall be applied to those rates approved by this Commission in Docket No. E-15, Sub 23.

2. That in the event Pamlico receives a refund ordered by the Federal Power Commission in Virginia Electric and Power Company's wholesale rate case, Pamlico shall pass this refund on to its customers in like manner.

3. That Applicant shall give public notice of the rate increase approved herein by mailing a copy of the notice attached hereto as "Appendix A" with the next monthly bill to its retail customers served by Pamlico's facilities.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of May, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX A

Application of Pamlico Power and Light)
Company, Inc., by Tideland Electric)
Membership Corporation, Lessor, for an) NOTICE
Adjustment in its Rates and Charges)

On December 9, 1974, Pamlico Power and Light Company (Pamlico) filed an Application with this Commission for an increase in its electric rates to its retail customers in Dare and Hyde Counties, North Carolina. The purpose stated by Pamlico for the requested increase is to recover increased purchased power expenditures resulting from action by the Federal Power Commission in Virginia Electric and Power Company's wholesale rate case before that Commission. This increase has been in effect under undertaking for refund since February 21, 1975.

After public hearing on the matter of increased rates the North Carolina Utilities Commission by Order dated May 28, 1975 allowed a uniform across-the-board increase of .655 cents per kilowatt-hour to go into effect on a permanent basis on electric service rendered on or after May 28, 1975. The order also stipulated that any refund made to Pamlico by Virginia Electric and Power Company as the result of the action of the Federal Power Commission be passed on to Pamlico's customers in like manner. Copies of the new rate schedules will be available at Pamlico's office during normal business hours.

This the 28th day of May, 1975.

PAMLICO POWER AND LIGHT COMPANY
by Tideland Electric Membership
Corporation, Lessor

By: _____

DOCKET NO. E-19, SUB 19

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Roselle Lighting Company for An Adjustment of Its Rates and Charges.	) ORDER GRANTING) INCREASES IN) RATES AND CHARGES

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, on Thursday, November 13, 1975.

BEFORE: Commissioner Ward Purrington, Presiding; and Commissioners Ben E. Roney and Barbara A. Simpson.

APPEARANCES:

For the Applicant:

Thomas M. Caddell
Shuford & Caddell
Attorneys at Law
205 Wachovia Building
Salisbury, North Carolina 28144

For the Commission Staff:

Wilson B. Partin, Jr.
Assistant Commission Attorney
Jane S. Atkins
Associate Commission Attorney
Ruffin Building
Raleigh, North Carolina 27602

No Protestants.

BY THE COMMISSION: On June 17, 1975, Roselle Lighting Company filed an Application with the Commission seeking authority to increase its rates and charges for retail metered service. The company's service area is in Rowan County, North Carolina. The requested increase had two components: First, the Applicant Roselle requested a 19.2% emergency interim increase in its rates, effective June 30, 1975, to yield an amount equal to the increase in its purchased power costs from its wholesale electricity supplier, the Town of Landis, North Carolina. (Roselle purchases its wholesale power requirements from the Town of Landis, which in turn purchases its power from Duke Power Company. On May 21, 1975, Duke filed a petition with the Federal Power Commission for an increase in its wholesale rates to the Town of Landis, to become effective June 30, 1975.) Roselle alleged in its Application that the 19.2% increase requested on an emergency interim basis would yield an amount equal to the increased cost of its purchased power from the Town of Landis and the related gross receipts tax.

The company proposed to refund to its customers any refunds made to it by the Town of Landis, if the Federal Power Commission denied Duke's requested increase in whole or in part.

The second component of the increase requested by Roselle consisted of a 15.9% across-the-board increase to produce additional annual revenues of $42,447. The Applicant alleged that it needed this additional 15.9% increase to produce additional net operating income for return. According to the exhibits attached to the Application, Roselle's rate of return on its original cost rate base under the proposed rates would increase from 5.57% to 13.83% and its rate of return on book common equity would increase from 5.29% to 20.66%.

On June 30, 1975, the Commission issued an Order approving on an emergency interim basis an across-the-board increase of 19.2% on bills for electric service rendered on and after July 1, 1975. The Order required Roselle to file an undertaking with the Commission whereby the company would promise to refund, with 6% interest, any amount collected under the emergency interim increase which might finally be determined unjust and unreasonable. The Order of June 30, 1975, also declared the Application to be a general rate case and suspended the request for the 15.9% increase pending investigation and hearing. The Application was set for hearing on November 13, 1975.

On July 9, 1975, Roselle filed its Undertaking for refund in compliance with the Commission Order. The company also published the required notice of the requested increases.

The Application came on for hearing on November 13, 1975, in the Commission Hearing Room, Raleigh, North Carolina. Applicant Roselle offered the testimony of Robert E. Alexander, Secretary-Treasurer and General Manager of the company, who testified on the company's needs for additional revenues; Chester D. Zum Brunnen, Certified Public Accountant, who testified on the accounting and financial records of the company; and Don B. Lampke, Consulting Engineer, who testified on the replacement cost study. The Commission Staff offered the testimony of J. Reed Bumgarner, Jr., Staff Distribution Engineer, who testified on his investigation of the company's service; F. Paul Thomas, Staff Accountant, who testified on original cost, net investment, and revenues and expenses; and H. Randolph Currin, Jr., Rate Analyst in the Operations Analysis Section, who testified on the cost of capital and fair rate of return to the Applicant.

There were no intervenors, protestants, or public witnesses in the proceeding.

Based upon the record in this proceeding and the testimony and exhibits presented at the hearing, the Commission makes the following

FINDINGS OF FACT

(1) The Applicant Roselle Lighting Company, Inc., a corporation duly organized under the laws of North Carolina, is a public utility engaged in the distribution and sale of electric power to its retail customers in Rowan County, North Carolina, and is thereby subject to the jurisdiction of this Commission.

(2) The Applicant Roselle proposes an increase in its rates and charges as follows:

(a) A 19.2% increase based upon the increased cost of power purchased from the company's wholesale electricity supplier, the Town of Landis, North Carolina. The Town of Landis purchases its power from Duke Power Company under wholesale rates and charges approved by the Federal Power Commission. Duke increased its wholesale power rates to Landis on June 30, 1975.

(b) A 15.9% increase to produce additional net operating income for return.

(3) The test period for purposes of this proceeding is the 12 months ending December 31, 1974.

(4) The reasonable original cost of Roselle's plant used and useful in providing retail electric service in North Carolina is $289,292; the reasonable accumulated provision for depreciation is $81,096; and the reasonable original cost, less depreciation, is $208,196.

(5) The reasonable replacement cost, less depreciation, of Roselle's plant used and useful in providing electric retail service is $346,616.

(6) The fair value of Roselle's plant used and useful in providing retail electric service should be derived from giving one-half (1/2) weighting to the depreciated original cost of Roselle's plant in service and one-half (1/2) weighting to the depreciated replacement cost of the plant. By this method, using the depreciated original cost of $208,196 and the depreciated replacement cost of $346,616, the Commission finds that the fair value of the company's plant is $277,406. This fair value includes a reasonable fair value increment of $69,210.

(7) The company's reasonable allowance for working capital is $4,488.

(8) The reasonable fair value of Roselle's property in retail service (fair value plant plus working capital) is $281,894.

(9) Roselle's gross revenues for the test year, after accounting and pro forma adjustments, are $302,731 under

present rates, and $345,|3| under the rate increases proposed by the company.

(|0) Roselle's adjusted operating expenses for the test year are $288,49|. This figure includes accumulated depreciation expenses of $|0,|4| and state and federal taxes. These operating expenses also include Roselle's purchased power costs from the Town of Landis, including the |9.2% increase approved on an emergency interim basis by Commission Order of June 30, |975.

(||) The company's reasonable capital structure reflecting book equity is as follows:

	Amount	Percent
Notes payable	$53,299	25.|0%
Cost-free capital	2,403	|.|0%
Common equity	|56,982	73.80%
Total	$2|2,684	|00.00%

(|2) The company's reasonable capital structure reflecting fair value equity (book equity plus the $69,2|0 fair value increment) is as follows:

	Amount	Percent
Notes payable	$53,299	|8.9|%
Cost-free capital	2,403	.85%
Common equity (Book - $|56,982 plus Fair Value Increment - $69,2|0)	226,|92	80.24%
Total	$28|,894	|00.00%

(|3) The company's original cost equity ratio is 73.80%, and its fair value equity ratio is 80.24%.

(|4) The company's proper embedded cost of debt is 7.86%. The proper rate of return on original cost book equity is |4.50%. The proper rate of return on fair value equity is |0.42%. The |0.42% return on fair value equity and the debt cost of 7.86% yields a rate of return on Roselle's fair value property of 9.85%.

(|5) Roselle must be allowed additional annual gross revenues of $|7,943 to allow the company the opportunity, through prudent and efficient management, to earn the 9.85% return on the fair value of its property. This increased revenue requirement is based upon the fair value of the property, the reasonable test year operating expenses, and the revenues as previously determined. This 9.85% return on fair value will result in a net operating income for return of $27,766.

(16) The present retail rate schedules of Roselle are deemed just and reasonable and nondiscriminatory. The increases approved in this Order should be applied to the company's rate schedules in an across-the-board manner.

(17) The 19.2% purchased power increase approved on an emergency interim by the Commission Order of June 30, 1975, was just and reasonable in that it compensated the company for the increase in its wholesale purchased power costs passed on to it by the company's electricity supplier, the Town of Landis. This 19.2% increase has increased Roselle's rates and charges only to the extent occasioned by the increased purchased power expenditures. The Federal Power Commission has not yet made a final determination of Duke Power Company's increase to the Town of Landis which became effective on June 30, 1975. The emergency interim increase of 19.2% granted to Roselle by this Commission should be continued under bond until such time as the FPC makes final determination of Duke's increases to its wholesale customers.

(18) An investigation of the company's service voltage levels, residential single-phase meters, distribution lines, rights-of-way, and substations, shows that the company is providing adequate and reliable service.

EVIDENCE AND CONCLUSIONS

Findings of Fact Nos. 1 and 2: These findings are jurisdictional and are found in the company's Application.

Finding of Fact No. 3: The use of the test year 1974 was sufficient and adequate to reflect the proper operating conditions of the company.

Finding of Fact No. 4: The Staff accepted the company's figure of $288,288 as the original cost of the company's electric plant. To this figure the Staff added $1,004 for engineering design charges to the company's plant. The Commission finds and concludes that the reasonable original cost of the company's plant is $289,292. The Staff also accepted the company's accumulated provision for depreciation of $80,420 and added to it an end-of-period adjustment of $676. The resulting accumulated depreciation of $81,096 is reasonable.

Finding of Fact No. 5: The company's evidence on depreciated replacement cost of $345,612 was uncontradicted. The company's original cost figures were trended to depreciated replacement value by the use of the generally accepted Handy-Whitman Index of Public Utility Construction Cost. To the company's replacement cost figure should be added $1,004 for the engineering design charges. The Commission finds and concludes that the reasonable depreciated replacement cost of Roselle's plant in service is $346,616.

Finding of Fact No. 6: G. S. 62-133 requires the Commission to find the fair value of the company's property used and useful in providing electric service, considering the depreciated original cost and the depreciated replacement cost. Replacement cost may be determined by trending original cost to its current cost levels. The Company used this method. The Commission is not required, however, to accept replacement cost as fair value. Replacement cost represents a brick-by-brick replacement cost of the company's plant, including plant that is obsolete and inefficient. Replacement cost gives no consideration to the cost of a modern replacement plant and the efficiencies of operation that might be obtained therefrom. The Commission finds and concludes that, in determining fair value, the replacement cost of $346,616 should be given a one-half (1/2) weighting and the original cost of $208,196 a one-half (1/2) weighting. The Commission finds and concludes that the resulting fair value plant of $277,406 is the fair value of Roselle's plant used and useful in providing retail service to its customers in North Carolina.

Finding of Fact No. 7: The Commission adopts the working capital allowance of $4,488 set out in Witness Thomas' exhibits. He computed working capital as 1/8 of operating expenses, less average federal income taxes and customer deposits. The treatment of working capital by Mr. Thomas is consistent with recent Commission Orders in other rate proceedings. (See Docket Nos. P-7, Subs 481 and 601, Carolina Telephone and Telegraph Company Rate Order, issued October 24, 1975.)

Finding of Fact No. 8: The Commission finds and concludes that the fair value of Roselle's property used and useful in providing electric retail service is $281,894. This figure is arrived at by adding the fair value plant of $277,406 and the working capital allowance of $4,488.

Finding of Fact No. 9: G. S. 62-133(b) (2) requires the Commission, in fixing rates, to determine Roselle's revenues under the present and the proposed rates. Witness Zum Brunnen testified that the company's operating revenues for the test year were $257,949. Staff Witness Thomas increased these revenues by adding (a) $43,089 to reflect the emergency purchased power increases granted by the Order of June 30, 1975; (b) $688 to show pole attachment rentals; and (c) $1,052 to include miscellaneous utility revenues. Mr. Thomas then decreased these gross revenues by $47 to reflect refunds. The Commission finds and concludes that the resulting figure of $302,731 is the company's revenues under the present rates. The company proposed to increase its revenues by $42,447. Consequently, the revenues under the company's proposed rates would be $345,178.

Finding of Fact No. 10: The company testified that its test year operating expenses were $245,979 (Zum Brunnen Schedule I, Sheet 1 of 2). Staff Witness Thomas testified

that operating expenses should be increased by a total of $42,512 to reflect (a) the 19.2% increase in purchased power expenses amounting to $40,503 and (b) other expenses (see Thomas Schedule III, Sheet 1 of 2). The Commission finds and concludes that the company's reasonable operating expenses for the test year were $288,491.

Finding of Fact No. 11: The Commission adopts Mr. Thomas' computation of the company's test year capital structure for ratemaking purposes. [See Thomas' Schedule I, Column (d).] This capital structure reflects book common equity of $156,982.

Finding of Fact No. 12: The capital structure set out in this Finding represents a capital structure in which the fair value increment of $69,210 has been added to the book common equity of $156,982. This capital structure, which shows the fair value equity of the company, is reasonable and is adopted by the Commission to determine the cost of the company's fair value equity.

Findings of Fact Nos. 13, 14 and 15: The company testified that its test year embedded cost rate for long-term debt was 7.50%. There was evidence that the company experienced borrowing during 1975 at a higher cost rate. The Commission finds and concludes that the debt embedded cost rate for ratemaking purposes should reflect increased borrowing costs. Accordingly, the Commission adopts a cost rate of 7.86%.

The company sought a rate of return of 20.66% on book common equity. Staff Witness Currin, who was the only rate of return witness in the proceeding, testified that, in his best judgment, the cost of book equity capital to Roselle is 14.50% to 15.50%. Since Roselle's equity is not traded on the market, conventional quantitative techniques could not be used. Instead, Witness Currin used a qualitative evaluation of the risk differential between Roselle and the larger electric utilities, Duke and CP&L, to determine a risk premium to be added to the market returns of the larger, less risky, electric utilities.

The Commission finds and concludes that Roselle's cost of book equity is 14.50%.

The Commission must also take into account the company's fair value increment of $69,210 and the effect of adding this increment to the book equity component of the company's capital structure. In so doing, the Commission is following the mandate of the North Carolina Supreme Court in State of North Carolina ex rel Utilities et al. v. Duke Power Co., 285 N.C. 377 (1974), wherein it is stated:

> ". . . the capital structure of the company is a major factor in the determination of what is a fair rate of return for the company upon its properties. There are, at least, two reasons why the addition of the fair value

increment to the actual capital structure of the company tends to reduce the fair rate of return as computed on the actual capital structure. First, treating this increment as if it were an actual addition to the equity capital of the company, as we have held G. S. 62-133(b) requires, enlarges the equity component in relation to the debt component so that the risk of the investor in common stock is reduced. Second, the assurance that, year by year, in times of inflation, the fair value of the existing properties will rise, and the resulting increment will be added to the rate base so as to increase earnings allowable in the future, gives to the investor in the company's common stock an assurance of growth of dollar earnings per share, over and above the growth incident to the reinvestment in the business of the company's actual retained earnings. As indicated by the testimony of all of the expert witnesses, who testified in this case on the question of fair rate of return, this expectation of growth in earnings is an important part of their computations of the present cost of capital to the company. When these matters are properly taken into account, the Commission may, in its own expert judgment, find that a fair rate of return on equity capital in a fair value state, such as North Carolina, is presently less than [the amount which the Commission would find to be a fair return on the same equity capital without considering the fair value equity increment]."

The Commission concludes that it is just and reasonable to take into consideration, in its findings on rate of return, the reduction in risk to Roselle's equity holders and the protection against inflation which is afforded by the addition of the $69,210 fair value increment to the book equity component. Considering the current investment market and Roselle's expansion and upgrading of service to its ratepayers, the Commission concludes that a rate of return of 10.42% on fair value equity, including both book equity and the fair value increment, is fair and reasonable. The actual dollar return yielded by the rate of return of 10.42% on the fair value equity will yield a rate of return of 15.02% on book common equity, reflecting the incremental dollars added for fair value.

The Commission has considered the tests laid down by G. S. 62-133(b) (4). The Commission concludes that the rates herein allowed should enable the company to attract sufficient debt and equity capital in order to discharge its obligations and achieve and maintain a high level of service to the public. The Commission cannot, of course, guarantee that the company will, in fact, earn the rates of return herein allowed, but the Commission concludes that the company will be able to reach that level of return through efficient management.

Finding of Fact No. 16: The increases granted in this proceeding are to be placed upon the company's rate schedules in an across-the-board manner. The company

proposed no changes in its existing rate schedules, and the Staff took no issue with the existing rate schedules.

Finding of Fact No. 17: The Commission's Order of June 30, 1975, approved a 19.2% emergency interim increase in the company's rates and charges in order to reflect increases in the cost of the company's wholesale purchased power costs from the Town of Landis. Staff Witness Thomas made an appropriate adjustment of $40,503 to reflect this 19.2% increase in purchased power cost. The Commission finds and concludes that the 19.2% emergency interim increase was just and reasonable and was necessary to prevent attrition in the company's rate of return. The Federal Power Commission has not yet made a final determination of Duke Power Company's increase to the Town of Landis which became effective on June 30, 1975. The emergency interim increase of 19.2% granted to Roselle by this Commission should be continued under bond until such time as the FPC makes final determination of Duke's increases to its wholesale customers.

The approval of the 19.2% purchased power increase will produce $43,089 in additional revenues for the company, based on the company's test year base revenues of $224,147. These additional dollars, together with the additional $17,943 in revenues approved for return, will yield a total of $61,032 additional revenues for the company, or an increase of 27.23% over the company's base revenues.

Finding of Fact No. 18: Staff Witness Bumgarner performed a service investigation of Roselle during the week of October 6, 1975. The investigation consisted of checking service voltage levels, testing residential single-phase meters, and inspecting distribution lines, rights-of-way, and substations. Mr. Bumgarner testified that the test revealed that the company was operating within acceptable levels of service in all areas of his investigation. The company is to be commended for its good service.

FURTHER CONCLUSIONS

Mr. Thomas testified, and the company acknowledged, that the company does not maintain its books and records according to the Uniform System of Accounts prescribed by this Commission. Mr. Thomas recommended that the company be required to maintain its books and records in accordance with the Uniform System of Accounts for Class C and D Electric Utilities. Many of the differences in the accounting figures between the company and the Staff are attributable to the company's failure to keep its records in conformity with the Uniform System of Accounts. Mr. Thomas also pointed out that the company did not maintain perpetual inventory records for materials and supplies; there is either an overstatement or understatement of expenses and investment. As Mr. Thomas pointed out, this situation could be corrected if the company adopted the Uniform System of Accounts. The Commission is of the opinion, and so

concludes, that the company should maintain its books in accordance with the Uniform System of Accounts for Class C and D Electric Utilities, beginning January 1, 1976.

During the course of the hearing, Staff Witness Bumgarner testified that the Federal Power Commission in FPC Docket No. E-7994 had approved a settlement agreement whereby Duke Power Company would make partial refunds to its wholesale customers of electricity, including the Town of Landis, beginning on September 30, 1975. These refunds are not related to the 19.2% purchased power increases applied for in this docket, but are related to increases put into effect by Duke between April 26, 1973, and June 30, 1975. The FPC finally approved those increases on or about July 1, 1975, in an amount less than was originally requested by Duke, and ordered Duke to make refunds to its wholesale customers, including the Town of Landis, of those revenues collected during the April 26, 1973 -- June 30, 1975 period which were in excess of the rates finally approved. This Commission notes that by Order of April 26, 1973, in Docket No. E-19, Sub 16, it allowed Roselle to put into effect those increases granted Duke Power Company in FPC Docket No. E-7994; this Order further stated:

> "That Roselle Lighting Company, Inc. be, and hereby is, ordered to pass on to its customers with interest of 6% per year, any refunds received from its supplier the City (sic) of Landis following any refunds received by the City of Landis from Duke Power Company pursuant to action of the Federal Power Commission."

Mr. Bumgarner testified that Duke Power Company had begun making refunds to the Town of Landis and that such refunds would amount to $46,839, payable over a thirty-six (36) month period. The Commission is of the opinion that, in the interest of equity and fairness, Roselle Lighting Company should receive from the Town of Landis that portion of the refund from Duke to Landis which was attributable to sales of electricity from Landis to Roselle. The Commission will order that Roselle file a statement with the Commission advising of the status of the above-described refund from Duke to Landis. This statement should set forth the efforts undertaken by Roselle to secure that portion of Duke's refund to Landis which was attributable to sales from Landis to Roselle.

IT IS, THEREFORE, ORDERED:

(1) That Roselle Lighting Company be, and the same is hereby, authorized to increase its rates and charges by an across-the-board increase of 27.23% on its basic rates and charges in effect on June 30, 1975, such increase to be designed to produce additional annual revenues not to exceed $61,032, effective immediately. This increase of 27.23% includes the 19.2% emergency interim increase which became effective July 1, 1975. Such 19.2% increase shall continue under bond until such time as the Federal Power Commission

makes final determination of the increases which Duke placed into effect on July 1, 1975, to its wholesale customers, including the Town of Landis. Roselle is hereby required to notify this Commission immediately when Duke's increases to the Town of Landis are finally determined by the Federal Power Commission, so that this Commission may issue such Order as is appropriate.

(2) That Roselle Lighting Company shall keep records of all amounts collected pursuant to the 19.2% purchased power increase approved herein so that they may be audited by the Commission Staff.

(3) That the Notice attached to this Order as Appendix "A" be mailed to all customers of Roselle in the next bill.

(4) That, beginning on January 1, 1976, the company shall maintain its books and records in accordance with the Uniform System of Accounts for Class C and D Electric Utilities, as prescribed by this Commission.

(5) That the company shall advise the Commission, in writing, within two (2) weeks from the date of this Order, of the status of refunds from the Town of Landis to the company, such refunds arising out of the settlement agreement approved by the Federal Power Commission whereby Duke Power Company would make partial refunds to its wholesale customers of electricity, including the Town of Landis, beginning on September 30, 1975.

ISSUED BY ORDER OF THE COMMISSION.

This the 22nd day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"
DOCKET NO. E-19, SUB 19

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Roselle Lighting Company for An Adjustment of Its Rates and Charges.	NOTICE

Upon Application of Roselle Lighting Company, Inc., in Docket No. E-19, Sub 19, the North Carolina Utilities Commission approved a rate increase, effective December 22, 1975, of 27.23% on the company's basic rates and charges in effect on June 30, 1975. This increase includes a 19.2% increase to allow the company to recover the increased cost of electricity purchased at wholesale from its supplier, the Town of Landis, North Carolina. The Town of Landis, in

turn, has received corresponding increase from its wholesale supplier of electricity, Duke Power Company, pending a final decision of the Federal Power Commission.

This 19.2% increase reflecting the company's wholesale electricity increase has been in effect on an emergency interim basis since July 1, 1975. This 19.2% shall continue into effect pending final determination by the Federal Power Commission and is subject to refund with 6% interest in the event the Federal Power Commission in its final decision wholly or partially disapproves the Duke Power Company wholesale increase, and Roselle, in turn, receives any refunds from its supplier, the Town of Landis.

This the 22nd day of December, 1975.

Roselle Lighting Company

DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Virginia Electric and Power Company for Authority to Adjust and Increase Its Electric Rates and Charges - Fossil Fuel Adjustment Clause.	) ORDER) IMPLEMENTING) FUEL) CLAUSE

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on January 30 and 31, 1975, and February 18 through 21, 25 and 26, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

Same As In Docket No. E-2, Sub 234.

BY THE COMMISSION: The matters under investigation and consideration in this docket were consolidated for hearing with Docket No. E-2, Sub 234.

Considering the record in its entirety, the Commission is of the opinion, finds and concludes that the procurement policies of Virginia Electric and Power Company during the period in issue were reasonable and the application of the fuel clause followed by the company was in accordance with the Orders thus far issued in this docket.

The Commission further finds and concludes, that certain modifications in the application and administration of the fuel adjustment clause by Vepco should be made consistent

with the the simultaneous Order issued this day in Docket No. E-2, Sub 234.

IT IS, THEREFORE, ORDERED as follows:

1. That public hearing be held in the Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on the third Monday of each month at 2:00 P.M., commencing April 21, 1975, to determine whether Vepco has reasonably applied the fuel clause and whether Vepco has been reasonable in its fuel purchasing practices during the second preceding month prior to the month during which the hearing is held; and pending the Commission's decision the revenues collected pursuant to the fuel clause during the month of the hearing shall be subject to refund. The evidence to be presented shall be based upon fuel procurement practices and fossil fuel prices incurred during the second preceding month prior to the month during which the hearing is held.

2. That Vepco shall henceforth exclude from the operation of the fuel clause all salary expenses involved in the procurement of fuel. At the first monthly hearing the Commission will allow the company to present evidence relevant to the effect this exclusion has with respect to base rates and to the base in the fuel clause.

3. That Vepco shall treat amounts recovered in litigation, in arbitration, or in settlement against coal or oil suppliers as a credit toward fuel expenses incurred during the month of recovery.

4. That revenues thus far collected pursuant to the interim fuel clause are subject to final approval upon completion of investigation and hearing herein.

5. That Vepco shall give Notice of the April hearing by publishing in sufficient newspapers giving general coverage of its entire service area in North Carolina. This Notice shall be published immediately. Vepco shall give Notice of all remaining hearings by enclosing adequate and sufficient Notice in its next billing.

ISSUED BY ORDER OF THE COMMISSION.

This the 2nd day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Commissioner Wells Dissents.

DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Virginia Electric and Power Company for Authority to Adjust and Increase Its Electric Rates and Charges - Fossil Fuel Adjustment Clause	) ORDER APPROVING FUEL CLAUSE AND CONFIRMING REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on April 24, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

R. C. Howison, Jr., Esq.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Edward B. Hipp, Esq.
Commission Attorney
Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order requiring public hearings monthly to decide whether Vepco had reasonably applied the fuel clause and whether Vepco had been reasonable in its fuel purchasing practices. The first such hearing was held April 24, 1975.

At this hearing Vepco offered the testimony of the following witnesses: A. M. Clement, Treasurer of Vepco; and Stanley Ragone, Senior Vice President responsible for power station construction, operation and maintenance and procurement of fuel resources for Vepco's generating facilities. Mr. Clement testified with respect to whether Vepco had reasonably applied the fuel clause in determining the fossil fuel factor for April 1975. Mr. Ragone testified with respect to whether Vepco had been reasonable in its fuel purchasing practices during the Month of February 1975.

The Commission Staff offered the testimony of Andrew W. Williams, Chief, Electrical Section of the Division of Engineering. Mr. Williams testified that he examined the evidence presented by Vepco in support of its proposed April fossil fuel charge of 1.144¢ per kilowatt-hour. Mr. Williams stated that he verified the computations of the proposed charge, and he recommended that the revenues collected by Vepco from the fuel adjustment charge of 1.144¢ per kilowatt-hour be confirmed. Mr. Williams also recommended that Vepco supply each month a breakdown of

expenses in Accounts Nos. 501 and 547; Vepco agreed at the hearing to supply this information. Mr. Williams also recommended that the date for filing testimony and evidence by all of the companies participating in these monthly hearings should be no later than the 28th day of the preceding month.

FINDINGS OF FACT

Reasonableness of Vepco's Fuel Procurement Activities for February 1975

In February 1975 a total of 301,051 tons of coal were delivered to Vepco power stations. Thirty-four percent (34%) of this delivered coal was purchased on the spot market. There was noticeable improvement in the availability and quality of spot coal during the month and this was reflected in the somewhat lower price paid for spot coal during February. The average price for the coal delivered was 96.91¢/MBTU, which included Mt. Storm coal costing 86.43¢/MBTU and in-system coal costing 157.00¢/MBTU. During February the company continued to transfer coal to Mt. Storm and Bremo from storage at the company's oil fired stations. This transfer of coal was less costly than buying coal on the spot market and enabled the company to begin rebuilding coal storage at Mt. Storm and Bremo to acceptable levels. Vepco's fossil fuel adjustment factor for April was lower than it would have been if the company had purchased spot coal rather than transferred coal between stations.

In February 1975, 1,851,237 barrels of heavy oil were delivered to Vepco. All of this oil was from contract suppliers. The price for this oil amounted to 176.79¢/MBTU. The February price of heavy oil reflected a downward price adjustment under one of the contracts as a result of Federal Energy Administration reallocation of old oil and new oil. Vepco consulted with members of the United States Senate and House of Representatives and participated in the FEA rulemaking that resulted in FEA allocating oil price as well as volumes of oil. As a result of that rulemaking the downward adjustment in heavy oil prices to Vepco in February amounted to $646,000.

In February 1975, 3,211,336 million gallons of No. 2 (light) oil were delivered to Vepco. Ninety-four percent (94%) of such purchases were from contract suppliers. Prices paid for light oil did not decline during the month, although the availability of light oil had improved. The price paid for the No. 2 oil delivered in February 1975 amounted to 205.81¢/MBTU.

The Commission is of the opinion and so concludes that Vepco was reasonable in its fossil fuel purchasing practices during the Month of February 1975 and that the company made its spot purchases of such fuel during the month at the lowest prices available to the company.

Application of the Fuel Adjustment Clause

The fossil fuel factor for Vepco for April 1975 was 1.144¢ per kilowatt-hour. This factor was correctly calculated by use of Federal Power Commission Uniform System of Accounts No. 151, "Fuel Stock". Included in Account No. 151 is the price paid for fossil fuel purchased and freight charges thereon. Not included is the cost of handling coal or ash, analysis, or salary charges.

The Commission finds and concludes that Vepco correctly and appropriately applied the fuel clause as approved by this Commission.

IT IS, THEREFORE, ORDERED that the revenues collected by Vepco during the Month of April 1975 pursuant to the fossil fuel adjustment charge of 1.144¢/KWH are confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of April, 1975.

NORTH CARCLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application by Virginia Electric	)	ORDER APPROVING
and Power Company for Authority	)	APPLICATION OF
to Adjust and Increase Its	)	FUEL CLAUSE
Electric Rates and Charges -	)	AND CONFIRMING
Fossil Fuel Adjustment Clause.	)	REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on May 19, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

R. C. Howison, Jr., Esq.
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

John T. Bode, Esq.
Bode & Bode, P. A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Pruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring public hearings monthly to decide whether Virginia Electric and Power Company had reasonably applied the fossil fuel clause and whether Vepco had been reasonable in its fuel purchasing practices. The second such hearing under this Order was held on May 19, 1975.

At this hearing Vepco offered the testimony of the following witnesses: A. M. Clement, Treasurer of Vepco; and Stanley Ragone, Senior Vice President responsible for power station construction, operation and maintenance and procurement of fuel resources for Vepco's generating facilities. Mr. Clement testified with respect to whether Vepco had reasonably applied the fuel clause in determining the fossil fuel factor for May 1975, which is 0.958¢/kilowatt-hour. Mr. Ragone testified with respect to whether Vepco had been reasonable in its fuel purchasing practices during the month of March 1975.

The Commission Staff offered the testimony of Andrew W. Williams, Chief, Electrical Section. Mr. Williams testified that he examined the evidence presented by Vepco in support of its May fossil fuel charge of 0.959¢/kilowatt-hour. Mr. Williams stated that he discovered an error in the actual kilowatt sales reported by Vepco for March 1975. When this error is corrected, the fossil fuel factor for May 1975 should be 0.958¢/kilowatt-hour instead of the 0.959¢/kilowatt-hour proposed by Vepco; the company should refund this difference. Mr. Williams recommended that the revenues collected in May 1975 under the corrected fuel adjustment charge should be confirmed, subject to refund arising out of billings under the 0.959¢ charge.

FINDINGS OF FACT

Reasonableness of Vepco's Fuel Procurement Activities for February 1975

(1) In March 1975 a total of 256,135 tons of coal were delivered to Vepco power stations. Fifteen percent (15%) of this delivered coal was purchased on the spot market. There was a noticeable improvement in the availability and quality of spot coal during the month; this was reflected in the somewhat lower prices paid for spot coal during the latter part of March. The average price for the coal delivered was 95.99¢/MBTU, which included Mt. Storm coal costing 77.81¢/MBTU and in-system coal costing 164.16¢/MBTU.

(2) In March 1975, 2,133,268 barrels of heavy fuel oil were delivered to Vepco power stations. All of this oil was from contract suppliers. The average price of this oil amounted to 180.35¢/MBTU. During March the price of heavy oil remained constant at the February level, which included a downward price adjustment under one of the contracts as a result of the Federal Energy Administration reallocation of old oil and new oil; this downward adjustment amounted to

$676,000. Also in March Vepco began purchasing higher costing .5% sulphur content heavy oil for use in the new generating unit at Possum Point that will go into service in May. The price paid for this oil delivered in March was $13.36/BBL, or 222.96¢/MBTU. The use of this oil was the lowest cost alternative method of meeting environmental requirements.

(3) In March 1975, 5,925,876 gallons of #2 and jet fuel oil were delivered to Vepco stations. Thirty-two percent (32%) of the total light oil delivered during March was spot purchases; all other purchases were from contract suppliers. The average price of light oil, which is under FEA controls, increased by about 2¢ per gallon, to 30.22¢ per gallon, or 215.90¢/MBTU.

Application of the Fuel Adjustment Clause

(4) The proposed fossil fuel factor for May 1975, as corrected, is .958¢/kilowatt-hour. In its original computation of this charge the company made a clerical error in compiling kilowatt-hour sales data for March 1975. The correction reduces the May fossil fuel factor from .959¢ to .958¢ per kilowatt-hour. As a result of this correction, customers in North Carolina who were incorrectly billed under the .959¢ charge will be entitled to refund or credit from the company.

(5) The fossil fuel charge for May 1975 was correctly calculated by use of Account No. 151, the "Fuel Stock" account.

CONCLUSIONS

(1) The Commission finds and concludes that Vepco was reasonable in its fossil fuel purchasing practices during the month of March 1975 and that such practices for the month of March 1975 should be affirmed.

(2) The Commission finds and concludes that the corrected fossil fuel factor for the month of May 1975 of .958¢ per kilowatt-hour should be confirmed; such customers, however, who were billed under the incorrect charge of .959¢ per kilowatt-hour should be given a credit for any overpayment.

IT IS, THEREFORE, ORDERED that the revenues collected by Vepco during the month of May 1975 pursuant to the fossil fuel adjustment charge of 0.958¢/kilowatt-hour are hereby confirmed as permanent revenues for the company. Customers who were incorrectly billed under the 0.959¢/kilowatt-hour charge are to be credited for overpayment thereunder in the next billing month.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Virginia Electric	) ORDER APPROVING
and Power Company for Authority	) APPLICATION OF
to Adjust and Increase Its	) FUEL CLAUSE
Electric Rates and Charges -	) AND CONFIRMING
Fossil Fuel Adjustment Clause.	) REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on June 16, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

John T. Bode, Esq.
Bode & Bode, P.A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 1551
Raleigh, North Carolina 27602

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Edward B. Hipp, Esq.
Commission Attorney
Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring public hearings monthly to decide whether Virginia Electric and Power Company had reasonably applied the fossil fuel clause and whether Vepco had been reasonable in its fuel purchasing practices. The third such hearing under this Order was held on June 16, 1975.

At this hearing, Vepco offered the testimony of the following witnesses: B. D. Johnson, Assistant Treasurer of Vepco and W. N. Thomas, Vice President of Vepco responsible for the procurement of fuel resources used in the Vepco facilities. Mr. Johnson testified with respect to whether Vepco had reasonably applied the fuel clause in determining the fossil fuel factor in June 1975, which is 0.755¢/per kilowatt-hour. Mr. Thomas testified with respect to whether Vepco had been reasonable in its fuel purchasing practices during the Month of April 1975.

The Commission Staff offered the testimony of George Duckwall, Utilities Engineer, Engineering Division. Mr.

Duckwall testified that he examined the evidence presented by Vepco in support of its June fossil fuel charge of 0.755¢/per kilowatt-hour. He recommended that the revenues collected in June 1975 under the fuel adjustment charge should be confirmed.

FINDINGS OF FACT

Reasonableness of Vepco's Fuel Procurement Activities for April 1975

(1) In April 1975 a total of 313,493 tons of coal were delivered to Vepco power stations. Thirty-four (34%) of this delivered coal was purchased on the spot market. There was a continued improvement in the availability and quality of spot coal during the month; this was reflected in the some-what lower prices paid. The average price for the coal delivered was 91.35¢/MBTU which included Mt. Storm coal costing 82.86¢/MBTU and in-system coal costing 137.24¢/MBTU.

(2) In April 1975, 1,469,462 barrels of heavy fuel oil were delivered to Vepco power stations. All of this oil was from contract suppliers. The average price of this oil amounted to 19.65¢/MBTU. During April the price of heavy oil remained constant at the March level, which included a continued downward price of 60¢/BBL temporary allowance under one of the contracts as a result of the Federal Energy Administration reallocation of old oil and new oil; this downward adjustment for April amounted to $380,499. Also in April Vepco continued purchasing higher costing .5% sulphur content heavy oil for use in the new generating unit at Possum Point that went into service in May. The price paid for this oil delivered in April was $13.68/BBL, or 225.86¢/MBTU. The use of this oil was the lowest cost alternative method of meeting environmental requirements.

(3) In April 1975, 3,360,371 gallons of #2 and jet fuel oil were delivered to Vepco stations. All of the total light oil delivered during April was contract purchases. The average price of light oil, which is under FEA controls amounted to 28.10¢ per gallon, or 200.71¢/MBTU.

Application of the Fuel Adjustment Clause

(4) The proposed fossil fuel factor for June 1975, as computed, is 0.755¢/kilowatt-hour. The fossil fuel charge for June 1975 was correctly calculated by use of Account No. 151, the "Fuel Stock" account.

CONCLUSIONS

(1) The Commission finds and concludes that Vepco was reasonable in its fossil fuel purchasing practices during the month of April 1975 and that such practices for the month of April 1975 should be affirmed.

(2) The Commission finds and concludes that the computed fossil fuel factor for the month of June 1975 of 0.755¢/kilowatt-hour should be confirmed.

IT IS, THEREFORE, ORDERED that the revenues collected by Vepco during the month of June 1975 pursuant to the fossil fuel adjustment charge of 0.755¢/kilowatt-hour are hereby confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Virginia Electric and Power Company for Authority to Adjust and Increase Its Electric Rates and Charges - Fossil Fuel Adjustment Clause	)	ORDER APPROVING APPLICATION OF FUEL CLAUSE AND CONFIRMING REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on July 21, 1975

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, Barbara A. Simpson, and W. Lester Teal, Jr.

APPEARANCES:

For the Applicants/Respondents:

John T. Bode, Esq.
Bode & Bode, P.A.
P. O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Attorney at Law
Carolina Power & Light Company
P. O. Box 155
Raleigh, North Carolina 27602

Robert C. Howison, Jr., Esq.
Joyner & Howison
P. O. Box 109
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

George W. Ferguson, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

Guy T. Tripp, III, Esq.
Hunton, Williams, Gay & Gibson
P. O. Box 1535
Richmond, Virginia 23212
For: Virginia Electric and Power Company

For the Intervenors:

Jerry Rutledge, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring public hearings monthly to decide whether Virginia Electric and Power Company had reasonably applied the fossil fuel clause and whether Vepco had been reasonable in its fuel purchasing practices. The fourth such hearing under this Order was held on July 21, 1975.

At this hearing, Vepco offered the testimony of the following witnesses: B. D. Johnson, Assistant Treasurer of Vepco and W. N. Thomas, Vice President of Vepco responsible for the procurement of fuel resources used in the Vepco facilities. Mr. Johnson testified with respect to whether

Vepco had reasonably applied the fuel clause in determining the fossil fuel factor in July 1975, which is 0.869¢/per kilowatt-hour. Mr. Thomas testified with respect to whether Vepco had been reasonable in its fuel purchasing practices during the Month of May 1975.

The Commission Staff offered the testimony of George Duckwall, Utilities Engineer, Engineering Division. Mr. Duckwall testified that he examined the evidence presented by Vepco in support of its June fossil fuel charge of 0.869¢/per kilowatt-hour. He recommended that the revenues collected in July 1975 under the fuel adjustment charge should be confirmed.

FINDINGS OF FACT

Reasonableness of Vepco's Fuel Procurement

Activities for May 1975

(1) In May 1975 a total of 320,744 tons of coal were delivered to Vepco power stations. Twenty-eight per cent (28%) of this delivered coal was purchased on the spot market. There was a continued improvement in the availability and quality of spot coal during the month; this was reflected in the somewhat lower prices paid. The average price for the coal delivered was 86.21¢/MBTU which included Mt. Storm coal costing 79.37¢/MBTU and in-system coal costing 135.28¢/MBTU.

(2) In May 1975, 2,513,023 barrels of heavy fuel oil were delivered to Vepco power stations. All of this oil was from contract suppliers. The average price of this oil amounted to 189.21¢/MBTU. During May the price of heavy oil remained constant at the April level, with a discontinuance of a 60¢/BBL temporary allowance under one of the contracts which had resulted from the Federal Energy Administration reallocation of old oil and new oil. In May Vepco continued purchasing higher costing .5% sulphur content heavy oil for use in the new generating unit at Possum Point that went into preliminary service in May. The price paid for this oil delivered in May was $13.61/BBL, or 224.08¢ MBTU. The use of this oil was the lowest cost alternative method of meeting environment requirements.

(3) In May 1975, 4,998,064 gallons of #2 and jet fuel oil were delivered to Vepco stations. All of the total light oil delivered during May was contract purchases. The average price of light oil, which is under FEA controls, amounted to 29.85¢ per gallon, or 213.21¢/MBTU.

Application of the Fuel Adjustment Clause

(4) The proposed fossil fuel factor for July 1975, as computed, is 0.869¢/kilowatt-hour. The fossil fuel charge for July 1975 was correctly calculated by use of Account No. 151, the "Fuel Stock" account.

CONCLUSIONS

(1) The Commission finds and concludes that Vepco was reasonable in its fossil fuel purchasing practices during the month of May 1975 and that such practices for the month of May 1975 should be affirmed.

(2) The Commission finds and concludes that the computed fossil fuel factor for the month of July 1975 of 0.869¢/kilowatt-hour should be confirmed.

IT IS, THEREFORE, ORDERED that the revenues collected by Vepco during the month of July 1975 pursuant to the fossil fuel adjustment charge of 0.869¢/kilowatt-hour are hereby confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Virginia Electric	) ORDER APPROVING
and Power Company for Authority	) APPLICATION OF
to Adjust and Increase Its	) FUEL CLAUSE
Electric Rates and Charges -	) AND CONFIRMING
Fossil Fuel Adjustment Clause	) REVENUES COLLECTED

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on August 18, 1975.

BEFORE: Commissioner W. Lester Teal, Jr., Presiding; Commissioners Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicants/Respondents:

John T. Bode, Esq.
Bode & Bode, P.A.
P.O. Box 391
Raleigh, North Carolina 27602
For: Carolina Power & Light Company

William E. Graham, Jr., Esq.
Attorney at Law

Carolina Power & Light Company
P.O. Box 1551
Raleigh, North Carolina 27602

Steve C. Griffith, Jr., Esq.
Attorney at Law
Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

William G. Ross, Jr., Esq.
Broughton, Broughton, McConnell & Boxley
P.O. Box 2387
Raleigh, North Carolina 27602
For: Virginia Electric and Power Company

For the Intervenors:

Jesse Brake, Esq.
Associate Attorney General
North Carolina Department of Justice
P.O. Box 629
Raleigh, North Carolina 27602
For: State of North Carolina Using and Consuming Public

For the Commission Staff:

Jerry B. Fruitt, Esq.
Associate Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P.O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 2, 1975, the Commission issued an Order in this docket requiring public hearings monthly to decide whether Virginia Electric and Power Company had reasonably applied the fossil fuel clause and whether Vepco had been reasonable in its fuel purchasing practices. The fifth such hearing under this Order was held on August 18, 1975.

At this hearing, Vepco offered the testimony of the following witnesses: B.D. Johnson, Assistant Treasurer of Vepco and W.N. Thomas, Vice President of Vepco responsible for the procurement of fuel resources used in the Vepco facilities. Mr. Johnson testified with respect to whether Vepco had reasonably applied the fuel clause in determining the fossil fuel factor in August 1975. Mr. Thomas testified with respect to whether Vepco had been reasonable in its fuel purchasing practices during the Month of June 1975.

The Commission Staff offered the testimony of Andrew W. Williams, Chief, Electric Section. Mr. Williams testified that he examined the evidence presented by Vepco in support

of its August fossil fuel charge of 0.97|¢/kilowatt-hour. He recommended that the revenues collected in August |975 under the fuel adjustment charge should be confirmed.

FINDINGS OF FACT

Reasonableness of Vepco's Fuel Procurement Activities for June |975

(|) In June |975 a total of 345,055 tons of coal were delivered to Vepco power stations. There was a continued improvement in the availability and quality of spot coal during the month. The average price for the coal delivered was 89.8|¢/MBTU which included Mt. Storm coal costing 80.22¢/MBTU and in-system coal costing |5|.63¢/MBTU.

(2) In June |975, 2,277,023 barrels of heavy fuel oil were delivered to Vepco power stations. All of this oil was from contract suppliers. The average price of this oil amounted to |92.3|¢/MBTU. In June Vepco continued purchasing higher costing .5% sulphur content heavy oil for use in the new generating unit at Possum Point that went into preliminary service in May. The price paid for this oil delivered in June was $|3.6|/BBL, or 224.0|¢/MBTU. The use of this oil was the lowest cost alternative method of meeting environment requirements.

(3) In June |975, 7,470,309 gallons of #2 and jet fuel oil were delivered to Vepco stations at an average price of 3|.29¢ per gallon, or 223.50¢/MBTU.

Application of the Fuel Adjustment Clause

(4) The proposed fossil fuel factor for August |975, as computed, is 0.97|¢/kilowatt-hour. The fossil fuel charge for August |975 was correctly calculated by use of Account No. |5|, the "Fuel Stock" account.

CONCLUSIONS

(|) The Commission finds and concludes that Vepco was reasonable in its fossil fuel purchasing practices during the month of June |975 and that such practices for the month of June |975 should be affirmed.

(2) The Commission finds and concludes that the computed fossil fuel factor for the month of August |975 of 0.97|¢/kilowatt-hour should be confirmed.

IT IS, THEREFORE, ORDERED that the revenues collected by Vepco during the month of August |975 pursuant to the fossil fuel adjustment charge of 0.97|¢/kilowatt-hour are hereby confirmed as permanent revenues for the company.

ISSUED BY ORDER OF THE COMMISSION.

This the 25th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. E-22, SUB 170
DOCKET NO. E-22, SUB 165
DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Virginia Electric and Power Company for Authority to Adjust and Increase Its Electric Rates and Charges.	) ORDER APPROVING) INCREASES IN) RATES AND CHARGES

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on May 20, 21, 22, 23, 27, 28, 29, 30 and on June 4 and 5, 1975.

BEFORE: Chairman Marvin R. Wooten, Presiding, and Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

R. C. Howison, Jr., Esq.
Joyner & Howison
Attorneys at Law
Wachovia Bank Building
Raleigh, North Carolina 27602

Evans B. Brasfield, Esq.
Hunton, Williams, Gay & Gibson
Attorneys at Law
P. O. Box 1535
Richmond, Virginia 23212

Allen C. Barringer, Esq.
Hunton, Williams, Gay & Gibson
Attorneys at Law
P. O. Box 1535
Richmond, Virginia 23212

Guy T. Tripp, III
Hunton, Williams, Gay & Gibson
Attorneys at Law
P. O. Box 1535
Richmond, Virginia 23212

For the Intervenors:

Frank P. Meadows, Jr., Esq.
M. Alexander Biggs, Esq.
Biggs, Meadows, Batts and Winberry
Attorneys at Law
P. O. Drawer 153
Rocky Mount, North Carolina 27801
For: Abbott Laboratories

William T. Crisp, Esq.
Crisp, Bolch, Smith & Clifton
Attorneys at Law
P. O. Box 751
Raleigh, North Carolina 27602
For: Municipal Utility Defense Association
Municipalities of Columbia, Kill Devil Hills, Manteo and Nags Head, Battleboro, Creswell, Jamesville, Plymouth, Powellsville, Rich Square, Roper, Weldon and Williamston.

Robert Gruber, Esq.
Jerry Rutledge, Esq.
Office of the North Carolina Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: The Using and Consuming Public

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Jerry B. Fruitt
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: This proceeding is before the Commission on the following Applications of Virginia Electric and Power Company (hereinafter called "Vepco").

DOCKET NO. E-22, SUB 161

On January 30, 1974, Virginia Electric and Power Company filed an Application with the Commission for authority to adjust and increase its retail electric rates and charges by the addition of a fossil fuel adjustment clause, to become effective on bills rendered on and after February 15, 1974.

The Commission by Order of February 8, 1974, authorized Vepco to adjust its retail rates and charges by the addition of a fossil fuel adjustment clause effective on an interim basis on service rendered on and after February 9, 1974, with respect to fossil fuel burned on and after October 1, 1973. Vepco's Application was declared a general rate case and was set for hearing.

On March 4, 1974, the Attorney General of North Carolina filed Notice of Appeal and Exceptions to the Commission's Order of February 8, 1974. Further, the Attorney General filed a Motion praying that the Commission postpone the approval of the fuel clause pending judicial review or hearing and investigation, or, in the alternative, that the Commission rescind the Order or modify it to provide for a refund with interest on undertaking for refund. On March 12, 1974, the Commission denied the Attorney General's Motion that the effective date of the February 8, 1974, Order be postponed, but the Commission allowed the Attorney General's Motion that its Order be modified to provide for an undertaking for refund pending a final determination of the matter. The Commission approved Vepco's undertaking, which was attached to its Application, and ordered the company to file monthly reports on all amounts collected under the fuel clause.

On April 23, 1974, the Attorney General filed its Appeal in Docket No. E-22, Sub 161 in the Court of Appeals. The Commission and Vepco filed Motions in the Court of Appeals asking that the Appeal of the Attorney General be dismissed as premature. Thereafter, on July 3, 1974, the Court of Appeals filed its opinion dismissing the Appeal of the Attorney General as premature in that the Commission's Order was interlocutory in nature and not appealable. A subsequent appeal and petition for writ of certiorari by the Attorney General in the Supreme Court was unsuccessful.

DOCKET NO. E-22, SUB 165

On May 31, 1974, Vepco filed an Application with the Commission for authority to increase its electric rates and charges for its retail customers in North Carolina. The proposed increases would produce approximately $5,994,000 in additional annual revenues or an increase of approximately 14.56%. On June 27, 1974, the Commission issued its Order suspending the proposed rate increase and set the Application for investigation and hearing as a general rate case. The Order set the hearings in this docket to begin on December 16, 1974, and February 4, 1975. The fossil fuel docket referred to above, Docket No. E-22, Sub 161, was consolidated for hearing at the same time with Docket No. E-22, Sub 165.

On July 17, 1974, Vepco filed with the Commission a Motion and Application for interim rate increases in the amount of $4,409,000, or approximately 80% of the increase requested in the Application of May 31, 1974. Vepco's request for

interim rate relief was suspended and set for investigation and hearing on August 27, 1974.

As a result of the hearing the Commission on September 5, 1974, authorized Vepco an interim rate increase not to exceed $3,139,000 annually, effective on bills rendered on and after October 5, 1974.

The Commission scheduled a Prehearing Conference on October 4, 1974, upon the verbal motion of Vepco. Thereafter, on October 7, 1974, as a result of this Prehearing Conference, Vepco filed a Motion for a continuance of the hearing dates in Docket No. E-22, Subs 161 and 165, and for an extension of time for filing expert testimony. In support of its Motion, Vepco stated that it required rate relief greater than that applied for in these dockets, and that the company would file an Application therefor on or before November 29, 1974. The Motion of Vepco further stated:

"If the Commission is of the opinion that it is desirable to consolidate the above captioned dockets for hearing with the proposed application to be filed on or before November 29, 1974 for hearing during February 4-7 and 11-14, 1975, and thereafter, if necessary, as the Commission's calendar permits and to that end continues the hearing now scheduled for December 10-13, 1974, Vepco will agree and stipulate subject to the foregoing:

"(a) Vepco will waive its rights under the 270 day suspension limitation imposed upon the Commission by G. S. 62-134(b) with regard to Docket No. E-22, Sub 165 and to the extent applicable to Docket No. E-22, Sub 161;

"(b) With regard to its proposed new application to be filed on or before November 29, 1974 Vepco will waive its rights to put such rates into effect pursuant to G.S. 62-135.

"It should be noted that Vepco does not waive its rights, under the conditions set forth above, pursuant to G.S. 62-135 as to Docket No. E-22, Sub 165 and, to the extent applicable, to Docket No. E-22, Sub 161, nor does Vepco waive its rights under G.S. 62-134 as to its proposed application."

On October 10, 1974, the Commission issued its Order granting the Motion of Vepco for a continuance and for an extension of time for filing expert testimony in the two dockets.

On December 13, 1974, in Docket No. E-22, Sub 165, Vepco filed with the Commission notice that it planned to place into effect on services rendered on and after January 1, 1975, an increase in its rates and charges not exceeding 20% for any single rate classification or any single customer,

the rates and charges now in effect. At the same time Vepco filed an Undertaking for refund. Thereafter on December 17, 1974, the Commission approved the Undertaking for refund and required Vepco to give notice to its customers of the increase.

On January 16, 1975, the Attorney General filed Exceptions to the Commission's Order approving Undertaking, and on January 17, 1975, the Attorney General filed a Motion asking the Commission to reconsider its Order of December 17, 1974, and to deny the request of Vepco to put a rate increase into effect in accordance with the Notice of the company. The Commission denied the Motion of the Attorney General on January 23, 1975.

DOCKET NO. E-22, SUB 170

On November 29, 1974, Vepco filed its Application for authority to increase its electric rates and charges for its retail customers in North Carolina by an amount of $9,227,000 in additional revenues. (This figure was revised to $9,074,000 by Mr. Clement; Transcript, Vol. II, p. 141; AMC Exhibit 4, p. 1 Revised.) In its Order of December 20, 1974, the Commission suspended the proposed rates and set the Application for investigation and hearing as a general rate increase. In this Order, the Commission consolidated for hearing the Application in this docket, Docket No. E-22, Sub 170, with the two rate cases pending in Docket No. E-22, Subs 161 and 165.

On January 31, 1975, the Commission continued the hearing in these dockets to the week of May 20, 1975.

On January 30, 1975, hearings began in the consolidated fossil fuel dockets for Vepco, Carolina Power & Light Company and Duke Power Company. The docket in the Vepco hearing was the same docket under consideration in this Order, Docket No. E-22, Sub 161. On April 2, 1975, the Commission issued Orders in all of the fuel clause dockets. The Order in Vepco's Docket No. E-22, Sub 161, approved the revenues thus far collected under the interim fuel clause, subject to final approval upon completion of investigation and hearing as a part of Vepco's consolidated rate cases. The Order also set up monthly hearings to review the reasonableness of the company's fossil fuel procurement practices and to determine whether Vepco has reasonably applied the fossil fuel clause.

The Attorney General gave the statutory Notice of Intervention in all of these dockets, and the Commission duly recognized the Intervention of the Attorney General. The following parties filed Petitions to Intervene in this proceeding, all of which were allowed: Abbott Laboratories; Northeastern Cotton Ginners Association; the Municipal Utility Defense Association, consisting of the municipalities of Battleboro, Creswell, Jamesville, Plymouth, Powellsville, Rich Square, Roper, Weldon,

Williamston, Columbia, Kill Devil Hills, Manteo, and Nags Head. The Commission held public hearings in these dockets beginning on May 20, 1975, and continuing through June 6, 1975, in Raleigh, North Carolina. At these hearings the Commission received the prefiled written testimony of the witnesses of Vepco, the Commission's Staff and the Intervenors, and each witness was tendered for cross-examination. The transcript will show full and ample rights of each party to introduce all relevant evidence and exhibits and to cross-examine all the evidence and exhibits of the other parties.

Vepco offered the testimony of the following witnesses: T. Justin Moore, Jr., the President of Vepco, who testified generally on the needs of Vepco for the increases requested in this proceeding; Stanley Ragone, Senior Vice President - Power Group, who testified on the need for the completion of Vepco's construction program, the method by which the future test year investments and expenses are projected, and on the necessity for a fossil fuel adjustment clause; Dr. Charles F. Phillips, who testified on rate of return; A. M. Clement, Treasurer of Vepco, who testified on the accounting records and financial statements of Vepco; Charles H. Frazier, who testified on rate design; Howard M. Wilson, Jr., Director of Rate Administration, who testified on the company's rate schedules and its future revenues; Henry H. Dunston, Jr., Director - Cost Analysis in the Rate Department of Vepco, who testified on jurisdictional cost allocations; John J. Reilly, Consulting Engineer of Ebasco Services, Inc., who testified on the appraisal of Vepco's electric plant in service; and Charles Benore, Vice President of Mitchell, Hutchins, Inc., who testified on the cost of capital.

The Commission Staff offered the testimony of Bobby C. Branch, who testified on financial statements, accounting records, and the Staff audit report, for the 12 months ended June 30, 1974; George M. Duckwall, who testified on jurisdictional allocations; William E. Carter, who testified on accounting records, financial statements, and the Staff audit report for the projected 12 months ended June 30, 1975; William F. Irish, who testified on future test year revenues and sales; and Andrew W. Williams, who testified on the fossil fuel clause, the value of fuel inventories in the determination of cash working capital, and future test year production expenses; N. Edward Tucker, who testified on rate design; Dennis Goins, who testified on residential rate design; and Allen L. Clapp, who testified on fair value rate base and fair rate of return.

The Intervenors Northeastern Cotton Ginners Association offered the testimony of Rex Carter, Weldon Gin Company and Halifax Ginning Company; Ralph Britt, President of Carolina Cotton Ginners Association; and James Outland, the operator of Rich Square Ginning Company and President of the Southeastern Cotton Ginners Association.

The Intervenor Abbott Laboratories offered the testimony of Jerry Leedy, Manager of Engineering for the Rocky Mount Hospital Production Plant of Abbott Laboratories.

The Attorney General of North Carolina did not offer any witnesses.

Briefs of the parties were filed in this proceeding on July 10 and July 11, 1975.

FINDINGS OF FACT

1. That Vepco is a Virginia corporation and is duly organized as a public utility company under the laws of North Carolina, holding a franchise to furnish electric power in the northeastern part of North Carolina under rates and service regulated by the Utilities Commission as provided in Chapter 62 of the General Statutes.

2. That the test period for purposes of this proceeding is the projected twelve months ended June 30, 1975.

3. That the reasonable original cost of Vepco's plant used and useful in providing retail electric service in North Carolina is $130,307,000, the reasonable accumulated provision for depreciation is $27,290,000, and the reasonable original cost less depreciation is $103,017,000.

4. That the reasonable replacement cost less depreciation of Vepco's plant used and useful in providing retail electric service in North Carolina is $138,895,000.

5. That the fair value of Vepco's plant used and useful in providing retail electric service in North Carclina should be derived from giving seven-tenths (7/10) weighting to the original cost of Vepco's depreciated plant in service and three-tenths (3/10) weighting to the replacement cost depreciated of Vepco's plant. By this method, using the depreciated original cost of $103,017,000 and a depreciated replacement cost of $138,895,000, the Commission finds that the fair value of said plant devoted to retail service in North Carolina is $113,780,000. This fair value includes a reasonable fair value increment of $10,763,000.

6. That the reasonable allowance for working capital is $9,520,000.

7. That the fair value of Vepco's plant in service used and useful in providing retail electric service to the public within North Carolina at the end of the test year of $113,780,000 plus a reasonable allowance for working capital of $9,520,000 yields the reasonable fair value of Vepco's property in service to North Carolina retail customers of $123,300,000.

8. That Vepco's approximate gross revenues for the test year after accounting and pro forma adjustments under

present rates are $39,6|3,000 and after giving effect to the company's proposed rates are $48,687,000 (AMC Exhibit 4, Page |, Revised).

9. That the level of operating expenses after accounting and pro forma adjustments, including taxes and interest on customer deposits, is $33,062,000 which includes an amount of $3,986,000 for actual investment currently consumed through reasonable actual depreciation after annualization to year-end level.

|0. That the reasonable capital structure to be considered for ratemaking purposes in this proceeding is as follows:

	Percent
Long-term debt	47.43
Short-term debt	8.4|
Preferred stock	|2.70
Common equity	30.4|
Cost-free capital	|.05

||. That the proper embedded cost rate for long-term debt is 7.35%, short-term debt is |0.70%, and preferred stock is 7.|6%, and that cost-free capital should be assigned a zero weight in the capital structure. These cost rates are those which were projected at year end June 30, |975, and are consistent with the other end-of-test period figures.

|2. That the cost of equity to Virginia Electric and Power Company when used in conjunction with the 30.4|% equity ratio and applied to the original cost common equity would be |3.0%, which requires additional annual revenue from North Carolina retail customers of $8,395,000 based on the projected test year ended June 30, |975, level of operations.

|3. That the fair rate of return that Vepco should have the opportunity to earn on the fair value of its North Carolina investment for retail operations is 8.60% which requires the additional annual revenue from North Carolina retail customers of $8,82|,000 based upon the projected test year (June 30, |975) level of operations. This rate of return on the fair value of Vepco's property yields a fair rate of return on the fair value equity of Virginia Electric and Power Company of approximately |0.33%.

|4. That the residential rate schedule of Vepco requires pricing changes to reflect a more equitable and efficient rate design. The residential rate schedule attached to this Order as Exhibit A, and incorporated herein, is a means to this end. Under the approved residential rate schedule most of the customer cost component of serving residential users of electricity will be recovered in a separate basic facilities charge, which will not vary with kilowatt hours of use. Under Vepco's present and proposed residential

rates, the monthly minimum bill does not recover the customer cost component.

|5. That the rates proposed by Vepco for each rate classification will produce revenues which greatly reduce the variations in rates of return between rate classes on embedded rate base.

|6. That the rate design proposed by Vepco is not unreasonably discriminatory as between classes of service. All rate schedules as proposed by Vepco, with the exception of residential service, should be approved as just and reasonable, and as necessary to enable the company to meet its revenue requirements; there is a slight adjustment to incorporate a total fuel cost component of |.29¢/KWH. These rates are attached to this Order as Exhibit A and are incorporated herein.

|7. That the automatic fossil fuel cost adjustment clause proposed by Vepco represents an appropriate type of fuel adjustment clause and was a reasonable means to adjust rates for changes in fossil fuel costs over the period of its interim operation and that the revenues collected from the interim application of Vepco's proposed automatic fuel adjustment clause should be confirmed as permanent revenues of the company.

|8. That the basic rates proposed by Vepco in these dockets anticipate continuation of a monthly adjustment to the proposed base rates for the variance in the cost of fossil fuel and, therefore, do not reflect current fuel cost levels.

|9. That recently-enacted N.C.G.S. 62-|34(e) eliminates the automatic fossil fuel cost adjustment clause which was effective on an interim basis at the time of Vepco's application in the general rate case docket.

20. The basic rates proposed by Vepco in anticipation of maintaining the old automatic fossil fuel adjustment clause with the December |97| base fuel cost level should be adjusted to reflect test year fuel costs.

2|. The basic rates proposed should be adjusted to yield resulting basic rates with a fuel cost component of |.290¢/KWH.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

The Commission was presented with two test periods in this case: the "historic test year" comprised of the twelve months ended June 30, |974, and the "future test year" comprised of the twelve months ended June 30, |975. The Commission chooses for purposes of this proceeding the "future test year" ended June 30, |975. The use of the future test year enables the Commission to base its decision on data more closely reflecting the current operating

conditions of the company. The Commission notes that the hearing in this proceeding was held in May 1975. The Commission is of the opinion, and so concludes, that to use a test period approximately one year old at the time of the hearing is totally unrealistic, considering the rate of inflation that prevailed during the last half of 1974 and the first half of 1975.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The figure found by the Commission to be the reasonable original cost of Vepco's plant used and useful in providing retail electric service in North Carolina is the amount computed by Vepco on AMC Exhibit No. 3, Schedule 1, page 2 of 4 (Revised). This figure was accepted by the Commission Staff. Mr. George M. Duckwall, a Utilities Engineer with the Commission, testified on the methods used by Vepco in its jurisdictional allocation study for the Vepco system. He agreed, as a result of the Staff analysis of the Vepco study, that Vepco's use of the coincident peak demand method of determining the demand allocation factors was correct, as were other procedures and methods used in the allocation study. The coincidental peak method, more closely than any other, allocates demand-related plant and associated expenses needed to supply the maximum system load to these customers causing the load.

The Commission concludes that the reasonable original cost of Vepco's plant used and useful in providing North Carolina retail electric service is $130,307,000, that the reasonable accumulated provision for depreciation is $27,290,000, and that the reasonable original cost of Vepco's plant, less depreciation, is $103,017,000.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The trended original cost study by Witness Reilly for the applicant has deficiencies which make it unacceptable as a complete and reasonable method for determining replacement cost. Instead of performing a true "replacement cost study", the witness computed the trended original cost of the properties and subtracted from the figure, thus derived, an allowance for depreciation, which allegedly included some undetermined amounts for "wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities." Mr. Reilly included no adjustment for savings on labor which could be achieved by large scale construction of distribution lines and the like, even though the existing plant was constructed piecemeal over the years. He made no adjustments for savings which could be realized on mass purchases under large scale construction for replacement of the existing facilities.

Mr. Reilly did attempt to compare the economic value of the existing generation facilities, considering modern construction costs and unit efficiencies, with his trended

original cost figures. However, he failed to properly account for depreciation due to the shorter remaining lives of the existing plant relative to the new plants used in his comparison. In addition, the fossil fuel prices used by Mr. Reilly in his costing of the plant operation were wholly unrealistic in light of expectations of future fuel prices at the end of the test year and the prices which are now fact. In the face of rising fuel prices, inefficient plants decrease in value due to depreciation from obsolescence. Staff Witness Clapp showed that substitution of fossil fuel prices of only 15% greater than those used by Mr. Reilly, which were low even for historic test year figures, would result in a decrease in the value of the existing plants relative to modern plants by over $100 million. In fact, as well as expectation, fossil fuel prices have increased several times that margin and are expected to rise even further. In the face of this, we cannot agree with Mr. Reilly's valuation of Vepco's production facilities. In view of this and the previously stated fact that the Commission considers the replacement cost more than just a "brick-for-brick" reproduction cost, the Commission finds the trended original cost method as employed insufficient as a complete and reasonable determination of replacement cost.

The Commission believes the replacement cost which was determined merely by trending and depreciating original costs without proper consideration for improvements in plant design and efficiency is excessive. After consideration of the evidence in this case, the Commission concludes that the reasonable replacement cost less depreciation for the plant in service to North Carolina ratepayers is $138,895,000.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5 AND 7

The Commission concludes that, considering the original cost and the replacement cost, each less its proper depreciation, the impact of weighting upon the financing capability of the company and the economic welfare of its ratepayers, both long and short-term, the reasonable weighting of original cost less depreciation is seven-tenths (7/10) and the reasonable weighting of the replacement cost less depreciation is three-tenths (3/10) in the calculation of the fair value of the plant in service to the ratepayers of North Carolina.

This results in a fair value of plant in service of $113,780,000 to which the reasonable allowance for working capital of $9,520,000 is added to yield the reasonable and proper fair value of Vepco's property in service to North Carolina retail customers. This fair value rate base includes original cost of plant in service less depreciation of $103,017,000, the additional fair value equity investment of $10,763,000, and the working capital allowance of $9,520,000.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The company proposed that the allowance for working capital be computed by use of the traditional formula method of 45 days operating and maintenance expense, plus investment in leased nuclear fuel, plus materials and supplies, plus deferred fuel expenses, net of income taxes.

The Staff proposed a computation of working capital by a "balance sheet analysis" which involves allocating to North Carolina retail operations the various balance sheet accounts involved, and treating as working capital the excess of current assets and deferred debits over current liabilities and deferred credits.

The Commission concludes that customer deposits should be deducted in arriving at working capital and that the associated interest cost should be included as an operating expense. This treatment will ensure that the company has an opportunity to recover the cost of these funds and no more. The Commission finds the balance for customer deposits as of June 30, 1975, to be $177,000 (Carter Exhibit 1, Schedule 2-4, Page 2 of 3).

In a past Duke case, Docket No. E-7, Sub 159, the Commission concluded that rates should be set upon the basis of accounting adjustments recognized in the previous Duke rate case, Docket No. E-7, Sub 145. In that case the Commission reserved until a later date its decision with respect to a reasonable method of computing working capital. The Commission reserved the same decision in the last Carolina Power & Light rate case. The method of determining the working capital allowance by Duke Power Company and Carolina Power & Light Company in the previously-mentioned proceedings was basically the same method which Vepco used in this proceeding.

In its Order dated October 3, 1975, Duke Power Company, Docket No. E-7, Subs 161 and 173, the Commission found that the modified FPC formula method of determining the allowance for working capital was a reasonable method to use, and after carefully considering the working capital testimony presented by all witnesses in this proceeding, the Commission makes the same conclusion in this proceeding. The Commission concludes that a working capital allowance of $9,520,000 (Exhibit No. AMC-3, Schedule 1, Page 2 of 4) less customer deposits of $177,000 (Carter Exhibit 1, Schedule 2-4, Page 2 of 3) determined by using a modified FPC formula method is reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 8 AND 9

The Commission concludes that the reasonable level of operating revenues under present rates is $39,613,000, and operating revenue deductions under present rates is $33,062,000, resulting in net operating income of $6,551,000. These are the amounts testified to by Company

Witness Clement with only two exceptions. The first exception is the deduction of $7,000 for charitable and educational donations. The Commission is of the opinion that charitable and educational donations is an expense which should be borne by the company's stockholders, not its ratepayers. The ratepayers have no voice in determining to which charities and institutions, if any, the donations are to be made. The ratepayers should not be made involuntary donors to charitable and educational institutions through the payment of electric rates.

The second exception is the company's adjustment for the income tax effects of interest expense allocated to construction work in progress. Mr. Clement developed a ratio of North Carolina retail net utility plant in service, plant held for future use and construction work in progress to total company net utility plant in service, plant held for future use and construction work in progress. He then took this ratio and multiplied it by the interest related to the company's total company electric operations. He then multiplied this amount by the ratio of average North Carolina retail net utility plant in service to total average North Carolina retail electric plant (including construction work in progress and plant held for future use).

The Commission disagrees with the manner in which Mr. Clement allocated interest expense to the North Carolina retail operations. The Commission is of the opinion that the correct way to determine the interest expense applicable to North Carolina retail operations is to multiply the portion of North Carolina retail original cost net investment supported by debt capital by the embedded cost of debt. This results in an increase of $562,000 in income tax expense as follows:

N. C. retail interest expense per books (Carter Exhibit 1, Schedule 3-5)	$6,036,000
N. C. retail interest expense on original cost net investment (order)	4,936,000
Difference	1,100,000
Combined Federal and state income tax rate	51.12%
Interest expense adjustment	$ 562,000

Mr. Clement's increase in income taxes was $764,000 (Exhibit No. AMC-3, Schedule 1, Page 3 of 4 - $1,053,000 less Exhibit No. AMC-3, Schedule 4, Lines 8 and 12, Column D - $289,000). The difference between Mr. Clement's adjustment and the Commission's adjustment is $202,000 ($764,000 less $562,000). The income tax effects of the interest expense adjustment and the adjustment for the educational and charitable deductions comprise the total

difference in net operating income for return of $209,000 between the company's net operating income for return of $6,342,000 and the net operating income for return of $6,551,000 as found by the Commission.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The capital structure found by the Commission to be reasonable in this proceeding is taken from Mr. Carter's Exhibit 1, Schedule 1, Column (b):

	(000's Omitted)
Long-term Debt	$1,666,650
Short-term Debt	295,495
Preferred Stock	446,447
Common Equity	1,068,365
	$3,476,957

To these items were added the following items of cost-free capital (Carter Ex. 1, Schedule 2-4, page 2 of 3):

	(000's Omitted)
Unamortized Investment Tax Credit - Pre 1971 - Electric	$10,168
Unamortized Investment Tax Credit - Pre 1971 - Gas	206
Accumulated Deferred Income Taxes - Accelerated Amortization	18,546
Accumulated Deferred Income Taxes - Liberalized Depreciation	7,871
	$36,791

The addition of these items of cost-free capital to the company's capital structure set out above results in the capital structure ratios in Finding of Fact No. 10.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The embedded cost rates that the Commission concludes are just and reasonable for long and short-term debt and preferred stock are taken directly from Clement Exhibit No. AMC-6, page 2 of 3, Column (F). These cost rates were projected for the year ended June 30, 1975. These embedded cost rates were also used by Staff Witness Carter in his testimony and exhibits.

Cost-free capital is assigned a zero weight in the capital structure. The Commission concludes that it is reasonable to include cost-free capital in the capital structure at

zero cost; this is consistent with previous orders of the Commission, as affirmed in the most recent Duke general rate case order, Docket No. E-7, Sub 116 and Sub 173, issued October 3, 1975.

Both Vepco and the Commission Staff agreed that accumulated deferred taxes and unamortized investment tax credit are "cost-free" capital. The company, however, carried cost-free capital in the capital structure at zero cost; the Staff proposed to deduct cost-free capital from the rate base. A substantial difference follows in the way this cost-free capital is allocated between jurisdictional and non-jurisdictional investment. Where cost-free capital is included as an integral part of the total capital structure, as Vepco proposed, a proportionate part of this cost-free capital is thereby allocated to non-utility property and construction work in progress. Under the Staff proposal, all of the cost-free capital is allocated to the company's utility operations; none is allocated to construction work in progress or other non-utility properties.

The Commission concludes that it is inappropriate to allocate 100% of the cost-free capital to utility operations and none to construction work in progress. The funds made available by the tax credits are devoted to total company operations, including construction work in progress in North Carolina. Moreover, the purpose of the tax credits is to create an incentive for the utility companies to buy new equipment.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

By statute the Commission is bound to fix such rate of return on the fair value of the utility's property as will enable the company, inter alia, to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors. In the final analysis, the fairness and reasonableness of a rate of return in any particular proceeding is a matter for informed and impartial judgment and must be made by giving adequate consideration to all the testimony in the proceeding.

Two rate of return witnesses were presented, Dr. Charles F. Phillips and Mr. Charles Benore, both of whom testified for the company. Because both rate of return/cost of capital witnesses in this case were presented by the company, the Commission has taken special care in analyzing their testimonies in this proceeding.

Dr. Phillips' contention that the minimum required return on the book common equity for Vepco is in the 15-16% range seems to be based on the familiar and widely used "comparable earnings" approach to the determination of the required return on a utility's equity. The concepts underlying the use of such an approach are sound, i.e., an investor in the securities of a utility has the right to

expect that such investments will provide him with a return which is equal to the returns which he might expect to receive from other investments of similar risk. Dr. Phillips' application of this principle rests on the assumption that average rates of returns earned on the book common equity of various groups of regulated and non-regulated firms constitute the so-called "opportunity cost" of the investor's capital. In order for this to be so, there would have to be reason to believe that the risks inherent in the investment in such firms or groups were in fact equivalent to those of an investment in Vepco and that the achieved returns on book common equity in fact measured investor expectations of the future return available from an investment in these firms. While Dr. Phillips attempts to analyze risk and in fact concludes that an equity investment in Vepco is more risky than an investment in the average industrial firm, he does not present evidence which goes further than demonstrating that the relative risk of an equity investment in Vepco has increased. Doubtless, the relative risk has increased over time, but there is little to support the contention that the absolute amount of risk encountered in such an investment (in Vepco) is greater than that of an industrial firm. Likewise, there was little attempt to show that there was a close and direct relationship between achieved returns on book common equity and the returns expected by investors. Much of the rest of Dr. Phillips' testimony continues to compile circumstantial evidence as to the cost of equity capital without actually proving that the required equity return is in fact in the 15-16% range.

Mr. Benore's conclusions were similar to that of Dr. Phillips. It appears, however, that many of his so-called tests were merely applications of static relationships which have at one time existed in the capital markets to current conditions without any genuine attempt to prove that such static relationships were in fact normal or required. His conclusions that the cost of equity to Vepco is in excess of 15% is not adequately supported by anything more than a great variety of inferences of often doubtful validity.

In determining the allowable return on equity capital, this Commission must attempt to balance the interests of both the company and the consumer. It is never easy to find the line which divides an excess return from one which is inadequate. Clearly, the return being earned under present rates is inadequate; yet to find that the required return has risen to the levels advocated by Vepco's witnesses, this Commission must have more conclusive evidence than that which was presented in this instance. The return which is to be allowed in this case represents a significant increase from both the return which has been earned and the return which has been allowed in the past. There is reason to believe that current conditions in the capital markets require that the allowed returns be increased from their historic levels; but, the drastic increase advocated in this proceeding does not seem warranted. The return allowed

herein should allow the company the opportunity to compete in the markets for capital funds in accordance with the requirements of its North Carolina ratepayers without unduly burdening them.

The Commission has given serious consideration to all of the relevant evidence presented in this case. With respect to the cost of capital and the company's need for a competitive position in the capital market, and based on the entire record in this matter, and by applying its informed judgment, the Commission is of the opinion, and so concludes, that a return of 13.0% on book common equity, if earned, would be reasonable.

In so finding, the Commission also takes into account the following factors which should enhance the attractiveness of Vepco's common stock to investors. The present proceeding was decided on a future test year ended June 30, 1975; the Commission has recently introduced streamlined schedules and procedures which will significantly reduce regulatory lag; inflation rates have fallen from the high levels of 1974; and, interest costs appear to be stabilizing. The combination of these and other factors discussed in this Order should enhance the attractiveness of Vepco's common stock to the equity investor.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The Supreme Court of North Carolina has interpreted the law to mean that an additional dollar return on common equity be given to the company to account for the addition of a fair value increment to the equity component of the capital structure. The Commission has previously found the fair value rate base to be $123,300,000. To calculate the fair value increment the Commission subtracts the net investment in electric plant in service plus the allowance for working capital from the previously found fair value rate base. The fair value increment amounts to $10,763,000. The addition of the fair value increment to book equity results in a larger proportion of common equity in the capital structure upon which the Commission fixes a fair rate of return. The larger equity component results in a reduced risk to the common equity holder. Thus the Commission can set a rate of return on the fair value common equity lower than what would have been required had the Commission set a rate of return on book common equity. With the addition of the fair value increment, the Commission concludes that a fair return on the fair value equity of Virginia Electric and Power Company is approximately 10.33%. This amounts to an 8.60% rate of return on the company's fair value rate base. It is to be noted that the total revenue requirements for the company have increased as a result of setting a rate of return on the fair value equity. There was a total revenue requirement of $8,395,000 for a 13.00% rate of return on actual common equity. On the other hand, there is a total revenue requirement of $8,821,000 for an 10.33% rate of return on fair value equity.

The Commission concludes that the rates in effect prior to the authorization of the interim rates herein, and the bonded rates herein, would not allow Vepco to earn an adequate rate of return on the property used and useful in its service to the public of North Carolina, and under said prior rates Vepco would not continue in operation as a viable electric utility in North Carolina. The Commission further concludes that if the interim rates and bonded rates are not approved Vepco cannot maintain its ability to compete in the market for capital funds on terms reasonable and fair to its customers and its existing investors and could not continue the construction of plants presently being built and necessary for the continued service to the public in its service area.

The rate of return which Vepco would have earned during the test period under the rates in effect prior to the interim rates was 5.31% on the fair value of its plant in service in North Carolina, which would have been inadequate to pay the interest on Vepco's debt and cost of capital to support the plant then in service.

The Commission observes that in the last three general rate cases with respect to Virginia Electric and Power Company, Subs 118, 126, and Sub 141, it authorized rates which were calculated to allow Vepco to earn a 9.52% return on actual equity in the first docket, a 9.28% return on actual equity in the second docket, and a 12.00% return on actual equity in the last docket. The increase in the level of cost incurred by the company following each rate case has been far in excess of the increase in the level of revenues. Thus, Vepco has not earned the allowed rate of return and has operated over the last four years at a rate of return less than the return authorized by the Utilities Commission as a just and reasonable rate of return. Some of the reasons Vepco has cited are regulatory lag, inflation, increasing prices, and higher interest costs. In each instance, a new rate case has been filed in a short period of time and the cycle has been repeated.

The streamlining of scheduling and procedures that this Commission has recently implemented will significantly reduce regulatory lag. Moreover, inflation rates have fallen and are not expected to rise to former levels. Demand for products and services of all kinds has fallen as a result of the slowdown in our economy. Prices have either fallen or drastically slowed their former rate of increase. Interest costs would appear to be stabilizing. The combination of these factors results in a far less erratic set of conditions. In light of these more stabilized conditions, the Commission expects Vepco to be able to more effectively counteract the push for increases in its expenses and costs of utility plant construction.

The Commission seeks to assure itself and Vepco's ratepayers that Vepco will have a continuous mechanism in use for assuring that it goes the "extra mile" to hold down

avoidable costs. In approving the level of earnings in this docket, this Commission concludes that Vepco should take prompt and effective action to assure itself and this Commission that it will make all efforts to earn the rate allowed. Methods of expense control that will allow management to know in advance the amounts of expenditures allowed for the expected levels of KWH sales and revenues should be constantly utilized to maintain a continuing surveillance of the expenditures of the company.

The Commission is of the opinion that whenever expenses reach a level that will cause the company not to earn the rate of return allowed, Vepco should show cause to this Commission why it cannot reduce expenses and still maintain a satisfactory level of service to the public. If this condition arises and Vepco cites price increases of items purchased or services used as reasons, a showing should be made to the Commission that Vepco has sought, as far as possible, to acquire equally useful materials or services at lower unit prices from the same or alternate sources; that substitute materials or services of the quality necessary for the job have been considered; that waste and duplication are not significant; and that the material or service is indeed justified.

Forecasts of revenues, expenses, and sales upon which decisions are based should be conservative and take consumer conservation into consideration so that shortfalls in expected revenue will be cited rarely as a reason for shortfalls in rate of return. To keep this requirement from becoming unduly burdensome, the company should not be required to report to this Commission so long as the rate of return earned on common equity during the preceding 12 months, first computed one year from the effective date of the rate approved in this Order, is within 1-1/2% of the rate of return on common equity allowed. The company should report to the Commission on these matters whenever the moving 12 month period rate of return is insufficient for two consecutive months.

To be clear, this Commission expects Vepco to react promptly and efficiently to counteract rises in either operating or construction costs. The Commission has no desire to place itself in the position of usurping management prerogatives. On the other hand, the Commission believes that Vepco management has the burden of proving to the satisfaction of the Commission that tough management decisions are being made on a continuing basis and that rate increase requests are not a substitute therefor. Control of costs can only be made before, and not after, expenditure. This control must be a tool used in the decision-making process. The measurement of the effectiveness of control, however, is a historical process, and historical measurement is the tool with which we must gauge the performance of the company. Nothing in these conclusions should indicate that this Commission intends that Vepco restrict its growth of service to less than that required by its ratepaying

consumers. Rather, the Commission expects Vepco to control its costs with maximum vigor in order that its customers can afford the services they require. The Commission is confident that Vepco can do so.

The Commission concludes that the rates filed herein by Virginia Electric and Power Company are unjust and unreasonable to the extent that they produce any increase in annualized revenue at the end of the test year in excess of $8,821,000. The Commission further concludes that Vepco's interim and temporary rates are not unreasonably discriminatory and that the revenues collected by Vepco under the provisions of refund should be retained in that the total annualized amount of revenue collected does not exceed the amount granted by the Commission in this Order.

The following schedules show the derivation and application of the above findings and are to be incorporated as part of those findings:

VIRGINIA ELECTRIC AND POWER COMPANY
DOCKET NO. E-22, SUBS 161, 165, and 170
NORTH CAROLINA RETAIL OPERATIONS
STATEMENT OF RETURN
(000's OMITTED)

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross operating revenues	$ 39,613	$8,821	$ 48,434
Operating Revenue Deductions			
Operations and maintenance expenses	25,719		25,719
Depreciation	3,986		3,986
Taxes other than income	3,934	529	4,463
Income taxes - state	98	498	596
Income taxes - Federal	(1,378)	3,741	2,363
Investment tax credit - net	(116)		(116)
Deferred income taxes - net	819		819
Total operating revenue deductions	33,062	4,768	37,830
Net operating income for return	$ 6,551	$4,053	$ 10,604
Original Cost Net Investment			
Net Plant in Service			
Electric plant in service	$130,307		$130,307
Less: Accumulated provision for depreciation	27,290		27,290
Net plant in service	103,017		103,017
Allowance for Working Capital			
Materials and supplies	3,380		3,380
Cash	4,781		4,781
Investment in leased nuclear fuel	86		86
Deferred fuel expenses, net of taxes	1,450		1,450
Less: Customer deposits	177		177
Total allowance for working capital	9,520		9,520
Total original cost net investment	$112,537		$112,537
Fair value rate base	$123,300		$123,300
Return on fair value rate base	5.31%		8.60%

VIRGINIA ELECTRIC AND POWER COMPANY
DOCKET NO. E-22, SUBS 161, 165, and 170
NORTH CAROLINA RETAIL OPERATIONS
000's OMITTED

	Fair Value Rate Base	Ratio %	Embedded Cost or Return on Common Equity %	Net Operating Income
	Present Rates - Fair Value Rate Base			
Capitalization				
Long-term debt	$ 53,376	43.29	7.35	$ 3,923
Short-term debt	9,464	7.68	10.70	1,013
Preferred stock	14,292	11.59	7.16	1,023
Common equity	44,986	36.48	1.32	592
Deferred income taxes and investment tax credits (1962 Revenue Act)	1,182	.96		
Total capitalization	$123,300	100.00		$ 6,551
	Approved Rates - Fair Value Rate Base			
Long-term debt	$ 53,376	43.29	7.35	$ 3,923
Short-term debt	9,464	7.68	10.70	1,013
Preferred stock	14,292	11.59	7.16	1,023
Common equity	44,986	36.48	10.33	4,645
Deferred income taxes and investment tax credits (1962 Revenue Act)	1,182	.96		
Total capitization	$123,300	100.00		$10,604

VIRGINIA ELECTRIC AND POWER COMPANY
NORTH CAROLINA RETAIL OPERATIONS
REVENUE REQUIREMENTS CORRELATED TO
ORIGINAL COST AND FAIR VALUE COMMON EQUITY
000's OMITTED

Item	Original Cost Net Investment Prior to Adjustment for Fair Value Increment
Revenue Requirements:	
Gross revenues - present rates	$39,613
Additional gross revenue required to provide 13.00% return on original cost common equity	$ 8,395
Total revenue requirements	$48,008
Net income available for return on equity	$ 4,449
Equity component	$34,223
Return on actual common equity	13.00%

Revenue Requirements:	Fair Value Rate Base
Gross revenues - present rates	$39,613
Additional gross revenue required to provide 13.00% return on original cost common equity	$ 8,395
Additional gross revenue required for fair value common equity	$ 426
Total additional revenue	$ 8,821
Total revenue requirements	$48,434
Net income available for return on equity	$ 4,645
Equity component	$44,986
Return on fair value equity	10.33%

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

The rates proposed by Vepco in this docket are based upon the general format of the residential rate schedule previously in effect. The proposed increases were applied to the existing rate design. The price per kilowatt-hour (KWH) in each of the first three KWH blocks and in the summer tail block was raised by approximately 42-43% while

the winter tail block received only a 7% price increase. Vepco also proposed a 0.5¢ per KWH water heating discount for up to 390 KWH past the first 2|0 KWH of use. In an effort to slow the growth in the summer peak demand and to close the gap between the summer and winter peaks, Vepco requested that a summer-winter price differential be maintained in order to reflect more accurately the cost of providing electric service.

The Commission concludes that an appropriate rate design should reflect the costs of providing electric service to customers, conserve energy resources, and promote economic efficiencies. The approved residential rate schedules attached are designed with pricing changes to reflect a more equitable and efficient rate design.

The cost of serving electric users may be divided into customer, demand, and energy costs. The customer cost component varies with the number of customers being served. The demand cost component varies with the load imposed on the system facilities by the customer. The energy cost component varies with kilowatt-hour consumption.

Customer costs, which include billing costs and such plant items as the meter and service drop and part of the distribution plant, are costs incurred by Vepco regardless of the KWH of electricity sold to customers. However, Vepco does not have a separate charge in its residential rate schedules to recover customer costs. Vepco attempts to recover these customer costs through minimum bills and in the early blocks of the rate schedule. Under the present Vepco residential rate schedule, the minimum bill is $3.00. In the proposed rate schedule, the minimum bill is raised to $4.00. Attempting to recover customer costs in the early blocks inflates the early block rates above those rates necessary to recover energy and demand costs.

In order to recover customer costs through a separate charge, the approved residential rate schedule attached introduces a $5.25 per month basic facilities charge in Schedule No. |. This basic facilities charge is collected from all customers each month regardless of KWH consumption. Customer costs are fixed costs, and the basic facilities charge will enable Vepco to recover most of these particular fixed costs outside of the KWH blocks.

The introduction of the basic facilities charge and the approved KWH block charges will eliminate some of the intraclass cross-subsidization which presently exists in the residential rate schedule. Monthly bills assigned to vacation or second homes which are vacant much of the year will more accurately reflect the costs of serving these dwellings. In addition, the approved rates include an adjustment of 0.835¢ per KWH to reflect a total fuel cost component of |.290¢/KWH. A summer-winter price differential is also maintained for usage exceeding 600 KWH. Evidence presented in this docket showed the existence of a |300-|500

megawatt difference between the summer and winter peak demands. The relatively rapid growth of the summer peak demand and the growing spread between the summer and winter peak demands necessitates the use of a summer-winter price differential as a form of seasonal peak-load pricing. A water heating discount of 0.|5¢ per KWH for usage up to the first 600 KWH is also approved.

The approved residential rates excluding any adjustment to reflect more current fuel costs would have produced an additional $3,79|,553 in residential rate revenues during the year ended June 30, |975. This is an increase of almost 36.24% over the basic revenues which would have been produced by the rates approved in the Commission Order dated August |, |973. Monthly bills under the present and the approved rates are compared in Exhibit A attached. The approved rate schedule is designed to reflect more accurately the costs of providing electric service to all customers.

The introduction of the basic facilities charge also eliminates the need for two of the early KWH blocks in the residential rate schedule. Schedule No. | will now have three KWH blocks instead of five for billing during the base period months of November-June and two KWH blocks instead of four for billing during the summer period months of July-October.

The Commission concludes that although Vepco's interim and temporary rates are not unlawful, it is necessary to restructure the residential schedule to reflect a more equitable and efficient rate design. The Commission is of the opinion that the residential rate schedule listed as "Approved" in Exhibit A (base and summer periods, with and without water heating) would produce this result and, therefore, should be substituted for Vepco's proposed rate schedule under the rate section of the appropriate tariffs. All other terms and conditions of that schedule, as well as all other tariffs included in this Application, should be approved as filed.

Although Vepco's summer-winter period price differential is a form of peak-load pricing of which this Commission approves, and although the Commission applauds Vepco's attempts to derive estimates of long-run incremental costs, the Commission stands by its previous Order requiring Vepco to present evidence dealing with estimates of marginal or long-run incremental costs and time-of-day pricing in Docket No. E-|00, Sub 2|, which is scheduled to begin in December |975.

In Docket No. E-|00, Sub 2|, this Commission will investigate peak-load pricing, time-of-day metering, conservation, and load management for electric utilities operating in North Carolina and will consider regulatory initiatives directed towards the promotion of energy conservation through system load management and control of

peak demand. Pending that hearing, however, the Commission is of the opinion that the electric utilities subject to its jurisdiction can and should take steps to balance their system loads by promoting reduced consumption of electricity during periods of anticipated system peak demand.

Much of the increased need for electric generating capacity can be attributed to growth in demand for electricity during system peak periods. Therefore, the Commission seeks to slow the growth of the system peak for electric utilities operating in North Carolina by creating awareness among consumers of their contribution to system peak and, consequently, their contribution to the need for additional generating plant; and further to encourage consumers to help slow the growth in the system peak by voluntarily restricting their consumption of electricity during periods of peak demand and deferring such consumption to off-peak periods.

The Commission believes that greater consumer awareness of the relationship between electricity usage at the time of system peak and the need for additional electric generating facilities can lead consumers to voluntarily refrain from unnecessary consumption of electricity at such time of system peak and while the Commission is aware that such voluntary restriction of electric consumption at the time of system peak will not eliminate the need for additional generating facilities, it may retard the growth in demand for such facilities.

Chapter 780 of the Session Laws of 1975 (S. B. 420) authorizes the Commission to "direct each electric public utility to notify its customers by the most economical means available of the anticipated periods in the near future when its generating capacity is likely to be near peak demand and urge its customers to refrain from using electricity at these peak times of the day." In accordance therewith, the Commission herein directs Virginia Electric and Power Company to develop and implement plans for reduction of system peak through

(1) Continuing education of its customers and the general public in the need and means to control system peak;

(2) Use of mass communication to promote conservation of energy at anticipated peak periods of demand and to instruct in ways and means of reducing wasteful use of electricity and postponing non-essential usage;

(3) Promotion of effective load management and efficient use of electricity by offering direct assistance to customers.

Such plans should take maximum advantage of the opportunity for public service announcements undertaken in cooperation with service area news media, and other such means as may present themselves, in order to follow the

statutory mandate to employ the most economical means available for notifying and educating the public. Such plans should additionally demonstrate the willingness of the utility to encourage its customers to restrict electric consumption during periods of anticipated peak demand. The Commission herein directs Vepco to furnish the Commission with the plan required hereunder within 90 days of the date of this Order.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 15 AND 16

With respect to the rates other than those charged to residential consumers, the Commission concludes that the schedules filed by the company are appropriate, just, and reasonable.

The rate schedules proposed by the company produce revenues for each rate classification which more closely equalize the rate of return on embedded rate base between classes; however, large variations in rates of return would still exist. The rate of return for the Small General Service schedule would be above the retail average rate of return; the rates of return for Municipal and County service would be below the average; the return for the Large General Service schedule would be slightly less than the average. The Small General Service schedule received the lowest percentage increase (18% or approximately one-half of the average increase) while the increase to the municipal customers (55%) was the largest; the increase to the Large General Service schedule (40%) was approximately equal to the average increase. Any downward adjustment in the increase on the Small General Service class to lower the earned rate of return would require an additional increase in the other classes of service. The Commission is of the opinion that the percentage increases proposed by the company for the schedules other than Small General Service were substantial and that the additional increases required to equalize the rates of return at this time could create a great burden on Vepco's customers. For this reason, the Commission is in approval of the gradual equalization of rates of return realized by the rates proposed by the company.

The Commission recognizes that certain problems exist in the internal pricing of the major large and small general service rates. The internal pricing of these rates should be redesigned in order to ensure that each customer more closely pays the cost he imposes upon the system. This design study will require a detailed analysis (including an accurate incremental cost study) and will take a considerable period of time. The Commission directs Virginia Electric and Power Company to work with the Commission Staff in this regard. Until such study and analysis is completed Vepco's proposed rates for large and small general service customers, as adjusted, should be used.

In addition, witnesses for the Intervenor Northeastern Cotton Ginners Association testified that it was uneconomical to operate during the initial and final months of ginning when there was a low volume of cotton to be processed due to the high minimum demand charges on Vepco's General Service rate schedules. There was also testimony that many other systems have off-peak rates with very low demand charges and that the ginners would be willing to operate during off-peak hours if such a rate were available from Vepco. The Commission is of the opinion that an off-peak rate would not only be advantageous to these customers but would also be advantageous to the company in that plant could be utilized which might otherwise be idle. The Commission concludes that Vepco should work with the Cotton Ginners to design a mutually agreeable off-peak provision to be filed for Commission approval.

The Commission notes that during the cross-examination of company witness Wilson by counsel for the Municipal intervenors, Mr. Wilson agreed that certain wording changes in Vepco's terms and conditions would clarify their meaning. The Commission is of the opinion that Vepco should reconsider its terms and conditions in light of the testimony adduced during the cross-examination of Mr. Wilson.

As previously discussed, the Commission's decision with respect to the amount of the increase allocated to each rate classification was influenced to a large extent by the rate of return on embedded rate base earned by each rate class. The company's testimony stated that long-run-incremental costs (LRIC) were used as a guide to set the rate levels for each rate class as well as to adjust the internal pricing of each rate schedule. The Commission would agree that long-run-incremental costs are an important tool to be used in the internal pricing of rate schedules. The use of long-run-incremental costs in setting rates between rate classifications raises valid questions. For example, if all rates were based on full incremental costs, and if LRIC were greater than average costs (which is true in this case), Vepco would earn more revenue than is justified based on its average (book) investment. Recognizing this problem, how could rates be adjusted back from LRIC levels to permit only a fair return to Vepco? Should customers whose demands are more inelastic be charged less and those with elastic demands be charged more in order to reduce peak demands on the system? Should each LRIC rate be reduced by a proportioned amount, which in effect, would result in rates based on embedded costs? This subject is included for investigation in Docket No. E-100, Sub 21, which deals with all aspects of the use of marginal or long-run-incremental cost in electric pricing.

In respect to pricing <u>within</u> particular rate classifications, the insufficiency of the evidence with respect to the accuracy of the long-run-incremental cost study presented by Vepco makes it unacceptable as a guide in

setting rates and the Commission deems it reasonable to rely principally on embedded book costs in this proceeding.

Considering the evidence with respect to the accuracy of the long-run-incremental cost study filed by Vepco in this proceeding, the Commission is of the opinion that the company should immediately undertake a new long-run-incremental cost study for its North Carolina operations.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

Staff Witness Williams testified that Vepco's proposed automatic fossil fuel cost adjustment clause represents an appropriate type of fuel adjustment clause and was a reasonable means to adjust rates for changes in fuel cost over the period of its interim operation. He stated that the clause is a "KWH" type which automatically adjusts for improvements in generation and transmission efficiency and automatically adjusts for changes in generation mix and was designed with a base cost that reflected the cost of fossil fuel incorporated in the variable portion of the basic rate design. The Commission concludes that this fuel adjustment clause was a reasonable means to adjust rates for changes in fossil fuel cost over the period of its interim operation and that the revenues collected pursuant to its application should be confirmed as permanent revenues of the company.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

Vepco included in its applications in these dockets a request for continuation of its automatic fossil fuel cost adjustment clause. The base rates proposed by Vepco anticipate continuation of a monthly adjustment to the proposed base rates for the variance in the cost of fossil fuel from the base cost in the fuel adjustment formula. The fuel cost reflected in the proposed rates and in the base of the proposed fuel clause is computed on December 1971 fuel cost levels. Absent some adjustment to reflect more current fuel cost, the basic rates proposed by Vepco are not designed to fully recover fuel expenses incurred by Vepco in providing electric service.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19

Recently enacted G.S. 62-134(e), which provides in part that:

> "... all monthly fuel adjustment rate increases based solely upon the increased cost of fuel as to each public utility as presently approved by the Commission shall fully terminate effective September 1, 1975 except that the same shall be earlier terminated as to each such public utility upon the effective date of any final order of the Commission under this section;..."

prevents the automatic monthly adjustments by the fossil fuel adjustment clause but allows electric rate cases based only on the cost of fuel.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 20

The most appropriate rate design for Vepco would be a rate design including total test year fuel costs in the basic rate structure. The rates can then be designed considering all factors occurring in the adjusted test year. Vepco currently has an adjustment to its basic rates pursuant to G.S. 62-134(e) to reflect fuel cost changes since the 1971 fuel cost levels in the existing basic rates. This adjustment (excluding the surcharge designed to recover fuel expenses deferred as of August 31, 1975) should be terminated with the effective date of the rates approved herein, because these new approved rates reflect updated fuel cost levels.

Should generating and fuel cost statistics of subsequent months reflect fuel cost levels different than those reflected in the basic rates, then Vepco may file for adjustments to its rates pursuant to N.C.G.S. 62-134(e) and Commission Rule R1-36.

Future filings for rate increases based solely on the cost of fuel pursuant to G. S. 62-134(e) can be reviewed more efficiently if such filings are based on the formula attached as Exhibit B. This formula includes nuclear as well as fossil fuel and the energy portion of purchased power and interchange power. This formula may be used to facilitate processing of applications pursuant to G.S. 62-134(e). Vepco should file on a monthly basis computations required for this formula to assist the Commission and the Staff in monitoring fuel cost and their possible effects on future retail electric rates.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 21

Staff Witness Williams testified that fuel cost levels on a KWH sales basis for the test year ending June 30, 1975, were 1.290¢/KWH, including nuclear fuel, fossil fuel and the energy portion of purchased power and interchange power. This fuel cost level is an appropriate amount to include in the basic rate design and these rates should be designed to reflect a total fuel cost component of 1.290¢/KWH. Staff Witness Tucker testified on modifying the rates proposed by Vepco to reflect total test year fuel costs. Mr. Tucker offered revised schedules reflecting a total fuel cost component of 1.290¢/KWH. The Commission concludes this adjustment to said proposed rates is proper.

FURTHER CONCLUSIONS

Although it was not an issue in this proceeding, the Commission would like to discuss the subject of determining the proper rate to use to capitalize Allowance for Funds

Used During Construction (AFUDC) on Construction Work in Progress (CWIP). In so doing, the Commission takes judicial notice of reports and other information contained in its files concerning the subject of AFUDC. This subject was discussed in the Order of Duke Power Company, Docket No. E-7, Subs 161 and 173, issued on October 3, 1975.

In that Order the Commission stated that the basic objective of AFUDC is to enable a company to construct new facilities without causing significant or adverse effects on its earnings from utility operations. The calculation of the AFUDC rate should conform to ratemaking practices so that the company will be permitted to earn on its total utility operations including its construction program at the approximate level permitted in the rate case. When the AFUDC rate used conforms to the ratemaking process by including the appropriately weighted embedded cost of long-term debt and preferred stock, the appropriate amount of short-term debt, cost-free funds at zero cost, and a fair return on common equity, it will be proper to compound the amount of capitalized funds on an annual basis.

There is currently a Notice of Proposed Rulemaking - Docket No. RM 75-27 issued by the Federal Power Commission concerning the determination of a Rate for Computing the Allowance for Funds Used During Construction. If this proposed rulemaking is adopted by the Federal Power Commission, this Commission will review the AFUDC rate which results from any formula prescribed by the FPC prior to the use of that formula by Vepco to calculate the AFUDC rate. Whether or not the FPC proposed rulemaking is adopted, Vepco should not increase its rate used to capitalize AFUDC without prior approval of this Commission.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That effective for service rendered in North Carolina on and after the date of this Order, Virginia Electric and Power Company is hereby allowed to place into effect the increased rates described in paragraph 2 below, which are designed to produce additional annual revenues in the amount of $8,821,000.

2. That the rates approved are to be designed as set forth in Exhibit A, and the rate schedules listed as approved in Exhibit A shall be substituted for Vepco's proposed rate schedules.

3. That the revenues collected by Vepco under the interim and temporary rates filed in these dockets are hereby affirmed as just and reasonable and the undertakings filed with said rates are hereby discharged and cancelled.

4. That revenues collected from the interim application of Vepco's proposed automatic fuel adjustment clause are hereby confirmed as permanent revenues of the company.

5. That the adjustment to the existing basic rates approved pursuant to G.S. 62-134(e) [excluding the surcharge designed to recover fuel expenses deferred as of August 31, 1975] is terminated with the effective date of the revised basic rates pending future applications under G.S. 62-134(e).

6. That Vepco shall supply the Commission on a monthly basis the computations required by the formula attached as Exhibit B.

7. That Vepco is directed to assist and work with the Commission Staff in undertaking a study and analysis of the internal pricing of the major general service rates.

8. That Vepco is directed to implement the programs with respect to cost control and consumer information as set forth hereinbefore in the evidence and conclusions for Findings of Fact Nos. 13 and 14.

9. That Vepco is hereby directed to explore and develop an off-peak diurnal rate which would permit and encourage cotton ginners and other similar users to operate off the daily peak during Vepco's summer peak period. Vepco is further ordered to submit such rate to the Commission within four months from the date of this Order.

10. That Vepco shall undertake a new long-run-incremental cost study for its North Carolina service area and shall submit such study to the Commission within four months from the date of this Order.

11. That Virginia Electric and Power Company shall give public notice of the rate increase approved herein by mailing a copy of the Notice attached as Appendix "1" by first class mail to each of its North Carolina retail customers during the next normal billing cycle.

ISSUED BY ORDER OF THE COMMISSION.

This the 22nd day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

COMMISSIONER PURRINGTON did not participate in the hearing nor the decision in this matter.

EXHIBIT A
SCHEDULE NO. 1 - RESIDENTIAL SERVICE

[1]
Base Period - With Water Heating

[2, 3]
Present Rates

$3.00	Minimum Charge
5.128¢	per KWH for the first 90 KWH
2.850¢	per KWH for the next 120 KWH
1.675¢	per KWH for the next 390 KWH
1.442¢	per KWH for the next 900 KWH
1.170¢	per KWH for all over 1500 KWH

[3]
Proposed Rates

$4.00	Minimum Charge
7.27¢	per KWH for the first 90 KWH
4.07¢	per KWH for the next 120 KWH
2.46¢	per KWH for the next 390 KWH
1.75¢	per KWH for the next 900 KWH
1.25¢	per KWH for all over 1500 KWH

[4]
Approved Rates

$5.25	Basic Facilities Charge
3.285¢	per KWH for the first 600 KWH
2.585¢	per KWH for the next 900 KWH
2.115¢	per KWH for all over 1500 KWH

SAMPLE BILLS - BASE PERIOD WITH WATER HEATING

	[2] Present Rates	Approved Rates [4]	
KWH Usage	[5] Monthly Bill ($)	Monthly Bill ($)	Increase over Present ($)
0	3.00	5.25	75.00
100	6.26	8.54	36.42
200	10.01	11.82	18.08
300	12.94	15.11	16.77
500	18.55	21.68	16.87
700	23.93	27.55	15.13
1000	31.66	35.30	11.50
1500	44.53	48.23	8.31
2000	56.04	58.80	4.93
3000	79.06	79.95	1.13

[1] Base period includes billing months of November through June

[2] Rates approved in Commission order dated June 28, 1973

[3] Rates do not include fossil fuel adjustment charge

4
Current fuel cost (12 months ended June 1975) of 1.29¢/KWH included in basic KWH rates; basic facilities charge applies regardless of KWH used

5
Includes fossil fuel adjustment charge; fossil fuel factor of 1.132¢/KWH (October 1975 fuel factor) used to compute adjustment charge to be added to monthly bills

SCHEDULE NO. 1 - RESIDENTIAL SERVICE

Base Period - Without Water Heating

2, 3

Present Rates

$3.00	Minimum Charge
5.128¢	per KWH for the first 90 KWH
2.850¢	per KWH for the next 120 KWH
2.075¢	per KWH for the next 390 KWH
1.442¢	per KWH for the next 900 KWH
1.170¢	per KWH for all over 1500 KWH

3

Proposed Rates

$4.00	Minimum Charge
7.27¢	per KWH for the first 90 KWH
4.07¢	per KWH for the next 120 KWH
2.96¢	per KWH for the next 390 KWH
1.75¢	per KWH for the next 900 KWH
1.25¢	per KWH for all over 1500 KWH

4

Approved Rates

$5.25	Basic Facilities Charge
3.435¢	per KWH for the first 600 KWH
2.585¢	per KWH for the next 900 KWH
2.115¢	per KWH for all over 1500 KWH

SAMPLE BILLS - BASE PERIOD WITHOUT WATER HEATING

KWH Usage	Present Rates[2] Monthly Bill[5] ($)	Approved Rates Monthly Bill[4] ($)	Increase over Present (%)
0	3.00	5.25	75.00
100	6.26	8.69	38.82
200	10.01	12.12	21.08
300	13.30	15.56	16.99
500	19.71	22.43	13.80
700	25.49	28.45	11.61
1000	33.22	36.20	8.97
1500	46.09	49.13	6.60
2000	57.60	59.70	3.65
3000	80.62	80.85	0.29

1 Base period includes billing months of November through June

2 Rates approved in Commission order dated June 28, 1973

3 Rates do not include fossil fuel adjustment charge

4 Current fuel cost (12 months ended June 1975) of 1.29¢/KWH included in basic KWH rates; basic facilities charge applies regardless of KWH used

5 Includes fossil fuel adjustment charge; fossil fuel factor of 1.132¢/KWH (October 1975 fuel factor) used to compute fuel adjustment charge to be added to monthly bills

SCHEDULE NO. 1 - RESIDENTIAL SERVICE

Summer Period - With Water Heating

Present Rates[2, 3]

$3.00	Minimum Charge
5.128¢	per KWH for the first 90 KWH
2.850¢	per KWH for the next 120 KWH
1.675¢	per KWH for the next 390 KWH
2.20¢	per KWH for all over 600 KWH

Proposed Rates[3]

$4.00	Minimum Charge
7.27¢	per KWH for the first 90 KWH
4.07¢	per KWH for the next 120 KWH
2.46¢	per KWH for the next 390 KWH
3.14¢	per KWH for all over 600 KWH

[4]
Approved Rates
$5.25 Basic Facilities Charge
3.285¢ per KWH for the first 600 KWH
4.|05¢ per KWH for all over 600 KWH

SAMPLE BILLS - SUMMER PERIOD WITH WATER HEATING

KWH	Present Rates[2]	Approved Rates[4]	
Usage[5]	Monthly Bill ($)	Monthly Bill ($)	Increase over Present (%)
0	3.00	5.25	75.00
|00	6.26	8.54	36.42
200	|0.0|	||.82	|8.08
300	|2.94	|5.||	|6.77
500	|8.55	2|.68	|6.87
700	24.69	29.07	|7.74
|000	34.69	4|.38	|9.29
|500	5|.35	6|.9|	20.56
2000	68.0|	82.43	2|.20
3000	|0|.33	|23.48	2|.86

[1] Summer period includes billing months of July through October

[2] Rates approved in Commission order dated June 28, |973

[3] Rates do not include fossil fuel adjustment charge

[4] Current fuel cost (|2 months ended June |975) of |.29¢/KWH included in basic KWH rates; basic facilities charge applies regardless of KWH used

[5] Includes fossil fuel adjustment charge; fossil fuel factor of |.|32¢/KWH (October |975 fuel factor) used to compute fuel adjustment charge to be added to monthly bills

SCHEDULE NO. | - RESIDENTIAL SERVICE

[1]
Summer Period - Without Water Heating

[2, 3]
Present Rates
$3.00 Minimum Charge
5.|28¢ per KWH for the first 90 KWH
2.850¢ per KWH for the next |20 KWH
2.075¢ per KWH for the next 390 KWH
2.20¢ per KWH for all over 600 KWH

[3]
Proposed Rates

$4.00	Minimum Charge
7.27¢	per KWH for the first 90 KWH
4.C7¢	per KWH for the next 120 KWH
2.96¢	per KWH for the next 390 KWH
3.14¢	per KWH for all over 600 KWH

[4]
Approved Rates

$5.25	Basic Facilities Charge
3.435¢	per KWH for the first 600 KWH
4.105¢	per KWH for all over 600 KWH

SAMPLE BILLS - SUMMER PERIOD WITHOUT WATER HEATING

	[2] Present Rates	Approved Rates	
KWH Usage	[5] Monthly Bill	[4] Monthly Bill	Increase over Present
	($)	($)	(%)
0	3.00	5.25	75.00
100	6.26	8.69	38.82
200	10.01	12.12	21.08
300	13.30	15.56	16.99
500	19.71	22.43	13.80
700	26.25	29.97	14.17
1000	36.25	42.28	16.63
1500	52.91	62.81	18.71
2000	69.57	83.33	19.78
3000	102.89	124.38	20.89

1
Summer period includes billing months of July through October

2
Rates approved in Commission order dated June 28, 1973

3
Rates do not include fossil fuel adjustment charge

4
Current fuel cost (12 months ended June 1975) of 1.29¢/KWH included in basic KWH rates; basic facilities charge applies regardless of KWH used

5
Includes fossil fuel adjustment charge; fossil fuel factor of 1.132¢/KWH (October 1975 fuel factor) used to compute fuel adjustment charge to be added to monthly bills

Schedule No. 5
SMALL GENERAL SERVICE

MONTHLY RATE

A.	First	90 KWH @ 8.09 ¢ per KWH	
	Next	120 KWH @ 5.319¢ per KWH	
	Next	300 KWH @ 4.819¢ per KWH	
	Next	2490 KWH*@ 4.419¢ per KWH	for billing months of July through October
		or @ 3.719¢ per KWH	for billing months of November through June
	Next	1950 KWH*@ 3.399¢ per KWH	for billing months of July through October
		or @ 2.619¢ per KWH	for billing months of November through June
	Additional	KWH @ 2.519¢ per KWH	

* Add 195 KWH for each KW of demand over 10 through 30 KW, and add 105 KWH for each KW of demand over 30 KW.

Schedule No. 6
LARGE GENERAL SERVICE

30-DAY RATE

A.	KW Demand Charge		
	First	50 KW of demand or less	$297.00
	Next	650 KW of demand	@ $ 3.81 per KW
	Next	4300 KW of demand	@ $ 3.48 per KW
	Additional	KW of demand	@ $ 3.39 per KW
B.	Plus RKVA Demand Charge		
	All RKVA of demand		@ $ 0.15 per RKVA
C.	Plus Energy Charge		
	First 24,000 KWH		@ 1.995¢ per KWH
	Next 186,000 KWH and any additional KWH up to 210 KWH per KW of demand*		@ 1.695¢ per KWH
	Additional KWH		@ 1.495¢ per KWH

* The 210 KWH per KW of Demand includes the first 24,000 KWH.

Schedule No. 7
ELECTRIC HEATING

MONTHLY RATE

A. Energy Charge
All kilowatthours @ 4.842¢ per KWH for billing months of July through October except where the customer notifies the Company that an electric storage water heater is in normal daily use then the first 1410 kilowatthours of the monthly use during such billing periods shall be @ 4.092¢ per KWH.
All kilowatthours @ 2.170¢ per KWH for billing months of November through June.

B. Plus Demand Charge for Billing Months of July through October only
First 100 KW of demand or less included in Monthly Energy Charge
Next 200 KW of demand @ $4.50 per KW
Additional KW of demand @ $3.50 per KW

Schedule No. 26
OUTDOOR LIGHTING SERVICE

MONTHLY RATE

A. Watchlite, Area, and Roadway Lighting Service

Approximate Lumens	Type	Input Wattage	Monthly KWH	Rate per Unit Per Month
3,300	Mercury Vapor	125	40	$ 3.95
7,000	Mercury Vapor	208	70	5.25
11,000	Mercury Vapor	294	100	6.85
20,000	Mercury Vapor	452	150	9.85
33,000	Mercury Vapor	765	250	13.80
53,000	Mercury Vapor	1,080	360	18.80
42,000	Sodium Vapor	490	160	13.05

B. Directional Lighting Service

Approximate Lumens	Type	Input Wattage	Monthly KWH	Rate per Unit Per Month: First Unit Per Pole	Rate per Unit Per Month: Each Additional Unit on Same Pole
20,000	Mercury Vapor	452	150	$13.65	$ 8.05
53,000	Mercury Vapor	1,080	360	22.40	16.80
42,000	Sodium Vapor	490	160	18.05	12.45

Schedule No. 27
COUNTY, MUNICIPAL OR HOUSING AUTHORITY
OUTDOOR LIGHTING SERVICE

MONTHLY RATE

A. Watchlite, Area, and Roadway Lighting Service

1. Incandescent Lamps

Existing incandescent lamps will continue to be supplied at those locations being served as of May 1, 1971 at the rates set forth below. No additional incandescent lamps will be supplied and, if an existing incandescent lamp is discontinued at the Customer's option, it shall not again be available.

Approximate Lumens	Type	Input Wattage	Monthly KWH	Rate per Lamp per Month
4,000	Incandescent	327	110	$ 4.00
6,000	Incandescent	448	150	5.60
10,000	Incandescent	690	230	7.40

2. Fluorescent Units

Existing fluorescent units will continue to be supplied at those locations being served as of August 1, 1973 at the rates set forth below. No additional fluorescent units will be supplied and, if an existing fluorescent unit is discontinued at the Customer's option, it shall not again be available.

Approximate Lumens	Type	Input Wattage	Monthly KWH	Rate per Unit per Month
11,500	Fluorescent	250	80	$ 8.10
20,000	Fluorescent	400	130	11.65

3. Metallic Vapor Units

Approximate Lumens	Type	Input Wattage	Monthly KWH	Rate per Unit Per Month
3,300	Mercury Vapor	125	40	$ 3.45
7,000	Mercury Vapor	208	70	4.95
11,000	Mercury Vapor	294	100	6.30
20,000	Mercury Vapor	452	150	8.70
33,000	Mercury Vapor	765	250	12.65
53,000	Mercury Vapor	1,080	360	17.25
42,000	Sodium Vapor	490	160	11.85

B. Directional Lighting Service

Approximate Lumens	Type	Input Wattage	Monthly KWH	Rate per Unit Per Month: First Unit Per Pole	Rate per Unit Per Month: Each Additional Unit on Same Pole
20,000	Mercury Vapor	452	150	$13.65	$ 8.05
53,000	Mercury Vapor	1,080	360	22.40	16.80
42,000	Sodium Vapor	490	160	18.05	12.45

Schedule No. 30
COUNTY, MUNICIPAL OR HOUSING AUTHORITY
ELECTRIC SERVICE

MONTHLY RATE

A. Miscellaneous Light and Power Service

1. Energy Charge
First 210 KWH @ 5.259¢ per KWH
Next 300 KWH @ 4.479¢ per KWH
Next 2490 KWH @ 3.709¢ per KWH for billing months of July through October
or @ 3.349¢ per KWH for billing months of November through June
Next 1950 KWH* @ 2.859¢ per KWH for billing months of June through October
or @ 2.609¢ per KWH for billing months of November through June
Additional KWH @ 2.459¢ per KWH

* Add 195 KWH for each KW of demand over 10 through 30 KW, and add 105 KWH for each KW of demand over 30 KW

Schedule No. 42
COUNTY, MUNICIPAL OR HOUSING AUTHORITY
ALL-ELECTRIC BUILDING SERVICE

MONTHLY RATE

A. Energy Charge
4.035¢ per KWH for billing months of July through October
2.153¢ per KWH for billing months of November through June

B. Plus Demand Charge for Billing Months of July through October only
First 100 KW of demand or less included in Monthly Energy Charge
Next 200 KW of demand @ $4.50 per KW
Additional KW of demand @ $3.50 per KW

EXHIBIT B

$$F = \left(\frac{E}{S} - \$0.0|290 \right) (T) (|00)$$

Where:

F = Fuel adjustment factor in cents per kilowatthour.
E = Fuel costs experienced during the third month preceding the billing month, as follows:

(A) Fossil and nuclear fuel consumed in the utility's own plants, and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants. The cost of fossil fuel shall include no items other than those listed in Account |5| of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 5|8, except that if Account 5|8 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

Plus

(B) Purchased power fuel costs such as those incurred in unit power and Limited Term power purchases where the fossil and nuclear fuel costs associated with energy purchased are identifiable and are identified in the billing statement.

Plus

(C) Interchange power fuel costs such as Short Term, Economy and other where the energy is purchased on economic dispatch basis; costs such as fuel handling, fuel additives and operating and maintenance may be included.

Energy receipts that do not involve money payments such as Diversity energy and payback of storage energy are not defined as purchased or Interchanges power relative to the Fuel Clause.

Minus

(D) The cost of fossil and nuclear fuel recovered through ~~intersystem sales~~ including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Energy deliveries that do not involve billing transactions such as Diversity energy and payback of storage are not defined as sales relative to the Fuel Clause.

S = total kilowatthour sales during the third month preceding the billing month.

$0.0|290 = Base cost of fuel per KWH sold.

T = adjustment for state taxes measured by gross receipts: |.06383

APPENDIX "|"

DOCKET NO. E-22, SUB |70
DOCKET NO. E-22, SUB |65
DOCKET NO. E-22, SUB |6|

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Virginia Electric and Power Company for Authority to Adjust and Increase Its Electric Rates and Charges	)	NOTICE TO CUSTOMERS

On May 3|, |974, and on November 29, |974, Virginia Electric and Power Company filed applications with the North Carolina Utilities Commission for authority to increase electric rates to its North Carolina retail customers. The applications requested approval of approximately a 35.3% increase in revenues, or a total of $9,227,000 in additional annual revenues. On September 5, |974, the Commission granted Vepco interim rate relief in the amount of $3,|39,000 additional annual revenues. On January |, |975, Vepco exercised its rights under the laws of North Carolina by placing into effect, on retail electric service, rates which would result in an increase of no more than twenty percent (20%) on any single rate classification or on a total bill of any customer.

On 22 October, |975 the Commission issued the final decision in these dockets allowing the company a total of $8,82|,000 in additional annual revenues. The order approved rates designed to roll more current fuel costs into the basic rates. The order approved residential rates which are designed to recover the cost to Vepco of providing electric service to its customers, to conserve energy resources, and to promote economic efficiencies. The approved residential rate schedule reflect a more equitable and efficient rate design. The order directed Vepco to assist and work with the Commission Staff in undertaking a study and analysis of the internal pricing of the major general service rates.

The Commission directed Vepco to undertake a program to inform its customers with respect to their consumption of electricity during system peak periods. The Commission believes that an awareness of wise conservation measures on the part of Vepco's customers can result in a stabilization of electric rates. The Commission further directed Vepco to undertake measures to control increases in costs, thereby holding electric rates down.

Copies of the rate schedules may be obtained at Vepco offices.

ISSUED this 22nd day of October, 1975.

VIRGINIA ELECTRIC AND POWER COMPANY

DOCKET NO. E-22, SUB 170
DOCKET NO. E-22, SUB 165
DOCKET NO. E-22, SUB 161

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Virginia Electric and Power) ORDER
Company for Authority to Adjust and) OF
Increase its Electric Rates and Charges) CLARIFICATION

BY THE COMMISSION: On October 22, 1975, the Commission issued the final order in this docket approving increased rates for Virginia Electric and Power Company. In that order the Commission approved many of the terms and conditions as filed by the Company; however, it has been brought to the attention of the Commission that the extra facilities charges filed by VEPCO were designed to produce the same rate of return on investments in extra facilities as that being requested by VEPCO for its North Carolina retail operations. The Commission is of the opinion that the filed extra facilities charges of 1.85% and 0.67% as stated in Paragraphs D.3 and D.4 of Section IV of the Terms and Conditions should be lowered to reflect the rate of return granted by the Commission in this docket.

IT IS, THEREFORE, ORDERED:

That effective on service rendered in North Carolina on and after October 22, 1975, the charges in Section IV paragraphs D.3 and D.4 of VEPCO's North Carolina retail Terms and Conditions shall be changed to 1.70% and 0.65% respectively to reflect the rate of return granted by the Commission in this docket.

ISSUED BY ORDER OF THE COMMISSION.

This the 13th day of November, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-22, SUB 180

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Virginia Electric and Power Company for Authority to Adjust its Electric Rates and Charges Pursuant to G. S. 62-134(e)	) ORDER APPROVING ADJUSTMENT IN RATES AND CHARGES PURSUANT TO G. S. 62-134(e)

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina on July 22, 1975 at 9:30 A.M.

BEFORE: Chairman Marvin R. Wooten, Presiding and Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, Barbara A. Simpson and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

Guy T. Tripp III
Hunton, Williams, Gay and Gibson
P. O. Box 1535
Richmond, Virginia 23212

William G. Ross, Jr.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602

For the Intervenors:

I. Beverly Lake, Jr.
Deputy Attorney General
Jerry J. Rutledge
Associate Attorney General
Attorney General's Office
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public

For the Commission Staff:

Jerry B. Fruitt
Associate Commission Attorney
One West Morgan Street
Raleigh, North Carolina 27602

BY THE COMMISSION: On July 1, 1975 Virginia Electric and Power Company (hereinafter referred to as "VEPCO") filed an application for authority to adjust and increase its retail electric rates and charges based solely upon the increased cost of fuel used in the generation of electric power pursuant to G. S. 62-134(e). VEPCO seeks authority to increase by 1.094 cents the charge for each kilowatt-hour of

electricity sold under Schedules 1, 5, 6, 7, 26, 27, 30, and 42 (VEPCO's schedules applicable to North Carolina retail service) effective with the billing month of September.

On July 3, 1975 the Commission issued an Order setting hearing on the application and requiring public notice.

On July 21, 1975 the Attorney General of North Carolina filed notice of intervention on behalf of the Using and Consuming Public. Also on July 21, 1975 the Attorney General filed a Motion asking the Commission to declare VEPCO's application a general rate increase, that the Commission reopen Docket No. E-22, Subs 161, 165, and 170 and consolidate for hearing and decision this application with those dockets, that this application be handled under the Rules and Procedure followed for general rate increases and finally that the Commission find VEPCO's application not to be an appropriate filing under G. S. 62-134(e). In support of his motion the Attorney General filed a Brief or Memorandum of Law and Argument.

By Commission Order of July 22, 1975 the Commission recognized the intervention of the Attorney General.

On July 30, 1975 VEPCO filed a response to the Attorney General's Motion of July 21, 1975 asking the Commission to deny the Attorney General's Motion.

The hearing was commenced at the scheduled time and place. VEPCO offered the testimony of B. D. Johnson, Treasurer of VEPCO testifying as to the computation of the fossil fuel adjustment factor, and W. N. Thomas, Vice President of VEPCO testifying as to the changes in the cost of fuel used in the generation of electric power.

The Commission Staff offered the testimony of Andrew W. Williams, Chief of the Electric Section in the Engineering Division of the N.C.U.C. testifying on the Staff's investigation of the most appropriate method of handling VEPCO's application under G. S. 62-134(e) and recommending a format for handling future filings under G. S. 62-134(e).

Based upon the record and the evidence therein, the Commission makes the following

FINDINGS OF FACT

1. That with the elimination of currently approved fuel charges, VEPCO's retail electric rates will no longer be designed to fully recover its fuel expenses.

2. That VEPCO's basic retail electric rates should be adjusted by the addition thereto of 0.971¢/KWH to allow rates to fully recover reasonable expenditures for fuel.

3. That fuel cost based electric rate cases pursuant to N. C. G.S. 62-134(e) can be reviewed and processed more efficiently if applications are based on approved formulas.

4. That on September 1, 1975, VEPCO will have approximately $3,500,000 of deferred fuel expenses attributed to North Carolina retail jurisdiction that will become unrecoverable. VEPCO should be allowed to collect these deferred expenses by a temporary surcharge over a period of twelve months.

5. That deferred expense accounting to reflect the lag in recovery of increased fuel costs should be disallowed in the future.

6. That bills rendered on and after September 1, 1975 should show basic rate charges and "approved fuel charge" charges separately.

CONCLUSIONS

With the elimination of currently approved fuel adjustment charges from VEPCO's retail electric rates on September 1, 1975 pursuant to recently enacted N.C.G.S. 62-134(e), said rates will no longer be designed to fully recover fuel expenses incurred by VEPCO in providing electric utility service to its North Carolina retail consumers. The basic rates currently in effect were designed to reflect fuel cost levels existing in December 1973. Current fuel costs are more than double this level.

VEPCO's basic retail electric rates should be adjusted by the addition of 0.971¢/KWH, said adjustment being based on generating and fuel cost statistics for April, May and June, 1975 and reflecting a reasonable estimate of the increase in fuel costs above those currently being recovered in VEPCO's basic rate design.

Should generating and fuel cost statistics of subsequent months reflect fuel cost levels lower than those reflected in the adjusted basic rates, then VEPCO should immediately file for further adjustment to its rates to reflect these lower cost levels.

Future filings for rate increases based solely on the cost of fuel pursuant to N. C. G. S. 62-134(e) can be reviewed more efficiently if such filings are based on VEPCO's current fuel adjustment formula using generating and fuel cost statistics in the third month preceding the billing month. This formula may be used to facilitate processing until such time as it may be modified in a general rate case. VEPCO should continue to file on a monthly basis the computations on the monthly fuel adjustment charge report and the supporting monthly fuel cost and supply report to assist the Commission and the Staff in monitoring fuel costs and their possible effects on future retail electric rates.

With the elimination of the so called "automatic" fuel adjustment charge, VEPCO will have approximately $3,500,000 of fuel expenses attributable to its North Carolina retail jurisdiction deferred because of accounting procedures that will become unrecoverable under existing rates. These expenses are reasonable expenses incurred in the providing of electric utility service to North Carolina retail consumers and deferred under accounting practices previously approved by this Commission. VEPCO should be allowed to recover these deferred fuel expenses by a surcharge designed to recover the total deferral over a period of twelve months.

Deferred expense accounting to reflect the lag in recovery of increased fuel costs should be disallowed in the future. These practices were appropriate under an automatic fuel adjustment clause but are not appropriate for a rate case, either general or cost of fuel only.

Bills after September 1, 1975 should show charges under the basic rate schedules and an "approved fuel charge" separately. The approved fuel charge is effectively an adjustment to the basic rate to reflect changes in the cost of fuel and is stated separately only to facilitate individual customers in the computation and verification of their bills. The temporary surcharge designed to collect deferred fuel expenses may be included in the "approved fuel charge" portion of the bill because of computer limitations.

IT IS, THEREFORE, ORDERED:

1. That effective on bills rendered on and after September 1, 1975, Virginia Electric and Power Company is hereby authorized to adjust its basic retail electric rates by the addition thereto of 0.971¢/KWH based solely on increased fuel costs pursuant to North Carolina G. S. 62-134(e).

2. That following any decrease in fuel cost levels below those existing in the basic rates as adjusted for fuel cost increases, Virginia Electric and Power Company shall immediately file for a downward adjustment to reflect these decreased fuel costs.

3. That Virginia Electric and Power Company shall continue to file on a monthly basis the computations of the fuel adjustment report and the supporting fuel cost and supply report.

4. That effective on bills rendered on and after September 1, 1975, Virginia Electric and Power Company is hereby authorized to apply a temporary surcharge designed to recover the fuel expenses deferred as of Augst 31, 1975 as a result of the lag in the old fuel adjustment clause on its North Carolina retail jurisdictional service. The surcharge shall begin on September 1, 1975 and be terminated when the actual deferred expenses total attributable to North

Carolina retail jurisdictional service is recovered. Total dollar billings under this surcharge shall be reported to the Commission monthly.

5. That the deferred expense accounting due to the lag in the old fuel clause is no longer approved by this Commission and should hereby be eliminated in this jurisdiction.

6. That bills after September 1, 1975 show the basic rate charges and "approved fuel charge", so entitled, separately. The temporary surcharge may be included under the "approved fuel charge".

ISSUED BY ORDER OF THE COMMISSION.

This the 27th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-22, SUB 180

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Virginia Electric and Power Company for Authority to Adjust its Electric Rates and Charges Pursuant to G.S. 62-134(e)	) ORDER APPROVING) ADJUSTMENT IN RATES) AND CHARGES PURSUANT) TO G.S. 62-134(e)

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, September 22, 1975 at 2:00 P.M.

BEFORE: Commissioner Tenney I. Deane, Jr., Presiding and Commissioners J. Ward Purrington and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

Allen C. Barringer
Hunton, Williams, Gay and Gibson
P. O. Box 1535
Richmond, Virginia 23212

William G. Ross, Jr.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602

For the Commission Staff:

Wilson B. Partin
Assistant Commission Attorney
One West Morgan Street
Raleigh, North Carolina 27602

BY THE COMMISSION: On August 29, 1975 Virginia Electric and Power Company (hereinafter referred to as "VEPCO") filed an application for authority to adjust and increase its retail electric rates and charges based solely upon the increased cost of fuel used in the generation of electric power pursuant to G. S. 62-134(e). VEPCO seeks approval of Fuel Charge Rider-A to increase by 1.132 cents the charge for each kilowatt-hour of electricity sold under Schedules 1, 5, 6, 7, 26, 27, 30, and 42 (VEPCO's schedules applicable to North Carolina retail service) effective with the billing month of October, 1975.

On September 8, 1975 the Commission issued an Order setting hearing on the application and requiring public notice.

The hearing was commenced at the scheduled time and place. VEPCO offered the testimony of B. D. Johnson, Assistant Treasurer of VEPCO testifying as to the computation of the fossil fuel adjustment factor, and R. N. Fricke, Manager of Fossil Fuel Services of VEPCO testifying as to the changes in the cost of fuel used in the generation of electric power.

The Commission Staff offered the testimony of Andrew W. Williams, Chief of the Electric Section in the Engineering Division of the N.C.U.C. testifying on the Staff's review of the evidence presented by VEPCO in support of Fuel Charge Rider-A.

After careful consideration and scrutiny of the evidence and testimony offered by both Virginia Electric and Power Company and the Commission Staff, the Commission is of the opinion, and so concludes, that the adjustment in rates, as shown on Fuel Charge Rider-A, proposed by VEPCO is correct and appropriate.

IT IS, THEREFORE, ORDERED That in lieu of the previously approved adjustment for increased fuel costs to VEPCO's basic rates of 0.971¢/KWH, Fuel Charge Rider-A, which adjusts VEPCO's basic rates by an increase of 1.132 cents for each kilowatt-hour based solely on the increased cost of fuel, is approved effective for bills rendered beginning with the October billing month.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of September, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-22, SUB 184

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Virginia Electric and Power Company for Authority to Adjust its Electric Rates and Charges Pursuant to G. S. 62-134(e)	) ORDER APPROVING) ADJUSTMENT IN RATES) AND CHARGES PURSUANT) TO G. S. 62-134(e)

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, December 15, 1975 at 2:00 P.M.

BEFORE: Chairman Marvin R. Wooten, Presiding and Commissioners J. Ward Purrington, and Tenney I. Deane, Jr.

APPEARANCES:

For the Applicant:

Guy T. Tripp, III
Hunton, Williams, Gay and Gibson
P. O. Box 1535
Richmond, Virginia 23212

Allen C. Barringer
Hunton, Williams, Gay and Gibson
P. O. Box 1535
Richmond, Virginia 23212

William G. Ross, Jr.
Broughton, Broughton, McConnell & Boxley
P. O. Box 2387
Raleigh, North Carolina 27602

For the Intervenors:

Jerry B. Fruitt
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602
For: Using and Consuming Public

For the Commission Staff:

Wilson B. Partin
Assistant Commission Attorney
One West Morgan Street
Raleigh, North Carolina 27602

BY THE COMMISSION: On November 26, 1975 Virginia Electric and Power Company (hereinafter referred to as "VEPCO") filed an application for authority to adjust and increase its retail electric rates and charges based solely upon the increased cost of fuel used in the generation of electric power pursuant to G. S. 62-134(e). VEPCO seeks approval of Fuel Charge Rider-D, which would adjust the charge for each kilowatt-hour by the addition of 0.117¢/KWH which is an increase of 0.404¢/KWH from the negative 0.287¢/KWH adjustment contained in Fuel Charge Rider-C approved on November 13, 1975.

On December 1, 1975 the Commission issued an Order setting hearing on the application and requiring public notice.

The hearing was commenced at the scheduled time and place. VEPCO offered the testimony of B. D. Johnson, Executive Manager - Accounting and Control of VEPCO, testifying as to the computation of the fossil fuel adjustment factor, and R. N. Fricke, Manager of Fossil Fuel Services of VEPCO, testifying as to the changes in the cost of fuel used in the generation of electric power.

The Commission Staff offered the testimony of Andrew W. Williams, Chief of the Electric Section in the Engineering Division of the N.C.U.C. testifying on the Staff's review of the evidence presented by VEPCO in support of Fuel Charge Rider-D.

After careful consideration and scrutiny of the evidence and testimony offered by both Virginia Electric and Power Company and the Commission Staff, the Commission is of the opinion, and so concludes, that the adjustment in rates, as shown on Fuel Charge Rider-D, proposed by VEPCO is correct and appropriate.

IT IS, THEREFORE, ORDERED That in lieu of the previously approved adjustment for increased fuel costs to VEPCO's basic rates of -0.287¢/KWH, Fuel Charge Rider-D, which adjusts VEPCO's basic rates by an increase of 0.117 cents for each kilowatt-hour based solely on the increased cost of fuel, is approved effective for bills rendered beginning with the billing month of January, 1976.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-7, SUB 188

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Duke Power Company	ORDER GRANTING AUTHORITY
for Authorization under Article 8	TO ISSUE THIRTY-YEAR
of Chapter 62 of the General	NOTE AND GRANTING CER-
Statutes of North Carolina to	TIFICATES OF PUBLIC
Issue Securities (30-Year Note)	CONVENIENCE AND NECES-
and for a Certificate of Public	SITY FOR THE ELECTRIC
Convenience and Necessity under	DISTRIBUTION SYSTEM OF
Article 6 of Chapter 62 of the	THE TOWN OF DAVIDSON,
General Statutes of North	NORTH CAROLINA
Carolina	

On October 2, 1975, Duke Power Company (the Company) filed an application with this Commission for authority to issue a Promissory Note in the principal amount of $506,200 payable to the Town of Davidson in thirty (30) consecutive annual installments of $52,024.90 (the Proposed Note) for and in consideration of the purchase of the Town's electric distribution system and for a certificate that public convenience and necessity requires or will require the acquisition and operation of such electric distribution system.

FINDINGS OF FACT

1. The Company is a corporation duly organized and existing under the laws of the State of North Carolina, is a public utility engaged in the business of generating, transmitting, distribution and selling electric power and energy, and in the business of operating water supply systems and urban transportation systems, and is a public utility under the laws of this State and in its operations in this State is subject to the jurisdiction of the North Carolina Utilities Commission. It is duly domesticated in the State of South Carolina and is authorized to conduct and carry on business and is conducting and carrying on the businesses heretofore mentioned in that State. It is also a public utility under the laws of the State of South Carolina and in its operations in that State is subject to the jurisdiction of The Public Service Commission of South Carolina; and it is a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Power Commission.

2. The Company now proposes to issue a Promissory Note payable to the Town of Davidson in the principal amount of $506,200 for and in consideration of the purchase by the Company of the Town's electric distribution system. The Proposed Note will bear interest at a rate of 9-5/8% per annum on the unpaid balance thereof and will be payable in 30 equal successive annual installments of $52,024.90 (including interest) with the first payment due and payable one year from date of closing. The 30-year term was selected at the request of the representatives of the Town of Davidson.

3. The Proposed Note will be issued pursuant to the proposal of the Company to purchase the Town's electric distribution system. The proposal was submitted to the voters and approved by a majority of the voters of the Town of Davidson casting their ballots during a special election held September 9, 1975, as provided in Section 160A-32 of the North Carolina General Statutes.

4. As security for the Proposed Note, the Company proposes to purchase an amount of its issued and outstanding First and Refunding Bonds in the approximate amount as the Proposed Note and deposit such bonds in escrow with a major Charlotte bank. The principal amount of the bonds held in escrow may be reduced from time to time as the principal amount outstanding on the Proposed Note is reduced, but will be maintained at an amount at least equal to the outstanding principal balance on the Proposed Note. This procedure will, in effect, give the Town a mortgaged interest in a pro rata part of the Company's properties subject to its First and Refunding Mortgage without a separate mortgage on the Town's electric distribution system.

5. The Application and supporting data shows that the acquisition and generation of the Town's electric distribution system by the Company is in the public interest, in that the Company is a large utility company operating extensively in the Piedmont area of North Carolina and South Carolina. The Company is engaged primarily in the electric utility business and is fully qualified to provide adequate, efficient and reliable service in the area now served by the Town of Davidson. The Town's present system is a small municipal system operating primarily in the Town's corporate limits, which system should be improved in order to adequately serve anticipated increased demands on the system. The Company is now furnishing electric service in the area within and near the Town and has adequate facilities now available which may be utilized to serve many of the new customers; it owns and operates transmission lines which are available for supplying electricity for the requirements of said distribution system. The Company, upon acquiring the system, will make improvements and additions to the system for meeting the present and future requirements of customers in the distribution area. Improvements in the system's capability can be made by connecting segments of the existing system to the Company's

existing lines, upgrading voltage from 4.16 Kv to 12.5 Kv and installing larger transformers.

6. When the Company takes over the operation of the distribution system, it will put into effect its established rates as authorized by order of this Commission in Docket No. E-7, Sub 173, dated October 3, 1975.

7. The Company indicates that anticipated revenues from the system are expected to be adequate to cover payments on the Proposed Note. No additional demand will be placed on the Company's generation and transmission facilities as the Company is already serving the system's electric power needs and the overall effect of the proposed transaction should be to provide economies of scale of operation, resulting in a general rate reduction to the Town's electric customers, improved service to 1,600 of the Company's existing customers around and near the Town of Davidson, and an increased return to the Company on the electric energy sold through the system. No fee for services in connection with the issuance of the Proposed Note or purchase of the electric system will be paid in connection with the transaction.

8. The Company intends to record the original cost of the facilities purchased from the Town of Davidson, appropriately depreciated, to Electric Plant in Service Accounts. Estimated original cost on a trended basis will be utilized because the Town's records are inadequate to determine from original source documentation the original cost. The difference between the total purchase price and the trended depreciated value will be recorded in Electric Plant Acquisition Adjustments Account and will be amortized to Account No. 425, Miscellaneous Amortization, over the remaining estimated useful life of the facilities purchased. All accounting entries will be made pursuant to and in accordance with the Uniform System of Accounts approved by the National Association of Regulatory Utility Commissioners (NARUC) and adopted by the North Carolina Utilities Commission (Electric Light and Power Rules R8-27). This System of Accounts is substantially in agreement with the Federal Power Commission Uniform System of Accounts.

9. The Town of Davidson is not considered a "public utility" for most purposes, being specifically exempt pursuant to Section 62-3(23)a. of the North Carolina General Statutes, and no determination is made herein with respect to Article 6 of Chapter 62 as it is not necessary or appropriate.

CONCLUSIONS

Upon review and study of the verified application, its supporting data and other information in the Commission's files, the Commission is of the opinion and so finds that the Company is a public utility subject to the jurisdiction of this Commission with respect to its rates, service and

securities issues and that the issuance of the Proposed Note is:

(a) For a lawful object within the corporate purposes of the Company;

(b) Compatible with the public interest;

(c) Necessary and appropriate for and consistent with the proper performance by the Company of its service to the public and will not impair its ability to perform that service; and

(d) Reasonably necessary and appropriate for such purposes.

Based upon the considerations set forth in the Findings of Fact, public convenience and necessity requires the issuance of a Certificate of Public Convenience and Necessity to the Company to acquire and operate the electric distribution system of the Town of Davidson and to serve the customers being served by the said distribution system.

IT IS, THEREFORE, ORDERED:

1. That Duke Power Company be, and it is hereby authorized, empowered and permitted under the terms and conditions and for the purpose set forth in the Application to issue the Proposed Note in the principal amount of $506,200 payable in 30 consecutive annual installments of $52,024.90, including interest at the rate of 9-5/8% per annum on the unpaid balance thereof. The principal amount of $506,200 may be adjusted slightly to reflect any additions or deletions to the system from January 8, 1975, to the date of sale, the value of these adjustments, if any, to be agreed to by Duke and town officials.

2. That the application of Duke Power Company under Article 6 of Chapter 62 of the General Statutes of North Carolina for a Certificate of Public Convenience and Necessity to acquire, own and operate the electric distribution system of the Town of Davidson is hereby granted and this order shall constitute a Certificate of Public Convenience and Necessity to Duke Power Company to acquire, own and operate all of the electric distribution system presently being owned and operated by the Town of Davidson.

3. That the acquisition of the Town's electric distribution system be recorded on the books of the Company in accordance with the System of Accounts prescribed by the Commission in its Rule R8-27 for Electric Light and Power Companies and more specifically as shown on Exhibit A attached to and forming part of this Order. The dollar amounts shown on Exhibit A may be adjusted to reflect any additions or deletions to the system since January 8, 1975, as referred to in Ordering Clause No. 1 of this Order.

IT IS FURTHER ORDERED, That the Company file with this Commission within thirty (30) days after the consummation of the purchase of the Town of Davidson's electric distribution system a report setting forth the fact of such consummation and including a copy of the Journal Entries used in recording the transaction, Note, Bill of Sale and the Escrow Agreement as executed; that this proceeding be and the same is continued on the docket of the Commission, without day, for the purpose of receiving such report as herein provided; and nothing in this Order shall be construed to deprive this Commission of its regulatory authority under law or to relieve the Company from compliance with any provision of law or the Commission's regulations.

ISSUED BY ORDER OF THE COMMISSION.

This the 29th day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

EXHIBIT A
DUKE POWER COMPANY

Tentative* Journal Entries to Record
Purchase of the Town of Davidson Facilities

102	Electric plant purchased or sold	$506,200	
253	Other deferred credits		$506,200
	To record purchase of electrical distribution facilities from the Town of Davidson		
101	Electric plant in service	196,415	
114	Electric plant acquisition adjustment	372,638	
108	Accumulated provision for depreciation of electric utility plant		62,853
102	Electric plant purchased or sold		506,200
	To record the trended original cost and associated accumulated depreciation of electrical distribution facilities purchased from the Town of Davidson		
425	Miscellaneous amortization	18,632	
115	Accumulated provision for amortization of electric plant acquisition adjustments		18,632
	To record annual amortization of plant acquisition adjustments ($372,638) related to the purchase of facilities from the Town of Davidson over the estimated		

remaining useful life (20 Years)
of the acquired facilities

*Dollar amounts of Journal Entries may be slightly adjusted to reflect additions or deletions to the system since January 8, 1975. The value of the adjustments to be agreed to by Duke and Town of Davidson officials.

DOCKET NO. E-13, SUB 25

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Nantahala Power and Light Company for Authority to Enter into a Revolving Credit Agreement and to Borrow Thereunder	) ORDER GRANTING AUTHORITY) TO ENTER INTO A RE-) VOLVING CREDIT AGREEMENT) AND TO BORROW THEREUNDER)

This cause comes before the Commission upon an application of Nantahala Power and Light Company (hereinafter "Nantahala" or the "Company"), filed under date of December 1, 1975, through its Counsel, R. C. Howison, Jr., of the firm of Joyner & Howison, Post Office Box 109, Raleigh, North Carolina 27602, wherein authority of the Commission is sought as follows:

> To enter into a Revolving Credit Agreement with Wachovia Bank and Trust Company, N. A., for a maximum line of credit of $3,000,000 covering a period of 25 months beginning about December 31, 1975, and authorizing Nantahala to borrow thereunder.

FINDINGS OF FACT

1. Nantahala is a North Carolina corporation having its principal office in Franklin, Macon County, North Carolina, and is duly engaged in the business of electric generation, transmission and distribution in North Carolina as a public utility under the jurisdiction of this Commission.

2. Nantahala is the wholly owned subsidiary of Aluminum Company of America (Alcoa) which company has heretofore completely financed Nantahala by means of, from time to time, the purchase of common stock, paid-in capital, retained earnings and interest-free advances of funds which advances are subject to repayment upon demand. By letter dated May 14, 1975, copy attached as Exhibit 1 to the application, Alcoa advised Nantahala that henceforth it would not supply Nantahala with additional funds or capital and demanded repayment of its advances to Nantahala. Nantahala is convinced that this decision by Alcoa is firm and final. Nantahala, therefore, must arrange for permanent and interim financing in order to carry out its construction program necessary for it to continue to render adequate service to the public in its service area.

3. Because Nantahala has never heretofore borrowed externally other than from its parent, it has no established line of credit in regional or national financial markets. It must arrange such credit with a financially reputable lending institution in an amount and for such period of time as will assure it a source of short-term borrowings sufficient to meet its working capital and construction requirements in excess of internally generated funds. In the opinion of Nantahala's management and that of its financial advisors such line of credit in the amount of $3,000,000 covering a period of 25 months is the minimum required. To that end Nantahala has negotiated and entered into a Revolving Credit Agreement (which together with the Revolving Note appended thereto is hereafter collectively referred to as the "Agreement") with Wachovia Bank and Trust Company, N.A. (the "Bank"), subject to the approval of this Commission. Copy of the Agreement is attached to the application as Exhibit 2. The Agreement will be dated the effective date of the Commission's approval thereof and the blanks appearing in Paragraph 2 of the Agreement will contain a date 25 months after the effective date of the Agreement.

4. While all of the terms and conditions of the Agreement are set forth in Exhibit 2, the most significant are:

(a) The Bank commits itself for a period of 25 months to lend Nantahala any amount up to a total outstanding balance of $3,000,000;

(b) The interest rate on borrowings is 1/4% above the Bank's prime commercial loan rate;

(c) Nantahala pays the Bank a commitment fee of 1/2% annually, payable quarterly, of the unused portion of the Bank's then outstanding commitment;

(d) Nantahala may at any time and from time to time, terminate the Bank's commitment, and Nantahala's obligation for commitment fee, in whole or partially, (in multiples of $100,000), thereby assuring Nantahala that it will not be required to pay a commitment fee for unneeded funds;

(e) Nantahala is required to apply other borrowings made by it with maturities of more than 12 months to the reduction of loans made by the Bank pursuant to the Agreement; and

(f) Certain restrictions are imposed upon Nantahala's dividends, additional indebtedness, conveyances of property and mergers, and, additionally, Nantahala is required to maintain a net worth of not less than $13,500,000. (Nantahala's net worth at October 1, 1975, was $15,413,451.)

5. The need for an assured source of short-term borrowings is evidenced by Nantahala's construction program. That construction program for 1974 and 1975 and as contemplated for 1976 and 1977 is as follows:

Year	Amount
1974	$2,279,000
1975	$2,040,000
1976	$3,240,000
1977	$3,550,000

Approximately $1,675,000 of the 1976 construction funds must be obtained from external sources.

6. Nantahala is discussing with First Boston Corporation the possible placement with institutional investors of long- or intermediate-term debt. However, the successful consummation of such negotiations will not obviate the need for the Agreement as the means of obtaining a source of short-term funds.

7. Nantahala proposes an initial borrowing under the Agreement at or about December 31, 1975, of $1,650,000. The proceeds thereof will be utilized to repay approximately $1,320,000 of advances to Nantahala from Alcoa and for general corporate purposes, primarily for use as working capital, corporate cash having been reduced by the resumption of dividend payments to its stockholder for the first time since 1971 pursuant to a dividend policy adopted by Nantahala's Board of Directors.

8. Nantahala advises the Commission that its future dividend policy contemplates the payout in dividends quarterly of 65% of the net earnings for the year up to the date of dividend declaration after first deducting from said net earnings the net after tax imputed cost of interest on the debt component of an assumed capital structure consisting of 55% debt, 5% Preferred Stock and 40% common equity, this being Nantahala's objective capital structure. A cost rate of 10.5% will be used for such imputed interest cost for these purposes until actual cost rates are established or until Nantahala's financial advisors suggest a different rate to it.

9. Nantahala estimates the expenses to be incurred by it in connection with the Agreement to be approximately $1,500, all for fees of its counsel.

CONCLUSIONS

From a review and study of the Application, its supporting data and of the information in the Commission's files, the Commission is of the opinion and so concludes that the transactions herein proposed are:

(i) For a lawful object within the corporate purposes of Nantahala;

(ii) Compatible with the public interest;

(iii) Necessary or appropriate for or consistent with the proper performance by Nantahala of its service to the public;

(iv) Will not impair Nantahala's ability to perform that service; and

(v) Reasonably necessary and appropriate for the purposes for which it is made.

IT IS, THEREFORE, ORDERED THAT:

1. Nantahala is authorized to enter into a Revolving Credit Agreement with Wachovia Bank and Trust Company, N.A. The Revolving Credit Agreement includes the Revolving Note as appended thereto and collectively referred to as the "Agreement" and identified as Exhibit 2 attached to the Application.

2. Nantahala is authorized to borrow funds as needed from Wachovia Bank and Trust Company under the terms of the "Agreement."

3. Nantahala shall file with the Commission, when available in final form two (2) conformed copies of the "Agreement" as made, executed and delivered to the Bank.

4. Quarterly, Nantahala shall file with the Commission a verified report of the status of the transactions executed under the "Agreement," including date(s), amount(s) borrowed, and effective interest rates charged with components of the effective interest rates identified.

5. Nothing in this Order shall be construed to deprive this Commission of any of its regulatory authority under law.

ISSUED BY ORDER OF THE COMMISSION.

This the 10th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. E-22, SUB 185

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Virginia Electric and Power Company	) ORDER APPROVING THE
and Laurel Run Mining Company for	) SALE AND LEASE-BACK OF
Authority to Sell and Lease-Back	) CERTAIN MINING
Certain Mining Equipment	) EQUIPMENT

This cause comes before the Commission upon an application of Virginia Electric and Power Company (VEPCO) and Laurel Run Mining Company (Laurel Run) filed under date of November 19, 1975, wherein authority is sought to sell and lease-back certain mining equipment.

FINDINGS OF FACT

VEPCO represents that it is a corporation duly organized and existing under the laws of the Commonwealth of Virginia, with its general offices in Richmond, Virginia; it is engaged in the business of providing electric and gas service in the Commonwealth of Virginia, and electric utility service in the State of North Carolina and West Virginia; it is a public utility as defined in Article I of Chapter 62, General Statutes (G.S. 62-1 - 62-4) of North Carolina; and its operations in this State are subject to the jurisdiction of the North Carolina Utilities Commission.

Laurel Run represents that it is a corporation duly organized and existing under the laws of the Commonwealth of Virginia and is authorized to transact business in the State of West Virginia.

VEPCO represents that it owns all of the capital stock of Laurel Run.

Laurel Run represents that it was formed by VEPCO to develop and operate one or more coal mines on certain coal lands owned by VEPCO in the vicinity of its Mt. Storm Power Station in West Virginia. Laurel Run is an "affiliated interest" of VEPCO.

VEPCO further represents that it has purchased capital stock from Laurel Run in the amount of $3,500,000 and has made advances to Laurel Run in the amount of $12,014,113 which if not repaid will become contributed capital surplus of Laurel Run and accordingly, equity capital investment by VEPCO.

Laurel Run represents that it is continuing the development of deep mining operations in an effort to provide up to one-third of the coal requirements at VEPCO's Mt. Storm Power Station at more stable prices and under more reliable delivery conditions. Coal reserves are estimated at approximately 68,873,000 recoverable tons, before cleaning. On the basis of the partial cleaning

currently being done, established reserves can be expected to yield approximately 65,430,000 tons of usable coal (sulfur content approximately 2%). After full cleaning, which may be required to reduce sulfur content levels in order to meet future air pollution control requirements, these reserves may range downward to approximately 42,0|3,000 tons of usable coal (sulfur content of approximately |.4%). Deliveries by Laurel Run to VEPCO are presently averaging about |,700 tons per day.

Laurel Run proposes to enter into Equipment Lease Agreements (the Agreements) whereby Laurel Run will sell certain of its mining equipment to institutional lessors headed by GATX Leasing Corporation (the Lessors) and agree to lease back the equipment from such Lessors. The equipment to be leased will be composed of new and used equipment and will be leased for 3,4,5, and 8-year periods. The rentals to be paid by Laurel Run under the Agreements will aggregate approximately $2,262,000 annually. The maximum aggregate value of the equipment to be leased initially is $|0,892,043. The Lessors have also committed to lease additional equipment with an aggregate value of $3,382,000 to Laurel Run as that equipment is purchased.

Laurel Run represents that the savings from leasing as compared with ownership (estimated at $|.6 million when the plant is in full production) will inure to the benefit of the customers of VEPCO, since it will result in a reduction in the price VEPCO will pay Laurel Run under its Coal Purchase Agreement for purchases of coal from Laurel Run and will be reflected in the fuel adjustment clause of VEPCO. Rentals will be payable in equal quarterly installments in advance. The Schedules to the Agreements provide that Laurel Run will have the option prior to the expiration of the lease term to purchase all of the equipment in a particular group at fair market value or to extend the term of the Agreement for one year at its fair rental value.

The Agreements also provide that Laurel Run will maintain and insure the equipment at its expense and will pay all taxes that shall be imposed upon the equipment. Laurel Run also agrees to indemnify the Lessors against all taxes (other than net income taxes) incurred by them in connection with their execution and performance of the Agreements and to indemnify the Lessors should they not be permitted to fully utilize the investment tax credit or the maximum depreciation deductions currently allowed with respect to the leased equipment.

Upon consummation of the transaction, Laurel Run will reimburse VEPCO for advances made to Laurel Run in the amount of the proceeds from the sale of the equipment to be leased, less the expenses of the transaction. On the books of Laurel Run, the excess of the sale price over the unrecovered cost (net of income taxes) of such equipment will be reflected as a credit against lease payments on the equipment over the term of the Agreement. VEPCO will credit

amounts received from Laurel Run to Investment Advances to Subsidiary Company and reduce its short-term debt outstanding in like amount.

VEPCO proposes to enter into a Guaranty Agreement (the Guaranty) whereby it would unconditionally guarantee payment of Laurel Run's obligation under the Agreements to the Lessors of the equipment.

CONCLUSIONS

From a review and study of the Application, its supporting data and other information in the Commission's files, the Commission is of the opinion and so finds that the transaction herein proposed is:

(a) For a lawful object within the corporate purposes of VEPCO and Laurel Run;

(b) Compatible with public interest;

(c) Necessary and appropriate for and consistent with the proper performance by VEPCO and Laurel Run of their service to the public and will not impair their ability to perform that service; and

(d) Reasonably necessary and appropriate for such purposes.

IT IS, THEREFORE, ORDERED, That Virginia Electric and Power Company and Laurel Run Mining Company be, and it is hereby authorized, empowered and permitted to:

1. Enter into the transactions described in this order and in the application, and to execute such instruments, documents and agreements as shall be necessary or appropriate in order to effectuate such transactions.

2. Account for the transactions as described in the application.

IT IS FURTHER ORDERED, That the Lessors which may participate in this sale/lease-back transaction shall not, because of their participation in the arrangement, be subject to regulation by the Commission as a public utility or a public service company.

IT IS FURTHER ORDERED, That a written report of the final results of the sale be furnished to the Commission within sixty (60) days of the final sale; and nothing in this Order shall be construed to deprive this Commission of its regulatory authority under the law.

ISSUED BY ORDER OF THE COMMISSION.

This the 25th day of November, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. G-3, SUB 58

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Pennsylvania and Southern Gas Company, Inc. (North Carolina Gas Service Division), for Authority to Adjust and Increase its Rates and Charges	) ORDER) SETTING) RATES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Friday, September 6, 1974, at 9:00 a.m.

BEFORE: Chairman Marvin R. Wooten, presiding, and Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

James T. Williams, Jr.
Brooks, Pierce, McLendon, Humphrey & Leonard
Attorneys and Counsellors at Law
P. O. Drawer U
Greensboro, North Carolina 27402

For the Intervenor:

Jerry Rutledge
Jesse Brake
Associate Attorneys General
Department of Justice
Raleigh, North Carolina
For: The Using and Consuming Public

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 11, 1974, Pennsylvania and Southern Gas Company, Inc. (North Carolina Gas Service Division), hereinafter sometimes referred to as N. C. Gas Service, the Company or the Applicant, filed with the Commission an application for a general rate increase, which was assigned Docket No. G-3, Sub 58. Applicant requested that it be authorized by the Commission to increase its rates effective May 11, 1974, amounting to an increase of approximately $186,543 in general revenues applied to the calendar year of twelve months ending December 31, 1973. The increases proposed were uniform and across-the-board for all rate schedules.

On May 3, 1974, Notice of Intervention on behalf of the Using and Consuming Public of the State of North Carolina was filed by the North Carolina Attorney General. Intervention by the Attorney General was recognized in a Commission Order issued May 14, 1974.

Being of the opinion that the application affected the public interest in the areas in which service is provided by the Applicant, the Commission, by Order of May 9, 1974, set the matter for investigation and hearing on September 6, 1974, declared the proceeding to be a general rate case under G. S. 62-133, suspended the increases requested by the Applicant for a period of 270 days from and after May 11, 1974, and required that Applicant publish and deliver notice of such hearing to its customers in its service area. Such Order changed the test period from the twelve months ending December 31, 1973, as proposed by the Applicant, to the twelve months ending April 30, 1974.

On May 23, 1974, N. C. Gas Service filed its reply to the Commission's Order of Suspension and Investigation dated May 9, 1974, and as a part of such reply included an application for authority to adjust its rates and charges for natural gas service on an interim basis with undertaking for refund pending the final Order of the Commission in this docket. The interim rates therein proposed by N. C. Gas Service were exactly the same as those rates proposed in its initial application for general rate increase. The Commission by Order issued on June 4, 1974, set the petition for interim emergency relief for hearing in the Commission Hearing Room on Wednesday, June 19, 1974, suspended the proposed increase pending the outcome of the interim hearing and required N. C. Gas Service to give notice of such interim hearing to its customers. By Order issued June 7, 1974, the interim hearing was rescheduled for Tuesday, June 18, 1974.

Prior to the hearing, affidavits were filed on behalf of the Company and the Commission Staff. By Order issued on July 10, 1974, following the interim hearing, the Commission, being of the opinion that N. C. Gas Service was faced with an emergency financial crisis, allowed N. C. Gas Service to increase its rates to all customers on an interim basis by a uniform, across-the-board six cents per MCF increase, subject to refund at six per cent interest of any

rates collected in excess of those finally approved after the final hearing in this docket.

On July 24, 1974, N. C. Gas Service filed a motion for leave to amend its initial application for general rate increase. The Company alleged that in complying with the Commission's Order requiring an up-dated test period to include the twelve months ending April 30, 1974, it discovered that in order to restore its revenues and rate of return to a level that is just and reasonable, it would have to seek additional rates over and above those sought in the initial application. The Company proposed that the new and higher rates which it requested in its amended application be allowed to go into effect on July 24, 1974. By Order issued on August 9, 1974, the Commission allowed the motion by N. C. Gas Service for leave to amend its application in the manner sought by the Company, substituted the amended application for hearing on September 6, 1974, in place of the original application theretofore filed with the Commission on April 11, 1974, suspended the amended rates as proposed by the Company for a period of 270 days from and after July 24, 1974, and required the Company to give notice of its amended application to its customers.

On August 26, 1974, the Attorney General filed with the Commission a motion for an extension of time in which to file his prefiled expert testimony. Such motion was allowed by Commission Order issued August 30, 1974.

The matter came on for hearing in the Commission Hearing Room on September 6, 1974, at 9:00 a.m. The Company offered the testimony and exhibits of the following persons: Mr. William W. Devore, Treasurer and Assistant Secretary of Pennsylvania and Southern Gas Company, testified concerning the Company's accounting exhibits, and its operating revenues, expenses, and rates of return during the test year; Mr. C. B. Coulter, President and General Manager of Pennsylvania and Southern Gas Company, testified concerning the Company's historical natural gas operations, its present level of operations, the value of its property used and useful in rendering service to its customers in North Carolina, the effects of present and anticipated future curtailments from its pipeline supplier on N. C. Gas Service's revenues, the effect to its customers of the proposed new rate structure, cost of capital and fair rate of return; Mr. J. E. Connolly, Vice President of Pennsylvania and Southern Gas Company in charge of the North Carolina Gas Service Division, testified concerning telemetering, dispatching and load factor of the N. C. Gas Service System.

Mr. David Crotts, an Economist with the North Carolina Attorney General's office, testified concerning the cost of equity capital to N. C. Gas Service.

The Commission Staff offered the testimony of the following persons: Mr. Daniel M. Stone, Gas Engineer of the

North Carolina Utilities Commission, testified regarding the operating revenues, including temperature adjustments, and cost of purchased gas to N. C. Gas Service; Mr. Donald E. Daniel, Staff Accountant of the North Carolina Utilities Commission, testified regarding the Company's original cost net investment, revenues and expenses during the test year and rates of return based on test year revenues and revenues to be derived with the use of the proposed higher rates.

Based upon the verified application and the exhibits attached thereto, the prefiled testimony and exhibits, the testimony given from the stand during the course of the hearing and the entire Commission record herein, the Commission now makes the following

FINDINGS OF FACT

1. That Pennsylvania and Southern Gas Company (North Carolina Gas Service Division) is a Delaware corporation domesticated in the State of North Carolina and is a duly franchised public utility providing natural gas service to its customers in its North Carolina service area. Applicant is properly before this Commission for a determination pursuant to G. S. 62-133, of whether or not its proposed increased rates are just and reasonable.

2. That Pennsylvania and Southern Gas Company (North Carolina Gas Service Division) is providing reasonable and adequate natural gas service to its existing customers in North Carolina, to the extent that it is able to do so under the present level of curtailment of its pipeline supplier.

3. That the reasonable original cost of Pennsylvania and Southern Gas Company's North Carolina gas plant in service at April 30, 1974, is $2,880,113, including working capital.

4. That the reasonable allowance for working capital as of April 30, 1974, is $215,425.

5. That the fair value of Pennsylvania and Southern Gas Company's property used and useful in providing service to its North Carolina customers at April 30, 1974, considering the reasonable depreciated original cost and the replacement cost of the property is $3,590,000 consisting of the fair value of $3,400,000 found by the Commission in Docket No. G-3, Sub 48, plus additions to plant of $455,611, less retirements of $38,462, less depreciation expense net of retirements of $227,751 charged since the last general rate case (Docket No. G-3, Sub 48).

6. That the approximate annualized and adjusted gross revenues of Pennsylvania and Southern Gas Company (North Carolina Gas Service Division) for the test period are $2,589,370 under end-of-period rates, and $3,426,998 under increased rates proposed by the Company.

7. That the approximate operating expenses during the test year after accounting and pro forma adjustments are $2,471,875 including depreciation of $128,016. A schedule of revenues, expenses and resulting approximate rates of return follows:

	After Staff Adjustments	Proposed Rate Increase	After Proposed Rate Increase
1. Revenues	$2,589,370	$385,417	$2,974,787
2. Cost of gas	1,600,692	-	1,600,692
3. Total	$ 988,678	$385,417	$1,374,095
4. Deduct other operating expenses	871,183	211,343	1,082,526
5. Net operating income for return	$ 117,495	$174,074	$ 291,569
6. Deduct fixed charges interest	987,794	-	987,794
7. Balance for common	$ 18,701	$174,074	$ 192,775
8. Common equity	$1,427,960		$1,427,960
9. Rate of return on common equity	1.31%		13.50%
10. Fair value equity	$2,137,847		$2,137,847
11. Rate of return on fair value equity	.87%		9.02%
12. Original cost net investment	$2,880,113		$2,880,113
13. Rate of return on original cost net investment	4.08%		10.12%
14. Fair value of property	$3,590,000		$3,590,000
15. Rate of return on fair value of property	3.27%		8.12%

8. That no annualization factor for customer growth during the test period should be employed due to the restricted growth policies of N. C. Gas Service resulting from gas supply curtailment and due to the adjustment of the major items of revenue and expense to end-of-period levels on an item by item basis, including revenue, cost of gas, depreciation, and union wages, including fringe benefits.

9. Based on the Commission's findings of net operating income for return of $117,495, and fair value before adjustments for proposed rate increase, the Commission finds North Carolina Gas Service's rate of return on fair value to be 3.27% and its rate of return on its actual common equity investment to be 1.3% (see schedule attached to Finding of

Fact No. 7 above). Assuming a common equity structure adjustment of $709,887 to allow for the increment by which fair value as hereinabove determined exceeds original cost net investment, the rate of return on fair value equity of $2,137,847 for the test year would be .87%. The Commission finds that such rates of return on fair value, common equity and fair value equity are insufficient to allow the utility by sound management to produce a fair profit to its stockholders, to maintain its facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms.

10. That the proper rate of return which Pennsylvania and Southern Gas Company (North Carolina Gas Service Division) should have the opportunity to earn on the fair value of its North Carolina investment is 8.12%.

11. That the additional gross revenues required to produce the 8.12% rate of return on fair value are $385,417.

12. That the anticipated level of natural gas supply and its reciprocal, the anticipated level of curtailment from Transco, is the most indefinite, variable and unpredictable element in attempting to set appropriate retail rates for natural gas service. The level of curtailment to be experienced by N. C. Gas Service is controlled by the amount of contract demand volumes available for sale by Transco and the manner in which these volumes are allocated to Transco's customers by the Federal Power Commission. Formulae are in existence which track revenue gains and/or losses due to increased or decreased curtailment.

13. That the schedules of rates attached hereto as Exhibit A will produce the required additional gross revenues of $385,417 if curtailment of gas purchased by N.C. Gas Service from Transco does not change from the test year contract demand volumes of 2,798,016 MCF available for purchase by N. C. Gas Service from Transco. If the curtailment levels change, the increases required per MCF sold to produce the additional gross revenues required will also change. The Commission further finds that the rate structure attached hereto is just and reasonable and does not discriminate among the various classes of customers of N. C. Gas Service and does not discriminate between customers within the various classes of customers.

14. That the rate structure proposed by the Company in its application for general rate increase is unjust and unreasonable, in that the Company's proposed tariffs would produce revenues far in excess of those hereinabove determined to be just and reasonable. Such rate structure should, therefore, be disapproved and disallowed.

15. That the sales volumes and data filed by the Company and the Staff for the test period reflect the shifting of volumes from firm, high priority rate schedules to lower

priority and price rate schedules, due to the conservation efforts by firm, principally residential, customers. Such volume shift will be given effect in the rate schedules to be approved by the Commission as provided hereafter.

CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The verified original and amended applications of N. C. Gas Service state that the Company is a corporation organized under the laws of Delaware and domesticated in the State of North Carolina; that the Company is a public utility under the laws of this State and, as such, is subject to the jurisdiction of this Commission; and, that it holds a Certificate of Public Convenience and Necessity from this Commission to engage in the business of "producing, generating, transmitting, delivering or furnishing . . . piped gas . . . to or for the public for compensation." [G. S. 62-3(23)a.1.). No conflicting evidence has been offered by any party or witness, and such facts are uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

Mr. C. B. Coulter testified (Tr. P. 49) that ". . . the cost of gas to our customers is still the best energy bargain available." He also stated that (Tr. p. 50), "Over the years North Carolina Gas Service has spent substantial sums of money to construct facilities needed to serve new customers and to improve and replace facilities needed to serve existing customers." Coulter also testified (Tr. pp. 56-57) that the Company was studying its rate structure to eliminate or reduce the promotional aspects of such structure and to encourage efficient, conservative use of natural gas. He further testified (Tr. p. 80) that the Company had added propane air peak shaving facilities to its plant in service in order to provide protection to its winter peak, principally residential, load.

No members of the public generally requested leave of the Commission to intervene herein as active parties. None appeared at the hearing to protest. Neither the Attorney General nor the Staff offered evidence with regard to the Applicant's quality of service. In addition, the Company has on file with this Commission a policy against adding additional new customers where there is no firm supply of gas available to serve them. Under these circumstances, it is to be presumed, unless competent testimony to the contrary is offered, that the services offered by a duly franchised public utility are reasonable and adequate. No such evidence having been offered, we conclude that the Company's quality of service is adequate to its presently existing customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The following schedule summarizes the original cost net investment developed by Company Witness Devore and Staff Witness Daniel:

	Company Witness Devore	Staff Witness Daniel
1. Utility plant in service	$4,849,770	$4,849,770
2. Accumulated depreciation	1,566,980	1,566,980
3. Net utility plant	$3,282,790	$3,282,790
4. Add working capital requirement	164,882	215,425
5. Total	$3,447,672	$3,498,215
DEDUCT:		
6. Acquisition adjustment	-	29,085
7. Contributions in aid of construction	-	254,619
8. Accumulated deferred income taxes	-	257,299
9. Unamortized investment tax credit - pre 1971	-	37,570
10. Customer deposits	-	39,529
11. Total deductions	-	618,102
12. Original cost net investment	$3,447,672	$2,880,113

As indicated in the above schedule, the difference between the original cost net investment developed by the two witnesses results from the deduction of $618,102 by Staff Witness Daniel consisting of the acquisition adjustment, contributions in aid of construction, deferred income taxes, investment tax credits - pre 1971 and customer deposits. Mr. Daniel stated that he deducted these items because they represent cost-free capital to the Company which has been furnished by the customers through the payment of rates or through direct or indirect contributions to the Company. Mr. Devore did deduct average customer deposits of $36,298 in arriving at his working capital requirement of $164,882 and he stated at Tr. p. 19 that contributions in aid of construction were not subtracted and that this resulted in an overstatement of $254,619 of the net investment in plant. He, therefore, agrees that contributions in aid of construction are properly deductible in arriving at net investment in plant. Mr. Coulter testified at Tr. p. 61 that the elimination of accumulated deferred income taxes from the rate base would be unfair and unjust in that deferred income taxes are not a tax savings but must be paid at a future date; that the taxes are normalized as far as expenses are concerned keeping the ratepayer in the same position as if straight line depreciation were used; and that the elimination would result in a windfall to present ratepayers to the detriment of future ratepayers.

Mr. Daniel testified at Tr. p. 156 that to exclude deferred income taxes (i.e., not deduct them from the investment) would give an unearned advantage to the Company and would penalize the ratepayer since the Company would recover these taxes as they are charged to expenses and earn a return on the capital in addition.

The Commission is of the opinion that the original cost net investment in utility plant of $2,880,113 found by Mr. Daniel is proper.

The Commission concludes that the deferred taxes, pre 1971 investment tax credits, and customer deposits are customer contributions to capital investment and it is unreasonable to expect the Company's ratepayers to pay the Company a return on capital which they have contributed to the Company; consequently, these cost-free funds to the Company must be excluded from the Company's investment for the purpose of determining the reasonable original cost net investment in utility plant. The ratepayers have provided these funds to the Company in the form of rates, with the exception of customer deposits. In the case of deferred income taxes, these funds arise principally as a result of normalizing the difference between the income tax effects of book depreciation (straight line) and tax depreciation (accelerated) and results in the Company recording an income tax expense in the income statement which has not actually been paid and a resultant deferred income tax liability on the balance sheet. The ratepayer has paid rates to cover this item as income tax expense, even though the Company has not actually paid these taxes.

In the case of unamortized investment tax credit (pre 1971), these funds represent a charge against operations that the company will never be required to pay. As is the case with deferred income taxes, the ratepayer has paid rates to cover this item as an expense against operations, an expense which the Company has in fact not and will not actually experience.

In the case of customer deposits, these funds represent a source of customer supplied capital which the Company has available and can use for the purpose of investing in plant facilities.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

Both Company Witness Devore and Staff Witness Daniel include an allowance for working capital in developing "original cost net investment."

From a regulatory point of view working capital represents an investment in materials and supplies plus the cash required to pay operating expenses prior to the time revenues for services rendered are received. An allowance for working capital is included in the rate base in order to

provide the investor with a return on the capital furnished by him for these purposes.

Mr. Devore's working capital allowance of $164,882 consists of 1/8 of the operation and maintenance expenses, plus minimum bank balances, plus materials and supplies less average tax accruals and customer deposits. This was the same method employed in determining working capital in Docket No. G-3, Sub 48, the Company's last general rate case.

Mr. Daniel employed a "balance sheet analysis approach" in developing a working capital allowance of $215,425 which he states is supplied by the debt and equity investor. The first step in the analysis was the allocation of the total investor supplied capital of $7,391,016 consisting of long and short-term debt and common equity to North Carolina operations. This allocation was achieved by developing the ratio of the net investment in North Carolina utility plant in service of $2,669,645 to total company net investment of $6,935,007 producing a ratio of 38.50%. The application of this ratio to total investor supplied capital of $7,391,016 results in the allocation of $2,845,541 of investor supplied capital to North Carolina operations. The allocated capital of $2,845,541 was then compared to the North Carolina investment supported by debt and equity capital of $2,630,116. The $215,425 excess of investor supplied capital over the net North Carolina investment constitutes working capital provided by the debt and equity investor.

The Commission adopts the method used by Mr. Daniel in determining the Applicant's required working capital allowance, as well as the $215,425 amount recommended by Mr. Daniel. In our opinion, only working capital which has been provided by the Applicant's debt and equity investors should be included in determining the required working capital allowance. The ratepayers should not be required to pay a return on working capital which they have provided to the company. Mr. Daniel's method of determining the working capital requirement measured directly the amount of working capital which was provided by the Applicant's debt and equity investors, while Mr. Devore made no attempt to determine the amount of working capital which was provided by either the debt and equity investors or other parties. He used a formula method which has been used by this Commission in past cases. While this Commission has basically followed a formula method for determining working capital allowances in prior cases, we are of the opinion and hereby conclude that the evidence presented in this proceeding by Mr. Daniel allows us to derive an allowance for working capital which is more representative of the working capital provided by the Applicant's debt and equity investors upon which the ratepayers should properly pay a return.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Company Witness Devore presented a fair value of $3,817,149 consisting of the $3,400,000 found fair by the Commission in its Order dated November 30, 1972, in Docket No. G-3, Sub 48, plus additions of $455,611 less retirements of $38,462 subsequent to the end of the test period in that docket.

The Commission agrees with the general approach adopted by Mr. Devore, considering the comparatively short period of time which has elapsed since the determination of fair value in Docket No. G-3, Sub 48; however, the Commission notes that Mr. Devore failed to give effect to the cost of plant recovered by depreciation expense subsequent to the test period in Docket No. G-3, Sub 48.

The Commission has determined from the annual and monthly financial reports filed by the Company with this Commission that the cost of utility plant in service in the amount of $266,213 has been recovered through depreciation since fair value was determined in Docket No. G-3, Sub 48. The Commission concludes that the fair value of $3,817,149 determined by Mr. Devore should be reduced by the $266,213 cost of utility plant recovered through depreciation net of retirements of $38,462. The Commission, therefore, concludes that the fair value of Pennsylvania and Southern Gas Company's utility plant (North Carolina Gas Service Division) used and useful in providing gas service to its North Carolina customers is the sum of $3,590,000, consisting of the $3,400,000 found by the Commission as the Company's fair value in Docket No. G-3, Sub 48, plus additions to plant of $455,611 less depreciation of $266,213 net of retirements of $38,462.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

Company Witness Devore and Staff Witness Stone presented testimony concerning the annualized operating revenues. Mr. Devore presented operating revenues of $2,424,895. Mr. Stone presented operating revenues of $2,589,370 which are $164,475 greater than the revenues of Mr. Devore. An adjustment increasing revenues by the $164,475 was incorporated by Staff Witness Daniel into his adjustments to net operating income. The difference results primarily from a temperature adjustment which was accepted by the Company as being proper and a difference in the curtailment levels used by the two witnesses.

Mr. Devore stated that he had used the curtailment level set forth in Docket No. G-100, Sub 18, and he agreed that this was projected curtailment for Winter 1974-75 and Summer 1975. Mr. Stone testified that he had used Transco's July 31, 1974, projected curtailment, which he considered the most reliable, up-to-date data on curtailment. He stated that he had used Summer 1974 curtailment and Winter 1974-75 curtailment while Mr. Devore instead used Winter 1974-75 and

Summer 1975 curtailment. Staff Witness Stone stated on cross-examination that under the "settlement plan" curtailment would approximate 34% which is comparable to Mr. Devore's curtailment level.

The Commission is aware that proposed curtailment plans presently being considered by the Federal Power Commission would create curtailment levels higher than those used by Staff Witness Stone; however, Mr. Stone projected curtailment for the twelve months immediately following the end of the test period and based his projections on the most reliable data then available. Recent events taking place in the courts in Washington, D. C., concerning the Transco Curtailment Plan of which the Commission takes judicial notice, have made it extremely unlikely that a 467-B type plan will be placed into effect this winter. The Commission concludes that the curtailment levels used by Mr. Stone are proper and, therefore, adopts the revenues of $2,589,370 proposed by Mr. Stone.

Mr. Devore testified that the rates proposed by the Company would produce revenues of $2,993,232 while Mr. Stone presented revenues under proposed rates of $3,426,998. Mr. Stone, in his Engineering Exhibit No. 2, applied the rates proposed by the Company to the same volumes used in developing the revenues of $2,589,370 under end-of-period rates. The Commission, therefore, concludes that the rates proposed by the Company will produce revenues of $3,426,998.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

Company Witness Devore presented total operating expenses of $2,363,339 after accounting and pro forma adjustments. Mr. Daniel made the following adjustments to the operating expenses presented by Mr. Devore:

Increase in cost of gas	$ 81,448
Decrease in company wage settlement adjustment	(19,905)
Increase in insurance expense	2,632
Increase in gross receipts tax	9,869
Decrease in depreciation expense	(7,511)
Elimination of expense projection	(26,745)
Income tax effect of interest allocation adjustment	5,008
Increase in income taxes	63,740
	$108,536

The adjustment to the cost of gas of $81,448 results from the different levels of curtailment discussed in Finding of Fact No. 6 and a 7-day difference in the use of peak shaving facilities. Staff Witness Stone projected a 3-day peak shaving use as opposed to the Company 10-day projection. Staff Witness Stone based his projection on normal use by the Company. No use was made of the facility during the past winter season.

Mr. Daniel reduced depreciation expense by $7,511 to eliminate depreciation expense on contributed property which the Company included in its depreciation expense.

The wage adjustment of $19,905 by Staff Witness Daniel is based on the final settlement of the union contract which was not available to the Company when it made its adjustment.

Staff Witness Daniel eliminated the Company adjustment of $26,745 intended to annualize operating expenses to the level of recorded expenses during the last four months of the test year. Mr. Daniel stated that while there may be an element of inflation in the future, he could not agree with the projection of expenses as determined by Mr. Devore.

The adjustment for the income tax effects of interest allocation was made because Staff Witness Daniel reduced the interest expense on an end-of-period basis and it would not be fair to the Company to fail to give effect to the increased income taxes resulting from this decrease in expense.

The adjustments to insurance, gross receipts tax, and income taxes are a direct result of the above adjustments.

The Commission adopts the operating expenses of $2,471,875 as adjusted by Staff Witness Daniel.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The Commission herein takes notice of its official file in Docket No. G-100, Sub 18, concerning levels of curtailment and priorities for continued service of natural gas. Mr. Coulter's testimony and Company Amended Exhibits 7 and 7A demonstrate that the present high levels of natural gas supply shortage are expected to continue and possibly increase for the foreseeable future. Under these circumstances, no valid reason exists to adjust end of test period revenues and expenses to account for future growth in sales and costs of sales. This is especially true in the case of a small company such as N. C. Gas Service, particularly when the major items of expense and revenue have been adjusted and annualized. The Commission concludes that use of a growth factor for revenues and expenses would be improper in this case.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

The evidence for this finding of fact is to be found in Staff Accountant Daniel's testimony as referred to hereinabove in Finding of Facts Nos. 3, 5, 6 and 7, the Evidence and Conclusions for such Findings and the Company's schedules and exhibits concerning end of test period book common equity. The rates of return which result from these earlier findings are derived by simply making the proper divisions of net operating income for return (less interest

where appropriate) by (a) the fair value as heretofore determined, (b) the actual per books common equity investment and (c) the per books common equity plus the fair value increment.

These rates of return are far less than the ones now being reported by other natural gas utility companies in this State and are far less than the Commission authorized N. C. Gas Service to earn in its last general rate increase in 1972, Docket No. G-3, Sub 48. No prudent investor, given the present day risks inherent in the natural gas business (e.g., customer demands, curtailment of supply and temperature variations), could conceivably risk his investment capital for an anticipated return of 1.31% on actual investment. The Commission, therefore, concludes that the revenues and rates of return earned by N. C. Gas Service during the test year are unjust and unreasonable, since they are insufficient to allow the Company to meet the earnings standards prescribed by G. S. 62-133(b)(4).

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO 10.

Company Witness Coulter testified (Tr. p. 53) that the full amount of the rate increase requested by the Company based on pro rata curtailment would allow it to earn a return of 8.38% on the fair value of its property. This return was calculated on the basis of the higher rate base ($3,817,149) determined by the Company. If the same percent return were applied to the lower rate base found by the Staff, then the additional gross revenues required would be much closer than the Company Exhibits indicate to the additional gross revenue requirement determined by the Staff. The Commission, in the Company's last general rate case (Docket No. G-3, Sub 48) allowed a return on fair value of 7.78% and a return on equity of 12%. Mr. Coulter testified that if the full amount of the Company's rate increase (again, based on pro rata curtailment) were allowed, the Company would earn a return on its common equity of 12.32% (Tr. p. 54).

Attorney General Witness Crotts testified (Tr. p. 122) that, in his opinion, the cost of equity capital to Pennsylvania and Southern (of which N. C. Gas Service is a wholly owned subsidiary) is 12.9%. According to Mr. Crotts, the fair rate of return on equity should be equal to or approximately the same as the cost of equity capital.

Based on Finding of Fact No. 9 above, the Commission is of the opinion that the Company has demonstrated a need for a substantial increase in its rates and charges. The Company, because of the ongoing inflation, increased costs of debt and equity capital in the money markets and uncertainties of today's economy is entitled to a higher return on the fair value of its property than in the last case. However, because of the effects that the Commission's Finding of Fact No. 12 and its related Conclusions and Ordering Paragraphs will have on protecting the Company from any future

variations in levels of curtailment, the Commission is of the opinion that the need for additional gross revenues is not as great as contended by the Company.

The Commission concludes that N. C. Gas Service should have the opportunity to earn a return of approximately 8.12% on the fair value of its North Carolina property used and useful in rendering gas utility service as determined hereinabove. Such a rate of return (see Finding of Fact No. 7 above) will produce a return on common equity of approximately 13.5% and a return on fair value equity of approximately 9%. The Commission concludes that these rates of return will be sufficient to produce a fair profit for the Company's stockholders, to maintain its facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The schedule attached to Finding of Fact No. 7 shows that a net operating income for return of approximately $291,569 will be required to produce a return of 8.12% on the fair value of the Company's property as heretofore determined. In order to achieve such income for return the Company will have a gross revenue requirement of $2,974,787. The Company's test year revenues, after Staff adjustments (see Finding of Fact No. 6) are the sum of $2,589,370. The difference between the Company's test year revenues as adjusted and the gross revenue requirement needed to produce an 8.12% return on fair value ($2,974,787 - $2,589,370) is the sum of $385,417. The Commission, therefore, concludes that the Company has a need to increase its gross earnings in the amount of $385,417.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The evidence for this Finding of Fact is to be found in the testimony of Company Witness Coulter (Tr. pp. 46-48), the testimony of Staff Witness Stone (Tr. pp. 136-138), the Commission's official files and records on this point in Docket Nos. G-100, Sub 18 (Curtailment Priorities for Shortage of Natural Gas), G-9, Sub 131 (Piedmont Natural Gas Rate Case) and G-5, Sub 102 (Public Service Company Rate Case) which are incorporated herein by reference and the proceedings before the Federal Power Commission (FPC) in its Docket No. RP72-99 (Transco Curtailment Proceeding) and related court cases.

Curtailment of natural gas to North Carolina distribution companies (including N. C. Gas Service) has been steadily increasing since 1971, when Transco's supplies first fell short of the contract demands placed on it by its customers. From an average of 3-5% in 1971, curtailment of supply has rapidly increased to around 10% in 1972, 16% in 1973 and an estimated 21-25% in 1974. Transco is the only pipeline supplying North Carolina gas utility companies. Its ability

to meet its full contract demands continues to decrease and, over the calendar year 1975, supplies will probably fall short of 1971 demand levels by 31-35%. This deepening short fall of gas energy supply has not been constant and steady, but has fluctuated from month to month and from season to season. Often, actual deliveries were quite different from earlier projections of such deliveries.

The other factor, aside from Transco's decreasing supplies, which affects the actual amount of gas received in North Carolina is the curtailment plan approved by the FPC for Transco. Hearings have been held before the FPC and three separate types of plans considered. As of this time, no permanent curtailment plan has been finally approved for Transco.

Because of this uncertainty, the Company filed two completely different sets of exhibits, schedules and proposed rates, based on anticipated levels of curtailment under two of the three plans referred to above. The Staff used the most recent levels of projections from Transco available at the time of the hearing, and even then had to concede that the actual curtailment ultimately experienced by N. C. Gas Service could be much more severe than the latest Transco projections.

In its recent rate hearings in Docket No. G-9, Sub 131, Piedmont Natural Gas Company, Inc., introduced a proposed formula, based on the "margin" between gross revenues and cost of purchased gas, which would track the revenue effects of increased or decreased curtailment. Such a formula has generally become known as a volume variation adjustment factor. By the use of such a factor, the uncertainties of the effects of future curtailment on the Company's earnings can largely be eliminated. The Commission, in the Piedmont case, approved the use of such a factor. Even though N. C. Gas Service, in its application and presentation, did not request the use of such a factor, the Commission is of the opinion, and, therefore, concludes that N. C. Gas Service should be directed to prepare such a formula, applicable to its particular circumstances and to submit such formula to this Commission for approval. To the extent that the curtailment plan ultimately approved by the FPC for Transco contains an element of "compensation" for excess curtailment, the formula will provide a flow-through of such benefits to the customers of N. C. Gas Service. The Commission concludes that the volume variation formula is fair both to the Company and its customers and will avoid the necessity of the Company's having to prepare, file and undergo a general rate case every time the level of curtailment changes due to causes beyond the control of the Company or this Commission.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 13 AND 14

The rate schedules as proposed by the Company would produce test year revenues of $3,426,998 according to Staff

calculations (see Evidence and Conclusions for Finding of Fact No. 6). These revenues exceed, by approximately $450,000, the Company's gross revenue requirement as heretofore determined ($2,974,787), which will be necessary to produce an 8.12% return on the fair value of the Company's property. The Commission, therefore, concludes that the rate structure proposed by the Company is unjust and unreasonable and should not be allowed.

The testimony of Company Witness Coulter (Tr. pp. 56, 57) indicates that, at the time of the hearing, the Company had engaged an engineer to redesign its rate structure to eliminate some promotional aspects of the structure (which can no longer be justified in view of curtailment) and to improve the structure's ability to produce adequate revenues from lesser volumes. This engineering study was not available at the time of the hearing, but was submitted to the Commission shortly after the conclusion of the hearing.

In designing a rate structure for approval in this case, the Staff used the basic format proposed by the Company in its late filed rate engineering study. Into this study were inserted the test year volumes available for sale and the gross revenue requirements heretofore determined. The net result of the calculations is a rate structure that, based on test year volumes, will produce the $2,974,949 gross revenue requirement. This rate structure does not unduly discriminate among the various classes of customers of N. C. Gas Service and does not discriminate between customers within the various classes of Company customers. The Commission, therefore, concludes that the rate structure attached hereto as Exhibit A is just and reasonable and should be allowed to go into effect on one day's notice for all service rendered from and after the date of this Order, upon filing of tariffs in accordance therewith by the Company.

The difference between the gross revenues produced by this rate structure and the gross revenue requirement heretofore determined, if any, caused by a variance in curtailment level from that of the test year will be recovered by the Company upon filing of the curtailment adjustment formula or volume variation adjustment factor alluded to heretofore and ordered hereafter.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The volumes of sale by customer class and related revenues introduced by the Company as a part of its testimony and exhibits reflect the conservation shift of volumes from firm customers to interruptible and, since the Commission Order herein allows a fair rate of return on total Company volumes, including shifted volumes, the Commission concludes that no further consideration need be given to the interruptible surcharge which the Commission had allowed the Company to charge its interruptible customers during the last winter heating season as a part of its conservation

mandate in Docket No. G-100, Sub 18. The surcharge should no longer be approved or allowed.

IT IS, THEREFORE, ORDERED as follows:

1. That North Carolina Gas Service, a Division of Pennsylvania and Southern Gas Company shall file tariffs to become effective on one day's notice in accordance with Exhibit A attached hereto.

2. That the revenues collected by North Carolina Gas Service under the interim rate request approved by the Commission in its Order of July 10, 1974, shall be retained by North Carolina Gas Service for its corporate purposes.

3. That North Carolina Gas Service is hereby directed to file a schedule of rates reflecting changes in curtailment from its supplier and the effects of compensation as approved by the FPC in its Docket No. RP72-99. Future rate schedules to reflect further changes in curtailment and compensation shall be filed every six months from and after the initial filing, unless the Commission shall otherwise direct. The Company, in calculating its base margin for purposes of determining its new rate schedules to be filed, shall use the schedule of revenues and cost of gas after proposed rate increase contained in Finding of Fact No. 7 contained herein, and for the purpose of calculating the curtailment tracking rate, North Carolina Gas Service shall utilize the procedures as outlined in the Example in Exhibit B attached hereto.

4. North Carolina Gas Service shall notify its customers concerning the effect to them of the rate increase granted herein by appropriate billing insert along with the next bill sent to each customer.

5. That the conservation surcharge on interruptible customers approved by the Commission for the November 16, 1973 - April 15, 1974 winter heating season be, and the same is hereby, disallowed and revoked.

ISSUED BY ORDER OF THE COMMISSION.

This the 3rd day of January, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

N. C. Gas Service
Docket No. G-3, Sub 58
Exhibit A

Schedule of Revenues at Approved Rates

Schedule	Rate Blocks	Rates		Volumes	Revenues	
A-Heat	First 10 ccf or less	2.50MB	x	83,705Bills=	$ 209,263	
	Next 20 ccf	.164	x	*1,172,937 ccf =	192,362	
	All over 30 ccf	.118	x	6,561,649 ccf =	774,275	
				Subtotal	$1,175,900	
				Adjusted Revenue		$1,179,427
A-General	First 10 ccf or less	2.50 MB	x	2,065Bills=	$ 5,163	
	Next 20 ccf	.164	x	*23,866 ccf =	3,914	
	All over 30 ccf	.118	x	64,172 ccf =	7,572	
				Subtotal	$ 16,649	
				Adjusted Revenue		$ 16,450
C-Heat	First 10 ccf or less	4.00 MB	x	9,005Bills=	$ 36,020	
	All over 10 ccf	.147	x	*1,795,732 ccf =	263,973	
				Subtotal	$ 299,993	
				Adjusted Revenue		$ 288,593

Schedule	Rate Blocks	Rates		Volumes	Revenues	
C-General	First 10 ccf or less	4.00 MB	x	395 Bills=	$ 1,580	
	All over 10 ccf	.147	x	*136,000 ccf =	19,992	
				Subtotal	$ 21,572	
				Adjusted Revenue		$ 21,421
A-1	All Gas per ccf	.134	x	62,442 ccf =		$ 8,367
A-3	All Gas per ccf	.134	x	229,307 ccf =		$ 30,727
E-1	First 500 ccf	.224	x	*66,034 ccf =	$ 14,792	
	Next 500 ccf	.164	x	64,033 ccf =	10,501	
	All over 1,000 ccf	.123	x	1,870,963 ccf =	230,128	
				Subtotal	$ 255,421	
				Adjusted Revenue		$ 252,876
F & I	All Gas per ccf	.089	x	9,961,504 ccf =		$ 886,573
G	First 60,000 Mcf	.822	x	353,435 Mcf =		$ 290,524
	Next 60,000 Mcf	.767	x			
		Total -		25,542,989 ccf		
				Total Revenues		$2,974,949

*Volumes by blocks from OGIVE Curves

DOCKET NO. G-3, SUB 58
Exhibit B
(Example Only)

CURTAILMENT TRACKING RATE
OR VOLUME VARIATION ADJUSTMENT FACTOR

BASE PERIOD ENDED 4-30-74 - Data from General Rate Case

Base Gas Sales Revenues	$3,426,998
-Base Cost of Gas	-1,600,692
-Base Gross Receipts Taxes (6%) [.06 x 3,426,998]	-205,620
Base Period Margin	$1,620,686

FORECAST 12 MONTH PERIOD BEGINNING 5-1-74

Forecast Margin = MCF Contract Entitlement	= 3,796,000
-Forecast 12 Month Curtailment	=-1,147,834
-Base Company Use	= -3,083
-Base Unaccounted	= -108,654
Total Forecast Sales Volume Available	2,536,429
x Rates Approved in Rate Case	=$3,328,712
+ Compensation	84,900
Total Forecast Revenues	$3,413,612
-Forecast Cost of Gas	-1,329,673
-Forecast Gross Receipts Tax [.06 x $3,328,712]	-199,713
Forecast 12 Month Margin	1,884,226

Margin Variation = Base Margin - Forecast Margin
= 1,620,686 - 1,884,226

= -263,540

Minimum Bill Volume = 48658

$$\text{Curtailment Tracking Rate} = \frac{\text{Margin Variation}}{.94\ (\text{Total Forecast Sales Volume} - \text{Minimum Bill Volume})}$$

$$= \frac{-263,540}{.94\ (2,536,429 - 48658)}$$

CTR = -$.||2696

Just after October 3|, we can make a 6 months adjustment to our |2-month Forecast. MCF Contract Entitlement	3,796,000
(5-|--|0-3|-74 Actual 6 months curtailment	533,624)
(||-|--4-30-75 Forecast 6 months curtailment	650,298)
Actual 6 months + Forecast 6 months curtailment	-|,|83,922
-Base unaccounted for Gas	-|08,654
-Base Company Use	-3,083
6 Month Adjusted to Forecast Volume	2,500,34|
x Applicable Rates	=$3,293,283
+ Compensation	84,900
Total Forecast and 6 Months adjusted Revenues	$3,378,|83
-6 Months Adjusted to |2 Months Forecast Cost of Gas	-|,3|4,073
-Adjusted Gross Receipts Tax [.06 x 3,293,283]	-|97,597
6 Month Adjusted to our |2 Month Forecast Margin	|,866,5|3

-.||2696 x ((Forecast 5-|-74--|0-3|-74 Curtailment) -
(Actual 5-|-74--|0-3|-74 Curtailment))
= -.||2696 x (497,536 - 533,624) = $4067
which was not collected due to the existence of an even higher curtailment than predicted.

Adjusted Margin Variation = Base Margin -
6 month adjusted to |2 month Forecast Margin =
|,620,686 - |,866,5|3 =-245,827

4067 + (-263,540) = - 259,473

-245,827 - (-259,473) = |3,646 = 6
month adjustment to margin variation.

November |974 - October |975
Forecast

Forecast Margin	
MCF Contract Entitlement	3,796,000
-Nov. 74 - Oct. 75 Forecast Curtailment	-|,250,000
-Base Unaccounted for gas	-|08,654
-Base Company Use	-3,083
Forecast Sales Volume	2,434,263
x Applicable Rates	=$3,228,4|5

+Estimated Nov. 74-Oct. 75 Compensation	+240,592
Nov. 74 - Oct. 75 Forecast Revenues	$3,469,007
-Forecast Cost of Gas	-1,285,537
-Gross Receipts Tax [.06 x 3,228,415]	-193,705
Forecast Margin	$1,989,765

Margin Variation = Base Margin - Forecast Margin
= 1,620,686 - 1,989,765
= -369,079

Minimum Bill Volume = 48658
Margin Variation + Adjustment to Margin Variation*
-369,079 + 13,646 = New Nov. 74 - Oct. 75
Margin Variation =-355,433

Curtailment Tracking Rate=-355,433/.94
(Total Forecast Sales Volume
-Minimum Bill Volume)

= -355,433/.94
(2,434,263 - 48658)

= -$.15850|

This value of $.15850| would be deducted from the ratepayer's bill for each MCF purchased during the period Nov. 74 - Apr. 75, when a new adjustment would be calculated and a new 12 month (May 75 - Apr. 76) Forecast would be generated.

As can be seen, this process is a repetitious process mathematically and can be programmed into computer language.

*Based on 6 months actual information.

DOCKET NO. G-5, SUB 102

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Public Service Company) ORDER
of North Carolina, Inc., for an Adjust-) ESTABLISHING
ment of its Rates and Charges) RATES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Wednesday and Thursday, November 6 and 7, 1974

BEFORE: Chairman Marvin R. Wooten, presiding, and Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

F. Kent Burns
Boyce, Mitchell, Burns & Smith
Attorneys at Law
P. O. Box 1406
Raleigh, North Carolina 27602

J. Mack Holland
Mullen, Holland & Harrell
Attorneys at Law
P. O. Box 488
Gastonia, North Carolina 28052

For the Intervenor:

Robert P. Gruber
Associate Attorney General
Justice Building
Raleigh, North Carolina 27602
Appearing For: The Using and Consuming Public

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
and
Jerry B. Fruitt
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: On April 5, 1974, Public Service Company of North Carolina, Inc. (hereinafter sometimes called "Public Service," "the Applicant" or "the Company") filed its petition or application with this Commission in which it sought an increase in its rates and charges for natural gas service based on the test year ending December 31, 1973. The application sought an increase in rates designed to produce an additional $4,437,868 in general revenues and an additional $21,785 in miscellaneous service revenues based on its December 31, 1974, test year revenues and expenses. The increase proposed would, on the average, have raised the Company's rates by 10.2%.

By Order dated April 22, 1974, the Commission declared the matter to be a general rate case, the proposed rates were suspended, the Company was required to use a test year consisting of the twelve months' period ending April 30, 1974, the general rate case was set for hearing on November

5, 1974, and Public Service was required to give notice to all its customers of the proposed rate increase.

On April 10, 1974, Notice of Intervention in this case was filed by the Attorney General on behalf of the using and consuming public of the State of North Carolina. The Commission, by Order issued on April 17, 1974, recognized the intervention of the Attorney General.

On April 26, 1974, Public Service filed an application in which it sought permission to adjust its rates and charges on an interim basis pending the hearings and final Order of the Commission in the general rate increase proceeding. The interim increase sought was a 7.9% uniform, across-the-board increase, subject to refund of any amounts subsequently determined to have been unjust, unreasonable, excessive or discriminatory.

By Order issued on May 13, 1974, the Commission suspended the proposed interim increase, pending the outcome of a hearing as to the need for interim rate relief and set the matter for hearing on May 24, 1974. An Order allowing the interim rate increase requested by Public Service was issued on June 11, 1974, following such hearing.

The opening date for hearings in the general rate increase case was changed, because the date previously set was the date of the fall general election, from November 5 to November 6, by Order issued May 21, 1974. Orders requiring the Company to furnish certain data and information to the Commission Staff for use in its investigation of the proposed rate increase were issued on May 30, 1974, and July 9, 1974.

On October 22, 1974, Public Service filed a Motion for leave to amend its petition for general rate relief in order (a) to increase the amount of additional revenues requested, the need for which was, according to Public Service, discovered in the process of updating its initial application to the April 30, 1974, test year as required by the Commission, (b) to include in its proposed general rate increase the amounts of increases in cost of purchased gas from its pipeline supplier after the initial application was filed, and (c) to track the revenue gains and losses of the increased curtailments which the Company was experiencing from its pipeline supplier. On November 1, 1974, the Commission issued an Order allowing the Company's motion for leave to amend its initial application, but denying the portion of the motion which requested that the amended rate schedules be allowed to become effective prior to the November 6 hearing.

On October 31, 1974, Public Service filed with the Commission its notice and undertaking, that it intended to place the full amount of its proposed general rate increase into effect for all bills rendered on or after November 18, 1974, pursuant to the provisions of Chapter 62 which allow

such rates to become effective under an undertaking for refund following the lapse of 180 days after the rate increase as initially proposed would have gone into effect. The Commission, by Order issued on November 4, 1974, approved the Undertaking and proposed Notice to its customers which were filed by Public Service.

The matter came on for hearing at the time, place and date first above indicated. The parties were present and represented as indicated above. The Company, pursuant to evidence developed at the hearings, filed a late exhibit on November 29, 1974.

The Company offered the testimony and exhibits of the following persons: Mr. Charles E. Zeigler, President and Chief Executive Officer, testified concerning the Company's history, present curtailment levels, exploration activities, capital needs, increased expenses, cost of comparable energy sources, plant expansion and future construction plans, and the Company's capital structure. Mr. E. L. Flanagan, Vice President and Treasurer of Public Service, testified concerning nine of the ten accounting exhibits filed by the Company, including the adjustments made by Public Service to its book figures and the indicated rates of return on book cost, fair value, and common equity. Mr. Eugene G. Kaczkowski, an employee of American Appraisal Company, testified concerning the existing depreciation in Public Service's property. Mr. John D. Russell, a consultant with American Appraisal Company, testified concerning a replacement cost appraisal of the property owned by Public Service. Mr. C. Marshall Dickey, Manager of Gas Energy Supply Services for Public Service, testified concerning the present and anticipated levels of gas supply curtailment that Public Service will receive from its pipeline supplier and concerning a volume variation adjustment factor prepared by Public Service to track the revenue effects of fluctuations in the Company's gas supply. Mr. Richard S. Johnson, Vice President of Stone and Webster Management Consultants, Inc., testified concerning the Company's proposed rate structure and the design of such rates. Mr. W. Clyde Rogers, Senior Vice President, Finance and Administration of Public Service, testified concerning the Company's future capital requirements. Mr. Franklin D. Sanders, a Vice President of First Boston Corporation, testified concerning the market requirements for successful issuance of future Public Service debt and equity securities and current market conditions. Mr. Eugene S. Merrill, Senior Vice President and Director of Stone and Webster Management Consultants, Inc., testified concerning the cost of capital and fair rate of return for Public Service and its earnings requirements for gas operations.

Mr. William F. Irish, an Economist with the Utilities Commission Staff, testified concerning the comparative cost of alternate fuels. Mr. M. D. Coleman, Director of Accounting with the North Carolina Utilities Commission, testified concerning the Company's Original Cost Net

Investment, Revenues and Expenses. Mr. Thomas M. Kiltie, an Economist with the North Carolina Utilities Commission, testified concerning the costs of capital and fair rate of return to Public Service.

Based upon the verified application and exhibits, the prefiled testimony and exhibits, the amendments to testimony and oral testimony at the hearing in this case and the late exhibit which comprises the record herein, the Commission now makes the following

FINDINGS OF FACT

1. That Public Service Company of North Carolina, Inc., is a duly franchised public utility providing natural gas service in seventy-five (75) North Carolina cities and communities, and is properly before the Commission in this proceeding for a determination as to the justness and reasonableness of its proposed rates and charges as regulated by the Utilities Commission under Chapter 62 of the General Statutes of North Carolina.

2. That the increases in rates and charges proposed by Public Service would produce $5,100,995 in additional revenues from the sale of gas and $27,480 in other operating revenues, or a total of $5,128,475 in additional annual gross revenues.

3. That the test period set by the Commission and utilized by all parties in this proceeding was the twelve months ending April 30, 1974.

4. After accounting and pro forma adjustments, including the annualization of rate changes taking place during the test year, the Applicant's test year gross operating revenues were $46,040,986. Its reasonable operating expenses and other deductions for the test period year after Staff adjustments of $80,692 were $40,966,001 leaving net operating income for return of $5,074,985.

5. At the end of the test year, the Company's books of account as adjusted reflect an original cost of $95,645,048 of plant used and useful in service to North Carolina and a depreciation reserve of $21,670,504. The Commission finds that Public Service's original cost net investment as of the end of the test year in utility plant providing service to the public in North Carolina is $75,020,032 (including working capital allowance).

6. That Public Service's reasonable working capital allowance is $4,352,918 (Coleman Exhibit 1, Schedule 2-1).

7. The fair value of Public Service's property used and useful in providing service to the public within this State as of the end of the test year, considering the reasonable original cost of the property less that portion consumed by use and recovered by depreciation expense, the reasonable

replacement cost, the additions to rate base since Public Service's last general rate increase case less retirements and depreciation and including the working capital allowance heretofore determined is the sum of $92,386,000.

8. Based upon the Commission's foregoing findings of net income and fair value, the Commission finds Public Service's rate of return on fair value for the test year to be 5.49% and its rate of return on its actual common equity investment for the test year to be 6.93%. Assuming a common equity structure adjustment to allow for the increment by which fair value exceeds original cost, the rate of return on common equity for the test year would be 3.53%. The Commission finds that such rates of return on fair value and common equity are insufficient to allow the utility by sound management to produce a fair profit to its stockholders, to maintain its facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms.

9. The proper rate of return which Public Service should have the opportunity to earn is 7.57% on the fair value of its North Carolina investment and 16.5% on its common equity.

10. Based upon the Commission's foregoing findings on revenues, expenses, value and rate of return, Public Service will require additional annual gross revenues of $4,184,296 to achieve the rates of return on fair value and common equity (set forth above) which returns are sufficient to allow it by sound management to produce a fair profit to its stockholders, to maintain its facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms. Such additional revenues will produce a rate of return on the fair value of Public Service's property of 7.57% and a rate of return on common equity of 16.5%. The Commission has heretofore found these rates of return to be just and reasonable.

11. That Public Service is providing reasonable and adequate natural gas service to its existing customers in North Carolina, to the extent that it is able to do so under the present level of curtailment from its pipeline supplier.

12. Since within the last two years the actual and projected rates of curtailment for Public Service from its sole pipeline supplier have fluctuated wildly, the rate of curtailment has recently become the most uncertain variable element in gas utility ratemaking. The Commission finds that the "tracking" formula which the Company has proposed in order to maintain its margin (the difference between its revenues and the cost of purchased gas plus gross receipt taxes) is just and reasonable and will be to the benefit of both the Company and its customers. To the extent that the curtailment exceeds Transco's pro rata curtailment plan, Public Service may be "compensated" for the lost additional

volumes of gas, and such "compensation" will be available as periodically reviewed by this Commission, to reduce the rates being charged to Public Service's customers.

Based on the foregoing Findings of Fact, the Commission now reaches the following

CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The verified original application of Public Service states that the Company is a corporation duly organized under the laws of the State of North Carolina; that the Company is a public utility under the laws of this State and, as such, is subject to the jurisdiction of this Commission; and that it holds a Certificate of Convenience and Necessity from this Commission to engage in the business of "producing, generating, transmitting, delivering or furnishing ... piped gas ... to or for the public for compensation." [G.S. 62-3(23)a.1.]. No conflicting evidence has been offered by any party or witness, and such facts are uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

Company Witness Flanagan testified that the proposed rates would produce additional gas revenues of $5,100,995 and additional other operating revenues of $27,480. No conflicting evidence was presented by any party or witness; the Commission, therefore, concludes that the proposed rates will produce the additional revenues presented by Mr. Flanagan.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The Commission's Order Setting Hearing established the twelve months ending April 30, 1974, as the test year to be used by all parties in the case. The Company refiled its exhibits to reflect the proper accounts and entries as of April 30, 1974. The Commission Staff used the same test period in presenting its testimony, exhibits and conclusions. This finding is uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

Company Witness Flanagan presented gross operating revenues after accounting and pro forma adjustments of $46,040,986 and operating expenses of $41,046,693. Staff Witness Coleman made the following adjustments to the operating expenses presented by Mr. Flanagan:

	Increase (Decrease) In Operating Expense
Adjustment to Company pro forma increase in postage costs (net of income tax effect $1,129)	$ (1,080)
Adjustment to Company pro forma increase in pension costs (net of income tax effects $673)	643
Income tax effect of pro forma increase in pension costs capitalized	(1,856)
Income tax effect of pro forma increase in payroll taxes capitalized	(4,553)
Income tax effect of interest expense allocation adjustment	76,107
Reclassification of interest on customer deposits to operating expense	15,555
Decrease in Federal and State income taxes	(234,337)
	$(149,521)
Company correction of their income tax calculation	$ 68,829
	$ (80,692)

Mr. Coleman explained his adjustments as follows:

The adjustment to postage costs of $1,080 is required to eliminate that portion of the postage expense which will be capitalized.

The adjustment to pension costs of $643 is applicable to a wage increase omitted by the Company in their computation.

The adjustments of $1,856 and $4,553, respectively, provide for the income tax effects associated with pro forma increases in pension costs and payroll taxes capitalized. For income tax purposes, the Company deducts all pension costs and payroll taxes, including those capitalized; therefore, income taxes should be reduced for the effect of the capitalized portion of these expenses.

The adjustment for income tax effects of interest allocation of $76,107 was made because Mr. Coleman reduced the interest expense on an end-of-period basis and it would be unfair to the Company to fail to give effect to the increased income taxes resulting from this.

The inclusion of interest on customer deposits of $|5,555 as an operating expense is consistent with the exclusion of customer deposits in arriving at original cost net investment. This treatment insures that the Company will recover no more than the cost of customer deposits from the ratepayer.

The decrease in income taxes of $234,337 was required to remove from the utility operations the income tax on net non-utility income. Included in the $234,337 is an amount of $68,829 applicable to a $67,32| reduction in income inadvertently treated by the Company as an increase in income in its original income tax calculation. Subsequently, the Company filed amended exhibits which corrected this error and incorporated the correction in arriving at the total operating expenses of $4|,046,693. This adjustment of $234,337 should, therefore, be reduced to $|65,508.

The Company did not contest any of the adjustments. The Commission, therefore, concludes that Mr. Coleman's adjustments are proper and that the reasonable operating expenses of the Company are $40,966,00| and that the resulting net operating income for return of $5,074,985 is a reasonable and proper reflection of test year operations.

A schedule of revenues, expenses, and resulting approximate rates of return based on the foregoing adjustments and the adjustment for rate increase follows:

Line No.	Item (a)	After Staff Adjustments (b)	Proposed Rate Increase (c)	After Proposed Rate Increase (d)
|.	Gas revenues	$45,872,936	$4,|56,8|6	$50,029,752
2.	Other operating revenues	|68,050	27,480	|95,530
3.	Total revenues	46,040,986	4,|84,296	50,225,282
4.	Cost of gas	25,330,|||		25,330,|||
5.	Total	20,7|0,875	4,|84,296	25,330,|||
6.	Other operating expenses	|5,635,890	2,26|,729	|7,897,6|9
7.	Net operating income for return	5,074,985		6,997,552
8.	Deduct: Interest	3,|6|,230		3,305,758
9.	Preferred dividends	662,966		594,742
|0.	Total fixed charges	3,824,|96		3,900,500
||.	Balance for common	$ |,250,789		$ 3,097,052
|2.	Common equity	$|8,057,322		$|8,770,0|2
|3.	Rate of return on common equity	6.93%		|6.5%
|4.	Fair value equity	$35,423,290		$35,423,290

15. Rate of return on fair value equity	3.53%	8.74%
16. Original cost net investment	$75,020,032	$75,020,032
17. Rate of return on original cost net investment	6.76%	9.33%
18. Fair value rate base	$92,386,000	$92,386,000
19. Rate of return on fair value rate base	5.49%	7.57%

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

The following schedule summarizes the original cost net investment developed by Company Witness Flanagan and Staff Witness Coleman:

Line No.	Item	Company Witness Flanagan	Staff Witness Coleman
1.	Utility plant in service	$95,645,048	$95,645,048
2.	Accumulated depreciation	21,670,504	21,670,504
3.	Net utility plant	73,974,544	73,974,544
4.	Add working capital requirement	1,796,506	4,352,918
5.	Total	75,771,050	78,327,462
6.	Deduct: Other deferred credits	-	277,791
7.	Accumulated deferred income taxes	-	2,603,908
8.	Unamortized investment tax credit - pre 1971	-	2,770
9.	Customer deposits	-	422,961
10.	Total deductions	-	3,307,430
11.	Original cost net investment	$75,771,050	$75,020,032

As indicated in the above schedule, the difference between the original cost net investment developed by the two witnesses results from the deduction of $3,307,430 by Staff Witness Coleman consisting of the other deferred credits, deferred income taxes, investment tax credits - pre 1971 and customer deposits. Mr. Coleman stated that he deducted these items because they represent cost-free capital to the Company which has been furnished by the customers through the payment of rates or through direct or indirect contributions to the Company.

The Commission is of the opinion that the original cost net investment in utility plant of $75,020,032 found by Mr. Coleman is proper.

The Commission concludes that the other deferred credits, deferred income taxes, pre 1971 investment tax credits, and customer deposits are customer contributions to capital investment and it is unreasonable to expect the Company's ratepayers to pay the Company a return on capital which they have contributed to the Company; consequently, these cost-free funds to the Company must be excluded from the Company's investment for the purpose of determining the reasonable original cost net investment in utility plant. The ratepayers have provided these funds to the Company in the form of rates, with the exception of customer deposits. In the case of deferred income taxes, these funds arise principally as a result of normalizing the difference between the income tax effects of book depreciation (straight line) and tax depreciation (accelerated) and results in the Company recording an income tax expense in the income statement which has not actually been paid and a resultant deferred income tax liability on the balance sheet. The ratepayer has paid rates to cover this item as income tax expense, even though the Company has not actually paid these taxes.

In the case of unamortized investment tax credit (pre 1971), these funds represent a charge against operations that the Company will never be required to pay. As is the case with deferred income taxes, the ratepayer has paid rates to cover this item as an expense against operations, an expense which the Company has in fact not and will not actually experience.

In the case of customer deposits, these funds represent a source of customer supplied capital which the Company has available and can use for the purpose of investing in plant facilities.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

Both Company Witness Flanagan and Staff Witness Coleman include an allowance for working capital in developing "original cost net investment."

From a regulatory point of view, working capital represents an investment in materials and supplies plus the cash required to pay operating expenses prior to the time revenues for services rendered are received. An allowance for working capital is included in the rate base in order to provide the investor with a return on the capital furnished by him for these purposes.

Mr. Flanagan's working capital allowance consists of average materials and supplies of $2,020,104 plus 1/8 of the operation and maintenance expenses of $899,919, plus minimum bank balances of $1,130,000, plus average prepayments of $230,965 less average tax accruals of $2,022,468.

Mr. Coleman employed a "balance sheet analysis approach" in developing a working capital allowance of $4,352,918

which he states is supplied by the debt and equity investor. The first step in the analysis was the allocation of the total investor supplied capital of $78,721,151 consisting of long-term debt, preferred stock, and common equity to North Carolina utility operations. This allocation was achieved by developing the ratio of the net investment in North Carolina utility plant in service of $70,164,524 to total company net investment of $74,121,368 producing a ratio of 94.66%. The application of this ratio to total investor supplied capital of $78,721,151 results in the allocation of $74,517,442 of investor supplied capital to North Carolina utility operations. The allocated capital of $74,517,442 was then compared to the North Carolina investment supported by debt and equity capital of $70,164,524. The $4,352,918 excess of investor supplied capital over the net North Carolina investment constitutes working capital provided by the debt and equity investor.

The Commission adopts the method used by Mr. Coleman in determining the Applicant's required working capital allowance, as well as the $4,352,918 amount recommended by Mr. Coleman.

In our opinion, only working capital which has been provided by the Applicant's debt and equity investors should be included in determining the required working capital allowance. The ratepayers should not be required to pay a return on working capital which they have provided to the Company. Mr. Coleman's method of determining the working capital requirement measured directly the amount of working capital which was provided by the Applicant's debt and equity investors, while Mr. Flanagan made no attempt to determine the amount of working capital which was provided by either the debt and equity investors or other parties. He used a formula method which has been used by this Commission in past cases. While this Commission has basically followed a formula method for determining working capital allowances in prior cases, we are of the opinion and hereby conclude that the evidence presented in this proceeding by Mr. Coleman allows us to derive an allowance for working capital which is more representative of the working capital provided by the Applicant's debt and equity investors upon which the ratepayers should properly pay a return.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The original cost of the Company's property used and useful according to the Company books was $95,261,116 at the end of the test year. Accumulated depreciation per books was the sum of $21,578,562. The resulting original cost less depreciation per books is $73,682,554. (See Company Exhibits 3 and 5 attached to testimony of E. L. Flanagan, Jr.). To these figures the Company added allowances for materials and supplies (Flanagan Exhibit 6) of $2,020,104 and cash working capital of $60,732 (Flanagan Exhibit 7) to

arrive at an end of period net investment of $75,763,390 (Flanagan Exhibit 3).

Company Witness Russell determined an end of test period fair value rate base of $114,057,846, based principally on his appraisal of the value of the Company's plant and properties reflecting the replacement cost new less depreciation of such plant and properties. (See Russell Testimony, p. 8 and Exhibit 4 attached to the Flanagan testimony.)

The original cost net investment as determined by the Staff (comparable to Company's original cost less depreciation) as of the end of the test period is $75,020,032 (see Coleman Exhibit 1, Schedule 2). The Staff calculated a cash working capital requirement of $4,352,918 (Coleman Exhibit 1, Schedule 2-1).

In view of the fact that much of the plant in service has been installed in recent years and that the high cost peak protection plant has just come on line (or is due to come on in the near future) the Commission feels that the original cost of the plant is the most applicable yardstick to use in measuring fair value. However, the Company has presented evidence tending to show a replacement cost less depreciation substantially in excess of original cost. In order to at least partially offset the normal effects of attrition, inflation and regulatory lag, some weight must be given to replacement cost. The Commission concludes that the fair value of the Company's plant used and useful should be determined by giving two-thirds weight to original cost net investment as determined by the Staff and by giving one-third weight to the replacement cost less depreciation as determined by Company Witness Russell. This results in a finding of fair value of the Company's plant in service of $88,032,666.

To this sum, we must add an appropriate amount as an allowance for working capital, materials and supplies. The Commission concludes that the method utilized by the Staff ought to be adopted in determining an appropriate working capital allowance. (See Coleman testimony, p. 5 and Coleman Exhibit 1, Schedule 2-1.) A balance sheet analysis results in a working capital allowance of $4,352,918, which the Commission has concluded to be the proper amount of working capital in this case.

Adding the working capital allowance thus determined to the fair value of plant in service heretofore determined produces a sum of $92,385,587 which rounded to the nearest thousand is $92,386,000. The Commission, therefore, concludes that the fair value of the Company's property used and useful in providing the service rendered to the public in this State as of the end of the test period is $92,386,000. The Commission notes that the fair value herein determined exceeds the fair value determined in the

Company's last general rate increase case ($79,273,000) by 16.5%.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence for this finding of fact is to be found in Staff Accountant Coleman's testimony as referred to hereinabove in Finding of Facts Nos. 4, 5, 6 and 7, the Evidence and Conclusions for such Findings, Staff Witness Kiltie's testimony as to capital structure, and the Company's schedules and exhibits concerning end of test period book common equity. The rates of return which result from these earlier findings are derived by simply making the proper divisions of net operating income for return (less interest where appropriate) by (a) the fair value as heretofore determined, (b) the common equity investment, and (c) the common equity plus the fair value increment.

These rates of return are far less than the ones now being reported by other natural gas utility companies in this State and are far less than the Commission authorized Public Service to earn in its last general rate case in 1971, Docket No. G-5, Subs 71 and 77. No prudent investor, given the present day risks inherent in the natural gas business (e.g., customer demands, curtailment of supply and temperature variations), could conceivably risk his investment capital for the low return which could be anticipated from the current returns of the company. The Commission, therefore, concludes that the revenues and rates of return earned by Public Service during the test year are unjust and unreasonable, since they are insufficient to allow the Company to meet the earnings standards prescribed by G.S. 62-133(b)(4).

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

According to Public Service, the full amount of the rate increase proposed by the Company would produce a return on end of test period net investment of 9.70% and a return on end of period book common equity of 19.5%. (See Flanagan Exhibit No. 9, page 1). The indicated rate of return on fair value, according to Witness Flanagan, is 6.46%. However, this later return is based on the Company's fair value figure of $114,057,846 instead of the figure actually determined by the Commission to be the fair value - $92,386,000. Using the Commission's determination of fair value, the rate of return on fair value would be raised to 8%.

Company Witness Merrill testified that, in his opinion, the overall cost of capital and required return on investment to Public Service was 9.75% on original cost, 6.16% on fair value and 19.3% on equity. Staff Witness Kiltie testified that, in his opinion, the cost of equity to Public Service was a range from 15.73% to 16.04% and the overall cost of capital was 9.176% based on original cost and a hypothetical capital structure as of July, 1975

determined by Witness Kiltie from future financings proposed by Public Service.

In its last general rate increase case, the Commission allowed Public Service the opportunity to earn the following rates of return:

On original cost	-	7.99%
On fair value	-	6.66%
On equity	-	16.50%

Upon consideration of the record herein, it has become apparent that Public Service is in need of substantial rate relief, having issued a significant amount of debt and equity capital during the period 1972 to mid-1974 when interest rates and required earnings on common stock reached an all-time high. The Company has suffered an overall decline in its earnings since its last general rate case in 1971.

Since 1971, Public Service has increased its equity ratio from approximately 19% to approximately 25%, thus reducing the financial risk of the business. However, inflation, the erosion of the economy in general and higher levels of curtailment have combined to increase the business risk of the Company's operations. The Commission, therefore, concludes that the cost of equity to Public Service continues to be 16.5%. The overall cost of capital to Public Service, using the capital structure employed by Staff Witness Kiltie (which the Commission herein adopts) and the equity cost determined above is 9.33%. The Commission does not mean to imply that these costs (which are to be allowed as rates of return) are fixed and that any return less than these is per se unreasonable. These costs (or returns) are within a zone of reasonableness and, if actually earned, will not be unfair or unreasonable to the Company or its customers. The Commission does not mean to imply that any return less than that approved herein will be unjust or unreasonable to the Company.

The Commission concludes that Public Service ought to be allowed the opportunity to earn the following rates of return in this case (based on the Kiltie capital structure as aforesaid):

On original cost	-	9.33%
On fair value	-	7.57%
On equity	-	16.50%

The Commission concludes that these rates of return will be sufficient to produce a fair profit for the Company's stockholders, to maintain the Company's facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms. Such rates of return are, therefore, approved as just and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The schedule attached to Finding of Fact No. 4 shows that a net operating income for return of approximately $6,997,552 will be required to produce a return of 7.57% on the fair value of the Company's property. In order to achieve such income for return, the Company will have a gross revenue requirement of $50,225,282. The Company's test year revenues, after Staff adjustments (see Finding of Fact No. 4) are $46,040,986. The difference between the Company's test year revenues as adjusted and the gross revenue requirement needed to produce a 7.57% return on fair value ($50,225,282 - $46,040,296) is $4,184,296. The Commission, therefore, concludes that the Company has a need to increase its gross earnings in the amount of $4,184,296.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

Public Service Company has participated fully in the proceedings held under this Commission's Docket No. G-100 concerning the priorities for curtailment which should be followed by all gas utilities in this State in light of the ever decreasing supply of natural gas available to North Carolina distribution companies from their sole pipeline supplier. Public Service has followed the structure of priorities established by this Commission. Public Service has erected a propane air peak shaving plant in Cary, North Carolina, for the protection of its firm, principally residential customers and, in addition, is presently building a liquefied natural gas plant in Cary for the same purpose. No protestants or intervenors appeared at the hearing to question the level or quality of service being offered by the Company within the confines of its available supply of natural gas.

Under these circumstances, it is to be presumed, unless competent evidence to the contrary is offered, that the services being provided by a duly franchised public utility are reasonable and adequate. No such evidence having been offered, we conclude that the Company's quality of service is adequate to its presently existing customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The Commission herein takes note of and incorporates the proceedings and Orders in its Docket Nos. G-100, Sub 18 (Natural Gas Curtailment and Order of Priorities), G-9, Sub 131 (Piedmont Natural Gas Rate Case) and G-3, Sub 58 (North Carolina Gas Service Rate Case) and of the testimony and exhibits (including a late filed exhibit) of Company Witnesses Ziegler and Dickey.

From the foregoing, it is apparent that curtailment of natural gas supplies to North Carolina distribution companies (including Public Service) has been steadily increasing since 1971, when the supplies of Transcontinental Gas Pipeline Corporation (Transco), North Carolina's only

pipeline supplier, first became insufficient to meet the demands placed on it by its customers. From an average of 3-5% in 1971, curtailment of supply has rapidly increased to around 10% in 1972, 16% in 1973 and approximately 25% in 1974. For the winter heating season now in effect (November 16 - April 15), Public Service is only receiving approximately 55% of the gas which its contract with Transco entitles it to receive. The prospects for future deliveries by Transco do not appear to offer immediate or near term hope for relief. The deepening short fall of gas energy supply has not been constant and steady, but has fluctuated from month to month and from season to season. Often, actual deliveries were quite different from earlier projections of such deliveries.

Another factor affecting the actual amount of gas received by Public Service from Transco is the curtailment plan adopted for Transco by the Federal Power Commission (FPC). Hearings have been underway before the FPC for over a year and at least three separate types of plans considered. As of this time, no permanent curtailment plan has been finally approved for Transco.

Because of the uncertainty in the future availability of natural gas supply, neither the Company nor the Staff was able to accurately forecast future revenues and expenses for Public Service. The Company, in order to allow for such variations between forecast and actual gas deliveries from Transco, offered a proposed formula, based on the "margin" or difference between gross revenues and cost of purchased gas, which would track the revenue effects of increased or decreased curtailment. This formula has become known as the volume variation adjustment factor.

By the use of such a factor, the uncertainties of the effects of future curtailment on the Company's earnings can largely be eliminated. The Commission has previously approved the use of such a factor by Piedmont Natural Gas and North Carolina Gas Service, two other North Carolina gas utility companies, in the dockets cited above. To the extent that the curtailment plan ultimately approved by the FPC for Transco contains an element of "compensation" for excess curtailment, the volume variation adjustment factor proposed by Public Service provides for a flow-through of such benefits to its customers.

The Commission thus concludes that the volume variation formula is fair both to the Company and its customers. Use of the formula will avoid the necessity of the Company's having to prepare, file and undergo a general rate case every time the level of curtailment changes due to one of the causes mentioned above, which are beyond the control of the Company and of this Commission.

IT IS, THEREFORE, ORDERED:

1. That the portion of the Company's requested rate increase necessary to provide the returns found to be just and reasonable herein be, and the same is hereby, approved. The balance of the proposed increase is hereby disallowed.

2. That Public Service shall file, on one day's notice, tariffs to collect the amount of the rate increase approved herein. Such tariffs shall be in accordance with the schedule of revenues shown in the evidence and conclusions for Finding of Fact No. 4 and in accordance with Exhibit A attached hereto. Further such tariffs shall include the tracking increases allowed to offset costs of purchased gas in Docket No. G-5, Subs 105 and 107, which became effective after this case was filed.

3. That Public Service shall refund to each of its customers the difference between the rates approved herein and the rates previously being collected by Public Service pursuant to G.S. 62-135, plus interest at the statutory rate by credit to future bills of existing customers and by check to former customers. Public Service shall file with this Commission a full report showing the disposition of the refunds required herein within ninety (90) days after the date of this Order.

4. That the volume variation adjustment factor proposed by Public Service is hereby authorized. The Company is hereby authorized to file a schedule of rates reflecting changes in curtailment and effects of compensation for approval by the Commission. Future rate schedules and revisions reflecting further changes in curtailment and compensation shall be filed every six (6) months from and after the date of the initial filing unless the Commission by Order shall otherwise direct. The Company, in calculating its base margin for purposes of determining the new rate schedules to be filed, shall use the schedule of revenues and cost of gas after proposed rate increase contained in the evidence and conclusions for Finding of Fact No. 4 herein and the volumes as calculated on page 1 of 6 on Exhibit A attached hereto.

5. That Public Service shall notify its customers concerning the effect to them of the rate increase herein granted by appropriate bill insert as a portion of its next regular billing cycle.

ISSUED BY ORDER OF THE COMMISSION.

This the 13th day of February, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

EXHIBIT A
PUBLIC SERVICE OF NORTH CAROLINA, INC.
Docket G-5, Sub 102
Approved Revenues at Approved Rates

Rate Schedule	CCF	Revenues
01 General	80495693	$1436580
02 Combination Residential	560422 0	100 7442
03 Firm Industrial	44309 3	5433958
05 Interruptible Industrial	47303255	3027077
06 Special All Year A/C	455425	57294
08 Preferred Interruptible	6595469	32 474
10 Commodity and Demand	33808030	3 93284
11 Public School Service	5346022	677608
12 Public Housing Apartments	2356748	3 3849
13 Private Gas Public Utility Companies	0	0
14 Outdoor Lighting	0463	33 5
15 Private Electric Utility Companies	23 9800	78973
16 Temperature Sensitive Firm	0	0
19 Special Employee Rate	490866	70 85
Emergency Service-Rider A:		
Limited Emergency Service	6570 87	263709
On-Peak Emergency Service	0	0
Totals	397 97467	$50033969

	MCF
Purchases Actual 12 months April 30, 1974	46,493,569
Less Company Use	82,205
Less unaccounted for	1,033,845
Gas Sold	45,377,519
Less additional Curtailment	5,736,546
Plus LPG	78,775
Estimated Adjusted Sales	39,719,748

PUBLIC SERVICE OF NORTH CAROLINA, INC.
Docket G-5, Sub 102
Revenues at Approved Rates including G-5, Sub 104

Schedule	Rate Block	Rates*	Volumes (CCF)	Revenues $
Rate 01-General				
	Minimum Bills $ 2.50		89048 Bills	222620
	6 CCF	.364 9	25 984	(9 770)
	First 10 CCF	.364 9	5897908	2 47949
	Next 20 CCF	.234 9	8685 5	2033976
	Next 220 CCF	.174 9	33 5404	5775 02
	Next 750 CCF	.139 9	4598575	203 976
	Over 1,000 CCF	.124 9	1764030	2 90749
			79975976	43 06 2
	Separately			

	Metered A/C	.|06|9	5|97|7	55|89
			80495693	|4365801
Rate 02-Combination Residential				
	Minimum Bills $ 2.50		4|59 Bills	|0395
	6 CCF	.364|9	|4|96	(5|70)
	First |0 CCF	.364|9	5564986	20267|2
	Next 25 CCF	.2|4|9	|252623|	2682993
	Next 65 CCF	.|54|9	|9943676	3075||5
	Over |00 CCF	.|24|9	1751|095	2|74703
			55545988	9964748
	A/C over 50 CCF/Month	.|06|9	496222	52694
			560422|0	|00|7442
Rate 03-Firm Industrial				
	Minimum Bills $50.00		306 Bills	|5300
	300 CCF	.|4492	3560|	(5|59)
	First 2,000 CCF	.|4492	8756060	|268928
	Next 3,000 CCF	.|2992	526450|	683964
	Next 20,000 CCF	.||992	|4|60445	|698|2|
	Over 25,000 CCF	.|0992	16|28|24	|772804
			44309|3|	5433958

*All rates above the minimum block, except where otherwise indicated, are stated on a per CCF basis.

Rate 05-Interruptible Industrial	Minimum Bills	*	297 Bills	53984
			|23|25	(|4849)
	First |0,000 CCF	.|206	3088479|	3724706
	Next |0,000 CCF	.|006	|82|2046	|832|32
	Next 30,000 CCF	.0806	290|590|	2338682
	Over 50,000 CCF	.0736	69|905|7	5092422
			|47303255	|3027077
Rate 06-Special All Year Air Conditioning				
October 1 thru April 30	Minimum Bills $25.00		6 Bills	|50
		.|3992	736	(|02)
	First 2,500 CCF	.|3992	20|948	28257
	Next 7,500 CCF	.|2992	2088|3	27|29
	Over |0,000 CCF	.||992	|93527	23208
			604288	78642
May 1 thru September 30	Minimum Bills $25.00		0	0
		.|0492	0	0
	First 2,500 CCF	.|0492	|85904	|9505

Next	7,500 CCF	.09492	26552|	25203
Over	|0,000 CCF	.08492	3997|2	33944
			85||37	78652
Total for Year			|455425	|57294

*1/4 of largest Bill previously rendered for this service, but not less than $250.

Rate 08-Preferred Interruptible

Minimum Bills		-	-	-
First	|0,000 CCF	.||992	|200002	|43904
Next	|0,000 CCF	.09992	||98856	||9790
Next	30,000 CCF	.07992	3223305	257607
Over	50,000 CCF	.07292	|0973306	800|73
			|6595469	|32|474

Rate \|0-Commodity and Demand

	Demand MCF	Commodity MCF	Excess MCF	Overrun Volume MCF	Total MCF	Total
Volumes	||8062	33352|9	28383	|720|	3380803	
Rates	$ 6.00	$ .7256	$|.|20|2	$|.9234		
Revenues	$708372	$2420035	$3|792	$33084		3|93284

Rate \|\|-Public School Service

Minimum Bills	$ 2.50		767 Bills	|9|8
6 CCF		.36492	|005	(366)
First	|0 CCF	.36492	23877	87|3
Next	20 CCF	.23492	409|8	96|2
Next	220 CCF	.|7492	262566	45928
Next	750 CCF	.|3992	383356	53639
Over	|,000 CCF	.|2492	459776	57435
			||70493	|76879
Heat & A/C Service		.||992	4|75529	500729
			5346022	677608

Rate \|2-Public Housing Apartment Projects

Minimum Bills	$2.50		764 Units	|9|0
		.|3292	(9936)	(|320)
All at flat Rate		.|3292	2356748	3|3259
				3|3849

Rate \|3-Excess Gas Service to Private Gas Public Utility Companies

All Service |00% L.F.+50%	$	.0864|	0	0

Rate |4-Outdoor Lighting

	Single Upright Mantle	Additional Upright	Double Inverted Mantle	Additional Inverted	
Mantles	2668	496	2|62	485	
Rates	$2.44	$|.99	$2.44	$|.|2	
Revenues	65|0	987	5275	543	|33|5

Rate |5-Excess Gas Service to Private Electric Utility Companies

	$ .077|5	23|9800	|78973

Rate |6-Temperature Sensitive Firm Service

March	thru November 30	$.||9|3	0	0
December thru February		$.|84|3	0	0

Rate |9-Special Employee Rate

Minimum Bills	$2.50	388 Bills	970
	.|4492	3|65	(459)
General Service	.|4492	452404	65562
Summer A/C	.|0692	38462	4|12
		490886	70	85

Emergency Services Rider A

Limited Emergency Service	$.|9234	6570|87	|263709
On-Peak Emergency Service	$ .35734	0	0

DOCKET NO. G-|, SUB 47

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of United Cities Gas) RECOMMENDED ORDER
Company for Authority to Adjust) GRANTING PARTIAL
and Increase its Rates and Charges) RATE INCREASE

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina

DATE: April 22, |975

BEFORE: John R. Molm, Hearing Examiner

APPEARANCES:

For the Applicant:

John T. Williams, Jr.
Brooks, Pierce, McLendon, Humphrey & Leonard
Attorneys at Law
P. O. Drawer U
Greensboro, North Carolina 27402

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE HEARING EXAMINER: This proceeding is before the Commission upon the application of United Cities Gas Company, (hereinafter referred to as "United") filed 11 December 1974 for an increase in rates and charges for natural gas services in North Carolina.

By order issued 8 January 1975 the Commission set the application for investigation and hearing, declared it to be a general rate case and suspended the proposed rate increase for a period of 270 days. By order issued 17 January 1975 the Commission allowed an interim rate increase in an amount of $113,095 which was a 10 per cent increase in operating revenues.

By motion filed 21 February 1975 United sought to amend its application to increase its rates and charges so as to produce an additional $256,338 in annual gross revenues. The initial application had sought an increase of $188,383. By order dated 28 February 1975 the Commission granted the motion for leave to amend United's application.

WITNESSES

United offered the testimony of John H. Maxheim, President, Chief Executive officer and member of the Board of Directors of United, as to the general financial needs and position of the applicant and Robert J. Sebastian, Vice-President and Treasurer of United, as to the company's operations during the test year.

The Staff offered the testimony of Daniel M. Stone, Utilities Engineer, Gas Division, North Carolina Utilities Commission, as to the operating revenues and cost of purchased gas; and Donald E. Daniel, Staff Accountant, as to the results of the Staff investigation of the books and records of United.

Based upon the record herein and the evidence adduced at the public hearing, the Hearing Examiner makes the following

FINDINGS OF FACT

1. That United Cities Gas Company is a duly franchised public utility providing natural gas service in Hendersonville, North Carolina, and is properly before the Commission in this proceeding for a determination as to the justness and reasonableness of its proposed rates and charges as regulated by the Utilities Commission under Chapter 62 of the General Statutes of North Carolina.

2. That the increases in rates and charges proposed by United would produce $256,338 in additional revenues from the sale of gas.

3. That the test period set by the Commission and utilized by all parties in this proceeding was the twelve months ending September 30, 1974.

4. After accounting and pro forma adjustments, including the annualization of rate changes taking place during the test year and Staff adjustments, the Applicant's test year gross operating revenues were $856,701. Its reasonable operating expenses and other deductions for the test period year after Staff adjustments were $804,278, leaving net operating income for return of $52,423.

5. At the end of the test year, the Company's books of account as adjusted reflect an original cost of $2,214,875 plant used and useful in providing service to North Carolina customers and a depreciation reserve of $389,308. The Examiner finds that United's original cost net investment as of the end of the test year in utility plant providing service to the public in North Carolina is $1,750,204 (including working capital allowance).

6. That United's reasonable working capital allowance is $63,190 (Daniel Exhibit 1, Schedule 2-1).

7. The fair value of United's property used and useful in providing service to the public within this State as of the end of the test year, considering the reasonable original cost of the property less that portion consumed by use and recovered by depreciation expense, the reasonable replacement cost, and including the working capital allowance heretofore determined is $2,073,476.

8. Based upon the Examiner's foregoing findings of net income and fair value, the Examiner finds that United's rate of return on fair value of United's North Carolina retail investment for the test year to be 2.53% and its rate of return on its actual common equity investment for the test year to be a negative 17.52%. Assuming a common equity structure adjustment to allow for the increment by which fair value exceeds original cost, the rate of return on common equity for the test year would be a negative 9.22%. The Examiner finds that such rates of return on fair value and common equity are insufficient to allow the utility by

sound management to produce a fair profit to its stockholders, to maintain its facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms.

9. The fair rate of return which United should have the opportunity to earn on the fair value of its North Carolina investment is 7.98% and that the fair rate of return which United should have the opportunity to earn on its fair value equity investment in its North Carolina retail operations is 7.36%.

10. Within the last two years the actual and projected rates of curtailment for Gas utilities from their pipeline suppliers have fluctuated demonstrably. Curtailment has become the most uncertain element in gas utility ratemaking. The Examiner finds that the "tracking" formula which the Company has proposed in order to maintain its margin (the difference between its revenues and the cost of purchased gas plus gross receipt taxes) is a practical approach for coping with curtailment; that the formula is just and reasonable and will be of benefit to both the Company and its customers. To the extent that the curtailment exceeds Transco's pro rata curtailment plan, United may be "compensated" for the lost additional volumes of gas, and such "compensation" will be available as periodically reviewed by this Commission, to reduce the rates being charged to United's customers.

11. Based upon the Examiner's foregoing findings on revenues, expenses, fair value, volume variation adjustment factor, and rate of return, United will require additional gross revenues of $248,335 to achieve the rates of return on fair value and common equity (set forth above) which returns are sufficient to allow it by sound management tc produce a fair profit to its stockholders, to maintain its facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms. Such additional revenues will produce a rate of return on the fair value of United Cities property of 7.98% and a rate of return on the fair value equity investment of 7.36%. The Examiner has heretofore found these rates of return to be just and reasonable.

12. That United is providing reasonable and adequate natural gas service to its existing customers in North Carolina, to the extent that it is able to do so under the present level of curtailment from its pipeline supplier.

Based on the foregoing Findings of Fact, the Examiner now reaches the following

CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The verified amended application of United states that the Company is a corporation incorporated under the laws of Illinois and Virginia and is duly domesticated in the State of North Carolina; that the Company is a public utility under the laws of this State and, as such, is subject to the jurisdiction of this Commission; and that it holds a Certificate of Convenience and Necessity from this Commission to engage in the business of "producing, generating, transmitting, delivering or furnishing...piped gas...to or for the public for compensation." (G.S. 62-3(23)a.1). No conflicting evidence has been offered by any party or witness, and such facts are uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

Company Witness Sebastian testified that the proposed rates would produce additional gas revenues of $256,338. No conflicting evidence was presented by any party or witness; the Examiner, therefore, concludes that the proposed rates will produce the additional revenues presented by Mr. Sebastian.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The Commission's Order Setting Hearing established the twelve months ending September 30, 1974 as the test year to be used by all parties in the case. The Company filed amended exhibits to reflect an adjustment of the additional revenues required based on its September 30, 1974 test year. The Commission Staff used the same test period in presenting its testimony, exhibits and conclusions. This finding is uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The Company agreed to the adjustments to the operating revenues and operating expenses as determined by the Commission Staff. Analysis of the Company and Staff exhibits indicate that the revenues resulting from a rate increase approved by the Commission in Docket G-1, Sub 46 are included but the corresponding cost of gas has been omitted. The amount of cost of gas omitted is $3,213. The applicable income taxes are $1,642. In addition the Hearing Examiner concludes that interest of $1,469 on customer deposits should be treated as an operating expense. The above adjustments to expenses and the inclusion of the increased revenues and expenses approved in Docket G-1, Sub 51 produce gross operating revenues of $856,701 and operating expenses of $804,728, leaving a net operating income of $52,423 which the Examiner concludes to be proper.

A schedule of revenues, expenses, and resulting approximate rates of return based on the foregoing adjustments and the adjustment for rate increase follows:

Line No.	Item (a)	After Staff Adjustments (b)	Approved Rate Increase (c)	After Approved Rate Increase (d)
1.	Gas revenues	$ 856,701	$ 248,355	$1,105,056
2.	Cost of gas	420,550		420,550
3.	Gross Margin	436,151	248,355	684,506
4.	Other operating expenses	383,728	135,263	518,991
5.	Net operating income for return	52,423	113,092	165,515
6.	Deduct: Interest	100,242		100,242
	Preferred dividends	15,042		15,042
7.	Total fixed charges	115,284		115,284
8.	Balance for common	$ (62,861)	$ 113,092	$ 50,231
9.	Common equity	$ 358,792		$ 358,792
10.	Rate of Return on Common Equity	(17.52)%		14.00%
11.	Fair value equity	$ 682,064		$ 682,064
12.	Rate of Return on fair value equity	(9.22)%		7.36%
13.	Original cost net investment	$1,750,204		$1,750,204
14.	Rate of return on original cost net investment	3.00%		9.46%
15.	Fair value rate base	$2,073,476		$2,073,476
16.	Rate of return on fair value rate base	2.53%		7.98%

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

The following schedule summarizes the original cost net investment developed by Company Witness Sebastian and Staff Witness Daniel. (Certain company figures have been rearranged to facilitate comparison):

Line No.	Item	Company Witness Sebastian	Staff Witness Daniel
1.	Utility plant in service	$2,214,875	$2,214,875
2.	Accumulated depreciation	389,308	389,308
3.	Net utility plant	1,825,567	1,825,567
4.	Add working capital requirement	102,024	63,190
5.	Total	1,927,591	1,888,757
6.	Deduct: Customer advances for Construction	15,000	15,000
7.	Accumulated deferred income taxes	90,090	90,090
8.	Unamortized investment tax credit - pre 1971	19,363	19,363
9.	Customer deposits	-	14,100
10.	Total deductions	124,453	138,553
11.	Original cost net investment	$1,803,138	$1,750,204

As indicated in the above schedule, the difference between the Staff and company with respect to the original cost net investment results from the deduction for customer deposits of $14,100 by Staff Witness Daniel and from a difference in the methods of computing working capital of $38,834. The differences in working capital are discussed in the evidence and conclusions for Finding of Fact Number 6.

Mr. Daniel testified that the customer deposits should be deducted in arriving at original cost net investment because such deposits are not investor-supplied capital. The Examiner concludes that the customer deposits should be deducted in arriving at original cost net investment, provided that interest on customer deposits is included as an operating expense.

The company and staff both deduct customer advances for construction, accumulated deferred income taxes and unamortized investment tax credit - Pre 1971 in arriving at original cost net investment. The Examiner is of the opinion that the original cost net investment in utility plant of $1,750,204 found by Mr. Daniel is proper.

The Examiner concludes that the customer advances for construction, deferred income tax, pre-1971 investment tax credits, and customer deposits are to be treated as customer contributions to capital investment for which it would be unreasonable to expect the Company's ratepayers to pay rates designed to yield the company a return on this capital which has been contributed. These sources of cost-free capital must be excluded from the Company's investment for the purpose of determining the reasonable original cost net investment in utility plant. The ratepayers have provided these funds to the Company in the form of rates, with the exception of customer deposits. In the case of deferred income taxes, these funds arise principally from a normalization of the difference between the income tax

effects of book depreciation (straight line) and tax depreciation (accelerated) by which the Company recorded an income tax expense in the income statement which had not actually been paid and a deferred income tax liability on the balance sheet. The ratepayer has paid rates to cover this item as income tax expense, even though the Company has not actually incurred these taxes.

In the case of unamortized investment tax credit (pre-1971), these funds represent a charge against operations that the Company will never be required to pay. As is the case with deferred income taxes, the ratepayer has paid rates to cover this item as an expense against operations, an expense which the Company in fact has not, and will not, actually experience.

In the case of customer deposits, these funds represent a source of customer supplied capital which the Company has available and can use for the purpose of investing in plant facilities.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

Both Company Witness Sebastian and Staff Witness Daniel include an allowance for working capital in developing "original cost net investment." From a regulatory point of view, working capital represents an investment in materials and supplies plus the cash required to pay operating expenses prior to the time revenues for services rendered are received. An allowance for working capital is included in the rate base to provide the investor with a return on the capital furnished by him for this purpose.

Mr. Sebastian's negative working capital allowance of ($53,116) consists of 1/8 of the operation and maintenance expenses of $32,977, plus minimum bank balances of $23,360, less deferred income taxes of $90,090, less pre-1971 unamortized investment tax credit of $19,363. Had Mr. Sebastian treated the deferred income taxes of $90,090 and pre-1971 unamortized investment tax credit of $19,363 as a reduction from original cost of plant instead of a reduction of working capital, his working capital allowance would amount to $102,024.

Mr. Daniel employed a "balance sheet analysis approach" in developing a working capital allowance of $63,190 which he states is supplied by the debt and equity investor. The first step in the analysis was the allocation of the total investor supplied capital of $24,451,606 consisting of debt, preferred stock, and common equity to North Carolina utility operations. Mr. Daniel computed an allocation ratio of 7.11% by relating the net investment in North Carolina utility plant in service of $1,675,319 to total company net investment of $23,562,187. The application of this ratio to total investor supplied capital of $24,451,606 results in the allocation of $1,738,509 of investor supplied capital to North Carolina utility operations. The allocated capital of

$1,738,509 was then compared to the North Carolina investment supported by debt and equity capital of $1,675,319. The $63,190 excess of investor supplied capital over the net North Carolina investment constitutes working capital provided by the debt and equity investor. The Examiner adopts the method used by Mr. Daniel in determining the Applicant's required working capital allowance, as well as the amount of $63,190 recommended by Mr. Daniel.

In the Examiner's opinion, only working capital which has been provided by the Applicant's debt and equity investors should be included in determining the required working capital allowance. The ratepayers should not be required to pay rates designed to yield a return on working capital which has been provided to the Company by the ratepayers. Mr. Daniel's method of determining the working capital requirement measured the amount of working capital which was provided by the Applicant's debt and equity investors, while Mr. Sebastian made no attempt to determine the amount of working capital which was provided by either the debt and equity investors or other parties. He used a formula method which has been used by this Commission in past cases, except that he did not deduct average tax accruals. While this Commission has basically followed a formula method for determining working capital allowances in prior cases, the Examiner is of the opinion and hereby concludes that the evidence presented in this proceeding by Mr. Daniel to derive an allowance for working capital is more representative of the working capital provided by the Applicant's debt and equity investors upon which the ratepayers should properly pay a return.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The original cost of the Company's property used and useful according to the Company books was $1,825,567 at the end of the test year with accumulated depreciation in the amount of $389,308. Original cost less depreciation per books is $1,825,567. To these figures the Company added allowances for materials and supplies of $45,687 and deducted a negative cash working capital allowance of $(53,116) and customer advances for construction of $15,000 to arrive at an end of period net investment of $1,803,138.

Company Witness Sebastian determined an end of test period fair value rate base of $2,772,995, based principally on trended values using the "Handy-Whitman Index of Public Utility Costs". The trended value of plant and properties was $3,392,456 and the trended accumulated depreciation was $597,072. Mr. Sebastian then deducted customer advances of $15,000, negative cash working capital of $(53,116) and added an allowance for materials and supplies of $45,687.

The Examiner accepts the trended cost of plant and properties of $3,392,456 and related accumulated depreciation of $597,072. However, the Examiner believes that, consistent with the determination of original cost net

investment heretofore adopted, the working capital of $63,|90 as determined by Mr. Daniel should be added. Cost free capital consisting of customer deposits of $|4,|00, customer advances for construction of $|5,000, unamortized investment tax credit (pre-|97|) of $|9,363 and deferred income taxes of $90,090 should be deducted in determining trended value. The addition and deduction of these items results in a trended value of $2,720,02|.

In view of the fact that much of the plant in service has been installed in relatively recent years, the Examiner feels that the original cost of the plant is the most applicable yardstick to use in measuring fair value. However, the Company has presented evidence tending to show a trended value substantially in excess of original cost. In order to partially offset the normal effects of attrition, inflation and regulatory lag, weight must be given to replacement cost. The Examiner concludes that the fair value of the Company's plant used and useful should be determined by giving two-thirds weight to original cost net investment as determined by the Staff and one-third weight to the trended value determined by Company Witness Sebastian as adjusted above. This results in a finding of fair value of the Company's plant in service of $2,073,476.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The end-of-period rates of return developed by both the company and the Commission Staff are substantially below the returns now being reported by other natural gas utility companies in this State and are far less than the Commission authorized United to earn in its last general rate case in |97|, Docket No. G-|, Sub 30. No prudent investor, given the present day risks inherent in the natural gas business (e.g., customer demands, curtailment of supply and temperature variations), could conceivably risk his investment capital for the low return which could be anticipated from the current returns of the company. The Examiner, therefore, concludes that the revenues and rates of return earned by United during the test year are unjust and unreasonable, since they are insufficient to allow the Company to meet the earnings standards prescribed by G.S. 62-|33(b)(4).

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

Upon consideration of the record herein, it is apparent that United is in need of substantial rate relief, having issued a significant amount of debt capital during the period since |97| during which interest rates have increased drastically. Since December 3|, |97|, the Company's embedded cost of debt has increased from 7.53% to 8.36%. The Company has suffered an overall decline in its earnings since its last general rate case in |97|.

Inflation and higher levels of gas curtailment have combined to increase the business risk of the Company's

operations. To a large extent, however, approval of a volume variation adjustment factor and the Commission's prior approval of "tracking" increases protect United from financial pressures resulting from future curtailment of gas and from any increase in price of gas to United. This Examiner has previously found that a rate of return on the fair value equity investment of 7.36% is just and reasonable. The overall cost of capital to United, using the capital structure employed by Staff Witness Daniel (which the Examiner herein adopts) is 9.46%. This equates back to a 14% return on book equity which is just and reasonable under the circumstances.

The Examiner does not mean to imply that these costs (which are to be allowed as rates of return) are fixed and that any return less than these is per se unreasonable. These costs (or returns) are within a zone of reasonableness and, if actually earned, will not be unfair or unreasonable to the Company or its customers. The Examiner does not mean to imply that any return less than that approved herein will be unjust or unreasonable to the Company.

Prior to the hearing in this matter the applicant and Commission staff had stipulated to staff adjustments to rate base and to revenues and expenses. The parties also stipulated to an upward revision of the rate of return on book equity from 14 per cent as originally requested to approximately 15.5 per cent. This greater rate of return would allow United the same amount of revenue as the lesser rate of return would yield using the company rate base and revenues and expenses. United offered no proof, however, as to why a 15.5 per cent return was required as opposed to a 14 per cent return. The only relevant evidence was the naked statement of Mr. John Maxheim as to total revenue needs for the total company.

Mr. Maxheim stated that "We know how much total company-wise the company needs in order to create earnings to be sufficient for the company to do our financing." (TR 34) United failed to give further facts to support Mr. Maxheim's belief as to the company's needs. The only support found by this Examiner was the existence of indenture restrictions which require a pre-tax earnings of 2 times interest. The rates approved by this order are designed to yield pre-tax earnings of 2.38 times interest. United failed to justify a greater times interest coverage.

This Examiner concludes that United failed to meet its burden of proof with respect to a 15.5 per cent return using the Staff adjustments for rate base, revenues and expenses.

The Examiner concludes that United Cities ought to be allowed the opportunity to earn the following rates of return in this case (based on the Daniel capital structure as aforesaid):

On fair value rate base	-	7.98%
On fair value equity	-	7.36%
On equity	-	14.00%

The Examiner concludes that these rates of return will be sufficient to produce a fair profit for the Company's stockholders, to maintain the Company's facilities and service in accordance with the reasonable requirements of its customers and to compete in the market for capital funds on reasonable terms. Such rates of return are, therefore, approved as just and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The schedule attached to Finding of Fact No. 4 shows that a net operating income for return of approximately $165,515 will be required to produce a return of 7.98% on the fair value of the Company's property. In order to achieve such income for return, the Company will have a gross revenue requirement of $1,105,056. The Company's test year revenues, after Staff adjustments (see Finding of Fact No. 4) are $856,701. The difference between the Company's test year revenues as adjusted and the gross revenue requirement needed to produce a 7.98% return on fair value is $248,355. The Examiner, therefore, concludes that the Company has a need to increase its gross earnings in the amount of $248,355.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

It is to be presumed, unless competent evidence to the contrary is offered, that the services being provided by a duly franchised public utility are reasonable and adequate. No such evidence having been offered, the Examiner concludes that the Company's quality of service is adequate to its presently existing customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The Examiner herein takes note of and incorporates the proceedings and Orders in its Docket Nos. G-100, Sub 18 (Natural Gas Curtailment and Order of Priorities), G-9, Sub 131 (Piedmont Natural Gas Rate Case), G-3, Sub 58 (North Carolina Gas Service Rate Case) and G-5, Sub 102 (Public Service Company Rate Case) insofar as they pertain to the volume variation adjustment factor.

From the foregoing, it is apparent that curtailment of natural gas supplies to North Carolina distribution companies (including United) has been steadily increasing since 1971, when the supplies of Transcontinental Gas Pipeline Corporation (Transco), North Carolina's only pipeline supplier, first became insufficient to meet the demands placed on it by its customers. From an average of 3-5% in 1971, curtailment of supply has rapidly increased to around 10% in 1972, 16% in 1973, and approximately 25% in 1974. The prospects for future deliveries by Transco do not

appear to offer immediate or near term hope for relief. The deepening short fall of gas energy supply has not been constant and steady, but has fluctuated from month to month and from season to season. Frequently the amounts delivered were quite different from earlier projections of such deliveries.

Another factor affecting the actual amount of gas received by United from Transco is the curtailment plan adopted for Transco by the Federal Power Commission (FPC). Hearings have been underway before the FPC for over a year and at least three separate types of plans considered. As of this time, no permanent curtailment plan has been finally approved for Transco.

Because of the uncertainty in the future availability of natural gas supply, neither the Company nor the Staff was able to accurately forecast future revenues and expenses for United. The Company, in order to allow for such variations between forecast and actual gas deliveries from Transco, offered a proposed formula, based on the "margin" or difference between gross revenues and cost of purchased gas, which would track the revenue effects of increased or decreased curtailment. This formula has become known as the volume variation adjustment factor.

By the use of such a factor, the uncertainties of the effects of future curtailment on the Company's earnings can largely be eliminated. The Commission has previously approved the use of such a factor by Piedmont Natural Gas and North Carolina Gas Service, two other North Carolina gas utility companies, in the dockets cited above. To the extent that the curtailment plan ultimately approved by the FPC for Transco contains an element of "compensation" for excess curtailment, the volume variation adjustment factor proposed by United Cities provides for a flow-through of such benefits to its customers.

The Examiner thus concludes that the volume variation formula is fair both to the Company and its customers. Use of the formula will avoid the necessity of the Company having to prepare, file and undergo a general rate case every time the level of curtailment changes due to one of the causes mentioned above, which are beyond the control of the Company and of this Commission.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That on, or before 20 July 1975 United shall file for approval by this Commission rate schedules designed to produce additional annual revenues of $248,355.

2. That United shall file a schedule of rates which reflect changes in curtailment and the effects of "compensation." Rate schedules which reflect further changes in curtailment and "compensation" shall be filed every six (6) months from and after the date of the initial

filing, unless the Commission shall by Order direct otherwise. United in calculating base margin for purposes of determining the new rate schedules to be filed shall use the schedule of revenues and cost of gas after the approved rate increase contained in Evidence and Conclusions for Finding of Fact No. 4 herein.

3. That United shall notify its customers with respect to the effect of the rate increase and volume variation adjustment factor herein granted by appropriate bill insert in its next regular billing cycle.

ISSUED BY ORDER OF THE COMMISSION.

This the 26th day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. H-25, SUB 2

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of the Housing Authority of The City of Greenville for a Certificate of Public Convenience and Necessity	)	ORDER GRANTING CERTIFICATE

HEARD IN: The Commission Library, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, at 11:00 a.m., on April 18, 1975

BEFORE: Marvin R. Wooten, Chairman, Presiding, Ben E. Roney and George T. Clark, Jr., to read the record

APPEARANCES:

For the Applicant:

Kenneth G. Hite
James, Hite, Covendisle & Blount
Attorneys at Law
Drawer 15
Greenville, North Carolina 27834

John R. Molm
Associate Commission Attorney
Ruffin Building
One West Morgan Street
Raleigh, North Carolina

BY THE COMMISSION: This matter is before the Commission upon application of the Housing Authority of the City of

Greenville, North Carolina, for a Certificate of Public Convenience and Necessity for the establishment, construction, operation and maintenance of 122 dwelling units of low rent public housing.

By Order dated 24 March 1975, the Commission set the application for public hearing on 16 April 1975, and ordered that notice of the hearing be published in a newspaper having general circulation in the area. No protests to the application were filed with the Commission and no one appeared in opposition to the application.

At the hearing, Applicant introduced into evidence its various exhibits and the affidavit of publication of the notice of the hearing. In addition, Applicant offered the testimony of J. M. Laney, Director of Applicant Housing Authority.

Based upon the evidence adduced at the hearing, the Commission makes the following:

FINDINGS OF FACT

1. That the Housing Authority of the City of Greenville, North Carolina, is a duly created and existing body corporate pursuant to the Housing Authority Law as set forth in Chapter 157 of the General Statutes of North Carolina.

2. The Housing Authority caused its application to be properly filed with the Commission on 14 March 1975, in which it applied for a Certificate of Public Convenience and Necessity for the establishment of 122 dwelling units of low rent public housing in Greenville, North Carolina. By Order dated 14 March 1975, the Commission set the time, date and place of hearing on the matter and required that notice be published in a newspaper having general circulation in the Greenville, North Carolina, area not later than five (5) days prior to 14 April 1975, the date for filing protests. Said notice was published in The Daily Reflector, a newspaper having general circulation in the area, on the 4th and the 11th of April 1975.

3. The City Council of Greenville by resolution adopted 6 January 1966, determined that there exists in the city a need for low rent housing and approved Applicant Housing Authority's application to the Public Housing Administration for a preliminary loan not to exceed $51,500 for surveys and planning of approximately 240 units of low rent housing. Subsequently, said application was approved, preliminary funds disbursed, and all but 122 units constructed.

4. There exists a need for low rent public housing in the area of the City of Greenville. The private sector of the residential construction industry in and around the city is not meeting such need, and given the present slump in residential construction, there is little likelihood that such situation will be rectified without public assistance.

5. The Housing Authority has taken all steps required by law to enable it to duly make this application and to put itself in a position to establish and develop 122 units of low-rent public housing.

Based upon the foregoing Findings of Fact, the Commission reaches the following

CONCLUSIONS

The Housing Authority of the City of Greenville, North Carolina, has met the requirements of applicable law with respect to acquiring a Certificate of Public Convenience and Necessity for the construction, maintenance and operation of 122 units of low-rent public housing and has demonstrated a need for said additional housing in the community.

IT IS, THEREFORE, ORDERED:

That the Housing Authority of the City of Greenville, North Carolina, be, and hereby is, granted a Certificate of Public Convenience and Necessity for the establishment, construction, maintenance and operation of 122 units of low-rent public housing and that this Order shall itself constitute such Certificate of Public Convenience and Necessity.

ISSUED BY ORDER OF THE COMMISSION.

This 21st day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. B-3, SUB 6

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of McGill's Taxi and Bus Lines, Inc., d/b/a Asheboro Coach Company, P. O. Box 626, Asheboro, North Carolina - Application for Authority to Engage in the Transportation of Passengers Between Asheboro and Greensboro and Between Asheboro and the North Carolina Zoological Park, North Carolina, and Intermediate Points	RECOMMENDED ORDER ALLOWING OPERATING AUTHORITY

HEARD IN: Council Chambers, Second Floor, City Hall, 146 North Church Street, Asheboro, North Carolina, on Tuesday, May 20, 1975, at 9:30 a.m.

BEFORE: Robert F. Page, Hearing Examiner

APPEARANCES:

For the Applicant:

Archie L. Smith
Smith & Casper
Attorneys at Law
Law Building
Asheboro, North Carolina

For the Commission Staff:

E. Gregory Stott
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
One West Morgan Street
Raleigh, North Carolina 27602

PAGE, HEARING EXAMINER: On April 8, 1975, McGill's Taxi and Bus Lines, Inc., d/b/a Asheboro Coach Company, filed an application with this Commission seeking a Certificate of Public Convenience and Necessity to operate as a motor common carrier of passengers and their baggage over the following territory or routes: (a) From Asheboro over Highway 220 to Greensboro, North Carolina, and return, serving all intermediate points, and (b) From downtown Asheboro over State Road 2803 to the North Carolina Zoological Park, and return, serving all intermediate points.

By Order issued April 22, 1975, the Commission set the matter for public hearing at the time and place listed above and required the Applicant to give notice of his proposed application. (This matter was consolidated for hearing with the application of Continental Southeastern Lines, Inc., to abandon certain bus operations over a portion of the routes requested by Applicant.) On May 14, 1975, the Applicant filed with the Commission an affidavit of publication of the Notice to the Public required by the Commission.

At the hearing, the Applicant offered the testimony of its President and nine public witnesses in support of the application. There were, in addition to the public witnesses, approximately fifty other persons in the courtroom who appeared in order to support the application, who agreed to adopt the testimony of those who were tendered for cross-examination. No protests or motions for leave to intervene in opposition to the proposed authority were received by the Commission. No one appeared at the hearing to protest the granting of the application.

A summary of the evidence offered in support of the application is as follows:

Mr. Clarence McGill, President of McGill's Taxi and Bus Lines, Inc., d/b/a Asheboro Coach Company (Applicant),

testified that he had been in the transportation business almost his entire life; that, prior to filing the application for authority, he had made an investigation concerning the need for the service which he proposed to render in the event that service by Continental was discontinued (as Continental had requested in its application, which was heard at the same time); that the service is much needed and would be more heavily used with better schedules, which he proposes to offer, to allow passengers to travel from Asheboro to Greensboro and back on the same day; that, under present schedules, a bus leaves Asheboro for Greensboro at 3:50 p.m. and 8:|5 p.m. with return buses leaving Greensboro for Asheboro at 8:50 a.m. and |:00 p.m.; that numerous people had contacted him with regard to the service he proposed to offer; that, in his opinion, there would be sufficient traffic from Greensboro and Asheboro to support the proposed service to the zoo, especially on the weekends; that he has sufficient equipment to properly operate if the franchise is granted; and that he has nine buses available for use and has operated the Asheboro bus station for over 20 years, serving his charter service, Greyhound and Trailways (Continental Southeastern).

On cross-examination, McGill testified that his proposed schedules would offer connections with Continental buses moving from Winston-Salem to Asheboro, Biscoe, Candor, Southern Pines and Florence and the return leg of such trip; that McGill's Taxi and Bus Lines, Inc., is a family-owned corporation, which presently runs a charter bus service; that he is familiar with Commission rules and regulations concerning common carriers of passengers; that there is no franchised common carrier presently serving the zoo; that he is prepared financially to add such other equipment as might be needed; that the new authority would not cause a reduction in his charter service; that some of his present equipment is idle at times; that he employs as many as twenty drivers on a seasonal basis and will hire more if they are needed; and that he knows of no reason why he could not provide service up to the level being provided by Continental Greyhound and hopes to be able to improve the quality of such service.

Mr. Felton H. Massey, Postmaster of Randleman, North Carolina, testified that he had been in the Postal Service for thirty years; that Randleman at present receives inbound mail on the Continental Southeastern bus at |:30 p.m., five days per week; that the Town of Randleman has a need for the services proposed by Applicant for its mail delivery and, in his opinion, there is a need and demand in the community for the proposed passenger services to Greensboro, Asheboro and the zoo.

Mr. Roy Green testified that he was a long time resident of Asheboro; that he was active in church work; that he frequently rode the bus to Greensboro and High Point; that he did not have a car and the bus was his only way of

getting around; and that, in his opinion, there was a need and demand in the community for the proposed service.

Mrs. Foster Richardson testified that she lived in Asheboro, North Carolina, but was originally from Greensboro; that she liked to visit Greensboro frequently; that she did not drive and the bus was her only way to get to Greensboro; that many people would ride the bus to Greensboro daily, especially senior citizens such as herself, who liked to remain active; that she had been asking Mr. McGill to request the proposed authority; and that the proposed service would be of great benefit to the community.

Miss Nancy Adkins, a retired school teacher, testified that she had relatives in Greensboro that she liked to visit occasionally; that, with the present Continental service she could not go unless she spent the night and that is inconvenient; that she would like to be able to ride the bus to the zoo, especially on the weekends when it is very crowded; that the proposed service would be of use and convenience to the people in the area; and that some people would use the bus to commute to work in Greensboro and return if the hours were more convenient.

Mr. Bob Croft, Executive Vice President of the Asheboro Chamber of Commerce, testified that he is familiar with the present and future needs for bus service in Asheboro; that there is a need for the service proposed by McGill; that he has received complaints about the bus schedules to and from Greensboro which would be met if the proposed authority were granted; that Asheboro is dependent on good bus service for delivery of mail, packages and merchandise; that, from his observation, the Applicant has first-class equipment, competent personnel and courteous service; and that the services proposed by the Applicant are badly needed.

Mr. Andrew Leuger, Manager of the North Carolina Zoological Park, testified that the service to and from the zoo proposed by the Applicant is definitely needed; that the zoo has parking for 500 private automobiles; that, on some weekends, as many as 2700 private automobiles had visited the zoo daily, creating a traffic hazard; that this hazard could be reduced if regular bus service to and from the park were offered; that McGill's drivers, from his experience as a charter rider, are capable and his equipment is in good operating condition; and that, without some relief, traffic conditions at the zoo would grow progressively worse.

Reverend L. J. Rainey, a retired Baptist minister, testified that he has used McGill's charter service and has enjoyed it; that McGill's charter has provided a valuable service to the ten or eleven thousand senior citizens in Randolph County; that McGill is interested in people, in providing the best service possible for them; that he would probably not be able to drive much longer and would then be dependent on the bus for transportation; and that he would

take more frequent bus trips to Greensboro if he could go and come in one day, as proposed in the application.

Mr. Marvin Gatlin, Lord Mayor of the West Bank (Coleridge) testified, on behalf of handicapped people who could not get driver's licenses, that they were dependent on bus services; that the morning bus (and afternoon return) to Greensboro is needed and would be used; that something must be done to alleviate the traffic problems around the zoo; and that mass transit of all forms should be encouraged during times of energy shortage.

Miss Mae Blackwelder, another retired school teacher and senior citizen, testified that she had used McGill's charter service twenty-one times and that it is wonderful; that senior citizens, with limited financial resources, have a particular need for same day service to and from Greensboro for medical appointments, shopping and just to have a good time; that the senior citizens would enjoy visiting the zoo, but three-fourths of them do not drive; that Mr. McGill's charter operations are efficient and courteous, the buses are good, clean and comfortable, and the drivers are competent, courteous and punctual; and that the service of Asheboro Coach Company is delightful.

Following the close of the record at the public hearing, the Applicant filed with the Commission on June 17, 1975, a motion seeking temporary authority to engage in the motor common carrier transportation of passengers and their baggage as proposed in the pending application. The Applicant contended in the motion that its service over the routes proposed was needed and that Continental Trailways, the carrier which had such rights and had proposed to cease operating them, had consented to Applicant's temporary operation of the proposed routes. On July 1, 1975, the Commission allowed the Applicant's motion and approved the temporary authority sought. No complaints have been received by the Commission with regard to the temporary operations.

Based on the verified application, the testimony offered at the hearing, the adoption of offered testimony by numerous other persons supporting the application, and the lack of opposition to the proposed authority, which collectively comprise the record herein, the Hearing Examiner now reaches the following

FINDINGS OF FACT

1. McGill's Taxi and Bus Lines, Inc., d/b/a Asheboro Coach Company, is a North Carolina corporation which is authorized by its Articles of Incorporation to engage in the business of a common carrier by motor vehicles as defined by G.S. 62-3(7).

2. The Applicant presently operates a charter bus service out of Asheboro under certificates of authority

issued by this Commission and by the Interstate Commerce Commission.

3. The Applicant's President and principal managing officer, Clarence McGill, has been engaged in the bus transportation business for over twenty years and has operated the union bus station in Asheboro as agent for Trailways (Continental Southeastern) and Greyhound for most of this period.

4. The Applicant has assets of $158,726.31 and a net worth in excess of $100,000.

5. If the application is granted, the Applicant proposes to offer daily service between Asheboro and Greensboro and between Asheboro and the North Carolina Zoological Park, serving all intermediate points, as follows:

(a) 7:00 a.m., daily, from Asheboro to Greensboro;

(b) 10:00 a.m., daily, from Greensboro to Asheboro, with continuing service on to the North Carolina Zoological Park;

(c) 3:30 p.m., daily, from the North Carolina Zoological Park to Asheboro with continuing service on to Greensboro; and

(d) 5:45 p.m., daily, leave Greensboro for Asheboro.

6. Service from Greensboro to Asheboro is presently being offered by Continental Southeastern Lines, Inc., on the following schedules:

(a) 3:50 p.m. and 8:15 p.m., daily, from Asheboro to Greensboro; and

(b) 8:50 a.m. and 1:00 p.m., daily, from Greensboro to Asheboro.

7. The service presently being offered does not permit a passenger to travel by bus from Asheboro to Greensboro and return on the same day. Continental, by its petition in Docket No. B-69, Sub 117, proposes to abandon the services listed above. Continental has consented to allow the Applicant to operate its proposed service on a temporary basis. No complaints have been received since the institution of such temporary services.

8. By its Order in Docket No. B-69, Sub 117, issued simultaneously herewith, the Commission has allowed Continental's petition to abandon the services listed above. Unless the instant application is allowed, there will be no local common carrier service bus service between Asheboro and Greensboro.

9. Because of the great influx of private vehicular traffic, parking at the North Carolina Zoological Park is no longer merely an inconvenience, it has become a hazard for persons visiting the zoo. Regular common carrier bus service, which is presently available, could greatly alleviate this hazard.

10. Public convenience and necessity requires the proposed service in addition to existing authorized transportation service.

11. The Applicant is fit, willing and able to properly perform the proposed service.

12. The Applicant is solvent and financially able to furnish adequate service on a continuing basis.

Based on the foregoing Findings of Fact, the Hearing Examiner now reaches the following

CONCLUSIONS

G.S. 62-262(e) requires that the Applicant for common carrier authority show to the Commission's satisfaction the existence of the facts found herein by the Commission as Findings Nos. 10, 11 and 12 above.

In making these findings, case law informs us that:

"...(W)hat constitutes 'public convenience and necessity' is primarily an administrative question with a number of imponderables to be taken into consideration, e.g., whether there is a substantial public need for the service; whether the existing carriers can reasonably meet this need, and whether it would endanger or impair the operations of existing carriers contrary to the public interest. Precisely for this reason its determination by the Utilities Commission is made not simply prima facie evidence of its validity, but 'prima facie just and reasonable.'" Utilities Commission v. Trucking Co., 223 N.C. 687, 690, 28 S.E. 2d 201; Utilities Commission v. Ray, 236 N.C. 692, 73 S.E. 2d 870. The doctrine of convenience and necessity is a relative or elastic theory. The facts in each case must be separately considered and from those facts it must be determined whether public convenience and necessity requires a given service to be performed or dispensed with. The convenience and necessity required are those of the public and not of an individual or individuals. Utilities Commission v. Casey, supra. "Necessity" means reasonably necessary and not absolutely imperative. Utilities Commission v. R.R., 254 N.C. 73, 79, 118 S.E. 2d 21. "Any service or improvement which is desirable for the public welfare and highly important to the public convenience may be properly regarded as necessary." And if a new service is necessary, and if there are carriers already in the field, there is always the vital question (in determining

convenience and necessity) whether the new service should be rendered by the existing carriers or by the new applicant. Mulcahy v. Public Service Commission, 117 P.2d 298 (Utah 1941); 73 C.J.S., Public Utilities, s. 42, pp. 1099, 1100.

Utilities Comm. v. Coach Co. and Utilities Commission v. Greyhound Corp., 260 N.C. 43, 52, 132 S.E.(2d) 249 (1963). See also State ex rel. Utilities Comm. v. Queen City Coach Co., 4 N.C. App. 116, 166 S.E.(2d) 441 (1969) and State ex rel. Utilities Comm. v. Southern Coach Co., 19 N.C. App. 597, 199 S.E.2d 731 (1973).

In applying the law as thus stated to the facts of the case at hand, the Examiner concludes as a matter of law that the Applicant has carried the burden of proof required by the statute and that the authority proposed in the application ought to be granted.

IT IS, THEREFORE, ORDERED:

1. That the application by McGill's Taxi and Bus Lines, Inc., d/b/a Asheboro Coach Company for a certificate of public convenience and necessity to transport passengers and their baggage in intrastate commerce be, and the same is hereby, granted.

2. That Passenger Common Carrier Certificate No. B-3, heretofore issued to Asheboro Coach Company be, and the same is hereby, amended to include the authority more particularly described in Exhibit "A" attached hereto and made a part hereof.

3. That Asheboro Coach Company shall file its tariffs of fares and charges and rules and regulations and otherwise comply with the rules and regulations of the Commission regarding operations of motor common carriers of passengers and their baggage and shall institute operations under the authority herein granted within thirty (30) days from the date this Order becomes final.

ISSUED BY ORDER OF THE COMMISSION.

This the 18th day of September, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

McGill's Taxi and Bus Lines, Inc. Certificate No. B-3
d/b/a Asheboro Coach Company
P. O. Box 626
Asheboro, North Carolina 27203

EXHIBIT "A"

To transport passengers, their baggage, mail and light express over the following routes and between the following points:

(a) From Asheboro over Highway 220 to Greensboro, North Carolina, and return, serving all intermediate points.

(b) From downtown Asheboro, over State Road 2803 to the North Carolina Zoological Park, and return, serving all intermediate points.

DOCKET NO. B-69, SUB 118

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Continental Southeastern Lines, Inc. - Proposed Discontinuance of Certain Bus Passenger Service Between Asheville, North Carolina, and Black Mountain, North Carolina	)	RECOMMENDED ORDER DENYING APPLICATION

HEARD IN: The Buncombe County Courthouse, Asheville, North Carolina, on Thursday, June 26, 1975, at 2:00 p.m.

BEFORE: E. Gregory Stott, Hearing Examiner

APPEARANCES:

For the Applicant:

Henry S. Manning, Jr.
Joyner & Howison
Attorneys at Law
P. O. Box 109
Raleigh, North Carolina 27602

For the Commission's Staff:

Wilson B. Partin, Jr.
Assistant Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

STOTT, HEARING EXAMINER: On April 2, 1975, Continental Southeastern Lines, Inc., filed with this Commission a proposal to discontinue certain schedules on its Asheville - Black Mountain routes, specifically, the 7:20 a.m. Asheville - Black Mountain trip and 8:00 a.m. Black Mountain -

Asheville trip. This Commission, upon receiving certain protest petitions and further deeming this matter to be one of public interest, by Commission Order dated May 23, 1975, required Continental Southeastern Lines, Inc., to continue to provide the service over the aforesaid routes pending hearing and final determination and Order by the Commission in this matter. The Order further required Continental Southeastern Lines, Inc., to give notice to the public and set this matter for hearing on Thursday, June 26, 1975, at 2:00 p.m. in the Buncombe County Courthouse, Courtroom, 9th Floor, Courthouse Plaza, Asheville, North Carolina.

At the time of hearing, the Applicant submitted affidavit of publication indicating that the requisite public notice was given in the Asheville Citizen Times.

The Applicant offered testimony from Mr. Malcolm Meyers, Director of Traffic, Continental Southeastern Lines, Inc., who offered testimony and exhibits regarding the operation of the aforementioned schedules, the expenses and revenues incurred and the operation of said schedules and Continental's statistics regarding the number of passengers serviced by said operations.

The following public witnesses were present at the hearing and testified: Mrs. Zella Barnwell, Mrs. Mary E. Davidson, Mrs. Annie Sparks, Mrs. Nellie Varner, Mrs. Shirley Holder, Mrs. Linda Miller, Mr. Ralph Bartlett, and Mrs. Margaret Gardner. The testimony of the public witnesses was essentially that the present run from Black Mountain to Asheville by Continental Southeastern Lines, Inc., was their only means of public transportation from Black Mountain to Asheville in the morning and that it would impose a great hardship upon each of them personally if said run was discontinued. Testimony given, in which each public witness concurred, was that there were approximately ten to twenty passengers riding the bus from Black Mountain to Asheville each day. Many of the public witnesses stated that they had no other means of transportation from Black Mountain to Asheville and would lose their jobs if the proposal to discontinue said bus service was allowed. The public witnesses were cross-examined by counsel for the Applicant, Continental Southeastern Lines, Inc.

Based on the testimony given, the exhibits presented and the evidence adduced, the Hearing Examiner makes the following

FINDINGS OF FACT

1. That Continental Southeastern Lines, Inc., proposes to eliminate two trips, one eastbound on Highway 70 leaving Asheville, North Carolina, at 7:20 a.m. and arriving at Black Mountain, North Carolina, at 7:55 a.m.; the other westbound over the same route leaving Black Mountain, North Carolina, at 8:00 a.m. and arriving at Asheville, North Carolina, at 8:40 a.m.

2. There is little or no evidence of public demand for or public use of the 7:20 a.m. eastbound scheduled to Black Mountain; however, said run is necessary to get a bus to Black Mountain.

3. The 8:00 a.m. westbound scheduled from Black Mountain through Swannanoa and Oteen into Asheville together with the 5:15 p.m. and 6:00 p.m. schedules eastbound leaving Asheville and passing through Oteen, Swannanoa and Black Mountain to points east provide a daily commuter service into and out of Asheville.

4. The commuter service is used by members of the public who, among other things, work, shop and attend school in Asheville.

5. The evidence does not reveal any other morning bus service from Black Mountain to Asheville between the hours of 6:00 a.m. and 12:00 noon.

6. That the Applicant had conducted no study and presented no evidence of the revenues currently derived from the customers riding the morning schedules that are proposed to be abandoned, which are derived from such persons when they ride the afternoon bus back from Asheville to Black Mountain and of the impact which discontinuing the morning half of the commuter service would have as far as diminishing revenues in the afternoon.

7. That public convenience and necessity requires that the Applicant herein continue its present bus service between Black Mountain, North Carolina, and Asheville, North Carolina.

8. That the public convenience and necessity requires that the Applicant not abandon its franchised route between Asheville, North Carolina, and Black Mountain, North Carolina.

9. That public convenience and necessity requires that Petitioner provide a regular bus stop for both of its buses at Black Mountain, North Carolina, and at Asheville, North Carolina.

10. That the overall operation of the Applicant is such that it is not justified in discontinuing bus service between Black Mountain, North Carolina, and Asheville, North Carolina.

Whereupon, the Hearing Examiner reaches the following

CONCLUSIONS

The applicable statutory law governing this matter is G.S. 62-262(k) which states:

"(k) The Commission shall by general order, or rule, having regard for the public convenience and necessity, provide for the abandonment or permanent or temporary discontinuance of transportation service previously authorized in a certificate."

The Supreme Court of North Carolina in State of North Carolina, ex rel Utilities Commission vs. Southern Railway Company, stated:

"Whether a carrier should be allowed to discontinue or reduce a particular service should be determined upon the basis of whether the advantage of the public convenience and necessity outweighs the disadvantage of the law sustained by the carrier in maintaining such service when considered in connection with the carrier's revenues from its entire operations and each case must be determined in accordance with its particular facts."

This Hearing Examiner concludes that the unrebutted testimony of the public witnesses in the case herein establishes that public convenience and necessity dictates a continued bus service from Asheville to Black Mountain and back from Black Mountain to Asheville, commuter service. The Court, in the aforementioned decision, stated five criteria for continued operations:

(1) The character and population of the territory served,

(2) The public patronage, or lack of it,

(3) The facilities remaining,

(4) The expense of operation as compared with the revenue from it, and

(5) The operations of the carrier as a whole.

The public witnesses displayed a great desire in maintaining the present bus service. The majority of the customers who testified at the hearing are customers who have been utilizing this bus service for a number of years on a regular basis. It would seem that Continental Southeastern Lines, Inc., should feel some duty to continue to provide a service for so many loyal customers.

There is some disparity in the figures provided by Continental Southeastern Lines, Inc., and the public witnesses as to the number of customers who regularly ride said buses. It would appear from the testimony that there are approximately fifteen to twenty customers per day who utilize the services of the morning bus from Black Mountain to Asheville, which this Examiner concludes is a substantial showing of public convenience and necessity.

Considering the expense of the operation as compared with the revenues derived therefrom, Continental Southeastern

Lines, Inc., has provided no figures regarding the revenues derived from the customers who have ridden the morning bus from Black Mountain to Asheville, riding the afternoon bus back from Asheville to Black Mountain, which will continue in operation. The afternoon bus, as was testified by witness Meyers, will continue to run as it is essential that as a link up to other Continental Southeastern Lines's routes. No testimony or evidence was given concerning the loss of revenues that Continental Southeastern would incur if it were to lose the morning commuter passengers.

The Court further stated the principle that the Utilities Commission has the power to require all transportation companies to establish and maintain all such public service facilities and convenience as may be reasonable and just. A public service corporation has no legal right to discontinue an established service without authorization from the Commission. This Examiner concludes that based upon the evidence adduced herein that the bus routes from Asheville to Black Mountain should be continued.

This Examiner further takes judicial notice of Recommended Order issued on March 25, 1971, in a docket involving a discontinuance of the routes proposed to be discontinued in this proceeding. In this Order, the Hearing Examiner admonished the bus company to advertise the services rendered by Continental Southeastern and its commuter service from Black Mountain to Asheville in order to acquaint and inform members of the public of the availability of particular transportation services which they might readily use. There was no evidence introduced at the hearing to show that Continental Southeastern Lines, Inc., had heeded the admonishment of the Commission in the prior case and taken any affirmative action to increase bus riding over the routes in question and, therefore, this Examiner concludes that the application by Continental Southeastern Lines to eliminate the morning commuter service from Black Mountain to Asheville should be denied.

IT IS, THEREFORE, ORDERED as follows:

1. That the petition for authority to discontinue the transportation service provided by Continental Southeastern Lines, Inc., by the 8:00 a.m. Black Mountain to Asheville schedule by eliminating such schedule from the tariff filings is hereby denied.

2. That petitioner shall continue to operate said route and provide adequate and reasonable service over the aforementioned route.

ISSUED BY ORDER OF THE COMMISSION.

This the 19th day of September, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. EB-529

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Termination of Liability Insurance Coverage of Roy Chester Hines, Route 1, Box 3-B, Roper, North Carolina 27962	) ORDER REVOKING) OPERATING AUTHORITY

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Friday, January 24, 1975, at 9:30 a.m.

BEFORE: Commissioners George T. Clark, Jr., Ben E. Roney and Tenney I. Deane, Jr.

APPEARANCES:

For the Respondent:

None

For the Commission Staff:

Lee West Movius
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: On November 11, 1974, the Commission ordered Roy Chester Hines (Respondent) to appear before the Commission on Friday, January 24, 1975, and show cause why his operating authority under Exemption Certificate No. EB-529 should not be revoked for failure to keep on file with the Commission evidence of liability insurance for the protection of the public, as required by G.S. 62-268 and Commission Rule R2-36. The show cause Order was served on Respondent on November 23, 1974, by Utilities Commission Inspector Charles E. Payne.

Pursuant to the provisions of the Order, the matter came on for hearing on January 24, 1975. The Respondent was neither present nor represented by counsel at this hearing.

Based on the records of the Commission, of which it takes judicial notice, the files in this docket, and the evidence adduced at the hearing, the Commission makes the following

FINDINGS OF FACT

(1) That Respondent, Roy Chester Hines, is the holder of Exemption Certificate No. EB-529, which authorizes Respondent to carry exempt motor passengers.

(2) That Respondent was required by statute and the rules of this Commission to file evidence of liability insurance coverage. Respondent's liability coverage was cancelled effective November 17, 1974. Respondent has failed to show, and the Commission has received no evidence indicating, that Respondent had in effect liability insurance after November 11, 1974.

(3) On November 19, 1974, the Commission issued a show cause Order requiring Respondent to appear before the Commission on January 24, 1975, and show cause why his Exemption Certificate should not be revoked for failure to maintain liability insurance coverage.

(4) Respondent failed to appear at said show cause hearing on January 24, 1975, in compliance with the Commission's show cause Order in this docket issued November 19, 1975.

CONCLUSIONS OF LAW

Under the aforesaid Findings of Fact and the applicable law, the Commission concludes that Respondent's Exemption Certificate No. EB-529 should be revoked and cancelled for failure to maintain liability insurance coverage.

IT IS, THEREFORE, ORDERED:

(1) That Certificate No. EB-529, heretofore issued to Roy Chester Hines, be, and hereby is, cancelled and revoked.

(2) That a copy of this Order be transmitted to Roy Chester Hines and a copy sent to the North Carolina Department of Motor Vehicles.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of February, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. B-322

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Long's Travel Agency - Division of Long's of Rockingham, 112 East Washington Street, Rockingham, North Carolina - Application for License to Engage in the Business of a Broker in Intrastate Operations from Richmond, Anson, Scotland and Robeson Counties to Various Points in North Carolina	RECOMMENDED ORDER GRANTING APPLICATION

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, Wednesday, January 22, 1975, at 10:00 A.M.

BEFORE: Jerry B. Fruitt, Hearing Examiner

APPEARANCES:

For the Applicant:

Fred W. Bynum, Jr.
Leath, Bynum, Kitchin & Neal
P. O. Box 864
Rockingham, North Carolina 28379

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
North Carolina Utilities Commission
One West Morgan Street
Raleigh, North Carolina 27602

FRUITT, HEARING EXAMINER: By Application filed with the Commission on November 25, 1974, the Applicant, Long's Travel Agency - Division of Long's of Rockingham, North Carolina, seeks a Broker's License pursuant to North Carolina General Statutes 62-263 to act as a Broker in intrastate operations from Richmond, Anson, Scotland and Robeson Counties to various places in North Carolina and the return trips to those same counties. By order issued December 16, 1974, the Commission, being of the opinion that such application was a matter affecting the public interest, assigned the matter for public hearing in the Commission Hearing Room at the above captioned time and place and required that protests, if any, be filed with the Commission on or before January 12, 1975.

No protests were filed with the Commission.

The matter came on for hearing at the time and place above stated. The applicant offered the testimony of Ms. Ruth Tanner, and Mr. Walter F. Long, III. The applicant filed as

a late exhibit a Broker's Surety Bond in the amount of $5,000.00 in accordance with Commission rules and regulations.

Based upon the foregoing, the verified application, the matters and things offered into evidence at the hearing and the entire record in this proceeding, the Examiner now makes the following

FINDINGS OF FACT

1. That the Applicant's employees have had experience in organizing and conducting tours of groups of varying sizes.

2. That the applicant proposes to offer an intrastate tour service, originating from Richmond, Anson, Scotland and Robeson Counties to various points in North Carolina and the return trips to these same counties.

3. That no other individual, group or agency in the applied for area is presently offering such service to the public.

4. That the applicant has contacted numerous groups, associations and organizations in the applied for counties and is of the opinion that there is a great interest on the part of such groups in utilizing the services which the applicant proposes to offer.

5. That the applicant proposes to use and engage only those motor carriers authorized by this Commission to transport passengers by motor vehicles in intrastate commerce in North Carolina. Several of these common carriers have assured the applicant that buses will be available for the tours which the applicant proposes to organize.

6. The applicant is not now and has never been an employee or agent of any such licensed motor common carrier.

7. That the service proposed by the applicant is desired by persons, groups and organizations in the counties proposed to be served by the applicant and will be used by the public in such area.

8. That the applicant is fit, willing and able to properly perform the proposed service.

9. That the Applicant has filed with the Commission a valid and sufficient bond of the type required by G. S. 62-263(e) and Commission Rule R2-66(c).

Based upon the foregoing Findings of Fact, the Examiner now reaches the following

CONCLUSIONS

It is clear from the record herein that the Applicant has satisfied the statutory requirements in that the applicant is fit, willing and able properly to perform the service proposed by it and to conform to the provisions of the Public Utilities Act as they relate to brokers and the rules, requirements and regulations of this Commission pertaining to brokers. Further, it is clear that the proposed service will be consistent with the public interest and policy declared in the Public Utilities Act. Under such circumstances, the Commission has no discretionary authority to deny the Application. The language of the statute, in the circumstances, is mandatory and not discretionary. N.C.G.S. 62-263(d) reads in pertinent part: "A license shall be issued to any qualified Applicant therefor . . ." (Emphasis Added).

The standard of proof required in an Application for a Broker's License is different from and far less than the standard required in an Application for common carrier or contract carrier authority. The Applicant for a Broker's License does not have to prove that the issuance of such license is required by public convenience and necessity. It is sufficient if the Applicant proves his or her qualifications and that the services as proposed will, in fact, be used. The Commission is not required by the statute to consider the competitive effect that the issuance of a Broker's License will have upon other licensed brokers in the area sought to be served.

For these reasons, the Commission is of the opinion and hereby concludes that the Application should be granted.

IT IS, THEREFORE, ORDERED that the Application in Docket No. B-322 be granted and that the Applicant, Long's Travel Agency - Division of Long's of Rockingham be issued a license to engage in the business of a broker for tours to be conducted in intrastate operations from Richmond, Anson, Scotland, and Robeson Counties to various places in North Carolina and the return trips to these counties; that the bond filed as a late filed exhibit is accepted as valid and sufficient under the provisions of G. S. 62-263 and Commission Rule R2-66(c).

ISSUED BY ORDER OF THE COMMISSION.

This the 10th day of February, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. B-321

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Per-Flo Travel Agency, Inc., Route 6, Box 475, Goldsboro, North Carolina - Application for License to Engage in the Business of a Broker in Intrastate Operations Within the State of North Carolina	) RECOMMENDED) ORDER) APPROVING) APPLICATION)

HEARD IN: The Commission Library, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on January 8, 1975, at 9:30 A.M.

BEFORE: John R. Molm, Hearing Examiner

APPEARANCES:

For the Applicant:

Wade H. Hargrove
Tharrington, Smith & Hargrove
300 Branch Bank Building
Raleigh, North Carolina 27602

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
Ruffin Building
Raleigh, North Carolina 27602

BY THE EXAMINER: By Application filed with the Commission on November 12, 1974, the Applicant Per-Flo Travel Agency, Inc., Route 6, Box 475, Goldsboro, North Carolina, seeks a broker's license to engage in the business of arranging for the transportation of passengers and their baggage by motor vehicle in intrastate commerce in North Carolina.

The matter came on for hearing on January 8, 1975, in the Commission Library. The Applicant offered the testimony of Florence H. Perkins, 707 Ridge Drive, Goldsboro, North Carolina 27530, who testified that she had one year's experience as an agent for Greyhound Tours; that she would terminate her relationship with Greyhound upon approval of this application; that this experience supported her belief that the proposed service is desired and will be used by the public; and that she plans to arrange tours in the summer months and on the weekends for people living in and around Goldsboro, North Carolina.

On January 29, 1975, a performance bond for Per-Flo Travel Agency, Inc., in the amount of $5,000.00 was filed as a late exhibit pursuant to N.C.G.S. §62-263(e).

The Examiner makes the following

FINDINGS OF FACT

1. That the Applicant has had one year's experience engaged as an agent for Greyhound Tours.

2. That the Applicant proposes to use and engage only those motor carriers authorized by this Commission to transport passengers by motor vehicle in intrastate commerce in North Carolina.

3. That the proposed service is desired and will be used by the public.

4. That the Applicant has furnished a bond of the type required by N.C.G.S. §62-263(e).

Based upon the foregoing Findings of Fact, the Examiner makes the following

CONCLUSIONS

1. That the Applicant is fit, willing and able to properly perform the proposed service.

2. That the Applicant shall terminate her relationship with Greyhound Tours upon receipt of this Order.

3. That the proposed service is consistent with the public interest.

4. That the performance bond in the amount of $5,000.00 is sufficient for the protection of travelers by motor vehicle.

IT IS, THEREFORE, ORDERED that the Applicant Per-Flo Travel Agency, Inc., be issued a license to engage in the business of a broker in arranging for the transportation of passengers and their baggage by motor vehicle in intrastate commerce in North Carolina upon termination of her relationship with Greyhound Tours.

ISSUED BY ORDER OF THE COMMISSION.

This 10th day of February, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. B-209, SUB 7

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Duke Power Company - Suspension and)
Investigation of Proposed Increase) ORDER
in Motor Bus Passenger Fares and) GRANTING
Charges in the City of Durham, North) RATE
Carolina, and Vicinity, Scheduled) INCREASE
to become effective March 17, 1975)

HEARD IN: City Council Chambers, Second Floor, City Hall, Durham, North Carolina, on May 7, 1975

BEFORE: Jerry B. Fruitt, Hearing Examiner, upon Stipulation that all Commissioners participate in the Decision upon reading transcript and reviewing record. Chairman Marvin R. Wooten, Commissioners Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

George W. Ferguson, Jr.
Duke Power Company - Legal Counsel
P. O. Box 2178
Charlotte, North Carolina 28242

John M. Murchison, Jr.
Kennedy, Covington, Lobdell & Hickman
Attorneys at Law
3300 N.C.N.B. Plaza
Charlotte, North Carolina

For the Protestants:

William I. Thornton, Jr.
City of Durham - City Attorney
P. O. Box 2251 - City Hall
Durham, North Carolina
For: City of Durham

For the Commission Staff:

E. Gregory Stott
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On December 17, 1974, Duke Power Company (Applicant) filed with the Commission request for authority to increase its motor bus passenger fares and charges applicable on the transportation of passengers in

the City of Durham, North Carolina, and vicinity, to become effective January 16, 1975. The fares presently in effect are as follows:

Cash	20¢
Transfer	5¢
Tickets (Business Office)	5/90¢
Tickets (Operator)	5/$1.00
Students (Tickets from Business Office)	5/40¢
Student (Operator)	10¢

The fares that the Applicant hereby seeks authority to put into effect are:

Cash	30¢
Transfer	10¢
Tickets	5/$1.50
Student (Free transfers)	15¢
Student Tickets (Free transfers)	10/$1.50

On January 16, 1975, the Applicant filed a letter (treated as an Amendment to the Application) with the Commission, requesting that the proposed increase in fares and charges be allowed to become effective March 17, 1975, in lieu of January 16, 1975 as evidenced by the filing with the Commission of the original tariff schedule.

A Protest to the Application was filed with the Commission on February 14, 1975, by Mr. W. E. Thornton, Jr., City Attorney, Durham, North Carolina, for and on behalf of the City of Durham, to the proposed increase in rates and charges herein sought and requesting that it be admitted as a Protestant and Intervenor in the above docket.

The Commission, being of the opinion that the proposed increases affected the public interest, by Commission Order issued March 11, 1975 suspended the proposed tariff, declared the matter a general rate case, instituted an investigation into the lawfulness of the tariff, and set the matter for hearing in Durham, North Carolina. The Protest filed by the City of Durham on February 14, 1975 was allowed by the above referred to Commission Order of March 11, 1975.

The hearing on the Applicant's proposed increases was held as scheduled. The Applicant, Duke Power Company, was present and represented by counsel. The Commission Staff and the City of Durham were present and represented by counsel. In support of the proposed tariff increases, the Company offered the testimony and exhibits of the following witnesses: Mr. Donald M. Jenkins, a rate engineer with Duke Power Company; Mr. Richard G. Ranson, Manager of Financial Administration for Duke Power Company; Mr. William G. Plyler, Superintendent of Transportation for Duke Power Company in Durham, North Carolina. The Commission Staff presented two witnesses: Mr. Gary Jewell, Staff Accountant;

and Mr. James L. Rose, Rate Specialist III, Traffic Division.

The public hearing was well attended with more than 100 people present. The following citizens testified: James Robert Hawkins, Mayor of Durham, expressing the City's concern over the proposed increase and the plight of senior citizens; Mr. Wade Lynn Cavin, Member Durham City Council, who spoke especially for reduced fares for senior citizens; Ms. Bessie Ware, Member of West Durham Group of Senior Citizens, speaking in support of reduced fares for senior citizens; Ms. Josephine Turner, President of East End Neighborhood Council, speaking in support of reduced fares for senior citizens; Ms. Denise Chatham, President of Durham High School Student Body, advocating reduced fares for senior citizens; Ms. Christine Strudwick testifying on poor bus service and the need for reduced fares for senior citizens; Mr. Robert Howard Harris, testifying as to the plight of senior citizens; Mr. Carter C. Smith, Jr., Member of the Board of Directors of the Coordinating Council for Senior Citizens, speaking in support of reduced fares for senior citizens; Mr. C. E. Boulware, Member of Durham City Council, testifying in support of improved bus service and reduced fares for senior citizens; Mr. T. R. Bane, testifying on the problems of the elderly.

The major complaint to the proposed increases in fares expressed by the public witnesses was the need for some form of additional aid for senior citizens in the Durham area. Several of the public witnesses gave examples indicating that the service was not sufficiently dependable and convenient urging that improvements in service be forthcoming.

Based on the record in this docket, including the application of Duke Power Company, and the evidence and exhibits presented at the hearing, the Commission makes the following:

FINDINGS OF FACT

1. Duke Power Company is engaged in the transportation of passengers for compensation in the City of Durham, North Carolina, and is subject to the jurisdiction of this Commission with respect to the fixing of rates and charges.

2. Duke Power Company seeks authority from the Commission to increase its tariffs and fares as follows: Cash fare from 20¢ to 30¢; transfer fee from 5¢ to 10¢; ticket fee from 5 for 90¢ (purchased from business office) and 5 for $1.00 (purchased from bus operator) to 5 for $1.50; student ticket fee from 5 for 40¢ (purchased from business office) or 10¢ each (purchased from bus operator) to 15¢ including free transfers.

3. For the 12 months ended June 30, 1974 Duke Power Company had a net operating loss of $252,930 per books on

its transit operations in Durham, North Carolina. The Company's operating ratio for the same year before income taxes was 172%.

4. For the 12 months ended June 30, 1975 the projected net operating loss without the proposed increase would be a net operating loss of $627,332. The Company's operating ratio for the same year before income taxes was 190.1%.

5. Two factors responsible for the decline in the Company's net operating revenues over the last several years are the decrease in the number of passengers carried by the company and the increase in the company's operating expenses.

6. The number of adult passengers carried annually by Duke Power Company's transit system in the Durham, North Carolina area has declined steadily since 1971 except for a minor increase in 1973. For 1971 the number of adult passengers carried annually totaled 2,851,782 whereas for 1974 the number had declined to 2,577,899, and the company projects a decline to 2,489,735 for the year 1975.

7. Duke Power Company's Durham bus system has also experienced declines in the number of student passengers and the revenue derived therefrom.

8. Duke Power Company's bus system operating in Durham, North Carolina is facing increased operating costs for the year 1975; increases in the cost of goods and services as a result of inflation, increases in taxes, and increases in almost all other areas of operating expense.

9. Based upon current operating revenue trends and passenger declines, and upon projected increases in operating expenses Duke Power Company will realize a net operating loss for the 12 months ended June 30, 1975 of approximately $627,332 under its present rate structure. The company's operating ratio for the year will be approximately 190.1%. With the proposed increase Duke's net operating loss for the 12 months ended June 30, 1975 would have been approximately $425,189. The company's operating rates for the year had the proposed rates been in effect would have been 147.3%.

10. Duke Power Company's Durham Transit System needs additional operating revenue in 1975 to partially offset the projected operating losses during the year.

11. Duke Power Company has projected that its proposed fare increases will result in approximately $181,624 additional operating revenues for the 12 months ended June 30, 1974. The Company's projections are based upon a diminution factor of .258% loss in passengers for each 1% increase in the average fare (based on Duke's actual experience in Durham). The diminution factor measures the

loss of passengers resulting from the adoption of the proposed fare increases.

12. An increase in the company's full fare passengers from 20¢ to 30¢ will produce approximately $139,554 additional revenues for the company for the 12 months ended June 30, 1974 based upon the diminution factor developed by the company and accepted by the Staff.

13. Passengers using the buses of Duke Power Company are experiencing some difficulties in service. Testimony of the public witnesses at the hearing shows the following: The service is not sufficiently dependable; schedules and other information available to the passengers are not readily available; some drivers have been discourteous and rude to the passengers.

Based on the above Findings of Fact, the Commission makes the following:

CONCLUSIONS

Duke Power Company by Application filed with this Commission is seeking increases in its rates and charges for passenger service in Durham, North Carolina. The evidence and exhibits presented by the company and by the Commission Staff lead to the conclusion that the company is faced with substantial operating losses for the year 1975. The reason for these losses is twofold: a continuing decline in the number of passengers who ride the company's buses, and an increase in operating expenses incurred by the company. Since 1971 the number of passengers carried by Duke Power Company has declined at a steady rate each year, except for a slight increase in 1973. At the same time, the cost of goods and services used by the company in its operations has increased. For the 12 months ended June 30, 1974 the company's operating ratio was 172%. The Commission finds and concludes that this operating ratio is unjust and unfair to the company.

The Commission finds and concludes that Duke Power Company realized a net operating loss of approximately $252,930 under the company's present rate structure for the 12 months ended June 30, 1974 and the company's operating ratio for that year was 172%. The company, in its evidence and exhibits, projects that the proposed fare increases will result in approximately $181,624 additional operating revenues during the 12 months ended June 30, 1974 and in an operating ratio of 147%. The diminution factor of .258% loss in passengers for each 1% increase in the average fare used by the Company was computed from the actual passenger-loss experience of Duke Power Company in Durham, North Carolina. The Commission accepts the diminution factor developed by the Company.

The Commission approves an increase in full fares from 20¢ to 30¢ and the full fare tickets from 5 for 90¢ from the

business office and 5 for $1.00 from the operator to 5 for $1.50, increases in student fares from 10¢ to 15¢ and from 5 for 40¢ to 10 for $1.50 (all students receive free transfers), and increases in transfers from 5¢ to 10¢. The Commission finds this fare increase to be just, reasonable, and compensatory to the company.

The Commission is concerned over the quality of service that Duke Power Company provides to its passengers. The large turnout of public witnesses in Durham, demonstrated the interest that the citizens of Durham have in the service and rates of the company. Witnesses from all walks of life testified to the problems they encountered in using the company's buses. Under the laws of North Carolina, jurisdiction over the operation of Duke Power Company's Bus System is divided between the Utilities Commission and the City of Durham. The Commission is responsible for the fixing of rates. The City is primarily responsible for the awarding of the franchise, the approval of routes, and the adequacy of service. The Commission invites and enjoins the City of Durham to fulfill its responsibility by ensuring that the service of the company will be responsive to the needs of the people of Durham.

In recognition of the large number of protests received in this proceeding from senior citizens who presented evidence that an increase in bus fares would further worsen their financial plight in this inflationary period, this Commission admonishes the City of Durham to explore the feasibility of a program whereby senior citizens could receive some type of credit on the purchase of bus transportation tickets. This Commission has agonized at length as to whether there is some way to equitably administer the public utility laws and make some provision for relief for senior citizens insofar as their bus transportation expenses are concerned, and conclude that we cannot do so without creating more inequities. Such a subsidy, if it is to be borne at all, should be borne by the entire taxpayer body, and not merely by the fellow users of a certain service.

IT IS, THEREFORE, ORDERED as follows:

1. That the Order of Suspension in this docket dated March 11, 1975, be, and the same hereby is, vacated and set aside for the purpose of allowing Local Passenger Tariff No. 1-A, N.C.U.C. No. 11 to become effective.

2. That the publication authorized hereby may be made on five days' notice to the Commission and to the public but in all other respects shall comply with the rules and regulations of the Commission governing construction, filing and posting of tariff schedules.

ISSUED BY ORDER OF THE COMMISSION.

This the 18th day of June, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Anne L. Olive, Deputy Clerk

(SEAL)

DOCKET NO. B-105, SUB 34

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Motor Bus Common Carriers - Suspension and Investigation of Proposed Increases in Intercity Bus Passenger Fares, Bus Package Express Rates and Charges and Charter Coach Rates and Charges, Scheduled to Become Effective October 1, 1974, and Revisions of Rules Regarding Children's Fares, Effective December 1, 10 and 16, 1974	)	ORDER APPROVING PROPOSED INCREASED FARES, RATES AND CHARGES; AND REVISION OF RULES REGARDING CHILDREN'S FARES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on January 21 and 22, 1975

BEFORE: Commissioner George T. Clark, Jr., Presiding, Commissioner Ben E. Roney and Commissioner Tenney I. Deane, Jr., with Chairman Marvin R. Wooten and Commissioner Hugh A. Wells to Read the Record and Participate in the Decision

APPEARANCES:

For the Respondents:

Arch T. Allen, Esq.
Arch T. Allen, III, Esq.
Allen, Steed & Pullen, P.A.
Attorneys at Law
P. O. Box 2058
Raleigh, North Carolina 27602
Appearing for: Carolina Coach Company

R. C. Howison, Jr., Esq.
Joyner & Howison
Attorneys at Law
Wachovia Bank Building
Raleigh, North Carolina 27602
Appearing for: Continental Southeastern Lines, Inc.

J. Ruffin Bailey, Esq.
Bailey, Dixon, Wooten, McDonald & Fountain
Attorneys at Law
P. O. Box 2246
Raleigh, North Carolina 27602
Appearing for: Greyhound Lines, Inc.

David L. Ward, Jr., Esq.
Ward, Tucker, Ward & Smith, P.A.
Attorneys at Law
310 Broad Street
New Bern, North Carolina 28560
Appearing for: Seashore Transportation Company

Clarence H. Noah, Esq.
Attorney at Law
1425 Park Drive
Raleigh, North Carolina 27605
Appearing for: Southern Coach Company

For the North Carolina Attorney General:

Jesse C. Brake, Esq.
Associate Attorney General
North Carolina Department of Justice
P. O. Box 629
Raleigh, North Carolina 27602

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
John R. Molm, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On August 27, 1974, Appalachian Coach Company, Incorporated; Carolina Coach Company; Central Buslines of N. C., S. D. Small, d/b/a; Continental Southeastern Lines, Inc.; D & M Bus Co., a Corporation; Fort Bragg Coach Company; Gaston-Lincoln Transit, Inc.; Greyhound Lines, Inc.; Piedmont Coach Lines, Inc.; Safety Transit Lines, R. H. Gauldin, d/b/a; Seashore Transportation Company; Silver Fox Lines, a Corporation; Southern Coach Company; Suburban Coach Lines, Incorporated; Virginia Dare Transportation Company, Inc.; Wilkes Transportation Company, Inc.; and National Bus Traffic Association, Inc., Agent, either individually and/or by National Bus Traffic Association, Inc., Agent, for and on behalf of its member carriers, filed with this Commission certain tariff schedules containing a proposed increase of five percent (5%) in bus passenger fares with resulting increased fares rounded to end in the next "0" or "5"; a proposed increase of approximately seven percent (7%) in bus express package rates with resulting increased rates rounded to end in the

next "0" or "5"; and, a proposed increase in charter coach rates and charges, involving North Carolina intrastate transportation by Motor Bus Common Carriers; also the proposal to incorporate the then current six percent (6%) emergency fuel surcharge into the fares, rates and charges, scheduled to become effective October 1, 1974, with the proposed passenger, express and charter coach tariff schedules being as enumerated and described herein in Appendix I attached hereto and made a part hereof. The Commission, being of the opinion that the proposed increased bus passenger fares, package express rates and charges, and charter coach rates and charges, and practices in connection therewith are matters affecting the public interest, found and concluded that the involved tariff schedules should be suspended, an investigation instituted, and the matter assigned for hearing with view of determining whether said publications are just, reasonable, and otherwise lawful. Subsequently, the Commission received for filing additional tariff schedules by the National Bus Traffic Association, Inc., Agent, for and on behalf of its member carriers and by Carolina Coach Company proposing a revision of rules regarding children's fares in connection with intrastate traffic in North Carolina and designated as follows:

(1) National Bus Traffic Association, Inc., Agent, National Passenger Tariff No. 1000, N.C.U.C. No. 31, Forty-Fifth Revised Page A3-1, thereto, Rule No. 1-E, thereof, scheduled to become effective December 1, 1974;

(2) National Bus Traffic Association, Inc., Agent, Special Service Charge Tariff No. B-570-E, N.C.U.C. No. 248, Supplement No. 1, thereto, scheduled to become effective December 16, 1974;

(3) Carolina Coach Company, Local Passenger Tariff No. 22-D, N.C.U.C. No. 112, Supplement No. 8, thereto, scheduled to become effective December 10, 1974; and

(4) Carolina Coach Company, Local Passenger Tariff No. 23-D, N.C.U.C. No. 115, Supplement No. 8, thereto, scheduled to become effective December 10, 1974,

and the Commission being of the opinion that the proposed revisions of rules regarding children's fares, and practices in connection therewith, is a matter affecting the public interest, the Commission found and concluded that the involved tariff schedules should be suspended, an investigation instituted, and the matter assigned and consolidated for hearing with other matters in this docket with view of determining whether said publications are just, reasonable, and otherwise lawful. Accordingly, the proposed tariff schedules were suspended to and including June 27, 1975.

Respondents were required to give notice of the time, place and purpose of the hearing by the publication in the

following newspapers of a notice in regard thereto, as set forth in Appendix II attached hereto and made a part hereof; Citizen-Times, Asheville, North Carolina; Observer-News, Charlotte, North Carolina; Journal-Twin City Sentinel, Winston-Salem, North Carolina; News-Record, Greensboro, North Carolina; News & Observer-Times, Raleigh, North Carolina; Evening Telegram, Rocky Mount, North Carolina; Observer, Fayetteville, North Carolina; Sun-Journal, New Bern, North Carolina; Star News, Wilmington, North Carolina; Advance, Elizabeth City, North Carolina, said newspapers having general circulation in involved areas of North Carolina, with said publication to be made not more than fifteen (15) nor less than ten (10) days prior to the date of hearing hereinafter fixed.

On September 10, 1974, the Attorney General of North Carolina filed Notice of Intervention on behalf of the using and consuming public of the State of North Carolina pursuant to G.S. 62-20. On September 24, 1974, the Commission issued an Order recognizing the intervention of the Attorney General as a party of record.

On September 26, 1974, the Commission issued its Order suspending the proposed tariff schedules to and including June 27, 1975, and set the matter for investigation and hearing. The passenger carriers were made respondents in this proceeding and were given the burden of proof of showing that the proposed revised rates and charges were just and reasonable. The respondents were also required to give notice of the hearing in certain newspapers having a general circulation throughout the State.

On November 7, 1974, the Commission, upon the verbal motion of counsel for respondent carriers, convened a prehearing conference with the Commission, its Staff, and all the parties to the docket. At this conference, the respondents filed a motion asking that this proceeding be expedited so as to permit the proposed increases to go into effect at an earlier date than was provided for in the Order of Suspension and Investigation. The Commission's Staff and the Attorney General each filed responses in opposition to the aforesaid motion of the motor carriers. Subsequently, on December 16, 1974, the Commission issued an Order denying the motion of respondent carriers for expedited relief.

On November 21, 1974, the Commission Staff filed a motion requesting a prehearing conference between the Staff and Carolina Coach Company, a respondent in this docket. The Staff alleged that a conference was necessary in order to discuss the company's traffic sampling data. The Commission granted the motion of the Staff and ordered a prehearing conference for November 27, 1974.

The hearing in this docket was convened on Tuesday, January 21, 1975, in the Commission Hearing Room in Raleigh. The respondents presented the testimony and exhibits of the following witnesses: R. C. O'Bryan, Traffic Manager of

Seashore Transportation Company; C. H. Hall, Vice President and General Manager of Seashore Transportation Company; Malcolm Myers, Director of Traffic of Continental Southeastern Lines, Inc.; Robert E. Brown, Treasurer of Carolina Coach Company; Aaron Cruise, Vice President of Traffic, Carolina Coach Company; Robert L. Wilson, Director of Traffic of Greyhound Lines, Inc.; and G. V. McQuinn, Internal Auditor of Greyhound Lines, Inc. - Eastern Division.

The Commission Staff presented the testimony and exhibits of the following witnesses: James L. Rose, Rate Specialist III, in the Traffic-Transportation Division of the Commission; James C. Turner, Staff Accountant of the Accounting Division of the Commission; George E. Dennis, Staff Accountant of the Accounting Division of the Commission; and Gary Jewell, Staff Accountant of the Accounting Division of the Commission.

Based upon the record in this docket, and the evidence and the exhibits presented at the hearing, the Commission makes the following

FINDINGS OF FACT

(1) The respondent carriers of passengers in this docket are engaged in the intercity transportation of passengers in North Carolina intrastate commerce, and are subject to the jurisdiction of this Commission.

(2) Four (4) of the respondent carriers offered testimony and exhibits in this proceeding: Carolina Coach Company, Seashore Transportation Company, Greyhound Lines, Inc., and Continental Southeastern Lines. These four carriers transport approximately 85% of the North Carolina intrastate intercity passenger traffic.

(3) In the previous general rate proceeding, Docket No. B-105, Sub 33, the respondent carriers were allowed increases in their rates and charges pursuant to an Order dated October 5, 1973. Since that date these carriers have experienced substantial increases in their operating expenses.

(4) Seashore Transportation Company, whose operation is in 17 eastern North Carolina counties, experienced a North Carolina intrastate operating ratio of 101.0% in the test year 1973. Even if the proposed increases are granted, Seashore projects a 1974 intrastate operating ratio of 101.98%. This projection is based upon 1974 intrastate revenues of $990,852 and operating expenses of $1,010,500.

(5) Seashore Transportation Company has experienced a substantial increase in operating expenses since the last general rate increase in October 1973. For example, wages paid by Seashore for the first six (6) months of 1974 as compared to the first six (6) months of 1973 increased

|0.43%. Fuel costs for the first six (6) months of |974 as compared to the first six (6) months of |973 increased |39.45%. A new Silver Eagle bus cost the company approximately $63,000 in |973 and more than $66,000 in |974.

(6) Continental Southeastern Lines, Inc., experienced a North Carolina intrastate operating ratio of |0|.9% for the test year ending June 30, |974. For the projected year without the rate relief requested, Continental Southeastern would experience for its North Carolina intrastate operations an operating loss of $82,365 and an operating ratio of |02.6%.

(7) Continental Southeastern has likewise experienced a substantial increase in costs. For example, drivers' rates per mile increased 9.2% in |974 over |973. Salaries for mechanics have increased 6.83% over the same time period; other shop and garage salaries have increased |0.0%. For the |2 months ended June 30, |974, the company's fuel cost was $559,089. Applying the June |974 cost to the entire year, the fuel cost would have been $360,000 higher.

(8) Carolina Coach Company offered evidence that its actual intrastate operating ratio for the test year ending December 3|, |973, was 87.2|%, and a pro forma adjusted operating ratio was 93.7%. The Traffic Study of Carolina Coach Company, which was used to develop the company's exhibits in this docket, used a ticket sample study embracing the period May 4, |974, to June 30, |974, in order to determine test year intrastate passenger revenues of $|,628,493. Carolina Coach Company was affected by a drivers' strike from December 9, |973, through April |, |974, and the operations of the company came to a complete halt. The ticket sample period used by Carolina Coach in this docket began only a month after the company resumed operations from the drivers' strike. Carolina Coach Company's operating revenues were adversely affected by the drivers' strike and do not reflect the normal operating conditions of the company.

(9) For the test year ending August 3|, |974, Greyhound Lines, Inc., experienced a North Carolina intrastate operating ratio of |03.65%. With the proposed increases sought in this proceeding, Greyhound Lines would experience an intrastate operating ratio of 99.8% in the pro forma year.

(|0) Greyhound Lines has likewise experienced increases in operating expenses. The drivers' rate per mile has increased 32.|4%; ticket agents by 33.|4%; and express agents by 34.63%. Social Security taxes have increased |20% over |970. As of August 3|, |974, Greyhound fuel costs have increased |||.0% over August |973.

Based upon the Findings of Fact set forth above, the Commission makes the following

CONCLUSIONS

In fixing rates for motor common carriers of passengers operating in intrastate commerce, the Commission must follow the mandate of G.S. 62-|46(g), which provides in part:

> "In any proceeding to determine the justness or reasonableness of any rate of any common carrier by motor vehicle, ...such rates shall be fixed and approved...on the basis of the operating ratios of such carriers, being the ratio of their operating expenses to their operating revenues at a ratio to be determined by the Commission..."

In its Order of Suspension and Investigation in this docket, the Commission placed upon the respondent motor carriers participating herein the burden of proof to establish that the proposed rates and charges are just and reasonable and otherwise lawful. The respondent carriers have met the burden of proof that the rates and charges proposed by them are just and reasonable and otherwise lawful.

The evidence and exhibits of the respondent carriers reflect the impact of increasing operating costs upon their North Carolina intrastate operations. Seashore Transportation Company, the only carrier whose operations lie solely within the State, established that it experienced an intrastate operating ratio of |0|.0% during the test year. Continental Southeastern Lines, another participating carrier, established that its test year intrastate operating ratio was |0|.9%. Greyhound Lines has a test year operating ratio of |03.65%.

The Commission finds and concludes that the operating ratios experienced by the carriers participating in this docket are unjust and unfair to the companies and that the proposed increases in rates and charges should be approved. The Commission is further of the opinion that the proposed rates and charges should become effective upon one (|) day's notice, and that the Order of Suspension and Investigation in this docket should be withdrawn.

In this proceeding, the Commission Accounting Staff offered alternative methods for computing North Carolina intrastate revenues and allocating expenses to the carriers' North Carolina intrastate operations. The Staff contended that such alternative computations and allocations result in a more accurate determination of North Carolina intrastate operating ratios (see Mr. Jewell's Exhibit No. 3 and Mr. Turner's Exhibit No. |). The participating carriers and the Staff are urged to explore alternative methods of allocations in order to improve the reliability and accuracy of revenue and expense comparisons offered in these proceedings.

IT IS, THEREFORE, ORDERED:

(1) That the Commission's Order of Suspension and Investigation in this proceeding be, and the same hereby is, vacated and set aside.

(2) That the suspension supplement to respondents' tariffs be canceled by the filing of appropriate tariff schedules and the suspended tariffs allowed to become effective, publication to be in accordance with Rule R4-5(e) of the Commission's Rules and Regulations governing the construction, posting and filing of transportation tariff schedules.

(3) That the publication authorized hereby may be made effective on one (1) day's notice to the Commission and the public.

(4) That, upon the publication herein authorized having been made, the investigation in this matter be discontinued and same is hereby considered as discontinued and the docket closed.

ISSUED BY ORDER OF THE COMMISSION.

This the 20th day of March, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX I

(1) NATIONAL BUS TRAFFIC ASSOCIATION, INC.

North Carolina Local and Joint Master Table Tariff No. A-932-A, N.C.U.C. No. 25

Supplement No. 15 to National Basing Fare Tariff No. A-100, N.C.U.C. No. 4

Supplement No. 10 to National Passenger Tariff No. A-1000, N.C.U.C. No. 31

Supplement No. 4 to Automotive Bumper Commodity Tariff No. A-652, N.C.U.C. No. 241

Revised Pages B-1, B-2, B-3, B-4, B-5, B-6, B-7, and D-5 to Carolina Charter Coach Tariff No. A-426, N.C.U.C. No. 199

Revised Page F1 to National Express Tariff No. A-600, N.C.U.C. No. 243

(2) APPALACHIAN COACH COMPANY

Supplement No. 2 to Local Passenger Tariff No. 1, N.C.U.C. No. 3

(3) CAROLINA COACH COMPANY

Supplement No. 6 to Local Passenger Tariff No. 22-D, N.C.U.C. No. 112

Supplement No. 6 to Local Passenger Tariff No. 23-D, N.C.U.C. No. 115

(4) CONTINENTAL SOUTHEASTERN LINES

Supplement No. 7 to Local and Interdivision Passenger Tariff No. 28, N.C.U.C. No. 23 (Series of Carolina Scenic Stages, a Corporation)

Supplement No. 5 to Local Passenger Tariff No. 102, N.C.U.C. No. 56 (Series of Smoky Mountain Stages, Incorporated)

Supplement No. 12 to Local Passenger Tariff No. 143, N.C.U.C. No. 168 (Series of Queen City Coach Company)

(5) D & N BUS COMPANY, A CORPORATION

Supplement No. 1 to Local Passenger Tariff No. 7, N.C.U.C. No. 2

(6) FORT BRAGG COACH COMPANY

Local Passenger Tariff No. 7, N.C.U.C. No. 7

(7) GREYHOUND LINES, INC. (GREYHOUND LINES - EAST DIVISION)

Supplement No. 4 to Local Passenger Tariff No. 193-C, N.C.U.C. No. 15

Supplement No. 4 to Local Passenger Tariff No. 218-B, N.C.U.C. No. 16

Supplement No. 4 to Local Passenger Tariff No. 197-C, N.C.U.C. No. 21

Supplement No. 4 to Local Passenger Tariff No. 264-B, N.C.U.C. No. 22

Supplement No. 4 to Local Passenger Tariff No. 265-C, N.C.U.C. No. 23

(8) PIEDMONT COACH LINES, INC.

Charter Coach Tariff No. 7, N.C.U.C. No. 12

(9) SEASHORE TRANSPORTATION COMPANY

Supplement No. 6 to Local and Interdivision Passenger Tariff No. 19-B, N.C.U.C. No. 6

(10) SOUTHERN COACH COMPANY

Supplement No. 4 to Local Passenger Tariff No. 1-H, N.C.U.C. No. 15

(11) WILKES TRANSPORTATION COMPANY, INC.

Supplement No. 4 to Local Passenger Tariff No. 5, N.C.U.C. No. 10

Supplement No. 6 to Charter Coach Tariff No. 3, N.C.U.C. No. 8

APPENDIX II

DOCKET NO. B-105, SUB 34

MOTOR BUS COMMON CARRIERS - SUSPENSION AND INVESTIGATION OF PROPOSED INCREASES IN INTERCITY BUS PASSENGER FARES, BUS PACKAGE EXPRESS RATES AND CHARGES AND CHARTER COACH RATES AND CHARGES, EFFECTIVE OCTOBER 1, 1974	))))	NOTICE

NOTICE OF PROPOSED INCREASE IN BUS PASSENGER FARES, BUS EXPRESS RATES AND CHARTER COACH RATES.

Notice is hereby given that proposed increases of five (5%) percent in bus passenger fares and increases in bus express package rates and in charter coach rates have been suspended by the North Carolina Utilities Commission and an investigation into and concerning same instituted.

Anyone opposing or feeling aggrieved by the proposed increases may file a protest with the Commission or appear at the hearing which will be conducted in the Courtroom of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Tuesday, January 21, 1975, at 10:00 A.M., when they will be offered an opportunity to place their views on the matter in the official record.

This the 26th day of September, 1974.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

NOTICE TO PRINTER: Charges to be paid by National Bus Traffic Association, Inc., Agent.

DOCKET NO. T-127, SUB 11

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Kenan Transport Company, Incorporated, P. O. Box 2934, Durham, North Carolina 27705 - Application for Authority to Transfer Common Carrier Certificate No. C-862 from Bulk Haulers, Inc., P. O. Box 3601, Wilmington, North Carolina 28401, to Kenan Transport Company, Incorporated, Through a Proposed Stock Transfer and Subsequent Merger	ORDER GRANTING APPLICATION

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on November 14, 1974

BEFORE: D. D. Coordes, Hearing Examiner, Reviewed by Chairman Wooten, and Commissioners Roney, Deane and Clark

APPEARANCES:

For the Applicant:

Tom Steed, Jr.
Arch T. Allen, III
Allen, Steed & Pullen
Attorneys at Law
P. O. Box 2058
Raleigh, North Carolina

For the Protestant:

R. Mayne Albright
Attorney at Law
P. O. Box 1206
Raleigh, North Carolina 27602
For: Public Transport Corporation

For the Commission Staff:

Wilson B. Partin, Jr.
Assistant Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: By joint Petition and Application filed August 26, 1974, Kenan Transport Company (Kenan), Durham, North Carolina, and Bulk Haulers, Inc. (Bulk), Wilmington, North Carolina, by their attorneys, Thomas W. Steed, Jr., and Arch T. Allen, III, Allen, Steed & Pullen, Raleigh, North Carolina, seek approval of the transfer of Common Carrier Certificate No. C-862, together with the

operating rights contained therein, from Bulk to Kenan, through a proposed stock transfer and subsequent merger.

Notice of the Petition and Application, together with the description of the involved authority, along with the time and place of hearing was published in the Commission's Calendar of Hearings issued October 9, 1974.

Timely protest and motion for intervention was filed on November 4, 1974, by Public Transport Corporation, Inc. (Public), Troutman, North Carolina, through its attorney, R. Mayne Albright, Raleigh, North Carolina, for the sole reason, as stated therein, to assure future compliance with the terms of an Installment Sales Agreement, dated July 12, 1972, and of a Motor Vehicle Lease and Agreement dated March 1, 1973, between Bulk and Public, in the event of the sale of stock and subsequent merger as sought in the Petition. Order allowing protest and motion for intervention by Public was issued by the Commission on November 12, 1974.

At the call of the hearing at the captioned time and place, Kenan, Bulk and Public were present and were represented by counsel.

Applicants' Counsel stipulated that there exists between Transferor Bulk and Protestant Public an Installment Sales Agreement, dated July 12, 1972, calling for additional annual installment payments and interest, and also a Motor Vehicle Lease and Agreement dated March 1, 1973, and that Kenan, as the owner of the stock of Bulk, in the event the stock transfer is approved by the Commission, or as successor to Bulk, in the event the stock transfer is approved with subsequent merger of Bulk into Kenan, will comply with the legal obligations of Bulk under those agreements. With the entry of this stipulation into the record, Public formally withdrew its protest.

Applicants offered the testimony of Mr. L. W. Latham, President of Bulk Haulers, Inc., and Mr. Lee P. Shaffer, Executive Vice President and Chief Operating Officer of Kenan Transport Company.

Mr. Latham testified as to the operations of his company; that Bulk has been actively engaged in transportation activities under its authority; that Bulk has entered into a sales agreement with Kenan by which all of the outstanding stock of Bulk would be sold to Kenan and that his health was a major factor in his decision to enter into the sales agreement with Kenan.

Mr. Lee Shaffer offered testimony as to the operations of Kenan; that Kenan is a petroleum carrier and also transports anhydrous ammonia and nitrogen fertilizer solutions; that Kenan had entered into an agreement to purchase the stock of Bulk; that Kenan is a petroleum carrier and Bulk is a chemical transporter; that because of this the operations are very conducive to merger; that Kenan's present

operations are consistent with the type of operations it would conduct under Bulk's certificate and that Kenan would not only continue to provide the service to the public that is now being provided by Bulk but would make every effort to expand that service if the instant application is approved.

Mr. Shaffer testified further that Kenan is financially and otherwise capable to fully carry out the transportation activities now being conducted by Bulk under its certificate; that it would not have any adverse effect on present Kenan operations; that it would actually compliment and strengthen the present Kenan operations; that the utilization of the present Bulk and Kenan fleets can be increased and make a more efficient operation within the State of North Carolina.

Having considered the evidence presented, the application, the record in this matter as a whole and of the Commission's records of which judicial notice is taken, the Hearing Examiner makes the following:

FINDINGS OF FACT

(1) That Transferor, Bulk Haulers, Inc., is the owner of Common Carrier Certificate No. C-862 sought to be transferred.

(2) That Bulk is currently conducting operations under Common Carrier Certificate No. C-862.

(3) That there are no debts or claims against Bulk of the nature specified in G.S. 62-111(c).

(4) That L. W. Latham and Mrs. E. W. Harvey each own one-half of Bulk's 730 outstanding shares of stock.

(5) That an agreement has been entered into for the sale and transfer of all outstanding stock of Bulk from L. W. Latham and Mrs. E. W. Harvey to Kenan under terms as set forth in the agreement.

(6) That Kenan is able financially and otherwise to consummate the transaction and to conduct operations under the acquired certificate.

(7) That there will be no diminution in the level of service offered to the public by Kenan under Bulk's authority as compared to that currently being offered by Bulk.

(8) The acquisition of Bulk's certificate by Kenan and subsequent merger of Bulk into Kenan would result in the duplication of certain operating authorities, i.e. transportation of phosphate products.

CONCLUSIONS

Based upon the evidence presented, the record in this matter as a whole and the foregoing Findings of Fact, the Hearing Examiner is of the opinion that the sale and transfer of all outstanding stock of Bulk Haulers, Inc., from L. W. Latham and Mrs. E. W. Harvey to Kenan Transport Company, Incorporated, is in the public interest, will not adversely affect the service to the public under said certificate, will not unlawfully affect the service to the public by other public utilities and that service under said certificate has been continually offered to the public up to the time of the filing of the application herein and that the application for authority to transfer said stock should be approved.

The Hearing Examiner further concludes that the operations of Bulk and Kenan are conducive to merger and that the merger of Bulk into Kenan would cause a better utilization of equipment and facilities resulting in a more efficient operation to the benefit of the public and that the application with respect to merge Bulk into Kenan should also be approved.

It is the further opinion of the Hearing Examiner that the merger will result in duplicate operating authorities in the transportation of certain phosphate products and that the elimination of the duplicative authority by Kenan will be a requirement prior to actual merger.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

(1) That the application for authority for Kenan Transport Company, Incorporated, to acquire control of Bulk Haulers, Inc., through purchase of its outstanding capital stock and the subsequent merger of the operating rights and property of Bulk Haulers, Inc., into Kenan Transport Company, Incorporated, be, and the same is hereby, approved.

(2) That upon consummation of the merger herein authorized, Certificate No. C-245, now held by Kenan Transport Company, Incorporated, be, and the same is hereby, amended to include the operating authority shown in Exhibit B attached hereto and made a part hereof, and Certificate No. C-862, now held by Bulk Haulers, Inc., be, and the same is hereby cancelled.

(3) That Kenan Transport Company, Incorporated, give the Commission notification of the date of consummation of merger.

(4) That Kenan Transport Company, Incorporated, upon completion of the merger shall make appropriate tariff filings to reflect the merged authority and otherwise comply with the Commission's Rules and Regulations within thirty (30) days from the date of merger.

(5) That the Applicant shall maintain his books and records in such a manner that all the applicable items of information required in the Applicant's prescribed Annual Report to the Commission can be readily identified from the books and records, and can be utilized by the Applicant in the preparation of said Annual Report. A copy of the Annual Report form shall be furnished to the Applicant upon request to the Accounting Division.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. T-127 SUB 11 — Kenan Transport Company, Incorporated, Durham, North Carolina

Irregular Route Common Carrier Authority

EXHIBIT B

(1) Transportation over irregular routes of caustic soda and molten sulphur, liquid, in tank vehicles,

From Wilmington and points within a radius of 25 miles thereof to all points and places in North Carolina, and return of rejected shipments.

(2) Transportation as an irregular route common carrier of liquid nitrogen solutions and liquid anhydrous ammonia, in bulk, in tank vehicles, from Wilmington, North Carolina, to all points and places within the State of North Carolina, and return of rejected shipments.

(3) Transportation as an irregular route common carrier of salt in bulk in dump, hopper or tank vehicles from Wilmington, North Carolina, to all points and places within the State of North Carolina, and return of rejected shipments.

(4) Transportation as an irregular route common carrier of sulphuric acid, in bulk, in tank vehicles from points and places in North Carolina to Texas Gulf Sulphur Company's plant site, located approximately 10 miles

northwest of Aurora, North Carolina, and points within 5 miles thereof.

(5) Transportation of milk and milk products in bulk, in tank trucks, between points and places in North Carolina, on and east of U.S. Hwy. 301; from said points and places on and east of U.S. Hwy. 301 to points and places within the State of North Carolina; and from said points and places within the State of North Carolina to points and places on and east of U.S. Hwy. 301.

(6) Transportation of gasoline storage tanks, structural steel, pipe of all kinds, petroleum containers, such as drums and barrels, cleaning solvents and other petroleum derivatives, including motor oil and greases in bulk and in packages, from all points and places within the Counties of Pender, Onslow, New Hanover and Brunswick to all points and places in the State of North Carolina, and return from all points and places within the State to all points and places within the Counties of Pender, Onslow, New Hanover, and Brunswick.

LIMITATION: Truck Load Only.

(7) For the return of special type empty shipping containers used in the transportation of pelletized dimethyl terephthalate from points and places within the State of North Carolina, to the plant site of Hercules, Inc., near Wilmington, North Carolina.

(8) Transportation of dry fish meal, in packages or in bulk from New Hanover County and from the plant or warehouse site of Cargill, Inc., in Brunswick County to all points and places within the State of North Carolina and the return of rejected or unclaimed shipments.

(9) Transportation of liquid chemicals in bulk, in tank trucks only, over irregular routes, between points and places throughout the State of North Carolina; (NOTE: each specific grant of authority to conduct various specific transportation operations

found elsewhere in this Certificate which could be performed under the terms of this paragraph is construed to be merged into this paragraph, such that there will be no duplication of authority within the Certificate but rather only one authority for the transportation of all liquid chemicals in bulk, in tank trucks, within the State of North Carolina.)

DOCKET NO. T-1638, SUB 1

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Builders Transport, Inc., P. O. Box 7057, Savannah, Georgia 31408 - Application for Authority to Sell and Transfer Common Carrier Certificate No. C-228 from Hennis Freight Lines, Inc., P. O. Box 612, Winston-Salem, North Carolina 27102, to Builders Transport, Inc.	) RECOMMENDED ORDER GRANTING APPLICATION

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Thursday, January 9, 1975, at 10:00 A.M.

BEFORE: D. D. Coordes, Hearing Examiner

APPEARANCES:

For the Applicants:

Ralph McDonald
Bailey, Dixon, Wooten, McDonald & Fountain
Attorneys at Law
P. O. Box 2246
Raleigh, North Carolina 27602

For the Protestant:

Vaughan S. Winborne
Counsellor and Attorney at Law
1108 Capital Club Building
Raleigh, North Carolina 27601
Appearing for: Rabon Transfer, Inc.

COORDES, HEARING EXAMINER: By joint application filed with the Commission on October 3, 1974, Hennis Freight Lines, Inc., (Hennis) P. O. Box 612, Winston-Salem, North Carolina 27102, as Transferor, and Builders Transport, Inc., (Builders) P. O. Box 7057, Savannah, Georgia 31408, as Transferee, seek approval of the sale and transfer of Common

Carrier Certificate No. C-228, together with the operating authority contained therein, being as follows:

"Transportation of general commodities, except those requiring special equipment, between points and places in North Carolina in and east of the Counties of Rockingham, Forsyth, Davidson, Cabarrus and Mecklenburg."

from said Transferor to said Transferee. Notice of such application, together with the description of the involved authority, along with the time and place of the hearing, was published in the Commission's Calendar of Hearings issued November 26, 1974.

A Protest and Motion for Intervention to the application for authority herein sought was filed with the Commission on December 30, 1974, by Counsel for and on behalf of Rabon Transfer, Inc., Chadbourn, North Carolina, with same being allowed by the Commission's Order in this Docket dated January 3, 1975.

Upon call of this matter for hearing both Transferor and Transferee were present and represented by Counsel. Protestant, Rabon Transfer, Inc., was also present and represented by Counsel.

Applicants offered the testimony of Mr. B. M. Shirley, Jr., Vice President, Traffic, Hennis Freight Lines, Inc., pertaining to the general motor carrier operations of Hennis under Certificate No. C-228, herein sought to be transferred, and in particular, as to the service being performed under such authority; Mr. A. D. Benton, Vice President & Treasurer, Hennis Freight Lines, Inc., pertaining to the financial and corporate aspects of Hennis; and Mr. J. L. Phipps, Executive Vice President, Builders Transport, Inc., as to the qualifications, business experience and financial ability of Builders to assume the operation and perform the transportation service authorized and required by the operating authority which same seeks to acquire.

At the conclusion of the presentation of testimony by Mr. B. M. Shirley, Jr., Counsel for Protestant, Rabon Transfer, Inc., moved to dismiss such application on the grounds that Certificate No. C-228 was dormant, whereupon such motion was denied by the Hearing Examiner.

Protestant, Rabon Transfer, Inc., (Rabon) presented the testimony of Mr. E. L. Rabon, President, Rabon Transfer, Inc., as to the adverse affect such application, if granted, would have upon the transportation of building materials, over irregular routes, from Columbus County to points and places in the State of North Carolina, by Rabon, as authorized in Common Carrier Certificate No. C-575, heretofore issued to same.

Having considered the application, the evidence presented, the record in the proceeding as a whole and the Commission's records of which judicial notice is taken, the Hearing Examiner makes the following:

FINDINGS OF FACT

(1) That Transferor, Hennis Freight Lines, Inc., is a corporation duly organized and existing under the laws of the State of North Carolina and is the owner and holder of Common Carrier Certificate No. C-228, issued by the Commission, as herein sought to be transferred.

(2) That Transferee, Builders Transport, Inc., is a corporation duly organized and existing under the laws of the State of Georgia and domesticated in North Carolina and is the owner and holder of Contract Carrier Permit No. P-245 issued by the Commission, together with certain operating authorities issued by the Interstate Commerce Commission.

(3) That the general commodities operating authority contained in Common Carrier Certificate No. C-228, heretofore issued to Hennis Freight Lines, Inc., as herein sought to be transferred, has been continuously and actively operated and service thereunder offered to the public up to the time of the filing of such application as evidenced by Applicant's Exhibit No. 1 - Abstract Of Shipments Handled By Hennis Freight Lines, Inc., in North Carolina Intrastate Commerce - January Through November, 1974 - which reflects that Hennis handled 1,450 shipments with a total weight of 4,817,780 pounds and revenues derived therefrom being $36,015.32 during such period.

(4) That Hennis Freight Lines, Inc., and Builders Transport, Inc., have entered into a written agreement for the sale and transfer of the operating authority contained in said Certificate No. C-228.

(5) That the Transferee, Builders Transport, Inc., is fit, willing and able to acquire Certificate No. C-228 and to provide adequate service thereunder on a continuing basis.

(6) That there are no debts or claims against Transferor of the nature specified in G. S. 62-111(c) except those currently due in the normal course of operations.

(7) That the proposed sale and transfer is not contrary to the public interest, as distinguished from the interest of the Protestant; that the proposed Transferee, Builders Transport, Inc., is capable of rendering service under such franchise equal to that of Hennis Freight Lines, Inc., and that the record in this proceeding fails to disclose any unlawful affect upon the service rendered to the public by other public utilities.

Based upon the foregoing Findings of Fact, the Hearing Examiner makes the following:

CONCLUSIONS

The Certificate of Public Convenience and Necessity heretofore issued to Hennis Freight Lines, Inc., by the Commission's Order in Docket No. T-||50, dated June |5, |960, and the subject of this proceeding, authorizes the transportation of general commodities, except those requiring special equipment, between certain points and places in the State of North Carolina, including Columbus County; Columbus County being the territory of which the sole Protestant in this proceeding, Rabon Transfer, Inc., is concerned. Under such a broad and general generic description, the transportation of certain building and/or building related materials is permitted if in fact such do not necessitate the utilization of special vehicles or special equipment for hauling, loading or unloading or any special or unusual service in connection therewith. Such authorization to engage in the transportation of certain restricted building and/or building related materials under the broad general commodities classification is not to be construed as an additional or separate authority for any purpose; sale, transfer, dormancy or otherwise, but be considered only in conjunction with and as an integral and inseparable part of that operating authority contained in Common Carrier Certificate No. C-228, herein sought to be transferred. Hence, the transportation of any commodities in general would, therefore, prevent the operations under such Certificate from being considered as being dormant. It is generally not the intent of the Commission, nor is it contemplated that such motor carriers of general commodities shall be required to engage in the transportation of every conceivable commodity which may be included in the generic description of general commodities in order to show that such authority is not dormant, as is the contention of the Protestant in this matter, with respect to the transportation of building materials. No valid or logical reason exists to consider certain restricted building and/or building materials as a severable commodity under such general commodity authority.

Further, testimony offered by the proposed Transferee, Builders Transport, Inc., tends to indicate that it will actively solicit traffic within, among other places, the Columbus County, North Carolina, area, whereupon the Protestant, Rabon Transfer, Inc., contends that it will suffer a substantial decrease in the volume of traffic offered it under its building materials authority, as heretofore described. The Commission has held to the view that the possibility that a transfer of a motor carrier franchise to a more competitive carrier will adversely affect other existing carriers does not make such a transfer contrary to the "public interest."

Therefore, the Hearing Examiner is of the opinion that sufficient evidence has been presented to justify the findings that such sale and transfer is in the public interest, will not adversely affect the service to the public under said franchise, will not unlawfully affect the service to the public by other public utilities, that Builders Transport, Inc., is fit, willing and able to perform such service to the public under said franchise, that service under said franchise has been continuously offered to the public up to the time of filing the application herein, and that the application in this Docket should be approved.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

(1) That the sale and transfer of the operating authority contained in Common Carrier Certificate No. C-228, as more particularly described in Exhibit B attached hereto and made a part hereof, from Hennis Freight Lines, Inc., to Builders Transport, Inc., be, and the same is hereby, approved.

(2) That Builders Transport, Inc., file with the Commission evidence of the required insurance, tariffs of rates and charges, list of equipment, designation of process agent and otherwise comply with the rules and regulations of this Commission and institute operations under the authority acquired herein within thirty (30) days from the date this Order becomes final.

(3) That the Applicant shall maintain his books and records in such a manner that all the applicable items of information required in the Applicant's prescribed Annual Report to the Commission can be readily identified from the books and records, and can be utilized by the Applicant in the preparation of said Annual Report. A copy of the Annual Report form shall be furnished to the Applicant upon request to the Accounting Division.

(4) That upon this Order becoming final, a new Certificate shall be issued to Builders Transport, Inc., covering both its contract carrier authority and the common carrier authority acquired herein and that Certificate No. C-228, heretofore issued to Hennis Freight Lines, Inc., shall be cancelled.

ISSUED BY ORDER OF THE COMMISSION.

This the 24th day of January, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. T-1638 SUB 1 — Builders Transport, Inc. — Irregular Route Common Carrier

Savannah, Georgia

EXHIBIT B — Transportation of general commodities, except those requiring special equipment, between points and places in North Carolina in and east of the Counties of Rockingham, Forsyth, Davidson, Cabarrus and Mecklenburg.

DOCKET NO. T-521, SUB 16

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company, 1030 Hammel Street, Raleigh, North Carolina 27611 - Application for Authority to Sell and Transfer Common Carrier Certificate No. C-476 from Vernon G. James, Route 4, Box 265, Elizabeth City, North Carolina 27909, to Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company) RECOMMENDED ORDER GRANTING TRANSFER

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Wednesday, February 26, 1975, at 9:30 a.m.

BEFORE: E. Gregory Stott, Hearing Examiner

APPEARANCES:

For the Applicant:

Vaughan S. Winborne
Attorney at Law
1108 Capital Club Building
Raleigh, North Carolina
Appearing for: Thomas Oliver Harper, Jr.
d/b/a Harper Trucking Company
Vernon G. James

For the Protestants:

Ralph McDonald
Bailey, Dixon, Wooten, McDonald & Fountain
P. O. Box 2246
Raleigh, North Carolina 27608
Appearing for: Observer Transportation Company
Mid-State Delivery Service, Inc.
Chemical Leaman Tank Lines, Inc.
Tidewater Transit Co., Inc.
Maybelle Transport Company, Inc.
East Coast Transport, Inc.

Bulk Haulers, Inc.
Central Transport, Inc.

STOTT, HEARING EXAMINER: This matter arose upon the filing with this Commission on November 9, 1974, a joint application by Thomas Oliver Harper, d/b/a Harper Trucking Company, 1030 Hammel Street, P. O. Box 25868, Raleigh, North Carolina, and Vernon G. James, Route 4, Box 265, Elizabeth City, North Carolina 27609, for authority to transfer Certificate No. C-476 from Vernon G. James to Harper Trucking Company. This matter was noticed in Calendar of Hearings dated December 18, 1974, with a no protest provision.

On January 6, 1975, joint protest and motion for intervention was filed by Mid-State Delivery Service, Inc., 1614 Eugene Court, Greensboro, North Carolina 2740[illegible], and Observer Transportation Company, 1600 West Independence Boulevard, P. O. Box 1123, Charlotte, North Carolina, and by Order dated January 7, 1975, said protests and motion for intervention was allowed.

This matter was again noticed in Calendar of Hearings issued January 8, 1975, which set out territory and commodity description and set this matter for hearing on Wednesday, February 26, 1975, at 9:30 a.m. in the Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina.

On February 7, 1975, joint motion for intervention was filed by Chemical Leaman Tank Lines, Inc., 506 East Lancaster Avenue, Dalington, Pennsylvania 19335; Tidewater Transit Co., Inc., Box 189, Kinston, North Carolina 2850[illegible]; Maybelle Transport Company, Inc., 1820 South Main Street, Lexington, North Carolina; East Coast Transport, Inc., Box 1296, Goldsboro, North Carolina; Bulk Haulers, Inc., P. O. Box 360[illegible], Wilmington, North Carolina; Central Transport, Inc., P. O. Box 5388, High Point, North Carolina, hereinafter referred to as "bulk protestants". By Commission Order dated February 12, 1975, said protests were also allowed.

On February 19, 1975, stipulations and joint motion was filed on behalf of Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company, Applicant Transferee, and bulk protestants through their respective attorneys. At the time of hearing said motion and stipulations were allowed and with the granting of this motion, bulk protestants withdrew their protests.

At this time, Applicants by and through their attorney filed motion to dismiss protest of the remaining protestants for the reason that the protestants have no material interest in the proceeding. Said motion was disallowed.

Applicants offered testimony of Mr. Vernon G. James, owner of Common Carrier Certificate No. C-476, who testified

regarding his operations of the authority and his present lease agreement with W. W. Owens and Son. W. Clarence Owens, partner with W. W. Owens and Son Transfer and Storage, testified regarding the present operations of Common Carrier Certificate No. C-476. Thomas Oliver Harper testified regarding his desire to obtain the aforementioned authority, his financial ability to operate said authority as actively or even more so than it has been operated in the past. On cross-examination he testified regarding his interpretation of limitations of the authority granted in Common Carrier Certificate No. C-476. At the close of the Applicant's presentation, the motion to dismiss was renewed. Said motion was denied.

Protestants made motion that the application for sale and transfer be dismissed. Said motion was denied. Protestants presented no witnesses but offered by reference their equipment list, annual reports, and authority which is on file with the Commission. The Hearing Examiner took judicial notice of said information.

Based on the testimony given, the evidence adduced and the exhibits herein and the filed briefs, the Hearing Examiner makes the following

FINDINGS OF FACT

1. That Vernon G. James holds authority as an irregular route common carrier transporting general commodities, except petroleum products in bulk in tank trucks and leaf tobacco and accessories as defined in Docket No. 2417, as indicated in Certificate No. C-476.

2. That Vernon G. James proposes to transfer the authority granted to him in Certificate No. C-476 to Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company.

3. That the Transferee, Thomas Oliver Harper, d/b/a Harper Trucking Company, is an authorized contract carrier of property operating under a permit issued by this Commission.

4. That pursuant to a lease agreement with W. W. Owens and Sons Transfer and Storage Company, the Certificate held by Transferor has been actively operated in accordance with the laws of this State and the Rules and Regulations of this Commission. Accordingly, transfer thereof is justified by public convenience and necessity in view of the presumption of law that public convenience and necessity once having been shown to exist continues.

5. That the Transferor and the Transferee have entered into a written contract for the sale and transfer of Certificate No. C-476 under terms and conditions which require a $5,000.00 initial payment and a balance of $20,000.00 payable in subsequent installments of $1,000.00 at one month intervals.

6. That the proposed transfer of operating authority is in the public interest.

7. That the proposed transfer will not adversely affect the service to the public under said certificate inasmuch as the evidence indicates that the proposed transferee is capable of rendering service equal to that of the proposed transferor.

8. That proposed Transferee is fit, willing and able to perform such service to the public under the proposed sale and transfer of the certificate.

9. That there are no debts in claim against the Transferor of the nature specified in G. S. 62-[[[(c).

Whereupon, the Commission reaches the following

CONCLUSIONS

This case involves a protested joint applicatcn for Commission approval of the transfer of irregular route operating authority to transport general commodities of Vernon G. James as set forth in Certificate No. C-476 to Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company as indicated by the following commodity and territory description:

"COMMODITY DESCRIPTION: General Commodities except petroleum products in bulk in tank trucks and leaf tobacco and accessories as defined in Docket No. 24[7.

"TERRITORY DESCRIPTION: To, from, and between all points on and east of the Atlantic Coast Line Railroad running from Wilmington to Weldon; from said area to points and places in North Carolina bounded on the east by said railroad and on the west by U. S. Highway 2[; and from said destination territory to points and places east of said railroad.

"Minimum weight limits: trucks, 5,000 pounds; tractor-trailer units, [0,000 pounds."

The Court of Appeals in the case of Utilities Commission v. Coach Company, 269 NC 7[7, [53 SE 2d 46[([967), stated that the policy of the State as declared in the Public Utility Act of [963 clearly favors transfers of actively operated motor freight carrier certificates without unreasonable restraints inasmuch as public convenience and necessity was shown to exist when authority was granted or acquired under the [947 Grandfather Clause and the rebuttal presumption of law is that it continues. The Court of Appeals further made it clear that such policy and such statutes would not protect other carriers from increased competition to be anticipated from an agressive transferee. It appears from representation of Applicants and from our

investigation, that the authority herein is active, that there are no debts or claims against transferor, that transferee Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company, is an active motor carrier operator. Transferee has complied with the provisions of G. S. 62-||5 and that transferee is qualified financially and otherwise to acquire the operating rights and provide adequate and continuous service thereunder.

Upon consideration thereof, this Hearing Examiner is of the opinion, finds and concludes that said transfer is in the public interest, will not adversely affect the public under said certificate and will not unlawfully affect the public by other public utilities and that the transferee is fit, willing and able to perform such services to the public under said certificate.

The certificate sought to be transferred in this proceeding contains the following restriction:

"Minimum weight limits: trucks, 5,000 pounds; tractor-trailer units, |0,000 pounds."

The Transferee has stated that it would, if allowed to acquire the certificate, interpret the restriction as permitting him to pick up any number of shipments from any number of consignors destined to any number of consignees at any points throughout the authorized territorial scope. The Protestants have raised the issue of whether such operations would be permissible under the certificate. This Examiner concludes that the restriction is intended to limit transportation to one shipment from one consignor in a weight equal to the minimum and that any other transportation thereunder would be illegal.

IT IS, THEREFORE, ORDERED:

|. That the transfer of Common Carrier Certificate No. C-476, more particularly described in Exhibit B attached hereto and made a part hereof, from Vernon G. James to Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company, be, and the same is hereby, approved.

2. Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company, shall file with the Commission evidence of required insurance, lists of equipment, schedules of minimum rates and charges, designations of process agent, and otherwise comply with the rules and regulations of this Commission and institute operations under the authority herein acquired within thirty (30) days from the date of this Order.

3. That Thomas Oliver Harper operate the authority granted in Certificate No. C-476 described in Exhibit B attached hereto in accordance with the interpretation of the scope of the transferred authority by this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the 10th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. T-521, SUB 16

Thomas Oliver Harper, Jr.
d/b/a Harper Trucking Company
1030 Hammel Street
P. O. Box 25868
Raleigh, North Carolina 2761l

Irregular Route Common Carrier

EXHIBIT B

Commodity and Territory Description:

"Commodity Description: General Commodities except petroleum products in bulk in tank trucks and leaf tobacco and accessories as defined in Docket No. 2417.

"TERRITORY DESCRIPTION: To, from, and between all points on and east of the Atlantic Coast Line Railroad running from Wilmington to Weldon; from said area to points and places in North Carolina bounded on the east by said railroad and on the west by U. S. Highway 21; and from said destination territory to points and places east of said railroad.

"Minimum weight limits: trucks, 5,000 pounds; tractor-trailer units, 10,000 pounds."

DOCKET NO. R-29, SUB 219

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Southern Railway Company - Petition for Authority to Discontinue its Agency Station at Pineville, North Carolina, and to Dismantle and Remove the Present Station Building	) RECOMMENDED) ORDER) GRANTING) PETITION

HEARD IN: Conference Room, Third Floor, City Hall, 600 East Trade Street, Charlotte, North Carolina, July 1, 1975 at 9:30 A.M.

BEFORE: Hearing Examiner, Jerry B. Fruitt

APPEARANCES:

For the Applicant:

Clark Crampton
Joyner & Howison
Wachovia Bank Building
Raleigh, North Carolina 27602

For the Commission Staff:

Wilson B. Partin, Jr.
Assistant Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

FRUITT, HEARING EXAMINER: By petition filed with the Commission on April 14, 1975, Southern Railway Company (Petitioner) seeks authority to discontinue its agency station at Pineville, North Carolina, and to dismantle and remove the present station building and to handle future business from its agency station at Charlotte, North Carolina.

The Applicant complied with the Commission's Rules of Practice requiring notice.

The Commission Staff Inspector Jimmy Eanes conducted an investigation of the petition. Inspector Eanes filed his report with the Commission on April 23, 1975 which reflects that Mr. W. F. Blankenship, Jr., Mayor of Pineville, N.C.; Mr. Jack R. Phillips, Plant Manager of Cone Mills, Pineville, N.C.; Eugene Spangler, Plant Controller and Supervisor of the Warehouse, of Rexham Company, Pineville, N.C., stated that they had no objection to Southern Railway Company's proposal to discontinue the present station at Pineville so long as it doesn't cause more inconvenience in the shipping and receiving system. Mr. Phillip H. Lefler, Plant Manager of Stone Container better known as Tar Heel Container, Pineville, N.C., stated that his company feels that if the petition were allowed it would result in added expense and inconvenience to his company; therefore, Stone Container objects to the petition.

By Commission Order dated May 21, 1975, the matter was assigned for public hearing in Charlotte, North Carolina on July 1, 1975. The Order required Petitioner to give public notice of the time, place and purpose of the hearing by publication in regard thereto in a newspaper having general publication in the Pineville, North Carolina area, said publication to be made on three (3) different days with the last publication to be no later than June 10, 1975.

At the call of the hearing at the scheduled time and place the applicant was present and represented by counsel. No protests were filed and no protestants appeared at the hearing.

The Applicant offered the testimony of C. A. Stevenson, Trainmaster, Charlotte to Rock Hill, South Carolina, for Southern Railway Company, explaining the services provided under the present arrangement and the alleged improved services to be offered if the petition was granted; and R. A. Robb, Commerce Statistician for Southern Railway Company, Washington, D. C., reflecting the financial operating experience of the Pineville, North Carolina station.

Based upon the verified Petition and the Commission's investigation, the Hearing Examiner makes the following

FINDINGS OF FACT

(1) That the Petitioner, Southern Railway Company is a common carrier by rail within the State of North Carolina, and is subject to the jurisdiction of the Commission.

(2) That Pineville, N.C. is approximately 10.4 rail miles south of Charlotte, North Carolina.

(3) That for the twelve months ending September 30, 1974, Petitioner received 1,094 carload shipments in Pineville, N.C. which resulted in total local and joint proportion revenues amounting to $232,805; and that during this same period 1,547 carload shipments were forwarded from Pineville, N.C. with total local and joint proportion revenue accruing therefrom of $193,664.

(4) That during the year 1973, Petitioner received 1,209 carload shipments at Pineville, N.C. and forwarded 2,167 carload shipments from this point, with revenues accruing therefrom to it in the amount of $231,754 and $230,734 respectively.

(5) That Petitioner's agency station expenses at Pineville were $14,318 for the year 1973 and $15,404 for the 12 months ending September 30, 1974.

(6) That Petitioner's agents at Charlotte, N.C. will handle all general agency transactions with its patrons at Pineville, N.C.

(7) That Petitioner posted notice of its proposed action as required by Rule R1-14 of the Commission's Rules and Regulations. It also gave public notice concerning this matter as required by Order in this docket dated May 21, 1975.

(8) That no protests were filed to the proposed action of Petitioner.

(9) That public convenience and necessity no longer requires the continued operation of the agency station at Pineville, N.C., and the public will be adequately served if the business at Pineville, N.C. is conducted from the agency station at Charlotte, N.C.

CONCLUSIONS

Based upon the foregoing findings of fact and in consideration of the matter as a whole, the Commission concludes that pursuant to the provisions of Sections 118 and 247 of Chapter 62 of the General Statutes of North Carolina (as amended) the petition should be granted.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

(1) That Southern Railway Company, be, and the same hereby is, authorized to discontinue its agency station at Pineville, N.C., dismantle and remove the present station building thereon, and handle all business through its agency at Charlotte, North Carolina.

(2) That Petitioner notify the Commission of the date its agency station at Pineville, N.C. is discontinued, and the date the station building is dismantled and (or) removed.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. R-29, SUB 213

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Southern Railway Company - Application for Authority to Discontinue the Operation of its Intrastate Passenger Trains Nos. 3 and 4 Between Salisbury and Asheville	) RECOMMENDED) ORDER) ALLOWING) ABANDONMENT)

HEARD IN: Asheville, North Carolina, 9th Floor Courtroom, Buncombe County Courthouse, Courthouse Plaza, March 4 and 5, 1975; and

Salisbury, North Carolina, Round Courtroom, Third Floor, Rowan County Courthouse, 200 North Main Street, March 6 and April 9, 1975

BEFORE: Robert F. Page, Hearing Examiner

APPEARANCES:

For the Applicant:

Harold K. Bennett
Bennett, Kelly & Cagle
Attorneys at Law
410 Gennett Building
Asheville, North Carolina 28807

Earl E. Eisenhart, Jr.
Attorney at Law
Southern Railway Company
P. O. Box 1808
Washington, D. C. 20013

R. Allan Wimbish
Attorney at Law
Southern Railway Company
P. O. Box 1808
Washington, D. C. 20013

For the Intervenor:

Robert B. Long, Jr.
Attorney at Law
P. O. Box 7053
Asheville, North Carolina

For the Commission Staff:

Jerry B. Fruitt
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

PAGE, HEARING EXAMINER: By application filed with the North Carolina Utilities Commission on January 6, 1975, for and on behalf of Southern Railway Company (Applicant), by W. T. Joyner, Jr., Joyner & Howison, Attorneys at Law, Raleigh, North Carolina, and Mr. Earl E. Eisenhart, Jr., General Attorney, Southern Railway Company, Washington, D. C., Applicant seeks authority to discontinue the operation of its intrastate passenger trains Nos. 3 and 4 between Salisbury and Asheville, North Carolina, on or after January 31, 1975.

By Order of the Commission issued January 21, 1975, the application was set for hearing in Asheville, North Carolina, on March 4 and 5, 1975, and in Salisbury, North Carolina, on March 6, 1975. Notice of the hearing was published in newspapers in Salisbury, Statesville, Hickory, Morganton and Asheville, North Carolina, in compliance with the Commission's Order setting hearing. A formal intervention was filed during the course of the hearing in Asheville by Robert B. Long, Jr., for and on behalf of G. H.

Spencer, R. G. Hill and Harry Burnette, members of the United Transportation Union, Lane Cole, C. W. Sealy, members of the Brotherhood of Railway and Airline Clerks and others. Said intervention was allowed by the Hearing Examiner.

By Commission Order issued March 21, 1975, the Hearing Examiner scheduled resumed hearings in this matter for April 9, 1975, in the Round Courtroom, Third Floor, Rowan County Courthouse, Salisbury, North Carolina, for the purpose of cross-examination of certain of the Applicant's witnesses by the Intervenor and presentation of evidence by the Intervenor.

On April 2, 1975, the Attorney for the Intervenors requested the Commission to issue Subpoenas Duces Tecum for Jack Arrington, Southern Railway Office, Biltmore Station, Asheville, North Carolina, and J. H. Wingo, 50 Raleigh Road, Asheville, North Carolina, requiring them to be present at the hearing in Salisbury on April 9 and bring with them any and all records pertaining to the operation of Trains 3 and 4. On April 3, 1975 the Commission issued the two subpoenas requested by the Intervenor.

Southern Railway offered the testimony of Harold A. Hall, Vice President of Transportation for Southern Railway, testifying as to the operation and schedules of Trains 3 and 4 and the proposed excursion service being proposed by Southern; Frank A. Luckett, Assistant Comptroller, Southern Railway testifying and presenting exhibits relating to the revenues and expenses of Southern Railway on Trains 3 and 4, with comparisons for previous years and for the various months preceding the application to discontinue Trains 3 and 4; Malcolm Meyers, Charlotte, North Carolina, Director of Traffic of Continental Southeastern Lines testifying that Continental had more than adequate facilities to handle any individuals who need transportation between Asheville and Salisbury with more convenient and frequent schedules than Trains 3 and 4; Walter W. Simpson, Vice-President of Engineering, Southern Railway, testifying as to the huge expenditures made for maintenance of tracks; Louis G. Sak, General Manager of Passenger Sales and Service for Southern Railway; and Henry R. Moore, General Manager of Southern Railway System, Eastern Lines. The following public witnesses also appeared on behalf of Southern's Application: Donovan B. Moore, Asheville, North Carolina; Bretney Smith, Asheville, North Carolina; Glen Wilcox, Asheville, North Carolina; Charles Webb, Asheville, North Carolina; George Chumbley, Asheville, North Carolina; Charles D. Taylor, Salisbury, North Carolina; Charles Newsome, Salisbury, North Carolina; Ernest C. Safrit, Salisbury, North Carolina; Ellie J. Osborne, Winston-Salem, North Carolina.

The Intervenors subpoenaed and offered the testimony of Jack W. Arrington, Ticket Agent at the Asheville Station, testifying as to ticket sales and service; James H. Wingo, Conductor of Trains 3 and 4, testifying as to number of passengers carried and the quality of service offered to

passengers. George H. Spencer, Trainman, Southern Railway Company testified for the United Transportation Union in opposition to the proposed discontinuance.

The following public witnesses appeared and opposed Southern's Application: Paul Romano, Flat Rock, North Carolina; Esther Stone, Asheville, North Carolina; Jesse Ledbetter, Asheville, North Carolina; Robert Earl Ward, Morganton, North Carolina; James Ray Ellinburg, Asheville, North Carolina; William Van Hettinga, Richfield, North Carolina; Timothy J. Kattermann, Asheville, North Carolina; William R. Swearngan, Marion, North Carolina; Reginald Hall, Hendersonville, North Carolina; Dennis Tate, Asheville, North Carolina; Dorothy Travis, Black Mountain, North Carolina; Frances Mayo Thrasher, Asheville, North Carolina; Woodrow Gunter, Hamlet, North Carolina; Charles Taylor, Brevard, North Carolina; Ann Biggs, Salisbury, North Carolina; Edward H. Clement, Salisbury, North Carolina; O. N. Hutchinson, Jr., Greensboro, North Carolina; Joseph H. Williams, Salisbury, North Carolina; Ralph Ward, Asheboro, North Carolina; and Birdie Graham, Salisbury, North Carolina.

Based upon the verified application, testimony, exhibits and other evidence of record the Examiner makes the following:

FINDINGS OF FACT

1. That the Applicant is a common carrier of passengers, freight and express by railroad operating in interstate commerce between North Carolina and other states and in intrastate commerce within the State of North Carolina and, as part of its intrastate operations within North Carolina, it provides passenger service between Asheville and Salisbury over which this Commission has jurisdiction of services, rates, facilities and the continuation of service.

2. That in providing passenger service between Asheville and Salisbury, North Carolina, the applicant operates three round trips per week. Each round trip consists of a rail distance of approximately 280 miles, and the trains run on Sunday, Tuesday and Friday each week. Train 4 is scheduled to leave Asheville at 9:15 A.M. and arrive in Salisbury at 1:15 P.M.; Train 3 is scheduled to leave Salisbury at 6:40 P.M. and arrive in Asheville at 10:40 P.M. Trains 3 and 4 are operated with one set of equipment. Trains 3 and 4 make regular stops at Salisbury and Asheville with stops on signal for passengers to board or deboard at Statesville, Newton, Conover, Connelly Springs, Valdese, Morganton, Glen Alpine, Marion, Old Fort, Ridgecrest, Black Mountain, Swannanoa and Azalea (Oteen).

3. That the equipment normally used for Trains 3 and 4 consists of one two-level Vista-dome coach, with a 36 seat capacity on the lower level and a 24 seat capacity on the upper level, one 44-seat capacity coach-baggage combine car;

the trains are powered by an FP-7, 1,500 h.p. diesel locomotive unit. The passenger cars are heated and air conditioned, equipped with reclining seats, toilets, water coolers and vending machines. The equipment is maintained in a safe, clean and attractive condition. No evidence was offered tending to indicate that the equipment was in any way uncomfortable or that the service offered was inadequate.

4. That Trains 3 and 4 have operated at a loss for many years including 1972, 1973, and 1974. Approximately two-thirds of the passengers during these three years were short haul groups who were not riding for basic transportation needs, but for the experience of riding a train.

5. That Trains 3 and 4 earned passenger revenue of $29,500 from 14,567 revenue passengers in 1974. Of these, 9,152 passengers were short haul or excursion groups.

6. That the direct operating expenses for Trains 3 and 4 for the year 1974 were $175,700 which resulted in direct losses to the Applicant for the year 1974 of $146,200. The largest single expense item for 1974 was $94,600 attributable to wages, taxes and benefits for the five-man train crew. During 1974, Southern spent $5.96 to earn each $1.00 in revenue for Trains 3 and 4. The direct loss of $146,200 for 1973 includes no portion of general passenger service expenses or any portion of common passenger-freight expenses (e.g. track maintenance) properly attributable to the operations of Trains 3 and 4.

7. That during 1974 Southern received "feeder revenue" from passengers originating or terminating on Trains 3 and 4 of $24,600. However, this feeder revenue, even if all attributed to Trains 3 and 4, which it could not be, would still leave Trains 3 and 4 operating at a sizable loss for the year 1974.

8. That Southern Railway Company on its entire operations had net operating income for 1973 and 1974 of $106,154,100 and $137,834,000, respectively. Southern contends that it incurred losses on its North Carolina intrastate operations of slightly over $4,000,000 in 1973 and $669,000 in 1974 (these figures include freight and passenger service).

9. That Southern Railway experienced direct expenses in excess of revenue on Trains 3 and 4 for 1972 of $130,900 and for 1973 of $141,200.

10. That the addition of piggyback freight traffic to passenger service on the Asheville to Salisbury run would be unacceptable because it would be both uncomfortable and unsafe for the passengers. (This option was put forth as one means of improving the economics of operating Trains 3 and 4).

11. That the Applicant, to break even on 1974 direct expenses, would have needed 72,020 additional average fare passengers over and above the 14,567 who actually used the trains and paid an average fare of $2.03. In order to accommodate such additional passengers, however, at least two to three more passenger cars and one more locomotive would have been necessary and such additional equipment would have increased expenses greatly. Using the actual ridership, fares would have had to be increased by $10.04 to an average fare of $12.07 for Southern to have broken even on the direct costs of operating Trains 3 and 4.

12. That since being allowed to drop its daily service from Greensboro to Asheville in 1971 (Trains 15 and 16), Southern has continued to suffer ever increasing losses in the operations of Trains 3 and 4 despite the following steps taken to try to increase ridership and reduce expenses:

(a) Operating Trains 3 and 4 on a round trip, three-day-a-week basis with one set of equipment;

(b) Scheduling the runs for Fridays, Sundays, Tuesdays to try to increase weekend ridership;

(c) Co-ordinating the operations of Trains 3 and 4 with the schedules of Southern's principal north-south trains along its main line at Salisbury;

(d) Converting intermediate stations between Asheville and Salisbury to flag stops;

(e) Maintaining and improving the track and road bed between Asheville and Salisbury;

(f) Purchasing a Vista-dome car to permit passengers to enjoy the scenic route more;

(g) Furnishing adequate and economical rail service between Asheville and Salisbury;

(h) Periodic advertising in newspapers in Asheville, Hickory, Morganton and Salisbury and other towns on the main line describing the service offered by Trains 3 and 4.

(i) Seeking tourist and convention business in conjunction with the Chambers of Commerce and other promotional agencies in Western North Carolina.

13. That Continental Trailways offers daily bus service to the communities served by Trains 3 and 4 between Asheville and Salisbury and the ridership of Continental's buses is such that it can readily accommodate the passengers presently riding Trains 3 and 4. Both Piedmont and United offer commercial air service at Asheville.

|4. That Trains 3 and 4 during |974 averaged only |2.2 passenger miles per gallon of diesel fuel (including all passengers), whereas recent statistics have shown that other modes of passenger transportation are significantly more energy efficient, as follows:

Transportation	Passenger Miles Per Gallon	Fuel
Commercial airplanes	2|	Aviation fuel
Buses	|25	Gasoline or diesel
Private automobile	32	Gasoline
Commuter trains	|00	Diesel fuel
Cross-country trains	80	Diesel fuel
Metroliners	50	Diesel fuel
High speed trains	|33	Diesel fuel

|5. That Southern will, if allowed to discontinue Trains 3 and 4, make every effort to accommodate short haul groups, sightseers and other recreational users by running scenic excursion trips between Asheville and Old Fort on holidays and weekends from Memorial Day through Labor Day and at appropriate times during the Fall foliage season.

|6. The Commission takes judicial notice of the Order of the Interstate Commerce Commission in its Finance Docket Nos. 27827 and 27828 which allows Southern to reduce and reschedule passenger service on Southern Trains 5 and 6.

The new schedule approved for these trains means that connections for Trains 3 and 4 can no longer be made with Trains 5 and 6 at Salisbury without an extremely long delay of from 7 to 23 hours. This will further reduce the "feeder value" of Trains 3 and 4.

|7. That public convenience and necessity no longer require the regular, thrice weekly, round trip operations of Trains 3 and 4 between Asheville and Salisbury. Continued operation of such trains on their present schedules would be burdensome on the company and on intrastate commerce.

|8. That the requirements of public convenience and necessity can be met by instituting the proposed short haul excursion service between Asheville and Old Fort on weekends and holidays from Memorial Day to Labor Day and at appropriate times during the Fall foliage season.

Based upon the foregoing Findings of Fact, the Commission reaches the following:

DISCUSSION AND CONCLUSIONS

Southern's proposal to abandon the Asheville to Salisbury passenger service must be weighed and balanced by the test of public convenience and necessity. Several factors make up the determination of this test, including the following, among others:

(a) The actual use made by the traveling public of the service sought to be abandoned;

(b) The cost to the company in rendering the service;

(c) The availability of other adequate means of public transportation;

(d) The effect of the proposed abandonment on the communities involved and the customers; and

(e) The effect on intrastate commerce if the proposal is allowed or disallowed.

None of these factors, by itself, is determinative of the larger issue of public convenience and necessity. All have a bearing, however, on whether the using and consuming public continues to need and demand the service which is proposed for abandonment. Taking each of these factors in turn, we conclude that public convenience and necessity no longer require the regular, thrice weekly operation of Trains 3 and 4 between Asheville and Salisbury.

(a) The general public is simply not using Trains 3 and 4 for basic transportation purposes. The basic consist of the train, as presently operated, is capable of accommodating 104 passengers. The average ridership, excluding excursion groups, was only 12.2 on Train 3 and 22.5 on Train 4, or a combined average of 17.4 passengers for both trains during 1974. Trains 3 and 4 were, thus, occupied only to 16.7% of capacity. Company testimony indicated that the company felt that 70% to 80% occupancy or ridership would indicate a public demand for continuation of the service. While the Commission is of the opinion that this figure is too high, we are compelled to agree that, both in terms of occupancy (16.7%) and total annual riders (5,415 - excluding excursion groups), public convenience and necessity no longer require the continuation of this service.

Even if the excursion group passengers are included in the totals, the average ridership of Train 3 rises only to 13.2 passengers per trip. On Train 4, the comparable figure would be 80 passengers per trip, but this figure is highly misleading since almost all of these passengers traveled only between Asheville and Old Fort and almost all of them traveled only one way.

It was readily apparent at the hearing that there is no longer a public need and demand for this service. The few witnesses who testified that they personally used these trains showed, for the most part, that they merely preferred riding a train to a bus or an airplane. Most of the witnesses seldom, if ever, rode these trains and only one or two were regular riders. Most testified that the trains should be kept on because they were (1) the last east-west intrastate trains operating in North Carolina; (2) unique in the beauty and splendor of the territory through which they

ran; (3) a tourist and commercial attraction; (4) a superior means of transportation; (5) a valuable mass transit mode of travel in times of energy shortage; and (6) one of the last remaining vestiges of our romantic past, when the rails pioneered the way west and linked isolated settlements.

These sentiments also account for the bulk of the large number of protest letters received by the Commission both before and after the hearing. While such letters are not a part of the official record in this docket (because not under oath or subject to cross-examination), they have nonetheless been considered. They add nothing of substance to the evidence received at the hearing. While the opposition witnesses and protest letters list numerous reasons why these trains should be heavily patronized, they cannot overcome the fact that such patronage simply does not exist. We must conclude that the actual ridership is too low to indicate a public need and demand for continuation of this passenger service.

(b) There is no question that Southern has been operating Trains 3 and 4 at substantial losses for many years, including the years 1972-1974. The direct out-of-pocket losses (expenses less revenue) and the revenue ratio (dollars expended to generate one dollar in revenues) have increased each year. Even the gasoline shortage during the winter 1973-1974 did little or nothing to reverse this trend. Although Southern's overall system operations are profitable, this is not a sufficient reason to require the company to continue to sustain the losses incurred by the operation of Trains 3 and 4. This is especially true where, as here, there is no substantial demonstrated public need and demand for the service.

Southern has been able to maintain its overall profits by absorbing the passenger losses in its freight operations, frequently by raising rates on freight. The ultimate consumers of the freight being transported end up bearing the costs of these increased freight charges. It would be unfair to burden these customers further with the deficits being compiled by Trains 3 and 4. To do so would require thousands of businessmen and consumers to subsidize these few passenger riders.

In order for the Applicant merely to break even on the direct costs solely attributable to the operation of these trains, one or more of three factors would have to take place - expenses would have to be reduced, ridership greatly increased or the average fares raised to five or six times their present level.

Such savings in expenses as could be achieved without reducing quality of service have already been done. Trips have been reduced to three days per week, round trip service. Regular station stops have been reduced and all intermediate points have been made into flag stops. There is no sleeping or dining car service. Maintenance of

passenger cars has been assigned to an outside firm which specializes in such maintenance. Where feasible, freight and passenger agency operations have been combined. Still, costs of operation have continued to rise. Costs of the five-man crew alone were more than three times the gross revenues earned by both trains, counting all passengers, in 1974. Costs of diesel fuel continued to rise. Service, repair and maintenance costs for the engine and passenger cars were more than twice the gross revenues.

With 1974 total ridership of 16,172 and direct losses in excess of revenues of $146,200, the Applicant lost approximately $9.00 per passenger transported. The railroad would have come out better if it had offered each of these customers $8.00 not to take the train, but to use some other means of transportation instead.

At the hearing, three methods were suggested to allow the company to keep operating the trains while raising revenue. One method was to "piggyback" freight cars on to passengers Trains 3 and 4. However, because of the steep and rugged terrain traversed, it was shown that this would be uncomfortable and unsafe for the passengers. Another method discussed was to increase the passenger rates. However, in order for the company merely to break even would have required rate increases of five to six times the present rates, with no increase in service. Such higher rates would not be competitive with other modes of public transportation, principally buses. Finally, it was suggested that ridership would be greatly increased by a combination of greater advertising and continually rising gasoline prices and shortage of gasoline for passenger autos. Actual ridership during the period of November, 1973 to March 1974 failed to reflect more than a minute increase in ridership during a period of acute gasoline shortage. Speculation as to what would happen to train ridership in a future period of gasoline shortage is too slender a reed on which to premise the continuance of Trains 3 and 4.

While the railroad's passenger advertising program can hardly be characterized as aggressive, specifically in regard to Trains 3 and 4, the Commission concludes that such advertising, together with improvements made in the service offered, are sufficient to comply with the Commission's Order in Docket No. R-29, Sub 184. The Intervenor, in its proposed Findings and Conclusions, makes much of the fact that following each advertisement of the unique and scenic ride of Trains 3 and 4, actual ridership increased. However, these advertisements were timed to coincide with the summer vacation season and fall foliage season when ridership would be expected to increase. In any event, the increased ridership experienced was still not sufficient to turn the operation of Trains 3 and 4 into a break-even, much less a profitable operation. The Commission is unable to accept the basic premise underlying the argument of the Intervenor on advertising - i.e., that railroad passengers are somehow different or less resourceful than bus or plane

passengers. Despite the advertising which prevails today, very few bus or plane passengers know, without calling a terminal, that a bus or plane runs from one point to another at certain hours. Regular passengers would know this information and they are the backbone of any transportation industry. And it is precisely the lack of these regular, daily or weekly travelers in sufficient numbers that has contributed heavily to the losses incurred on these trains. For good or ill, when a person plans a trip on public transportation, he ususlly does not even think to call the train station.

The Commission, therefore, concludes that the costs to Southern in operating Trains 3 and 4 are far in excess of the revenues derived from such operation; that the company has taken all steps to reduce operating expenses which could be prudently taken without violating contract rights, reducing service quality or endangering the safety and comfort of the passengers; that it would not be economically or competitively feasible to raise revenues to a break-even point by rate increases alone; that piggyback service on Trains 3 and 4 is unfeasible and unsafe; and, that advertising passenger train services does not have a substantial impact on ridership.

(c) Mr. Malcolm Meyers, Traffic Director, Continental Southeastern Lines, testified that his company offered one direct and six indirect bus trips daily between Asheville and Salisbury, and a comparable number going in the oppcsite direction; that none of the buses was overcrowded and could, in fact, handle many additional passengers; and, that Continental Southeastern could absorb all the transportation passengers being handled by the railroad and never even know that the railroad had ceased its operation of Trains 3 and 4. There was additional evidence to the effect that the Asheville airport was served by two or three major airline carriers.

No witness testified that his or her transportation needs could not be adequately served by a bus, plane or train. At most, many of these witnesses expressed a strong personal preference for the train. However, the personal preferences of an individual or a few persons is not the same thing as public convenience and necessity. No compelling reason has been shown to indicate that other transportation means are not available to satisfactorily convey those passengers presently traveling by train.

The Commission concludes that ample alternate means of adequate public transportation exist in the Asheville-Salisbury area to allow the cessation of these trains on a regular basis (substituting the irregular excursion service instead) without severely inconveniencing the traveling public.

(d) The criteria to be used in determining the impact of the proposed abandonment on the local communities involved

and on the customers are similar to those contained in the statute and decided cases concerning the National Environmental Protection Act. The Commission, for reasons heretofore stated, concludes that the impact on the customers will be minimal, since the company plans to continue excursion trips, few of the passengers are regular riders and other adequate means of transportation are available. Permitting the proposed abandonment to become effective may inconvenience some who regularly use the service now being offered, but this would not warrant a finding or conclusion that such service should be continued, especially in light of the large and ever-growing losses sustained by Southern in rendering the service.

The economic impact on the communities involved with regard to commerce and tourism will likewise be slight or insignificant. Uncontradicted evidence offered by the applicant shows that 90% of all passenger travel is by means of private automobiles. Such travel will be unaffected by this Order. Alternate means of public transportation are available to take care of the remaining 10%. The tourist attraction of the scenic Asheville-Old Fort run will be retained under the railroad's proposal. At their present average daily ridership of 35, three days per week (for both Trains 3 and 4), these trains do not have a large impact on the communities involved, as far as their importance in conveying travelers in and out.

Some question was raised during the course of the hearing as to the number of railroad employees who would be laid off, either indefinitely or permanently, if the proposed abandonment of Trains 3 and 4 were allowed. While the continuation of all jobs is important to the Commission, especially with the unemployment rate at its present level, the Commission is without authority to impose restrictions for the protection of railroad employees who may be adversely affected by the proposed abandonment. Such continued employment is as much governed by the provisions of the contract between the railroad and the unions as it is by this proposed abandonment. And such continued employment, while desirable, cannot make up for the lack of public demand for the service which supports the employment.

Historians, railroad buffs, civic associations and others may decry the loss of this twentieth century link to our past, with all of its idyllic associations to a gentler, warmer, more romantic time when men were not burdened with the everyday cares of inflation, recession, energy crisis and the bomb. However, those days are long since gone - time, the economy and the transportation art march on. People no longer ride in stagecoaches. The Pony Express no longer delivers the mail. Pleasant memories must yield to current reality. Should a demand arise in the future for the service proposed here for abandonment or for additional such service, the tracks and the technology will be there to provide it - if, in the meantime, the railroads have not been priced out of their freight markets and out of

existence due to price increases necessitated by continued subsidization of unprofitable passenger operations.

The Commission, while also looking back with nostalgia, must conclude that, in the absence of a more substantial public demand for the service than has been here demonstrated, the impact of the proposed abandonment on the communities and customers involved is not so substantial as to require the continuation of Trains 3 and 4.

(e) Trains 3 and 4 are the last intrastate trains operated by the applicant in North Carolina. They are operating at a loss. The annual reports filed by Southern and its testimony at the hearing indicate that its total intrastate North Carolina operations (freight included) were operating at a loss for 1973 and 1974. To require the continuation of these little used passenger trains would burden intrastate commerce, freight shippers and receivers and their customers. The only way for the applicant to practically recover this $146,000 annual loss is to charge it to freight operations - either by reducing freight service or by increasing freight rates. The result is the same - thousands of freight customers, direct and indirect, would be subsidizing passenger service for the benefit of a few. The Commission concludes that this unjust result can only be avoided by granting the application for leave to abandon.

On the basis of the foregoing Findings of Fact, Discussion and Conclusions, the Commission finally concludes that the public convenience and necessity no longer require the regularly scheduled, thrice weekly operation of Trains 3 and 4 between Asheville and Salisbury and that such operations ought to be abandoned as proposed in the application.

IT IS, THEREFORE, ORDERED:

1. That the application by Southern Railway Company for permission to abandon the regular, thrice weekly, round trip operation of its intrastate Trains 3 and 4 between Salisbury and Asheville be, and the same is hereby, granted.

2. That this Order shall become effective thirty (30) days from and after the date hereof, unless the Applicant or the Intervenor shall have filed written exceptions hereto as provided by Commission Rule R1-26 on or before Wednesday, July 30, 1975.

3. That, beginning with the effective date of this Order, the Applicant shall offer the weekend and holiday excursion service as proposed in the application. Within fifteen (15) days from and after Monday, September 1, 1975 (Labor Day), applicant shall report to the Commission the results of these excursion services, together with its proposed schedule of excursion operations during the Fall foliage season. Such report shall include, among other things, at least the following information: number of days

of operations; dates of such operations; number of round trips on such dates; total number of round trips from the effective date of this Order to Labor Day; total number of passengers carried; average passengers carried per trip; revenues; expenses (direct only); total expenses (direct and indirect); profit or loss under both sets of expenses; attempts to promote ridership; attempts to reduce expenses; and, recommendations as to the future conduct of such summer excursion service.

4. That, on Monday, August 4, 1975, if no exceptions have been taken to this Order within the time limit allowed by Ordering Paragraph 2 above, the Applicant shall cause to be posted on the station door of each of the stations or flag stops covered by Trains 3 and 4 and shall cause to be published in the same newspapers used for the Order Setting Hearings, a copy of the Notice attached hereto as "Exhibit A". Such Notice shall be published only once and shall cover no less than one-sixth (1/6) of a page of said newspapers. The Applicant shall submit to the Commission as a late-filed Exhibit in this docket, a copy of the Affidavit of Publication from each of said newspapers, together with its own Certificate that said Notice was posted on the station doors as herein provided.

5. That this docket shall remain open for such other and further Orders as may be necessary with regard to the excursion service provided herein.

ISSUED BY ORDER OF THE COMMISSION.

This the 10th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

"EXHIBIT A"
DOCKET NO. R-29, SUB 213

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Southern Railway Company for Authority to Discontinue Passenger Trains Nos. 3 and 4 Between Asheville and Salisbury	)) NOTICE OF) ABANDONMENT) OF PASSENGER) TRAIN SERVICE

TAKE NOTICE THAT, pursuant to Application filed with the North Carolina Utilities Commission on January 6, 1975 and hearings held in Asheville on March 4 and 5, 1975 and in Salisbury on March 6 and April 9, 1975, the Commission has granted Southern Railway's Application that it be allowed to discontinue the operation of its passenger Trains 3 and 4 between Asheville and Salisbury. The Commission, in its

Order Allowing Abandonment found that public convenience and necessity no longer require the operation of these trains.

TAKE NOTICE THAT, following the completion of their regulary scheduled runs on Friday, August 8, 1975, Trains 3 and 4 will be withdrawn from the regularly scheduled operations which they have been performing on a thrice weekly basis (Friday, Sunday, Tuesday) since 1971. Thereafter, passenger service along the route covered by Trains 3 and 4 will be offered only on an excursion basis, between Asheville and Old Fort, on weekends and holidays from Memorial Day to Labor Day and during the Fall foliage season, pursuant to regular or irregular schedules to be announced by Southern Railway.

TAKE NOTICE THAT regularly scheduled public passenger transportation is available by bus over the points and places previously covered by Trains 3 and 4. For more detailed information and timetables, consult your local bus company. Regular passengers on Trains 3 and 4 should take steps to secure some alternate means of transportation.

This 4th day of August, 1975.

SOUTHERN RAILWAY COMPANY

By: _____
(Here insert Officer of Company by Name and Title)

NOTE TO PRINTER: Proof of publication is required. Costs of publication are to be paid by Southern Railway Company and not by the North Carolina Utilities Commission.

DOCKET NO. R-66, SUB 70

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Rail Common Carriers - Suspension and Investigation of Proposed Increase in Rates and Charges, Scheduled to Become Effective August 29, 1974	ORDER GRANTING RATE INCREASE

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Thursday, January 23, 1975, at 10:00 a.m.

BEFORE: Commissioners George T. Clark, Jr., presiding, and Ben E. Roney and Tenney I. Deane, Jr.

APPEARANCES:

For the Respondents:

W. T. Joyner, Jr.
Joyner & Howison
906 Wachovia Building
Raleigh, North Carolina

Albert B. Russ, Jr.
Seaboard Coast Line Railroad Company
3600 West Broad Street
Richmond, Virginia 23230

James L. Howe, III
Southern Railway Company
P. O. Box 1808
Washington, D. C. 20013

Peter J. Hunter, Jr.
Norfolk and Western Railway Company
8 N. Jefferson Street
Roanoke, Virginia 24042

For the Commission Staff:

Edward B. Hipp
Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

E. Gregory Stott
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter arose upon the filing with this Commission by Southern Freight Tariff Bureau (SFTB), 115 Ellis Street, N. E., Atlanta, Georgia 30303, for and on behalf of the rail carriers in North Carolina of a tariff schedule proposing an increase (approximately 10%) in rates and charges applicable on North Carolina intrastate rail shipments scheduled to become effective August 29, 1974, and designated as follows:

SFTB Tariff of rates and charges X305A, Supplement No. S-13, thereto in full.

The Commission being of the opinion that the proposed increase in rates and charges was a matter affecting the public interest, by Order dated August 16, 1974, suspended said tariff filing and set the matter for hearing on Thursday, January 30, 1975, at 10:00 a.m. On August 19, 1974, Southern Freight Tariff Bureau for and on behalf of rail carriers of North Carolina filed with this Commission

Supplement No. S-21 to SFTB Tariff No. X-305A, SFA ICC S-11187, which suspended the application of Supplement No. S-13. By Order dated November 29, 1974, rescheduled the hearing in this matter for January 23, 1975, at 10:00 a.m. in the Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina. The Applicant offered the testimony of R. D. Biggs, Manager, Commerce Marketing and Planning Division, Southern Railway Company, who offered testimony regarding Southern's traffic and their increased expenses.

Mr. George M. Gallamore, Jr., Assistant General Freight Agent in the Commerce Section of the Freight Traffic Department, Seaboard Coast Line Railway Company, testified regarding Seaboard Coast Line Railway Company's traffic and the increased expenses which Seaboard has incurred in recent years.

Mr. Hartley W. Hird, Jr., Assistant Manager of the Research Department, Southern Freight Association, testified regarding statistical and financial data related to the principal Class I railroads operating in North Carolina.

Mr. F. A. Luckett, Assistant Comptroller, Southern Railway Company, testified regarding separation of intrastate and interstate expenses and revenues.

Mr. Melvin L. Jameson, Senior Economic Analyst, Seaboard Coast Line Railroad Company, testified regarding Seaboard Coast Line Company's capital improvement program.

Mr. James M. Randles, Engineer, Budgets and Cost, Engineering Department, Norfolk and Western Railway Company, testified regarding Norfolk and Western's annual maintenance expenditures to the Norfolk and Western system as well as capital expenditures to renew and replace its physical plant.

Mr. Jack Raymond Martin, Director of Transportation and Planning for Southern Railway, testified regarding improvement projects undertaken by Southern Railway.

North Carolina Utilities Commission Staff offered the testimony of J. Philip Lee, Rate Specialist and Special Investigator in the Traffic-Transportation Division of the North Carolina Utilities Commission, who offered testimony and exhibits showing the operating revenues, expenses and operating ratios in the State of North Carolina for the years 1970, 1971, 1972, and 1973 as reflected in the annual reports filed with the Commission by the carriers named in this proceeding.

Based on the testimony given, the exhibits presented and the evidence adduced, the Commission makes the following

FINDINGS OF FACT

1. That the rail common carriers participating in the tariff schedule under suspension in this proceeding are subject to regulation by this Commission and are properly before the Commission with respect to such rates and charges through representation of the Southern Freight Tariff Bureau.

2. That inflation in many phases of intrastate rail common carrier operation has adversely affected the operating ratio of the Respondents.

3. That the rail common carriers in North Carolina have apparently undertaken a study program to develop and determine more accurate and equitable methods of separations to improve the probative force and effect of the evidence concerning derivation of intrastate operating revenues and expenses as required by statute; however, this Commission admonishes them to continue this affirmative program in order to better improve the quality and probative force and effect of their evidence.

4. That the Commission does not conclude that the formula and method used in making the separations in this case reflect to a certainty accurate results and we advise and enjoin the Respondents herein to continue their efforts for improvement in this area.

5. That the Applicants have not provided this Commission with information regarding separation of expenses and revenues for the other states in which the rail common carriers operate.

6. That the Applicant could not provide testimony, reasons or exhibits why, despite the fact that the railroads were making money on an overall system-wide basis. They were, however, conducting a losing operation on their North Carolina interstate and intrastate operations.

7. That the approximate, ratable proportion of the railroad property used and useful, devoted to North Carolina intrastate traffic is $45,346,000.

8. That the present rates and charges are not adequate to insure the railroads a proper rate of return on their North Carolina investment as provided under the present separations formula.

9. That the proposed increase in rates and charges will compensate the railroads for their increased expenses and will allow them a better rate of return on their North Carolina investment.

10. That inflation in many phases of intrastate common carrier operation has adversely affected the operating ratios of the Respondents.

11. That the increase in intrastate rates and charges for the railroad which was scheduled to become effective August 29, 1974 - X-305A - in this matter is necessary at this time to afford the railroads a fair return on their property used and useful in connection with their North Carolina intrastate operation.

12. That the rail common carriers participating in the tariff schedules under suspension in this proceeding are subject to the regulation of this Commission and are in need of additional revenues which should be allowed to make an increase in their rates and charges.

Whereupon, the Commission reaches the following

CONCLUSIONS

1. G.S. 62-146(h) requires that this Commission give due consideration to, among other factors, the effect of rates upon movement of traffic by the carrier or carriers for which rates are prescribed to need of the public interest of adequate and efficient transportation service by such carriers at the lowest cost consistent with the furnishing of such service and to the need of revenue sufficient to enable such carriers an honest, economical and efficient management to provide such service.

2. We conclude that the Respondents herein have shown need for the additional revenues that the proposed increases will produce and that these increases are not excessive and that the suspended tariff schedule should be allowed to become effective.

3. We do not conclude that the formula and method used in making the separations in this case reflect to a certainty accurate results and we advise and enjoin the Respondents herein to continue their efforts for improvement in this area.

4. We further conclude that in the future this Commission may be unable to render a decision favorable to a rate increase if the Respondents herein are unable to provide data regarding the expenses and revenues which would be allocated to each state that the rail common carriers participating in these suspended tariffs are operating. The Commission calls attention to the testimony and exhibits of Company Witness Luckett wherein Mr. Luckett was unable to provide reasons why the rail common carriers were showing large overall system income and yet were still losing money on North Carolina interstate and intrastate operations. The Commission reminds the rail common carriers that G.S. 62-75 places the burden of proof upon the public utility whose rate, service, classification rule, regulation or practice is under investigation to show that the same is just and reasonable and in the absence of affirmative evidence presented by the rail common carriers in future cases regarding separations of expenses and revenues among the

other states in which the rail common carriers are operating and substantial evidence regarding the conditions in North Carolina which cause North Carolina to show such a large, operational deficit while the rail common carriers are making substantial profits on their system as a whole.

5. The Commission concludes that in the absence of such evidence in the future may, of necessity, result in negative findings and we advise and enjoin the carriers to develop and present additional evidence regarding the separation of operating revenues and expenses in the other states in which the rail common carriers are moving traffic.

6. We conclude that it is the duty of this Commission to protect the public by requiring service at just and reasonable rates and that this duty also requires the Commission to fix rates which are just and reasonable to the utility so that the utility may have sufficient earnings to enable it to give reasonable service.

7. The Commission concludes that inflation in many phases of intrastate common carrier operations has adversely affected the operating ratios of the railroads and must have some additional rate relief at this time in order that they might continue to provide the level of service which they are presently performing.

8. The Commission further concludes that the rail common carriers who are the Respondents herein have carried their statutory burden of proof of showing that the proposals herein are just and reasonable; however, the quality and probative effect of the evidence presented in this case without additional evidence will not be sufficient to sustain the rail common carriers burden of proof.

IT IS, THEREFORE, ORDERED:

1. That the Order of Suspension in this docket dated August 16, 1974, be, and the same hereby is, vacated and set aside for the purpose of allowing the Tariff Schedules to become effective.

2. That the publications authorized hereby may be made on one day's notice to the Commission and to the public but in all other respects shall comply with the rules and regulations of the Commission governing construction, filing and posting of tariff schedules.

3. That upon publication hereby authorized having been made, that the investigation in this matter be discontinued and this proceeding be, and the same is hereby, discontinued.

ISSUED BY ORDER OF THE COMMISSION.

This the 23rd day of May, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. R-66, SUB 71

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Rail Common Carriers - Suspension and Investigation of Proposed Changes in Grain Transit Rules Applicable to North Carolina Intrastate Traffic Scheduled to Become Effective December 31, 1974	) RECOMMENDED ORDER ALLOWING CHANGES IN GRAIN TRANSIT RULES

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Thursday, May 1, 1975, at 10:00 a.m.

BEFORE: Robert F. Page, Hearing Examiner

APPEARANCES:

For the Respondent:

Edward S. Finley, Jr.
Joyner & Howison
Attorneys at Law
Box 109
Raleigh, North Carolina 27602
Appearing for: Southern Railway Company

James L. Howe, III
Attorney at Law
Southern Railway Company
P. O. Box 1808
Washington, D. C.
Appearing for: North Carolina Railroads in General
Southern Railway in Particular

For the Commission Staff:

E. Gregory Stott
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

PAGE, HEARING EXAMINER: This matter arose upon the filing with this Commission by the Southern Freight Tariff Bureau (Southern Freight Association Agent, Atlanta, Georgia) for and on behalf of rail common carriers in North Carolina, of a tariff schedule proposing certain changes in grain transit rules applicable on North Carolina intrastate rail shipments scheduled to become effective December 31, 1974, and designated as:

"Southern Freight Tariff Bureau Freight Tariff No. 915-C, Supplement No. 32, Item 335D thereto."

On December 19, 1974, a Petition was filed by Siler City Mills, Inc., Siler City, North Carolina, by and through their attorney, Mr. Ray F. Swain, protesting the tariff schedule in question and requesting that the Commission suspend said schedule and assign the matter for hearing. The Commission being of the opinion that the proposed change in grain transit rules is a matter affecting the public interest by Order issued December 20, 1974, among other things suspended the proposed changes in grain transit rules, instituted an investigation into and concerning the lawfulness of the suspended tariff schedule and set the matter for hearing on April 15, 1975.

On March 3, 1975, the rail common carriers in North Carolina by and through their attorney, Mr. James L. Howe, III, filed a motion to postpone and continue said hearing. By Commission Order dated March 14, 1975, this matter was set for May 1, 1975, at 10:00 a.m. in the Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina.

At the time of hearing, the Protestant was not present and was not represented by counsel.

It was stipulated by the parties present at the hearing that the above-captioned matter would be heard by Commission Hearing Examiner with the understanding that the Examiner would take the evidence and certify the record together with recommendations to the Commission. The Commission would read and examine said record and issue a Commission Order thereon.

The railroad common carriers offered the testimony of Mr. Eugene F. Head, Assistant to Director, Commerce Marketing Department, Southern Railway Company, who gave testimony and exhibits regarding the proposed cancellation of the tariff under suspension and further detailed need of the railroad to cancel the tariff due to the expense incurred by the railroads due to the complexity of determining rates under said tariff. Mr. Head was cross-examined by Staff Counsel. With that the Respondents herein rested their case. Based on the testimony given, the exhibits presented, and the evidence adduced, the Commission makes the following

FINDINGS OF FACT

1. That the rail common carriers participating in the tariff schedule under suspension in this proceeding are subject to regulation by this Commission and are properly before the Commission with respect to the cancellation of the above-captioned tariff, through representation of the Southern Freight Tariff Bureau.

2. That the North Carolina railroads, the Respondents herein, propose to change the rules applicable to transit shipments of grain, grain products, and feed in intrastate North Carolina traffic.

3. That under the proposed tariff changes regarding transit shipments of grain, grain products, and feed involving movements between points in North Carolina, the shipper will no longer be entitled under the tariff to surrender inbound transit weights to offset deficit outbound weights.

4. That there is very little North Carolina intrastate traffic moving under the present tariff provisions.

5. That the additional revenues that the railroad respondents will receive from the proposed changes in the above-captioned tariff will be minimal on their North Carolina intrastate operations under said tariff.

6. That the proposed change in the above-captioned tariff will have a minimal effect on North Carolina shippers.

7. That in order to maintain the integrity of transit, it is mandatory that rail carriers assess the applicable rates on the transit commodity in quantity reshipped in outbound cars.

8. That it should not be permissible to build up a fictitious minimal weight in order to obtain a lower rate.

9. That the proposed changes in the grain transit rules will remedy some of the aforementioned inequities in grain transit.

10. That the proposed changes in grain transit rules are just, reasonable, and not a means of creating discrimination preference or prejudice.

Based on the foregoing Findings of Fact, the Commission makes the following

CONCLUSIONS

The Commission concludes that the proposed changes in Southern Freight Tariff Bureau (Southern Freight Association Agent) Freight Tariff No. 915-C, Supplement No. 32, Item

335-D thereto, proposing changes in the grain transit rules applicable on North Carolina intrastate rail shipments should be allowed to become effective. That the proposed changes in the aforementioned rules are just, reasonable and are not the means of creating discrimination preference or prejudice, and, therefore, the Commission further concludes that Commission Order dated December 20, 1974, suspending the proposed tariff changing rule applicable to grain transit should be vacated and the tariff allowed to become effective on one day's notice to the public.

IT IS, THEREFORE, ORDERED as follows:

1. That the Order of suspension in this docket dated December 20, 1974, be, and the same is hereby, vacated and set aside for the purpose of allowing the tariff schedule to become effective.

2. That the publications authorized hereby may be made on one day's notice to the Commission and to the public but in all other respects shall comply with the rules and regulations of the Commission governing construction, filing and posting of tariff schedules.

3. That upon publication hereby authorized having been made that the investigation in this matter be discontinued and this proceeding be, and the same is hereby, discontinued.

ISSUED BY ORDER OF THE COMMISSION.

This the 10th day of July, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. R-66, SUB 72

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Rail Common Carriers - Suspension and Investigation of Proposed Changes in Rates on Grain and Grain Products Applicable to North Carolina Intrastate Traffic Scheduled to Become Effective March 12, 1975	) ORDER ALLOWING PARTIAL CANCELLATION OF TARIFF AND DENYING RATE INCREASE

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Tuesday, September 23, 1975, at 10:00 a.m.

BEFORE: Commissioners George T. Clark, Jr., Presiding, and J. Ward Purrington and W. Lester Teal, Jr.

APPEARANCES:

For the Respondents:

Odes L. Stroupe
Joyner and Howison
Post Office Box 109
Raleigh, North Carolina

James L. Howe, III
Southern Railway Company
Post Office Box 1808
Washington, D. C. 20013

Charles M. Rosenberger
Seaboard Coast Line Railroad Company
3600 West Broad Street
Richmond, Virginia 23230

For the Commission Staff:

E. Gregory Stott
Assistant Commission Attorney
North Carolina Utilities Commission
Post Office Box 991
Raleigh, North Carolina 27602

Antoinette R. Wike
Associate Commission Attorney
North Carolina Utilities Commission
Post Office Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter arose upon the filing with this Commission by the Southern Freight Tariff Bureau (Southern Freight Association, Agent), 151 Ellis Street, N. E., Atlanta, Georgia 30303, for and on behalf of the rail carriers in North Carolina of a tariff schedule proposing certain changes in rates on grain, grain products, feed, animal, fish or poultry, grain sorghums and soybeans applicable on North Carolina intrastate rail shipments scheduled to become effective March 12, 1975, and designated as follows:

Southern Freight Tariff Bureau, (Southern Freight Association, Agent), Freight Tariff No. 908-B, Supplement 73, Items No. 65690-C and 65692-C therein.

On February 28, 1975, Mr. L. H. Gibbons of Carr, Gibbons, Cozart, Attorneys at Law, Cunningham Building, Post Office Box 326, Wilson, North Carolina 27893, filed a petition for and on behalf of Ralston Purina Company, a Missouri corporation, having its principal office at Checkerboard Square, St. Louis, Missouri 63188, protesting the above-

named tariff schedule. The petition further requested that the Commission suspend said tariff schedule, require the rail carriers to justify same and assign the matter for hearing.

The Commission being of the opinion that the proposed changes in rates on grain and grain products as hereinabove enumerated was a matter affecting the public interest by Commission Order dated March 10, 1975, suspended the involved tariff schedules, ordered an investigation instituted therein, and set this matter for hearing on June 12, 1975. On April 14, 1975, Rail Common Carriers, by and through their attorney filed a motion to postpone hearing. By Commission Order dated April 30, 1975, said matter was rescheduled for hearing in the Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Tuesday, September 23, 1975, at 10:00 a.m.

The Railroad Common Carriers offered the testimony of Mr. Eugene F. Head, Assistant to Director, Commerce Marketing Department, Southern Railway Company, who gave testimony and exhibits regarding the proposed cancellation of the tariffs under suspension. Mr. Head further detailed the needs of the railroad to cancel the tariff due to the fact that he alleged that the railroads were not receiving sufficient revenues to compensate them for the expenses which they have incurred making transit shipments. Mr. Head offered exhibits and figures which showed the railroads operating revenues and expenses which the railroads allocated to transit shipments.

The railroad applicants further offered the testimony of Mr. R. W. Parson, Jr., Assistant General Freight Agent in the Commerce Section of the Freight Traffic Department, Seaboard Coast Line Railroad Company, who testified in support of Seaboard Coast Line's Petition to make certain tariff changes in the rates on grain, grain products and feed normally used in connection with transited shipments. Mr. Parson's testimony supplemented the testimony previously given by Witness Head.

The railroads further offered the testimony of Francis M. Spuhler, Senior Cost Accountant, Research Department, Southern Freight Association, Washington, D.C. Mr. Spuhler offered accounting testimony and exhibits to support the request of increased freight rates and charges on intrastate North Carolina transit freight traffic. He presented exhibits which contained information regarding certain cost studies which detailed the expenses allocated by the railroads to their North Carolina intrastate transit traffic. At the close of Mr. Spuhler's testimony, the applicants rested their case.

The Commission offered testimony of J. Philip Lee, Rate Specialist and Special Investigator in the Traffic-Transportation Division of the North Carolina Utilities

Commission. Mr. Lee offered testimony and exhibits detailing what the rates presently are and what the rates would become under the railroad applicant's proposal. He further offered testimony explaining the impact of these proposed increases upon the railroads' North Carolina intrastate transit movements under the tariff which the railroads propose to cancel.

Mr. C. W. Moses, Regional Traffic Manager for Ralston Purina Company, made a statement on behalf of his company which was protesting the proposed increases in the grain transit rates. Mr. Moses offered testimony and exhibits which detailed the impact that these proposed increases would have on his company and what he thought the adverse effects of these increases would be. He further offered testimony that the railroads had not used representative months in determining their revenues and expenses nor had they used representative shipments in determining their revenues. Based on the testimony given, the evidence and exhibits presented, and the evidence adduced, the Commission makes the fcllowing:

FINDINGS OF FACT

1. That the Railroad Common Carriers participating in the tariff schedule under suspension in this proceeding are subject to regulation by this Commission and are properly before this Commission with respect to such rates and charges through the representation of the Southern Freight Tariff Bureau.

2. That it is the duty of this Commission to protect the public by requiring service at just and reasonable rates and that duty also requires the Commission to fix rates that are just and reasonable to the utility.

3. That the North Carolina Railroads, the Respondents herein, propose to change the rates applicable to transit shipments of grain, grain products and feed in intrastate North Carolina traffic.

4. That the railroad applicants have failed to carry the burden of proof to show that the present rates for transit shipments are below the variable cost of making said movement as projected by the railroad applicants in most instances.

5. That the railroad respondents have not carried the statutory burden of proof to show that the revenue being generated by the rates which the respondents herein proposed to cancel are inadequate to cover the cost of providing the service involved.

6. That the Column 2A rates which the railroads propose to cancel would only minimally affect the North Carolina intrastate traffic under said tariff.

7. That the railroads should be allowed to cancel Column 2A rates.

8. That the revenue projected herein by the railroads are not truly representative of the revenues which are actually derived from movements under its Column 2A and Column 1 rates which the railroads propose to change.

9. That the railroads have failed to carry the statutory burden of proof as required by G.S. 62-75 and G.S. 62-134 to show that the proposed changes in its rates and charges on grain, grain products and feed under its Column 2A rates and Column 1 rates are just and reasonable.

Based on the foregoing Findings of Fact the Commission makes the following

CONCLUSIONS

G.S. 62-134(c) and G.S. 62-75 require that the party proposing to change rates and charges carry and sustain the burden of proof in showing the justness and reasonableness of the proposed rates and charges. In the case at hand, the railroad applicants are required to show that the revenues derived from the movements under the rates which they propose to alter are not sufficient to compensate them for the expenses incurred and provide a reasonable profit in making these movements. This Commission must conclude that the railroad respondents herein have failed to show that the proposed rates and charges are just and reasonable, and under G.S. 62-132 the existing rates and charges are therefore deemed to be just and reasonable until the contrary is shown by the carriers by material and substantial evidence.

The railroad respondents offered the testimony of Mr. Eugene Head who used expense figures provided to him by Mr. Spuhler to compare with the revenues which he calculated would be derived from transit movements. Mr. Head under cross-examination admitted that the revenue figures he had derived would be for shipments which were moving with 100 percent transit commodities, and that this situation is not characteristic of a representative transit movement which would consist of a mixture of transit commodities along with other commodities which would move on the higher local rates. The mixture of commodities would increase the amount of revenues derived from an individual shipment.

Mr. C. W. Moses, Regional Traffic Manager for Ralston Purina Company, gave testimony which indicated that the revenues derived from individual shipments would actually be higher than the railroads have represented in their testimony due to the mixture of transit and non-transit tonnage. He also offered some testimony that the respondents' study of October, 1974, shipments may not be a representative month and that other months may be more representative of the actual tonnage being shipped under the

tariffs which the railroads propose to cancel. His testimony further detailed the percentage increases that his company would suffer if the proposed rates are allowed to become effective and what the bad effects would be upon his company.

G.S. 62-132 states that the existing rates and charges are deemed to be just and reasonable until the contrary is shown by the carriers by material and substantial evidence. There has been serious doubt cast upon the figures presented by the railroad respondents herein regarding the revenues derived on transit movements in North Carolina intrastate traffic. The Commission therefore concludes that the respondents herein have failed to carry their statutory burden of proof to show by material and substantial evidence that the proposed rates and charges are just and reasonable and must therefore conclude that the proposed increases should be denied.

Railroad respondents also indicated that they wish to cancel their Column 2A rates and increase the Column 1 rates under this tariff filing. The Commission concludes that there has been sufficient testimony and evidence given to carry the burden of proof that the railroads should be allowed to cancel their Column 2A rates.

IT IS, THEREFORE, ORDERED:

1. That the tariff schedule designated as follows:

Southern Freight Tariff Bureau (Southern Freight Association, Agent) Freight Tariff No. 908-B Supplement 73, Item No. 65690-C,

only to the extent and for the purpose of cancellation of Column 2-A rates, therein, be and the same hereby is allowed to become effective.

2. That the increases proposed by the respondent Rail Common Carriers in their tariff filing designated as follows:

Southern Freight Tariff Bureau (Southern Freight Association, Agent) Freight Tariff No. 908-B Supplement 73, Item No. 65690-C

to the extent said publication would increase Column 1 rates therein, be and same hereby is denied.

3. Respondent Rail Common Carriers be and the same hereby are required to issue the appropriate new tariff schedule cancelling tariff filing No. 908-B, Supplement 73, Item 65690-C and Item 65692-C which are under suspension in this proceeding, reflecting changes as authorized hereinabove in ordering paragraphs 1 and 2.

4. That the order of suspension and investigation issued in this docket be and the same is hereby vacated and set aside.

ISSUED BY ORDER OF THE COMMISSION.

This the 22nd day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. P-7, SUB 601
DOCKET NO. P-7, SUB 481

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Carolina Telephone and Telegraph Company for an Adjustment of its Rates and Charges Applicable to Intrastate Telephone Service and Town of Battleboro, North Carolina, Complainant vs. Carolina Telephone and Telegraph Company, Tarboro, North Carolina, Respondent	)	ORDER SETTING RATES AND CHARGES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on September 9-12, 1975, and September 16-19, 1975

BEFORE: Chairman Marvin R. Wooten, presiding, and Commissioners Ben E. Roney and Barbara A. Simpson

APPEARANCES:

For the Applicant:

Robert C. Howison, Jr.
Joyner & Howison
Attorneys at Law
P. O. Box 109
Raleigh, North Carolina 27602

Edward S. Finley, Jr.
Joyner & Howison
Attorneys at Law
P. O. Box 109
Raleigh, North Carolina 27602

William W. Aycock, Jr.
Taylor, Brinson & Aycock
Attorneys at Law
P. O. Drawer 308
Tarboro, North Carolina 27886

For the Complainant:

George A. Goodwyn
Fountain, Goodwyn & Boney
Attorneys at Law
P. O. Box 615
Tarboro, North Carolina 27886
Appearing for: Town of Battleboro

For the Intervenors:

Michael P. McGory
United States Army
Pentagon, DAJA-RL
Washington, D. C. 20310
Appearing for: Department of Defense and other Federal Executive Agencies

Edward H. McCormick
Woodall & McCormick
Attorneys at Law
Lillington, North Carolina
Appearing for: Harnett County and Lillington Chamber of Commerce

I. Beverly Lake, Jr.
Robert P. Gruber
Jesse C. Brake
North Carolina Attorney General's Office
P. O. Box 629
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
and
E. Gregory Stott
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter was instituted on December 20, |974, by the filing with the Commission of an application by Carolina Telephone and Telegraph Company (hereinafter referred to as Carolina Telephone, the Company or Applicant) for an increase in its rates and charges for intrastate telephone service. In its application, the Applicant alleged that it had not had a general increase in its intrastate rates and charges since September, |958. Since that time, the Applicant contended that its investment in telephone plant in service had increased by 528%, its total telephones have increased by 308%, its investment in telephone plant per telephone had increased by 54%, and it had substantially improved and upgraded the types and quality of telephone service which it offered to subscribers in its franchised territory. The Applicant further contended, that despite increases in operating efficiency and improvement of equipment since |958, the rise in all costs of doing business with which it is faced, including labor, materials, and capital needed for expansion and growth, have been such as to push its earnings below a level which is fair and reasonable. The Applicant requested permission to raise its rates and charges for intrastate telephone service in the sum of $|2,900,000 or an overall increase of approximately |3.7%.

The Commission, being of the opinion that the proposed application was a matter affecting the public interest, declared the matter to be a general rate case pursuant to G.S. 62-|33, set the matter for hearing on June |7, |975, suspended the proposed rate increase for a period of up to 270 days, directed the manner and method of filing protests and interventions, required the Applicant to give notice by way of bill inserts and newspaper advertisements of the proposed increase, directed the Commission Staff to investigate the matters and things contained in the application, and established a test period for the rate case of the twelve months ending December 3|, |974.

On January |4, |975, notice of intervention in this proceeding was given by the Attorney General on behalf of the using and consuming public of North Carolina. By Commission Order issued January |5, |975, the intervention of the Attorney General was recognized by the Commission.

On January 2|, |975, the Applicant filed a motion with the Commission requesting a modification of a certain portion of the Commission's Order setting hearing with regard to the notice to be furnished by way of bill insert to individual subscribers. Further, on January 3|, |975, the Applicant requested leave of the Commission to make a minor modification in Exhibit A attached to its application. By Order issued on February 5, |975, the Commission allowed the amendment to the original application as requested by Carolina Telephone, but denied Carolina Telephone's motion with respect to the amount of information to be included on the notice to the public in the bill insert. On February |4, |975, the Company filed with the Commission a proposed

form of the bill insert notice to be supplied to individual subscribers of the Company's telephone service. Such proposed form was approved and the Commission directed the Applicant to proceed with mailing the notice.

On March 5, |975, the Company requested the Commission to grant an extension of time of approximately thirty (30) days up to and including April |8, |975, within which to file its expert testimony and exhibits in this proceeding. As a part of its motion, the Company requested that, should the motion be granted, the hearing date of June |7, |975, not be changed or postponed. By Order issued on March |2, |975, the Commission denied Carolina Telephone's motion for an extension of time to file expert testimony and exhibits without continuation of the hearing date previously scheduled. By oral communication of March |3, |975, the Company informed the Commission that it could not comply with the then existing filing deadlines for expert testimony and exhibits and the Company, therefore, requested that the hearing then scheduled for June |7, |975, be continued to the earliest available time on the Commission's calendar, and that the Company be allowed to file its expert testimony and exhibits ninety (90) days prior to the new, continued hearing date as established by the Commission. As a part of its request, the Company agreed to waive its rights under G.S. 62-|35 and G.S. 62-|34(b) for a period of time equal to the number of days between June |7, |975, and the opening date of the hearing as continued, should the Commission see fit to grant its motion. By Order issued on March |7, |975, the Commission granted the Company's motion and rescheduled the hearing to begin on September 9, |975, in the Commission Hearing Room, Ruffin Building, Raleigh, North Carolina. The Commission required the Company to give additional notice to the public of the new hearing date, which was done.

During this period of time, the Commission Staff submitted numerous data requests to the Company, to which responses were filed by the Company with certain modifications as submitted to and approved by the Commission. Additional Staff data requests were subsequently submitted and answered by the Company up to as late as September |, |975.

By Order issued on April |8, |975, the Commission merged the complaint of the Town of Battleboro, in Docket No. P-7, Sub 48|, into and made it a part of the overall general rate application pending in Docket No. P-7, Sub 60|. The Commission further ordered that Rocky Mount base rate area rates, which were in effect at that time for Battleboro subscribers, be continued in effect pending completion of the hearing scheduled for September, |975 and subject to the final Order of the Commission at the conclusion of the general rate proceeding. On May 8, |975, a motion was filed with the Commission by the Town of Battleboro, requesting the Commission to reconsider its Order merging Battleboro's complaint into the general rate case and, upon such reconsideration, to sever the complaint proceeding and the general rate proceeding. By Order issued on May |5, |975,

the Commission denied the motion for severance of the Town of Battleboro.

On May 21, 1975, a petition for leave to intervene was received by the Commission from the Secretary of Defense, asking permission of the Commission to appear as a party in this proceeding. By Commission Order issued May 27, 1975, the petition of the Secretary of Defense for leave to intervene on behalf of the Department of Defense and all other executive agencies of the United States served by Carolina Telephone and Telegraph was allowed by the Commission. On August 14, 1975, a motion was presented to the Commission by the Commission Staff, requesting an extension of time within which to file the testimony of Staff engineering witnesses Vern W. Chase and Charles D. Land. Such motion was allowed by Commission Order issued on August 19, 1975.

On September 2, 1975, petitions for leave to intervene in these proceedings were filed with the Commission by the County of Harnett and by the Lillington Chamber of Commerce. These intervenors filed, in addition to their petition, a motion requesting the Commission to order Carolina Telephone to provide answers to certain data requests which they included as an exhibit to the motion. The Company filed a response to the aforesaid petitions and motion, in which it did not oppose granting of the petitions for leave to intervene, but, due to the nearness of the opening date of the hearings, strenuously opposed granting of the motion for additional discovery. On September 3, 1975, the Commission allowed the petition for leave to intervene filed by the Lillington Chamber of Commerce and the County of Harnett and ordered the Company to furnish to these intervenors copies of the application, pleadings, exhibits, etc., filed with the Commission in this matter. By further Order issued on September 4, 1975, the Commission denied the motion of the County of Harnett and the Lillington Chamber of Commerce that Carolina Telephone be ordered to supply them the answers to certain interrogatories and be required to produce certain specified data. The Company was, however, ordered to provide to these intervenors all the matters and things previously furnished to the Commission Staff as a portion of its investigation, including a verified copy of the application, and copies of the Company's prefiled testimony and exhibits.

On September 8, 1975, the day before the hearings were due to begin, the Commission received a petition for leave to intervene from the Erwin Area Chamber of Commerce. This motion further requested that the Company furnish to the Erwin Area Chamber of Commerce copies of all pleadings to date and all proposed testimony. By Order issued on September 9, 1975, the day of the hearing, the Commission granted leave to intervene to the Erwin Area Chamber of Commerce but denied this intervenor's motion that it be furnished copies of all pleadings and proposed testimony.

The matter came on for hearing at the time and place first listed above. All parties were present and represented by counsel as hereinabove indicated. The Company offered the testimony of the following witnesses:

(1) Mr. J. F. Havens, past President of Carolina Telephone and Telegraph Company, testified with regard to Carolina's corporate operating history, its merger into United Telecommunications, Inc., its growth in facilities, mainstations, and telephone plant since its last general rate increase, the attrition in its earnings caused by increased costs for labor, materials and capital, and its need at this time for additional revenues.

(2) Mr. William C. Morris, Jr., Assistant Controller of Carolina Telephone and Telegraph Company, testified concerning the Company's North Carolina intrastate operating results for the test period, adjusted for known changes which have taken place in revenues, expenses and investment levels since the end of the test period.

(3) Mr. John D. Russell, Executive Vice President of Associated Utility Services, Inc., testified concerning the fair value of the Company's property used and useful in utility services in North Carolina and presented a replacement cost appraisal of the Company's property as of December 31, 1974, prepared by him using the trended original cost method.

(4) Mr. Robert E. Baker, Jr., Staff Director - Rate Case and Tariff Matters of United Systems Service, Inc. (also known as the "Service Company"), testified regarding the relationship between Carolina Telephone and United Systems Service, Inc., both of which are divisions of United Telecommunications, Inc. Mr. Baker's testimony covered the amounts and methods of charging Carolina Telephone by United Systems Service, Inc., for numerous services provided to Carolina Telephone by United Service System, Inc.

(5) Mr. D. M. Gedeon, Controller of North Electric Company, a manufacturing subsidiary of United Telecommunications, Inc., testified concerning the relationship of North Electric with Carolina Telephone and Telegraph Company. Mr. Gedeon's testimony was presented to show the advantages to Carolina Telephone of purchasing from North Electric as an affiliated company of United Telecommunications, Inc.

(6) Mr. F. J. Cristich, Vice President - Supply Division of North Electric Company (also known as "Supply Division"), testified concerning the relationship of the Supply Division to Carolina Telephone and Telegraph Company. Mr. Cristich's testimony was designed to show the inventory and pricing advantages to Carolina Telephone in dealing with the Supply Division, another affiliated division of United Telecommunications.

(7) Mr. Joseph F. Brennan, President of Associated Utilities Services, Inc., testified with respect to the fair rate of return which Carolina Telephone and Telegraph Company should be afforded an opportunity to earn in connection with its application for authority to increase its rates charged for intrastate telephone service.

(8) Mr. Earl D. Wooten, Forecast and Tariff Manager, Commercial Department of Carolina Telephone and Telegraph Company, testified concerning his development of local rate structures or schedules with which to raise the additional gross revenues which the Company contends in its application, that it is entitled to generate in its North Carolina operations.

The Commission Staff offered the testimony of the following witnesses:

(1) Mr. Hugh L. Gerringer, Telephone Engineer, Rate Section, Engineering Division of the North Carolina Utilities Commission, testified with regard to (a) the appropriateness of the apportionment of the Company's operations within North Carolina between its interstate and intrastate jurisdictions; and (b) the status of the Company's intrastate toll settlements with Southern Bell Telephone and Telegraph Company for the test period and the determination of the Company's representative intrastate toll revenues for the test period.

(2) Mr. Gene A. Clemmons, Chief Engineer, Telephone Service Section, Engineering Division of the North Carolina Utilities Commission, testified concerning the results of the Commission Staff's evaluation of the quality of telephone service provided in its franchised territory by Carolina Telephone and Telegraph Company.

(3) Mr. Millard N. Carpenter, III, Rate Analyst, Telephone Rate Section, Engineering Division of the North Carolina Utilities Commission, testified concerning certain aspects of the Company's proposed rate structure and his proposals for mileage charges, local coin rates, service charges, service lines, toll terminals, business extensions and private line telephone sets.

(4) Mr. Thomas M. Kiltie, Staff Economist, Operations Analysis Section, Engineering Division of the North Carolina Utilities Commission, presented testimony concerning a quantitative analysis of the cost of capital and fair rate of return to Carolina Telephone and Telegraph Company.

(5) Mr. Charles D. Land, Telephone Engineer, Telephone Service Section, Division of Engineering of the North Carolina Utilities Commission testified regarding (a) his evaluation of the Company's dial office traffic administration program, central office equipment engineering program and outside engineering and maintenance program; (b) certain aspects of the Company's replacement cost appraisal

as presented by Company Witness Russell; and (c) his conclusions and recommendations with regard to a Staff proposal for the Company to institute a program of charges for inquiries made to Company operators seeking directory assistance.

(6) Mr. Norman Reiser, Staff Accountant, Accounting Division of the North Carolina Utilities Commission testified concerning his evaluation of the Company's original cost net investment, test year revenues and test year expenses.

(7) Mr. Vern W. Chase, Chief Engineer, Telephone Rate Section, Engineering Division of the North Carolina Utilities Commission, testified with regard to several specific items involved in the Company's proposed rate structure, including the following: base rate areas, special rate areas, rural zone rates, extended area service, rate groups, regrouping, directory assistance charges, toll rates and hotel and motel commissions.

(8) Mr. Allen L. Clapp, Chief, Operations Analysis Section, Engineering Division of the North Carolina Utilities Commission, testified concerning the derivation of the fair value of the Company's property used and useful in rendering telephone service in North Carolina (or the rate base) and the fair rate of return with which such rate base is compatible and also with regard to his evaluation of the replacement cost estimate presented by Company Witness Russell.

The Commission also heard testimony from three members of the public at large. These witnesses were as follows: (1) Mrs. Shelby Barnes, Micro, North Carolina; (2) Mrs. Angus A. Jackson, Bunn, North Carolina; and (3) Mr. Arthur Wade Watkins, Zebulon, North Carolina, a customer on the Company's Wake Forest exchange. In addition to these general public witnesses, whose testimony contained general complaints as to their particular quality of service being received from Carolina Telephone and their objections to the proposed rate increases, the Commission also heard a presentation from representatives of Harnett County and the Lillington Chamber of Commerce. The principal witness for these intervenors was Mr. Bobby Etheridge, Chairman of the Board of Commissioners of Harnett County. Several other persons from the Harnett County area were in attendance in the Court Room during the presentation by Mr. Etheridge. This intervenor's presentation was directed at what was alleged to be a discriminatory situation, in that there are some six telephone exchanges serving subscribers in Harnett County, and a person cannot call from one exchange to another without paying long distance charges. These intervenors contended that, for the toll free local area calling scope which they had, they were paying unreasonably high local service charges. No evidence was presented by any of the other intervenors.

Following the conclusions of the hearings, the intervenors, County of Harnett and Lillington Area Chamber of Commerce, presented three motions for the Commission's consideration as follows: (1) That the Commission, in its Order to be issued in this docket, make certain findings of fact and conclusions of law; (2) That the areas of Dunn, Lillington, and the Spring Lake exchange of Carolina Telephone and Telegraph Company in Harnett County be granted extended area service at no additional cost as a benefit for any rate increase allowed by the Commission in this docket; and (3) That exhibits 1 through 6 used by intervenors' witness, Bobby R. Etheridge, Chairman of the Harnett County Board of Commissioners, for the purpose of illustrating his testimony, be admitted into the formal record of evidence in this proceeding. The latter of these three motions is hereby allowed and the exhibits, as identified by Witness Etheridge, are hereby admitted into the formal record of evidence in this proceeding. To the extent that the other two motions of the intervenors, Harnett County and the Lillington Chamber of Commerce, are not allowed by the Findings of Fact, Conclusions, and Ordering Paragraphs which follow, the same are hereby denied.

Based upon the foregoing, the verified application, the prefiled testimony and exhibits, the testimony offered at the hearing, and the Commission's official files and records herein, some of which may be officially noticed hereafter, the Commission now makes the following

FINDINGS OF FACT

1. That Carolina Telephone and Telegraph Company is a North Carolina corporation, chartered and doing business in this State as a franchised telephone public utility, under a certificate of public convenience and necessity granted by this Commission. Carolina is also a wholly-owned subsidiary of United Telecommunications, Inc., effective as of April 1, 1969.

2. That Carolina Telephone's operating area consists of approximately thirty percent (30%) of the geographical area of North Carolina and its telephone service covers all or part of thirty eight (38) counties in eastern North Carolina.

3. That Carolina Telephone and Telegraph Company is lawfully before this Commission seeking an increase in its rates and charges for intrastate telephone service rendered in North Carolina pursuant to G.S. 62-133. The total increase in rates and charges being sought by Carolina would produce approximately $12,900,000 in additional annual gross revenues as applied to the test year ending December 31, 1974. Carolina last received an increase in its intrastate rates and charges in 1958.

4. That the overall quality of telephone service provided by Carolina Telephone and Telegraph Company is good.

5. That the reasonable original cost of Carolina Telephone Company's property used and useful in providing intrastate telephone service in North Carolina is $339,940,012, the reasonable accumulated provision for depreciation is $78,982,351 and the reasonable original cost less depreciation is $260,957,661.

6. That the reasonable replacement cost of Carolina Telephone Company's property used and useful in providing intrastate telephone service in North Carolina is $308,745,000.

7. That the fair value of Carolina Telephone Company's utility plant used and useful in providing intrastate telephone service in North Carolina should be derived from giving six-tenths weighting to the original cost less depreciation of Carolina Telephone Company's utility plant in service and four-tenths weighting to the replacement cost less depreciation of Carolina Telephone Company's utility plant. By this method, using the depreciated original cost of $260,957,661 and the replacement cost of $308,745,000, the Commission finds that the fair value of said utility plant devoted to intrastate telephone service in North Carolina is $280,072,597. This fair value includes a reasonable fair value increment of $19,114,936.

8. That the reasonable allowance for working capital is $7,050,053.

9. That the fair value of Carolina Telephone Company's plant in service used and useful in providing intrastate telephone service to the public within North Carolina at the end of the test year of $280,072,597 plus the reasonable allowance for working capital of $7,050,053 yields a reasonable fair value of Carolina Telephone Company's property in service to North Carolina retail customers of $287,122,650.

10. That Carolina Telephone Company's approximate gross revenues for the test year after accounting and pro forma adjustments under the present rates are $95,566,859 and under the company proposed rates would have been $108,434,261 before annualization to year-end revenues.

11. That the level of test year operating expenses after accounting and pro forma adjustments including taxes and interest on customer deposits is $75,044,353 which includes an amount of $15,907,273 for actual investment currently consumed through reasonable actual depreciation before annualization to year end level.

12. An annualization factor of 2.277% is the proper factor to use for the purpose of bringing net operating

income ($20,522,506 under present rates; $26,434,717 under proposed rates; and $24,655,935 under the rates approved herein) up to an end of period level.

13. That the capital structure of Carolina at December 31, 1975, is expected to be as follows:

	%
Long Term Debt	41.96
Short Term Debt	4.16
Common Equity	44.30
Cost Free Capital	9.58

14. That the Company's original cost equity ratio is 44.30% and its fair value equity ratio is 48.01%.

15. That the proper embedded cost rates for long term debt and short term debt are 7.16% and 8.50% respectively, and that the fair rate of return which should be applied to the Company's fair value equity, including both the book equity and the fair value increment, is 11.70%. This yields a rate of return on the Company's intrastate fair value investment of 8.75%, which is reasonable and fair.

16. That Carolina must be allowed an increase in annual local service revenues of $9,018,860, in order for it to have the opportunity through prudent and efficient management to earn the 8.75% rate of return on the fair value of its property in service to North Carolina customers. This increased revenue requirement is based upon the fair value of the property, reasonable test year operating expenses, and revenues as previously determined.

17. That the rate increases proposed by Carolina Telephone in this docket would produce additional annual revenues in excess of those determined to be just and reasonable herein. The proper rates to be approved by the Commission should be ones which will generate only $9,018,860 in additional annual gross revenues. The proper rate design for Carolina Telephone should be structured in accordance with Appendix A attached hereto.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1, 2 and 3

The evidence for Findings of Fact Nos. 1, 2 and 3 comes from the verified application, the testimony and exhibits of Company witness Havens and G.S. 62-133. These findings are essentially informational, procedural and jurisdictional in nature and were not contested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The evidence as to the quality of service being provided by Carolina Telephone consists of the testimony of Company witness Havens, Staff witness Clemmons and two public witnesses.

Company witness Havens testified concerning the Company's programs for providing high quality local and toll telephone service, including upgrading, modernization of plant and maintenance. Mr. Havens stated that the Company has recognized and fulfilled its responsibility to provide adequate, economical and efficient service.

Staff witness Clemmons testified concerning the Staff's investigation and evaluation of the quality of telephone service provided by the Company. While the Staff's findings, based on the results of field testing and evaluation, indicated that the overall service provided by the Company is good, witness Clemmons did point out several weak spots in certain of the Company's service areas and indicated where closer scrutiny or corrective action was needed.

The two public witnesses who testified regarding their individual quality of service indicated that they were experiencing troubles such as noise on the line, difficulty hearing the other party and talking by other parties in the background.

The Commission concludes that the overall quality of service offered by Carolina Telephone is good. However, the Commission further concludes that the Company should take corrective action to eliminate the difficulties being experienced by the public witnesses and other such complaints coming to the attention of the Company and also take action to correct the service weak spots discussed in the testimony and listed on Exhibit (0 of Staff witness Clemmons.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

The Commission will now analyze the testimony and exhibits presented by Company Witness Morris and Staff Witness Reiser concerning the intrastate net investment in telephone plant in service. The following chart summarizes the amount which each of these witnesses contends is proper for this item:

Item (a)	Company Witness Morris (b)	Staff Witness Reiser (c)
Investment in telephone plant in service	$339,940,012	$339,940,012
Less: Accumulated depreciation	78,620,142	78,982,351
Accumulated deferred income taxes		13,814,705
Unamortized investment tax credit pre-1971		2,057,903
Deferred taxes classified as current liability		2,818,453
Deferred income tax on intercompany profits		4,989,279
Customer deposits		721,598
Total deductions	78,620,142	103,384,289
Net investment in telephone plant in service	$261,319,870	$236,555,723

As shown in the above chart, the witnesses disagree in all respects except as to investment in telephone plant in service.

Staff Witness Reiser's accumulated depreciation of $78,982,351 represents the year-end balance in the account plus an amount attributable to the annualization adjustment to depreciation expense. Witness Morris did not make an adjustment to increase accumulated depreciation by the amount of the annualization adjustment to depreciation expense. The Commission concludes that it would be inconsistent to allow the company to increase its depreciation expense to reflect end-of-period levels through the use of the annualization factor and not make the corollary adjustment to the accumulated provision for depreciation. The Commission concludes that accumulated depreciation of $78,982,351 should be deducted from gross plant in arriving at original cost net investment.

The next five items of controversy are commonly referred to as cost-free capital. The company and the staff disagree as to the amounts and the treatment of the cost-free capital. The company and the staff agree that accumulated deferred taxes and unamortized investment tax credit represent cost-free capital. However, Staff Witness Reiser included three additional items of cost-free capital which were not included by the company.

The first of these relates to deferred income taxes which the company has reclassified as a current liability on its books as a result of an Internal Revenue Service audit. In that audit the IRS seeks to disallow the deduction of accelerated depreciation on additions made by the company during the years 1969, 1970 and 1971. The IRS has alleged that the company did not make a timely filing of its election to take accelerated depreciation on additions made during these years. Witness Reiser testified that the company had stated that payment, if any, due to the audit would not be made until the first half of 1977 at the earliest.

The Commission recognizes that reclassification of deferred taxes to current liability does not change the character of this item. Further, whether or not an actual liability may occur as a result of the IRS audit will not be determined until the middle of 1977. For these reasons the Commission concludes that deferred taxes reclassified as a current liability by the company should be treated as cost-free capital in the fixing of rates.

The next item relates to deferred income taxes on intercompany profits. Witness Reiser testified that this item came about as a result of eliminating the profit on sales by the manufacturing company to the operating telephone companies in the filing of a consolidated federal income tax return and should be returned to the subsidiary telephone companies and recorded on their books. He stated this would permit the Commission to treat deferred taxes on intercompany profits substantially the same for Carolina as it does for Western, Westco, Southern Bell, and General Telephone Company of the Southeast. Instead of including the deferred taxes on intercompany profits as cost-free capital, Company Witness Morris reduced expenses by $802,525 for a return on these deferred taxes. Consistent with the treatment of this item in other cases, the Commission concludes that the deferred taxes on intercompany profits should be considered as cost-free capital and that the reduction in operating expenses for the return on deferred taxes proposed by Witness Morris should be eliminated in determining the proper level of operating expense.

The final item which Witness Reiser treated as cost-free capital is customer deposits. Consistent with this treatment, Witness Reiser included interest on such customer deposits as an operating expense. The Commission concludes that customer deposits are properly treated as an item of cost-free capital and should be deducted from the working capital allowance.

The company included its two items of cost-free capital in the capital structure at zero cost, while the staff proposed to deduct all such items from the rate base. In effect, the staff allocates all the cost-free capital to utility operations - none to non-utility (notably construction work in progress). The company includes cost-free capital as a

integral part of the total capital structure, thus allocating a proportionate part to non-utility property and construction work in progress.

The Commission concludes that it is inappropriate to allocate 100% of the cost-free capital to utility operations and none to construction work in progress. The Commission further finds that it is reasonable to include all of the items which Staff Witness Reiser deducted from the investment in telephone plant in service, except customer deposits, as cost-free capital in the capital structure at zero cost.

EVIDENCE AND CONCLUSION FOR FINDING OF FACTS NOS. 6 AND 7

Evidence of replacement cost was presented by Company Witness Russell. Mr. Russell started with surviving original costs, applied a set of trend factors developed by him to obtain his calculation of reproduction cost new, applied a set of mass impulse factors developed by him to adjust reproduction cost new into replacement cost new and then applied condition percent or depreciation factors developed by him to obtain his consideration of replacement cost new less depreciation. Staff Witness Clapp presented certain questions and comments concerning the suitability and reliability of Witness Russell's trended original cost study. Mr. Russell presented rebuttal testimony to Mr. Clapp's analysis of his study of replacement cost new less depreciation.

The Commission concludes that, while Witness Russell made reasonable use of the data available, he did not properly adjust his mass impulse factors to account for reductions in average purchase price of materials, which could be expected under mass purchasing; and he did not adjust for productivity changes in construction or materials and equipment over time. The Commission is not convinced that correct percentage weightings of labor and materials were used in developing Mr. Russell's trend factors. The Commission concludes that the Company's actual depreciation reserve ratio found by the Commission to be adequate and proper should be applied in at least the same proportion to trended original cost to determine replacement cost new unless there is convincing evidence to persuade the Commission that greater depreciation exists. Such relationship did not exist in the company's computation of replacement cost new. Therefore, the Commission, in fairness both to the utility and to its ratepayers, concludes that the depreciation on trended original cost should bear at least the same proportion to the trended original cost as the original cost depreciation reserve bears to original cost.

The company's trended original cost study was based on costs as of year end 1974. Staff Witness Land testified that some of the material prices, specifically aerial, buried and underground cable, were erratic during the test

period and were at an extraordinarily high level at year end. The prices were 2|% higher at the test period year end |974, than at January, |974 and were |9% higher at year end |974, than at June, |975. The Commission concludes that the use of trended cost as a tool in valuation requires that the end of test period costs, upon which the trend factors for all years are based should be adjusted where they otherwise would not be representative of the long run cost trends for that plant.

Although the term "replacement cost" envisions replacing the utility plant in accordance with modern design techniques, and with the most up-to-date changes in the modern art of telephony, the trended original cost study presented by Company Witness Russell is founded upon the premise of basically duplicating Carolina's plant as is, including certain inefficiencies and outmoded designs. This result is mandated by Mr. Russell's technique of first determining surviving original cost and then trending up to reproduction cost. Even though technological obsolescence can be, to an extent, overcome by proper depreciation treatments, the economies of scale present in today's telecommunications (e.g., employing one 600 cable pair down a road instead of six |00 pair cables installed on six different occasions over time) are not fully recognized in the trending process.

The Commission, therefore, concludes that the reasonable replacement cost less depreciation of Carolina's telephone plant used in providing intrastate service is $308,745,000. This amount is derived by adjusting the replacement cost new less depreciation testified to by Mr. Russell to account for the deficiencies noted above and by removing that portion of such replacement cost new less depreciation which is not attributable to intrastate service.

The Commission concludes that, in this case, the fair value of plant in service should be determined by weighting the reasonable original cost less depreciation of $260,957,66| by 60% and by weighting the depreciated replacement cost of $308,745,000 by 40%. The fair value of plant in service thus determined is $280,072,597 which includes the net original cost of $260,957,66| and a reasonable fair value increment of $19,|14,936.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

Staff Witness Reiser and Company Witness Morris each presented a different method for determining the working capital allowance.

Mr. Reiser presented a "lead - lag" study which measures the funds furnished by either customers or investors, as the case may be, to meet the day-to-day cost of providing service to the customers. He explained that the "customer funds advanced" should be increased by cash, including compensating balances, and material and supplies and reduced

by the accounts payable applicable to material and supplies and plant in service. Mr. Reiser's net allowance for working capital computed in this manner was $6,774,205.

Witness Morris proposed a working capital allowance of $8,747,349 based on the formula method of determining working capital. Mr. Morris's allowance for working capital is composed of material and supplies, plus cash equal to one twelfth of operating expenses (less depreciation) and compensating bank balances (reduced by average operating tax accruals).

The amount proposed by the witnesses for material and supplies was not the same due to an adjustment which Witness Reiser made reducing the material and supplies inventory at December 31, 1974, by $1,117,014. Mr. Reiser testified that during the first part of the test period the company built up the level of inventory because of high construction activity and fear of shortages. Due to changing economic conditions the delivery time shortened, the level of construction decreased, and the company was left with a high level of inventory at the end of the test period.

Witness Reiser explained that Carolina's total inventory increased from $5,937,214 at December 31, 1973, to $9,065,765 at December 31, 1974, a 53% increase. Mr. Reiser testified that, after investigation, he determined the major item of value causing the increase was cable inventory. Mr. Reiser used two different approaches to determine a reasonable level of outside plant inventory at December 31, 1974.

The first approach Mr. Reiser used was specific identification of cable currently being used in most new construction. Mr. Reiser determined that this method would result in an adjustment to decrease the total company inventory by $1,773,250.

Under the second approach Mr. Reiser found the non-exempt outside plant material and supplies balance on a normalized basis, using an average of the past five years inflated to 1974 dollars. Mr. Reiser testified that the adjustment to total company inventory based on this test would be a decrease of $1,888,688. After adjusting for any upward bias in this approach, Mr. Reiser determined that total company end-of-period material and supplies should be reduced by $1,500,000 and that the intrastate portion of such amount would be $1,117,014.

Mr. Reiser further testified that the company has in the first half of 1975, substantially reduced its cable inventory by working down its inventory with new construction without replacement of the amount used where possible.

Company Witness Morris contended that the proper amount of material and supplies to be used in the calculation of

working capital allowance is the actual end-of-period material and supplies balance without adjustment for unusual circumstances.

The Commission concludes that it is proper to reduce the end-of-period material and supplies inventory to a normal level. Therefore, the Commission concludes that the end-of-period material and supplies of $6,751,059 should be reduced by Mr. Reiser's adjustment of $1,117,014. The proper level of end-of-period material and supplies inventory is, therefore, found to be $5,634,045.

The Commission further concludes that, consistent with the recent Duke Power Company decision in Docket E-7, Sub 173, the formula method of determining the working capital allowance as presented by the company is just and reasonable. The allowance for working capital in this case will be determined by adding the proper level of material and supplies, cash (one-twelfth of operating expenses less depreciation), and compensating bank balances, less average operating tax accruals and customer deposits. The Commission thus concludes that a reasonable allowance for working capital is $7,050,053.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

The Commission, based upon Findings of Fact Nos. 7 and 8 supra, and the Evidence and Conclusions therefor, concludes that the fair value of Carolina Telephone's property used and useful in rendering intrastate telephone service to its customers in North Carolina (or rate base) at the end of the test year is $287,122,650, consisting of the fair value of plant in service of $280,072,597 plus the reasonable allowance for working capital of $7,050,053. It is the fair value of property (or rate base) thus determined to which the fair rate of return determined hereafter must be applied in computing the gross revenue requirement for Carolina Telephone and Telegraph Company.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

Company Witness Morris, Staff Witness Reiser, and Staff Witness Gerringer presented testimony concerning the appropriate level of operating revenues. Staff Witness Gerringer testified specifically concerning the separations procedures employed by the company to separate its operating revenues and expenses between jurisdictions. Mr. Morris and Mr. Reiser testified as to the appropriate level of intrastate operating revenues after accounting and pro forma adjustments.

Mr. Morris testified that the appropriate level of intrastate operating revenues before annualization is $96,175,707. Mr. Reiser testified that he used Mr. Morris's adjusted balance before revision as a starting point for making several of his own adjustments in arriving at

$94,062,561 as the proper level of intrastate operating revenues.

The first item of revenue difference relates to the method used by each witness to compute the increase in local revenue due to the increases in station installation charges effective March 1, 1974 and December 1, 1974. Staff Witness Reiser estimated the increase to be $589,202 while Company Witness Morris estimated the increase to be $611,089. Mr. Reiser's estimate is based on a study made by the company engineers while Mr. Morris's adjustment was in part based on the difference between a projection made in 1974 and actual results.

Based on the evidence given by these witnesses, the Commission concludes that the test-year revenues should be increased by the $589,202 due to changes in installation charges in March and December of 1974.

The next difference in revenue concerns the appropriate method of dealing with the intrastate toll increase which went into effect on July 1, 1975. The company increased test-year toll revenue before annualization by $1,222,926 for the effects of the toll rate increase. The staff proposed to exclude the toll increase from the test-year and treat the increase in toll revenue as a reduction in gross revenue requirements. Both methods will produce the same result; therefore, the Commission will include the toll increase of $1,222,926 as an increase in test-period toll revenues.

The remaining difference of $868,333 relates solely to the toll revenue effects of increases and decreases in expenses and rate base items proposed by the two witnesses. To understand why this is so, it is necessary to understand toll settlement procedures. The toll settlements received by independents, (such as Carolina Telephone), that settle on a cost basis with Bell are equal to the toll operating expenses of the independent company plus Bell's achieved rate of return times the independent's toll investment. Thus if the independent's operating expenses decrease, the toll settlements it receives from Bell decrease. Likewise any increase in toll expenses will be covered by an increase in the toll settlements received from Bell. Further, any reduction in the investment base will result in a reduction of toll settlements received by the independent. The corollary to this proposition is that any increase in the investment base will result in an increase in toll settlements received by the independent. Therefore, the level of toll revenue should be increased or decreased to reflect the effects of adjustments found proper by the Commission which increase or decrease the level of intrastate test year toll expenses and investment.

The Commission has set forth in Evidence and Conclusions for Finding of Fact Nos. 5 and 8 the adjustments which it found proper in arriving at original cost net investment and

working capital and in Evidence and Conclusions for Finding of Fact No. 11 the adjustments which it found proper to operating expenses.

The Commission concludes that the $868,333 decrease in toll revenue proposed by Witness Reiser would not be proper or consistent with the adjustments found proper by this Commission which increase or decrease intrastate toll investment and expenses. After studying the testimony and exhibits of Witness Reiser, the Commission found that Witness Reiser failed to increase the toll settlement revenue for the increase in service company billing expense applicable to intrastate toll operations. Company Witness Morris did make the adjustment to increase toll revenue due to his proposed increase in the service company billing expense. The Commission finds that, in order to give full effect to accounting and pro forma rate base and expense adjustments which it finds are proper, it must reduce Witness Reiser's $868,333 decrease in toll revenue by $281,372 ($659,414 X .4267).

The Commission, therefore, concludes that the proper level of test year operating revenue is $95,566,859 under rates presently being charged and would have been $108,434,261 under the Company's proposed rates, before annualization to year end revenues.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

Company Witness Morris and Staff Witness Reiser presented testimony and exhibits showing the level of intrastate operating expenses they believed should be used by the Commission for the purpose of fixing Carolina Telephone's rates in the proceeding.

The following chart shows the amount contended for by each witness:

	Company Witness Morris	Staff Witness Reiser
Operating Expenses	$38,379,666	$38,311,400
Depreciation and Amortization	15,907,273	15,907,273
Taxes Other than Income	10,371,268	10,332,554
Income Taxes - State & Federal	11,127,336	10,201,046
Interest on Customer Deposits	-	26,364
Total Operating Expenses Before Annualization	$75,785,543	$74,778,637

The first item causing a difference in the amounts proposed for operating expenses as set forth above is an adjustment made by Staff Witness Reiser to eliminate contributions and certain membership dues in the amount of $45,723 from operating expenses. The Commission concludes

that contributions and membership dues should be excluded from operating expenses.

Witness Reiser and Witness Morris proposed different amounts for the normalization adjustment due to a general wage increase in 1974. Witness Reiser stated that Witness Morris used a higher number of employees in making his adjustment than were employed during the months to be normalized. Witness Morris agreed on cross that Staff Witness Reiser's adjustment was proper. The Commission will, therefore, increase operating expenses by $745,287 as proposed by Witness Reiser.

Another of the items causing the difference in the amounts proposed by the witnesses relates to the normalization of traffic expense for the period in 1974 affected by an employee strike. Witness Morris proposed a reduction in traffic expenses of $354,581. This adjustment was based on normalizing traffic expenses for the months of June, July and August. Witness Reiser proposed a reduction of $313,201 based on normalizing traffic expenses for the two months of June and July. The Commission concludes from the evidence that only the months of June and July should have been normalized and, therefore, accepts the $313,201 reduction proposed by Witness Reiser.

The next difference relates to the proper level of service company billings to be included in the test year and the propriety of certain research and development costs and contributions included as a part of the service company billings. Company Witness Baker presented evidence concerning the increase in service company billings due to a change in the method of billing service company charges to affiliated companies. Both Company Witness Morris and Staff Witness Reiser agree that an adjustment should be made to increase test year expenses for the change in the method of billing service company charges. In addition, Witness Baker testified that the agreement had been revised to include in service company billings an amount for research and development expense incurred by United's manufacturing affiliate North Electric and contributions made by its parent, United Telecommunications. The agreement was also revised to provide for a reduction in service compnay billings for a return on deferred taxes - intercompany profit relating to sales of equipment to affiliated telephone companies. Company Witness Gedeon testified that the prices paid by United subsidiaries for products developed through research and development will be adjusted in the future to reflect such payments of research and development cost. Based on this new plan Witness Morris made a net adjustment increasing operating expenses by $911,000 which was composed of $1,713,525 for increased service company billing and $802,525 decrease for a return on the deferred taxes associated with intercompany profits.

Witness Reiser testified that, included in Witness Morris's adjustment to increase service company billing by

$1,713,525, is an allocated portion of all of the research and development expense incurred by North Electric which was not charged to a particular customer and an allocated portion of contributions made by the parent company, United Telecommunications. Witness Reiser stated that United had no definition of the method it would employ to compensate the affiliated companies for their payment of development costs. Witness Reiser further testified that United's definition of basic research is broad and that using costs comparable to United's proposal, Western Electric, a subsidiary of AT&T, absorbed over 67% of the 1974 development expense of the Bell System while over 98% of the apparatus and equipment sales excluding government design items were to affiliated companies. North Electric, a subsidiary of United Telecommunications, Inc., is absorbing only 50.7% of the total development expense while affiliated companies purchase 49.3% of North Electric's manufactured product excluding non-telephony items.

The Commission in Evidence and Conclusions for Finding of Fact Number 5 concluded that deferred taxes on intercompany profits should be included in the capital structure at zero cost. Therefore, the Commission rejects the company's method of reducing expenses for a return on these deferred taxes. The Commission further concludes that since United has no definite plan for giving Carolina the benefits of having paid the research and development costs which it proposes to include as expense, the research and development costs should not be included in operating expenses and that the allocated portion of contributions made by the parent company should be excluded from operating expenses. The Commission therefore concludes that it is proper to increase test year operating expenses by $659,414 for increased service company billings.

The last item of difference in the amounts proposed by the witnesses for operating expenses is caused by an adjustment made by Witness Reiser increasing interest expense by $239,102. Witness Reiser testified that his adjustment was consistent with his inclusion of the accumulated deferred income tax classified as current liability as a reduction of rate base. As set forth in evidence and conclusions for Finding of Fact No. 5 it is not now known, nor will it be known until 1977, whether an actual tax liability exists. It seems unreasonable to us to set rates to cover interest which the Company may incur in 1977 if it receives an adverse ruling from the IRS. The Commission concludes that an adjustment should not be made for interest expense on the deferred taxes classified by the company as current liability.

There is one additional decrease in operating expenses which must be made. Staff Witness Land testified as to the cost reduction which Carolina may expect by charging for directory assistance calls. Since the Commission is setting rates based on charging for these calls, the Commission also finds that the cost reduction of $564,314 as testified to by

Witness Land should be considered as a further reduction in operating expense. Based on the foregoing discussion the Commission concludes the proper level of operating expenses before annualization is $37,507,984.

Both witnesses agree, and from the evidence the Commission concludes, that the proper level of depreciation before annualization is $15,907,273.

The difference in the levels proposed by the witnesses for taxes other than income taxes is due to several factors. First of all Witness Reiser made an adjustment of $40,911 to increase FICA taxes related to the 1974 general wage increase. Witness Morris proposed the same adjustment but in the amount of $43,750. This difference is caused by the fact that the witnesses proposed different amounts for the wage increase. The Commission previously concluded that Witness Reiser's adjustment to test year expenses for the effects of the 1974 general wage increase was proper and consistent with that, will adopt Witness Reiser's adjustment to FICA taxes.

A difference of $37,501 may be attributed to adjustments made to the gross receipts tax expense by Mr. Reiser. Witness Reiser explained that in making certain other adjustments to revenue, it was also necessary to adjust the gross receipts tax associated with that revenue. Consistent with its conclusions that Mr. Reiser's adjustments to revenue were proper, the Commission now concludes that the additional adjustment increasing gross receipts tax by $37,501 is proper.

The last difference in other operating taxes relates to the gross receipts tax of $73,376 included by Witness Morris which relates to the increase in toll revenue due to the increase in the intrastate toll rates. The Commission concludes that this adjustment to gross receipts tax is proper and consistent with Mr. Morris' adjustment to toll revenue.

Based on the previous discussion of other operating taxes the Commission concludes the proper level to be included in the test year is $10,405,930.

The level of federal and state income taxes properly includable in a test year is a function of actual income plus the effects of any adjustments which increase or decrease the level of actual test year income for rate making purposes.

Witness Reiser explained in his testimony that federal and state income taxes should be reduced by $56,631 to provide for the income tax effects associated with the pro forma increase in pension costs and payroll taxes capitalized. He testified that for income tax purposes, the company deducts all pension costs and payroll taxes, including those capitalized; therefore, the reduction in income taxes should

not be limited to the effect of those items charged to expense, but should include the effect of the total increase in pension costs and payroll taxes. Mr. Morris adjusted for the income tax effect of the pro forma increase in pension costs and payroll taxes charged to expense; however, no provision was made for the related income tax effects of pension costs and payroll taxes capitalized. The Commission concludes, based on the evidence presented by Company Witness Morris and Staff Witness Reiser, that the decrease of $56,631 to state and federal income taxes is proper.

Staff Witness Reiser made another reduction in state and federal income taxes which was not considered by Company Witness Morris. Mr. Reiser testified that during the test year the company's state and federal tax expense was overstated by the difference in taxes accrued and taxes paid. The Commission concludes that it is proper to reduce state and federal tax expense for the $18,434 over accrual.

The next item causing a difference in the level of income taxes presented by the witnesses is an adjustment made by Witness Reiser increasing state and federal tax expense by $23,833 for the income tax effects of an interest allocation adjustment. Mr. Reiser explained that the increase in income taxes is necessary in order to reflect the tax effects of the difference in interest cost shown on Reiser Exhibit 1, Schedule 1 and the interest expense used by the company in computing the test period federal and state income tax expense.

The Commission concludes that the theory of Witness Reiser's adjustment is proper. However, since the Commission has used a different capital structure than the one presented by Witness Reiser, the interest expense allocation adjustment must be recalculated using the Commission's capital structure. After making the change in the capital structure, the Commission finds that the increase in federal and state income taxes to reflect the income tax effects of the interest expense allocation adjustment should be $41,332.

The remaining difference in the amounts proposed by the witnesses for federal and state income tax expense is caused by adjustments made by both witnesses to increase or decrease tax expense due to previous adjustments each had made to revenue and expenses. The Commission concludes that it would be proper to include the income tax effects associated with each adjustment heretofore found proper.

The Commission has previously concluded that it would be proper to increase test year service company billings by $659,414 due to the change in the method of billing service company costs. This increase as first proposed by Witness Reiser was $338,725. On September 9 Witness Reiser amended his exhibits to reflect an additional increase of $320,689. This amendment was a result of certain revisions in Company Witness Baker's exhibits. The Commission has determined

from its review that Witness Reiser failed to include as a reduction in income taxes, the income tax effects associated with this additional increase in service company billings. The Commission concludes that this reduction in income taxes is proper and should be made.

Based on the foregoing discussion the Commission concludes that the proper level of federal and state income taxes before annualization is $11,196,802.

Staff Witness Reiser proposed to include interest on customer deposits in operating expenses. The Commission, having previously concluded that customer deposits should be included as a reduction in working capital now concludes that consistency dictates inclusion of interest on customer deposits as an operating expense. This treatment will insure that the company will recover its cost of these funds and no more.

Based on all the testimony and evidence presented in this case the Commission concludes that the proper level of total operating expenses before annualization which should be used in the fixing of rates is $75,044,353.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

Company Witness Morris recommended an adjustment factor of .02277 to raise the actual income for the test period on a going level to an end-of-period-go forward basis and to give full consideration for net operating income produced by the higher number of main telephones and equivalents in service at the end of the test period. The adjustment factor was obtained by dividing the increase in the end-of-period main and equivalent main telephones over the average main and equivalent main telephones for the period by the average main and equivalent main telephones for the period. Staff witness Reiser agreed that this calculation was proper. There being no evidence to the contrary, the Commission concludes that the annualization factor of .02277, as thus calculated, is proper.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 13 THROUGH 16

In light of the evidence presented with regard to capital structure within the independent telephone industry, the Commission concludes that the mix of capital employed by the Company is reasonable and appropriate by industry standards.

As the record reveals no basic differences between Company and Commission Staff concerning the dollar amounts of debt and equity capital in the capital structure, the Commission herein adopts the following capitalization:

CAROLINA TELEPHONE AND TELEGRAPH COMPANY
Twelve Months Ended December 31, 1975
("000" Omitted)

Capitalization	Amount	Ratio	Embedded Cost
	$	%	%
Long Term Debt	178,697	41.96	7.16
Short Term Debt	17,696	4.16	8.50
Common Equity	188,691	44.30	-
Cost-Free	40,817	9.58	0
	425,901	100.00	

The embedded cost rates that the Commission concludes are just and reasonable for long term debt and short term debt are those testified to by Staff Witness Kiltie.

According to Carolina Telephone and Telegraph Company, the full amount of the rate increase proposed by the Company would produce a return on end of period net investment of 9.95% and a rate of return on fair value rate base of 8.50%. However, this later return is based on the Company's fair value rate base figure of $315,000,000 instead of the figure actually determined to be the fair value - $287,122,650. Using the Commission's determination of fair value, the rate of return on fair value would be raised to 9.32%.

There were two rate of return witnesses who prefiled expert testimony and were cross-examined at the hearing. Carolina presented Mr. Joseph F. Brennan, President, Associated Utility Services, Inc.; the Commission Staff presented Mr. Thomas M. Kiltie, Economist, Operations Analysis Section.

Mr. Brennan testified that, in his opinion, the overall cost of capital and required rate of return on investment, adjusted for attrition, was 10.10% on original cost, 9.30% on fair value (as determined by Carolina) and 14% on book common equity, based upon an adjusted December 31, 1975, capitalization consisting of 47.3% debt, 45.5% common equity, and 7.2% cost-free capital. He estimated the cost of common equity capital by considering comparable earnings, earnings/price ratios, earnings/net proceeds ratios, discounted cash flow calculations, and the bare rent theory. Since the common stock of Carolina is not directly traded in the capital markets, Mr. Brennan examined market data for the period 1969-1974 on AT&T, the five largest telephone holding companies, and Rochester and Commonwealth Telephone Companies with respect to the above-mentioned financial techniques and found that in his opinion, the risk-adjusted cost of equity was 14% for Carolina.

Staff Witness Kiltie concluded that, in his opinion, the fair rate of return and cost of equity capital to Carolina is approximately 12.5%. Since Carolina's common equity is not traded in the market, he stated that he used the

Discounted Cash Flow Technique to estimate the cost of equity capital to United Telecommunications, Inc., (the consolidated system of which Carolina is an affiliate), whose common stock is traded daily, and adjusted those results for the lesser financial risk of Carolina, due to the greater equity ratio. Mr. Kiltie's financial risk adjustment was based upon a statistical study of the relationship of earned rate of return and common equity ratio among 66 companies in the telephone industry over the period 1970-1973.

The Company presented two rebuttal witnesses, Mr. Joseph Brennan and Dr. Martin Loeb, Assistant Professor of Business, North Carolina State University. Mr. Brennan presented an alternate calculation of Mr. Kiltie's financial risk model by performing a regression analysis of equity ratio on price/earnings ratio for AT&T. Dr. Loeb testified to the statistical confidence of Mr. Kiltie's estimated risk-return analysis.

General Statute 62-133, paragraph (a) requires that "the Commission shall fix such rates as shall be fair both to the public utility and to the consumer." Paragraph (b) of that Statute requires the following of the Commission:

"(b) In fixing such rates, the Commission shall:

(1) Ascertain the fair value of the public utility's property used and useful in providing the service rendered to the public within this State, considering the reasonable original cost of the property less that portion of the cost which has been consumed by previous use recovered by depreciation expense, the replacement cost of the property, and any other factors relevant to the present fair value of the property. Replacement cost may be determined by trending such reasonable depreciated cost to current cost levels, or by any other reasonable method.

(2) Estimate such public utility's revenue under the present and proposed rates.

(3) Ascertain such public utility's reasonable operating expenses, including actual investment currently consumed through reasonable actual depreciation.

(4) Fix such rate of return on the fair value of the property as will enable the public utility by sound management to produce a fair profit for its stockholders, considering changing economic conditions and other factors, as they then exist, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors.

(5) Fix such rates to be charged by the public utility as will earn in addition to reasonable operating expenses ascertained pursuant to paragraph (3) of this subsection the rate of return fixed pursuant to paragraph (4) on the fair value of the public utility's property ascertained pursuant to paragraph (1)."

The Commission has hereinbefore found the fair value of Carolina's intrastate property in service, has found the revenues and rates of return expected from both present and proposed rates, and has found the reasonable level of operating expenses based upon the test year, as required by paragraphs (1), (2) and (3) of G.S. 62-133(b). Paragraph (4) details the requirements of the level of rate of return to be allowed Carolina by this Commission.

The Commission has considered the testimony of the above witnesses with relation to the requirements of investors, and has considered the testimony of Witnesses Brennan, Kiltie and Clapp with regard to the components of the rate of return which must be found.

The Commission takes notice of the opinion of the Supreme Court of the State of North Carolina in State of North Carolina ex rel Utilities Commission, et al. v. Duke Power Company 285 NC 377 (1974) wherein the following statements concerning the level of the fair rate of return appear at page 396:

"...the capital structure of the company is a major factor in the determination of what is a fair rate of return for the company upon its properties. There are, at least, two reasons why the addition of the fair value increment to the actual capital structure of the company tends to reduce the fair rate of return as computed on the actual capital structure. First, treating this increment as if it were an actual addition to the equity capital of the company, as we have held G.S. 62-133(b) requires, enlarges the equity component in relation to the debt component so that the risk of the investor in common stock is reduced. Second, the assurance that, year by year, in times of inflation, the fair value of the existing properties will rise, and the resulting increment will be added to the rate base so as to increase earnings allowable in the future, gives to the investor in the company's common stock an assurance of growth of dollar earnings per share, over and above the growth incident to the reinvestment in the business of the company's actual retained earnings. As indicated by the testimony of all of the expert witnesses, who testified in this case on the question of fair rate of return, this expectation of growth in earnings is an important part of their computations of the present cost of capital to the company. When these matters are properly taken into account, the Commission may, in its own expert judgment, find that a fair rate of return on equity capital in a

fair value state, such as North Carolina, is presently less than [the amount which the Commission would find to be a fair return on the same equity capital without considering the fair value equity increment]."

The testimony of the witnesses and the opinion of the Court are complementary. The Commission concludes that it is just and reasonable to take into consideration, in its findings on rate of return, the reduction in risk to Carolina's equityholders and the protection against inflation which is afforded by the addition of the fair value increment to the equity component. Considering the current investment market and Carolina's ongoing programs of expansion of service to its ratepayers, the Commission concludes that a rate of return of 11.70% on fair value equity, including both book equity and the fair value increment, is fair and reasonable. The actual dollar return yielded by the rate of return of 11.70% multiplied by the fair value equity, will yield a rate of return of 13.58% on book common equity.

The Commission has considered the tests laid down by G.S. 62-133(b)(4). The Commission concludes that the rates herein allowed should enable the Company to attract sufficient debt capital from the market and equity capital from its parent to discharge its obligations and to achieve and maintain a high level of service to the public. The Commission cannot, of course, guarantee that the Company will, in fact, earn the rates of return herein allowed, but the Commission concludes that the Company will be able to reach that level of returns through efficient management.

The following charts summarize the gross revenues and the rates of return which the Company should be able to achieve based upon the increases approved herein. Such charts incorporate the findings, adjustments and conclusions heretofore and herein made by the Commission.

CAROLINA TELEPHONE AND TELEGRAPH COMPANY
DOCKET NO. P-7, SUB 601
NORTH CAROLINA INTRASTATE OPERATIONS
STATEMENT OF RETURN
TWELVE MONTHS ENDED DECEMBER 31, 1974

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross operating revenues	$ 95,912,164	$9,018,860	$104,931,024
Less: Uncollectibles	345,305	22,818	368,123
Total operating revenues	95,568,859	8,996,042	104,562,901
Operating Revenue Deductions			
Operation and maintenance expenses	37,507,984		37,507,984
Depreciation and amortization	15,907,273		15,907,273
Taxes other than income	10,405,930	539,763	10,945,693
Income taxes - state and Federal	11,196,802	4,322,850	15,519,652
Interest on customer deposits	26,364		26,364
Total operating revenue deductions	75,044,353	4,862,613	79,906,966
Net operating revenues	20,522,506	4,133,429	24,655,935
Add: Annualization adjustment - 2.277%	467,297		467,297
Net operating income for return	$ 20,989,803	$4,133,429	$ 25,123,232

Original Cost Net Investment			
Net Plant in Service			
Telephone plant in service	$339,940,012		$339,940,012
Less: Accumulated depreciation and amortization	78,982,351		78,982,351
Net investment in telephone plant in service	260,957,661		260,957,661
Allowance for Working Capital			
Material and supplies	5,634,045		5,634,045
Cash	3,199,083		3,199,083
Required bank balances	2,388,051		2,388,051
Less: Customer deposits	721,598		721,598
Average operating tax accruals	3,449,528		3,449,528
Total allowance for working capital	7,050,053		7,050,053
Total original cost net investment	$268,007,714		$268,007,714
Fair value rate base	$287,122,650		$287,122,650
Return on fair value rate base	7.31%		8.75%

CAROLINA TELEPHONE AND TELEGRAPH COMPANY
DOCKET NO. P-7, SUB 60|
NORTH CAROLINA INTRASTATE OPERATIONS
TWELVE MONTHS ENDED DECEMBER 3|, |974

		Fair Value Rate Base	Ratio %	Embedded Cost or return on Common Equity %	Net Operating Income
		Present Rates - Fair Value Rate Base			
Capitalization					
Long-term debt		$||2,456,037	39.|7	7.|6	$ 8,05|,852
Short-term debt		||,|49,|2|	3.88	8.50	947,675
Common Equity					
Book	$||8,727,4|7				
Fair Value Increment	$ |9,||4,936				
		|37,842,353	48.0|	8.70	||,990,276
Cost-free capital		25,675,|39	8.94		
Total		$287,|22,650	|00.00	7.3|	$20,989,803
		Approved Rates-Fair Value Rate Base			
Long-term debt		$||2,456,037	39.|7	7.|6	$ 8,05|,852
Short-term debt		||,|49,|2|	3.88	8.50	947,675
Common Equity					
Book	$||8,727,4|7				
Fair Value Increment	$ |9,||4,936				
		|37,842,353	48.0|	||.70	|6,|23,705
Cost-free capital		25,675,|39	8.94		
Total		$287,|22,650	|00.00	8.75	$25,|23,232

Required Net Increase for Return	($25,123,232 - $20,989,803)	$ 4,133,429
Associated Increase in Taxes Other than Income	$ 539,763	
Associated Increase in Income Taxes	$4,322,850	
Associated Increase in Revenue Deductions		4,862,613
Required Increase in Total Operating Revenues		8,996,042
Associated Uncollectibles		22,818
Required Increase in Gross Operating Revenues.		$ 9,018,860

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

Mr. J. F. Havens, Vice Chairman of the Board of Directors for Carolina testified as to the adequacy of Applicant's proposed base rate area extensions and the reasonableness of retaining the present rural zone charges and special rate areas. He testified that to do otherwise would result in increased subsidy of rural service by urban subscribers.

Mr. E. D. Wooten, Forecast and Tariff Manager for the Applicant, supported Mr. Havens in more detail and, in addition, proposed changes in rates and charges to produce the additional revenue required by the Applicant. Mr. Wooten proposed increases in charges for mileage services, continuation of the route-measurement basis and increases in monthly rates for (1) number services, (2) manual PBX equipment, (3) secretarial service facilities, (4) interconnection equipment, (5) mobile telephone service, (6) centrex service, and (7) miscellaneous services and equipment.

Mr. Wooten further proposed to categorize the Applicant's 114 exchanges into 15 rate groups, according to the total local calling scopes of the exchanges. The groups themselves and the rates associated with such groups reflect their relative value of service, based upon the number of main stations that can be called on a local flat rate basis. Mr. Wooten also proposed that, whenever the local calling scope of an exchange exceeds or falls below the limits of the effective rate group classification for any six consecutive months, the Applicant should file revised tariffs with the Commission, reclassifying the exchange to the higher or lower group and assigning the basic local rates of that group to the exchange thus reclassified.

Mr. Wooten presented a new schedule of extended Area Service rates based upon a formula method described in great detail in his testimony. This new schedule would be uniformly applicable to existing Extended Area Service systems as well as to any new systems subsequently established.

Mr. Wooten proposed to replace the present daily guarantee method of rating semipublic stations with a flat monthly rate equal to the business individual line rate. He also proposed package offerings of the line equipment by major service categories and unitary rates for the station equipment which would include all features. Both the semipublic station rate proposal and the key system proposal would simplify administration of these services.

In attempting to justify the rate relationships and ratios which he proposed for the various services, Mr. Wooten cited cost and relative value of service considerations. Mr. Wooten recommended a business to residence rate ratio of at least 2.25, and key system trunk, private branch exchange

trunk, and rotary line rates of 1.5, 2.0 and 1.3 times the individual line rates respectively.

Mr. Millard N. Carpenter, III, Rate Analyst of the Commission staff, suggested several changes which differed from those advocated by Mr. Wooten and several changes not proposed by Mr. Wooten. In the area of basic local rates, Mr. Carpenter recommended an increase in the business to residence rate ratio of up to 2.5 to 1 and rates for key trunks and rotary lines of 1.2, and 1.1 respectively times the individual line rates. He suggested an alternate proposal for the rates of trunks connecting Centrex and PBX systems. Mr. Carpenter contended that a direct airline basis for measurement of mileage for services whose rates are based on mileage is more equitable than the route measurement basis presently being used by Carolina, and is easier for the subscriber to understand and accept than the airline-through-the-central-office basis.

Mr. Carpenter recommended an increase in the local coin paystation rate in order to recover a greater percentage of the costs involved in rendering the service. For similar reasons, Mr. Carpenter recommended increases in service charges and in the rates for toll terminals, and service lines. Mr. Carpenter also proposed a new service charge (installation and changes) tariff design that would make these charges more cost oriented.

Mr. Vern W. Chase, Chief Engineer of the Telephone Rate Section of the Commission, testified that the Company's proposed base rate area extensions are reasonable if base rate areas are required, but he contended that the present base rate areas have not been established on a consistent basis and have not been up-dated regularly. He opposed the continuance of the Company's special rate areas and in lieu thereof, he proposed supplemental base rate areas. With regard to rural charges, he suggested four options to the Commission (1) reduce the present zone charges by approximately fifty (50%) percent and establish twenty-three supplemental base rate areas (2) phase out the zone charges over a three year period (3) eliminate all zone charges in this docket and (4) reduce the zone charges by approximately one-half, and apply the zone charges to the special rate areas, with a few minor exceptions. Mr. Chase testified that, in his opinion, the Applicant's Extended Area Service proposal merited a trial and he supported an automatic regrouping plan which differed from the Company's proposal, in that it would cause flow-through of the new revenue generated by regrouping to reduce the remaining zone charges.

The evidence presented concerning charges for directory assistance inquiries consisted of testimony by Commission Staff Witness Charles Land. Mr. Land recommended that subscribers be charged $.20 per call to directory assistance after an allowance of three free calls monthly. Mr. Land recommended that calls for numbers not in the subscriber's

home area code and calls from paystations and individual line service furnished for handicapped persons not be subject to charges. Witness Land also testified that the principal purpose of a charge for directory assistance would be to deter the excessive use of the service made by a few subscribers while permitting the limited number of calls that are necessary because the telephone number desired is not in the local directory. He stated that the cost savings from reduced directory assistance calling should be much greater than expected revenues.

Mr. Land testified that the cost of directory assistance equates to approximately $.35 per main station per month during the test period, which is presently recovered from basic local exchange rates. He further stated that 9 1/2% of the Company's main stations originated 50.8% of all of the inquiries to directory assistance while, 71% of the Company's subscribers originated less than 4 calls each per month, and were responsible for 21% of all of the inquiries that were made to directory assistance.

In Cincinnati, Ohio (the first major directory assistance charge undertaking which was inaugurated on March 3, 1974), Mr. Land stated that 78% of the requests for directory assistance were for numbers that were listed in the current telephone directory. When a charge was allowed for directory assistance, Cincinnati experienced an 82% reduction in directory assistance calls. The Commission concludes that charges for directory assistance inquiries are an appropriate means of permitting subscribers to pay a portion of the cost of the specific services use. Unquestionably, a vast number of unnecessary calls are made for information that is readily available or can be made readily available by a telephone user on an ongoing basis. This practice is a burden on the general body of telephone rate payers and is a hindrance in keeping basic charges for service as low as possible, which is in the best interest of all subscribers, and most particularly those subscribers with marginal ability to maintain telephone service. A reduction of 82% of the directory assistance traffic at Cincinnati is a clear cut example that a charge will cause telephone users, among other things, to consult the directory for desired numbers and to record numbers once obtained from other sources. Requests for directory information are an identifiable cost which should be borne by those causing the expense.

Any broad policy decision such as the imposition of a directory assistance charge will create more of a problem for some people than others. The Commission is particularly aware of the problems that such a charge will cause for handicapped persons who are unable to use the telephone directory. The question then becomes whether or not the general body of rate payers shall subsidize those that are handicapped or whether the subsidization should be made by the general body of tax payers as determined by the General Assembly or otherwise. The North Carolina General Assembly

has not declared this Commission to be a social agency, and the law in this State requires that there must be no unreasonable discrimination between those receiving the same kind and degree of service, and that substantial differences in services are required in order to justify differences in rates between customers within a particular class. Utilities Commission v. Wilson, 252 N.C. 640 (1960). Also N.C.G.S. 62-140(a) provides, "No public utility shall, as to rates or services, make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates or service either as between localities or as between classes of service..."

It is concluded, in view of the 5 free call allowance, that a 60% reduction in local directory assistance calling should be expected, that the resulting reduction in local expenses will be $564,314, and that $153,345 in revenues should be produced.

Based upon the foregoing testimony and the exhibits in support thereof, the Commission reaches the following conclusions with regard to the rate structure design to be approved for Carolina Telephone:

(1) Basic Rate Schedule

(a) The Commission concludes that the present rate schedule should be revised to equalize the ratios between business individual line rates and residential individual line rates. The final ratio between B-1 and R-1 should be approximately 2.5 to 1, a level which the Commission, in its discretion, believes to be just and reasonable.

(b) The Commission concludes that the present rate group limits should be revised as proposed by the Company in order to aid the implementation of a new extended area service plan.

(c) Service Whose Rates Are Related To Basic Service

The Commission concludes that rates for PBX trunks and individual lines arranged for rotary service should be adjusted to more accurately reflect relative value for service and relative costs. The Company's proposed relationship for PBX trunks is fair and reasonable. The proposed increase in rates for key trunks and rotary lines is excessive; however, a more moderate increase should be allowed.

(d) The Commission concludes that rates for services which are related to basic exchange

service rates should be adjusted in accordance with adjustments in basic exchange service rates.

(2) Coin Telephone Service

The Commission concludes that there is a need to adjust the local coin call charge from 10 cents to 20 cents. While recognizing that, percentage-wise, this is a large increase, the Commission notes that there have been numerous increases in the cost of providing this service and that the charge has not been increased for over 20 years. Because of our desire to alleviate further increases on basic service, we conclude that the local coin call increase is necessary at this time. It is further concluded that the commissions paid to property owners on local coin telephone receipts should be reduced from 20% to no more than 14% because of the increased message charge.

(3) Service Charges

The Commission concludes that Carolina Telephone's service charges should be increased to a level which more closely approximates the level of costs involved in doing the work, and the charges applicable for each request should depend on the actual work functions involved. The increased charges should be implemented using the format, with slight modifications, proposed by Staff Witness Carpenter.

(4) Supplemental Services and Equipment

The Commission concludes that the provision of supplemental services and equipment should not result in a burden upon subscribers to basic service and that the rates should be set accordingly.

(5) Mileage Services

The Commission concludes that rates for mileage services should be based upon direct airline measurement and that the rates should be increased to more closely cover the costs of this class of service.

(6) Base Rate Areas, Special Rate Areas and Zone Charges

The Commission concludes that Staff Witness Chase's option four should be approved. This option will extend the base rate areas as proposed by the Company, will only minor exception special rate areas leaving minor exception areas, and will substantially reduce zone charges.

(7) Extended Area Service

The Commission concludes that the extended area service plan and formula of charges as proposed by the Company should be approved.

(8) Automatic Regrouping of Exchanges

The Commission concludes that the proposed plan of Witness Chase should be adopted. This plan provides for a once a year regrouping with a flow-through provision of any net increase in revenue.

(9) Directory Assistance Charges

The Commission concludes that charges for directory assistance inquiries are an appropriate means of permitting subscribers to pay a portion of the costs of this specific service which they use. It is concluded that an allowance of five free calls per month for directory assistance within the subscriber's local area code would best provide for adequate free access to directory assistance for most subscribers' needs. In view of the additional number of free monthly calls which we herein approve, over and above the Staff's recommendation, we conclude that the directory assistance charges, after the five free call allowance per month, per main station, should be applied to all subscribers, for directory assistance calls within the local and 9|9 area code. It is further concluded, in view of the 5 call allowance, that a 60% reduction in local directory assistance calling can reasonably be expected, that the resulting reduction in local expenses will be $564,3|4, and that $|53,345 in revenues should be produced.

IT IS, THEREFORE, ORDERED, as follows:

|. The Applicant, Carolina Telephone and Telegraph Company, be and hereby is, authorized to increase its North Carolina intrastate local exchange telephone rates and charges to produce additional annual gross revenues not to exceed $9,0|8,860, based upon stations and operations as of December 3|, |974, as hereinafter set forth in Appendix A.*

2. That the local monthly rates, service charges, general exchange item rates, and regulations prescribed and set forth in Appendix A hereto attached, which will produce additional gross revenues of $9,0|8,860 from said end of test period customers be, and are hereby, approved to be charged and implemented by Carolina Telephone Company, effective on service to be rendered on and after November |, |975, except as noted hereinafter.

3. That Carolina shall file, within 7 days of this order, the necessary revised tariffs and maps reflecting the above increases, decreases and regulations, as practical, and all revised tariffs and maps shall be filed no later

than 30 days from and after the date of this Order, said tariffs to be effective as of the dates prescribed above.

4. Applicant shall file between May 1 and May 15, 1976, to become effective July 1, 1976, the service charge tariff attached hereto as Appendix B.* Applicant shall file with the tariff appropriate adjustments in the level of miscellaneous, non-recurring charges and shall make necessary studies to adequately approximate the revenue effect of each proposed adjustment.

5. Applicant shall file between May 1 and May 15, 1976 to become effective July 1, 1976 revised tariffs to implement the schedule of mileage charges attached as Appendix C.* Charges for bridging arrangements shall be considered in addition to those charges shown and shall be considered in addition to those charges shown and shall be included in the filing as appropriate. Actual units shall be used in the determination of revenue effects of the charges.

6. Any net revenue effects of implementation of the regulations and charges shown in Appendixes B and C shall be offset by adjustments in related rates and charges and/or other changes in rates and charges filed during the same period in conjunction with regrouping of exchanges, base rate area expansion, etc. Units and revenue data detailing all adjustments shall be included with the filings.

7. The Company shall, commencing December 10, 1975, mail, as a bill insert, the "NOTICE" attached as part of page 22 of Appendix A to all subscribers and shall, commencing January 10, 1976, mail as a bill insert, the "REMINDER" attached on page 22 of Appendix A. Should the Company be unable to initiate Directory Assistance Charges on January 15, 1976, it should so advise the Commission and make appropriate changes in the dates in the "NOTICE", the "REMINDER" and the mailing dates given hereinabove.

8. Applicant shall file monthly reports on the conversion of coin paystations to the $.20 charge until such conversion is completed. The reports shall include as a minimum the total number of stations in service by class (public, semipublic) and type (triple-slot, single-slot) and the number of stations by class and type converted or replaced.

9. That Carolina shall provide once each quarter for the four (4) quarters in 1976, a report showing:

(a) The number of subscribers placing 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 - 20, 21 - 100, and 100 + calls per month for numbers within the area code 919.

(b) The number of directory assistance calls placed by subscribers placing, 0, 1, 2, 3, 4, 5, 6, 7, 8, 9,

10-20, 21-100, and 100 + calls per month within the 919 area code.

(c) The number of such inquiries per month for numbers in the 704 area code.

(d) The monthly number of directory assistance inquiries for numbers in the 919 area code from paystations.

(e) The number of subscribers billed for directory assistance inquiries.

(f) The revenue billed for directory assistance inquiries.

(g) A general report indicating the date(s) of implementation of directory assistance charges, complaints received, and problems encountered (i.e., traffic, accounting, billing, adjustments, etc.)

(h) The percent and amount of reduction in traffic expense over what was estimated for the same month had directory assistance charges not been in effect. The above data should be based on actual experience for one representative month of the quarter and should be received by the Commission no later than the last day of the quarter.

10. That Carolina shall file for Commission approval, the information it proposes to place in its telephone directories relating to directory assistance charges including the format and location within the directory.

11. All existing special rate areas are hereby cancelled and appropriate tariffs shall be filed to reflect same, with regular exchange zone charges to be applicable with exceptions as indicated under mileage charges. The Company shall not propose any further, like or similar arrangements as the present special rate areas.

12. The Company shall provide a report on its action to correct the service weak spots indicated in the testimony and exhibits of Staff Witness Clemmons. The report shall be filed within thirty (30) days of the date of this Order. The Commission Staff shall follow up on the Company's progress in taking corrective action on the service weak spots.

ISSUED BY ORDER OF THE COMMISSION.

This the 24th day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

*See portions of Appendix A below. For the remainder of Appendix A and Appendices B and C, see official Order in the Office of the Chief Clerk.

APPENDIX A
Carolina Telephone and Telegraph Company
Docket No. P-7, Sub 601

The following provisions shall constitute a new Basic Flat Rate Exchange Tariff.

BASIC FLAT RATE EXCHANGE SERVICE

GENERAL

The Exchange Rate Schedules are the combination of the Local Exchange Service Component and the Extended Area Service Component where applicable.

LOCAL EXCHANGE SERVICE RATE COMPONENTS

General

a. The Local Exchange Service Rate Components, with zone charges when applicable, are applied on the basis of the Statewide Rate Groupings according to the total number of exchange main stations, private branch exchange trunks and other equivalents in the local calling area (including Extended Area Service) of the exchange.

b. Base Rate Areas and Exchange Service Areas for each exchange are reflected on Exchange Service Area Maps on file with the North Carolina Utilities Commission.

c. The rates for service and equipment not specifically shown in this section are presented in other sections of this tariff.

Statewide Rate Schedules

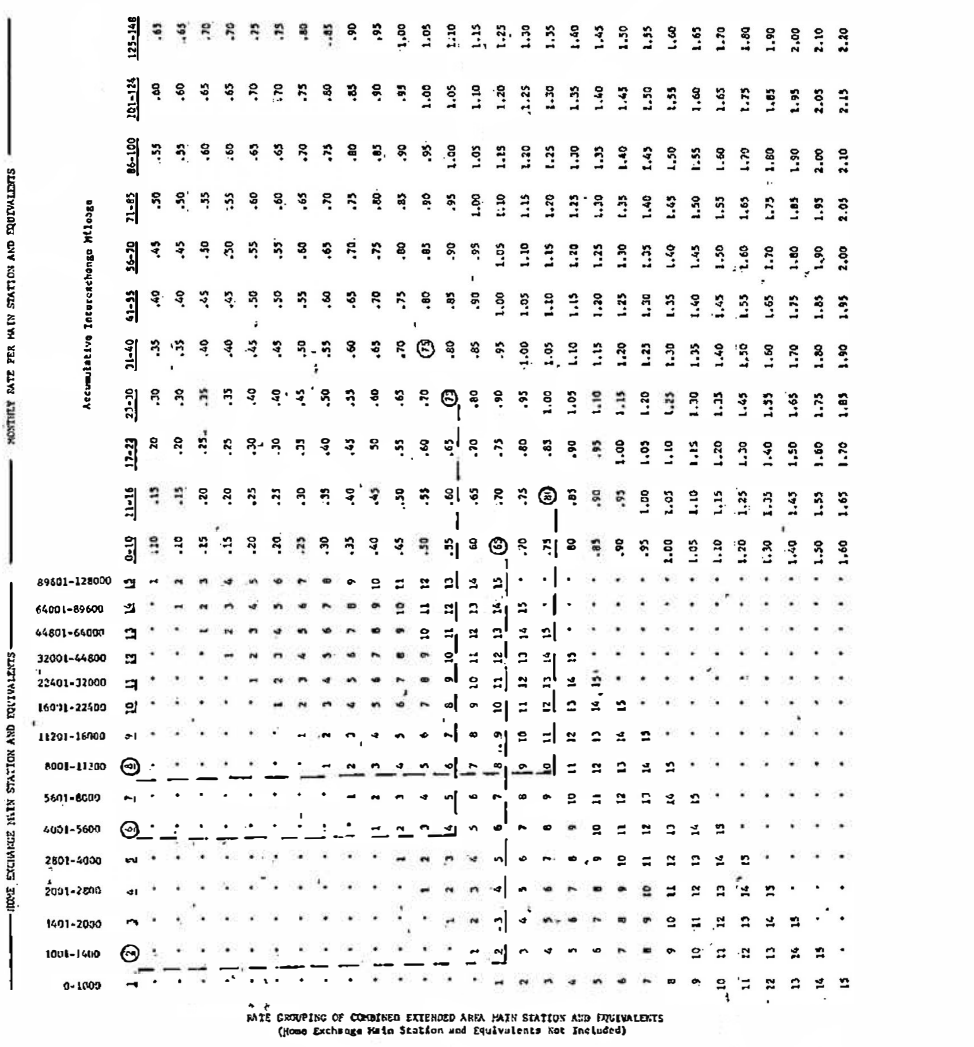
The following statewide schedule of rates is applicable to flat rate main station service:

Group	Main Stations, and Equivalents	Monthly Local Exchange Service Component					
		RESIDENCE			BUSINESS		
		Ind.	2-Pty.	4-Pty.	Ind.	2-Pty.	4-Pty.
1	0 - 1,000	4.90	4.30	3.90	12.25	10.55	9.60
2	1,001 - 1,400	5.15	4.50	4.10	12.90	11.10	10.10
3	1,401 - 2,000	5.40	4.70	4.30	13.50	11.65	10.60
4	2,001 - 2,800	5.65	4.90	4.50	14.15	12.20	11.10
5	2,801 - 4,000	5.90	5.15	4.70	14.75	12.75	11.60
6	4,001 - 5,600	6.20	5.40	4.95	15.50	13.35	12.20
7	5,601 - 8,000	6.45	5.65	5.15	16.15	13.95	12.70
8	8,001 - 11,200	6.75	5.90	5.35	16.90	14.60	13.30
9	11,201 - 16,000	7.05	6.15	5.60	17.60	15.20	13.90
10	16,001 - 22,400	7.40	6.45	5.90	18.50	16.00	14.60
11	22,401 - 32,000	7.70	6.70	6.15	19.25	16.65	15.20
12	32,001 - 44,800	8.05	7.05	6.40	20.10	17.40	15.90
13	44,801 - 64,000	8.40	7.35	6.70	21.00	18.20	16.60
14	64,001 - 89,600	8.80	7.70	7.00	22.00	19.05	17.40
15	89,601 - 128,000	9.20	8.05	7.35	23.00	19.95	18.20
	* *	*	*		*		

BASIC FLAT RATE EXCHANGE SERVICE

EXTENDED AREA SERVICE RATE COMPONENTS

Statewide Monthly Extended Area Service Rate Component Schedule



MONTHLY EXCHANGE RATES

3.4.1 Local Exchange Service

a. The rates specified herein with the Extended Area Service Charge, where applicable, entitle subscribers to an unlimited number of messages to all stations bearing the designation of central offices within the serving exchange and additional exchanges as shown in Section 3.6, Local Calling Areas, of this tariff.

	LOCAL EXCHANGE SERVICE COMPONENT						EXTENDED AREA SERVICE COMPONENT
	RESIDENCE			BUSINESS			
EXCHANGE	Ind.	2-Pty *	4-Pty *	Ind.	2-Pty *	4-Pty *	
Ahoskie	6.45	5.65	5.15	16.15	13.95	12.70	1.05
Atlantic	4.90	4.30	3.90	12.25	10.55	9.60	-
Aulander	6.45	5.65	5.15	16.15	13.95	12.70	1.35
Aurora	5.15	4.50	4.10	12.90	11.10	10.10	-
Ayden	7.40	6.45	5.90	18.50	16.00	14.60	1.00
Bailey	7.40	6.45	5.90	18.50	16.00	14.60	1.00
Bath	6.75	5.90	5.35	16.90	14.60	13.30	1.00
Bayboro	5.65	4.90	4.50	14.15	12.20	11.10	.55
Beaufort	6.75	5.90	5.35	16.90	14.60	13.30	.75
Belhaven	5.65	4.90	4.50	14.15	12.20	11.10	.65
Benson	7.05	6.15	5.60	17.60	15.20	13.90	.80
Bethel	7.40	6.45	5.90	18.50	16.00	14.60	1.15
Beulaville	5.65	4.90	4.50	14.15	12.20	11.10	.60
Bladenboro	6.20	5.40	4.95	15.50	13.35	12.20	.85
Centerville	6.20	5.40	4.95	15.50	13.35	12.20	.80
Chadbourn	6.45	5.65	5.15	16.15	13.95	12.70	.90
Clarkton	6.20	5.40	4.95	15.50	13.35	12.20	1.00
Clayton	8.80	7.70	7.00	22.00	19.05	17.40	1.25
Clinton	7.05	6.15	5.60	17.60	15.20	13.90	1.10
Colerain	6.45	5.65	5.15	16.15	13.95	12.70	1.35
Columbia	5.40	4.70	4.30	13.50	11.65	10.60	.65
Conway	5.15	4.50	4.10	12.90	11.10	10.10	-
Creswell	5.40	4.70	4.30	13.50	11.65	10.60	.65
Dunn	7.05	6.15	5.60	17.60	15.20	13.90	.50
Elizabethtown	6.45	5.65	5.15	16.15	13.95	12.70	1.05
Elm City	7.40	6.45	5.90	18.50	16.00	14.60	1.05
Enfield	5.40	4.70	4.30	13.50	11.65	10.60	-
Engelhard	4.90	4.30	3.90	12.25	10.55	9.60	-
Faison	5.65	4.90	4.50	14.15	12.20	11.10	.75
Farmville	7.70	6.70	6.15	19.25	16.65	15.20	1.05
Fayetteville	8.40	7.35	6.70	21.00	18.20	16.60	-
Fountain	5.90	5.15	4.70	14.75	12.75	11.60	.80
Four Oaks	6.45	5.65	5.15	16.15	13.95	12.70	.90
Franklinton	5.15	4.50	4.10	12.90	11.10	10.10	-
Fremont	7.70	6.70	6.15	19.25	16.65	15.20	1.10
Garland	6.45	5.65	5.15	16.15	13.95	12.70	1.20
Gatesville	5.90	5.15	4.70	14.75	12.75	11.60	.80
Greenville	7.70	6.70	6.15	19.25	16.65	15.20	.75
Grifton	7.40	6.45	5.90	18.50	16.00	14.60	1.05
Halifax	6.75	5.90	5.35	16.90	14.60	13.30	1.10

Hamilton	6.45	5.65	5.15	6.15	3.95	2.70	1.05
Havelock	6.20	5.40	4.95	5.50	3.35	2.20	-
Henderson	6.75	5.90	5.35	6.90	4.60	3.30	-
Holly Ridge	4.90	4.30	3.90	2.25	0.55	9.60	-
Jackson	4.90	4.30	3.90	2.25	0.55	9.60	-
Jacksonville	7.40	6.45	5.90	8.50	6.00	4.60	.40
Kenansville	6.20	5.40	4.95	5.50	3.35	2.20	.95
Kenly	7.40	6.45	5.90	8.50	6.00	4.60	.95
Kinston	7.40	6.45	5.90	8.50	6.00	4.60	.80
La Grange	7.40	6.45	5.90	8.50	6.00	4.60	1.00
Lake Waccamaw	6.45	5.65	5.15	6.15	3.95	2.70	.90
Lewiston	4.90	4.30	3.90	2.25	0.55	9.60	-
Lillington	5.90	5.15	4.70	4.75	2.75	1.60	-
Littleton	5.40	4.70	4.30	3.50	1.65	0.60	-
Louisburg	6.20	5.40	4.95	5.50	3.35	2.20	.50
Lucama	7.40	6.45	5.90	8.50	6.00	4.60	1.05
Marshallberg	4.90	4.30	3.90	2.25	0.55	9.60	-
Maxton	6.45	5.65	5.15	6.15	3.95	2.70	.90
Maysville	5.15	4.50	4.10	2.90	1.10	0.10	.65
Morehead City	6.75	5.90	5.35	6.90	4.60	3.30	.55
Moss Hill	8.05	7.05	6.40	20.10	7.40	5.90	1.55
Murfreesboro	6.45	5.65	5.15	6.15	3.95	2.70	1.25
Nashville	7.70	6.70	6.15	9.25	6.65	5.20	1.10
New Bern	7.05	6.15	5.60	7.60	5.20	3.90	-
Newport	5.15	4.50	4.10	2.90	1.10	0.10	-
Newton Grove	6.45	5.65	5.15	6.15	3.95	2.70	.95
Norlina	5.90	5.15	4.70	4.75	2.75	1.60	.75
Ocracoke	4.90	-	-	2.25	-	-	-
Oriental	5.65	4.90	4.50	4.15	2.20	1.10	.75
Oxford	6.45	5.65	5.15	6.15	3.95	2.70	-
Parkton	4.90	4.30	3.90	2.25	0.55	9.60	-
Pinetops	5.40	4.70	4.30	3.50	1.65	0.60	-
Pink Hill	7.40	6.45	5.90	8.50	6.00	4.60	1.10
Plymouth	5.90	5.15	4.70	4.75	2.75	1.60	-
Pollocksville	5.15	4.50	4.10	2.90	1.10	0.10	.65
Princeton	6.75	5.90	5.35	6.90	4.60	3.30	1.10
Raeford	5.90	5.15	4.70	4.75	2.75	1.60	-
Red Springs	5.65	4.90	4.50	4.15	2.20	1.10	-
Richlands	7.40	6.45	5.90	8.50	6.00	4.60	1.00
Rich Square	5.40	4.70	4.30	3.50	1.65	0.60	.65
Roanoke Rapids	6.75	5.90	5.35	6.90	4.60	3.30	.50
Robersonville	6.45	5.65	5.15	6.15	3.95	2.70	.90
Rocky Mount	7.70	6.70	6.15	9.25	6.65	5.20	.60
Roseboro	6.45	5.65	5.15	6.15	3.95	2.70	1.00
Rose Hill	6.20	5.40	4.95	5.50	3.35	2.20	.75
Roxobel	4.90	4.30	3.90	2.25	0.55	9.60	-
Scotland Neck	5.65	4.90	4.50	4.15	2.20	1.10	-
Seaboard	4.90	4.30	3.90	2.25	0.55	9.60	-
Smithfield	7.05	6.15	5.60	7.60	5.20	3.90	-
Sneads Ferry	4.90	4.30	3.90	2.25	0.55	9.60	-
Snow Hill	5.65	4.90	4.50	4.15	2.20	1.10	-
Spring Hope	5.90	5.15	4.70	4.75	2.75	1.60	.70
St. Pauls	5.40	4.70	4.30	3.50	1.65	0.60	-
Stantonsburg	7.40	6.45	5.90	8.50	6.00	4.60	1.05
Swanquarter	4.90	4.30	3.90	2.25	0.55	9.60	-
Swansboro	5.65	4.90	4.50	4.15	2.20	1.10	-
Tabor City	6.20	5.40	4.95	5.50	3.35	2.20	.70

Tarboro	6.45	5.65	5.15	16.15	13.95	12.70	-
Topsail Island	4.90	4.30	3.90	12.25	10.55	9.60	-
Trenton	4.90	4.30	3.90	12.25	10.55	9.60	-
Vanceboro	5.15	4.50	4.10	12.90	11.10	10.10	-
Wake Forest	8.80	7.70	7.00	22.00	19.05	17.40	1.15
Wallace	6.20	5.40	4.95	15.50	13.35	12.20	.55
Warrenton	5.90	5.15	4.70	14.75	12.75	11.60	.55
Warsaw	5.90	5.15	4.70	14.75	12.75	11.60	.75
Washington	6.75	5.90	5.35	16.90	14.60	13.30	.60
Weldon	6.75	5.90	5.35	16.90	14.60	13.30	.95
Whitakers	7.70	6.70	6.15	19.25	16.65	15.20	1.15
Whiteville	6.75	5.90	5.35	16.90	14.60	13.30	.70
Williamston	6.45	5.65	5.15	16.15	13.95	12.70	.75
Wilson	7.70	6.70	6.15	19.25	16.65	15.20	.85
Windsor	5.65	4.90	4.50	14.15	12.20	11.10	-
Winton	6.45	5.65	5.15	16.15	13.95	12.70	1.30
Woodland	5.40	4.70	4.30	13.50	11.65	10.60	.65

*Obsolete Service Offering Inside Base Rate Area

DOCKET NO. P-16, SUB 124

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of The Concord Telephone Company for an Adjustment in Its Rates and Charges.) ORDER ALLOWING INCREASE IN RATES

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on March 4, 1975, at 10:00 A.M.

BEFORE: Chairman Marvin R. Wooten, Presiding; Commissioners Hugh A. Wells and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

E. T. Bost, Jr., Esq.
Attorney at Law
Cabarrus Bank & Trust Building
Concord, North Carolina 28025
For: The Concord Telephone Company

John R. Boger, Jr., Esq.
Williams, Willeford, Boger & Grady
Attorneys at Law
P. O. Box 810
Concord, North Carolina 28025
For: The Concord Telephone Company

Ronnie A. Pruett, Esq.
Attorney at Law
P. O. Box 830
Concord, North Carolina 28025
For: The Concord Telephone Company

For the Commission Staff:

Wilson B. Partin, Jr., Esq.
Assistant Commission Attorney
Lee West Movius, Esq.
Associate Commission Attorney
North Carolina Utilities Commission
Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: By Petition filed with the Commission on September 4, 1974, as amended on September 26, 1974, The Concord Telephone Company applied for an increase in its rates and charges of approximately $948,137 additional annual gross operating revenues. By Order issued on October 1, 1974, as clarified on October 17, 1974, the Commission suspended the proposed increase, set the matter for public hearing, and required public notice of the same. Following filing of additional company data and the expert testimony of the company and the Commission Staff, the matter came on for public hearing at 10:00 A.M. on Tuesday, March 4, 1975, in the Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina. For the company, Mr. George H. Richmond, Jr., Executive Vice President and General Plant Manager, testified on telephone plant and service; Mr. Phil W. Widenhouse, Executive Vice President, Treasurer, and Assistant Secretary, on cost of capital; and Walter L. Drury, Chief Accountant and Programmer on fair value, revenues, expenses, and net income. The Commission Staff presented the testimony of Charles D. Land, Telephone Service Engineer, on physical plant and quality of service; Hugh L. Gerringer, Telephone Engineer, on toll revenues; Vern W. Chase, Chief, Engineering Division, Telephone Rate Section, on rate design; Thomas M. Kiltie, Staff Economist, on cost of capital and capital structure; and Paul B. Goforth, Staff Accountant, on fair value, operating revenues, expenses, and net income. There were no protests filed with the Commission, no public witnesses at the hearing, and no intervenors in this proceeding.

Based on the evidence adduced at the hearing, the Commission makes the following:

FINDINGS OF FACT

(1) The Concord Telephone Company is a duly organized public utility company under the laws of North Carolina, holding a franchise to furnish telephone service in Cabarrus, Stanly, and Rowan Counties through telephone exchanges in Concord, Kannapolis, Mt. Pleasant, Harrisburg,

Albemarle, Badin, Oakboro, New London, and China Grove-Landis.

(2) The telephone service provided by the company is effective, efficient, and of high quality. This proceeding has uncovered no major service problems, and the few minor difficulties detected by the Commission Staff during its investigation can be remedied with dispatch.

(3) In this proceeding, the company has elected to offer original cost as the primary evidence of the fair value of its property used and useful, to which the Commission acquiesces, see Utilities Comm. v. Telephone Co., 28| NC 3|8 at 360. At the end of the test period in this case, May 3|, |974, the fair value of the company's property used and useful devoted to North Carolina intrastate service was $2|,749,78|, the sum of (|) the depreciated original cost of plant in service and (2) the allowance for working capital.

(4) Under present rates, the company is earning an 8.06% return on fair value equity and an overall return of 7.|9% on fair value. This return is too low. A reasonable and fair rate of return should allow the company to earn a |2.60% return on fair value equity and an overall return of 8.6|% on the fair value of the property.

(5) For the test period and prior to annualization, the company's reasonable gross operating revenues (less uncollectibles) were $7,989,8|5, reasonable operating revenue deductions (including interest on customer deposits) totalled $6,448,250, and annualized net operating income for return was $|,564,380. The rate increase authorized herein will generate $309,354 additional net income available for return. Total net income available for return will be $|,873,734, a |2.6% return on fair value equity and an overall return of 8.6|% on the fair value of its property.

(6) The schedules showing the derivation and application of the above findings are set forth, and included as part of these Findings of Fact, as follows:

CONCORD TELEPHONE COMPANY
Docket No. P-16, Sub 124
NORTH CAROLINA INTRASTATE OPERATIONS
Statement of Return

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross Operating Revenues	$8,031,751	$677,899	$8,709,640
Less: Uncollectibles	41,936	4,608	46,544
Total Operating Revenues	7,989,815	673,281	8,663,096
Operating Revenue Deductions			
Operating and Maintenance Expenses	3,471,571		3,471,571
Depreciation and Amortization	1,483,295		1,483,295
Taxes Other Than Income	876,333	40,397	916,730
Income Taxes-State and Federal	203,445	323,530	526,975
Deferred Income Taxes	306,597		306,597
Investment Tax Credit-Net	105,771		105,771
Total Operating Revenue Deductions	6,447,012	363,927	6,810,939
Net Operating Revenues	1,542,803	309,354	1,852,157
Less: Interest on Customer Deposits	1,238		1,238
Add: Annualization Adjustment-1.48%	22,815		22,815
Net Operating Income for Return	$1,564,380	$ 309,354	$1,873,734
Original Cost Net Investment Net Plant In Service			
Telephone Plant in Service	$29,924,278		$29,924,278
Less: Accumulated Provision for Depreciation	8,572,715		8,572,715
Net Telephone Plant in Service	21,351,563		21,351,563
Allowance for Working Capital			
Materials and Supplies	402,143		402,143
Cash	296,192		296,192
Less: Average Tax Accruals	(275,564)		(275,564)

Average Customer Deposits	(24,553)	(24,553)
Total Allowance for Working Capital	398,218	398,218
Net Investment in Telephone Plant in Service Plus Allowance for Working Capital (Fair Value)	$2|,749,78|	$2|,749,78|
Return on Fair Value Rate Base	7.19%	8.61%

CONCORD TELEPHONE COMPANY
Docket No. P-16, Sub 124
NORTH CAROLINA INTRASTATE OPERATIONS

Capitalization	Fair Value Rate Base	Ratio %	Embedded Cost or Return on Fair Value Equity %	Net Operating Income
	Present Rates - Fair Value Rate Base			
Long-Term Debt	$10,853,141	49.9	7.24	$785,767
Notes Payable	1,696,483	7.8	9.00	152,683
Cost-Free Capital	826,492	3.8	-	-
Preferred Stock	1,565,984	7.2	4.95	77,516
Fair Value Equity	6,807,681	31.3	8.06	548,414
Total Capitalization	$21,749,781	100.0		$1,564,380
	Approved Rates - Fair Value Rate Base			
Long-Term Debt	$10,853,141	49.9	7.24	$ 785,767
Notes Payable	1,696,483	7.8	9.00	152,683
Cost-Free Capital	826,492	3.8	-	-
Preferred Stock	1,565,984	7.2	4.95	77,516
Fair Value Equity	6,807,681	31.3	12.60	857,768
Total Capitalization	$21,749,781	100.0		$1,873,734

(7) The schedules of rates, charges and accompanying exchange rate groupings and rules and regulations, attached hereto as Appendixes A, B and C and hereby incorporated in these Findings of Fact, will enable the company to generate, in a manner fair to the consumer, the revenues required for the fair rate of return.

CONCLUSIONS OF LAW

Rate of Return. The order in the company's last general rate case (Docket No. P-16, Sub 86), dated May 19, 1969, allowed the company a return on equity of 12.6%. Since the issuance of the 1969 order, the company has issued and sold common stock on two occasions. (1) In February, 1973, the company sold 5,000 shares of Class B common stock (non-voting) at a market price above book value; during the year 1973, the company was earning a 12.2% return on equity. (2) In May, 1974, the company sold 5,023 of its Class B non-voting stock at a market price above book value; at the same time the stock was sold, the company estimates that it was earning an 11.2% return on average equity. The common stock of the company is not sold on any exchange; the company depends primarily on the local market in the Concord, North Carolina, area to provide the equity funds of the company. The common stock is offered first to existing stockholders, then to employees, and then to others. 81% of the common stockholders are subscribers to the service of the company. During the years 1968-1974, the gross plant additions to the company were approximately 20.3 million dollars. The construction was financed from the following sources:

Common equity	$ 4.5 million
Bonds	6.2 million
Total	$ 10.7 million
Internal operations (Net retained earnings, depreciation, investment credit, deferred income taxes)	$ 9.6 million
Total source of funding	$ 20.3 million

Consequently, it appears that the company was able to meet approximately 50% of its construction financing from internally generated funds.

The witness for the company, Mr. Widenhouse, stated that the company should earn in the range of 14-15% on common equity. The evidence, however, clearly shows that the company was highly successful in attracting equity capital in 1973 and 1974 when its return on common equity was significantly less than 13%; moreover, during this time, the company was able to sell its common stock at prices above book value. The stock of the company is not sold on any exchange. The company depends primarily on local people in the Concord area to provide the equity funds of the company, primarily stockholders and company employees. 81% of the stockholders are also subscribers to the company service. As pointed out by Mr. Widenhouse, the prospective purchasers of the common stock have firsthand knowledge of the company's operations. The Commission finds and concludes that the company should be allowed to earn a return of 12.6%

on its common equity. This return should enable the company to attract the capital it needs to meet its service obligations to its customers as well as enable its stockholders to earn a fair rate of return on their investment.

When calculating rate of return under the present and approved rates, the Commission will use, with some modifications, the company's projected December 31, 1975 capital structure. Both Staff Witness Kiltie and Company Witness Widenhouse testified that, because of high interest rates and anticipated capital expenditures, both the ratio of debt to total capitalization and the cost of debt would increase beyond end of test period levels. Such increased debt ratio and cost must be considered if the Commission, in addition to finding a fair rate of return, is also to set rates at a level sufficient to afford the company an opportunity to earn the authorized rate of return. The Commission will, however, modify the projected December 31, 1975 capital structure in one respect; as we have done in previous orders, that portion of the capital structure representing deferred income taxes and deferred pre-1971 investment tax credit will be placed in the capital structure at zero cost, as such items represent cost-free capital to the company.

Fair Value Rate Base. In this proceeding, the fair value of the company's property used and useful in rendering service to North Carolina customers consists of the depreciated original cost of such property and the allowance for working capital. The company's evidence indicates that the original cost of its property before depreciation is $30,004,794. This figure, however, includes an $80,520 adjustment to recorded investment to account for capitalized employee-related expenses which increased during the test period. This adjustment must be disallowed. Investment in plant - including amounts representing employee-related costs which have been capitalized rather than expensed - can only be recorded at original cost; capitalized employee-related costs which increase after investment is recorded may not be proformed as if the same were expense items. The Commission concludes that the reasonable original cost of the company's plant is $29,924,278.

Company Witness Drury and Staff Witness Goforth respectively contend that accumulated depreciation totals $8,572,240 and $8,572,715. The Commission will use Witness Goforth's figure which excludes all adjustments to accumulated depreciation based on the incorrectly capitalized employee-related costs discussed above.

The company's suggested allowance for working capital of $784,897 includes $386,679 for funds committed to plant under construction; such funds, however, must be excluded from fair value under G.S. 62-133(b) and (c), see Utilities Comm. v. Morgan, 277 N. C. 255 (1970). The company's figures for the proper components of the allowance for

working capital - that is, materials and supplies, cash, average tax accruals, and average customer deposits - are reasonable amounts and will constitute the allowance, which totals $398,218.

Operating Income. Company and Staff Witnesses agree that reasonable gross operating revenues after accounting and pro forma adjustments total $7,989,815. Nor is there disagreement over the reasonable amounts for test year operating and maintenance expenses, taxes other than income, deferred income taxes, and net investment tax credit. The Commission will adopt Staff Witness Goforth's annualization factor of 1.48%, which was based on average test year primary stations, rather than Company Witness Drury's annualization factor, which, being derived from total rather than primary stations, overstated probable future revenues and expenses. There was conflicting evidence concerning depreciation and amortization expense and state and federal income tax expense. The Commission will adopt Witness Goforth's calculation of depreciation and amortization expense; the company's figure incorrectly included depreciation attributable to the employee-related costs which, as discussed above, the company had incorrectly capitalized and included in the rate base. The Commission will also, with slight modification, adopt Witness Goforth's calculation of federal and state income tax expense. For reasons discussed above, the Commission used the projected December 31, 1975, capital structure when calculating the amount of revenue required for the company to earn its fair rate of return. The Commission concludes that the company's state and federal income tax expense should be reduced by the tax effects of the greater interest expense of the projected capital structure. (The increased interest expense affords the company a larger interest expense deduction on its federal and state income tax returns, thereby reducing taxes.) Since the company receives the benefit of the anticipated higher interest cost when the Commission calculates the revenue required for fair rate of return, the company's ratepayers should in turn receive the benefit of the lower income taxes that result therefrom. The Commission's calculation of the required reduction in state and federal income tax expense is as follows:

CALCULATION OF INCOME TAX EFFECTS OF INTEREST EXPENSE

1. Interest expense on telephone plant in service based on Dec. 31, 1975 capital structure		$ 938,450
2. Interest expense per company tax calculation exclusive of customer deposits	$ 732,102	
3. Annualization factor (L2 x L3)	101.48%	
4. Interest at end-of-period		742,937

5. Interest adjustment due to capital structure and interest rates	195,513
6. De-annualized increase (L5 ÷ L3)	192,662
7. Increase in net operating income resulting from income tax effects of interest adjustment (L6 x 51.12%)	$ 98,489

Rate Design. Both company and Commission Staff proposed changes in the company's rates and charges so as to generate revenue on a more equitable basis. Company Witness Widenhouse recommended an increased, 20 cent charge for local coin telephone calls, higher service charges for installations, moves, changes, etc., the elimination of most color charges on station equipment, and substantial reductions in rural zone charges. Staff Witness Chase, although in general agreement with the company's proposals, recommended a two-times the business one-party rate for PBX trunks, a 1.2 to 1 ratio of key trunks to business one-party lines, and a new format service charge tariff.

The Commission concludes that these rate changes are appropriate and should be used in designing new rates. More specifically, service charges should be increased to a level which more closely approximates the costs involved in doing the work; a 20 cents charge for local coin telephone calling will recognize the identifiable increases in applicable costs over the past twenty years; color charges for most station equipment will be included in the basic rate; the reduction in rural zone charges furthers the Commission's objective of reducing and ultimately eliminating such charges.

Plant and Service Quality. Staff Witness Land testified to the results of the staff field investigation which included the company's service, inside and outside plant engineering, dial office traffic administration, and outside plant inspection. Mr. Land testified that the company's service was good and that problems with direct distance dialing encountered during January 28 - February 4, 1975, testing had been eliminated before a second series of tests were made on February 27 and 28, 1975. Mr. Land further testified that the company's method of receiving and accounting for subscriber trouble reports should be reduced to writing in a format consistent with industry practices. Mr. Land stated that the company's dial office traffic administration program needed refinement in several areas and that the company should conduct a traffic usage study in each central office, at least annually during the local office busy season. As a result of the inspections of outside plant, it was found that a large number of residential subscriber locations were not equipped with station protectors, thus subjecting homes and occupants to

the hazards of fire and shock should telephone lines be struck by lightning or come into contact with power lines. Mr. Land testified that the company should determine the number of subscriber locations not equipped with station protectors, develop a timetable in which it could equip all locations with station protectors and advise the Commission of that timetable. It was also noted that in certain instances the Company had not observed proper clearance requirements between telephone and power facilities. The Commission concludes that the difficulties described above should be remedied by the company.

IT IS, THEREFORE, ORDERED:

(1) That Concord Telephone Company be and hereby is authorized to increase or decrease its intrastate local exchange rates and charges as hereinafter set forth in Appendixes A, B, and C* attached hereto and made a part of this Order. The rates and charges shall become effective upon one (1) day's notice on all billings rendered in advance, on and after the filing of revised tariffs reflecting the increases and decreases in rates and charges.

(2) That Concord Telephone Company shall file with the Commission on or before December 31, 1975, the service charge tariff, attached Appendix B, with charges that will approximately offset the revenues produced by the service charge tariff in effect as the result of this Order, with full explanation of how the current and proposed revenues were determined, said tariffs to be filed effective March 1, 1976.

(3) That Concord Telephone Company shall file monthly reports on the conversion of coin pay stations to the $ .20 charge until such conversion is completed, the report to be due within the first ten (10) days of each month.

(4) That Concord Telephone Company shall file in Section 17 of its General Exchange Tariff the color telephone equipment tariff attached as Appendix C.

(5) That Concord Telephone Company shall (a) file with the Commission in writing, in detail, by July 1, 1975, its practice with regard to receiving and accounting for subscriber trouble reports; (b) provide suitable over-voltage protection at all subscriber locations where required by, and in compliance with, the current addition of the National Electric Code and submit on July 1, 1975, and thereafter semiannually, an interim report showing its progress and plans for meeting this requirement; and (c) take action to eliminate all violations of the National Electrical Safety Code that currently exist in its outside plant facilities.

ISSUED BY ORDER OF THE COMMISSION.

This the 23rd day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See portions of Appendix A below. For the remainder of Appendix A and Appendices B and C, see official Order in the Office of the Chief Clerk.

APPENDIX A
CONCORD TELEPHONE COMPANY
DOCKET NO. P-16, SUB 124
EXCHANGE RATE GROUPING

Main Stations and PBX Trunks
in Local Service Area

	Monthly Flat Rate					
	RESIDENCE			BUSINESS		
GROUP	1-Pty	2-Pty	4-Pty	1-Pty	2-Pty	4-Pty
I Less than 20,000	6.60	5.85	4.65	15.00	12.00	10.00
II 20,001 - 30,000	7.00	6.10	4.90	15.85	12.60	10.60
III 30,001 - 40,000	7.35	6.35	5.15	16.70	13.20	11.20
IV 40,001 - 50,000	7.85	6.85	5.40	18.85	15.35	12.60
V More than 50,000	8.35	7.35	5.60	21.00	17.50	14.00

	Rates by Exchange					
	RESIDENCE			BUSINESS		
EXCHANGE	1-Pty	2-Pty	4-Pty	1-Pty	2-Pty	4-Pty
Albemarle	6.60	5.85	4.65	15.00	12.00	10.00
Badin	6.60	5.85	4.65	15.00	12.00	10.00
China Grove-Landis	7.35	6.35	5.15	16.70	13.20	11.20
Concord	7.35	6.35	5.15	16.70	13.20	11.20
Harrisburg	8.35	7.35	5.60	21.00	17.50	14.00
Kannapolis	7.35	6.35	5.15	16.70	13.20	11.20
Mt. Pleasant	6.60	5.85	4.65	15.00	12.00	10.00
New London	6.60	5.85	4.65	15.00	12.00	10.00
Oakboro	6.60	5.85	4.65	15.00	12.00	10.00

DOCKET NO. P-19, SUB 158

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of General Telephone Company of the Southeast for Authority to Increase its Rates and Charges in its Service Area Within North Carolina.	)	ORDER GRANTING PARTIAL INCREASES IN RATES AND CHARGES

PLACE: Commission Hearing Room, Raleigh, North Carolina, November 1, 19-21, 26, 27, December 11, 1974

BEFORE: Chairman Marvin R. Wooten, Presiding, Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

A. H. Graham, Jr.
Newsom, Graham, Strayhorn, Hedrick, Murray & Bryson
Attorneys at Law
P. O. Box 2088
Durham, North Carolina 27702

Ward W. Wueste, Jr.
Attorney at Law
P. O. Box 1412
Durham, North Carolina 27702

John Robert Jones
Power, Jones & Schneider
Attorneys at Law
100 E. Broad Street
Columbus, Ohio 43215

For the Intervenors:

Adrienne Meltzer Fox & Ann Beddingfield
Attorneys at Law
Legal Aid Society of Durham County
P. O. Box 2101, 353 West Main Street
Durham, North Carolina 27702
For: Carolina Action

William Irving Thornton, Jr.
Office of City Attorney, City of Durham
City Hall, P. O. Box 2251
Durham, North Carolina
For: City of Durham

I. Beverly Lake, Jr.
Jerry Rutledge and Jesse Brake
Attorney General's Office
Ruffin Building
Raleigh, North Carolina 27602
For: Using and Consuming Public

For the Commission Staff:

Maurice W. Horne
Assistant Commission Attorney
Ruffin Building
Raleigh, North Carolina 27602

John R. Molm
Associate Commission Attorney
Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: On May 17, 1974, General Telephone Company of the Southeast (hereinafter called General or Company) filed its rate Application seeking approval of $5,402,457 in additional annual revenue. By its Order dated June 13, 1974, the North Carolina Utilities Commission (hereinafter called Commission) suspended General's Application and scheduled hearings to begin in November, 1974. Interventions were filed by the Attorney General of the State of North Carolina (hereinafter called Attorney General), the City of Durham (hereinafter City), and Carolina Action.

On July 25, 1974, the Attorney General of North Carolina, pursuant to G.S. 62-20, filed a Notice of Intervention on behalf of the Using and Consuming Public of the State of North Carolina. The City of Durham petitioned for leave to intervene on October 18, 1974. Carolina Action, an organization representing "a substantial number of low income people in Durham and throughout the General Telephone Service area," petitioned for leave to intervene on October 14, 1974. The Commission recognized and allowed the intervention of each of these parties.

On October 30, 1974 Intervenor Carolina Action moved that the Commission arrange evening hearings on November 26 and 27, 1974 in Durham, North Carolina "in order to allow full participation by the working citizens of Durham who will be affected...". By Order of November 4, 1974 the Commission denied the motion for evening hearings. Carolina Action then petitioned for reconsideration of its motion. Following oral argument in the Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina on November 19, 1974, the Commission reconsidered and denied the motion for evening hearings.

On November 1, 1974 at the public hearing scheduled in Monroe, North Carolina, 9 customers of General Telephone Company testified with respect to General's rates and service. The witnesses testified that they encountered difficulties in service involving wrong numbers and direct distance dial toll calls (DDD), outages, static and in dialing local numbers. One witness indicated that an employee of General Telephone was discourteous and that she had difficulty in hearing the telephone ringer. One witness indicated that telephone rings had occurred on the Monroe Fire Department's radio communications. Several public witnesses indicated that the company's rates should not be raised until the service is improved.

On November 26th and 27th in Durham, North Carolina, 59 customers of General Telephone testified with respect to the company's rates and service. The public witnesses indicated that they had encountered difficulties in local dialing, toll dialing and DDD, wrong numbers, pay phones being out of order, static, low volume, outages, ringer malfunctions, slow operator assistance, constant ringing of telephones, being cut-off during conversations. Several witnesses testified as to billing errors involving calls for long distance charges on their bills which they did not make. Two witnesses indicated their service had been disconnected although they had paid their bills. Several witnesses indicated that although they had a private line assigned to them there were other parties breaking in on the line during conversations. A few indicated that the company's personnel were discourteous. Several witnesses stated in their opinion the company's response to repair service was poor. Two witnesses indicated that third-parties could not reach them and encountered busy signals although the phone was not reported out of order. Several witnesses indicated a

preference for limited use service or multi-party service. Three witnesses indicated the company's operators could not take instructions. 38 of the witnesses indicated that they opposed the rate increase.

Expert testimony was taken in the Commission Hearing Room on November 19, 20, 21 and 22, 1974, and on December 11, 1974. The parties were given thirty (30) days after the mailing of the last volume of the transcript for the filing of briefs. The last volume of the transcript was mailed on January 7, 1975.

At the public hearings, the Commission received the pre-filed written testimony of all witnesses of the applicant, the Staff and the intervenors, and each witness was tendered for cross-examination and the transcript will show a full and ample right of all parties to introduce all relevant evidence and exhibits and to cross-examine all proposed evidence and exhibits of all other parties.

General offered the testimony of the following witnesses: Claude O. Sykes, Vice President-General Manager, testifying on quality of telephone service provided by General; Gerald F. Gawronski, Vice President-Controller, testifying with respect to the accounting records and financial statements of General, the billing process and the company's experience since the last rate case; Michael E. Holmstrom, former Accounting Director, testifying on the results of a net trended original cost valuation study; Daniel L. Golombisky, Engineering Director, testifying on planning and techniques employed by the company to insure the economical placement of telephone plant; James W. Hevener, Revenues and Earnings Director, testifying as to the fair value of General's property in North Carolina devoted to intrastate telephone operations; Spiro B. Kircos, Assistant Controller, GTE Automatic Electric Inc., testifying on the relationship between GTE Automatic Electric, Inc., and subsidiaries of General Telephone & Electronics Corporation; John C. McKinney, Service Director, testifying as to purchasing policies and procedures; Wilbur S. Duncan, Certified Public Accountant, Arthur Anderson & Co., testifying as to accounting procedure and the propriety of using rate of return on investment as a basis for comparing the relative profitability of one company to another; Lyle E. Orstad, Treasurer, testifying as to the fair rate of return; F. Gordon Maxson, Vice-President-Revenue Requirements, testifying on the company's financial situation, revenue deficiency and a proposed schedule of rates; Paul J. Garfield, independent economic consultant, in rebuttal, testifying as to his appraisal of the double leverage approach employed by the Commission Staff and the Attorney General; George M. Weber, Vice-President-Controller, General Telephone Directory Company, testifying on the operations of the directory company; and again John C. McKinney and Daniel L. Golombisky, in rebuttal.

The Commission Staff offered the testimony of the following witnesses: Hugh L. Gerringer, Staff Telephone Engineer, testifying as to the appropriateness of the division between interstate and intrastate operations of the Company within North Carolina, the status of the intrastate toll settlements for the test period, and the determination of the Company's normalized intrastate toll revenues for the test period; Norman D. Reiser, Staff Accountant, testifying as to test period rate base, revenues, expenses and return on original cost net investment and common equity; Allen L. Clapp, Engineer, testifying on the valuation of General's plant; Vern W. Chase, Engineer, Telephone Rate Section, testifying as to the rate proposals of General; M. D. Coleman, testifying as to the deduction for "Customer Funds Advanced" included in Mr. Reiser's testimony; Edward W. Ericksen, Economic Consultant, testifying as to the relationship and transactions between GTE Automatic Electric, Inc. and the North Carolina Division of General Telephone Company of the Southeast; Gene A. Clemmons, Chief Engineer, Telephone Service Section, testifying as to review and evaluation of telephone service provided by General, of the central office and outside plant engineering, as well as a review of operating expenses; Charles D. Land, Staff Engineer, testifying on comparison of prices paid for telephone equipment; and Edwin A. Rosenberg, Staff Economist, testifying on the cost of capital and rate of return.

Intervenors Carolina Action offered the testimony of John E. Kwoka, as to the rate structure proposed by General.

Intervenor Attorney General of North Carolina offered the testimony of David F. Crotts as to the cost of capital and rate of return.

The additional annual rate increases proposed by General of $5,402,457 would include, in addition to certain non-recurring charges and various monthly charges for auxiliary equipment and services, increases in basic exchange rates as shown in the following table reflecting present rates and proposed increases.

	Residence		Business	
	Ind.	2-Pty.	Ind.	2-Pty.
Exchanges: Altan, Goose Creek, Monroe				
Present	7.90	7.10	15.80	14.80
Proposed	10.50	9.70	31.50	29.00
Increase	2.60	2.60	15.70	14.20
Exchanges: Creedmoor, Durham				
Present	7.35	-	20.00	-
Proposed	12.00	-	36.00	-
Increase	4.65	-	16.00	-

Based upon the entire record of this proceeding, the Commission makes the following

FINDINGS OF FACT

1. That General Telephone Company of the Southeast (General) is a Virginia corporation authorized to do business in the State of North Carolina and as a duly franchised public utility provides telephone service to exchanges in Durham, Creedmoor, Monroe, Altan and Goose Creek. General is also engaged in the provision of telephone service in the states of Virginia, West Virginia, South Carolina, Georgia, Tennessee and Alabama. General is a wholly owned subsidiary of General Telephone & Electronics Corporation (GTE).

2. That General has applied for approval of total increases in rates and charges in additional annual gross revenues for local service amounting to $5,402,457.

3. That General has met all of the service standards heretofore ordered by the Commission in Docket P-19, Sub 115 and continued in Docket No. P-19, Subs 133 and 136, and that the overall quality of service provided by General in its service area is generally good. While General has made significant and continuing improvement in its level of telephone service, the Commission finds that such levels of service now being met should continue to be met in view of past performance and the Commission's determination in the prior dockets referred to herein and continued supervision by the Commission is required to insure that the present level of service be maintained and improved.

4. That General had excess plant investment at the end of the test period amounting to $532,763 which was not used and useful in rendering telephone service.

5. That General's intrastate net investment in utility plant reflects excessive profits in the amount of $1,079,000 resulting from inter-company transactions between GTE Automatic Electric Incorporated (AE) and General.

6. That General's gross operating revenues should be increased in the amount of $18,367 for unreasonable level of earnings achieved from General's transactions with General Telephone Directory Company.

7. That the reasonable original cost of General's intrastate utility property is $59,076,468 prior to consideration of working capital allowance.

8. That the proper working capital allowance to be applied to General's net investment is a negative cash working capital of $65,177.

9. That the reasonable replacement cost of General's intrastate telephone plant is $70,892,791 and that

considering the net investment plus working capital allowance found hereinabove and weighting the net investment less depreciation by two-thirds with consideration of excess profits and excess margin and by weighting replacement cost found herein by one-third, the Commission finds the fair value of General's intrastate telephone plant used and useful in providing service in North Carolina is $62,940,631.

10. That the approximate gross revenues for General for the test period are $18,903,375 under the present rates and that under the company proposed rates would have been $24,165,382. That the reasonable level of operating expenses after annualization is $14,539,549.

11. That the fair rate of return which General should have the opportunity to earn on its North Carolina fair value rate base is 8.40%, and that the proper rate of return for General's fair value equity investment for intrastate operations is 10.1%.

12. That the proper rate design for General should be structured as follows and in accordance with Appendix A, B, and C attached hereto.

The present ratios between business and residence individual line rates range from 2.72 to 1 to 2.00 to 1. The proposed increase in basic local rates in this order will set these rates at 2.5 to 1. These ratios can be computed directly from the rate schedules.

The rates for certain services bear a specific relationship to rates for basic services. Included in this category are private branch exchange trunks and key system trunks. The present ratio between the rates for PBX trunks and business individual lines is 1.75 to 1 in the Durham area and 1.5 to 1 in the Monroe area. A ratio of 2 to 1 is proposed in this order. Key system trunk presently take a 1 to 1 ratio with business one-party service. The proposed ratio is 1.2 to 1 in this order.

The Monroe, Altan and Goose Creek exchanges had at the end of the test period a calling scope of 12,180, Durham and Creedmoor 57,932, and the Research Triangle office of the Durham exchange 184,020. The larger calling scope of Research Triangle office for one-party business service (no residence service is offered) is recognized by a proposed $3.30 higher rates for that area than for the balance of the Durham exchange.

A new format with further breakdowns of service charges so as to create a more equitable application for a subscriber's actual needs is proposed. The charges are designed to produce $197,140 annually over the existing revenues of these services. The increases are intended to make the charges more cost oriented.

The Monroe, Altan, and Goose Creek exchanges have a rural rate increment charge of $1.00 for an individual-line main station and $.80 for a two-party main station. It is proposed in this order to eliminate this charge as the balance of the Company's service area has only a flat rate applicable for these services.

The color charge for telephone sets of 25 cents per month is proposed to be incorporated in the basic rate as this item has now become almost standard equipment.

A unique idea proposed by the company to bill semi-public subscribers for the monthly rate plus tolls with the subscribers to retain the coin box key and coins collected therefrom appears to be reasonable and should be tried.

Company's request for a $.20 charge for each five minutes' local call from pay stations rather than the existing $.10 is believed to be cost justified and reasonable.

13. That the schedules showing the derivation and application of these findings are set forth and included as part of these findings as follows:

GENERAL TELEPHONE COMPANY OF THE SOUTHEAST
Docket No. P-19, Sub 158
North Carolina Intrastate Operations
STATEMENT OF RETURN

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross Operating revenues	$19,085,971	$2,028,577	$21,114,548
Less: Uncollectibles	182,596	8,114	190,710
Total operating revenues	18,903,375	2,020,463	20,923,838

Operating Revenue Deductions			
Operation and maintenance expenses	6,660,474		6,660,474
Depreciation and amortization	3,38|,57|		3,38|,57|
Taxes other than income	2,565,|79	|2|,228	2,686,407
Income taxes - state and federal	522,|82	970,889	|,493,07|
Deferred income taxes	|,248,286		|,248,286
Investment tax credit - net	|54,640		|54,640
Interest on customer deposits	7-217		7,217
Total operating revenue deductions	14,539,349	$1,092,|17	$|5,63|,666
Net operating income for return	$ 4,363,826	$ 928,346	$ 5,292,|72
Original Cost Net Investment			
Net Plant in Service			
Telephone plant in service	$72,3|8,|6|		$72,3|8,|6|
Less: Accumulated provision for depreciation	||,629,930		||,629,930
Excess profits earned by Automatic Electric	|,079,000		|,079,000
Excess plant	532,763		532,763
Net telephone plant in service	59,076,468		59,076,468

Allowance for Working Capital		
Materials and supplies	39|,550	39|,550
Cash	40|,542	40|,542
	793,092	793,092
Less: Unpaid balance applicable to materials and supplies	39,248	39,248
Unpaid balance applicable to plant in service	|70,3|0	|70,3|0
Customer funds advanced	507,0|5	507,0|5
Customer deposits	|4|,696	|4|,696
Total allowance for working capital	(65,|77)	,65,|77)
Total original cost net investment	$59,0||,29|	$59,0||,29|
Fair value rate base	$62,995,409	$62,995,409
Return on fair value equity	7.04%	|0.|0%

GENERAL TELEPHONE COMPANY OF THE SOUTHEAST
Docket No. P-|9, Sub |58
North Carolina Intrastate Operations

Capitalization	Fair Value Rate Base	Ratio %	Embedded Cost or Return on Common Equity %	Net Operating Income
	Present Rates - Fair Value Rate Base			
Long-term debt	$28,738,499	45.62	7.48	$2,|49,640
Short-term debt	60|,9|5	.96	9.75	58,687
Cost-free capital	2,844,344	4.52	-	-
Preferred stock	5|3,398	.8|	4.64	23,822
Common stock	30,297,253	48.09	7.04	2,|3|,677
Total capitalization	$62,995,409	|00.00		$4,363,826

	Approved Rates - Fair Value Rate Base			
Long-term debt	$28,738,499	45.62	7.48	$2,149,640
Short-term debt	601,915	.96	9.75	58,687
Cost-free capital	2,844,344	4.52	-	-
Preferred stock	513,398	.81	4.64	23,822
Common stock	30,297,253	48.09	10.10	3,060,023
Total capitalization	$62,995,409	100.00	8.40	$5,292,172

GENERAL TELEPHONE COMPANY OF THE SOUTHEAST
Docket No. P-19, Sub 158
North Carolina Intrastate Operations

REVENUE REQUIREMENTS CORRELATED TO ORIGINAL COST AND FAIR VALUE COMMON EQUITY

Item	Original Cost Net Investment Prior to Adjustment for Fair Value Increment
Revenue Requirements:	
Gross revenues - present rates	$18,903,375
Additional gross revenue required to provide 11.4% return on original cost common equity	1,896,756
Total revenue requirements	$20,800,131
Net income available for return on equity	$ 2,999,697
Equity component	$26,313,135
Required return on common equity	11.40%

Revenue Requirements:	Fair Value Rate Base
Gross revenues - present rates	$18,903,375
Additional gross revenue required to provide 11.4% return on original cost common equity	1,896,756
Additional gross revenue required for fair value common equity	131,821
Total additional revenue	2,028,577
Total revenue requirements	$20,931,952

Net income available for return on equity	$ 3,060,023
Equity component	$30,297,253
Return on fair value equity	10.1%
Original cost common equity	$26,313,135
Actual return on common equity	11.63%

The Commission will now analyze and discuss the evidence advanced by all parties concerning each finding of fact and herewith makes its conclusions based on this evidence and sets forth the reasons and bases therefor.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The evidence as to the service provided by General which appears in this record consists of the testimony and exhibits of Claude O. Sykes, Vice President and General Manager for General's North Carolina operations, the testimony and exhibits of Gene A. Clemmons, Chief Engineer, Telephone Service Section of the Commission, testimony of nine (9) public witnesses at the hearings held in Monroe on November 1, 1974, the testimony of 58 public witnesses at hearings held in Durham on November 26 and 27, 1974, and the Company's report on customer service and billing complaints, Exhibit X, filed on January 22, 1975. Included in Staff Witness Clemmons' testimony is additional testimony offered by him on December 11, 1974, concerning his investigation into various of the complaints of the public witnesses who testified in Durham.

Staff Witness Clemmons testified to test results obtained by the Staff Field Audits on April 16 through April 24, 1974, June 24 through June 27, 1974, August 6 through August 8, 1974, and October 7 through October 16, 1974, in Durham, and July 22 through July 24, 1974, and September 25 through September 27, 1974, in General's Monroe District. Among the various tests made by the Commission Staff were noise and transmission measurements, testing of paystations, DDD, intraoffice and interoffice test calls, and review of the business office handling of customer contacts in both Durham and Monroe. Staff Witness Clemmons also offered exhibits showing the Company's results in 1974 for initial trouble reports per 100 stations, percentage of service orders handled by due date, percentage of out-of-service trouble reports cleared within 24 hours, subscriber held orders and regrades, subsequent trouble reports and monthly repeat trouble reports as a percent of total trouble reports, service index. These 1974 results were also offered by Company Witness Sykes. The results as shown by the Company's reports and the Commission Staff's audits through 1974 show that the level of service now being provided by General is greatly improved over the level of service in the past.

The 67 public witnesses who testified all had varying complaints, the most common of which were noise and static on the line, failure of both local and DDD calls to complete, wrong numbers reached when dialing, as well as calls received by the customer which were wrong numbers, cross-talk and other voices heard on one-party lines, as well as various complaints of billing of toll calls to the customer which were not made by the customer. Several of the public witnesses who appeared stated they had no service complaints, but were appearing only to protest the size of the Company's proposed increase.

The inspections made by Staff Witness Clemmons between the hearings in Durham and the final day of hearing in Raleigh on December 11, 1974, shows that the conditions complained of by some of the witnesses who were visited were difficult to duplicate, particularly the complaint associated with noise on the line and the failure of both local and DDD calls to complete. A review of Company Exhibit X, the report of the Company's investigation of the complaints made by the public witnesses, indicates that some mechanical problems with station equipment or central office equipment were found by the Company. While General has launched an extensive campaign to improve service there remains some dissatisfaction among customers as indicated by the public testimony. Thus continued supervision by the Commission is reguired to eliminate these vestiges of General's past poor performance, and to insure maintenance of the good level of service for those customers who are now benefiting from the improvements.

The Commission must balance the findings made by the Commission Staff Audits in 1974, the reports of service offered by the Company, which were consistent with the Staff finding, and the findings made by both the Commission Staff and the Company in investigating service complaints of the public witnesses with the fact that this Commission has found that in the past this Company did not provide adequate and efficient service. Reviewing the entire record and giving weight to the customer complaints as well as the problems described by both the Commission Staff and the Company in its Exhibit X, we conclude that General is presently providing reasonably adequate service. We further conclude that all of the service standards heretofore ordered by the Commission to be met by the Company in Docket No. P-19, Sub 115 and continued in Docket No. P-19, Subs 133 and 136 are presently being met by General, and such standards should continue in force.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The direct evidence in this case relating to excess margins was provided by Staff Witness Clemmons with rebuttal testimony provided by Company Witness Golombisky. In the two preceding rate cases involving General, the Commission has found excess plant margins as a result of inadequate planning and forecasting by General. Again in this case,

the Staff has presented evidence that excess margins still exist but at a lower level than in the past. The reduction has resulted from General's improved planning and flexibility in making equipment additions. We have found in the previous cases that the Staff has allowed reasonable engineering intervals to provide for variations in forecasted growth requirements and allow a well managed and operated company adequate flexibility to revise growth forecasts and equipment additions to meet customer requirements without resulting in insufficient or excessive quantities of equipment. We conclude in this case that the Staff has used the same reasonable engineering intervals as were used in the previous cases. In his testimony, Company Witness Golombisky basically agrees with the intervals used by the Staff. Witness Golombisky testified that General has margins exceeding the reasonable engineering intervals but not as much as stated by the Staff. General's explanation for differences in the Staff figures and the company figures results from a change made by General in the forecasted requirements subsequent to the end of the test year 1973 and the Company statement concerning the volatile demand in its service area. The exhibits filed by the Staff showing the demand and facilities capacity for typical General exchanges and comparable Southern Bell exchanges do not support the Company's contention of volatile demand.

Closer examination of the Demand and Facility Chart for the Durham Main Central Office shows that as late as June, 1974 (six months after the end of the test period), the forecasted growth would not equal the equipment capacity for more than four (4) years after the end of the 1973 test period. It is further found on the same chart that the equipment in service at the end of the test period was actually installed prior to the beginning of 1970. The same quantity of equipped lines and terminals was in service at the beginning of 1970 as was in service at the end of 1973. This means that equipment in service at the end of the 1973 test period had already met the growth requirements for at least four (4) years and would meet forecasted requirements for another four (4) years. This cannot be indicative of a volatile situation and would indicate that the Staff has been conservative in its findings of excess equipment.

The records show that Company Witness Golombisky testified that the linefinders-first selectors in the Triangle Centrex office which Staff Witness Clemmons found to be in excess would be utilized to meet an increased special requirement which was not known until July, 1974. We must observe that the staff has testified concerning this excess equipment in two previous rate cases but General admits that the excess equipment is still there. Further, we cannot agree that General's explanation justifies the excess since the Company witnesses testified that they did not even know of the now existing requirement until July, 1974, or approximately six months after the end of the 1973 test period. The excess equipment in this instance was provided at least six months before this special need was ever known and we cannot accept

such a practice as reasonable engineering. Company Witness Golombisky testified that excess equipment was being or had been removed from central offices subsequent to the end of the test period. For instance, reduction in linefinders-first selectors was being engineered for Parkwood; a reduction was made at Creedmoor during September, 1974; a reduction was made at West during June, 1974; and a reduction was planned at Lakewood during 1974. We would concur that excess equipment should be removed and relocated so that it will serve a useful purpose. However, the fact remains that this excess equipment had not been removed by the end of the 1973 test period and was not used and useful.

Based on the evidence in this record, we conclude that General had excess plant investment at the end of the test period in the amount of $532,763 which was not used and useful in rendering telephone service. We further conclude that the adjustments proposed by the Commission Staff Engineers and Accountants reasonably reflect the excess plant investment and that such proposed Staff adjustments should be made to eliminate the impact of the excess investment.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 5

Intercompany Transactions

The transfer prices for equipment and supplies between Automatic Electric Company and the North Carolina Division of General Telephone Company of the Southeast have been unreasonably high. The unreasonably high transfer prices have served to inflate the rate base of the North Carolina Division and to unnecessarily increase the cost of its operation. The unreasonableness of prices placed on intra-corporate exchanges of equipment and supplies between the affiliated companies (AE/NCD) was demonstrated both directly and indirectly by the Commission Staff.

The unreasonableness of transfer prices between AE/NCD was exhibited directly through price comparisons of comparable items of equipment exchanged between Western Electric and the Bell System as compared to prices charged by AE on sales to the NCD. For example, in a specific price comparison, a six-button rotary dial telephone with ringer purchased by the NCD from AE cost $61.05 before September, 1973 and $53.75 after that date, while the same telephone purchased by the Bell System from Western Electric cost $27.21 for the same periods. The cost to the NCD for 1973 was 124% higher before September and 97.5% higher after September than the cost to the Bell System.

Commission Witness Land presented 13 such comparisons for standard items. On average over these 13 items NCD was paying 41.1% more than Bell from January to May, 1973; 54.3% more from May to September, 1973; and 48.3% more from September through December, 1973. In comparisons of cable and central office equipment, items which are somewhat less

fungible than the previously mentioned specific price comparisons, Mr. Land presented data which reflect findings similar to those demonstrated by the specific price comparisons.

To the extent that they are comparable, the cable prices show the same patterns of NCD costs exceeding Bell costs. The average by which the NCD cable costs exceeded Bell cable costs was 74.8%.

Central office equipment is generally purchased in a package with a number of items included and with only the price of the entire package quoted; however, Witness Land found several individual items which provide a basis for comparison. These comparisons show, as did the previous comparisons, that the NCD cost for comparable items exceeded the Bell cost. In many cases the AE cost to the NCD was in excess of 100% higher than the Western Electric cost to Bell. In at least one instance, the NCD cost exceeded the Bell cost by 219%.

Mr. McKinney in rebuttal contended that Mr. Land was in error in comparing AE/NCD prices with those of Western Electric to Southern Bell. Mr. McKinney reasoned that items contained in Mr. Land's exhibits were not available from Western Electric to the independent telephone industry and, therefore, do not constitute a realistic comparison; that Mr. Land did not consider tax elimination and therefore, did not consider true net cost for the equipment and supplies purchased by GTSE-NCD from Automatic Electric; that NCD purchases compare favorably with purchases made by other independent telephone companies; that it is normal to expect some variances when comparing a variety of items for good and convincing reasons; that Mr. Land in his comparisons compared many unlike items; and that the lowest purchase price does not necessarily result in the lowest investment or the lowest cost of service. In considering the questions of comparability and the quality and cost of service, the Commission points to the testimony of Dr. Erickson. Included in Dr. Erickson's observations and supported by his direct testimony, and testimony and exhibits of Witnesses Reiser and Land, Dr. Erickson concludes:

"Because of the market dominance of AE, the comparison of the transfer prices between AE and NCD with other prices in the non-Bell market does not give sufficient information about the reasonableness of the transfer prices between AE and NCD.

"There are two ways to judge the reasonableness of the transfer prices between AE and NCD. These are:

a. Comparison of the AE/NCD transfer prices with prices for similar equipment in a market external to the non-Bell market dominated by AE, and

b. Comparison of the rate of return earned by AE with the rates of return earned by comparable manufacturing enterprise in markets external to the non-Bell market dominated by AE."

Dr. Erickson analyzed the non-Bell market for telephone equipment and supplies. AE sales account for nearly half of the volume of transactions in this market, and almost three-quarters of AE's sales are to affiliated General Telephone Companies. Dr. Erickson concluded that the economic theory of "dominant firm price leadership" was the relevant theory in such a situation. Dr. Erickson related the characteristics and pattern of market behavior of a dominant firm to the market behavior of AE, and demonstrated that comparisons of AE/NCD transfer prices with prices in the non-Bell market dominated by AE, are less meaningful than comparisons of prices in a market external to the non-Bell market. In essence, the AE prices themselves are a significant determinant of other prices existing in the non-Bell market. To compare AE/NCD prices to other prices in the non-Bell market would be almost as meaningless as comparing AE/NCD prices to AE/NCD prices. Price comparisons in a market external to the dominated non-Bell market are required. The price comparisons considered most meaningful are the exchange or transfer prices between AE and the NCD as compared to exchange prices between Western Electric and the Bell System. Again, as pointed out by Dr. Erickson, the comparison of AE/NCD transfer prices to other prices existing in the non-Bell market is "inherently circular".

Mr. McKinney raised a question relating to the cost and quality of equipment purchased by the Bell System from Western Electric as compared to the cost and quality of equipment purchased by the NCD from AE. Dr. Erickson noted that prices often tend to be directly correlated with quality, but that this does not seem to be the case with respect to the AE/NCD prices and quality in comparison with Western Electric prices and quality to the Bell system. It is often impossible to get quality without cost, but is possible to get cost without quality. If AE's equipment allowed the NCD to provide a higher quality of service at the same cost or the same quality of service at a lower cost in relation to the quality and cost of service to the Bell System, then this quality/cost differential would support the contention that the AE equipment was superior to that of Western Electric. However, the record does not show this to be the case. In fact, the evidence indicates, based on the degree of adequacy of past service that the high priced AE equipment is of lower quality than that of Western Electric. Dr. Erickson also points out that the total AE/NCD and WE/Bell price differential cannot be explained by manufacturing and distribution cost relationships, i.e., economies of scale, cost of capital, etc. Dr. Erickson testified,

"The General System is not as large as the Bell System and AE is not as large as WE. We would,

therefore, expect WE to have some cost advantage over AE, but the whole difference by which AE/NCD prices exceed WE/Bell prices cannot be explained by such WE cost advantages.

"This is because of the difference in the rates of return earned by AE and WE. Only if AE were earning the same rate of return as WE could the price differential by which AE/NCD prices exceed WE/Bell prices be explained by WE cost advantages. AE earns a higher rate of return than WE. Therefore, some of the difference by which AE/NCD prices exceed WE/Bell prices must reflect something other than manufacturing and distribution cost differentials."

Dr. Erickson identified this "something other" as "the unreasonable component of the AE/NCD prices."

With respect to Mr. McKinney's contention that Mr. Land compared many unlike items of equipment, the record does not show that Mr. McKinney took issue with the comparison between AE/NCD equipment and that purchased by the Bell System from Western Electric from a standpoint of like-kind equipment. Mr. McKinney's sole objection to the validity of the Bell/Western Electric comparisons rests on the lack of availability of equipment from Western Electric to the independent telephone industry.

In considering the propriety of the AE/NCD-WE/Bell price comparisons, the evidence presented indicates that the AE/NCD-WE/Bell comparisons are objective, valid, and infinitely more meaningful than AE/NCD prices as compared to prices in the non-Bell market dominated by AE. AE's dominance of the non-Bell market was exhibited, as previously indicated, by Witness Erickson in his presentation of the economic theory of "dominant firm price leadership".

Mr. McKinney also contended in his rebuttal testimony that Mr. Land did not consider tax elimination and therefore, did not consider true net cost for the equipment and supplies purchased by GTSE-NCD from Automatic Electric. However, under cross-examination Mr. McKinney testified that since Southern Bell uses the same tax elimination procedure as GTSE and that Western Carolina and Central Telephone Companies utilize a process similar in effect to the one used by GTSE and Bell, then price comparisons between those companies and GTSE are valid.

Indirectly, the Commission Staff exhibited the unreasonableness of the AE/NCD transfer prices most emphatically through comparisons of the return-on-equity earned by AE with the return-on-equity earned by comparable manufacturing companies, including Western Electric.

To interpret the impact of the return-on-equity comparisons in relation to the unreasonableness of AE/NCD

transfer prices, it is essential to understand: the market structure and the economic environment in which AE conducts its manufacturing and marketing operations; the accounting theory in support of the accounting method employed in determining AE's equity and return-on-equity, thereby insuring the comparability of the various return-on-equity comparisons; the direct correlation between the unreasonableness of AE/NCD transfer prices and the excess profits earned during the 15-year period, 1959 - 1973, measured in terms of return-on-equity to AE.

The non-Bell market for telephone equipment and supplies is not a free and competitive market. This lack of competition results from market dominance by AE and the existence of sales between affiliated companies (AE/NCD). Such sales do not represent arms-length transactions.

Dr. Erickson in elaborating on the importance of arms-length bargaining testified,

> "Arms-length bargaining is an important condition for satisfactory performance in free and competitive markets. When transactions are made at arms-length between completely independent buyers and sellers, each buyer has a very strong incentive to find the lowest possible price from any of the alternative independent sources of supply.
>
> "On the other side of the market, sellers are searching for buyers. One of the ways sellers have of increasing the probability that they will find buyers (or be found by buyers) is to quote the lowest possible prices."

Dr. Erickson, in commenting on the absence of arms-length bargaining testified,

> "In the absence of independent buyers and sellers, on each side of the market, the incentives are for affiliated buyers and sellers to set transfer prices which maximize the profits of the joint, combined affiliated operation. I believe such a relationship exists between AE and NCD."

Mr. Reiser's testimony and exhibits lend support to Dr. Erickson's evaluation and conclusion that the non-Bell market for telephone equipment and supplies is not a free and competitive market but a market dominated by AE, and the conclusion that the incentives are for AE and NCD to set transfer prices which maximize the profits of the joint, combined affiliated operation.

Mr. Reiser's exhibits show that over 69% of AE's total sales during the 17-year period, 1957 - 1973, were to the affiliated telephone companies of General Telephone and Electronics Corporation; that over 78% of AE's total sales to domestic telephone companies have been to domestic affiliated telephone companies; that AE sales to the GTE domestic affiliated telephone companies have increased from a low of approximately 52% in 1957 to a high of

approximately 80% in 1971; that sales to domestic non-affiliated telephone companies have decreased from approximately 35% in 1957 to a low of 11% in 1970.

GTE's acquisitions of other independent telephone companies have undoubtedly been a contributing factor in the pronounced increase in AE's sales to the affiliated telephone companies of GTE. As pointed out by Dr. Erickson, these acquisitions of potential customers of non-AE firms in the non-Bell market have served to insulate AE's share of the market from erosion, and confirms the pattern of "dominate firm price leadership". Dr. Erickson testified,

> "The significance of this pattern is that the increasing control by General System companies of the non-Bell market has tended to provide AE with an insulated market of sales to affiliated companies who are also subsidiaries of the same parent holding company. As the control of the non-Bell market by General System companies has increased, dominance in this market by AE has also increased in a step-by-step fashion. In 1957, 52.6% of AE sales were to the General System and the General System controlled 31% of the non-Bell market. In 1969, 74.0% of AE sales were to the General System, and the General System controlled 46% of the non-Bell market. The GTE/AE/NCD combination has been able to make the dynamics of 'dominate firm price leadership' work in its favor via a continuous extension of control over the non-Bell buyers of telephone equipment and supplies."

Commenting on the "Bell Consent Decree" and its effect on the non-Bell market dominated by AE, Dr. Erickson testified,

> "My conclusion regarding the dominant position of AE is strengthened by the existence of a restraint on sales by Western Electric (WE). WE would be a natural alternative source of supply in the absence of such a restriction. The restriction actually contributes to the dominant market position of AE."

The unreasonableness of AE/NCD transfer prices was further evidenced by Mr. Reiser's return-on-equity comparisons. Mr. Reiser, in comparing the return-on-equity of AE to companies engaged in similar manufacturing activity, found AE earnings to be consistently higher than the weighted-average earnings of comparable companies. The weighted-average return on equity of the 78 companies, AE and WE compare as follows:

	Return on Net Worth		Funded Debt % Total Capital	
	1972	1973	1972	1973
78 Companies	13.9%	14.4%	27.6%	26.9%
Automatic Electric	14.7%	16.9%	11.5%	10.2%
Western Electric	9.7%	10.5%	20.0%	23.9%

AE's return on average-shareholder equity for the 16-year period, 1958-1973, averaged 20.4% with a high-low range of 40.8% in 1965 to 14.2% in 1973.

The weighted-average earnings on equity of the 78 comparable companies as found in The Value Line Investment Survey for the years 1972 and 1973 was 13.9% and 14.4% respectively.

It is easily observed that AE's return is higher than that of the 78 companies and substantially higher than that of WE, notwithstanding the fact that AE's ratio of funded debt to total capital is far lower than that of the 78 companies and WE.

Dr. Erickson, in commenting on the relationship of funded debt to total capital, testified,

> "The standard interpretation is that the lower the ratio of funded debt to total capital, the less risky is investment in the firm. The less risky is investment, the lower the rate of return required to attract capital. Although AE has a lower funded debt to total capital ratio, AE actually has a higher rate of return. This higher rate of return cannot be considered to be a risk adjustment for a debt-heavy capital structure."

Mr. Kircos testified that profit rates vary widely between industries and,

> "the average for all industries or all manufacturing industries cannot logically be used to compare the appropriateness of earnings for any one industry or company included in the total."

While Mr. Kircos' statement may be true, it is irrelevant because Mr. Reiser's comparison of AE's return-on-equity was not with all industries or all manufacturing industries, but with the electrical equipment/electronics industry. Mr. Kircos did not take exception to Mr. Reiser's comparison of AE's return-on-equity to that of Western Electric. These comparisons are found to be both valid and meaningful.

Mr. Kircos, in his Exhibit 1, Schedule 7, Page 1 of 1 presents for the 6-year period, 1968 - 1973, the rate-of-return on common equity for several manufacturing companies which he considers to be comparable to AE, and the average return on common equity for Electrical Equipment Manufacturers Group and for Electric-Electronic Major Manufacturers Group as reported by Standard and Poor's. As indicated by Mr. Kircos in his testimony, the nine companies he considers to be comparable to AE and the eight companies to which he refers as, "Other successful companies in the Electrical Machinery, Equipment and Supplies Industry Group" were subjectively selected, therefore, obviously subject to bias, from the Electrical Machinery, Equipment and Supplies

Industry Group as classified by the Securities and Exchange Commission.

Below is a comparison of AE's return on average common equity as computed by Mr. Kircos and the Staff for the 6-year period, 1967-1972, with the average return on equity of the Electrical Equipment Manufacturers Group and the Electric-Electronic Major Manufacturers Group as reported by Standard and Poor's and as shown in Mr. Kircos' exhibit.

	Average Return on Common Equity					
Company or Grouping	1972	1971	1970	1969	1968	1967
Electrical Equipment Manufacturers Group	15.7%	14.6%	14.7%	15.9%	15.8%	15.4%
Electric-Electronic Major Manufacturers Group	14.5%	13.7%	12.3%	13.1%	13.9%	14.6%
Automatic Electric (Kircos - including goodwill)	10.6%	12.0%	10.0%	13.2%	12.5%	12.2%
Automatic Electric (Staff - excluding goodwill)	14.2%	16.3%	13.9%	18.9%	18.4%	20.1%

As shown by the above comparison, with the exceptions of 1970 during which AE's profits were adversely affected by a prolonged strike and 1972, AE's return-on-equity (computed by the staff) was substantially higher than the average return of the comparable industrial groupings included in Mr. Kircos' exhibit. It is interesting to note that AE's return-on-equity, as shown in Mr. Reiser's Exhibit No. 2, Schedule 8, Page 1 of 2, reached a high of 40.8% in 1965.

As mentioned and shown above AE's return-on-equity as computed by the staff does not include the pro forma recording of the intangible asset goodwill as a component of common equity, nor has the staff reduced net income to reflect the amortization of such goodwill. AE's return-on-equity computed by Mr. Kircos includes a pro forma adjustment increasing common equity (e.g., in 1970 common equity was increased $66,050,732) to include goodwill and a pro forma adjustment decreasing net income (e.g., in 1970 net income was decreased $2,385,620) to reflect the amortization of such goodwill.

Mr. Kircos maintained that the pro forma adjustment increasing common equity to include goodwill and its subsequent amortization is in keeping with the American Institute of Certified Public Accountants' Accounting Principle Board Opinions No. 16 and 17. Mr. Kircos stated that if Opinion Nos. 16 and 17 had been in effect at the time of the acquisition of Gary and AE by GTE, GTE would have been required to adopt the purchase method in recording its investment in AE. However, Mr. Kircos failed to mention that at the time of acquisition, GTE had the option of recording its investment under either method, and elected

the pooling of interests method, presumably to the advantage of GTE. Mr. Kircos mentioned that Opinion Nos. 16 and 17 were issued in August of 1970; however, he failed to mention that each opinion clearly and specifically states,

"The provision of this opinion should not be applied retroactively for business combinations consummated before November 1, 1970."

As indicated in Kircos' Exhibit 1, Schedule 1, Page 1 of 4, controlling interest in AE was purchased by GTE in 1955 and the minority interests were subsequently acquired in 1960 and 1961.

As previously indicated the companies presented by Mr. Kircos in his comparisons were subjectively selected and obviously subject to bias. It is presently noted that the equity of several of these companies included goodwill and several did not. With respect to Mr. Reiser's comparisons, the intangible asset goodwill was not included in the equity of the 78 companies, the 36 companies, AE or WE.

Dr. Erickson commenting on goodwill testified,

"The goodwill in question is the excess over book value paid for AE by GT&E. This excess in part reflects the prospective value to GT&E of AE as a supplier to the General System operating companies. The record shows that AE was given an increasing share of the General System companies' requirements. As will be discussed in more detail below, the transfer prices involved in this business have been unreasonably high. The decisions regarding this patronage are made within the GT&E family. The value of this patronage would be reflected in the price that GT&E would be willing to pay for AE, and thence in the amount of 'goodwill' carried on the books. To include this goodwill for the purposes of the rate of return calculations reported here would be circular."

Mr. Kircos maintained that it is extremely difficult to draw any meaningful conclusions from comparisons of return-on-equity between industrial companies. However, it is an incontestable fact that every segment of the investment community, including the analyst, investor and issuing company, attach major significance to such key financial ratios as return-on-equity, earnings-per-share, price-earnings, etc.

With respect to GTE investment in AE as indicated by Witnesses Reiser and Kircos, goodwill is not now and never has been reflected on the books and records of GTE. GTE in financial reports to stockholders and other members of the financial community has never included goodwill arising from the acquisition of AE on its balance sheet and has never recognized its amortization on the income statement. To have done so would have had an adverse effect on GTE's relative profitability measured in terms of return-on-

equity, price-earnings, earnings-per-share, or any other of several "financial yardsticks".

The evidence presented indicates the above average rate of return-on-equity earned by AE is indirect and valid evidence that the transfer prices charged by AE to the NCD are unreasonably high. This finding is consistent with the direct price comparisons made and is supported by cost-quality differentials and the findings on adequacy of service.

Other state regulatory commissions have exercised jurisdiction over affiliated intercompany transactions. Two methods employed by the various commissions in controlling the profits included in the transfer prices of products and services furnished regulated companies by affiliated interests have been to either limit the rate of return on investment of the supplier affiliate to the rate of return on investment allowed the utility or to limit the earnings of the supplier affiliate to a reasonable rate of return-on-equity.

In a recent decision the North Carolina Supreme Court upheld this Commission's Order limiting the rate of return-on-equity of Automatic on transfers of equipment and supplies to General. In the court's opinion there was sufficient evidence to support the finding that,

> "GTE has consistently used its complete control over its two subsidiaries so as to cause General to pay excessive prices to Automatic, thus decreasing General's rate of return while increasing the profits of its only stockholder."

Mr. Reiser presented what he considered to be the "excess profits" earned on intercompany transfers of equipment and supplies between AE and the NCD based on the concept of limiting the earnings of the supplier affiliate to a reasonable return-on-equity. Both Dr. Brickson and Mr. Reiser recommended that the rate of return on investment on intercompany transactions between AE and the NCD be limited to 12%. The 12% rate of return is equivalent to the five-year average rates of return earned by the 36 companies presented by Mr. Reiser and exceeds the rate of return on net worth earned by Western Electric. Mr. Reiser, as an alternative and his second choice, recommended that AE be limited to a 15% return-on-equity on AE/NCD intercompany transactions.

The Commission concludes that transfer prices placed on exchanges of equipment and supplies between the Applicant and Automatic Electric, Incorporated were determined in the absence of arms-length bargaining and that the affiliated buyer (Applicant) and seller (AE) set transfer prices which maximize the profits of the joint, combined, affiliated operation. AE's dominance of the non-Bell market and the above average rate of return-on-equity earned by AE is

indirect and valid evidence that the transfer prices charged by AE to the Applicant are unreasonably high. The unreasonableness of the transfer prices is further evidenced by the direct price comparisons and is supported by cost/quality differentials and the findings on adequacy of service. The unreasonably high transfer prices have served to inflate the rate base of the Applicant and to unnecessarily increase the cost of its operation. The Commission concludes that the transfer prices placed on exchanges of telephone equipment and supplies between the Applicant and AE have been unreasonable and excessive to the extent they produce a rate of return on AE's common equity in excess of 12 percent. The Commission cannot permit parent holding companies to use affiliated companies as a device for transmitting an unreasonable level of profits to such parent holding company from goods or services supplied the operating company by way of an affiliated company (G.S. 62-153).

Staff Witness Reiser originally filed his testimony and exhibits (Reiser Exhibit 2, Schedule 4, Page 2 of 2) using similar adjustments made in Docket No. P-19, Subs 133 and 136, but later offered an amendment to his testimony and added Reiser Exhibit 2, Schedule 16. Staff Witness Reiser gave as his reason for changing the method in making the adjustment the fact that for a number of years, there was no finding of excess profit and during those years, the depreciation expense charged by the Company on the original cost of the plant represented by the excess profits was included in the cost of service on which rates were determined. Witness Reiser concluded that since the ratepayers had already paid for the depreciation expense which became depreciation reserve, in his opinion, it was only fair that the ratepayers should now get the benefit of that plant without depreciation. In Docket No. P-19, Subs 133 and 136, the Commission did make an adjustment to the test year depreciation expense thus reducing the depreciation reserve and increasing the net adjustment made for Automatic Electric's excess profits. We conclude that it is not appropriate to change the adjustment made in Docket No. P-19, Subs 133 and 136 to make further deductions from the depreciation reserve for excess profits. We therefore conclude that General's intrastate net investment in utility plant in service should be adjusted to exclude intrastate "excess profits" in the amount of $1,079,000 resulting from intercompany transactions between AE and General. The adjustment is based on the excess of the depreciated remaining original cost and the concept of limiting the earnings of the supplier affiliate to a reasonable rate of return-on-equity. A reasonable rate of return-on-equity to AE on transfers of equipment and supplies between AE and the NCD is found to be 12%. Any rate of return on equity earned by AE on its intercorporate transfer of equipment and supplies to General in excess of 12% is unjust and unreasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

There are two basic questions raised in Mr. Reiser's testimony concerning the directory company:

1. Should directory activities for corporations the size of General Telephone Company of the Southeast and its parent be considered an integral part of telephone operations?

2. Has the directory company been charging the operating companies a fair price for its services?

Mr. Reiser testified that the Bell System has not created a separate corporation to handle the directory advertising sales function. It was brought out that some parts of the Bell System contract the directory sales function to independent companies. After General Telephone and Electronics acquires an independent company, that new subsidiary switches to the use of General Telephone Directory Company so that now 100% of the operating companies use the General Telephone Directory Company. With no market competition within the General Telephone System with respect to directory companies there is little assurance that the telephone operating companies achieve the maximum contribution to net income associated with the issuance of telephone directories. Mr. Reiser stated that General Telephone and Electronics Corporation would have the Directory Company treated as a nonutility entity permitting it to earn any profit it considers fair. The company witness agrees with this assessment for Mr. Weber stated "...the return that we are earning is not important in the consideration." (Volume VIII, Page 223) Mr. Reiser testified that he believed that directory sales are a utility function for the larger independent companies as they have the capability to provide this activity in-house. Mr. Weber stated that the directory company would be better able to optimize market potential in the sale of advertising and the manpower to handle unexpected or usual demands. He stated that only 36.5% of the sales days available to the Durham based sales force were used on North Carolina directories and the sales days used per month varied from 80.5% to 0%. Mr. Reiser never contended that the North Carolina Division should operate the directory sales but rather that General Telephone Company of the Southeast or the parent has such ability.

Mr. Reiser proposed that nonmanufacturing affiliated companies such as General Telephone Directory Company be limited to a return equal to the return allowed the North Carolina Division. If the return of the telephone company were limited to 12% return on equity, then the intrastate operating revenues should be increased $18,367.

There are two types of contracts under which the directory company operates: (1) publishing contracts in which the directory company either prints or contracts to print the

directory (2) sales contracts in which the telephone company pays directly for the printing. This would mean if everything else were equal the retention rate on sales contracts should be higher than on publishing contracts and also cost on sales contracts should be lower. Also, the return on sales contracts and publishing contracts are approximately the same. Mr. Weber stated that all affiliated companies sign publishing contracts but that some nonaffiliated companies sign sales contracts. Mr. Weber was asked why a number of nonaffiliated clients did not have the printing performed by the directory company and he indicated that he did not know the reason. If telephone company management are rational businessmen there can be but one logical reason, the total cost to the business will be less.

In Mr. Reiser's Exhibit 2, Schedule 13, it is shown that for the three-year period studied the directory company has earned more than twice the return on gross directory advertising revenue from domestic affiliated telephone companies as compared to nonaffiliated telephone companies. The cost per dollar of directory revenue has been consistently higher for nonaffiliated companies as compared to domestic affiliated companies while the publishing rights have been approximately the same for nonaffiliated and domestic affiliated companies. Thus the directory company's return on sales has been consistently higher for domestic affiliated companies. This would imply the directory company is willing to accept a lower net income per dollar of net revenue from nonaffiliated companies as compared to domestic affiliated companies. However, Mr. Weber stated that there are many variables which would make comparisons between affiliated and nonaffiliated companies difficult and the directory company is striving to increase its return from nonaffiliated companies.

The Commission concludes the company has the responsibility to substantiate that its costs are reasonable and necessary. The company has not offered sufficient information to justify the directory company's earning twice as much on affiliated directory activities as on nonaffiliated activities. The Commission therefore concludes that the affiliated companies are being overcharged.

It is a matter of Commission policy that the return earned by affiliated suppliers, unless we have ruled otherwise because of different conditions, be limited to a return of approximately the return earned by the regulated utility. For example, Mill Power Supply Company in its sales to Duke Power Company is currently limited to a return based on current money cost. Likewise, General Telephone Company of the Southeast or its parent has the ability to directly perform the directory sales function and should be limited to a return of approximately the same level as the operating company. A return of 12% on equity would be appropriate and this will increase intrastate operating revenues by $18,367.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

Staff Witness Reiser separated General's North Carolina operations into local operations as well as total intrastate operations. This is the first time that such a separation between local and intrastate toll has been prepared and offered by the Staff. General opposed the use of local operating results for ratemaking purposes in this case. Staff Witness Reiser testified that local operations were available because General uses the NARUC-FCC Separations Manual to allocate local and toll investment and expenses on an intrastate basis for purpose of its settlement under a division of revenues contract with the Bell System. Staff Witness Reiser recommended the use of local results for two reasons. These were (1) since the proposed rate changes relate to local revenue, only the cost of service related to local operations should be used in determining the need for additional revenue, and (2) Southern Bell Telephone Company does have an intrastate toll rate case before this Commission in which an increase in toll rates, if granted, will have some effect on General under the division of revenues settlement contract.

General brought out on cross-examination of Staff Witness Reiser that the above constitutes his opinion only and is not based on either a rule or regulation of this Commission, on any prior cases before this Commission, or upon the experience or practice of other state regulatory commissions.

Since the Southern Bell intrastate toll case now pending has been delayed to an indefinite future date, the Commission will forego a decision on the propriety of Mr. Reiser's theoretical arguments and set rates in this case on the basis of intrastate operations.

The Commission will now analyze the testimony and exhibits presented by Company Witness Gawronski and Staff Witness Reiser concerning the net investment in telephone plant in service. The following chart summarizes the amount which each of these witnesses contends is proper for this item:

Item (a)	Company Witness Gawronski (b)	Staff Witness Reiser (c)
Investment in telephone plant in service	$72,318,161	$72,318,161
Less: Accumulated depreciation	$11,629,930	$11,508,080
Accumulated deferred income taxes		2,445,438
Unamortized investment tax credit pre-1971		567,994
Deferred taxes classified as current liability		62,888

Overaccrual of Federal income taxes		535,458
Overaccrual of property taxes		83,526
Excess profits earned by Automatic Electric		1,215,000
Excess plant		532,763
Total deductions	$11,629,930	$16,951,147
Net investment in telephone plant in service	$60,688,231	$55,367,014

As shown in the above chart, the witnesses disagree in all respects except investment in telephone plant in service.

The company witness Gawronski's accumulated depreciation of $11,629,930 represents the year end balance in the account plus an amount attributable to the end-of-period adjustment to depreciation expense. Witness Reiser failed to make the end-of-period adjustment to accumulated depreciation. The Commission concludes that accumulated depreciation should be $11,629,930.

The next items of controversy relate to Witness Reiser's deduction from investment in utility plant in service the investment supported by noninvestor-supplied capital. The controversy surrounds the ratemaking principle espoused by Witness Reiser that a regulated utility should be allowed an opportunity to earn a fair rate of return on investment in telephone plant in service which is supported by capital provided by the debt and equity investors; and that a utility should not earn a return on investment provided by capital obtained from sources other than the debt and equity investor.

The first noninvestor-supplied item of capital deducted by Witness Reiser in his calculation of net investment in telephone plant in service was accumulated deferred income taxes. The normalization of the tax effect of the difference in book depreciation expense (straight line) and tax depreciation expense (accelerated) results in showing an income tax expense in the income statement which has not actually been paid and a resultant tax liability in the accumulated deferred income tax account on the balance sheet. This balance in the accumulated deferred income tax account represents income tax expense deferred to later periods and will remain until the book depreciation exceeds the tax depreciation.

The next item of noninvestor-supplied cost-free capital deducted by Witness Reiser in arriving at the net investment in telephone plant in service was the unamortized balance of the investment tax credit realized under the Revenue Act of 1962 in the amount of $567,994. Witness Reiser testified that Congress passed a Law in 1962 which generally allowed utilities to reduce their Federal income tax liability by 3%

of the cost of qualifying property. This Commission issued a general rulemaking order which permitted utilities to follow what is commonly referred to as "Normalization Accounting" for investment tax credits. By this accounting procedure the company reflects for financial reporting and regulatory purposes a greater Federal income tax expense than it actually incurs. Concurrently, a corresponding credit is set up on the balance sheet in an unamortized investment tax credit account to reflect the difference between the normalized book income tax expense and the actual income tax liability. The investment tax credit is then amortized as a reduction to book Federal income tax expense over the useful life of the qualifying property. The unamortized balance of the investment tax credit represents a source of cost-free capital which has been provided by the ratepayer.

This is so because in setting rates the Commission has consistently included the normalized book Federal income tax expense in the company's cost of service. This cost of service or for that matter the cost of service of any public utility is defined as the sum total of proper operating expenses, depreciation expense, taxes, and a reasonable return on the net valuation of property. It would be inequitable and unreasonable to include in this utility's cost of service a return on investment supported by noninvestor-supplied capital.

Mr. Reiser was asked under cross-examination: "Is there any difference in your treatment of deferrals in the rate base as a deduction and Mr. Orstad's treatment of the deferrals in capital structure as cost-free capital?" His answer was: "Yes, there would be a difference, the difference being if you show the deferrals as an item in the capital structure, you end up allocating some of the cost-free capital to construction work in progress, although the deferrals come into being based on the plant already in service, and therefore, should relate to the plant that is already in service." (Volume IV, page 238)

Mr. Gawronski used the capital structure of Mr. Orstad, the company cost-of-money witness. They used a company-wide capital structure for cost of money which includes the two items as deferrals and assigns a zero cost basis thereto. Mr. Orstad did not speak to the subject but Mr. Gawronski stated: "...unamortized investment credit, and accumulated income taxes...are all components that could make up a portion of the net investment,...the investment credits and deferred taxes could be used as a capital component at a cost-free rate." (Volume II p 145)

Deferred taxes in the amount of $62,888 were misclassified in the balance sheet of the company as a current liability. Actually this balance should have been a part of accumulated deferred income taxes. The company did not question staff witness Reiser about this adjustment to rate base.

Based on the evidence presented, the Commission finds that the accumulated deferred income taxes, the unamortized balance of the investment tax credit realized under the Revenue Act of 1962, and the deferred taxes misclassified in the balance sheet of the company as a current liability are items of noninvestor-supplied capital. This noninvestor-supplied capital should be included in the capital structure of the company at zero cost.

With regard to this treatment the Commission makes the following remark. The Commission will in the near future invite some of the major utilities to discuss the merits of whether these cost-free items should be deducted from the rate base or put into the capital structure at zero weight as the Commission decided was appropriate in this docket.

The next two items comprising noninvestor-supplied capital are the overaccrual of Federal income taxes of $535,458 and the overaccrual of property taxes of $83,526. The company's tax accountant was unwilling to explain during the staff audit the Federal income tax overaccrual and unable to explain the property tax overaccrual. Staff Witness Reiser stated under cross-examination that he could not prove that the overaccruals on the books resulted in ratepayers having been overcharged, however, the overaccruals did occur during some of the years in which noncalendar rate case test periods existed. As no rate case adjustments were found to the book balances, he presumed that a higher expense rate was used than the actual or effective tax rate. (Volume IV p 240-245)

The Commission concludes that since the income tax overaccrual and the property tax overaccrual have not been explained by either the Commission Staff or the company to the Commission's satisfaction, these amounts will be left untreated in this proceeding. The Commission admonishes the company that a complete explanation of overaccruals is expected in the next rate case.

The next item of contention between Mr. Gawronski and Mr. Reiser is the reduction of net investment in telephone plant in service for excess profits earned by Automatic Electric on sales to GTSE. This item was discussed at length above.

The last adjustment made by Witness Reiser is for the excess plant net of allowed reserve found by staff Witness Clemmons in his investigation. Mr. Clemmons testified that his review of the quantity of lines and terminals installed in plant of General Telephone Company which exceeded the requirements for a reasonable engineering period was estimated to be $277,000. The witness' estimation of excess investment in trunks, linefinders-first selectors, and connectors which were installed at the end of the test period but not required by the traffic load was $429,650. These two adjustments of Mr. Clemmons total $706,650 and the intrastate amount of Mr. Clemmons' adjustment would amount to $532,763. The excess plant net of allowed reserve

offered by the company in the rebuttal testimony of its Director of Engineering, Daniel L. Golombisky on an intrastate basis was $335,041. Mr. Golombisky testified that growth in 1974 and new usage studies made by the company between December 31, 1973 and the date of the hearing indicated that such growth was reducing the excess equipment margins to the amount he stated. The Commission concludes that the adjustment made by Clemmons is appropriate. Based on the evidence presented by the witnesses, the Commission concludes that net investment in telephone plant in service is $59,076,468.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

Working capital is a term which has different meanings to different groups; however, the generally accepted accounting definition is as follows: Working capital, sometimes called net working capital, is represented by the excess of current assets over current liabilities, and identifies the relatively liquid portion of total enterprise capital which constitutes a margin or buffer for meeting obligations within the ordinary operating cycle of the business.1/ From a regulatory point of view, working capital represents an investment in materials and supplies plus the cash required to pay operating expenses prior to the time revenues for services rendered are received. The reason for including an allowance for working capital in the rate base is to compensate the investor with a return on the capital furnished by him for these purposes.

1/ Par. 2031.03 APB Accounting Principles. Current text as of June 30, 1973

There are three basic methods that could be used to determine working capital requirements properly includible in the rate base. The simplest method is the FPC method or Formula Method. The staff has been using two different types of studies to arrive at a working capital requirement figure. One type of study is a "balance sheet analysis" which is intended to show the working capital furnished by investors. The purpose of the "balance sheet analysis" approach is to compare capital supplied by investors to the rate base. Another type of study is a "lead-lag study" which measures the funds furnished by either customers or investors, as the case may be, to meet the day-to-day cost of providing service to the customers. The study is made by calculating an average revenue lag interval and an average cost lag interval. If the study shows revenues are collected after costs are paid, then that means the investor will have to furnish some funds to meet these costs. On the other hand, if revenues are collected before the costs are paid that means the company has available customer funds which may be used to finance plant, materials and supplies and other cash needs on a continuing basis.

The company and the staff witness both used the end-of-period materials and supplies; however, the staff reduced

working capital for the unpaid balance applicable to these materials and supplies in the amount of $39,248 and for the unpaid balance applicable to plant in service in the amount of $170,310.

The company's cash working capital consisted of cash computed by the "FPC Method by taking 1/12 of the annual operating expenses plus average prepayments less average tax accruals and average customer deposits.

Staff Witness Reiser testified that customer funds advanced through operations, a working capital item totaling $791,830 should be deducted in arriving at a rate base. This figure was provided by Staff Witness Coleman, who prepared a lead-lag study from data furnished by the company which showed revenue on average was collected 18.61 days after service was rendered, and expenses were paid 34.00 days after service was rendered. This demonstrated that revenues were collected from the customer on averages of 15.39 days (34.00-18.61) before expenses were paid. He determined that on the average, funds received from customers per day were $49,533 and this figure multiplied by the 15.39 days advance payments indicate that $762,313 was made available by the customer prior to the time expenses were paid. In addition to the $762,313, the study showed that $18,249 in customers excise taxes and $11,268 in employee withholding taxes were available to the company before payments to the government. The company did not seriously challenge the use of the lead-lag study, however, the company did offer a series of cross-examination exhibits intended to show several corrections made necessary by errors in Company data furnished the Commission Staff as well as a correction to Staff Witness Coleman's testimony and exhibits to add in prepayment of certain deferred expenses billed to General by its Data Processing affiliate. The effect of the changes offered by General and accepted by Staff Witness Coleman are to reduce the deduction for customer funds advanced from $791,830 to $507,015.

Staff Witness Reiser's last item of working capital was a reduction for the end-of-period customer deposits of $141,696.

The Commission, which in the past has used a formula method in determining working capital, finds the lead-lag approach of computing working capital to be the superior method of estimating the actual working capital need of the company. It is also appropriate to reduce the reasonable balance of materials and supplies by the unpaid for balance of said materials and supplies, and also reduce the working capital requirement for end-of-period customer deposits and the unpaid balance applicable to plant in service. These three deductions are appropriate because they represent funds provided, at the end of the test period, by noninvestors and to do otherwise would permit common equity investors to earn a return on capital which they have not provided. The Commission concludes that the sum of the

total working capital items results in a negative working capital allowance of ($65,177) and should be deducted in arriving at the fair value rate base.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

Evidence of replacement cost was presented by Company Witness Holmstrom and by Staff Witness Clapp. Both witnesses determined the net trended original cost at December 31, 1973 for General's investment in North Carolina in accordance with G.S. 62-133(b)(1) by trending the reasonable depreciated cost to current cost levels. Staff Witness Clapp's net trended cost study differed from that of General's Witness Holmstrom in that the former made an adjustment for the excess profits to Automatic Electric recommended by Staff Witness Reiser and adjusted for the net trended cost of the adjustments for excess margin recommended by Staff Witness Clemmons. The Commission has previously indicated that such adjustments to net trended cost must be taken into consideration in arriving at replacement costs.

Since we have previously made findings that excess profits of Automatic Electric on sales to General should be excluded from the net investment in utility plant in service, it is appropriate that in determining the net trended cost, such an adjustment should be taken into consideration. Staff Witness Clapp's Exhibit 13 provides a reasonable method of trending such adjustments for purposes of deduction from net trended original cost. The company proposed an adjustment for excess profit of only $945,320, the Commission has concluded above that the appropriate adjustment to be $1,079,000.

The appropriate reduction in original cost for excess margins on an intrastate basis should be in the amount of $532,763. The company proposed an adjustment of $382,234.

The remaining adjustment to net trended original cost proposed by Staff Witness Clapp was to the determination of the depreciation reserve applicable to the trended study. General, through its Witness Holmstrom, used what is described as an aged depreciation reserve, that is the dollars accrued to the depreciation reserve were placed in the year in which the accrual to the reserve took place. Staff Witness Clapp used a vintage reserve method, which attempted to place the accrued dollars of depreciation for each unit of plant in the year of placement for that surviving plant unit. Staff Witness Clapp also used three separate depreciation reserves: (1) the reserve used by the Company, (2) the theoretical reserve used by the Company to age its depreciation reserve, and (3) a depreciation reserve calculated using the actual rates of depreciation for the years over which the trending study took place. Staff Witness Clapp gave as his reason for using a vintage depreciation reserve the fact that he was attempting to match the dollars in the depreciation reserve with the

dollars in the plant to get the replacement cost. The only authority given for such methods was an accounting research study, Number 6, of the American Institute of CPA's. Mr. Clapp, in the course of his investigation, had failed to take into consideration that in 1968, this Commission refused to permit General to charge higher depreciation rates than are presently in existence. While Staff Witness Clapp's studies are meritorious and show the effect of theoretical reserves, we cannot accept his adjustment to the depreciation reserve proposed in the Company's net trended original study for the reason that the orders and rules of this Commission require that General use the approved depreciation rates and accrue depreciation expense on a straight-line basis, rather than accruing the anticipated depreciation expense over the useful life of a unit of plant in the year of placement of that unit. Any use of Commission Witness Clapp's methods would require this Commission to make substantial additions to the depreciation expense used in the case to match the current dollars of depreciation expense with the trended dollars of depreciation reserve as computed by Staff Witness Clapp. We find that such an approach would not be appropriate and further find that the trending of the depreciation reserve made by General's Witness Holmstrom is an appropriate method.

The Commission, in Docket No. P-19, Subs 133 and 136, gave minimal weight to the evidence of net trended original cost presented by the same Company Witness Holmstrom. The record in this case containing Holmstrom's testimony as well as the testimony and cross-examination of Staff Witness Clapp, shows that the method of placing the surviving dollars of telephone plant in service into the year of placement in those accounts where no actual mortality data is available is consistent with the method used by various telephone utilities and commissions in determining depreciation rates and in making such studies as this throughout the country. While the Commission would prefer actual mortality data for all accounts, it is recognized that such studies would be so expensive and time-consuming as to not be in the public interest.

The company proposed a net trended original cost, as adjusted, of $71,313,030. The Commission concludes that the differences between the staff and company adjustments for excess profits and excess margin should be deducted from the company's proposed figure. The Commission is cognizant of the fact that these differences should also be trended consistent with Clapp's method, however, the Commission is of the opinion that such computation would result in de minimis change to the replacement cost determination. We therefore conclude that the net trended original cost of General as adjusted for the excess profits on Automatic Electric sales to General and as adjusted for the excess margins previously found is $71,028,821 on an intrastate basis. We conclude that the replacement cost of General's

property used and useful in North Carolina for intrastate telephone service is $71,028,821.

Fair Value

The fair value of General's property used and useful in providing intrastate service in North Carolina is here found to be $62,995,409 consisting of the fair value of telephone plant in service of $63,060,586 reduced by the net of the cash, material and supplies, and the deductions from original cost investment consisting of customer deposits, unpaid balances applicable to plant in service and materials and supplies, and customer funds advanced for a negative cash working capital of $65,177. In making this determination, we have considered our findings on original cost depreciated as adjusted for excess margins and excess profits, the reasonable replacement cost we found above, and the problems inherent in any replacement cost study.

Although the term "replacement cost" envisions replacing the utility plant in accordance with modern design techniques, and with the most up-to-date changes in the modern art of telephony, trended original cost as presented by company witnesses envisions and is founded upon the premise of duplication of plant as it now is with certain inefficiencies and outmoded designs included. Even though obsolescence can be, to an extent, accounted for in proper depreciation treatments, the economies of scale inherent in telecommunications (e.g., employing one 600-pair cable down a road instead of six, 100-pair cables installed over a number of years) are not fully recognized in the trending process.

The Commission concludes that the appropriate fair value is determined by weighting the net investment in telephone plant in service less accumulated depreciation, excess profits and excess margin of $59,076,468 by two-thirds; and by weighting the replacement cost of $71,028,821 by one-third; and deducting the negative cash working capital of $65,177.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

Revenue

Company Witness Gawronski, Staff Witness Reiser, and Staff Witness Gerringer presented testimony concerning the appropriate level of operating revenues. Staff Witness Gerringer testified specifically concerning the separations procedures employed by the company to separate its operating revenues and expenses between jurisdictions. Mr. Gawronski and Mr. Reiser disagree as to the appropriate level of intrastate operating revenues after accounting, pro forma, and end-of-period adjustments.

Mr. Gawronski testified that the appropriate level of intrastate operating revenues is $18,784,535. Mr. Reiser

testified that he used Mr. Gawronski's adjusted balance as a starting point for making several of his own adjustments in arriving at $18,903,375 as the proper level of intrastate operating revenues.

The first item comprising the difference in revenues of $118,840 is an adjustment to end-of-period directory revenues of $40,722 included by Mr. Reiser. Mr. Reiser testified that Mr. Gawronski had adjusted end-of-period directory revenue and expense by the use of a growth factor based on total stations. He further stated that the revenue growth in this area is based on factors other than growth in stations and that he based his additional adjustment to directory revenues on the amount of revenue associated with the 1973 directory, which was issued in 1973. Under cross-examination, Mr. Gawronski accepted this adjustment as being appropriate.

Based on the evidence given by these witnesses, the Commission believes the adjustment of $40,722 proposed by Witness Reiser are proper in determining the appropriate level of intrastate operating revenues.

The next item of controversy is an adjustment proposed by Witness Reiser to increase intrastate toll revenues in the amount of $7,181. Mr. Reiser testified that this adjustment is proper due to his adjustment to expenses that are allocated to intrastate toll. Mr. Gawronski agreed under cross-examination that the adjustment to intrastate toll would be proper, and the Commission accepts the adjustment as being just and reasonable.

The next item of difference is caused by the fact that Witness Reiser made an additional adjustment to end-of-period intrastate toll revenue. Mr. Reiser testified that the reason for the $27,064 adjustment is that the end-of-period intrastate toll revenue as testified to by Mr. Gerringer was $5,832,272 and the end-of-period intrastate toll revenue used by Mr. Gawronski was only $5,805,208. Mr. Gerringer's adjustment is based on the end-of-period intrastate toll settlement ratio of 8.53% rather than an estimated ratio of 8.44% used by the company. Mr. Reiser stated that he, therefore, made the additional adjustment to reflect the findings of Witness Gerringer.

The Commission concludes, based on the testimony presented, that Mr. Reiser's adjustment is reasonable and should be included in determining the proper amount of intrastate operating revenues.

Of the remaining difference in intrastate operating revenues, $25,506 is accounted for by an adjustment made by Mr. Reiser to GTSE Revenue Account 5397-Other Services. Mr. Reiser testified that using a growth factor based on total telephone to adjust this account to end-of-period as Mr. Gawronski did was inappropriate, since the revenue in this area changed significantly during 1973. Instead, Mr. Reiser

used the revenue from the fourth quarter of 1973 annualized as his end-of-period revenue. In order to assure himself that the fourth quarter was not abnormal, he had the company provide him with the revenue in this account for the first seven months of 1974. Each month of 1974 exceeded the average monthly balance of the fourth quarter of 1973. This adjustment reflects the difference between the fourth quarter annualized and the annual revenue after applying the growth factor.

Under cross-examination Mr. Gawronski accepted this adjustment as reasonable. After considering the evidence as presented by the Witnesses, the Commission finds the additional adjustment of $25,506 to intrastate operating revenues proper.

The final difference in operating revenues is an $18,367 adjustment made by Mr. Reiser. Mr. Reiser testified that the adjustment was needed in order to increase the revenue to be retained by the North Carolina Division due to the excess earnings of the General Telephone Directory Company. Mr. Reiser's findings concerning the Directory Company have been discussed previously. Since the Commission found that the earnings of the Directory Company are excessive and the benefit of any return on common equity of over 12%, which is associated with the North Carolina Division should be retained by the North Carolina Division, the Commission concludes that Mr. Reiser's adjustment to operating revenues is just and reasonable.

In determining the proper level of intrastate operating revenues, the Commission has considered all the evidence and facts entered by the witnesses. The Commission concludes that the appropriate level of operating revenues is $18,903,375.

Expenses

Company Witness Gawronski and Staff Witness Reiser presented testimony and exhibits showing the level of North Carolina operating expenses they believed should be used by the Commission for the purpose of fixing General Telephone's rates in the proceeding.

The following chart shows the amount contended for by each witness:

Item	Company Witness Gawronski	Company Witness Reiser
Operating Expenses	$ 6,673,339	$ 6,660,474
Depreciation and Amortization	3,465,827	3,373,808
Taxes Other than Income	2,508,101	2,565,179
Income Taxes - State & Federal	448,924	526,150
Deferred Income Taxes	1,248,286	1,248,286
Investment Tax Credit Net	154,640	154,640
Interest on Customer Deposits	7,217	7,217
Total Operating Expenses After Annualization	$14,506,334	$14,535,754

The Commission will now analyze the reasons why the witnesses propose different amounts for total operating expenses after annualization.

One of the items causing the difference in the amount proposed for operating expenses as set forth above is the exclusion by Staff Witness Reiser of an adjustment for the refund of insurance premiums applicable to prior periods of $6,599 proposed by Company Witness Gawronski. Witness Reiser stated that the adjustment for this refund is founded on the premise that the refund will be nonrecurring and has the effect of increasing North Carolina cost of service. He further testified that a similar refund was in fact received in 1974 on 1973 insurance cost of nearly an equal amount. Under cross-examination Mr. Gawronski agreed that his adjustment was not proper.

The Commission, therefore, concludes that since refunds for this insurance seem to be normal and recurring, no adjustment needs to be made to operating expenses for this item.

Another of the items causing the difference in the proposed amounts is an adjustment made by Witness Reiser for an improper charge to maintenance expense of $9,828. In his testimony, Witness Reiser stated that the company improperly recorded the expense in the test period prior to the receipt of the material. In fact, the materials were never received and the purchase order was cancelled in February, 1974. Company Witness Gawronski accepted this adjustment to expense as proper.

Based on the evidence presented, the Commission finds the $9,828 charge to maintenance expense improper and accepts the adjustment to operating expenses as reasonable.

The last difference in the $6,660,474 amount used by Mr. Reiser for operating expenses and the $6,673,339 amount used by Mr. Gawronski is an adjustment of $3,562 made by Witness Reiser increasing directory expense. As explained earlier, Witness Reiser made an adjustment increasing directory revenue. Witness Reiser testified that the increase in

expense is due to his using the directory expense associated with the directory revenue used previously.

In the opinion of the Commission, the adjustment of $3,562 to operating expenses is proper, and should be included in determining total operating expenses after annualization.

The difference of $92,019 in the depreciation expense presented by the witnesses is caused by the inclusion of two adjustments developed by Witness Reiser. The first of these adjustments is a decrease in depreciation expense of $69,355. Mr. Reiser testified that in making his adjustment to net plant in service for the excess profits earned by Automatic Electric on sales to GTSE an amount representing the original cost surviving plant was reduced for the appropriate reserve for depreciation including the 1973 addition to the reserve. The amount of $69,355 represents the amount of depreciation expense taken in the current test period on the excess profits earned by Automatic Electric that are recorded in General's plant accounts which resulted in AE earning an unreasonable return on equity.

The second of Mr. Reiser's adjustments decreased depreciation expense by $22,664. Witness Reiser testified that the decrease is due to the elimination of depreciation expense related to plant in service which is required to maintain excess plant margins. Staff Witness Clemmons presented testimony on the amount of the excess plant. Mr. Reiser further explained that if the excess plant is excluded from the rate base, then the associated depreciation should be excluded.

The Commission has decided above that the depreciated excess cost of plant in service should be used as a reduction of rate base rather than the total original cost as proposed by Witness Reiser. Applying that finding to Mr. Reiser's methods as shown in the Reiser Exhibit I, Schedule 3-10 for determining the amount of depreciation expense taken in the current test period on the cost of purchases from Automatic Electric on which Automatic Electric earned a return on equity in excess of 12%, the Commission finds the appropriate adjustment to depreciation expense for this item to be a decrease of $61,592.

The Commission accepts Mr. Reiser's adjustment to depreciation expense of $22,664 in order to eliminate the depreciation expense on net plant in service which is in excess of reasonable future needs.

In view of the evidence presented, the Commission concludes the proper amount of depreciation expense is $3,381,571.

The next main item of difference in the operating expenses presented by the witnesses is in the amounts shown for taxes other than income. A difference of $5,506 may be attributed to adjustments made to the gross receipts tax expense by Mr.

Reiser. Witness Reiser explained that in making certain other adjustments to revenue, it was necessary to also adjust the gross receipts tax associated with that revenue.

Since the Commission has accepted Mr. Reiser's adjustments to revenue as appropriate, the Commission now concludes that the additional adjustments increasing gross receipts tax by $5,506 are also appropriate and reasonable.

The next item of controversy is an adjustment to end-of-period property tax expense which was included by Witness Reiser. In his original testimony Mr. Reiser made an adjustment reducing the end-of-period property tax expense presented by Mr. Gawronski by $10,064. Using more recent information Mr. Reiser corrected his adjustment under direct examination to increase property tax expense by $51,572. Company Witness Gawronski agreed with the adjustment.

The Commission concludes, based on the evidence presented by Company Witness Gawronski and Staff Witness Reiser, that the additional adjustment of $51,572 to end-of-period property tax expense is proper. The end-of-period amount for taxes other than income, is therefore, found to be $2,565,179.

The last item of controversy in Total Operating Expenses is the amount properly includable as state and federal income taxes. The net difference of $77,226 is caused by additional adjustments made by Witness Reiser who explained that previous adjustments he made to revenue and expenses make it necessary to adjust the federal and state income tax applicable to those revenue and expense items. A net increase of $83,267 in federal and state income taxes may be accounted for by reason of these previous adjustments.

Mr. Reiser made one further adjustment to income taxes. He explained in his testimony that federal and state income taxes should be reduced by $6,041 to provide for the income tax effect associated with the pro forma increase in pension costs and payroll taxes capitalized. Mr. Gawronski adjusted for the income tax effect of the pro forma increase in pension costs and payroll taxes charged to expense; however, no provision was made for the related income tax effect of pension costs and payroll taxes capitalized. Witness Reiser further stated that for income tax purposes, the company deducts all pension costs and payroll taxes, including those capitalized; therefore, the reduction in income taxes should not be limited to the effect of those items charged to expense, but should include the effect of the total increase in pension costs and payroll taxes. Under cross-examination Company Witness Gawronski accepted the adjustment made by Witness Reiser.

Since the Commission changed the depreciation adjustment related to the excess profits earned by Automatic Electric, the income tax effects of the change must be taken into

account. The net change in the income tax adjustment made by Witness Reiser is a decrease of $3,968.

The Commission concludes from the evidence entered by the witnesses that the appropriate level of federal and state income tax expense is $522,182.

Based upon all the evidence offered by all the witnesses concerning the proper level of operating expenses, the Commission concludes that the proper level of expenses after annualization is $14,539,549.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

There were three rate of return witnesses presented; the company presented Mr. Lyle E. Orstad, Treasurer, General Telephone Company of the Southeast (General). The Commission Staff presented Mr. Edwin A. Rosenberg, economist, of the Operations Analysis section. The Attorney General presented Mr. David F. Crotts, an economist with the Attorney General's office. One rebuttal witness was presented in the area of rate of return by the company. He was Dr. Paul J. Garfield, an economist with Foster Associates, Inc., independent economic consultants. Dr. Garfield's rebuttal testimony concerned the use of the "Double Leverage" concept by Mr. Rosenberg and Mr. Crotts.

Mr. Orstad found that the fair return on rate base of GTSE is no less than 9.6%. He based this finding on three tests which he made. The first test was made by using the average rate of return on common equity during the period 1971 to 1973 for a group of "comparable" companies. The basis of comparability with GTSE was that each company was a public utility, that they were of roughly the same size as GTSE, that they had high bond ratings and stable returns on equity. The average of the return on common equity for these companies during the 1971 to 1973 period was 13.04%. The second test used by Mr. Orstad was to estimate the level of equity returns necessary to allow GTSE to sell debt securities on reasonable terms. In order to do this, Mr. Orstad contended that the company should have an interest coverage ratio of at least 2.5 times. This level of after tax coverage translated into a return requirement for common equity of 12.89 to 14.00% depending on the amount of debt used in the capital structure. The final test performed by Mr. Orstad was to estimate the differential in return between bonds and common equities which would be required to induce the investor to acquire the equity securities. During the 1963 to 1964 period, the independent telephone industry had average earnings of 11% on common equity. At the same time, the yield on A-rated utility bonds was approximately 4.5% which gave Mr. Orstad a differential of 6.5% between bond and stock earnings requirements. This differential was added to the average yield on A-rated utility bonds for 1973 which was 7.84%. Thus, a return requirement of 14.34% was felt to be required to adequately compensate the equity investor for his risk. The conclusion

thus reached by Mr. Orstad was that the equity holder is entitled to not less than 13% on common equity and that the fair return on rate base was not less than 9.6%.

During cross-examination, Mr. Orstad noted that among his group of comparable companies, there were electric and gas utilities, that some of them operated in the state of Texas where there is no state-wide regulatory authority, and that companies within his group had differing bond ratings and differing "beta" coefficients and safety grades as assigned by The Value Line Investment Survey. Mr. Orstad also noted that the period 1963 to 1965 which he chose for comparison of equity earnings and bond yields was among the periods with the highest differential between the two figures. Also, since the 1963 to 1965 period, the spread between equity earnings and bond yields had narrowed from 6.5% to less than 3% for the 197| to 1973 period. Mr. Orstad attributed this to insufficient equity earnings in the latter period. The return figures advocated by Mr. Orstad were mainly based on comparisons of returns on book or original cost common equity while the return to which he applied them is required to pertain to the fair value of the utility investment GTSE in serving the people of North Carolina.

Mr. Rosenberg found the cost of capital to GTSE to be in the range of 9.45 to 9.66% on original cost investment or 11.60 to 12.06% return on original cost common equity. Mr. Rosenberg stated that the cost of capital was only one of the factors which should be considered by the Commission in making its finding of the fair rate of return. The approach used by Mr. Rosenberg was to estimate the required investor return using the Discounted Cash Flow approach. This approach requires the use of stock market data which was not available for GTSE because it is wholly owned by General Telephone and Electronics Corporation. The nature of the relationship between GTE and its subsidiary GTSE required that adjustments be made. The adjustment which Mr. Rosenberg made was to estimate the cost of equity capital for GTE then apply it to a capital structure which he termed the "effective" capital structure of GTSE. This effective capital structure took into consideration the ownership of GTSE's common equity by GTE and the fact that GTE itself issues debt securities to support its investment in its subsidiaries.

Using dividends yields during 1973 and 1974 and growth rates in earnings, book values and dividends for 1960 through 1973, Mr. Rosenberg concluded that the cost of equity capital to GTE was in the range of 13.10 to 13.78% and that the rate of earnings on common equity necessary to generate this level of investor return and allow for financing costs was in the range of 13.52 to 14.33%. When this rate of equity earnings was used in conjunction with the effective capital structure, the overall cost of invested capital was found to be in the range of 9.45 to 9.66%. When this cost of capital was applied to the actual

capitalization of GTSE as of June 30, 1974, a return on original cost common equity of 11.60 to 12.06% was indicated. Mr. Rosenberg noted that in the absence of evidence of lack of efficiency, he would recommend that the company be allowed to recover rates sufficient to produce the above return (11.60 to 12.06%) if the fair value or rate base were equal to the original cost of investment. Should the fair value be greater than original cost investment, Mr. Rosenberg recommended that a greater dollar return be allowed but that the percentage return on rate base and fair value common equity be decreased from his recommended levels.

Under cross-examination, Mr. Rosenberg noted that although he realized that the specific acquisition of the GTSE properties had not been made with the effective capital structure which he used for a part of his analysis, the effect would have been essentially the same because of the impossibility of separation of funds once they have been intermingled with others within a corporate structure. He stated that the ownership of GTSE by GTE could not be ignored in an analysis of the cost of capital to GTSE but that he did not intend to regulate the actions of GTE except as they affected the consumers of North Carolina through GTSE.

Mr. Crotts, in his study of the cost of capital to GTSE, used the DCF technique to determine the cost of equity to GTE and the "Double Leverage" concept to derive the cost of equity to GTSE. The double leverage concept argues that when a holding company (GTE) owns the common stock of an operating subsidiary (GTSE) and both corporations issue debt, the debt of the parent must be considered in making a determination of the cost of equity to the subsidiary. The concept implies that a portion of the parent's investment in the common stock of the subsidiary has been financed by the debt issues of the parent. Thus, the cost of equity to the subsidiary is a weighted sum of the cost of equity to the parent and the debt costs of the parent. The term "double" leverage comes from the existence of two layers or levels of debt leverage in the capitalization of the total corporation.

Mr. Crotts found that the cost of equity to GTE was 12.43% and that when this figure is used with the embedded cost rates for debt and preferred stock of GTE at year end 1973, the total cost of capital to GTE was 11.01%. This 11.01% figure for the total cost of capital to GTE was then used as the cost of common equity to GTSE. The use of 11.01% as the cost of equity to GTSE resulted in Mr. Crotts finding that the total cost of capital to GTSE was 9.18%. Mr. Crotts also testified that he disagreed with the findings of Mr. Orstad in regard to the comparability of the companies used in the group presented by Mr. Orstad and GTSE.

Under cross-examination, Mr. Crotts noted that the rates of growth in earnings, dividends and book values per share

for GTE which he used in his DCF analysis were among the lowest which he could have used. This resulted from his choosing the period 1968 to 1973 as the relevant time span over which to measure growth.

Dr. Paul J. Garfield testified as a rebuttal witness on the subject of double leverage as applied by Mr. Rosenberg and Mr. Crotts. It was his conclusion that the concept and application were unsound and invalid. His conclusions were based on his findings that the assumption that GTE had purchased the common equity of General with a mixture of its own common, debt and preferred securities was invalid. Dr. Garfield further stated that the adoption of the double leverage concept would represent a substantial departure from the conventional regulatory philosophy which treated operating telephone companies the same regardless of the fact that they might be affiliated with a holding company. He stated that the adoption of the double leverage concept would impose an earnings penalty on the affiliated company as compared with a nonaffiliated telephone company. Such a penalty was felt to be discriminatory against the affiliated company and contrary to the traditional regulatory philosophy.

The results varied because of methodological differences between the analyses and differences in the choice of data. Mr. Orstad used the comparable earnings test as the main basis for his recommendation of 9.6% on overall capitalization and a 13% minimum on equity. Mr. Rosenberg used the DCF technique with a double leverage approach to estimate that the cost of overall capital to GTSE was in the range of 9.45 to 9.66% based on original cost. Under this analysis, Mr. Rosenberg found that a return of 11.60 to 12.06% on original cost common equity would be sufficient to allow GTSE to attract capital. Mr. Crotts also used the DCF and double leverage techniques but arrived at slightly different results. He recommended that the overall return be set at 9.18% and the equity return be set at 11.01% on original cost common equity.

Mr. Orstad's analysis is lacking due to the fact that the group of comparable companies which he used exhibited quite a bit of variance within the group with respect to type of operation and bond ratings. The group was also composed mainly of electric and gas companies whose risks cannot be considered commensurate with those of GTSE. With regard to Mr. Orstad's other two tests, he did not show that an <u>after tax</u> coverage ratio of 2.5 times would be required for the company to maintain its A rating on its first mortgage bonds. The third test was to compare equity returns and bond yields. When there was a wide spread between the two Mr. Orstad stated that that was a normal spread. When it was shown that the spread had narrowed, he said it was evidence that equity returns were too low. Such reasoning is self-serving at best. The main difference between the results which Mr. Crotts obtained and those obtained by Mr. Rosenberg was due to the different choice of time periods

over which to analyze the growth variable used to calculate the cost of equity in the DCF approach. Mr. Crotts chose a period of five years from 1968 through 1973. This period exhibited somewhat lower rates of growth than others which might have been used. Mr. Rosenberg chose to estimate the growth rates using a weighted average of all yearly growth rates from 1960 to 1973. This resulted in higher estimated growth rates because the 1968 to 1973 period was one of relatively low growth in earnings, dividends, and book value.

In the issue at hand, the rate of return witnesses for the Staff and for the Attorney General have advocated that the means used to finance the operating subsidiary of a holding company be considered in setting rates. The company has maintained and testified that only the financial position of the subsidiary, GTSE, need be of concern to this Commission. Mr. Crotts and Mr. Rosenberg have implied that the existence of the holding company structure might allow capital to be channelled to the operating companies at a lower cost than might be the case if they were unaffiliated. The company contends that the Commission should ignore the relationship between the parent and the subsidiary in setting rates that GTSE should be treated as if it were not a part of the General Telephone System. Dr. Garfield maintained in his rebuttal of the double leverage concept that to consider the financing relationship between the parent and the subsidiary would be contrary to the traditional regulatory thinking.

The management of GTE controls the operations and structure of the Southeast company and all of the other General Telephone subsidiaries. To imply that this Commission should ignore the relationship between the parent and the subsidiary in financing the operations of the subsidiary is equivalent to asking the Commission to believe that the subsidiaries are in fact autonomous corporations and that no benefit is derived from the holding company form of structure.

The major conceptual flaw which affects the double leverage approach, lies in the area of the flow of funds through a corporation. When a holding company such as GTE makes an investment in the equity of its subsidiaries, the double leverage approach argues that such investments may be analyzed as if they were made using a mixture of the debt, preferred and common equity funds of the parent corporation. The company argues that if the source of the actual funds invested in the equities of its subsidiary can be shown to be not in the nature of a mixture of debt and equity securities, then the double leverage concept is in error. Those who advance the double leverage concept argue that it is not necessary to account for the actual flow of funds or securities used to purchase or acquire the equity of the subsidiaries. Rather, once the acquisition has taken place, the transaction can be treated as if it were made using such a mix of funds.

Although there are several areas of disagreement between the rate of return witnesses on the cost of equity or the required equity return, there was general agreement as to the cost rates for long-term debt, preferred stock and short-term obligations. The capital structure to which these cost rates should be applied was also generally agreed upon. That structure is that of GTSE at December 31, 1973 proformed to include the long-term debt issue of February 1974. This differs only slightly from that used by Mr. Rosenberg and Mr. Crotts in that there is additional short-term debt in the June 30, 1974 capital structure which they presented. Because there is little difference in the two capital structures, the Commission concludes that whichever is used, the cost of equity would not vary substantially. The three studies of the cost of equity to GTSE reached somewhat divergent conclusions. The study of Mr. Orstad was flawed by the lack of comparability of many of the companies within his comparable group with GTSE and by other inconsistencies mentioned above. The use of "double leverage" by Mr. Crotts and Mr. Rosenberg presents certain conceptual problems mentioned above but it is clear that this Commission cannot ignore the relationship between the parent and the subsidiary in financing the total operations of the company. This is similar to the Commission's adjustments for the intercorporate transactions between the various subsidiaries of the parent. In light of the testimonies of Mr. Crotts and Mr. Rosenberg and the 1973 average equity earnings of 10.8% for the independent telephone industry; this Commission believes that a return of 11.4% on book common equity would be reasonable.

The Law of the State requires, however, that an additional dollar return on common equity be given to the company to account for the addition of the fair value increment to the equity component of the capital structure. The addition of fair value increment to book equity results in a larger overall common equity and the return which should be granted to the equity component decreases in percentages but not in dollar terms. With the addition of the fair value increment, the Commission concludes that a return of 10.1% on rair value equity is reasonable. The 10.1% return on fair value common equity will result in the company actually having rates set to produce a 11.65% return on common equity rather than the 11.4% the Commission believes is fair. However, because of the fair value statute and its proper application the Commission feels compelled to grant the higher 11.63% return on common. As shown on the attached schedule this results in additional gross revenues of $119,731 being required to service the fair value paper equity component.

The return of 10.1% on the fair value equity component of capital should enable the company to attract sufficient capital to discharge its obligations to the consuming public and maintain an adequate level of service. The Commission cannot, of course, guarantee that the company will earn the allowed rate of return but it is the Commission's belief

that there is a reasonable opportunity that the company will be able to reach that level of returns given efficient management. The Commission concludes that the fair rate of return on the fair value rate base is 8.4%. The calculation of this return is shown on the attached schedule and is the weighted composite cost rate based on the debt, preferred and fair value equity costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

Evidence pertaining to rate design was presented by General Telephone and the Commission Staff.

Mr. P. Gordon Maxson, Vice President of Revenue Requirements for the Applicant proposed changes in rates and charges to produce additional revenue as follows:

A 20-cent charge for local pay station calls.
Substantial increase in nonrecurring charges.
Increases and decreases in PBX and key systems equipment and increases in the connecting trunks.
Changes in the rating and billing of semipublic pay stations.
Increase in dial mobile telephone services.
Increases in basic rates and supplemental services.

Mr. Maxson testified that his company in the past had followed the value of service concept but in this proceeding has incorporated the concept of stand-alone pricing of station equipment so as to permit General to compete fairly in the current market where competition is a factor. Regarding the 20-cent charge for local pay station calls he justified the proposed increase through cost considerations, the fact it has been approved for Southern Bell, and the fact that it would tend to hold down basic rates. He proposed that service charges be adjusted to have the customer generating the work and benefiting from it bear a greater share of the cost. Relating to semipublic telephone service, he proposed a flat rate equal to one and one-half times the business one-party service to replace the current guarantee regulation and rating so as to eliminate premises visits and thereby reduce costs. Other services, such as mobile telephone, he also proposed to increase in order to keep the price of the service in line with the cost of providing it.

Mr. Vern W. Chase, Chief Engineer of the Commission's Telephone Rate Section, suggested changes in rates and charges different from those advocated by Applicant's witness as follows:

Elimination of rural rate increments in the Monroe area.
Elimination of handset color charges.
A new format service charge tariff.
More equitable one-party business rates for the Research Triangle Office.

Mr. Chase reasoned that all rural zone charges have been eliminated in the Durham area and should be eliminated in the Monroe area as a matter of equity; that color telephones are now practically standard and that the rate should be incorporated in the basic rate; that a new service charge design tariff would make these charges more cost oriented; and that the Research Triangle office of the Durham exchange should carry a greater rate for business one-party service since it has more than three times the calling scope of the balance of the Durham exchange.

The Applicant took issue with the service charge tariff proposed because it would not permit the installation of residence extension telephones without a service charge where a workman was on the premises doing other work, and because a service ordering charge was proposed for restoral of service suspended at the request of the subscriber.

The Commission concludes that service charges should be increased to a level which more closely approximates the level of costs involved in doing the work, that the charges applicable for each request should depend on the actual work function. The Commission also concludes that a new format tariff as proposed by the Commission staff witness is appropriate with the exception that applicant should be permitted to install residence extensions without charge when a workman is on the premises doing other work requiring a service order and that when the workman is doing other work for which no charge applies, only a service ordering charge shall be applied.

The Commission concludes that flat monthly rate with no guarantee for semipublic telephone service as proposed by the Company should be allowed.

The Commission concludes that the rural rate increments should be eliminated in order to provide more equitable treatment to all subscribers regardless of their location within the exchange.

The Commission concludes that the charge for most color equipment should be eliminated with the exception of nonstandard color equipment as specified in Appendix C.

The Commission concludes that the Research Triangle office of the Durham exchange should pay higher rates than the balance of the Durham exchange because of the substantially larger calling scope.

The Commission concludes that the local pay station coin call charge should be increased from 10¢ to 20¢. It is recognized that percentagewise this is a large increase, however, the identifiable increases in costs related to the service over the past 20 years more than justify the 20¢ charge.

The Commission concludes that in order to maintain the amount of revenue paid to the property owner in the form of a commission on local coin calls the rate of commission should be reduced to 6.25 percent after the conversion to the new 20¢ rate.

The Commission concludes that the stand-alone concept for the rating of station equipment as proposed by the Company is just and reasonable.

The Commission concludes that supplemental services should bear a part of the increased revenue that will be allowed.

The question of optional limited use service was raised in this proceeding as well as in previous Docket P-119, Sub 133 and 136. The Commission has had this matter under study for approximately 2 years and is continuing to evaluate the economics and service aspects of optional measured limited service. Based on the Commission's studies and findings thus far, there does not appear to be adequate economic feasibility at the present time for establishing such service. The Commission will keep optional measured service under review and should circumstances change, the matter will be given further consideration.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That General be, and hereby is, authorized to increase its intrastate local exchange rates and charges as hereinafter set forth in Appendixes A, B, & C* attached hereto and made a part of this order on all billings rendered in advance on and after the date of this order.

2. That General shall file, within seven days of this order, the necessary revised tariffs reflecting the above increases and decreases, said tariffs to be effective as of the date prescribed above.

3. That General shall file monthly reports on the conversion of coin pay stations to the $.20 charge until such conversion is completed, the report to be due within the first ten (10) days of each month.

4. That General shall file in Section S4 of its General Customer Service Tariff the service charge tariff attached as Appendix B.

5. That General shall file in Section S14 of its General Customer Services Tariff the color telephone equipment tariff attached as Appendix C.

6. That General shall file revised exchange service area maps within sixty (60) days of the date of this order to eliminate all zone and base rate areas therefrom.

7. That General shall continue to meet or exceed the overall service objectives established by this Commission

and to adequately meet the reasonable service needs of the individual subscribers.

8. That General is hereby authorized to discontinue the submission of special monthly reports required in Docket P-19, Sub 94, 95, 115, 133 and 136 and Docket P-36, Sub 56 except that trouble report indices and operator answer studies shall continue to be submitted on a monthly basis. The company shall continue to have such data as has been submitted to the Commission available at its offices for review by the staff from time to time.

ISSUED BY ORDER OF THE COMMISSION.

This 4th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See portions of Appendix A below. For the remainder of Appendix A and Appendices B and C, see official Order in the Office of the Chief Clerk.

APPENDIX A
GENERAL TELEPHONE COMPANY OF THE SOUTHEAST
DOCKET NO. P-19, SUB 158

	Rates by Exchange			
	RESIDENCE		BUSINESS	
EXCHANGE	Ind.	2-Pty.	Ind.	2-Pty.
Altan	8.45	7.65	21.10	20.10
Creedmoor	9.45	--	23.70	--
Durham				
Except Research Triangle Park Service Area	9.45	--	23.70	--
Research Triangle Park Service Area	--	--	27.00	--
Goose Creek	8.45	7.65	21.10	20.10
Monroe	8.45	7.65	21.10	20.10

DOCKET NO. P-40, SUB 134

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Norfolk & Carolina Telephone & Telegraph Company for an Adjustment of Its Rates and Charges	) ORDER ALLOWING INCREASE IN RATES UNDER AMENDED APPLICATION

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carclina, January 28th and 29th, 1975

BEFORE: Robert F. Page, Hearing Examiner, upon Stipulation that all Commissioners participate in the Decision upon reading transcripts and reviewing record. Chairman Marvin R. Wooten, Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Dean, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

Robert C. Howison, Jr., &
Edward S. Finley, Jr.
Joyner & Howison
Attorneys at Law
P. O. Box 109
Raleigh, North Carolina 27602

Gerald F. White
White, Hall, Mullen & Blumsey
Attorneys at Law
P. O. Box 304
Elizabeth City, North Carolina

Guy K. Tower
Hunton, Williams, Gay & Gibson
Attorneys at Law
P. O. Box 1535
Richmond, Virginia 23212

For the Commission Staff:

Maurice W. Horne
Assistant Commission Attorney
Ruffin Building
Raleigh, North Carolina

Jerry B. Fruitt
Associate Commission Attorney
Ruffin Building
Raleigh, North Carolina

BY THE COMMISSION: This proceeding is before the Commission upon the Application of Norfolk & Carolina Telephone and Telegraph Company (hereinafter referred to as "Norfolk & Carolina") filed with the Commission on June 17, 1974, for an increase in rates and charges on telephone service sold in North Carolina. Said requested increase in rates and charges under the original application total approximately $698,075 in additional annual revenues.

By order of July 10, 1974 the Commission suspended the proposed increases in Norfolk & Carolina's rates and

charges, set the proceeding for investigation and hearing to begin on January 28, |975 and established the test periods to be the twelve months' period ending July 3|, |974 and the twelve months' period ending July 3|, |975. Norfolk & Carolina was further required to give public notice of the application and meet certain other requirements with respect to filing of testimony.

On August 5, |974 Norfolk & Carolina filed an application for interim rate relief alleging certain emergency conditions including difficulties in marketing its securities and raising substantial problems regarding its overall financial condition. Norfolk & Carolina filed an undertaking for refund with interest with respect to its interim application on August 6, |974.

By order of August 9, |974 the Commission set the application for interim increase for hearing on August 29, |974 and required Norfolk & Carolina to publish notice of said hearing.

On August 29, |974 the Commission held public hearings on the Applicant's request for interim rate relief. The Commission by order dated August 29, |974 authorized the implementation of the requested interim rate relief subject to refund, hearing and final determination.

On October 28, |975 Norfolk & Carolina filed a motion with the Commission requesting that the data involving the future test period for the twelve months ending July 3|, |975 be eliminated from consideration in this proceeding. By Commission order issued November |, |974 the Commission allowed the motion of Norfolk & Carolina to eliminate the future test period from consideration in this docket. On November 20, |974 Norfolk & Carolina filed an amended application with the Commission which contained revised tariffs. The amended application asked for authority to increase the rates and charges on telephone service in North Carolina by approximately $80|,894 in additional annual revenues. The amended application would produce approximately $|03,8|9 more in requested revenues than the initial application had requested.

On December |3, |974 the Commission issued an order allowing the amended application, requiring public notice and suspending the proposed amended increases in rates and charges. The amended application filed by Norfolk & Carolina was allowed subject to the following conditions. (a) That Norfolk & Carolina waive its rights under its initial filing of June |7, |974 to put those rates into effect under bond pursuant to G. S. 62-|35, (b) that Norfolk & Carolina waive its rights under the 270 days suspension limitation imposed upon the Commission by G. S. 62-|34(b) under its initial filing of June |7, |974 and (c) that the right to put rates into effect under bond pursuant to G. S. 62-|35 and the right to put rates into effect under the 270 days suspension provision pursuant to G. S. 62-|34(b) shall

apply only from the effective date of the filing of the amended application.

Under the amended application Norfolk & Carolina requests that the following increases in main station rates and decreases in zone charges be allowed:

Coinjock, Edenton, Elizabeth City, Hertford, Mamie, Moyock, Pineywoods, Shiloh, South Mills, Sunbury, Weeksville, Welch and Woodville.

	Residence			Business		
	1-Pty.	2-Pty.	4-Pty.	1-Pty.	2-Pty.	4-Pty.
Proposed	$8.00	$7.00	$6.00	$16.00	$14.00	$12.00
Present	6.25	5.50	4.75	11.50	10.00	7.50
Increase	1.75	1.50	1.25	4.50	4.00	4.50
Buxton, Kill Devil Hills, Waves (Hatteras and Kitty Hawk Central Office)						
Proposed	12.00	10.00	8.00	16.00	14.00	12.00
Present	10.00	8.00	6.00	12.50	10.00	8.00
Increase	2.00	2.00	2.00	3.50	4.00	4.00
Manteo Exchange						
Proposed	8.00	7.00	6.00	13.00	11.00	9.00
Present	5.00	3.75	3.00	7.50	5.75	5.00
Increase	3.00	3.25	3.00	5.50	5.25	4.00

The Company proposes a decrease in monthly zone charges for local service.

Zone	*Zone Width (Miles)	1-Pty. Present	1-Pty. Proposed	2-Pty. Present	2-Pty. Proposed	3-Pty. Present	3-Pty. Proposed
1	0 - 1/2	.60	.50	.40	.30	.15	.10
2	1/2- 1	1.50	1.25	.90	.70	.55	.45
3	1 - 2	3.00	2.50	1.75	1.50	.95	.75
4	2 - 3	4.50	4.00	2.75	2.25	1.35	1.10
5	3 - 5	6.25	5.00	3.75	3.25	1.75	1.40
6	5 - 7	8.00	6.00	4.75	3.75	2.15	1.60
7	7 - 9	9.75	6.00	5.75	3.75	2.55	1.60
8	9 - 11	11.50	6.00	6.75	3.75	2.95	1.60
9	11 - 13	13.25	6.00	7.75	3.75	3.35	1.60
10	13 - 15	15.00	6.00	8.75	3.75	3.75	1.60

*Mileage brackets shown apply only to one- and two-party service. Each four-party zone is approximately two miles wide. All zone mileage is measured from the base rate area.

Norfolk & Carolina was also required by the Commission to give notice that in addition to the above proposed rate increases that the matters for investigation and hearing in this general rate case shall include not only a determination as to whether or not the proposed rates are just and reasonable, but also a determination as to whether or not some or all of Norfolk & Carolina's presently existing rate structures shall be changed.

In addition to the basic rates and charges set out above and other monthly charges directly related to these rates, the company proposes increases in rates and charges for directory listing, PBX and key system components, local coin calls, miscellaneous equipment, extension line and tie line mileage charges, and service connection and other nonrecurring charges.

Certain other orders are of record relating to appearance of counsel, extension of time and other procedural matters.

Hearings on the amended application began January 28, 1975 and were completed on January 29, 1975. In view of the Commission's workload and schedule a prehearing conference was held after which counsel stipulated that the case could be heard by Hearing Examiner Robert F. Page, and that all Commissioners would review the record, read the transcript and participate in the decision. All Commissioners have reviewed the record and transcript and herein make the decision which is implemented by this order.

Norfolk & Carolina offered the testimony and exhibits of the following witnesses: L. S. Blades, III, President of Norfolk & Carolina, testifying on financial needs and operations; R. M. Byrum, Chief Accountant, testifying on the Accounting records and financial statements of Norfolk & Carolina; John C. Goodman, Consultant for The American Appraisal Company, Inc., testifying on replacement cost new and depreciation of Norfolk & Carolina's plant; C. R. Wilson, Vice President Budget and Planning, testifying on the present and proposed rates and the reason for the changes and Joseph Brennan, President of Associated Utility Systems, Inc., testifying on cost of capital and fair rate of return.

The Commission Staff offered the testimony and exhibits of Gene A. Clemmons, Chief Engineer - Telephone Service Section, testifying on Norfolk & Carolina's outside plant engineering, plant investment and operating expenses; Charles D. Land, Telephone Engineer in the Telephone Service Section, testifying on the quality of Norfolk & Carolina's telephone service, Norfolk & Carolina's traffic administration program and its inside plant engineering; Vern W. Chase, Chief Engineer, Telephone Rate Section, testifying on Norfolk & Carolina's proposed new rates; Hugh Gerringer, Telephone Engineer - Toll Settlements and Separations in extended area service matters testifying on apportionment of company's operations between intrastate and

interstate jurisdictions and intrastate toll settlements for the test period; Donald E. Daniel, Staff Accountant, testifying on financial statements, reports and accounting records; Allen L. Clapp, Chief - Operations Analysis Section - Engineering, testifying on the valuation of Norfolk & Carolina's plant, and Thomas M. Kiltie, Economist, Operations Analysis Section - Engineering, testifying on the cost of capital and fair rate of return.

Norfolk & Carolina presented rebuttal testimony by John C. Goodman on Mr. Clapp's valuation methodology; Chancey Leake, Vice President of Moseley, Hallgarten & Estabrock, Inc., on investment banking, security analysis, and financing of corporate securities; and R. M. Byrum on accounting adjustments.

The filing of briefs was waived and it was stipulated that the amended application of Norfolk & Carolina would be decided by the full Commission.

There are five basic issues to be decided in this case:

(1) Norfolk & Carolina's reasonable original investment in its properties devoted to the public's use in North Carolina,

(2) the fair value of Norfolk & Carolina's properties devoted to the public's use in North Carolina,

(3) Norfolk & Carolina's reasonable operating expenses,

(4) the level of return on the fair value of its properties required to enable Norfolk & Carolina to compete in the market for capital funds,

(5) the just and reasonable rates by which Norfolk & Carolina may derive the revenues that it needs to obtain the rate of return to which it is entitled.

This order will treat each basic issue in numerical order.

1. Reasonable original investment. - The Commission has reviewed the original investment in Norfolk & Carolina's properties devoted to the public's use in North Carolina. The Commission finds that Norfolk & Carolina has acquired, purchased and constructed its properties in a manner and with results that meet the statutory standards of reasonable original cost.

2. Fair value. - The evidence in this docket persuades us that the fair value of Norfolk & Carolina's properties devoted to the public's use in North Carolina is not significantly greater than its reasonable original cost. After careful consideration of recognized translaters of original cost we reach a result which recognizes (a) inflationary pressures and (b) improvements in design and progressive construction efficiencies. The Commission

accepts Norfolk & Carolina's determination of its trended original cost. However, it appears to the Commission that the company's actual depreciation reserves found by the Commission to be adequate and proper should be applied in at least the same proportion to trended original cost to determine replacement cost. If such a relationship is not present, then the Commission in fairness both to the utility and its ratepayers may and should review and make appropriate changes.

3. Reasonable operating expenses - The Commission has weighed and considered Norfolk & Carolina's operating expenses and the Commission finds that they are reasonable and just. After having carefully considered the current economic environment, rapidly escalating costs, and the general inflationary trends of our economy, the Commission concludes that Norfolk & Carolina should begin immediately to institute the most careful review of its entire operating budget to effect and carry out savings in every possible area of operations.

4. Level of return - The dynamics of the present economy while demanding the most careful judgment do not require any more today than it ever did a guaranteed rate of return for Norfolk & Carolina or any other public utility. The most that is required of us is our reasonable and careful judgment of what return will enable Norfolk & Carolina to compete in the market for those capital funds which it must have to provide reliable telephone service, where and when it may be needed in its North Carolina service area. We have carefully weighed and considered all of the evidence before us, as well as other public utilities with similar characteristics doing business in North Carolina and the United States, where Norfolk & Carolina must compete for its needed capital funds. We carefully weighed and considered Norfolk & Carolina's required and anticipated needs for the foreseeable future and the relationship of these needs to the needs for additional capital funds. By our findings and conclusions herein we seek not to guarantee Norfolk & Carolina or its stockholders any rate of return, but rather to offer Norfolk & Carolina's management a rate structure and level within which the management of Norfolk & Carolina may earn the reasonable return herein found necessary.

5. Rate Design - Basic and inherent in Norfolk & Carolina's ability to meet its reasonable operating expenses and earn a reasonable return on the fair value of its properties devoted to the public use in North Carolina is the design of its rate structure. One objective of any proper rate design should be to fairly and equitably distribute the cost of service among the various customer groups and classifications. The many refinements and subtle implications of rate design are too numerous to treat in detail in this order; we emphasize that all such criteria have been carefully weighed and considered with special consideration being given to: (a) calling scopes of which Waves and Buxton have 978, Manteo and Kill Devil Hills 3,689

and the balance of exchanges 2|,|45; (b) Main station and PBX trunks; (c) reduction of zone charges below those proposed by the company; (d) a new format service charge tariff; (e) and increased charges for local coin telephone calling.

Based upon the record herein and the evidence adduced at the public hearings, the Commission makes the following

FINDINGS OF FACT

|. That Norfolk and Carolina is a duly franchised public utility providing telephone service to all or part of eight (8) northeastern counties in North Carolina and serves seventeen (|7) telephone exchanges and is properly before the Commission in this proceeding for determination as to the justness and reasonableness of its rates and charges under Chapter 62 of the North Carolina General Statutes.

2. That the total increase in rates and charges in the amended application of Norfolk and Carolina would produce approximately $80|,894 in additional annual gross revenues.

3. That the reasonable original cost of Norfolk and Carolina's property used and useful in providing intrastate telephone service in North Carolina is $|8,033,089, the reasonable accumulated provision for depreciation is $4,6|7,|66 and the reasonable original cost approximately depreciated is $|3,4|5,923.

4. That the reasonable allowance for working capital is $|95,304.

5. That the reasonable original cost of Norfolk and Carolina's property used and useful in providing intrastate telephone service in North Carolina ($|8,033,089), less accumulated depreciation ($4,6|7,|66), plus an allowance for working capital ($|95,304) is $|3,6||,227.

6. That the reasonable replacement cost of Norfolk and Carolina's plant used and useful in providing intrastate telephone utility service in North Carolina is $|5,568,|03.

7. That the fair value of Norfolk and Carolina telephone plant used and useful in providing telephone service to the public in its North Carolina service area should be derived from giving two-thirds weighting to the original cost of Norfolk and Carolina's depreciated telephone plant in service and one-third weighting to replacement cost of Norfolk and Carolina's telephone plant. By this method, using the depreciated original cost of $|3,4|5,923 and a replacement cost of $|5,568,|03, the Commission finds that the fair value of said telephone plant devoted to service in North Carolina is $|4,|33,3|6.

8. To the fair value of Norfolk and Carolina's plant used and useful in providing telephone service to the public

within North Carolina at the end of the test year should be added a reasonable allowance for working capital in the amount of $195,304 resulting in a total fair value of $14,328,620.

9. That Norfolk and Carolina's approximate gross revenues for the test year after accounting and pro forma adjustments under present rates are $4,344,779 and after giving effect to the Company's proposed rates are $5,127,198.

10. That the level of operating expenses after accounting and pro forma adjustments is $3,361,210 which includes an amount of $773,648 for actual investment currently consumed through reasonable actual depreciation before annualization to year end level.

11. That the fair rate of return which Norfolk and Carolina should have the opportunity to earn on the fair value of its North Carolina investment for telephone operations is 9.40% which requires additional annual revenues from North Carolina retail customers of $779,109.

12. That the fair rate of return on the fair value equity of Norfolk and Carolina is 11.30%.

13. That under the rates in effect prior to the authorization of the interim rates herein, Norfolk and Carolina was not and would not be earning an adequate rate of return on the property used and useful in its service to the public in North Carolina and under said prior rates, Norfolk and Carolina could not continue in operation as a viable telephone utility in North Carolina, and that if said interim rates are not approved, Norfolk and Carolina cannot maintain its ability to compete in the market for capital funds on terms reasonable and fair to its customers and its existing investors, and could not continue the construction of plants which are presently being built and necessary for the continued service to the public in its service area, and that $779,109 of the $801,894 applied for increase and the retention of the revenues generated under interim rates is necessary to the continuation of adequate service in Norfolk and Carolina's service area.

14. That the rate of return which would have been earned by Norfolk and Carolina during the test period under the rates in effect prior to the interim rates would be 6.91% on the fair value of its plant in service in North Carolina, if Norfolk & Carolina were required to refund any of the interim rate increase being collected, said refunds would cause a financial crisis and jeopardize the continued ability of Norfolk and Carolina to meet its expenses in providing reliable and adequate telephone service in its service area in North Carolina.

15. That it is necessary for Norfolk and Carolina to compete in the market for capital funds on terms that are

reasonable and fair to its customers and to its existing investors in accordance with G. S. 62-133(4) in order to meet its capital requirements and to maintain facilities and service in accordance with the reasonable requirements of its customers and under the rates in effect prior to the increases herein, Norfolk and Carolina would not be able to compete in the capital market on such terms.

16. That the rates filed herein in Docket No. P-40, Sub 134, are found to be just and reasonable rates for all amounts heretofore collected thereunder and for all amounts to be collected thereunder, without any refund therefor, pending implementation of the modified rate designs provided and approved in this Order.

17. That Norfolk & Carolina filed tariffs with the Commission for increased service charges totaling $26,940 annually to become effective February 1, 1975, in Docket No. P-40, Sub 135. These tariffs were approved. The amended application which requested $801,894 in additional annual revenues included as part of that amount increases for service connections. Said increases for service charges having already been granted in Docket No. P-40, Sub 135 a like amount ($26,940) should be deducted from the requested $801,894.

18. That $4,155 should be added to Norfolk & Carolina's requested increase as an increment for uncollectibles.

19. That Norfolk & Carolina's interim rates are not unlawfully discriminatory and that the revenues collected by Norfolk & Carolina under the provisions of refund should be retained by Norfolk & Carolina in that the total annualized amount of revenues collected does not exceed the allowed annual general rate increase of $779,109 granted in this order.

20. That the fair rate of return on Norfolk & Carolina's fair value rate base is 9.40% which will allow Norfolk & Carolina to continue to pay a reasonable dividend on its common stock attributable to its North Carolina retail operations, and retain a sufficient surplus for capital needs or other application by its shareholders and directors.

21. That as of the date of the test period and hearing in this proceeding Norfolk and Carolina is providing a generally acceptable level of telephone service in its service area but that some improvements are needed in: (1) subscriber trouble reports and (2) problems that exist in several exchanges with intra-office and inter-office call completion tests, DDD call completion and transmission tests, and EAS transmission tests.

22. That the schedules showing the derivation and application of such findings are set forth and included as part of these findings as follows.

THE NORFOLK & CAROLINA TELEPHONE & TELEGRAPH COMPANY
Docket No. P-40, Sub 134
STATEMENT OF RETURN

Line No.	Item (a)	Before Approved Increase (b)	Approved Increase (c)	After Approved Increase (d)
1.	Gross operating revenues	$ 4,344,779	$779,109	$ 5,123,888
2.	Uncollectibles	23,175	4,155	27,330
3.	Net revenues	4,321,604	774,954	5,096,558
4.	Operating expenses	1,834,792		1,834,792
5.	Depreciation	773,648		773,648
6.	Income taxes	375,610	372,387	747,997
7.	Other taxes	376,860	46,497	423,357
8.	Interest on customer deposits	300		300
9.	Total deductions	3,361,210	418,884	3,780,094
10.	Net operating income	960,394	356,070	1,316,464
11.	Annualization factor	30,427		30,427
12.	Net operating income for return	$ 990,821	$356,070	$ 1,346,891
13.	Original Cost Net Investment			
14.	Telephone plant in service	$18,033,089		$18,033,089
15.	Less accumulated depreciation	4,617,166		4,617,166
16.	Net plant in service	13,415,923		13,415,923
17.	Allowance for Working Capital			
18.	Materials and supplies	234,657		234,657
19.	Cash	161,063		161,063
20.	Less average tax accruals	(200,416)		(200,416)
21.	Total allowance for working capital	195,304		195,304
22.	Total original cost net investment	$13,611,227		$13,611,227
23.	Fair Value Rate Base	$14,328,620		$14,328,620
24.	Return on Fair Value	6.91%		9.40%

THE NORFOLK & CAROLINA TELEPHONE & TELEGRAPH COMPANY
Docket No. P-40, Sub 134
STATEMENT OF RETURN ON FAIR VALUE RATE BASE

Line No.	Item (a)	Fair Value Rate Base (b)	Ratio % (c)	Embedded Cost or Return on Common Equity % (d)	Net Operating Income (e)
		Present Rates			
1.	Long-term debt	$ 7,105,060	49.59	8.25	$ 586,167
2.	Preferred stock	1,606,125	11.21	9.46	151,939
3.	Common equity	5,386,044	37.59	4.69	252,715
4.	Investment tax credit - pre 1971	231,391	1.61	-	-
5.	Total capitalization	$14,328,620	100.00	-	$ 990,821
		Approved Rates			
6.	Long-term debt	$ 7,105,060	49.59	8.25	$ 586,167
7.	Preferred stock	1,606,125	11.21	9.46	151,939
8.	Common equity	5,386,044	37.59	11.30	608,785
9.	Investment tax credit - pre 1971	231,391	1.61	-	-
10.	Total capitalization	$14,328,620	100.00	-	$1,346,891

THE NORFOLK & CAROLINA TELEPHONE & TELEGRAPH COMPANY
Docket No. P-40, Sub 134
REVENUE REQUIREMENTS CORRELATED TO ORIGINAL COST AND FAIR VALUE

Line No.	Item (a)	Original Cost Net Investment Prior to Adjustment for Fair Value Increment (b)
1.	Revenue Requirements	
2.	Gross revenues - present rates	$4,344,779
3.	Additional gross revenues required to produce a 12.5% return on	

	original cost common equity	723,961
4.	Total revenue requirements	$5,068,740
5.	Net income available for return on equity	$ 583,581
6.	Equity component	$4,668,651
7.	Return on actual common equity	12.50%

	8. Revenue Requirements	Fair Value Rate Base
9.	Gross revenues - present rates	$4,344,779
10.	Additional gross revenues required to produce a 12.5% return on original cost common equity	723,961
11.	Additional revenues required for fair value increment of common equity	55,148
12.	Total additional revenue requirements	$ 779,109
13.	Net income available for return on fair value equity	$ 608,785
14.	Equity component	$5,386,044
15.	Return on fair value equity	11.30%

CONCLUSIONS

The Commission concludes from all the evidence in this proceeding that it is necessary and essential and in the public interest to approve the revenues applied for in the amended application after deducting the increase in service charge already approved by this Commission effective February 1, 1975, and that it is further necessary and essential and in the public interest to modify the rate designs upon which said rates are structured for collection of such revenues in the future. Failure to approve said rates and revenues collected thereunder as just and reasonable would jeopardize adequate service to the public and place Norfolk & Carolina in a weakened financial condition to compete in the market for capital funds. The public interest requires that North Carolina continue to be provided with adequate and reliable telephone service to maintain a sound economy and that Norfolk & Carolina be financially able to continue the operation of telephone service which is essential to the health and welfare of the public of North Carolina. The present rates in effect on an interim basis are approved only until such time as modified rate designs to produce the same additional revenue can be placed into effect as provided hereinafter in this order.

The Commission concludes that the company's evidence with respect to trended original cost is basically correct. The Commission, however, concludes that the company's method of computing the depreciation reserve applicable to the trended original cost is in error. The Commission concludes that the company's actual depreciation reserve found by the Commission to be adequate and proper should be applied in at least the same proportion to trended original cost to determine replacement cost new unless there is convincing evidence to persuade the Commission that such is not appropriate. Such relationship did not exist in the company's computation of replacement cost new and the Commission is not persuaded that such a relationship should not exist. Therefore, the Commission in fairness both to the utility and to its ratepayers concludes that the actual depreciation reserve should bear the same proportion to the original cost as the depreciation on trended original cost bears to trended original cost.

In considering the various accounting adjustments that were presented in Norfolk & Carolina's testimony and in the staff's testimony the Commission concludes that this proceeding should be decided on the basis of the accounting adjustments recognized in prior telephone utility cases before this Commission, as well as adopting the following additional accounting adjustments contended for by Norfolk & Carolina with the exception of those adjustments to net operating income for return which are modified by the staff accounting adjustments found to be correct and hereinafter adopted by the Commission.

However, the Commission also feels that certain Staff accounting adjustments are also correct and that they should be adopted in addition to the adjustments adopted above. The Staff accounting adjustments accepted by the Commission are:

THE NORFOLK & CAROLINA TELEPHONE & TELEGRAPH COMPANY
Docket No. P-40, Sub 134
COMMISSION STAFF ACCOUNTING ADJUSTMENTS

Line No.	Item (a)	Total Intrastate (b)
1.	Increase (decrease) in net operating income for return:	
2.	Increase in net operating income due to elimination of company adjustment for annual settlement for joint use pole rentals	$ 59
3.	Increase in net operating income due to elimination of retroactive billing included in annual settlement for joint use pole rentals	1,828
4.	Increase in net operating income due to adjustment of property taxes accrued	3,943
5.	Increase in net operating income due to	

elimination of nonrecurring officer's salary	6,136
6. Decrease in net operating income due to allowance for amortization of rate case expense	(11,080)
7. Increase in net operating income due to increase in service connection revenues	18,755
8. Increase in net operating income due to adjustment to intrastate toll revenue	14,909
9. Increase in net operating income due to correction of separation factors	74,337
10. Decrease in net operating income due to adjustment to amortization of investment tax credits	(2,202)
11. Decrease in net operating income due to income tax effects resulting from interest expense allocation adjustment	(30,708)
12. Decrease in net operating income due to interest on customer deposits	(300)
13. Annualizing amount	30,427
14. Total adjustments to net operating income	$106,636

The adjustments not accepted in this docket are left open without prejudice to such consideration of accounting adjustments as the Commission Staff or other parties may seek in any subsequent rate proceedings. This includes the adjustments for working capital allowances, for deferred income taxes, and for such other accounting adjustments as were included in the Staff's testimony or the testimony of the company which are not adopted in this decision. The Staff and said parties are free to present studies in support of such adjustments in other cases involving Norfolk & Carolina or other utilities regulated by the Utilities Commission, and this decision shall not be construed to be a precedent or res judicata as to the treatment of the accounting adjustments allowed in this decision or not allowed in this decision, and they are specifically not rejected for consideration in future cases.

We find that a rate of return of 11.30% on the fair value equity of Norfolk & Carolina is a just and reasonable rate of return on the appreciated equity of Norfolk & Carolina. It requires gross revenue of $55,148 in addition to the $723,961 necessary to produce a 12.5% on the book common equity of Norfolk & Carolina. The $55,148 is additional revenue permitted by the decision in Commission v. Duke, 285 N.C. 377 (1974), as the return on the appreciated equity from the fair value appreciation in the rate base referred to by the Court as the "paper profit." The $723,961 of revenue would have produced a return on actual common equity of 12.5% for the test year, based on the capital structure employed by both Staff Witness Kiltie and Company Witness Brennan adjusted to include deferred investment tax credits (Revenue Act 1962) at zero weight, and would have allowed

Norfolk & Carolina to compete in the market on terms reasonable to its existing stockholders and to its customers, and the $55,148 more revenue from additional rate increases is deemed to comply with the provisions for additional earnings from said paper profits in the fair value rate base. The book common equity is increased by the entire $717,393 of the increment of the fair value rate base. This changes the ratio of equity from 34.3% to 37.6% in the capital structure of Norfolk & Carolina, as proformed for the fair value equity. The required rate of return on fair value equity is reduced by the resulting change in capital structure, based upon the reduced risk to the equity component, and the Commission finds that the fair rate of return on the resulting fair value equity to be 11.30%. This will require a rate increase of $779,109 and is found to be fair on the original cost equity and results in the stockholders receiving additional earnings attributable to paper profit included in the fair value equity of $55,148. This results in the stockholders actually having rates set to produce 13.04% return for the test period ending July 31, 1974, on the actual equity they had invested instead of the 12.5% which the Commission finds to be a fair return on actual common equity in compliance with the court's decision in Commission v. Duke, supra.

This order is based on a test period of twelve (12) months ending July 31, 1974 and fixes rates to produce a fair rate of return on the fair value of all property used and useful in providing service to the public at the end of the test period of July 31, 1974.

However, the Commission in granting the above rate of return has considered and weighed the fact that it is based on old historical data for the twelve months' period ending July 31, 1974, and that the records of the Commission clearly reflect that additional financing in the interim and those anticipated in the near term future, as well as additional plant being placed on line in the near future will have the natural effect of reducing the rate of return on the actual equity to somewhere in the range of 12.5%. The rate schedules filed by Norfolk & Carolina for its test period ending July 31, 1974 were designed to produce $801,894 of additional annual revenues from its North Carolina retail customers during the twelve months ending July 31, 1974. The interim rates in this docket, which are in effect subject to refund, are not unlawful. The Commission is of the opinion that since the total additional revenues collected by Norfolk & Carolina from rates that were in effect in this docket subject to refund would be no greater than the $779,109 of additional annual revenue found herein to be just and reasonable, and since the interim increases are found to be lawful none of the revenues collected subject to refund in this docket should be refunded.

The rates proposed by Norfolk & Carolina in this proceeding are not on an across-the-board basis. The relative increases to the particular exchanges are designed

to recognize the areas where cost increases of providing service are most prominent.

Calling scopes dictate that those exchanges other than Buxton, Waves and Kill Devil Hills should bear more of the revenue requirements. Likewise, those applicants for service work such as installation, moves and change should pay more in relation to costs incurred as should users of coin telephones for local calls. Also, concluded is that rural subscribers now paying zone charges would receive a larger reduction in these charges than proposed by the Company all of which results in some increases in rates above those proposed by the applicant. Norfolk & Carolina should adopt a written trouble report practice so that its performance with respect to Commission service objectives can be better evaluated and should undertake annual traffic studies in each central office and should study connector group traffic individually.

The evidence indicates that the company has deferred central office additions during 1975 based on reduced station growth experienced during the later part of 1974 and based on allowing line and terminal growth margins to be nearly exhausted before adding equipment. In order to more closely observe the company's growth and its ability to meet new service demands, the company should prepare a demand and facility chart for each Central office showing the number of lines and terminals equipped, assignable and the number of lines and terminals in service for each month starting January, 1974.

The overall level of subscriber trouble reports was excessive. The company should take action to reduce subscriber trouble reports so that each exchange would average in the range of 6 or fewer trouble reports per 100 stations over any 12-month period.

The Commission notes that there is not any evidence concerning the company's response time to trouble reports and service requests in the record and concludes that the company should commence to accumulate data to enable it to determine (1) the percentage of service orders worked within 5 days, excluding orders held at the customer's request, (2) the percentage of out of service subscriber trouble reports and the percentage of initial reports cleared in 24 hours.

The Commission further concludes that Norfolk & Carolina has made great strides in attempting to provide, in a progressive manner, the service its ratepayers desire. One area of service worthy of specific recognition is the extensive EAS service provided by Norfolk & Carolina. Norfolk & Carolina has one of the largest extended area service calling scopes in the entire country.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That Norfolk & Carolina Telephone & Telegraph Company be, and the same hereby is, authorized to implement revised intrastate local exchange rates and charges as hereinafter set forth in Appendixes A and B* attached hereto and made a part of this order designed to produce $779,109 in additional annual revenue. Said rates and charges shall become effective upon one day's notice on all bills rendered in advance, on and after the filing of said revised tariffs.

2. That Norfolk & Carolina Telephone & Telegraph Company shall file with the Commission on or before December 31, 1975, the service charge tariff attached as Appendix B with charges that will approximately offset the revenues produced by the service charge tariff in effect as the result of this order with full explanation of how the current and proposed revenues were determined. Said tariffs to be filed to become effective March 1, 1976.

3. That Norfolk & Carolina shall file monthly reports on the conversion of coin pay stations to the $.20 charge until such conversion is completed, the report to be due by the tenth day of each month.

4. That Norfolk and Carolina shall, (a) by July 1, 1975, file a written trouble report practice detailing how it receives and counts subscriber trouble reports. Said practice shall be consistent with industry practices and be approved by the Commission, (b) by July 14, 1975, file a demand and facility chart for each central office for data as of June 30, 1975, in an appropriate format and detail, approved by the Commission, (c) July 1, 1975, commence collecting peg count data where meters are in service on line and terminal equipment groups in each central office on a weekly basis in order to determine the local traffic usage busy season, (d) by July 1, 1975, file with the Commission a schedule where in busy season traffic usage studies will be performed in each central office at least once annually beginning in the year 1976, showing the equipment to be purchased, the dates the 1976 studies will be performed and which of the studies are being made for toll separations purposes, (e) by July 1, 1975, commence accumulating data to determine monthly (1) the percentage of service orders worked within 5 working days, (2) the percentage of out of service trouble reports cleared in 24 hours and (3) the percentage of trouble reports cleared in 24 hours, (4) take action to reduce the company wide level of subscriber trouble reports each month to 6 or less per 100 stations by December 31, 1976.

5. That the revenues collected by Norfolk & Carolina under the interim rates filed in this docket are hereby affirmed as just and reasonable and the undertakings filed with said rates are hereby discharged and cancelled.

ISSUED BY ORDER OF THE COMMISSION.

This the ||th day of April, |975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See portions of Appendix A below. For the remainder of Appendix A and Appendices B and C, see official Order in the Office of Chief Clerk.

APPENDIX A
NORFOLK & CAROLINA TELEPHONE & TELEGRAPH COMPANY
DOCKET NO. P-40, SUB |34

Basic Local Rates by Exchange

	Residence			Business		
Exchange	|-Pty	2-Pty	4-Pty	|-Pty	2-Pty	4-Pty
Buxton	$|0.00	$8.00	$6.00	$|5.00	$|3.00	$||.00
Coinjock	8.20	7.20	6.20	|9.60	|7.60	|5.60
Currituck Banks Rate Area	|0.20	8.20	7.20	22.60	20.60	|7.60
Edenton	8.20	7.20	6.20	|9.60	|7.60	|5.60
Elizabeth City	8.20	7.20	6.20	|9.60	|7.60	|5.60
Hertford	8.20	7.20	6.20	|9.60	|7.60	|5.60
Kill Devil Hills	|0.00	8.00	6.00	|5.00	|3.00	||.00
Mamie	8.20	7.20	6.20	|9.60	|7.60	|5.60
Manteo	7.00	6.00	5.00	|4.00	|2.00	||.00
Moyock	8.20	7.20	6.20	|9.60	|7.60	|5.60
Piney Woods	8.20	7.20	6.20	|9.60	|7.60	|5.60
Shiloh	8.20	7.20	6.20	|9.60	|7.60	|5.60
South Mills	8.20	7.20	6.20	|9.60	|7.60	|5.60
Sunbury	8.20	7.20	6.20	|9.60	|7.60	|5.60
Waves	|0.00	8.00	6.00	|5.00	|3.00	||.00
Weeksville	8.20	7.20	6.20	|9.60	|7.60	|5.60
Welch	8.20	7.20	6.20	|9.60	|7.60	|5.60
Woodville	8.20	7.20	6.20	|9.60	|7.60	|5.60

DOCKET NO. P-55, SUB 742

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Southern Bell Telephone) ORDER GRANTING
and Telegraph Company for an adjustment) PARTIAL INCREASES
in Its Rates and Charges Applicable to) IN RATES
Intrastate Telephone Service in North) AND
Carolina.) CHARGES

HEARD: Commission Hearing Room, One West Morgan Street, Ruffin Building, Raleigh, North

Carolina 27602 - October 7, 1975 through October 29, 1975

BEFORE: Commissioner George T. Clark, Jr., Presiding; Commissioner Tenney I. Deane, Jr., and Commissioner Barbara A. Simpson

APPEARANCES:

For the Applicant:

R. C. Howison, Jr.
Joyner & Howison
Attorneys at Law
Wachovia Bank Building
Raleigh, North Carolina 27602
For: Southern Bell Telephone and Telegraph Company

R. Frost Branon, Jr.
Attorney at Law
Southern Bell Telephone and Telegraph Company
1245 Hurt Building
Atlanta, Georgia
For: Southern Bell Telephone and Telegraph Company

For the Protestant:

Thomas R. Eller, Jr.
Hovis, Hunter & Eller
Attorneys at Law
801 American Building
Charlotte, North Carolina 28286
For: N.C. Merchants Association, Inc.

For the Intervenors:

Cecil O. Simpson, Jr.
U. S. Department of Justice and all
Executive Agencies
Pentagon
Washington, D. C.
For: U.S. Department of Defense and all Executive Agencies of the Federal Government

Henry A. Mitchell, Jr.
Michael Weddington
Attorneys at Law
P. O. Box 750
Raleigh, North Carolina 27602
For: American District Telegraph Company (ADT Security Systems, Inc.)

For the Using and Consuming Public and State Agencies:

I. Beverly Lake, Jr.
Robert Gruber
Jerry Fruitt
Attorney General's Office
701 Raleigh Building
Raleigh, North Carolina 27602

For the Commission Staff:

Maurice W. Horne, Deputy Commission Attorney
John R. Molm, Assistant Commission Attorney
Antoinette R. Wike, Associate Commission Attorney
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter is before the Commission upon the application filed July 19, 1974 by Southern Bell Telephone and Telegraph Company (hereinafter referred to as Southern Bell) for authority to adjust and increase intrastate rates and charges to produce total additional annual increases in revenue of approximately $62,459,052, including adjustments to vertical, toll, WATS and interexchange private line rates and toll settlements amounting to approximately $16,000,000. By an additional application also filed July 19, 1974, Southern Bell requested permission to place into effect on August 19, 1974 interim increases in basic residential and business rates excluding Centrex service, of approximately 10%, and an increase in service connection and move and change charges of approximately 20%, subject to Undertaking to refund.

By Order issued August 5, 1974, the Commission set the application of Southern Bell for investigation and hearing in Docket No. P-55, Sub 742; declared the same to be a general rate case; suspended the proposed rate adjustments; and declared the test periods to be the twelve (12) month periods ending May 31, 1974 and December 31, 1974. Southern Bell's request for authority to adjust its intrastate toll, WATS and interexchange private line rates and charges was separated from this Docket and placed in Docket No. P-100, Sub 34, for investigation and hearing, with all other telephone companies under jurisdiction of the Commission being made parties thereto. The Commission set the hearing dates as follows: interim rate case, September 18, 1974; toll rate case, January 2, 1975; general rate case, February 18-21, 1975, to be recessed until March 11, 1975.

The Commission issued orders recognizing the intervention of the Attorney General and allowing the interventions of the Department of Defense and all other Executive Agencies of the United States, the North Carolina Merchants Association, and American District Telegraph Company.

By orders issued August 23, 1974, the Commission required Southern Bell to give public notice of the general rate application and to provide information for Staff investigation in Docket No. P-55, Sub 742, and P-100, Sub 34.

By order issued September 19, 1974, the Commission denied Southern Bell's application for interim rate relief.

By order issued December 11, 1974 the Commission required Southern Bell to provide additional information to the Staff for its investigation.

Hearings were held in Docket No. P-100, Sub 34 on January 2-3, 1975 with a final order being deferred until completion of hearings and entry of an order in Docket No. P-55, Sub 742.

On January 16, 1975 Southern Bell filed in Docket No. P-55, Sub 742, Notice of Placing Rate Increase Into Effect Under Undertaking under the provisions of G. S. 62-135. On January 30, 1975, however, the Commission found that by virtue of the Commission's investigation and public statements by officials of Southern Bell regarding the accuracy and correctness of records of Southern Bell and filings with the Commission based upon those records in this docket, serious and substantial questions with respect to Southern Bell's records had arisen in the minds of the general public and the Commission. The Commission concluded that a complete and thorough independent audit of the test period should be performed at the expense of Southern Bell and the results of such audit filed with the Commission for consideration prior to entry of any decision in this proceeding. The Commission therefore enlarged the general rate case investigation in Docket No. P-55, Sub 742, to include an independent audit by a firm to be designated by the Commission; continued the hearings scheduled to begin on February 18, 1975 in this docket; and ordered Southern Bell to consider voluntarily withdrawing the Notice of Placing Rate Increase Into Effect Under Undertaking under G. S. 62-135 and voluntarily waiving the 270-day period under G. S. 62-134(b) until such time as the matter was resolved and the Commission acted upon the pending rate application.

On February 11, 1975 Southern Bell filed its response to the Commission's Order of January 30, 1975 withdrawing its Notice of Placing Rate Increase Into Effect Under Undertaking.

By order issued March 6, 1975, the Commission designated the accounting firm of Touche Ross & Co., to perform the independent audit which the Commission had determined to be necessary to this proceeding.

By order issued May 12, 1975 the Commission, having reviewed the status of the investigation by the Staff and Touche Ross & Co., rescheduled the hearing in Docket No. P-

55, Sub 742, to begin on October 7, 1975; retained the test period as the twelve (12) month period ending December 31, 1974; and required Southern Bell to give public notice regarding the rescheduled hearing.

On May 16, 1975 Southern Bell filed a Schedule of local rates to become effective May 17, 1975 pursuant to G. S. 62-134(b). This schedule contained no rate increases above those requested in Southern Bell's application of July 19, 1974 and none in excess of 20% for any single rate classification. On July 1, 1975 increases in message toll, WATS or inter-exchange private line service rates and charges were placed into effect by Southern Bell under G. S. 62-134(b).

On August 29, 1975 the Attorney General filed a motion for copy of report and audit information upon receipt by the Commission and for extension of time for filing expert testimony to and including October 14, 1975. By order issued September 8, 1975, the Commission allowed the Attorney General's motion for extension of time to file expert testimony and agreed to provided the Attorney General's representative with a copy of the Audit Report of Touche Ross & Co., on the date the report was filed.

On September 11, 1975 the North Carolina Merchants Association filed a Motion for extension of time for filing expert testimony to and including October 10, 1975. By order issued September 15, 1975 the Commission allowed said Motion to and including October 1, 1975.

On September 12, 1975, Touche Ross & Co., filed its special report on review of Southern Bell's internal controls and other areas.

On September 17, 1975 the Staff filed a Motion for extension of time to file testimony to and including September 23, 1975. By order issued that date the Commission allowed said Motion.

By order of the Chairman dated September 30, 1975 the hearings in Docket No. P-55, Sub 742, were assigned to begin October 7, 1975 before Commissioners Clark, Deane and Simpson in the Commission Hearing Room, One West Morgan Street, Raleigh, North Carolina.

The matter came on for hearing at the time and place listed above. All parties were present and represented by counsel as hereinabove indicated.

Southern Bell offered the testimony of the following witnesses: Robert R. Nathan, President, Robert R. Nathan Associates, Inc., with respect to general economic trends relevant to Southern Bell's earnings and cost of capital; Robert E. LaBlanc, Vice President, Saloman Brothers, with respect to return on equity, proper capital structure, and overall cost of capital for Southern Bell; Walter W.

Sessoms, General Revenue Supervisor, Southern Bell Telephone & Telegraph Company, with respect to cost of capital, fair rate of return, and the determination of additional revenues required by Southern Bell; Dr. Arthur Tebbutt, Professor of Statistics, Northwestern University, with respect to construction price index numbers used in determining replacement cost, Eugene C. Kaczkowski, Engineer, American Appraisal Company, Inc., with respect to preparation of indexes to reflect changes in costs for the building account and for the contractor portion of the underground conduit, buried cable, and pole line accounts; Oliver W. Porter, General Revenue Supervisor, Southern Bell Telephone & Telegraph Company, with respect to benefits received by Southern Bell under the License Contract; Richard J. Maskiell, Manager-License Contract and Regulatory Matters, American Telephone and Telegraph Company, with respect to License Contract services and costs; Henry S. Pino, Manager of Statistics - Regulatory Matters Division, Western Electric Company, with respect to Western Electric's sales and earnings; Richard M. Wolf, Engineering Manager - Price Surveys, American Telephone & Telegraph Company, with respect to studies comparing Western Electric prices to Bell System Companies with prices of general trade suppliers for similar products and services; W. E. Thornton, Price Manager, Western Electric Company, with respect to Western Electric's central office indexes applicable to Southern Bell; J. T. Gathright, Engineering Manager - Inventory and Costs, Southern Bell Telephone & Telegraph Company, with respect to replacement cost of the company's intrastate properties used and useful in furnishing telephone service in North Carolina; D. L. McKinsey, Chief Engineer - North Carolina Area, Southern Bell Telephone & Telegraph Company, with respect to the fair value of Southern Bell's telephone plant used and useful in providing service in North Carolina; Franklin B. Skinner, Vice President and General Manager, Southern Bell Telephone & Telegraph Company, with respect to Southern Bell's North Carolina operations and need for additional revenues; R. G. Turner, Jr., General Accountant, Southern Bell Telephone & Telegraph Company, with respect to Southern Bell's North Carolina intrastate operating results, adjusted for known changes in revenue and expense levels, as of December 31, 1974; David B. Denton, Rate Planning Supervisor, Southern Bell Telephone & Telegraph Company, with respect to principles employed in developing a schedule of rates and charges for telephone service; Robert C. King, partner in the public accounting firm of Coopers & Lybrand, with respect to auditing procedures and opinion on Southern Bell's financial statements for the twelve months ended December 31, 1974.

The Commission Staff offered the testimony and exhibits of the following witnesses: Hugh L. Gerringer, Telephone Toll Settlements & Separations Engineer, North Carolina Utilities Commission, with respect to the appropriateness of the apportionment of Southern Bell's operations in North Carolina between its interstate and intrastate operations and the status of intrastate toll settlements and Southern

Bell's intrastate toll revenues for the test period; Gene A. Clemmons, Chief Engineer Telephone Service Section, North Carolina Utilities Commission, with respect to review and evaluation of telephone service provided by Southern Bell in North Carolina and of engineering and planning of Southern Bell's central office and trunk facilities in North Carolina; Edwin A. Rosenberg, Staff Economist, North Carolina Utilities Commission, with respect to cost of capital and fair rate of return for Southern Bell; Norman D. Reiser, former Staff Accountant, North Carolina Utilities Commission, with respect to Southern Bell's original cost net investment, revenues and expenses for the test period; Millard N. Carpenter, III, Rate Analyst, Telephone Rate Section, North Carolina Utilities Commission, with respect to Southern Bell's proposed rate adjustments; Charles D. Land, Operations Engineer, North Carolina Utilities Commission, with respect to replacement cost of Southern Bell's intrastate plant used and useful in providing telephone service in North Carolina and Southern Bell's proposals for directory assistance charges; and Donald J. Trawicki, partner in the public accounting firm of Touche Ross & Co., with respect to an independent audit of Southern Bell's accounting records for its North Carolina operations and their reliability for purposes of determining Southern Bell's revenue requirements for the twelve months ended December 31, 1974.

Intervenor North Carolina Merchants Association offered testimony and exhibits of Dr. Lee L. Selwyn, President, Economics and Technology, Inc., with respect to Southern Bell's rate structure proposals.

Intervenor American District Telegraph Company filed testimony of George W. Johnson, District Manager of Service and Operations, with respect to the impact of Southern Bell's proposed adjustments in local private line rates upon the alarm industry. Ken Edwards testified on behalf of Sonitrol of North Carolina, Inc., with respect to local private line rates and security services.

The Attorney General offered testimony and exhibits of Bruce M. Louiselle, Vice President, David A. Kosh and Associates, Inc., with respect to Southern Bell's cost of capital and fair rate of return for North Carolina intrastate operations. The Attorney General also presented five persons who are blind, testifying with respect to Southern Bell's proposed charge for directory assistance. Three other public witnesses, representing consumers, telephone operators and the telephone answering industry, testified with respect to various aspects of Southern Bell's proposed rate changes.

Certain other motions and procedural matters are set forth in the record and have been considered by the Commission.

Based upon the entire record of this proceeding, the Commission makes the following:

FINDINGS OF FACT

1. That Southern Bell is a duly franchised public utility providing telephone service to its subscribers and is a duly created and existing corporation authorized to do business in North Carolina and is lawfully before the Commission in this proceeding for a determination as to the justness and reasonableness of its rates and charges as regulated by the Utilities Commission under Chapter 62 of the General Statutes of North Carolina.

2. That the total increases in rates and charges under Southern Bell's application would have produced approximately $45,184,246 in additional annual gross local service revenues. (The application for intrastate toll increases and settlements is subject of Docket No. P-100, Sub 34.)

3. That the test period used for the purpose of establishing rates in this proceeding is the twelve-month period ending December 31, 1974 which was designated as the test period by the Commission's Order of August 5, 1974 for which Southern Bell was subsequently required by the Commission to file revised actual data for the period. The Commission finds that for this test period the Commission can reasonably rely on data extracted from Southern Bell records for the determination of company revenue requirements.

4. That the overall quality of service provided by Southern Bell is good.

5. That the reasonable original cost of Southern Bell's North Carolina intrastate utility property is $750,950,410, the depreciation reserve is $145,269,204, and the depreciated original cost is $605,681,206.

6. That the reasonable replacement cost less depreciation of Southern Bell's intrastate plant in service is $867,425,423.

7. That the reasonable allowance for working capital is $7,554,769.

8. That the fair value of Southern Bell's utility plant used and useful in providing intrastate telephone service in North Carolina should be derived from giving equal weighting to the original cost less depreciation and the replacement cost less depreciation of Southern Bell's utility plant. By this method, using the original cost of $605,681,206 and the replacement cost of $867,425,423, the Commission finds that the fair value of said utility plant devoted to intrastate telephone service in North Carolina is $736,553,314. The addition of a reasonable allowance for working capital of $7,554,769 yields a reasonable fair value of Southern Bell's property in service to North Carolina customers of $744,108,083.

9. That the approximate gross revenues net of uncollectibles for Southern Bell for the test period are $241,143,372 under present rates and that under company proposed rates would have been $294,127,275, before annualization to year-end revenues.

10. That the level of operating expenses after accounting and pro forma adjustments, including taxes and interest on customer deposits is $202,407,912 which includes an amount of $37,031,005 for actual investment currently consumed through reasonable actual depreciation, before annualization to year-end level.

11. That the proper annualization factor necessary to restate income after accounting and pro forma adjustments to end-of-period level as required by G. S. 62-133 is 1.35%.

12. That the fair rate of return which Southern Bell should have the opportunity to earn on the fair value of its North Carolina intrastate investment is 7.50%.

13. That the capital structure used by the Commission for Southern Bell at December 31, 1974 was:

Total Debt	46.89%
Preferred Equity	4.33%
Common Equity	42.94%
Cost Free Capital	5.84%

14. That the company's original cost equity ratio is 42.94% and its fair value equity ratio is 52.98%.

15. That the proper embedded cost rate for long term debt and short term debt is 6.90% and that the fair rate of return which should be applied to the company's fair value investment is 7.50% which includes a rate of return on the company's fair value equity of approximately 8.60%.

16. That Southern Bell must be allowed an increase in annual service revenues of $36,169,090 in order for it to have the opportunity through prudent and efficient management to earn the 7.50% rate of return on the fair value of its property in service to North Carolina customers. This increased revenue requirement is based upon the fair value of the property, reasonable test year operating expenses, and revenues as previously determined.

17. That Southern Bell should develop company policies in accordance with this order in order to improve certain accounting policies and procedures.

18. That Southern Bell should be required to refund $426,000 by way of penalty for monies mishandled and improperly accounted for by its management during the years 1971, 1972 and 1973.

19. That charging for directory assistance is an appropriate means of requiring those subscribers who use the local directory assistance service to pay a portion of the costs incurred to provide the service.

20. That the schedule of rates and charges and the service charge tariff set forth in Appendix A and B attached to this order are found to be just and reasonable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The application for Southern Bell to increase its rates and charges was filed on July 19, 1974.

By order of August 5, 1974 the Commission established the test period in this proceeding as the twelve-month period ending December 31, 1974.

The reason for using a twelve-month test period in this proceeding, as in all general rate cases, is to establish the company's operating experience. By normalizing revenues and expenses and adjusting for known changes in conditions, the test period provides a reasonable basis for the establishment of rates which will be effective prospectively.

The test period established on August 5, 1974 was retained by Commission Order of May 12, 1975 and Southern Bell was required to file revised actual data for the test period inasmuch as some of the originally filed data was estimated data.

The various audits and investigations and the testimony of witnesses indicate that the Commission can reasonably rely on and use data taken from Southern Bell records for the test period for determining company revenue requirements.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The evidence as to the quality of service being provided by Southern Bell consists of the testimony of company witness Skinner and staff witness Clemmons. Company witness Skinner testified concerning the company's duty and responsibility to provide good service and to meet the demand for telephone service. Mr. Skinner stated that the company is meeting that responsibility at this time. Staff witness Clemmons testified concerning the Staff's investigation and evaluation of the quality of telephone service provided by Southern Bell. The Staff's findings, based on the results of field testing and service data, indicated that the overall service provided by the company is good.

Based on the evidence of record, the Commission concludes that the overall quality of service offered by Southern Bell is good.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

The Commission will now analyze the testimony and exhibits presented by company witness Turner and staff witness Reiser concerning the intrastate net investment in telephone plant in service. The following chart summarizes the amount which each of these witnesses contends is proper for this item:

Item (a)	Company Witness Turner (b)	Staff Witness Reiser (c)
Investment in telephone plant in service	$750,950,410	$750,950,410
Property held for future use	1,144,019	
Total Investment	$752,094,429	$750,950,410
Less: Accumulated provision for depreciation	144,769,285	146,699,190
Customer deposits	-	1,586,684
Total Deductions	$144,769,285	$148,285,874
Net investment in telephone plant in service	$607,325,144	$602,664,536

As the above chart shows both witnesses agree that the original cost of investment in telephone plant in service is $750,950,410. However, the witnesses are at odds on the treatment to be accorded property held for future use. Company witness Turner maintained that property held for future use should be included in calculating the original cost net investment plus allowance for working capital. It was his position that investment in property held for future use is as important in providing telephone service to customers as telephone plant currently in service. Witness Turner contended that funds used to purchase these properties were provided by the investor and that exclusion of this item from the original cost net investment would result in the company being denied an opportunity of earning a return on capital provided by the investor for this purpose. Staff witness Reiser excluded this item as in prior cases in developing his original cost net investment.

The Commission is of the opinion that inclusion of property held for future use in determining plant in service does not comply with G. S. 62-133(b) (1) which states, "the Commission shall ascertain the fair value of the public utility's property used and useful in providing the service rendered to the public within this State, considering the reasonable original cost of property less that portion of the cost which has been consumed by previous use recovered by depreciation expense, the replacement cost of the property, and any other factors relevant to the present fair value of the property." The Commission interprets this statute to mean that only plant which is in service is "used

and useful" and that this term would not include property held for future use. As in previous general rate proceedings, we will exclude the amount of $1,144,019 from the original cost net investment.

Both witnesses agree that depreciation reserve should be included as a deduction in calculating the original cost net investment. The witnesses do not agree, however, on the proper amount to be deducted. Witness Reiser testified that the accumulated provision for depreciation was $146,699,190 which is $1,929,905 more than the amount used by witness Turner. This difference resulted from the adjustment to the depreciation reserve made by witness Reiser to reflect the increase in the test year's addition to the reserve (depreciation expense) engendered by taking depreciation on end-of-period plant in service.

Mr. Reiser testified that two different methods could be used in computing the amount to be added to the reserve. One would be derived by computing the end-of-period depreciation expense on the end-of-period plant in service which would increase the reserve by $1,929,905. Another approach would be to use the overall growth rate times the current year depreciation expense which would increase the reserve by $499,919. Mr. Reiser further testified that he believed it would be appropriate to use the $1,929,905 as he had tested Mr. Turner's net operating income against an adjusted fourth quarter net operating income which was based on using end-of-period plant in service to compute depreciation expense.

The Commission concludes that it would be inconsistent to allow the company to increase its depreciation expense to reflect end-of-period levels through the use of the annualization factor and not make the corollary adjustment to the accumulated provision for depreciation. The Commission concludes that accumulated depreciation of $145,269,204, which includes the end-of-period adjustment of $499,919, should be deducted from gross plant in arriving at original cost net investment.

The last item of difference relates to customer deposits which witness Reiser treated as noninvestor supplied capital by deducting the end-of-period amount of $1,586,684 from investment in telephone plant in service. Witness Turner used average customer deposits as a reduction of the working capital allowance. Witness Reiser explained that end-of-period customer deposits should be considered as the proper amount since both he and witness Turner had included interest on customer deposits in operating expenses and annualized this expense to the end-of-period level through the annualization factor.

The Commission concludes from the evidence presented by the witnesses that the end-of-period level of customer deposits of $1,586,684 should be included as an item of

noninvestor supplied capital and, consequently, should be treated as a deduction from working capital allowance.

Based on all the testimony and evidence presented in this case the Commission concludes that the intrastate net investment in telephone plant in service is $605,681,206.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

Although the term "replacement cost" envisions replacing utility plant in accordance with modern design techniques and with the most up-to-date changes in the state of the art of telephony, trended original cost as presented by company witnesses envisions and is founded upon the premise of the duplication of plant as is, with inefficiencies and outmoded design included. Even though obsolescence can be accounted for in proper depreciation treatment, the economies of scale inherent in telecommunications (e.g., employing one 600 pair conductor cable down a road versus six 100 pair cables installed over a number of years) are not fully recognized in the trending process. Nevertheless, the Commission concludes that the trended original cost as proposed by the company for the purported value of the replacement cost represents some evidence on the replacement cost of the plant in service. Accordingly, the weight given to the trended original cost study offered in this proceeding as evidence of replacement cost is based upon a detailed evaluation of the methodology employed.

Company witness Jack T. Gathright testified on the net replacement cost new of Southern Bell's intrastate plant in service. This witness testified that his definition of replacement cost as used in his study is the cost obtained by trending the depreciated original cost of property to current price levels but that replacement cost does not imply that this is a cost which would be incurred in physically replacing all of the Southern Bell Telephone property in North Carolina with a substitute plant. Replacement cost determined by the trending methods restates the investment in the existing plant in terms of current price levels taking into consideration that a portion of the original investment has been recovered by depreciation expense. He testified that his trending method gives proper recognition to any loss of service value which has occurred since the telephone plant in North Carolina was originally constructed, properly states the replacement cost in terms of present economic conditions and gives full effect through the appropriate index numbers to any savings that have been brought about by improvements in manufacturing techniques, construction methods, tools, and engineering technology. Company witness Gathright found the replacement cost of the company's intrastate properties as of December 31, 1974 to be $917,212,491. This includes telephone plant in service replacement cost of $909,520,661; property held for future use of $1,144,019; and materials, supplies, and working capital of $6,547,811.

Company witness Thornton's testimony dealt with a series of price indexes that he developed for several general classifications of central office equipment. It was his opinion that the price indexes he had developed accurately portrayed the movement of Western Electric's prices for various types of central office equipment sold to Southern Bell. Although these indexes were developed on nationwide averages, witness Thornton believed they would be applicable to any Bell operating company because all of the equipment is made by the same manufacturer to the same specifications. He testified that differences could be caused by the quantities of each type of equipment required in each central office to meet local conditions, but that the indexes were calculated in such a way as to eliminate higher costs caused by newer more sophisticated equipment or higher costs of larger quantities of equipment.

Company witness Eugene G. Kaczkowski, American Appraisal Company, Inc., testified on behalf of Southern Bell concerning cost trend indexes which he prepared for the Southern Bell North Carolina building account and for the contractor portion of the underground conduit, buried cable and pole line accounts. He testified that American Appraisal Company developed cost indexes applicable specifically to thirteen major components of buildings by developing cost trends for basic elements comprising a particular building component and then weighting the various elements to combine them into an index for a particular component. This witness testified that he physically inspected a sample of company buildings in order to determine the weight or relative importance of the elements in the North Carolina buildings. He stated that wage rates and material prices used in the study were determined from an analysis of actual data obtained for North Carolina cities and that the determination of the relative importance of the various elements and components was based on an analysis of the quantities of elements and a sample of company buildings in North Carolina.

Company witness Kaczkowski also testified to other indexes prepared for the contract portion of underground conduit, buried cable, and pole line accounts and that these indexes reflected construction indexes in each of these accounts only for work performed by contractors. The methods used to prepare indexes for contract labor on underground conduit construction were similar to those for the building index. He testified that American Appraisal provided Southern Bell with a series of underground conduit contract construction cost index numbers from 1946 to January 1, 1974, and for contract construction portion of buried cable and pole line indexes from 1946 to January 1, 1971, and that subsequent to January 1, 1971, Southern Bell has updated these indexes.

Commission Staff witness Charles Land testified that the company had improperly treated depreciation reserves in its calculation of trended original cost. He stated that depreciation should be allocated by the vintage method,

i.e., reserves should be subtracted from the original cost of the surviving investments on which they were accrued; and that the company's method of allocating depreciation reserves according to the year of recovery was improper.

On cross-examination, Mr. Land conceded that the investors' dollars were subject to effects of inflation from the time of investment until the time of recovery through depreciation but that (1) the investors were compensated for inflation because of the return earned on those dollars for that period, and (2) that trended cost, as a valuation concept, should reflect the remaining life of the surviving plant and not a cash flow analysis.

Mr. Land stated that the company's treatment of depreciation resulted in the same net original cost that he calculated, but that investment dollars were shifted to earlier years and when multiplied by trend factors are overstated. We conclude the reasonable replacement cost of Southern Bell's intrastate plant in service is $867,425,423. Consistent with our findings on original cost net investment, we have excluded from the net replacement cost new property held for future use of $1,144,019.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

Staff witness Reiser and company witness Turner each presented a different method for determining the working capital allowance.

Mr. Reiser presented a "lead - lag" study which measures the funds furnished by either customers or investors, as the case may be, to meet the day-to-day cost of providing service to the customers. He explained that the "customer funds advanced" should be increased by average cash, and average material and supplies and reduced by the accounts payable applicable to material and supplies and to plant in service. Mr. Reiser's net allowance for working capital computed in this manner was $1,078,435.

Witness Turner proposed a working capital allowance of $6,547,811 based on the formula method of determining working capital. Mr. Turner's allowance for working capital is equal to the sum of average material and supplies, cash equal to one-twelfth of operating expenses less depreciation, and average prepayments, reduced by average operating tax accruals and average customer deposits.

The Commission concludes that consistent with the recent Duke Power Company decision in Docket No. E-7, Sub 173 the formula method of determining the working capital allowance as presented by the company should be used in this case. The allowance for working capital will be determined by adding average material and supplies, cash (one-twelfth of operating expenses less depreciation), and average prepayments less average operating tax accruals and end-of-period customer deposits. With the addition of the 1975

wage increase to operating expenses and the reduction in operating expenses as a result of directory assistance charges and their effect on average operating tax accruals, the Commission concludes that a reasonable allowance for working capital is $7,554,769.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

G. S. 62-133(b)(1) provides that:

> "In fixing such rates, the Commission shall:
> (1) Ascertain the fair value of the public utility's property used and useful in providing the services rendered to the public within this State, considering the reasonable original cost of the property less that portion of the cost which has been consumed by previous use recovered by depreciation expense, the replacement cost of the property, and any other factors relevant to the present fair value of the property. Replacement cost may be determined by trending such reasonable depreciated cost to current cost levels or by any other reasonable method."

Upon consideration of the original cost and replacement cost and the Commission's conclusion in regard thereto set forth hereinabove and the testimony of the witnesses in this proceeding relating to this issue, the Commission concludes that equal weighting should be given to original cost and replacement cost in this case and that the fair value of Southern Bell's intrastate utility plant used and useful in providing service to its subscribers is $744,108,083.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

Company witness Turner, staff witness Reiser, and staff witness Gerringer presented testimony concerning the appropriate level of operating revenues. Staff witness Gerringer testified specifically concerning the separations procedures employed by the company to separate its operating revenues and expenses between jurisdictions. Mr. Turner and Mr. Reiser testified as to the appropriate level of intrastate operating revenues after accounting and pro forma adjustments.

Mr. Turner and Mr. Reiser both testified that the appropriate level of intrastate operating revenues before annualization is $241,143,372. Based on the evidence presented by these witnesses, the Commission concludes that the proper level of intrastate operating revenues is $241,143,372.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 10 & 11

Company witness Turner and staff witness Reiser presented testimony and exhibits showing the level of intrastate

operating expenses they believed should be used by the Commission for the purpose of fixing Southern Bell's rates in this proceeding.

The following chart shows the amount contended for by each witness:

	Company Witness Turner	Staff Witness Reiser
Operating Expenses	$||7,377,|0|	$|24,854,754
Depreciation and amortization	37,03|,005	37,C3|,005
Operating taxes including Income Taxes	46,226,835	41,348,279
Total operating expenses before annualization	$200,634,94|	$203,234,038

The witnesses propose different amounts for total operating expenses before annualization.

The difference in the amounts proposed for operating expenses set forth above in part results from an adjustment made by Staff witness Reiser to eliminate contributions and certain membership dues in the amount of $|55,07| from operating expenses. The Commission concludes that contributions and membership dues should be excluded from operating expenses.

Witness Reiser also made an adjustment increasing operating expenses by $7,632,724 to reflect wage increases which were effective August |, |975. Witness Turner did not make an adjustment for these additional increases in wage payments and other benefits.

The Commission concludes that it is proper to increase operating expenses by $7,632,724 to reflect the |975 wage increase.

There is one additional decrease in operating expenses which must be made. Staff witness Land testified as to the cost reduction which Southern Bell may expect by charging for directory assistance calls. Since the Commission is setting rates based on charging for these calls, the Commission also finds that the cost reduction of $2,60|,080 as found previously should be considered as a further reduction in operating expense.

As witness Reiser discussed in his testimony, both witnesses propose to include interest on customer deposits in operating expenses. The Commission having concluded that customer deposits should be included as a reduction of

working capital concludes that consistency dictates inclusion of interest on customer deposits as an operating expense. This treatment will assure that the company will recover no more than the cost of these funds.

Based on the foregoing discussion, the Commission concludes the proper level of operating expenses before annualization is $122,253,674.

Both witnesses agree, and from the evidence the Commission concludes, the proper level of depreciation before annualization is $37,031,005.

The difference of $4,878,556 in the levels proposed by the witnesses for operating taxes including income taxes is due to four adjustments made by witness Reiser. The first of these adjustments was an increase in FICA taxes of $302,029, to reflect the increase in FICA taxes associated with the 1975 wage increase. The Commission concludes that this increase in FICA taxes is proper and consistent with Mr. Reiser's adjustment increasing operating expenses for the 1975 wage increase.

The remaining difference is due to three adjustments witness Reiser made to state and federal income taxes.

Witness Reiser explained in his testimony that federal and state income taxes should be reduced by $391,517 to provide for the income tax effects associated with the pro forma increase in pension costs and payroll taxes capitalized. He testified that for income tax purposes, the company deducts all pension costs and payroll taxes, including those capitalized; therefore, the calculation of income taxes should not be limited to the effect of those items charged to expense, but should include the effect of the total increase in pension costs and payroll taxes. Mr. Turner adjusted for the income tax effect of the pro forma increase in pension costs and payroll taxes charged to expense; however, no provision was made for the related income tax effects of pension costs and payroll taxes capitalized. The Commission concludes, based on the evidence presented by Company witness Turner and staff witness Reiser that the decrease of $391,517 in state and federal income taxes is proper.

The next item causing a difference in the level of income taxes presented by the witnesses is an adjustment proposed by witness Reiser to decrease state and federal tax expense by $81,095 for the income tax effects of his proposed increase in interest expense. Mr. Reiser explained that the decrease in income taxes is necessary in order to reflect the income tax effects of the difference in interest cost shown on Reiser Exhibit 1, Schedule 1 and the interest expense used by the company in computing the test period federal and state income tax expense.

As Mr. Reiser explained on cross-examination, the increase in interest cost was composed of two components. First it was necessary to increase interest cost by $420,101 in order to reflect on an end-of-period basis the interest cost associated with the Bell System Consolidated Capital Structure. Consistent with the inclusion of this higher interest expense in the cost of service, Mr. Reiser reduced the federal and state income tax component of the cost of service for the decrease in income taxes associated with this increase in interest cost. The de-annualized reduction in federal and state income taxes associated with this increase in interest cost was $211,895. The Commission concludes that an adjustment to decrease the federal and state income tax component of the cost of service for the income tax effects of an increase in the interest component of the cost of service is proper. The amount of the reduction will be different from the $211,895 because the Commission has used a higher original cost net investment to calculate end-of-period interest than witness Reiser used. Calculating the adjustment in the same manner as Mr. Reiser and taking into consideration the higher original cost net investment, the Commission concludes the appropriate de-annualized decrease in the federal and state income tax component of cost of service is $366,813.

The second component of Mr. Reiser's adjustment was to decrease the federal and state income tax component of the cost of service for the income tax effects of interest on debt supporting construction work in progress. The de-annualized reduction in income taxes proposed by witness Reiser was $600,200. Mr. Reiser stated on cross-examination that the propriety of including or excluding the income tax effects associated with the interest on debt supporting plant under construction depended on the method employed by the company in calculating the Interest During Construction (IDC) Rate used to capitalize interest on plant under construction. Mr. Reiser stated that if a company used an after-tax IDC rate then the income tax effects of interest on debt supporting construction work in progress should not be included as a reduction in federal and state income tax expense. Conversely he testified that if a before-tax rate is used to capitalize IDC, federal and state income taxes should be reduced by the income taxes associated with interest on debt supporting plant under construction. Mr. Reiser stated that his review of the IDC rate used by Southern Bell indicated the rate used by the company was higher than an after-tax IDC rate.

The Commission has carefully considered the testimony of staff witness Reiser concerning the adjustment which he proposed to reduce income tax expense for income taxes associated with interest on debt supporting plant under construction, and the consideration which should be given to the manner in which the IDC rate is developed. The Commission recognizes that the proper development of this rate is a complex subject. The purpose of permitting capitalization of interest used during construction is to

provide the company with an opportunity to include as a cost of plant the cost of funds used to build plant today for future customers. The Commission recognizes the difficulty with specifically tracing the source of funds used to finance construction.

Therefore, it seems that the basic objective of IDC is to enable a company to construct new facilities without causing significant or adverse effects on its earnings from utility operations. The calculation of the IDC rate should conform to ratemaking practices so that the company will be permitted to earn on its total utility operations including its construction program at the approximate level permitted in the rate case. Based on the testimony and exhibits presented in this docket, the Commission concludes that the IDC rate used by Southern Bell in 1974 did permit capitalization of the cost of funds used during construction; and that the rate should not be increased without prior approval of the Commission. The Commission concludes that the reduction proposed by Mr. Reiser of $600,200 should not be included in this case for purposes of fixing rates.

The Commission further concludes that when the IDC rate used conforms to the ratemaking process by including the appropriately weighted consolidated embedded cost of long-term debt and preferred stock, the appropriate amount of short-term debt, cost-free funds at zero cost, and a fair return on common equity, that it will be proper to compound the amount of capitalized funds on an annual basis.

The remaining difference in the amounts proposed by the witnesses for federal and state income taxes is caused by adjustments made by Mr. Reiser to increase or decrease tax expense due to previous adjustments he had made to operating expenses and other operating taxes. The Commission concludes that it would be proper to include the income tax effects associated with each adjustment previously found just and reasonable including the adjustment to reduce operating expenses due to charging for directory assistance calls.

Based on the evidence presented the Commission concludes that the proper level of operating taxes including state and federal income taxes before annualization is $43,123,233.

Based on all testimony and evidence presented in this case the Commission concludes that the proper level of total operating expenses before annualization which includes depreciation and taxes and which should be used in the fixing of rates is $202,407,912.

EVIDENCE AND CONCLUSIONS FOR
FINDINGS OF FACT NOS. 12 THROUGH 16

Four witnesses testified as to cost of capital and fair rate of return. Mr. Walter Sessoms and Mr. Robert LaBlanc

were presented by the company; the Commission Staff presented Mr. Edwin Rosenberg and the Attorney General presented Mr. Bruce Louiselle.

The capital structure and embedded cost rates for debt and preferred stock differed very little. Each witness used the capital structure and embedded cost rates for the Bell System Consolidated. The differences between the witnesses arose from differences between the use of the December 31, 1974 figures or the expected December 31, 1975 figures and in the amount of cost-free capital.

The amount of cost-free capital presented by Mr. Rosenberg represents the cost-free items of accumulated deferred income taxes resulting from normalizing the tax effects of accelerated depreciation and amortization and the unamortized investment tax credit realized under the Revenue Act of 1962. Mr. Sessoms included only the deferred income taxes as cost-free capital.

Staff witness Reiser testified that:

> "Congress passed a Law in 1962 which generally allowed utilities to reduce their Federal income tax liability by 3% of the cost of qualifying property. This Commission issued a general rulemaking order which permitted utilities to follow what is commonly referred to as 'normalization accounting' for investment tax credits. By this accounting procedure the company reflects, for financial reporting and regulatory purposes, a greater Federal income tax expense than it actually incurs. Concurrently, a corresponding credit is set up on the balance sheet in an unamortized investment tax credit account to reflect the difference between the normalized book income tax expense and the actual income tax liability. The investment tax credit is then amortized as a reduction to book Federal income tax expense over the useful life of the qualifying property. The unamortized balance of investment tax credit represents a source of cost-free capital which has been provided by the ratepayer."

The Commission concludes from the evidence presented that the investment tax credit realized under the Revenue Act of 1962 is an item of cost-free capital and as such should be used as cost-free capital in the capital structure.

For the purposes of setting rates charged the North Carolina intrastate ratepayers, the capital structure and cost rates chosen are those of year-end 1974. These reflect end-of-test-period figures and are thus consistent with other test period data. The capital structure and embedded cost rates are shown below:

	%	Cost Rate
Debt	46.89	6.90%
Preferred Stock	4.33	7.83%
Common Equity	42.94	-
Cost Free	5.84	-
TOTAL	100.00%	

When the excess of the fair value rate base over original cost net investment is added to the equity component, the resulting fair value capital structure is the following:

	%
Debt	38.64
Preferred Stock	3.57
Fair Value Common Equity	52.98
Cost Free	4.81
TOTAL	100.00%

This calculation shows the effect of adjusting the equity component of investment to reflect the fair value increment.

The return which is to be allowed on the fair value rate base is one which must conform to the standards as set forth in G. S. 62-133(b)(4), which provides that the Commission shall:

> "Fix such rate of return on the fair value of the property as will enable the public utility by sound management to produce a fair profit for its stockholders, considering changing economic conditions and other factors, as they then exist, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors."

The components of the return, i.e., the "fair rate of return" which is to be allowed on the fair value rate base are the cost rates for the components of the capital structure (debt, preferred stock, common equity and cost free capital) weighted by their respective ratios of the fair value capital structure. Since the fair value capital structure and embedded cost rates for debt and preferred stock have been determined above, the remaining component which must be determined is that of the proper rate of return to be allowed on the fair value common equity.

The major determinants of the allowed rate of return on the fair value of the common equity are the required return to common equity and the relationship between the net original cost common equity and the fair value common equity. Each of the witnesses who spoke to the issue of the fair rate of return in this proceeding estimated the fair

return on common equity to the company. Each witness also estimated the cost of issuing additional equity and adjusted his recommended return on equity in order to allow the company the opportunity to issue new common equity on terms which do not penalize existing investors by dilution. When all adjustments had been made, the witnesses made the following recommendations of the required return to equity capital:

Mr. Sessoms	13-14%
Mr. LaBlanc	14.2-15.2%
Mr. Rosenberg	12.9-13.2%
Mr. Louiselle	11.75%

The fair rate of return must meet the test as laid down in G. S. 62-133(b)(4) cited above. It is clear that as far as meeting the requirements of the statute, the most crucial test is that of attraction of capital on reasonable terms. If the company is allowed, and earns, a fair rate of return and is therefore able to attract capital on reasonable terms, it will produce a fair profit for its stockholders and will be able to serve its customers properly.

The evidence in this proceeding points out that the company has been able to attract investment dollars on generally reasonable terms. The company has in general maintained its traditional high bond ratings and appears in no danger of being foreclosed from the debt market. A return on common equity somewhat higher than that which has been allowed in previous cases, if earned, would have the effect of enabling the company to attract equity on reasonable terms while maintaining or enhancing its credit ratings.

Each of the witnesses advocated a return which is higher than that currently allowed. The overall reasoning for the higher required return seems to relate to the experienced and expected rates of inflation, high interest rates and the general condition of the equity market. The relationship between these factors is significant in the sense that they are all caused by the highly undesirable economic climate, i.e., a combination of historically high inflation and unemployment levels. The company has felt the sting of these factors, not only in the area of its required return on equity but also in the earned return on equity. Inflation, high capital costs, and slackening growth in demand for telephone service have put pressure on the earned rate of return and forced it to a clearly unreasonable level.

The return which is to be herein allowed is one which will have to satisfy the requirements of equity holders in the near-term future. The return which they will require will be determined not only by historic factors but also by then existing economic conditions. Some weight therefore must be given to both current conditions affecting the required equity return and to the expected future conditions. Recent

historic conditions affecting the required return on equity are reflected in the testimony of the various witnesses. There was, however, very little attempt by the witnesses in general to forecast either future conditions or the effect of future conditions on required equity returns. Clearly, the high recommended returns have reflected the disappointing economic climate which has recently existed. If this disappointing climate were expected to continue unmitigated, these high required return estimates would appear more plausible and greater weight could be given them.

The relative stabilization of long-term interest rates, slackening of inflation rates, economic recovery and greater investor confidence in the equity markets are factors which tend to imply that if present trends continue, near-term investor requirements will be decreased somewhat below the levels advocated by Messrs. LaBlanc, Rosenberg and Sessoms. However, even the prospects of better economic conditions would not seem to reduce the required return to the low level advocated by Mr. Louiselle.

In order to insure that consumer interests are properly safeguarded, the ratemaking function of the Commission has been interpreted as carrying out the Legislative mandate which itself has been interpreted as follows:

> "...the Legislature intended for the Commission to fix rates as low as may be reasonably consistent with the requirements of the Due Process Clause of the Constitution..." Utilities Comm. v. Power Co., 285 N.C. 377, 388 (1974)

Having examined the evidence presented in this case, the Commission concludes that the company should be allowed the opportunity to earn a return of 12.25% on its actual (book) common equity before taking into consideration the fair value increment. This area is often one of the least precise of the issues in a general rate case and indeed, the required return on common equity is often highly controversial as can be seen in the recommendation of the witnesses in this case. When the Commission weighed the evidence of the rate of return witnesses together with that of Robert Nathan (who testified for the company in the area of general economic trends and conditions) it was clear that although the company needed to earn a return in excess of that being earned, there was not sufficient clear-cut evidence which would support the contention by the company that it needed to earn in the 13-14% range.

When the increment of fair value over original cost is added to the common equity, the earnings requirements of the resulting fair value common equity must be analyzed. The return which is allowed on fair value common equity must still be interpreted in light of the statute. The principles which govern this return are that it should meet the requirements of the statute and the relevant decisions

of the court. A return of 8.60% on the fair value common equity will produce a return of 12.87% on the actual (book) common equity in the consolidated (Bell System) capital structure. The reason that the return on fair value common equity is different from that on book common equity (in percentage terms) is because of the effect of the increase in common equity component and of the change in the capital structure ratios thereby reducing the risk to the equity investor. The addition of the fair value increment to equity increases the relative safety of the equity investment and therefore decreases the relative risk and required returns on equity.

The Commission concludes that a return of 8.60% on the fair value equity will provide the company with the opportunity to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors.

This return, when considered in light of the relationship between rate base and original cost net investment, will produce a return sufficient to enable the company to have the opportunity to treat fairly the investors and ratepayers alike.

The following schedules show the derivation and application of the findings hereinabove and are to be incorporated as part of those findings.

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
Docket No. P-55, Sub 742
North Carolina Intrastate Operations
STATEMENT OF RETURN
Twelve Months Ended December 31, 1974

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross operating revenues	$242,141,412	$36,169,090	$278,310,502
Less: Uncollectibles	998,040	150,102	1,148,142
Total operating revenues	241,143,372	36,018,988	277,162,360
Operating Revenue Deductions			
Operation and maintenance expenses	122,253,674		122,253,674
Depreciation and amortization	37,031,005		37,031,005
Operating taxes	43,123,233	19,469,271	62,592,504
Total operating revenue deductions	202,407,912	19,469,271	221,877,183
Net operating revenues	38,735,460	16,549,717	55,285,177

Add: Annualization adjustment - 1.35%	522,929		522,929
Net operating income for return	$ 39,258,389	$16,549,717	$ 55,808,106
Original Cost Net Investment Net Plant in Service			
Telephone plant in service	$750,950,410		$750,950,410
Less: Accumulated depreciation and amortization	145,269,204		145,269,204
Net investment in telephone plant in service	605,681,206		605,681,206
Allowance for Working Capital			
Material and supplies	$ 4,818,210		$ 4,818,210
Cash	10,187,806		10,187,806
Average prepayments	2,909,100		2,909,100
Less: Customer deposits	1,586,684		1,586,684
Average operating tax accruals	8,773,663		8,773,663
Total allowance for working capital	7,554,769		7,554,769
Total original cost net investment	$613,235,975		$613,235,975
Fair value rate base	$744,108,083		$744,108,083
Return on fair value rate base	5.28%		7.50%

SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
Docket No. P-55, Sub 742
North Carolina Intrastate Operations
Twelve Months Ended December 31, 1974

	Fair Value Rate Base	Ratio %	Embedded Cost or Return on Common Equity %	Net Operating Income
	Present Rates - Fair Value Rate Base			
Capitalization				
Total debt	$287,546,349	38.64	6.90	$19,840,698
Cost-free capital	35,812,981	4.81	-	-
Preferred equity	26,553,118	3.57	7.83	2,079,109
Common equity				
Book $263,323,527				
Fair value increment	130,872,108	394,195,635	52.98	4.40	17,338,582
Total capitalization	$744,108,083	100.00	-	$39,258,389
	Approved Rates - Fair Value Rate Base			
Total debt	$287,546,349	38.64	6.90	$19,840,698
Cost-free capital	35,812,981	4.81	-	-
Preferred equity	26,553,118	3.57	7.83	2,079,109
Common equity				
Book $263,323,527				
Fair value increment	130,872,108	394,195,635	52.98	8.60	33,888,299
Total capitalization	$744,108,083	100.00	-	$55,808,106
Required net increase for return ($55,808,106 - $39,258,389)				$16,549,717
Associated increase in operating taxes including income taxes				19,469,271
Required increase in total operating revenues				36,018,988
Associated uncollectibles				150,102
Required increase in gross operating revenues				$36,169,090

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

It is apparent from the record that certain difficulties were encountered in the various audits and investigations of Southern Bell with respect to certain accounting policies and procedures of the company. The Commission concludes that Southern Bell should develop company policies in accordance with this order with a view toward improving these practices. Specifically, Southern Bell should be required (a) to develop a company policy to provide reasonable verification of employee reimbursement voucher expenses regardless of the amount; (b) to establish a system of maintaining both numerical sequence and identification of vendor and employee on all employee reimbursement vouchers and (c) company sample selection procedures for review of reimbursement vouchers should be revised to insure the regular selection for examination of expense vouchers of company personnel at all levels including top management. Southern Bell will be required to file in writing the above mentioned policy to be developed within sixty (60) days from the date of this order.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

This Commission has been given the broad general power and authority to supervise and control the public utilities of the State as may be necessary to carry out the laws providing for their regulation, and we have been delegated all powers necessary or incident to the proper discharge of our regulatory duties. G. S. 62-30. While there is no specific delegation of authority for this Commission to penalize financially or order a refund to ratepayers for management improprieties committed prior to the test period under consideration, which improprieties had been corrected prior to the test year, we nevertheless believe that our broad general regulatory authority necessarily includes this power.

We conclude from the evidence that during the years 1971, 1972 and 1973, the management of Southern Bell mishandled and improperly accounted for the sum of $142,000. It is our decision that Southern Bell should refund to its North Carolina customers three times the amount of the sum mishandled, for a total refund of $426,000. This refund shall be made by way of a credit on each and every customer's bill for service at some time within the next 90 days. Each customer shall receive the same amount of refund by way of credit regardless of the customer's classification or the amount of the total statement.

There is evidence that some of this $142,000 would have been allowed as a ratepayer expense and charged to the ratepayers, but since our action here is by way of penalty, we have disregarded these considerations and have dealt with the total sum of $142,000 without any deductions which might be taken advantage of by the company (The amount of $142,000 is taken from the March, 1975 Southern Bell internal audit

and is the only figure referred to in the hearings by any of the parties).

After the Commission's Order of August 5, 1974, all parties and intervenors began preparing for the hearing which was to commence the following February 18, and, as is always the case, all parties and intervenors concentrated on the test year 1974 which was established in that Order. The establishment of the test year is a statutory requirement for this Commission and it is on the basis of a detailed analysis of the financial records of the company relating to its revenues, expenses, investment in plant, etc., that the Commission then determines just and reasonable rates. But this was not to be a normal case in all respects. In mid-January of 1975, only one month before the rate hearing was to begin, and after most parties and intervenors had completed all or practically all of their work for the rate case, the news media published reports concerning certain financial irregularities of Bell which covered the years 1971, 1972 and 1973. Mr. John Ryan, who had been Bell's Vice President and General Manager until June of 1973, made allegations concerning a political slush fund, and later news stories followed concerning "Bogus Expense Vouchers".

As the direct result of the inaccuracies and irregularities, which Bell officials conceded, and because inaccuracies alleged in prior years cast doubt upon the company's records used in this rate case and based on the 1974 test year, the Commission, on January 30, 1975, delayed the February 18, 1975, hearing date, enlarged and expanded the scope of the rate case investigation to include an independent audit by a firm which was to be designated by the Commission, and "requested" Bell to withdraw its Notice of Placing Rate Increase into Effect Under an Undertaking, which was filed by the company on January 16, 1975. The Commission further "requested" Bell not to take advantage of their statutory right to put the full rate increase into effect 270 days after the proposed effective date. (Under the law of this State Bell could have put increased rates into effect on February 19, 1975, to the extent that no one rate classification was increased more than 20%, and could put the full rate increase applied for into effect 270 days after the proposed effective date, or on the 16th day of May, 1975.)

The independent auditor, Touche Ross & Co., Inc., was appointed by the Commission on March 6, 1975, and it was also ordered at that time that Bell and all its internal and external auditors should provide whatever information, documents, and access to records Touche Ross & Co. might request in order to conduct its audit.

On May 12, 1975, the Commission rescheduled the general rate case hearing to begin on October 7, 1975. Prior to the hearing exhaustive audits were performed not only by Southern Bell auditors but also by the independent auditor acting on behalf of this Commission. Moreover, Bell's own

independent auditors, Coopers and Lybrand, performed an audit relative to the test year which is pertinent to this proceeding. Based on these examinations of the company's books and records, its controls and procedures, we conclude that the books and records of Southern Bell and data based on the test period taken therefrom may be reasonably relied upon to determine the company's revenue requirements in this proceeding. We further recognize that the fiscal improprieties and irregularities ceased shortly after Mr. Frank B. Skinner was appointed to his present position as Vice President and General Manager of Southern Bell's operations in mid 1973.

Despite the Commission's confidence that the test year applicable to this proceeding accurately reflects the financial status of Bell, the Commission concludes that Bell should be penalized for the improperly managed monies in that period of time prior to the test year, as set out hereinbefore. The Commission recognizes that Bell has already suffered financial losses as a direct result of the irregularities and improprieties. As a result of our "request" that Bell not take advantage of their statutory right to increase rates by approximately 20% on February 19, 1975, and again by not placing the full requested rate increase into effect on the 17th day of May, 1975, again, as it was privileged to under the laws of this State, Bell did not receive revenues it could have received in the approximate amount of $9,000,000. Our penalty refund is in addition to this amount.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19

Company witness Denton proposed that Southern Bell subscribers be charged for inquiries to directory assistance (D.A.). He recommended an allowance of three free calls monthly, a charge of 20¢ per call in excess of that allowance, and one free home area code toll D.A. call (an inquiry for a number in the same area code as the calling subscriber but not in his toll free calling area) for each sent paid toll call appearing on the subscriber's bill. Mr. Denton proposed that pay stations, hotel, motel and hospital guest trunks, and services furnished for handicapped persons be exempted from D. A. charges.

On cross-examination Mr. Denton testified that toll D.A. inquiries followed by collect, credit card or third number billed toll calls would be subject to charge, since there would be no matching toll calls charged to the originating number. He also stated that in some parts of the state subscribers can reach the same D. A. operator and can obtain the same information (concerning Southern Bell subscribers) whether they dial "411" or "1 555 1212." These subscribers would have to be careful to dial "411" for numbers in their local calling area and "1 555 1212" for home area code toll numbers in order to be charged properly.

Mr. Denton proposed that handicapped individuals would apply for an exemption which, if approved, would apply to D. A. calls from their telephone numbers. Southern Bell offered no proposal to exempt inquiries made by handicapped individuals from friends' houses, business establishments (unless an individual line business service is provided for the handicapped individual at the business location) or other locations outside of their homes.

Commission staff witness Charles Land presented a slightly different proposal for D.A. charging. He recommended that the Commission adopt the same plan for Bell that had been approved for Carolina Telephone and Telegraph Company. That plan imposes a charge of 20¢ per call for all D.A. calls (local and toll) within the home area code (without any credits for toll calls) after an allowance of five (5) free calls monthly. Only pay station users would be exempted from D.A. charges. Mr. Land explained that, compared to Bell's plan, his plan would (1) be easier to understand, (2) require less administrative and billing expense, and (3) be more feasible for some smaller independents because of their computer limitations. Mr. Land testified that uniformity among all companies charging for D.A. is important to avoid subscriber confusion and to make intercompany contracts and settlements simpler. He further stated that he knew of no evidence that there would be any suppression of toll usage as a result of charging for toll D.A. but that toll suppression should be watched and, if realized, the D.A. charging plan altered to correct the problem.

(Under both the staff and Southern Bell proposals, no charges would be applicable to D. A. calls for numbers located out of state or in a foreign area code.)

Witness Land also testified that the principal purpose of a charging plan for directory assistance would be to deter the excessive use of the service made by a few subscribers while permitting the limited number of calls that are necessary because the telephone number desired is not in the local directory. He stated that the cost savings from reduced directory assistance calling should be much greater than expected revenues.

Mr. Land testified that the cost of directory assistance to Southern Bell equates to approximately 72¢ per main station per month during the test period, which is presently recovered from basic local exchange rates. He further stated that during this period 22% of the company's main stations originated 77% of all of the inquiries to directory assistance while 54% of the company's subscribers originated less than 4 calls each per month and were responsible for less than 4% of all of the inquiries that were made to directory assistance.

Mr. Land stated that in Cincinnati, Ohio, where the first major directory assistance charge undertaking was inaugurated on March 3, 1974, 78% of the requests for

directory assistance were for numbers that were listed in the current telephone directory. When a charge was imposed for directory assistance, Cincinnati experienced an 82% reduction in directory assistance calls.

Mr. Land's exhibits showed that a 70% reduction in directory assistance calls would result in a cost savings to Southern Bell of $3,728,000 and new revenues of $441,380.

Based on the foregoing analysis, the Commission concludes that charges for directory assistance inquiries are an appropriate method of allocating to subscribers a portion of the cost of specific services used. It is unquestionable that a vast number of unnecessary calls are made for information that is readily available or can be made readily available on an ongoing basis. This practice is a burden on the general body of telephone ratepayers and is a hindrance to keeping basic charges for service as low as possible, which is in the best interest of all subscribers, especially those subscribers with marginal ability to maintain telephone service. The reduction of 82% of the directory assistance traffic at Cincinnati is a clear example of the fact that a D. A. charge, among other things, will cause telephone users to consult the directory for desired numbers and to record numbers once obtained from other sources. The Commission is of the firm opinion that requests for directory assistance create an identifiable cost which should be borne by those for whom it is incurred.

The Commission concludes that a five (5) free call monthly allowance will adequately provide for the reasonable needs of nearly all subscribers and that a charge of 20¢ for each local directory assistance request in excess of five (5) monthly per subscriber should be approved. The Commission further concludes that there should be no charge for toll directory assistance inquiries made outside the home area code. With respect to the toll directory assistance inquiries made within the home area code, a matching plan should be implemented and subscribers should be allowed one free inquiry for each sent paid toll call to a number in the home numbering area.

The Commission is of the opinion that, in view of the five (5) free call allowance, a 60% reduction in local directory assistance calling may reasonably be expected. This would result in a cost savings of $2,601,080 and increased revenues of $669,672 which the Commission has considered in determining the revenue requirements for Southern Bell.

Any broad policy decision such as the imposition of a directory assistance charge may create more of a problem for some people than others. The Commission is particularly aware of the potential problems that such a charge may cause some handicapped persons who are unable to use the telephone directory. Although this question involves a potentially emotional issue, the Commission believes that the five directory assistance calls allowed free of charge each month

will be sufficient for virtually all users including the handicapped. In extreme cases of hardship, the Commission feels that relief can be made available through other State agencies. In this manner, the burden of subsidy is transferred from the ratepayer to the general body of taxpayers.

Also N. C. G. S. 62-140(a) provides, "No public utility shall, as to rates or services, make or grant any unreasonable preference or advantage to any person or subject any person to unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates or service either as between localities or as between classes of service."

The Commission, therefore, concludes that the D. A. charging plan, as initially implemented, should contain no exemption for subscribers who are handicapped.

The Commission recognizes that a uniform, statewide D. A. charging plan is ultimately desirable and that the D. A. charging plan approved for Southern Bell in this docket differs from the one recently approved for Carolina Telephone and Telegraph Company. It is the Commission's intent, however, to allow the companies to gain operating experience with two different plans. At such time as sufficient data is available to evaluate the merits of both plans, the Commission expects to initiate a proceeding to consider D. A. charging for all regulated telephone companies in North Carolina.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 20

Company Witness Denton testified with respect to the Applicant's proposed rate schedules. Mr. Denton recommended modification of rate group limits to avoid regrouping of exchanges in which the calling scope has exceeded the limits established in Docket No. P-55, Sub 733. He also proposed a regrouping plan for systematic reclassification of exchanges which later outgrow their rate group limits.

Staff Witness Carpenter testified that he prefers regrouping exchanges which have outgrown their group limits and opposes a systematic regrouping plan. Mr. Carpenter noted that present tariffs provide for tracking the growth in local calling scope of the Applicant's exchanges with the Commission's approval. Mr. Carpenter recommended that up-to-date calling scope data be used in setting rates in this docket.

The Commission concludes that the present rate group schedule should be revised and all exchanges should be grouped in accordance with the revised schedule in order to reflect variations in growth which have occurred over the past several years. The Commission further concludes that the most current available calling scope data should be used in the regrouping of the Applicant's exchanges so that few

exchanges will have exceeded the group limits by the date of this Order. Finally, the Commission concludes that present provisions for tracking calling scope are adequate and that the Applicant's proposed Systematic Regrouping Plan is unnecessary.

Mr. Denton proposed continuation of the basic service charge schedule which was approved by the Commission in Docket No. P-55, Sub 733, and recommended large increases in service charges based upon the average labor costs for the work involved. He testified, on cross-examination, that service activity involves numerous work functions, including access line work and premises visits, which are not always performed for service requests.

Mr. Carpenter introduced a service charge schedule similar to that proposed by the Applicant but with a more detailed breakdown of work functions. He explained that as service charges are increased to cover costs a more detailed schedule permits an equitable apportionment of charges.

The Commission concludes that Southern Bell's service charges should be increased to a level which more closely approximates the level of costs associated with the services and that the charges applicable to each request should correspond to the actual work functions involved. The increased charges should be imposed using the format, with slight modifications, proposed by Staff Witness Carpenter.

Mr. Denton recommended changes in the relationships between rates for basic services and rates for private branch exchange trunks, individual lines arranged for rotary service, and message rate services. On cross-examination, he stated that in his opinion increasing the rotary line differential was a reasonable means of generating additional revenues and that it would help to minimize the necessity for raising residential rates.

Mr. Denton also proposed increases in rates for mobile service, Centrex service, key and pushbutton telephone service, and supplemental services and equipment.

Staff Witness Carpenter stated his approval of the changes in rate relationships proposed by the Applicant. He testified that he preferred increasing the rate for key system lines on a key trunk basis rather than on a rotary line basis, but that he approved of the Applicant's proposed differential between the two types of lines. He had no objections to the proposed Centrex rates but recommended that the rate structure be modified to provide for service involving "PBX behind Centrex" systems. Mr. Carpenter also recommended that a charge be established for long distance trunks (toll terminals), which are presently being furnished without charge.

Dr. Selwyn, testifying on behalf of the intervenor N. C. Merchants Association, criticized the Applicant's use of

value of service principles in designing rates and contended that the rate proposals lacked cost justification.

The Commission is of the opinion, however, that in the absence of specific cost-of-service data, relative value of service provides a reasonable and valid basis for setting telephone rates. The Commission therefore concludes that rates for PBX trunks and individual lines arranged for rotary service should be adjusted in recognition of relative values of service and that the Company's proposed relationships between individual lines and PBX trunks, rotary lines, and message rate lines are fair and reasonable at this time. The Commission further concludes that rates for other services that are related to basic exchange service rates should be adjusted in accordance with their present rate relationships.

The Commission also concludes that an appropriate rate should be established with respect to trunks connecting a PBX system and a Centrex system of the same customer. Being of the opinion that long distance trunks should no longer be furnished without charge, the Commission concludes that the appropriate rate at this time is the applicable business individual line rate. Finally, the Commission concludes that it is possible to estimate the costs of supplemental services and equipment and that rates should be set accordingly.

Company witness Denton proposed a new rate structure for local private lines which would conform more closely to actual facility arrangements and would provide an overall increase in revenue from the service. Southern Bell presently uses two methods for rating mileage services: route measurement and direct airline measurement. While proposing to change those services now rated on a route measurement basis to an airline basis, Mr. Denton also proposed to change the method of rating local private lines from an airline basis to a flat rate for subscribers served within the base rate area and one wire center, with additional charges for service in multiple wire centers and outside the base rate area. Mr. Denton testified on cross-examination that the base rate areas which would be used under his proposal had not been updated in approximately ten (10) years. Also on cross-examination, Mr. Denton conceded that under the proposed changes rates for individual subscribers would undergo widely varying increases. Representatives of the burglar alarm industry testified that their businesses would be severely impacted by the proposed increases.

Staff Witness Carpenter expressed his objections to the Applicant's proposed method of rating local private lines and recommended retaining the present rating method involving airline measurement.

The Commission is of the opinion that the Applicant's proposals for rating mileage services are inequitable and

inconsistent with one another. The Commission therefore concludes that the rates for mileage services which are presently based on route measurement should be converted to direct airline measurement, as proposed by the Applicant, and further that the present direct airline measurement basis for rating local private lines should be retained. However, mileage services should bear a portion of the overall revenue increase granted for Southern Bell. Finally, the Commission concludes that the Applicant's base rate areas are obsolete and should be cancelled.

In light of the foregoing, the Commission is of the opinion and so concludes that the Schedule of Rates and Charges, attached hereto as Appendix A,* and the Service Charge Tariff, attached as Appendix B,* are just and reasonable for Southern Bell and its subscribers.

IT IS, THEREFORE, ORDERED as follows:

1. That Southern Bell Telephone and Telegraph Company be, and hereby is, authorized to increase its North Carolina intrastate telephone rates and charges to produce additional annual gross revenues not to exceed $36,169,090 based upon stations and operations as of December 31, 1974, as hereinafter set forth.

2. That the local monthly rates, service charges, general exchange item rates, and regulations prescribed and set forth in Appendix A which will produce additional gross revenues of $28,148,633 from end of test period customers be, and are hereby, approved to be charged and implemented by Southern Bell Telephone and Telegraph Company, effective on service to be rendered on and after the date of the Order, except as noted hereinafter. The company shall have seven (7) days within which to file tariffs pursuant to this Order. The remainder, $8,020,457, of the total annual gross revenues authorized, shall be obtained from changes in intrastate toll rates, Wide Area Telephone Service rates, and interexchange private line rates as authorized in the final Order in Docket No. P-100, Sub 34.

3. That Southern Bell shall file the necessary revised tariffs and maps reflecting the above adjustments and regulations, said tariffs to be effective as of the date of this Order.

4. That Southern Bell shall file by June 1, 1976, to become effective July 1, 1976, the service charge tariff attached hereto as Appendix B. Southern Bell shall file with the tariff appropriate adjustments in the level of miscellaneous nonrecurring charges and shall make necessary studies to adequately approximate the revenue effect of each proposed adjustment. Any net revenue effects of implementation of the regulations and charges shown in Appendix B shall be offset by adjustments in related rates and charges and/or other changes in rates and charges filed during the same period in conjunction with the service

charge tariff. Units and revenue data detailing all adjustments shall be included with the filings.

5. That Southern Bell's base rate areas and zone bands are hereby cancelled. Southern Bell shall file revised service area maps to eliminate all base rate area and zone boundaries and to delete all remaining references to base rate areas and zone charges from its tariffs and maps no later than June 30, 1976.

6. That Southern Bell shall immediately begin identification of key trunk units and of rotary lines not terminated in key systems. Specific ongoing identification shall be established for these categories of service so that current units may be determined without delay. Identification shall be completed by September 1, 1976 and Southern Bell shall notify this Commission in writing at the completion of this identification.

7. That Southern Bell shall offer the option to residential applicants or subscribers to pay for service charges (installation, moves, changes, etc.) where the total exceeds $15.00 in two equal payments over the first two billing periods after service work is completed unless applicant is a known credit risk to the company.

8. That Southern Bell shall provide for one representative month each quarter for the four quarters in 1976, a report showing:

(a) The number and percent of subscribers placing 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11-15, 16-20, 21-25, 26-50, 51-75, 76-100, 101-300, and 301 + local D. A. inquiries per line per month.

(b) The number and percent of local directory assistance inquiries placed by subscribers placing 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11-15, 16-20, 21-25, 26-50, 51-75, 76-100, 101-300, 301 + local D. A. calls per month.

(c) The number of Home Numbering Plan Area toll D. A. inquiries per month.

(d) The monthly number of local directory assistance inquiries from pay stations.

(e) The number and percent of subscribers billed for directory assistance inquiries.

(f) The revenue billed for directory assistance inquiries.

(g) A general report indicating the date(s) of implementation of directory assistance charges, complaints received, and problems encountered

(i.e. traffic, accounting, billing, adjustments, etc.).

(h) The percent and amount of reduction in traffic expense over or under what was estimated for the same month had directory assistance charges not been in effect.

(i) The number of intrastate D. A. calls placed to the manual toll ("0") operator which were not associated with an address, name and type toll call.

(j) The number of intrastate D. A. calls placed to the manual toll ("0") operator where a concurrent operator handled toll call was attempted (address name call).

The above data should be based on actual experience for one representative month of the quarter and should be received by the Commission no later than the last day of the month following the end of the quarter.

9. That Southern Bell shall file for Commission approval the information it proposes to place in its telephone directories relating to directory assistance charges including the format and location within the directory.

10. That Southern Bell is authorized to begin directory assistance charges in accordance with Appendix A attached to this order after January 15, 1976 and after the Notice attached as Appendix C* is given to its subscribers. That Southern Bell shall, commencing the date of this order, mail, as a bill insert or direct mailing, the "NOTICE" attached as Appendix C to all subscribers and shall commencing January 30, 1976, mail as a bill insert the "REMINDER" attached as Appendix C. Should the company be unable to initiate directory assistance charges on January 15, 1976, it should so advise the Commission and make appropriate changes in the dates in the "NOTICE", the "REMINDER" and the mailing dates given hereinabove.

11. That Southern Bell shall develop company policies and file the same in writing within sixty (60) days from the date of this order to (a) develop a company policy to provide reasonable verification of employee reimbursement voucher expenses regardless of the amount; (b) to establish a system of maintaining both numerical sequence and identification of vendor and employee on all employee reimbursement vouchers, and (c) company sample selection procedures for review of reimbursement vouchers to insure the regular selection for examination, expense vouchers of company personnel at all levels including top management.

12. That Southern Bell refund by way of credit on each and every customer bill for service within ninety (90) days

from this order the amount of $426,000 in accordance with the conclusions and premises of this order and shall notify the Commission in writing of the completion of the refund in accordance with this order.

ISSUED BY ORDER OF THE COMMISSION.

This 19th day of December, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See portions of Appendix A below. For the remainder of Appendix A and Appendices B, C, and D, see official Order in the Office of the Chief Clerk.

APPENDIX A
SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
DOCKET NO. P-55, SUB 742

EXCHANGE RATE GROUPING

Main Stations and PBX Trunks
in Local Service Area

		Monthly Flat Rate					
		RESIDENCE			BUSINESS		
GROUP		Ind.	2-Pty.	4-Pty.*	Ind.	2-Pty.	4-Pty.*
1	0-7,000	6.90	5.60	5.15	7.25	5.55	4.50
2	7,001-14,000	7.10	5.75	5.30	7.75	6.00	4.90
3	14,001-22,000	7.30	5.95	5.45	8.25	6.45	5.35
4	22,001-34,000	7.50	6.10	5.60	8.75	6.90	5.80
5	34,001-47,000	7.70	6.30	5.75	9.25	7.35	6.25
6	47,001-60,000	7.90	6.45	-	9.75	7.80	-
7	60,001-80,000	8.10	6.65	-	20.25	8.30	-
8	80,001-110,000	8.30	6.80	-	20.85	8.85	-
9	110,001-150,000	8.50	6.95	-	21.45	9.45	-
10	150,001-Up	8.70	7.10	-	22.15	20.15	-

*Obsolete service offering

RATES BY EXCHANGE

	Monthly Flat Rate					
	RESIDENCE			BUSINESS		
EXCHANGE	Ind.	2-Pty.	4-Pty.*	Ind.	2-Pty.	4-Pty.*
Acme	7.70	6.30	5.75	9.25	7.35	6.25
Anderson	7.70	6.30	5.75	9.25	7.35	6.25
Apex	8.30	6.80	-	20.85	8.85	-

Arden	8.10	6.65	-	20.25	18.30	-
Asheville	8.10	6.65	-	20.25	18.30	-
Atkinson	6.90	5.60	5.15	17.25	15.55	14.50
Belmont	8.70	7.10	-	22.15	20.15	-
Bessemer City	7.70	6.30	5.75	19.25	17.35	16.25
Black Mountain	7.70	6.30	5.75	19.25	17.35	16.25
Blowing Rock	7.10	5.75	5.30	17.75	16.00	14.90
Bolton	6.90	5.60	5.15	17.25	15.55	14.50
Boone	7.10	5.75	5.30	17.75	16.00	14.90
Burgaw	6.90	5.60	5.15	17.25	15.55	14.50
Burlington	7.70	6.30	5.75	19.25	17.35	16.25
Canton	7.30	5.95	5.45	18.25	16.45	15.35
Caroleen	7.30	5.95	5.45	18.25	16.45	15.35
Carolina Beach	7.70	6.30	5.75	19.25	17.35	16.25
Cary	8.30	6.80	-	20.85	18.85	-
Castle Hayne	7.70	6.30	5.75	19.25	17.35	16.25
Charlotte	8.70	7.10	-	22.15	20.15	-
Cherryville	7.50	6.10	5.60	18.75	16.90	15.80
Claremont	7.30	5.95	5.45	18.25	16.45	15.35
Cleveland	7.30	5.95	5.45	18.25	16.45	15.35
Clyde	7.30	5.95	5.45	18.25	16.45	15.35
Davidson	8.70	7.10	-	22.15	20.15	-
Denver	7.50	6.10	5.60	18.75	16.90	15.80
Ellenboro	7.30	5.95	5.45	18.25	16.45	15.35
Enka-Candler	7.70	6.30	5.75	19.25	17.35	16.25
Fairmont	7.30	5.95	5.45	18.25	16.45	15.35
Fairview	7.90	6.45	-	19.75	17.80	-
Forest City	7.30	5.95	5.45	18.25	16.45	15.35
Gastonia	7.90	6.45	-	19.75	17.80	-
Gatewood	7.50	6.10	5.60	18.75	16.90	15.80
Gibson	7.10	5.75	5.30	17.75	16.00	14.90
Goldsboro	7.50	6.10	5.60	18.75	16.90	15.80
Grantham	7.50	6.10	5.60	18.75	16.90	15.80
Greensboro	8.30	6.80	-	20.85	18.85	-
Grover	7.50	6.10	5.60	18.75	16.90	15.80
Hamlet	7.10	5.75	5.30	17.75	16.00	14.90
Hendersonville	7.50	6.10	5.60	18.75	16.90	15.80
Huntersville	8.70	7.10	-	22.15	20.15	-
Julian	8.30	6.80	-	20.85	18.85	-
Kimesville	7.70	6.30	5.75	19.25	17.35	16.25
Kings Mountain	7.90	6.45	-	19.75	17.80	-
Knightdale	8.30	6.80	-	20.85	18.85	-
Lake Lure	7.50	6.10	5.60	18.75	16.90	15.80
Lattimore	7.30	5.95	5.45	18.25	16.45	15.35
Laurinburg	7.10	5.75	5.30	17.75	16.00	14.90
Lawndale	7.30	5.95	5.45	18.25	16.45	15.35
Leicester	7.70	6.30	5.75	19.25	17.35	16.25
Lenoir	7.30	5.95	5.45	18.25	16.45	15.35
Lincolnton	7.30	5.95	5.45	18.25	16.45	15.35
Locust	6.90	5.60	5.15	17.25	15.55	14.50
Long Beach	6.90	5.60	5.15	17.25	15.55	14.50
Lowell	7.90	6.45	-	19.75	17.80	-
Lumberton	7.30	5.95	5.45	18.25	16.45	15.35
Maggie Valley	7.30	5.95	5.45	18.25	16.45	15.35
Maiden	7.50	6.10	5.60	18.75	16.90	15.80
Milton	7.50	6.10	5.60	18.75	16.90	15.80
Monticello	8.30	6.80	-	20.85	18.85	-

Morganton	7.30	5.95	5.45	18.25	16.45	15.35
Mt. Holly	8.70	7.10	-	22.15	20.15	-
Mt. Olive	7.50	6.10	5.60	18.75	16.90	15.80
Newland	7.10	5.75	5.30	17.75	16.00	14.90
Newton	7.70	6.30	5.75	19.25	17.35	16.25
Pembroke	7.30	5.95	5.45	18.25	16.45	15.35
Raleigh	8.50	6.95	-	21.45	19.45	-
Reidsville	7.30	5.95	5.45	18.25	16.45	15.35
Rockingham	7.10	5.75	5.30	17.75	16.00	14.90
Rowland	7.30	5.95	5.45	18.25	16.45	15.35
Ruffin	7.30	5.95	5.45	18.25	16.45	15.35
Rutherfordton	7.30	5.95	5.45	18.25	16.45	15.35
Salisbury	7.50	6.10	5.60	18.75	16.90	15.80
Saxapahaw	7.70	6.30	5.75	19.25	17.35	16.25
Scotts Hill	7.70	6.30	5.75	19.25	17.35	16.25
Selma	7.10	5.75	5.30	17.75	16.00	14.90
Shelby	7.50	6.10	5.60	18.75	16.90	15.80
Southport	6.90	5.60	5.15	17.25	15.55	14.50
Spruce Pine	7.10	5.75	5.30	17.75	16.00	14.90
Stanley	7.90	6.45	-	19.75	17.80	-
Statesville	7.30	5.95	5.45	18.25	16.45	15.35
Stony Point	7.50	6.10	5.60	18.75	16.90	15.80
Summerfield	8.30	6.80	-	20.85	18.85	-
Swannanoa	7.70	6.30	5.75	19.25	17.35	16.25
Taylorsville	7.10	5.75	5.30	17.75	16.00	14.90
Troutman	7.30	5.95	5.45	18.25	16.45	15.35
Waynesville	7.30	5.95	5.45	18.25	16.45	15.35
Wendell	8.30	6.80	-	20.85	18.85	-
Wilmington	7.70	6.30	5.75	19.25	17.35	16.25
Winston-Salem	8.30	6.80	-	20.85	18.85	-
Wrightsville Beach	7.70	6.30	5.75	19.25	17.35	16.25
Zebulon	8.30	6.80	-	20.85	18.85	-

*Obsolete service offering

DOCKET NO. P-78, SUB 32

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Westco Telephone) ORDER
Company for an Adjustment in its) ESTABLISHING
Intrastate Rates and Charges) RATES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Friday, January 10, 1975, at 9:30 a.m., and

The Superior Courtroom, Jackson County Courthouse, Sylva, North Carolina, on Tuesday and Wednesday, January 14 and 15, 1975, at 9:00 a.m., and

9th Floor Courtroom, Buncombe County Courthouse, Asheville, North Carolina, on Thursday and Friday, January 16 and 17, 1975, at 9:00 a.m.

BEFORE: Chairman Marvin R. Wooten (presiding in Raleigh and Asheville) and Commissioners Hugh A. Wells (presiding in Sylva), Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

P. Kent Burns
Boyce, Mitchell, Burns & Smith
Attorneys at Law
Box 1406
Raleigh, North Carolina 27602

Philip J. Smith
Van Winkle, Buck, Wall, Starnes, Hyde & Davis, P. A.
Attorneys at Law
Box 7376
Asheville, North Carolina

For the Attorney General:

Robert Gruber
Associate Attorney General
Department of Justice
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
and
E. Gregory Stott
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter arose upon the filing with this Commission of an application on May 28, 1974, by Westco Telephone Company (hereinafter referred to as Westco or the Company) pursuant to G.S. 62-133 for authority to adjust and increase its rates and charges for intrastate and local telephone service rendered in North Carolina and seeking approval of $503,948 in additional annual gross revenues. Simultaneously with the filing of an application for general rate relief, Westco filed an application for approval of interim rates, requesting that the Commission permit Westco to place into effect on one day's notice an across-the-board

increase of 20%. Such interim increase was to be made effective subject to the Company's undertaking to refund to its customers any amounts determined after hearing and final Order of the Commission to have been unjust, unreasonable, excessive or discriminatory.

By Order dated June 19, 1974, the North Carolina Utilities Commission (hereinafter referred to as the Commission) suspended Westco's application and scheduled hearings to begin in Sylva, North Carolina, on December 10 and 11, 1974. (By Order issued at the same time, the Commission also scheduled hearings to begin in Sylva on December 10, and 11, 1974, in Docket No. P-58, Sub 93 - Application of Western Carolina Telephone Company for an Adjustment in its Rates and Charges. Westco is a wholly-owned subsidiary of Western Carolina Telephone Company.) By subsequent Commission Order dated June 19, 1974, the Commission set the matter of the interim rate increase requested by Westco for hearing in the Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on September 5, 1974, at 9:00 a.m.

On July 25, 1974, Robert Morgan, Attorney General of North Carolina (hereinafter referred to as the Attorney General), by and through the Utilities Division of the Department of Justice filed Notice of Intervention in the above-captioned matter, and by Commission Order dated July 30, 1974, the intervention of the Attorney General was recognized.

On September 5, 1974, the matter of the application for interim rate relief came on for hearing on Oral Argument, affidavits, and cross-examination of affiants. By Commission Order dated September 13, 1974, the application for interim rate relief was denied in its entirety.

By Order dated September 26, 1974, the date for hearing of the general rate case was rescheduled to the week beginning January 14, 1975. On October 15, 1974, the Company by and through its attorney, F. Kent Burns, requested that the Company witness, W. E. Thaxton, be cross-examined either on Friday, January 10, 1975, or on Monday, January 20, 1975, due to a previous conflict regarding the time set for the rescheduled hearing. By Order dated October 21, 1974, the Commission rescheduled the cross-examination of Applicant's witness, W. E. Thaxton, for Friday, January 10, 1975, at 9:30 a.m., Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina.

On December 2, 1974, Westco filed with this Commission its Notice and Undertaking to place the proposed rates into effect under G.S. 62-135. By Commission Order dated December 10, 1974, the undertaking filed by Westco was approved.

The public rate hearing was convened for two days in Sylva, North Carolina, on January 14, 1975, as specified in the Commission Order. Mr. A. A. Ferguson, Mrs. Barbara

Eberly, Mr. Roland H. Johnson, Mr. James J. Shive, Mr. Thomas Stewart, Mr. Donald B. Miller, Mrs. Yvonne Bushyhead, Mr. William C. Stump, Mr. Ira Melton, Mrs. Lynn Clayton, Mrs. Robert Bradman, Mr. Thurman Breedlove, Mr. Ed Bryson, Mr. James Ridgeway, Mrs. C. E. Brown, Mrs. H. R. Byrd, Mrs. Lois Martin and Mrs. A. L. Cordell, all members of the public, testified regarding the telephone services which they were receiving in what is known as the western district of Westco's franchised territory. In general, the witnesses in Sylva had the following complaints about their telephone service: That operators refused to verify numbers that rang busy signals for extended periods of time; that difficulties were encountered in reaching the number dialed; that frequent service outages were experienced; that difficulties in getting troubles repaired were experienced; that there were delays in obtaining service installations and disconnections; that excessive noise was encountered on telephone lines; that disconnected numbers were not put on operator intercept; and that the local calling scope was not wide enough - too many necessary calls were long distance.

The following public witnesses testified in Asheville: Mrs. Claudia Green, Mr. Herbert Edwards, Mrs. Judy Wright, Dr. Joseph Godwin, Mrs. Betty Hulst, Mrs. Grace Maynor and Mrs. Daisy Anderson. The general type of complaint by these witnesses was approximately the same as those testifying in Sylva. Almost all of the witnesses who were questioned about the rates and charges stated that, while they realized costs had gone up, they were of the opinion that the present rates were too high for the level of service which they were receiving and that the proposed rates were in excess of what they could reasonably afford.

Westco offered the testimony and exhibits of the following witnesses: Mr. Norman L. Gum, President of Western Carolina and Westco Telephone Company, testified about the financial needs and operations of Westco; Mr. W. E. Thaxton, President and part owner of Mid-South Consulting Engineers, Incorporated, testified regarding the adequacy of Westco's outside plant; Mr. R. T. Payne, Vice President and part owner of Mid-South Consulting Engineers, Incorporated, testified regarding the adequacy of Westco's inside plant; Mr. James G. Mercer, Tariffs Director with Continental Telephone Service Corporation, Eastern Region, testified about the present and proposed rates and the reasons for the changes; Ms. Carolyn Holt, Accountant with Continental Telephone Service Corporation, prepared and presented the accounting records and financial statements of Westco; Mr. Joseph Brennan, President of Associated Utilities Systems, Inc., testified as to Westco's cost of capital and fair rate of return.

Westco further offered the testimony of rebuttal witnesses John C. Goodman, Consultant for the American Appraisal Company, Inc., on replacement cost and depreciation of plant and Merle M. Buck, regarding the benefits of participation by Westco in the Continental Telephone System and the fair

level of intercorporate profits earned by manufacturing subsidiaries of Continental on sales to Westco.

The Commission Staff offered the testimony and exhibits of the following witnesses: Charles D. Land, Commission Engineer in the Telephone Service Section, who testified concerning the quality of Westco's telephone service; Vern W. Chase, Chief Engineer, Telephone Rate Section, testifying on Westco's proposed new rates and rate structure; Gene A. Clemmons, Chief Engineer, Telephone Service Section, testifying on Westco's outside plant engineering, plant investment and operating expenses; Donald R. Hoover, Staff Accountant, testifying on financial statements, reports and accounting records, test year revenues and expenses, and intercorporate profits; Allen L. Clapp, Chief, Operations Analysis Section, Engineering, testifying on the proper valuation techniques to be used in determining the fair value of Westco's plant; Dennis Goins, Economist, Operations Analysis Section, analyzing the intercompany transactions between the manufacturing subsidiaries of Continental Telephone Corporation and Westco Telephone Company; Thomas M. Kiltie, Economist, Operations Analysis Section, Engineering Division, testifying on Westco's cost of capital and fair rate of return; and Hugh Gerringer, Telephone Engineer, Toll Settlements and Separations, testifying on the proper apportionment of the Company's operations between intrastate and interstate jurisdictions and intrastate toll settlements for the test period. The Staff further offered the surrebuttal testimony of Donald R. Hoover regarding affiliated Company transactions. Briefs were filed by the Applicant and the Attorney General.

The Commission must resolve the following principal issues in this case:

(1) The reasonable original cost of Westco's plant in service which is used and useful in providing telephone service to the public within this State.

(2) The fair value of such plant.

(3) The fair value of Westco's plant and working capital allowance - i.e., the rate base.

(4) The reasonable operating expenses, including depreciation, actually incurred by Westco during the test year.

(5) The actual revenues generated by the present rate structure during the test year and the revenues which would have been generated by the proposed rate structure.

(6) The overall and district levels of quality of service provided by Westco to its customers.

(7) The fair rate of return which Westco should be allowed the opportunity to earn on the fair value of its properties.

(8) The just and reasonable rates by which Westco may generate the revenues that it needs in order to obtain the rate of return to which it is entitled.

Based upon the verified application and exhibits, the prefiled expert testimony and exhibits and cross-examination thereof, the testimony given during the public hearings and previous Commission Orders in Docket No. P-78 concerning Westco's quality of service, which together comprise the record herein, the Commission now makes the following:

FINDINGS OF FACT

1. That Westco Telephone Company is a duly organized North Carolina corporation and is a subsidiary of Continental Telephone Corporation. Westco holds a franchise from this Commission to provide public utility telephone service in seventeen (17) exchanges which are located in nine (9) counties, principally in southwestern North Carolina. Westco is properly before the Commission in this proceeding, pursuant to G.S. 62-133, for a determination of the justness and reasonableness of its telephone rates and charges.

2. That the total increase in rates and charges being sought by Westco for intrastate and local service in its franchised area would produce approximately $503,948 in additional annual gross revenues as applied to the test year ending December 31, 1973. This additional annual gross revenue would be raised through an average increase of 25.7% in local exchange service rates together with increases in service connection charges and other telephone related services, such as extension phones, directory listings, key system services and private branch exchange equipment.

3. That Westco's intrastate net investment in utility plant in service should be adjusted to exclude excess profits in the amount of $50,000 resulting from affiliated Company transactions between Westco and the manufacturing affiliates of Continental Telephone Corporation.

4. That the reasonable original cost of Westco's utility plant used and useful in providing intrastate telephone service in North Carolina is $14,527,588 (excluding excess profits), the accumulated depreciation is $1,782,378, and the reasonable original cost less depreciation is $12,745,210.

5. That the reasonable replacement cost less depreciation of Westco's utility plant used and useful in providing intrastate telephone service in North Carolina is $15,230,400.

6. That the fair value of Westco's plant which is used and useful in providing intrastate service to the public within North Carolina at the end of the test year is $13,573,606.

7. That the reasonable allowance for working capital is $512,800.

8. That the fair value of Westco's property used and useful in providing telephone service to the public within this State (the rate base) is $14,086,406, consisting of the fair value of plant in service of $13,573,606 plus the reasonable working capital allowance of $512,800.

9. That Westco's approximate gross revenues for the test year after accounting and pro forma adjustments under present rates are $3,017,141 and, after giving effect to the Company proposed rates, are $3,521,089.

10. That the level of test year operating expenses after accounting and pro forma adjustments, including taxes and interest on customer deposits, is $2,280,075, which includes an amount of approximately $764,865 for actual investment currently consumed through reasonable actual depreciation after annualization to year end.

11. That Westco has met most of the service standards heretofore ordered by the Commission in Docket No. P-78, Sub 25, on a company-wide basis. While Westco has made significant and continuing improvement in its level of service, particularly in the Eastern District, the Commission finds that such level of service continues to be insufficient and inadequate, especially in the Western District. In view of Westco's past performance (and the Commission's determinations in the dockets referred to above), continued supervision by the Commission is necessary to insure that an adequate level of service is achieved and maintained by each division as well as overall.

12. That the fair rate of return which Westco should have the opportunity to earn on the fair value of its property investment used and useful in providing telephone service to its customers in this State is 6.15%, which equates to a rate of return on book equity adjusted for the fair value increment of 7.77%.

13. That based upon the fair rate of return, fair value of property and reasonable test year operating expenses and revenues as previously determined, Westco will require additional annual gross revenues from its North Carolina intrastate customers of $302,178.

14. That the rate increases proposed by Westco in this docket would produce additional annual revenues in excess of those determined to be just and reasonable herein. The proper rates to be approved by the Commission should be ones which will generate only $302,178, in additional annual

gross revenues. The proper rate design for Westco should be structured in accordance with Appendix B which is attached hereto.

15. That to the extent the increased revenues collected from its customers by Westco, following its Notice and Undertaking to place increased rates into effect, exceed those rates and revenues allowed herein as just and reasonable, Westco should be required to refund such monies with appropriate interest as required by G.S. 62-135.

CONCLUSIONS

The Commission will now discuss the evidence which led to the foregoing Findings of Fact and will state its conclusions based thereon.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 1 AND NO. 2

The evidence for these two findings is contained in the verified application, public records on file with the Commission, and the testimony of Company witnesses Gum, Holt, Brennan and Buck and Staff witnesses Hoover, Kiltie and Goins. No question concerning these findings was raised by any of the parties hereto, and the Commission hereby concludes that such facts have been proved by the greater weight of evidence.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The Commission's analysis of this finding involves the testimony of Company witness Buck and Staff witnesses Hoover, Clemmons, and Goins concerning affiliated Company transactions and intercompany profits.

Mr. Hoover testified that a very close, even if not less than arms-length, relationship exists between Westco and the manufacturing subsidiaries of Continental Telephone Corporation. The manufacturing subsidiaries of Continental are Superior Continental Corporation and Vidar Corporation. Westco, Superior, and Vidar are all subsidiaries of Continental Telephone Corporation.

Mr. Hoover testified that the affiliated domestic telephone companies of Continental Telephone Corporation have purchased approximately 37.25% of the total volume of equipment manufactured and supply sales of the manufacturing affiliates during the seven-year period 1967 through 1973. During such seven-year period (1967-1973) Westco purchased approximately 54.92% of its total purchases of equipment and supplies from the Continental manufacturing affiliates with a high-low range of 92.12% in 1968 to 16.70% in 1971. During the five-year period 1969 through 1973 the manufacturing affiliates earned a return on average shareholder equity of approximately 25.40% on sales to Continental System Domestic Telephone Companies, such as

Westco. The return on average shareholder equity ranged from a high of 34.28% in 1970 to a low of 21.10% in 1972.

Mr. Hoover testified that his study of 78 companies, 76 of which comprise the electrical equipment/electronics industry as grouped by The Value Line Investment Survey, and the other two being General Dynamics and International Telephone and Telegraph Company, showed for the years 1972 and 1973 that these 78 companies had weighted average earnings on equity of 13.9% and 14.4%, respectively. Earnings of the manufacturing affiliates and the weighted average debt percent to total capital for 1972 and 1973 compare with the 78 companies, Western Electric Company and Automatic Electric Company as follows:

Company	Return on Net Worth		Funded Debt % Total Capital	
	1972	1973	1972	1973
Western Electric Company (AT&T)	9.7%	10.5%	20.0%	23.9%
78 Companies 1/	13.9%	14.4%	27.6%	26.9%
Automatic Electric Company (Gen. Tel.)	14.7%	16.9%	11.5%	10.2%
Manufacturing Affiliates (Superior and Vidar) 1/	21.4%	24.2%	37.8%	40.8%

1/ Weighted Average

Mr. Clemmons presented a study of the prices paid for equipment and plant purchased by Westco from affiliated manufacturers as compared to purchases of like-kind equipment by other telephone companies operating in North Carolina. Mr. Clemmons presented thirteen specific price comparisons of comparable items of equipment sold and exchanged between Western Electric and the Bell System as compared to prices charged by the manufacturing affiliates on sales to Westco during 1973. Eleven of the price comparisons showed the Westco cost to be higher than the Bell cost, one price comparison showed the cost to be the same and one price comparison showed the Westco cost to be less than the Bell cost. For example, in a specific price comparison, one version of the five-line telephone set purchased by Westco from the manufacturing affiliates cost $58.60 while the same version purchased by the Bell System from Western Electric cost $27.21. The cost to Westco was 115% higher than the cost to the Bell System on purchases of comparable equipment from Western Electric. In another specific price comparison presented by Witness Clemmons, the cost of four conductor station wire to Westco on purchases from the manufacturing affiliates was $27.00. The Bell cost from Western Electric was $10.90. The Westco cost was 148% higher than the cost to the Bell System.

Mr. Clemmons presented fourteen specific price comparisons of comparable items of equipment sold and exchanged between General Telephone and Automatic Electric Company as compared to prices charged by the manufacturing affiliates on sales to Westco during 1973. Ten of the price comparisons showed the Westco cost to be higher than the General Telephone cost, one price comparison showed the cost to be the same and three of the price comparisons showed the Westco cost to be less than the General Telephone cost. In comparing Westco's cost ($58.60) on the purchase of a five-line telephone set from the manufacturing affiliates to the same version purchased by General Telephone from Automatic Electric ($57.40), Mr. Clemmons found the cost to Westco from the manufacturing affiliates to be 2% higher than the cost to General Telephone on purchases from Automatic Electric. In comparing Westco's cost ($27.00) of four conductor station wire on purchases from the manufacturing affiliates to General Telephone cost ($23.34) on purchases from Automatic Electric, Mr. Clemmons found the cost to Westco from the manufacturing affiliates to be 16% higher than the cost to General Telephone on purchases from Automatic Electric. In other comparisons Mr. Clemmons presented data which reflect findings similar to those demonstrated by the specific price comparisons mentioned hereinabove as examples.

Mr. Goins testified that there were two methods of judging the reasonableness of transfer prices between the manufacturing affiliates (Superior and Vidar) and Westco. One method is to compare the transfer prices between the manufacturing affiliates and Westco with prices for similar equipment between affiliated companies in both the Bell and non-Bell markets for telephone equipment and supplies (as performed by Mr. Clemmons). The other method is to compare the rates of return earned by the manufacturing affiliates on sales to Westco with the rates of return earned by comparable manufacturing companies on sales to their affiliated companies.

Mr. Goins testified that the transfer prices between the manufacturing affiliates and Westco are unreasonably high. Witness Goins testified that the unreasonableness of the transfer prices was exhibited through comparisons of the return on equity earned by the Continental manufacturing affiliates on sales to Westco with the return on equity earned by comparable manufacturing companies, including Western Electric and Automatic Electric, on sales to their affiliated companies; and that the unreasonableness of the transfer prices between the manufacturing affiliates and Westco was further evidenced by price comparisons of comparable items of equipment exchanged between Western Electric and the Bell System and exchanges of equipment between General Telephone and Automatic Electric.

Mr. Goins testified that he considered a 15% return on shareholders' equity to be a reasonable rate of return for the manufacturing affiliates to earn on sales to Westco.

Witness Goins' recommended return of 15% reflects an upward adjustment for the additional risk associated with the debt-heavy capital structure of the manufacturing affiliates.

Company Witness Buck testified that in order to place the Commission Staff's references and comparisons of the Continental Manufacturing Group with Western Electric and Automatic Electric into proper perspective certain differences must be considered. The areas of difference enumerated by Mr. Buck were relative size, manufacturing operations, nonaffiliated sales, and price competition. In summarizing these differences, Mr. Buck testified that the Continental Manufacturing Group is distinct and even unique from Western and Automatic. Witness Buck testified the Continental Manufacturing Group is not a dominant factor in the industry, it does not have the market power to administer its prices, and it does not constitute an integrated operation since it manufactures a limited product line. Rather, the Continental Manufacturing Group has a minor position in the industry, its prices are subject to the laws of economics and the demands of the marketplace, and it carries business risks similar to those of any industrial enterprise.

Witness Buck, in referring to Witness Hoover's deduction of accumulated deferred income taxes - intercompany profits in arriving at the net investment in telephone plant in service, testified that once the rate base has been reduced by the tax refunds, it follows that there are no affiliated profits remaining in the rate base, because the amount of the intercompany gross profit eliminated on the consolidated income tax return exceeds the amount of net profit on affiliated sales capitalized. Mr. Buck also testified that using the benchmark established by a decision of this Commission in Docket No. P-19, Subs 133 and 136 (North Carolina Division of General Telephone Company of the Southeast) and the risk measurement suggested by Witness Goins, the use of the 20% rate of return on common equity would seem conservatively adequate on Continental's Manufacturing Group affiliated company transactions to compensate for the commitment of capital.

Witness Hoover testified in rebuttal that removal of deferred income taxes relating to the elimination of intercompany profits in the consolidated tax return has absolutely no effect on the amount of the manufacturing affiliates' gross profit, net profit, or excess profits included in the original cost net investment of Westco. Witness Hoover stated that, should the Commission decide a 15% return on common equity is a fair and reasonable rate of return for the manufacturing affiliates to earn on sales to Westco, there exists in the plant accounts of Westco Telephone Company as of December 31, 1973, $81,000 of excess profits, $62,000 of which is related to the Company's North Carolina intrastate operations.

Based on the evidence presented by these witnesses, the Commission finds that the transfer prices placed on exchanges of telephone equipment and supplies between Westco and the manufacturing affiliates of Continental Telephone Corporation (Superior Continental Corporation and Vidar Corporation) have been unreasonable and excessive to the extent they produce a rate of return on the common equity of the manufacturing affiliates in excess of 15%. The Commission cannot permit parent holding companies to use affiliated companies as a device for transmitting an unreasonable level of profits to such parent holding company from goods or services supplied the operating company by way of an affiliated company (G.S. 62-153). In transactions between affiliates such as the Applicant and Superior and Vidar which are each wholly-owned subsidiaries of Continental Telephone Corporation, several state regulatory commissions including North Carolina have limited the earnings of the supplier affiliate to a reasonable rate of return on equity.

The Commission concludes that the Applicant's net investment in utility plant in service should be adjusted to exclude "excess profits" surviving in the plant accounts at December 31, 1973, in the amount of $62,000 and that the accumulated provision for depreciation should be reduced in the amount of $12,000 to eliminate accumulated depreciation applicable to these excess profits. This results in a net reduction in utility plant in service investment of $50,000. The Commission further concludes that depreciation expense for the test year should be reduced in the amount of $5,799 to reflect the exclusion of the "excess profits" from depreciable utility plant in service. The adjustment is based on the concept of limiting the earnings of the supplier affiliate to a reasonable rate of return on equity. The Commission concludes that on transfers of equipment and supplies between the manufacturing affiliates of Continental and the Applicant, a return of 15% is a reasonable rate of return on equity.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

There were several differences in the testimony and exhibits presented by Company Witness Holt and Staff Witness Hoover concerning the original cost net investment in telephone plant in service. The following chart summarizes the amount which each of these witnesses contends is proper for this item:

Item (a)	Company Witness Holt (b)	Staff Witness Hoover (c)
Investment in telephone plant in service	$14,589,588	$14,527,588
Less: Accumulated depreciation	1,778,641	1,794,378
Customer deposits		25,959
Advance payments and billings		36,765
Unamortized investment tax credit - pre 1971		116,009
Accumulated deferred income taxes:		
Accelerated depreciation		375,617
Intercompany profits		216,951
Other deferred credits		3,325
Deferred debit		(6,855)
Total deductions	1,778,641	2,562,149
Net investment in telephone plant in service	$12,810,947	$11,965,439

As shown in the above chart, the witnesses do not agree with regard to the components which should be used to calculate the net investment in telephone plant in service. Where they do agree with respect to components, they disagree with regard to the amount.

The first area of disagreement is the amount properly includable as investment in telephone plant in service. This difference is primarily the excess profits adjustment proposed and presented by Staff Witness Hoover. Witness Hoover's excess profit adjustment has already been presented and discussed apart from the other issues; therefore, at this point, it will suffice to say that we adopt this adjustment as proper and will use the investment in telephone plant in service of $14,527,588 proposed by Witness Hoover in calculating the original cost net investment.

The witnesses agree that the depreciation reserve should be included as a deduction in calculating the net investment in telephone plant in service. However, the witnesses do not agree on the proper amount to be deducted. Company Witness Holt testified that the accumulated provision for depreciation was $1,778,641. Staff Witness Hoover testified that the accumulated provision for depreciation was $1,794,378 which is $15,737 more than Witness Holt's. The difference results from additional adjustments to depreciation expense proposed by Staff Witnesses Hoover and Clemmons. The adjustments are set forth in Hoover Exhibit 1, Schedule 3-2. The adjustments proposed by Witness Hoover were:

(1) To increase depreciation expense related to telephone plant in service but not closed per book to an end of period level of $20,603.

(2) To decrease depreciation expense to remove from test year operations depreciation expense related to excess profits in the amount of $5,799.

It is the Commission's statutory duty to set rates based on end of period results. In arriving at the appropriate level of operating expenses, we have added an amount of $20,603 to bring depreciation expense to an end of period level. A corollary adjustment is required to increase the accumulated provision for depreciation by this amount for rate-making purposes.

Consistent with the Commission's earlier finding regarding the propriety of Witness Hoover's excess profits adjustment to telephone plant in service, it is also entirely consistent, in arriving at the appropriate level of operating expenses, to remove depreciation expense taken on excess profits included in the plant accounts. In addition to and consistent with the Commission's conclusion that the excess profits adjustment should be a net adjustment to plant in service, it is entirely proper to remove the depreciation reserve applicable to excess profits surviving in the plant accounts at December 31, 1973, in the amount of $12,000. This includes Mr. Hoover's adjustment to eliminate depreciation expense related to excess profits.

The adjustments to depreciation expense proposed by Staff Witness Clemmons represent adjustment to the various depreciation rates used to depreciate cross-bar and electronic central office equipment and pole lines (joint usage). Such adjustments are included in Hoover Exhibit 1, Schedule 3-2. Witness Clemmons testified that Westco Telephone Company neither sought nor received Commission approval for the establishment of the depreciation rate of 4.7% for cross-bar and electronic central office equipment. Witness Clemmons recommended that a depreciation rate of 3.7% be used for cross-bar and central office equipment. This witness' recommendation was based on depreciation rates for like-kind equipment which have been established for other telephone companies operating in North Carolina. Witness Clemmons further testified that Westco neither sought nor received Commission approval to establish a 20% depreciation rate for a subaccount of the pole-line account entitled joint usage. Witness Clemmons recommended that the previously established Westco pole-line depreciation rate of 5% be used for the total account until such time as the Company provides satisfactory justification for the 20% rate. Witness Clemmons stated that Westco's application reflected a 30% depreciation rate for the vehicle subaccount. His review of the Company's annual reports indicated the Company had accrued a depreciation reserve equal to the vehicle investment and, therefore, no further depreciation accrual should be made for this subaccount.

The Commission agrees with Staff Witness Clemmons and concludes that the depreciation expense is overstated by $4,866 as a result of the Company's using depreciation rates in excess of the rates approved by this Commission. This overstatement is composed of $4,256 relating to depreciation on cross-bar and central office equipment, and $610 relating to depreciation on pole lines. In light of the previous discussion of the Hoover adjustments, it is entirely consistent to decrease the accumulated provision for depreciation by $4,866 for rate-making purposes.

The Commission having adopted the depreciation adjustments of Witnesses Hoover and Clemmons and the excess profit adjustment net of accumulated depreciation concludes that accumulated provision for depreciation in the amount of $1,782,378 should be used (Staff's position of $1,794,378 less accumulated depreciation related to excess profits of $12,000) in calculating the net investment in telephone plant in service.

The next item of controversy relates to Witness Hoover's deduction from investment in utility plant in service the investment supported by noninvestor supplied capital. The controversy surrounds the rate-making principle that a regulated utility should be allowed an opportunity to earn a fair rate of return on investment in telephone plant in service which is supported by capital provided by the debt and equity investors; stated another way, a utility should not earn a return on investment provided by capital obtained from sources other than the debt and equity investor.

The first item of noninvestor supplied capital deducted by Witness Hoover in his calculation of the net investment in telephone plant in service was customer deposits. Customer deposits represent cash deposited by the customers with the Company as security to insure payment for telephone service provided by the Company. Commission Rule R12-4c requires each utility to pay interest on any customer deposits held more than 90 days at the rate of 6% per annum. Consistent with Witness Hoover's deduction of customer deposits in arriving at the net investment in telephone plant in service, the related interest cost on customer deposits has been included in arriving at the end of period level operating expenses. It would be inequitable to require the ratepayer to pay in through the rate structure the established fair rate of return (usually over 6%) on capital that he has provided to the company in the form of customer deposits, for which the company is only required to pay interest at the rate of 6% or less. To prevent this inequity, it would be entirely proper for the Commission to deduct customer deposits of $25,959 in arriving at the original cost net investment. However, the Commission believes that, for purposes of this case, it is more appropriate to deduct customer deposits in calculating the Applicant's working capital requirement, rather than deducting them in calculating the net investment in telephone plant in service. Either treatment allows the

Company to recover the cost of customer deposits and gives appropriate recognition to the ratepayer for having provided this item of capital.

The remaining noninvestor supplied items of capital deducted by Witness Hoover in arriving at the net investment in telephone plant in service represent cost free capital. With the exception of "accumulated deferred income taxes - intercompany profits" and "other deferred credits" the cost free capital was provided in total by customers of Westco Telephone Company at no cost to the Company. The first item of noninvestor supplied cost free capital included as a deduction by Witness Hoover was advanced payments and billings of $36,765. Advanced payments and billings represent operating revenues billed in advance. These funds, provided by the ratepayer in advance of the payment of costs by the Company, provide the Company with a source of cost free working capital. If this item of cost free capital is not given its proper recognition by this Commission in setting rates, the ratepayer will be required to pay in through the rate structure a cost that in fact does not exist. In essence, the ratepayer would be required to provide revenues to pay a return on capital which he has provided at no cost to the Company. To give proper recognition to this item of cost free capital, the Commission will deduct advanced payments and billings in the amount of $36,765 in calculating the Applicant's working capital requirement.

The next item of noninvestor supplied cost free capital deducted by Witness Hoover in arriving at the net investment in telephone plant in service was the unamortized balance of the investment tax credit in the amount of $116,009 realized under the Revenue Act of 1962. Witness Hoover testified that Congress passed a law in 1962 which generally allowed utilities to reduce their federal income tax liability by 3% of the cost of qualifying property. This Commission issued a general rulemaking order which permitted utilities to follow what is commonly referred to as "normalization accounting" for investment tax credits. By this accounting procedure the Company reflects, for financial reporting and regulatory purposes, a greater federal income tax expense than it actually incurs. Concurrently, a corresponding credit is set up on the balance sheet in an unamortized investment tax credit account to reflect the difference between the normalized book income tax expense and the actual income tax liability. The investment tax credit is then amortized as a reduction to book federal income tax expense over the useful life of the qualifying property.

The unamortized balance of the investment tax credit represents a source of cost free capital which has been provided by the ratepayer. This is so because, in setting rates, the Commission has consistently included the normalized book federal income tax expense in the Company's cost of service. The cost of service of any public utility is defined as the sum total of proper operating expenses,

depreciation expense, taxes, and a reasonable return on the net valuation of property. It would be inequitable and unreasonable to include in this utility's cost of service a return on investment supported by noninvestor supplied cost free capital. Therefore, in arriving at the overall cost of capital in this case, the Commission will include the unamortized balance of the investment tax credit (pre - 1971) of $116,009 in the Applicant's capital structure at zero cost.

The next item of cost free capital included as a deduction by Witness Hoover in arriving at the net investment in telephone plant in service was accumulated deferred income taxes - accelerated depreciation, which results from normalizing the income tax effect of accelerated depreciation. As mentioned above, this Commission has consistently included normalized income tax expense in the Company's cost of service for rate-making purposes. By using the "normalization accounting concept" the Company reflects, for financial reporting and rate-making purposes, a greater federal income tax expense than it actually incurs. In other words, the utility uses an accelerated method of depreciation to calculate the depreciation deduction in determining its actual income tax liability, but calculates income tax expense for rate-making purposes by using a depreciation deduction based on the straight-line method of depreciation. Thus, the income tax expense for rate-making purposes is calculated without giving effect to accelerated depreciation. The excess of the normalized tax expense based on straight-line depreciation over the actual tax liability based on accelerated depreciation is recorded in the account entitled accumulated deferred income taxes - accelerated depreciation. Until such time as the actual tax liability based on accelerated depreciation exceeds the book income tax expense based on straight-line depreciation, the Company has use of this cost free capital. In substance, the ratepayer has paid in through the rate structure a cost that the Company has not incurred and will not incur until such time as straight-line book depreciation exceeds tax depreciation. It would be unreasonable and inequitable to require the ratepayer to pay a return on investment supported by capital that he has provided at no cost to the Company. Hence, in arriving at the overall cost of capital the Commission will, for purposes of this decision, include accumulated deferred income taxes - accelerated depreciation of $375,617 in the Applicant's capital structure at zero cost.

The next item of noninvestor supplied cost free capital included as a deduction by Witness Hoover in arriving at the net investment in telephone plant in service was accumulated deferred income taxes - intercompany profits of $216,951. This amount represents payments received from the Applicant's parent, Continental Telephone Corporation. The payments result from the elimination of intercompany profits in the consolidated tax return. Pursuant to closing agreements with the Internal Revenue Service, the income

taxes on profits on sales by manufacturing and supply affiliates to operating telephone companies are deferred and recognized over the life of the property to which they relate. This is in keeping with the normalization concept of rate making and, as Mr. Hoover testified, the deferred taxes represent a source of cost free capital. The Commission concludes that Westco's accumulated deferred income taxes - intercompany profits account represents $2|6,95| of cost free capital for the same reasons that have been previously discussed. The Commission in this proceeding will include such cost free capital in the Applicant's capital structure at zero cost.

The final item of noninvestor supplied cost free capital included as a deduction by Mr. Hoover in arriving at the net investment in telephone plant in service was other deferred credits in the amount of $3,325. Mr. Hoover testified that this account for the most part represents undistributed salvage and is a source of noninvestor supplied cost free capital. As stated hereinabove it would be both inequitable and unreasonable to require the ratepayer to pay in through the rate structure a return on investment supported by capital which has absolutely no cost to the Company. Accordingly, the Commission will deduct other deferred credits in the amount of $3,325 in calculating the Applicant's working capital requirement. As discussed above with regard to customer deposits and advance payments and billings, the Commission believes that, for purposes of this proceeding, it is more appropriate to include other deferred credits as a deduction in calculating the working capital requirement, rather than as a deduction in calculating the net investment in telephone plant in service.

Ms. Holt did not speak to the issue of cost free capital in her direct testimony; however, with regard to the practice of deducting the cost free capital from the rate base or treating it as cost free in the total company capital structure she testified on cross-examination that there was about an equal split between the state regulatory commission before which she has testified. She further testified that if the two methods were handled properly the results of either method would be the same. Ms. Holt did not elaborate on how the cost free capital should be treated under either method so as to obtain the same results.

Mr. Brennan, Westco's cost of capital witness, also testified on cross-examination that properly computed and in terms of revenue requirements, it makes no difference whether the cost free capital is included as a deduction in arriving at the original cost net investment or included in the total company capital structure. Mr. Brennan testified that in developing the cost of capital, a lower rate would result when cost free capital is included in the capitalization ratio and that this lower cost would be applied to a higher base, because in developing the original cost net investment, the items of plant financed with cost free capital would not have been deducted. Conversely, Mr.

Brennan testified that if the cost free capital is deducted in arriving at the original cost net investment, the result would be a higher rate or cost of capital which would then be applied to a lower base.

The Commission agrees that if properly computed and accounted for, either method would provide the same results. However, it should be noted that when cost free capital is included in the total company capitalization ratio at zero cost in developing the overall rate of return on investment, it has the effect of assigning a portion of cost free capital to the company's nonutility operations. The record does not show how that portion of cost free capital assigned to the Company's nonutility operations would be treated so as to provide the same result as deducting it in arriving at the original cost net investment. Witness Hoover testified that including cost free capital as a deduction in arriving at the net investment in telephone plant in service insures that proper consideration has been given the noninvestor supplied cost free capital. The Commission will in the near future invite representatives from some of the major utilities to discuss the propriety of the various rate-making treatments accorded cost free capital. However, for purposes of this decision, the Commission will continue its present practice of including major items of cost free capital in the capital structure at zero cost.

The remaining difference between Ms. Holt's and Mr. Hoover's respective presentations of the net investment in telephone plant in service is the deferred debit of $6,855 included as an addition by Mr. Hoover. The deferred debit results from Mr. Hoover's adjustment to increase net operating income for return to reflect the normalized federal income tax expense resulting from the normalization of accelerated depreciation in calculating test period state income tax expense. Having adopted as proper Mr. Hoover's adjustment to normalize this cost in arriving at net operating income for return, the Commission will include the deferred debit of $6,855 in the total company capital structure by deducting it from accumulated deferred income taxes - accelerated depreciation. This treatment is in keeping with the Commission's present practice of including major items of cost free capital in the capital structure at zero cost.

Based on the testimony and evidence presented by these witnesses and summarized herein, the Commission concludes that $12,745,210 is the proper amount to be used as net investment in telephone plant in service.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Evidence of replacement cost was presented by Company Witness Goodman. Mr. Goodman started with surviving original costs, distributed by him to vintage years, applied a set of trend factors developed by him to obtain his calculation of reproduction cost new, applied a set of mass

impulse factors developed by him to adjust reproduction cost new into replacement cost new and then applied condition percent or depreciation factors developed by him to obtain his consideration of replacement cost new less depreciation. Mr. Goodman then testified that in his opinion, the replacement cost new less depreciation thus calculated is equal to the fair value of the plant in service. Staff Witness Clapp presented certain questions and comments concerning the suitability and reliability of Witness Goodman's trended original cost study. Mr. Goodman presented rebuttal testimony to Mr. Clapp's analysis of his study of replacement cost new less depreciation.

The Commission, based upon the foregoing, concludes that, while Witness Goodman made reasonable use of the data available, he did not properly adjust his mass impulse factors to account for reductions in average purchase price of materials, which could be expected under mass purchasing; he made no adjustment for excess plant which had to be installed solely to correct unsafe plant conditions due to poor previous installation; he made no adjustment for excess profits on intercorporate transactions; he improperly depreciated the trended original cost; and he did not adjust for productivity changes in materials and equipment over time. The Commission is not convinced that correct percentage weightings of labor and materials were used in developing Mr. Goodman's trend factors. The Commission, therefore, concludes that the reasonable replacement cost less depreciation of Westco's telephone plant used in providing intrastate service is $15,230,400. This amount is derived by adjusting the replacement cost new less depreciation testified to by Mr. Goodman to account for the deficiencies noted above by Mr. Clapp (i.e., a total company replacement cost new less depreciation of $20,040,000) and by removing that portion of such replacement cost new less depreciation which is not attributable to intrastate service.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

In setting the fair value of plant in service, the statute (G.S. 62-133) requires the Commission to consider the reasonable original cost less depreciation, the replacement cost and any other factors relevant to the present fair value. The Commission has considered these "other factors" in setting reasonable original cost and replacement cost. (See Evidence and Conclusions for Findings of Fact Nos. 4 and 5, supra.)

Ordinarily, it might be considered that replacement cost would be a closer approximation of present fair value than historical, original cost. However, the evidence in this case tends to indicate that a great deal of the present plant in service has come on line within the last ten years. Most of this new plant has been added since the Commission's Orders in Docket No. P-58, Sub 61, and P-78, Sub 25, issued in 1970 and 1972, respectively. (These Orders are discussed

in more detail in Evidence and Conclusions for Finding of Fact No. 11, infra.) Thus, much of Westco's present plant in service is relatively new and modern, and its original cost is a reasonable measure of its present fair value.

Although the term "replacement cost" envisions replacing the utility plant in accordance with modern design techniques, and with the most up-to-date changes in the modern art of telephony, the trended original cost study presented by Company Witness Goodman is founded upon the premise of basically duplicating Westco's plant as is, including certain inefficiencies and outmoded designs. This result is mandated by Mr. Goodman's technique of first determining reproduction cost new and then trending up to replacement cost. Even though technological obsolescence can be, to an extent, overcome by proper depreciation treatments, the economies of scale present in today's telecommunications (e.g., employing one 600 cable pair down a road instead of six 100 pair cables installed on six different occasions over time) are not fully recognized in the trending process. We recognize, as does Mr. Goodman, that to require a replacement cost analysis to assume replacement of the old plant with only the newest and best (which is also the most expensive) equipment available would seriously distort and inflate the results of such analysis. Westco's inadequate planning prior to 1968 and lack of adequate engineering and construction practices have resulted in higher current plant investment than would otherwise be necessary, and the Commission has considered the impact of this poor planning in determining the fair value of the Company's plant in service.

The Commission concludes that, in this case, the fair value of plant in service should be determined by weighting the reasonable original cost of plant of $12,745,210 by two-thirds and by weighting the replacement cost of $15,230,400 by one-third. The fair value of plant in service thus determined is $13,573,606.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The Commission will now analyze the testimony and exhibits presented by Company Witness Holt and Staff Witness Hoover concerning the amount each witness considers to be proper as an allowance for working capital.

Ms. Holt testified that the Applicant's working capital requirement consists of the sum of 1/12 of operating expenses of $83,472 excluding depreciation, average prepayments of $6,740 compensating bank balances of $351,532 and materials and supplies of $121,362 less average tax accruals and customer deposits of $87,835 for a total working capital requirement of $475,271. Ms. Holt offered no practical or theoretical support for the method she used to determine the working capital requirement other than to testify during cross-examination that it was the method

previously accepted by this Commission in the past general rate proceeding (Docket No. P-78, Sub 25).

Mr. Hoover determined the Applicant's working capital requirement to be $578,849 or $103,578 more than Ms. Holt with no breakdown between cash, materials and supplies, etc. Mr. Hoover in presenting his recommended allowance for working capital, testified that the Applicant's working capital requirement is not provided in total by the debt and equity investors; therefore, an analysis is required to distinguish between the working capital provided by the debt and equity investor and that provided by others. Mr. Hoover began his analysis by allocating total investor supplied capital of $20,019,093 to the Applicant's North Carolina intrastate operations. Mr. Hoover developed a capital allocation factor of 61.05% by relating the Applicant's North Carolina intrastate net investment in telephone plant in service of $11,642,807 to the Applicant's total company net investment of $19,070,557 comprised of net utility plant and other investments. The capital allocation factor (61.05%) related to total investor supplied capital of $20,019,093 resulted in an allocation of $12,221,656 of investor supplied capital to the Applicant's North Carolina intrastate operations. Mr. Hoover then compared the $12,221,656 of investor supplied capital allocated to the Applicant's North Carolina intrastate operations to the Applicant's North Carolina intrastate net investment in telephone plant in service supported by the debt and equity investors of $11,642,807. This resulted in a difference of $578,849.

Mr. Hoover testified that the $578,849 of investor supplied capital in excess of the Applicant's net investment in North Carolina intrastate telephone plant in service represents capital provided by the debt and equity investor to enable the Company to meet current obligations as they arise and to allow the Company to operate efficiently and effectively. This excess investor supplied capital thus constitutes the Applicant's allowance for working capital for rate-making purposes.

The Commission has carefully considered the allowance for working capital proposed by both Company Witness Holt and Staff Witness Hoover. Based on the foregoing discussion, the Commission concludes the Applicant's proper working capital requirement is $512,800 which is composed of the $578,849 recommended by Witness Hoover, less customer deposits of $25,959 advance payments and billings of $36,765, and other deferred credits of $3,325. The reductions in Witness Hoover's working capital allowance represent items of cost free capital which Witness Hoover had deducted from Westco's original cost net investment but which the Commission, in Evidence and Conclusions for Finding of Fact No. 4, has previously determined and concluded to treat as a reduction in the working capital allowance.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The rate base is comprised of the fair value of plant in service as determined previously in Finding of Fact No. 6 plus the working capital allowance determined in Finding of Fact No. 7. The Commission concludes that these amounts are proper and that the fair value of Westco's property used and useful in providing intrastate and local telephone service to its North Carolina customers (or the rate base) is $14,086,406. It is this amount to which the fair rate of return determined hereafter must be applied in computing the gross revenue requirement for Westco.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

Company Witness Holt and Staff Witnesses Hoover and Gerringer presented testimony concerning the appropriate level of end-of-period intrastate operating revenues. Ms. Holt and Mr. Hoover are in agreement with regard to the end-of-period level local service revenues. However, Ms. Holt and Mr. Gerringer disagree with regard to the end-of-period level intrastate toll service revenues.

Ms. Holt determined the end-of-period level intrastate toll service revenues to be $955,150 while Mr. Gerringer determined the end-of-period level to be $1,092,552. Staff Witness Gerringer testified specifically concerning the separations procedures employed by the Company to separate its operating revenues between jurisdictions. Mr. Gerringer testified that the approach he used to arrive at the end-of-period level intrastate toll service revenues for the test year is consistent with the manner in which the Company developed its intrastate net investment and intrastate operating expenses for presentation in this proceeding. Ms. Holt did not address herself to this issue.

Based on the testimony and exhibits of all witnesses, the Commission concludes that $3,017,141 is the proper level of North Carolina intrastate operating revenues for the test year. This amount is composed of local service revenues of $1,868,211; intrastate toll service revenues of $1,092,552; and miscellaneous revenues of $56,378. Such test year revenues would have been approximately $3,521,089 had the Company's proposed rate schedules, which were designed to raise an additional $503,948 in annual gross operating revenues, been in effect during the test year.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

Company Witness Holt and Staff Witness Hoover presented testimony and exhibits showing the end-of-period level North Carolina intrastate operating expenses which each believed should be used for the purpose of fixing the Applicant's rates in this proceeding.

The following chart shows the amounts presentd by each witness:

Item (a)	Company Witness Holt (b)	Staff Witness Hoover (c)
Operating expenses	$ 98|,944	$ 98|,944
Depreciation and amortization	754,927	764,865
Interest on customer deposits	-	|,328
Other operating taxes	334,457	356,227
Federal income taxes	80,038	175,167
Total	$2,|5|,366	$2,279,53|

As shown in the above chart, the witnesses do not agree concerning the reasonable test year depreciation and amortization expense. The difference results from additional adjustments to depreciation expense proposed by Staff Witnesses Hoover and Clemmons. As discussed above in Evidence and Conclusions for Finding of Fact No. 4, the adjustments proposed by Witness Hoover were:

(|) To increase depreciation expense related to telephone plant in service but not closed per book to an end-of-period level of $20,603.

(2) To decrease depreciation expense to remove from test year operations depreciation expense related to excess profits in the amount of $5,799.

Also discussed previously were the adjustments to depreciation expense proposed by Staff Witness Clemmons, representing changes in the various depreciation rates used for cross-bar and electronic central office equipment and pole lines (joint usage).

We have already adopted the depreciation adjustments of Witnesses Hoover and Clemmons as proper, and will therefore use the end-of-period depreciation expense presented by Witness Hoover of $764,865 in calculating the end-of-period level operating expenses.

Interest on customer deposits is the next item shown in the chart comparing the witnesses' end-of-period level operating expenses. While Ms. Holt did not include interest on customer deposits in arriving at the end-of-period level operating expenses, she does not disagree with Mr. Hoover's position that interest on customer deposits should be included in operations if customer deposits are included as a deduction in arriving at the original cost net investment. Consistent with having deducted customer deposits in arriving at the original cost net investment the Commission has included interest on customer deposits of $|,328 in arriving at the end-of-period level operating expenses.

The next area of disagreement is other operating taxes. This difference of $2|,770 is the state income tax effect of

the adjustments to operating income and the gross receipts tax applicable to the intrastate toll service revenue adjustment proposed by Witness Hoover and Witness Gerringer and adopted by this Commission. After further adjusting the $356,227 herein determined to be proper for the state income tax effect of $64.00 for the interest expense allocation adjustment required by the Commission's conclusion that the excess profits adjustment should be a net adjustment, the Commission adopts $356,291 as the proper amount to be included as other operating taxes in calculating total intrastate operating expenses for purposes of setting rates in this proceeding.

The remaining item of controversy is the adjustment presented by Witness Hoover to reflect the federal income tax effect of normalizing state income tax expense resulting from the normalization of accelerated depreciation. As mentioned hereinabove, this Commission has consistently included normalized income tax expense in the Company's cost of service for rate-making purposes. Mr. Hoover testified that the Applicant uses an accelerated method of depreciation to calculate the depreciation deduction in determining its actual state income tax liability, but calculates state income tax expense for rate-making purposes using a depreciation deduction based on the straight-line method of depreciation. Thus, the state income tax expense for rate-making purposes is calculated without giving effect to accelerated depreciation. This, of course, is in keeping with the normalization concept. The Company also followed the normalization concept in calculating the depreciation deduction in determining its federal income tax expense for rate-making purposes. However, the Company quickly abandoned the normalization concept by taking the actual state income tax liability as the state income tax expense deduction in calculating federal income tax expense for rate-making purposes.

Consistent with the Commission's practice of including normalized income tax expense in the Company's cost of service for rate-making purposes, the Commission herein adopts Witness Hoover's adjustment. After further adjusting the $175,167 herein determined to be proper for this item by the federal income tax effect of $480 for the interest expense allocation adjustment required by the Commission's conclusion that the excess profits adjustment should be a net adjustment, the Commission concludes that $175,647 is the proper amount to be included as federal income tax expense for purposes of fixing rates in this proceeding.

Based upon all the evidence offered by the witnesses concerning the proper level of operating expenses and the adjustments thereto noted above, the Commission concludes that the proper level of operating expenses, including interest on customer deposits, is $2,280,075.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence as to the service provided by Westco which appears in this record consists of the testimony and exhibits of Norman Gum, President of Westco Telephone Company, W. E. Thaxton and Robert T. Payne, Officers of Mid-South Consulting Engineers, Inc., Charles D. Land, Commission Staff Telephone Engineer, and by twenty-five (25) public witnesses who appeared at the hearings in Sylva and Asheville.

Mr. Gum testified concerning the unique construction difficulties faced by Westco, the customer growth experienced over the previous five years (including the test year), the results of Westco's upgrading program, the Company procedures for handling trouble reports and program for improving toll service, the steps planned to improve customer service and the increase in Company investment per main station. Mr. Thaxton testified about the Company's engineering, construction and maintenance practice and procedures, adequacy and condition of existing plant facilities, and the adequacy and accuracy of plant records and record-keeping facilities as they apply to outside plant facilities. Mr. R. T. Payne testified concerning the same subject areas as they relate to central office and toll equipment.

Staff Witness Charles D. Land testified concerning his investigation and evaluation of telephone service provided by Westco. He testified that over 2,800 test calls were made from sixteen (16) of the Company's seventeen (17) exchanges. In addition, analysis was made of data filed on a monthly basis by the Company with the Commission. Mr. Land explained that the call completion test results were reasonably good and, on a company-wide basis, met Commission objectives. Subscriber trouble reports met the Commission objectives on a company-wide basis during only five months of the first ten months of 1974. Two exchanges were cited as having rarely ever met the Commission objective of eight or fewer trouble reports per 100 stations per month. Witness Land stated that the company's record of meeting subscriber demand for service was not good and that the Company was not meeting the Commission objective that calls for working at least 95% of regular service orders within five days. As a result of a strike by craft employees during August of 1974 the Company had accumulated, at one point, a very large number of unfilled service orders. Though this backlog had been significantly reduced at the time of the hearing, Witness Land termed this an "extremely slow recovery". Mr. Land explained that in its Order in Docket No. P-58, Sub 61, issued on July 15, 1970 (and reiterated in Docket No. P-78, Sub 25), the Commission listed 17 standards or requirements for improving service which the Company was to meet. He stated that the Company had met 15 of the 17 requirements and that, of two established Commission objectives not included in this Order (percent of service orders worked within five days and the

percent of paystations found out of service), the Company had failed to meet one of them.

Witness Land further pointed out that the level of service was substantially lower in the Western District than in the Eastern District and, in his exhibits, showed many variations in the level of service between the two districts. The 25 public witnesses who appeared testified that operators refused to verify numbers that had busy signals for extended periods of time, that difficulties were encountered in reaching the number dialed, that frequent service outages were experienced, that difficulties in getting troubles repaired were frequently experienced, that there were delays in obtaining service installations and disconnections, that excessive noise was encountered on telephone lines and that disconnected numbers were not put on operator intercept. Twelve of the subscribers who appeared at the hearing requested the installation of toll free calling privileges to neighboring towns. Four of the public witnesses appeared solely to protest the proposed rates and raised no complaints about telephone service.

While the overall level of service rendered by Westco has shown significant improvement, the Commission concludes that, during the test period and up to the time of the hearings, the Company had not been and was not providing a fully adequate level of service throughout its North Carolina operations. As noted in Witness Land's testimony and exhibits, the Company's Western District failed to meet three (3) of the 17 requirements of prior Commission Orders issued in 1970 and 1972 concerning quality of service, while the Company on a state-wide average, failed to meet two of these requirements. The general dissatisfaction of subscribers with delays in meeting service order requests and with continuing service problems are not indicative of the level of adequate, efficient and reasonable service which is required by G.S. 62-131 and which the Commission sought to achieve for Westco's customers by its previous Orders referred to above.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

According to Westco, the full amount of the rate increase proposed by the Company would produce a return on end of period net investment of 7.15% and a rate of return on fair value rate base of 5.92%. However, this later return is based on the Company's intrastate replacement cost new less depreciation figure of $16,059,668 instead of the figure actually determined by the Commission to be the fair value - $14,086,406. Using the Commission's determination of fair value, the rate of return on fair value would be raised to 7.70%.

There were two rate of return witnesses who prefiled expert testimony and were cross-examined at the hearing. The Company presented Mr. Joseph F. Brennan, President of Associated Utility Services, Inc.; the Commission Staff

presented Mr. Thomas M. Kiltie, Economist of the Operations Analysis Section.

Company Witness Brennan testified that, in his opinion, the overall cost of capital and required return on investment to Westco was 8.29% on original cost, 6.87% on fair value (as determined by Westco) and 15% on book common equity based upon an adjusted December 31, 1973, capitalization consisting of 67.4% debt, 2.7% preferred stock, 27.8% common equity and 2.1% deferred taxes. He estimated the cost of common equity capital by employing four basic financial techniques: the earnings/price ratio, the earnings/net proceeds ratio, the discounted cash flow (DCF) technique, and the earnings/book ratio. Since the common equity of Westco is not directly traded in the capital markets, Mr. Brennan examined the most recent market data on AT&T and the five largest telephone holding companies with respect to the above mentioned financial techniques and found that, in his opinion, the risk-adjusted cost of equity was 15% for Westco.

Staff Witness Kiltie testified that the fair rate of return for any regulated utility company is equal to its cost of capital. He further testified that the cost of equity capital is the expected return that an investor forfeits by not purchasing the stock of alternative risk-equivalent companies, or his opportunity cost of investment. To find the fair return on equity for Westco, Mr. Kiltie performed a DCF analysis of 17 companies with Value Line Safety Grade and beta coefficients equal to those of Continental Telephone Company, the ultimate holder of Westco's common stock, and testified that, in his opinion, the cost of equity capital to Continental was 14%. He stated that the effective cost of equity to Westco (the subsidiary) is lower than the estimated cost of equity to Continental (the parent) since the equity investment of the parent in the operating subsidiary should be considered to be supported by the total capitalization of the parent. Thus, the cost of equity of the subsidiary is a weighted sum of the cost of equity of the parent and the debt cost of the parent. Mr. Kiltie made no adjustment for the ownership of Westco by Western Carolina Telephone Company since the parent-subsidiary relationship between Western-Westco is not the traditional relationship of a holding company operating subsidiary. Mr. Kiltie estimated that the weighted cost of capital to Continental was 12.44% and used this figure as the cost of common equity to Westco. Based upon a projected Mid-1975 capital structure consisting of 68.9% debt, 2.7% preferred stock and 28.4% common equity, Mr. Kiltie estimated an overall weighted cost of debt and equity capital to Westco of 7.74%.

Following its determination of an inadequate level of service in Westco's last general rate increase case (Docket No. P-78, Sub 25), the Commission allowed Westco the opportunity to earn a rate of return of 5.61% on the fair value of its property.

Upon consideration of the record herein, this Commission has determined that the level of service continues to be inadequate, while recognizing the improvements testified to by Company Witnesses Gum, Thaxton and Payne and by Staff Witness Land. The Commission, therefore, concludes that a rate of return of 6.15% on the fair value of Westco's property would be just and reasonable at this time.

Although the rate of return on fair value is less than that which the Commission would have found to be reasonable if service were adequate, the net operating income which will be produced by application of the schedule of rates necessary to produce the approved rate of return on fair value will be more than sufficient to cover all fixed charges and preferred dividends. Based upon the present level of service quality, such a return is fair and reasonable. A rate of return producing any higher rate of return on fair value would be unjust and unreasonable at this time. It should be noted that the increase in annual gross revenues herein approved ($301,178) is almost 60% of the increase requested by the Company ($503,948).

The failure or inability of Westco to provide adequate, efficient and reasonable service at the present time is a material factor to be considered in establishing just and reasonable rates for the utility to charge and the subscribers to pay for the level of service being offered. Especially is this true in light of previous Commission Orders, dating back to 1970, requiring service improvements. As noted above, the testimony by Commission Witness Land and the customer witnesses establish that, even at this late date, the minimum standards previously prescribed by the Commission are not being met in all categories.

In light of the testimony by Mr. Brennan and Mr. Kiltie, the return allowed to Westco by the Commission in its last general rate case (9.0% on book common equity in Docket No. P-78, Sub 25), the need of Westco to maintain a competitive position in the capital markets in order to pursue programs of expansion which should provide improved service to the ratepayers and the continuing failure by Westco to provide an adequate level of service at this time, the Commission concludes that a return of 9.4% on book common equity would be just and reasonable in this case. Further support for this conclusion is provided by the inclusion in the capital structure at zero cost of the cost free items mentioned above in Evidence and Conclusions for Finding of Fact No. 4. In addition, the fair value increment (fair value less original cost) is added to the equity portion of the capital structure. Both of these items, when added to the capital structure, increase the equity ratio and would thus tend to reduce the overall cost of equity.

However, the law of this State [see Commission v. Duke, 285 N.C. 377 (1974)] requires that an additional dollar return on common equity be given to the Company to account for the addition of the fair value increment (here $828,396)

to the equity component of the capital structure. The addition of the fair value increment to book equity results in a larger overall common equity and the return which should be granted to the equity component decreases in percentage, but not in dollar terms. The 7.77% rate of return herein allowed as just and reasonable on the fair value of Westco's jurisdictional property or rate base will actually result in the Company's having rates set which will produce a rate of return on book common equity of more than 9.5% rather than the 9.4% which the Commission believes to be fair. Because of the fair value statute and its proper application, the Commission feels that it must allow the higher than 9.5% return on book common equity. The increased revenues herein will produce a return of 7.77% on fair value equity and the Commission concludes that such return is just and reasonable in this case.

The rates of return herein allowed should be sufficient to enable the Company to attract sufficient debt capital from the market and equity capital from its parent to discharge its obligations and to achieve and maintain an adequate level of service to the public. The Commission cannot, of course, guarantee that the Company will, in fact, earn the rates of return herein allowed, but the Commission believes that the Company will be able to reach these levels of return, given efficient management and proper supervision by Continental.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The following charts summarize the gross revenues and the rates of return which the Company should be able to achieve based on the increases approved herein. Such charts incorporate the findings, adjustments and conclusions heretofore and herein made by the Commission.

WESTCO TELEPHONE COMPANY
Docket No. P-78, Sub 32
North Carolina Intrastate Operations
STATEMENT OF RETURN
Twelve Months Ended December 31, 1973

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross operating revenues	$ 3,017,141	$302,178	$ 3,319,319
Less: Uncollectibles	8,987	1,321	10,308
Total operating revenues	3,008,154	300,857	3,309,011
Operating Revenue Deductions			
Operation and maintenance expenses	981,944		981,944
Depreciation and amortization	764,865		764,865
Taxes - other than income	330,921	18,051	348,972
Taxes - state income	25,370	16,968	42,338
Taxes - federal income	175,647	127,602	303,249
Interest on customer deposits	1,328		1,328
Total operating revenue deductions	2,280,075	162,621	2,442,696
Net operating income for return	$ 728,079	$138,236	$ 866,315
Original Cost Net Investment			
Telephone plant in service	$14,589,588		$14,589,588
Less: Excess profits surviving	62,000		62,000
Accumulated depreciation and amortization	1,782,378		1,782,378
Net investment in telephone plant in service	12,745,210		12,745,210
Allowance for working capital	578,849		578,849
Less: Customer deposits	25,959		25,959
Advance payments and billings and other deferred credits	40,090		40,090
Total allowance for working capital	512,800		512,800
Total original cost net investment	$13,258,010		$13,258,010
Fair value rate base	$14,086,406		$14,086,406
Rate of return on fair value rate base	5.17%		6.15%

WESTCO TELEPHONE COMPANY
Docket No. P-78, Sub 32
North Carolina Intrastate Operations
REVENUE REQUIREMENTS CORRELATED TO ORIGINAL COST AND FAIR VALUE COMMON EQUITY
Twelve Months Ended December 31, 1973

Item	Original Cost Net Investment Prior to Adjustment for Fair Value Increment
Revenue Requirements:	
Gross revenues - present rates	$3,017,141
Additional gross revenues required to provide 9.40% return on original cost common equity	288,274
Total revenue requirements	$3,305,415
Net income available for return on equity	$ 334,120
Equity component	$3,554,472
Required return on common equity	9.40%

Revenue Requirements:	Fair Value Rate Base
Gross revenues - present rates	$3,017,141
Additional gross revenues required to provide 9.40% return on original cost common equity	288,274
Additional gross revenues required for fair value common equity	13,904
Total additional revenues	302,178
Total revenue requirements	$3,319,319
Net income available for return on equity	$ 340,482
Equity component	$4,382,868
Return on fair value equity	7.77%
Original cost common equity	$3,554,472
Actual return on original cost common equity	9.58%

WESTCO TELEPHONE COMPANY
Docket No. P-78, Sub 32
North Carolina Intrastate Operations
Twelve Months Ended December 31, 1973

Capitalization	Fair Value Rate Base	Ratio %	Embedded Cost Or Return On Common Equity %	Net Operating Income
		Present Rates - Fair Value Rate Base		
Debt	$ 8,624,336	61.23	5.70	$491,587
Preferred Stock	334,102	2.37	10.25	34,246
Common Equity	4,382,868	31.11	4.61	202,246
Cost-Free Capital	745,100	5.29	-	-
Total	$14,086,406	100.00	5.17	$728,079
		Approved Rates - Fair Value Rate Base		
Debt	$ 8,624,336	61.23	5.70	$491,587
Preferred Stock	334,102	2.37	10.25	34,246
Common Equity	4,382,868	31.11	7.77	340,482
Cost-Free Capital	745,100	5.29	-	-
Total	$14,086,406	100.00	6.15	$866,315

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

Mr. James G. Mercer, Tariffs Director, Continental Telephone Service Corporation, Eastern Region, proposed changes in local service rates and in other service rates and charges designed to produce $503,948 of additional revenues on what he considered to be an equitable basis. A specific item posed by Mr. Mercer was to increase service charges for installation, moves, changes, etc. He also proposed to change the present zone charge schedule by reducing the number of zones, enlarging each zone, and increasing the charges applicable to some subscribers. Other changes were proposed for specific items such as directory listings, special equipment, extension phones and the like.

Mr. Vern W. Chase, Chief Engineer of the Commission's Telephone Rate Section, testified that if the Commission allowed Westco to generate any additional revenue, consideration should be given to: (1) increasing the ratio between business and residence one-party service from 1.9 to 1 up to 2.5 to 1; (2) increasing the ratio between key trunk lines and business one-party lines to a 1.2 to 1 rate ratio instead of a 1.5 to 1 ratio as proposed by the Company; (3) reducing zone charges retaining the present zone widths and decreasing the charges applicable within each zone; and (4) developing a new format for the Company's service charge tariff.

The Commission concludes that the changes in rate structure proposed by Witness Chase are just and reasonable and should be used in the design of a revised rate schedule. More specifically, the Commission concludes that Westco's service charges should be increased to a level which more closely approximates the actual level of costs involved in doing the work, that the charges applicable for each service request should depend on the actual work function, that the color charges for most station equipment should be included in the basic rate, and that the reduction in rural zone charges is in line with the Commission's objective to reduce and ultimately eliminate those charges. The Commission also concludes that a new format service charge tariff as proposed by the Commission Staff witness is reasonable and appropriate in this case. The Commission finally concludes that the revised rates and tariffs contained in Appendix B, Appendix C and Appendix D* should be approved for use by Westco.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The Commission, by Order issued on December 10, 1974, approved the Notice and Undertaking filed by Westco Telephone pursuant to G.S. 62-135. Pursuant to such Notice and Undertaking, Westco has been collecting increased interim rates from its customers, pending the issuance of this Order. G.S. 62-135(c) and (d) require a utility which has been collecting higher rates under bond to refund to its customers, at six (6%) percent interest, all of such increased rates and charges which are finally determined by the Commission to be excessive. Since the interim rates being charged by Westco are in excess of those herein determined to be just and reasonable, the Commission concludes that Westco should be required to make proper refund of such excess charges as provided by the statute.

IT IS, THEREFORE, ORDERED:

1. That Westco Telephone Company shall take such action as may be necessary to achieve and/or maintain all of the service objectives outlined in Appendix A attached hereto.

2. That Westco Telephone Company be, and hereby is, authorized to increase or decrease its intrastate local exchange rates and charges as set forth in Appendix B, attached hereto and made a part of this Order. Said rates and charges shall become effective upon one day's notice on all billings rendered in advance on and after the filing with this Commission of revised tariffs reflecting the increases and decreases in rates.

3. That Westco Telephone Company shall place into effect those service charges that will be filed by its parent company, Western Carolina Telephone Company, to become effective March 1, 1976, as required in Ordering Clause 3 in Commission Docket No. P-58, Sub 93.

4. That Westco shall immediately institute steps to refund, with appropriate interest, all monies collected from its customers under its undertaking instituted in this docket due to rates which are higher than those authorized in this Order. Westco shall file reports with the Commission during the first ten days of each month until the refunds have been completed, advising the Commission of the amount of refund due on each service, the number of customers who are due refunds, the dollar amounts of refunds which have been made with interest set out separately, and the number of customers who have received refunds.

ISSUED BY ORDER OF THE COMMISSION.

This the 1st day of May, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Note: See portions of Appendix B below. For Appendix A and the remainder of Appendix B, see official Order in the Office of the Chief Clerk.

APPENDIX B
WESTCO TELEPHONE COMPANY
DOCKET NO. P-78, SUB 32
LOCAL EXCHANGE RATES

		Monthly Flat Rate					
		RESIDENCE			BUSINESS		
GROUP	CALLING SCOPE	1-pty	2-pty	4-pty	1-pty	2-pty	4-pty
1	0 - 4,000	7.70	6.95	6.45	19.10	17.60	16.60
2	4,001 - 8,000	7.95	7.20	6.70	19.75	18.25	17.25
3	8,000 - up	8.25	7.50	7.00	20.50	19.00	18.00

	Rates by Exchange					
	RESIDENCE			BUSINESS		
EXCHANGE	1-pty	2-pty	4-pty	1-pty	2-pty	4-pty
Bakersville	7.95	7.20	6.70	19.75	18.25	17.25
Burnsville	7.70	6.95	6.45	19.10	17.60	16.60
Fontana	7.70	6.95	6.45	19.10	17.60	16.60
Garden City	7.95	7.20	6.70	19.75	18.25	17.25
Glenwood-Providence	7.95	7.20	6.70	19.75	18.25	17.25
Guntertown	7.70	6.95	6.45	19.10	17.60	16.60
Hayesville	7.95	7.20	6.70	19.75	18.25	17.25
Hot Springs	7.70	6.95	6.45	19.10	17.60	16.60

Marshall	7.70	6.95	6.45	9.10	7.60	6.60
Mars Hill	7.70	6.95	6.45	9.10	7.60	6.60
Micaville	7.70	6.95	6.45	9.10	7.60	6.60
Murphy	7.95	7.20	6.70	9.75	8.25	7.25
Robbinsville	7.70	6.95	6.45	9.10	7.60	6.60
Sevier	7.95	7.20	6.70	9.75	8.25	7.25
Suit	7.95	7.20	6.70	9.75	8.25	7.25

DOCKET NO. P-78, SUB 32

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Westco Telephone) ORDER AMENDING TERMS
Company for an Adjustment in its) OF PRIOR ORDER
Intrastate Rates and Charges) ESTABLISHING RATES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Tuesday, July 8, 1975, at 9:00 a.m.

BEFORE: Chairman Marvin R. Wooten, Presiding, and Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, Barbara A. Simpson and W. Lester Teal, Jr. -- Oral Argument on Exceptions

APPEARANCES:

For the Applicant:

F. Kent Burns
Boyce, Mitchell, Burns & Smith
Attorneys at Law
Box 1406
Raleigh, North Carolina 27602

For the Attorney General:

Robert Gruber
Associate Attorney General
Department of Justice
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter arose upon the filing with this Commission on May 28, 1974, of an application by Westco

Telephone Company (hereinafter referred to as Westco or the Company) for authority to adjust and increase its rates and charges for intrastate and local telephone service rendered in its franchised territory in North Carolina. The case was set for hearing and subsequently was heard in Raleigh, North Carolina, on January |0, |975; in Sylva, North Carolina, on January |4 and |5, |975; and in Asheville, North Carolina, on January |6 and |7, |975.

Following the preparation of the transcript and the submission of briefs by the Company and the Attorney General, the Commission's Order Establishing Rates was issued on April 30, |975. On May 30, |975, Westco filed with the Commission three exceptions to the Commission's Order and requested that oral argument be allowed with respect to such exceptions. By subsequent Order, an oral argument before the full Commission was scheduled and heard as noted above.

The three exceptions raised by the Company to the Commission's Order of April 30 are as follows: (|) That three of the Commission's eight specific service objectives (Nos. |, 2 and 6 of Appendix A attached to the Order of April 30, |975) are unjust, unreasonable and unwarranted as applied on an exchange by exchange basis; (2) That the degree of penalty imposed by the Commission on the fair rate of return which the Company should be allowed to earn on its common equity was too great in light of the return allowed in the Company's last general rate case, the substantial improvements in quality of service since then and the present cost of A rated public utility bonds; and (3) That the Company, as a part of its conversion and upgrading of public pay station service equipment, ought to be allowed to convert from a |0¢ to a 20¢ local message charge, which charge has previously been approved by the Commission for other North Carolina telephone companies.

At the oral argument on these exceptions, the Commission heard from counsel for all parties hereto, the Company, the Attorney General and the Commission Staff. Based upon the able arguments of counsel, the previous Order of the Commission in this docket and the other matters noticed at the hearing, which collectively comprise the record herein, the Commission now finds, determines and concludes as follows:

|. That the Company should continue to report the three service standards excepted to on an exchange by exchange basis. However, the Company should also report these standards on a service center basis. For the purpose of highlighting possible trouble areas, the Commission will have the first report available. For the purpose of determining overall service adequacy, the Commission will consider that compliance with its objectives on a service center basis, as would be shown on the second report, is prima facie sufficient and the Order of April 30 should be modified so to reflect.

There were three different standards which the Company felt it was unfair for the Commission to judge on an exchange by exchange basis. The exception was grounded on the fact that many of the Company exchanges were very small, such as the Suit exchange, which contains only 500 telephones. In such an exchange, even a relatively small number of infractions could cause the exchange not to comply with the Commission's Order.

The first service standard objected to by the Company was one which limits the number of held orders for new service over 14 days of age to 0.1% of the number of total stations in the exchange. In an exchange the size of Suit, if even one order for new or primary service were held for over 14 days, regardless of the reason, that exchange would not meet the Commission's standard for adequate service. In some instances orders are held for over 14 days for reasons beyond the Company's control such as weekends and holidays (when only emergency service is available), inclement weather (a particular problem in mountainous areas), delays in shipment of necessary equipment and the necessity for securing rights of way. It is worthy of note that over half of the Westco exchanges have less than 2,000 stations and, in these exchanges, the Company could never have more than one held order over 14 days old without violating the service objective contained in the Commission's Order of April 30, 1975.

The second service standard objected to required that the number of held orders for regrades (i.e., a phone with fewer parties on the line) not exceed 1% of the total number of stations in an exchange. Since orders for new service and emergency service have priority, it is quite common that held orders for regrades will exceed held orders for new service. The problem with this service standard is, just like the previous one, that the Company exchanges are so small that a relatively few violations can render the exchange out of compliance with the Commission's Order. The Commission's Order of April 30, 1975, imposed a stricter standard than had previously been applied to Westco on a company-wide basis with regard to held orders for regrades.

Finally, the Company excepted to the standard which requires that not more than 10% of the pay phones in any exchange be out of service for any monthly reporting period. Here again, the problem is one of exchange size, since some of the Company's exchanges have 10 or less pay stations. In these exchanges, if even one pay station were out of order, the Commission's service objective would be violated. Western Carolina and Westco (parent-subsidiary related companies) together have but 428 total public pay stations in 27 exchanges. Two of the primary causes of service outages for pay phones - exposure to the weather and vandalism - are not within the control of the Company.

For the foregoing reasons, the Commission is of the opinion that, in terms of overall adequacy of Company

service, we should not require compliance with these three standards on an exchange by exchange basis. Counsel for the Company contended that these standards should be applied on a company-wide or district-wide basis. However, while we agree that the exchange basis is too stringent, we also feel that a company or district basis would be too lax and could perhaps give us the distorted picture that overall company service, in these three objective areas, was good, while hiding several small exchanges in which the standards were continuously not being met and service was poor.

The Commission, therefore, concludes that, for the purpose of judging the Company's adequacy of service in these three areas in future cases, the standards should be primarily judged on a service center basis. The service centers (5 for the two companies here involved) have 16,000 main stations on the average, and the Commission feels that these units are large enough to make the three standards just and reasonable as a measure of performance. However, in the event of continual, chronic failure to meet the performance standards in one or more specific exchanges, the Commission and the customers in such exchanges would be justified in requiring the Company to show that such failure was not the result of any negligence or inattention on the Company's part.

2. The Commission agrees with the contentions advanced by counsel for the Company with regard to the amount of penalty imposed by the Commission in its Order of April 30 on the Company's rate of return. Briefly, these contentions are as follows:

(a) In the Company's last general rate increase case (Docket No. P-78, Sub 25) the Commission allowed the Company to earn a return of 9.0% on its book common equity. The Commission stated that, had service been fully adequate, the allowed return on book common equity would have been 13.0%. Thus, in the last case, the Commission prescribed a penalty of 4.0% in the book common equity return.

(b) In this case, the Commission allowed a higher return of 9.58% on the Company's book common equity. However, the Commission failed to state what return it would have allowed had it found service to be fully adequate. The Commission merely stated that it was imposing a penalty for inadequate service.

(c) Of the expert witnesses who testified at the public hearings with regard to cost of (or fair rate of return on) equity capital, the lowest fair cost or return rate mentioned was the 12.44% recommended by Staff Witness Kiltie.

(d) Thus, even using Mr. Kiltie's figure, it is apparent that the Commission has imposed a penalty on the equity return in this case of 2.86%. This penalty, while not as great as the one imposed in the Company's last rate case, is

still excessive because of the Commission's Order assigning virtually equal risk or cost to the common equity of Westco as it did to the equity of Western Carolina.

(e) Since the last case, the Company has invested several million dollars ($18,000,000 for Western and Westco combined) to regrade customer service, improve long distance service and billing and upgrade and improve customer service generally. The objective tests performed by the Staff show that service has significantly improved since the last rate case and many of the public witnesses testified that their telephone service was the best it had ever been.

(f) The return which the Commission allowed on book common equity was less than the cost of A rated public utility bonds as of July, 1974.

(g) Since the present case was filed, inflation and attrition, together with regulatory lag have combined to further erode the Company's already inadequate return.

For the foregoing reasons, the Commission concludes that the penalty which it imposed on the Company's equity return by its April 30, 1975, Order Establishing Rates was too severe and that such allowed return on equity should be adjusted upward.

The zone of reasonable return on equity, as testified to at the public hearings was 12.44% according to Staff Witness Kiltie and 14% according to Company Witness Brennan. In arriving at a fair cost of equity capital to the Company, the Commission must take due notice of the source of the Company's equity funds, the costs of such funds to the parent corporation (Continental) and the relationship between the parent and the subsidiary within the holding company framework. The Company's source of equity capital is not the open market, but is ultimately traceable to Continental, which raises these funds through a combination of debt and equity financing. If all the operating subsidiaries, such as Westco, were allowed to earn the same equity return as the parent, the result would be to increase the equity return to the parent. However, the leverage which would produce such an increased return, at the level of the parent, would also tend to increase the risk of the parent's investment in companies such as Westco.

In view of the foregoing, the Commission concludes that a return on equity to Westco of 12.5% would be just and reasonable and would have been allowed in this case if the Commission had found the Company's level of service to be fully adequate. However, the evidence showed and the Commission has previously found that such level of service continues to be inadequate.

To penalize the Company almost 3% (12.50 - 9.58 = 2.92%) for inadequate service would be unjust and unreasonable. The Commission concludes that it should allow an approved

level of earnings on equity of 11.0%. This level equates to a penalty on equity earnings of 1.5%. The 11.0% approved return gives credit for the Company's expanded investment in plant, its improved service level and the effects of inflation, attrition and regulatory lag. The 1.5% penalty gives recognition to the fact that, as of January, 1975, the Company's level of service continued to be inadequate, despite more than five (5) years of constant effort by the Commission to get service up to an acceptable level.

In order to raise the Company's level of equity return, based on test year figures, from the 9.58% previously approved to the 11.0% approved herein, it will be necessary for the Company to generate additional annual gross revenues of $108,410. These additional annual gross revenues will raise the Company's return on rate base from 6.15% to 6.50% and will raise its return on fair value equity from 7.77% to 8.90%. The higher returns would be within the zone of reasonableness based on the returns heretofore approved and the Commission finds such higher returns to be just and reasonable herein and, therefore, concludes that they ought to be allowed.

Ordinarily the additional annual gross revenues of $108,410 approved herein would be raised by allowing the Company to file increased, across-the-board tariffs for basic, flat rate, local exchange service. However, the Commission concludes that such an increase in local exchange rates will not be necessary because the Company is already earning in excess of the amount of additional gross revenues approved on its intrastate toll service.

In Docket No. P-55, Sub 742, Southern Bell filed for a general rate increase on July 19, 1974. Included as a part of said rate increase was a request for an increase in intrastate toll revenues of more than $16,000,000. Of this amount, $8,607,506 was to be the share of the independent, connecting companies, such as Westco. In Docket P-100, Sub 34, a toll settlement investigation, the Commission made all the independent companies, including Westco, parties to the increased intrastate toll portion of the Bell case.

On July 1, 1975, all the North Carolina telephone companies, including Westco, placed the full amount of the requested toll increase into effect pursuant to G.S. 62-134(b). Based on their combined intrastate toll net investment for three months ending December, 1974, and the anticipated increase in Bell's settlement rate of return, Western and Westco should receive additional annual combined gross revenues of $545,892 from these higher toll rates. Westco's share of these revenues, based on the historic percentage split between Western and Westco (69.5% vs. 30.5%) will amount to approximately $166,497 on an annual basis. This sum, which is in excess of the $108,410, approved herein, represents additional annual gross revenues over and above those considered and approved by the Commission in Westco's present rate case. When Docket No.

P-100, Sub 34, is heard, Westco will be able to resist flow through of at least $108,410 of these increased toll dollars because of the provisions of this Order.

The Commission, therefore, concludes that it will not be necessary for Westco to increase its rates for local exchange service in order to recover the additional annual revenues approved herein. No such tariffs will be accepted for filing by the Commission.

3. The Commission is unable to accept the Company's contention that pay phone rates should be increased from 10¢ to 20¢ simultaneously with the changeover from multi-slot to single slot pay phone equipment. This changeover in equipment was already taking place when the rate case was heard in January, 1975. It should be, at present, rapidly moving toward the final stages of completion.

Pay phone rates were not one of the items of contention at the hearings. No evidence was introduced to show that any increase in pay phone rates, much less a 100% increase, was cost justified. More importantly, the Company did not apply for an increase in pay phone rates in the general rate case, no notice of any such increase was provided, and the public was not afforded an opportunity to appear and protest such higher rates.

The Commission concludes that such proposed increase would not be lawful. Even assuming, arguendo, that the Commission could consider the matter of pay phone rates separate and apart from other rates without notice and opportunity for hearing, we are of the opinion that it would be very unwise, as a matter of sound regulatory philosophy, to do so this close to the end of a general rate case. It should be noted that the Commission has greatly eased the quality of service standards for pay phones in service (see No. 1 above) and such standards were the Company's principal economic justification for requesting the higher rates.

IT IS, THEREFORE, ORDERED:

1. That items 1), 2) and 6) of the Commission's service objectives for the Company as contained in Appendix A of the Commission's April 30, 1975, Order be, and the same are hereby modified and amended as shown on Appendix A attached hereto.

2. That the Company shall begin keeping statistics on held orders, regrades and pay phones on a service center basis. The Company shall continue to keep such statistics on an exchange by exchange basis and shall furnish copies of same to the Commission and its Staff as and when requested.

3. That, in the event any request for new or regraded service (excluding those which can be worked but are pending customer action) is held for over 14 days without being worked, the Company shall promptly inform the customer by

letter of the reasons for the delay and when the request for service will be met. The Company shall provide the Commission with a copy of each letter which is written pursuant to this provision.

4. That the allowed return on the Company's common equity be, and the same is hereby, increased from 9.58% to 11.0%. The Company is already receiving, at least on an accrual basis, more revenues from increased intrastate toll rates than would be necessary to increase the equity return from 9.58% to 11.0% based on data for test year operations. Therefore, no increased local service charges shall be allowed.

5. That the Company's request to increase its rates and charges for a local pay phone call from 10¢ to 20¢ be, and the same is hereby, denied.

6. That, except as modified herein, the Commission's April 30, 1975, Order Establishing Rates shall remain in full force and effect.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX A
DOCKET NO. P-78, SUB 32
Westco Telephone Company

Commission Service Objectives for Westco Telephone Company:

1) The number of held orders for new service in each service center area (excluding those which can be worked but are pending customer action) over 14 days of age shall not exceed 0.1% of the number of total stations in that service center area.

2) Regrade requests shall be worked promptly and the number held over 14 days (excluding those which can be worked but are pending customer action) in each service center area shall not exceed 1% of the total number of stations in that service center area.

* * * * * * * *

6) The Company shall maintain public pay stations in proper working condition, keeping current and accurate instructions posted on each pay station indicating the telephone number and dialing instructions for local, toll, directory assistance and emergency assistance and have a

current directory available for each pay station. Routine maintenance and inspections should be planned so that at no time are more than 10% of the Company's pay stations out of service in any service center area.

DOCKET NO. P-58, SUB 93

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application of Western Carolina Telephone Company for an Adjustment in its Intrastate Rates and Charges	)	ORDER ESTABLISHING RATES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Friday, January 10, 1975, at 9:30 a.m., and

The Superior Courtroom, Jackson County Courthouse, Sylva, North Carolina, on Tuesday and Wednesday, January 14 and 15, 1975, at 9:00 a.m., and

9th Floor Courtroom, Buncombe County Courthouse, Asheville, North Carolina, on Thursday and Friday, January 16 and 17, 1975, at 9:00 a.m.

BEFORE: Chairman Marvin R. Wooten (presiding in Raleigh and Asheville) and Commissioners Hugh A. Wells (presiding in Sylva), Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Applicant:

F. Kent Burns
Boyce, Mitchell, Burns & Smith
Attorneys at Law
Box 1406
Raleigh, North Carolina 27602

Philip J. Smith
Van Winkle, Buck, Wall, Starnes,
Hyde & Davis, P. A.
Attorneys at Law
Box 7376
Asheville, North Carolina

For the Attorney General:

Robert Gruber
Associate Attorney General
Department of Justice

Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
and
E. Gregory Stott
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter arose upon the filing with this Commission of an application on May 28, 1974, by Western Carolina Telephone Company (hereinafter referred to as Western Carolina, Western or the Company) pursuant to G.S. 62-133 for authority to adjust and increase its rates and charges for intrastate and local telephone service rendered in North Carolina and seeking approval of $1,451,240 in additional annual gross revenues. Simultaneously with the filing of an application for general rate relief, Western filed an application for approval of interim rates, requesting that the Commission permit Western Carolina to place into effect on one day's notice an across-the-board increase of 20%. Such interim increase was to be made effective subject to the Company's undertaking to refund to its customers any amounts determined after hearing and final Order of the Commission to have been unjust, unreasonable, excessive or discriminatory.

By Order dated June 19, 1974, the North Carolina Utilities Commission (hereinafter referred to as the Commission) suspended Western's application and scheduled hearings to begin in Sylva, North Carolina, on December 10 and 11, 1974. (By Order issued at the same time, the Commission also scheduled hearings to begin in Sylva on December 10 and 11, 1974, in Docket No. P-78, Sub 32 - Application of Westco Telephone Company for an Adjustment in its Rates and Charges. Westco is a wholly-owned subsidiary of Western Carolina Telephone Company.) By subsequent Commission Order dated June 19, 1974, the Commission set the matter of the interim rate increase requested by Western for hearing in the Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on September 5, 1974, at 9:00 a.m.

On July 25, 1974, Robert Morgan, Attorney General of North Carolina (hereinafter referred to as the Attorney General), by and through the Utilities Division of the Department of Justice filed Notice of Intervention in the above-captioned matter, and by Commission Order dated July 30, 1974, the intervention of the Attorney General was recognized.

On September 5, 1974, the matter of the application for interim rate relief came on for hearing on Oral Argument,

affidavits, and cross-examination of affiants. By Commission Order dated September 13, 1974, the application for interim rate relief was denied in its entirety.

By Order dated September 26, 1974, the date for hearing of the general rate case was rescheduled to the week beginning January 14, 1975. On October 15, 1974, the Company by and through its attorney, F. Kent Burns, requested that the Company witness, W. E. Thaxton, be cross-examined either on Friday, January 10, 1975, or on Monday, January 20, 1975, due to a previous conflict regarding the time set for the rescheduled hearing. By Order dated October 21, 1974, the Commission rescheduled the cross-examination of Applicant's witness, W. E. Thaxton, for Friday, January 10, 1975, at 9:30 a.m., Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina.

On December 2, 1974, Western Carolina filed with this Commission its Notice and Undertaking to place the proposed rates into effect under G.S. 62-135. By Commission Order dated December 10, 1974, the undertaking filed by Western was approved.

The public rate hearing was convened for two days in Sylva, North Carolina, on January 14, 1975, as specified in the Commission Order. Mr. A. A. Ferguson, Mrs. Barbara Eberly, Mr. Roland H. Johnson, Mr. James J. Shive, Mr. Thomas Stewart, Mr. Donald B. Miller, Mrs. Yvonne Bushyhead, Mr. William C. Stump, Mr. Ira Melton, Mrs. Lynn Clayton, Mrs. Robert Bradman, Mr. Thurman Breedlove, Mr. Ed Bryson, Mr. James Ridgeway, Mrs. C. E. Brown, Mrs. H. R. Byrd, Mrs. Lois Martin and Mrs. A. L. Cordell, all members of the public, testified regarding the telephone services which they were receiving in what is known as the western district of Western's franchised territory. In general, the witnesses in Sylva had the following complaints about their telephone service: That operators refused to verify numbers which rang busy signals for extended periods of time; that difficulties were encountered in reaching the number dialed; that frequent service outages were experienced; that difficulties in getting troubles repaired were experienced; that there were delays in obtaining service installations and disconnections; that excessive noise was encountered on telephone lines; that disconnected numbers were not put on operator intercept; and that the local calling scope was not wide enough - too many necessary calls were long distance.

The following public witnesses testified in Asheville: Mrs. Claudia Green, Mr. Herbert Edwards, Mrs. Judy Wright, Dr. Joseph Godwin, Mrs. Betty Hulst, Mrs. Grace Maynor and Mrs. Daisy Anderson. The general type of complaint by these witnesses was approximately the same as those testifying in Sylva. Almost all of the witnesses who were questioned about the rates and charges stated that, while they realized costs had gone up, they were of the opinion that the present rates were too high for the level of service which they were

receiving and that the proposed rates were in excess of what they could reasonably afford.

Western Carolina offered the testimony and exhibits of the following witnesses: Mr. Norman L. Gum, President of Western Carolina and Westco Telephone Company, testified about the financial needs and operations of Western; Mr. W. B. Thaxton, President and part owner of Mid-South Consulting Engineers, Incorporated, testified regarding the adequacy of Western's outside plant; Mr. R. T. Payne, Vice President and part owner of Mid-South Consulting Engineers, Incorporated, testified regarding the adequacy of Western's inside plant; Mr. James G. Mercer, Tariffs Director with Continental Telephone Service Corporation, Eastern Region, testified about the present and proposed rates and the reasons for the changes; Ms. Carolyn Holt, Revenue Requirements Manager for Continental Telephone Service Corporation, prepared and presented the accounting records and financial statements of Western Carolina; Mr. Joseph Brennan, President of Associated Utilities Systems, Inc., testified as to Western's cost of capital and fair rate of return.

Western Carolina further offered the testimony of rebuttal witnesses John C. Goodman, Consultant for the American Appraisal Company, Inc., on replacement cost and depreciation of plant and Merle M. Buck, Vice President, Continental Telephone Service Corporation, regarding the benefits of participation by Western in the Continental Telephone System and the fair level of intercorporate profits earned by manufacturing subsidiaries of Continental on sales to Western.

The Commission Staff offered the testimony and exhibits of the following witnesses: Charles D. Land, Commission Engineer in the Telephone Service Section, who testified concerning the quality of Western's telephone service; Vern W. Chase, Chief Engineer, Telephone Rate Section, who testified concerning the quality of Western's proposed new rates and rate structure; Gene A. Clemmons, Chief Engineer, Telephone Service Section, testifying on Western's outside plant engineering, plant investment and operating expenses; Donald R. Hoover, Staff Accountant, testifying on financial statements, reports and accounting records, test year revenues and expenses, and intercorporate profits; Allen L. Clapp, Chief, Operations Analysis Section, Engineering, testifying on the proper valuation techniques to be used in determining the fair value of Western's plant; Dennis Goins, Economist, Operations Analysis Section, analyzing the intercompany transactions between the manufacturing subsidiaries of Continental Telephone Corporation and Western Carolina Telephone Company; Thomas M. Kiltie, Economist, Operations Analysis Section, Engineering Division, testifying on Western's cost of capital and fair rate of return; and Hugh Gerringer, Telephone Engineer, Toll Settlements and Separations, testifying on the proper apportionment of the Company's operations between intrastate and interstate jurisdictions and intrastate toll settlements

for the test period. The Staff further offered the surrebuttal testimony of Donald R. Hoover regarding affiliated Company transactions. Briefs were filed by the Applicant and the Attorney General.

The Commission must resolve the following principal issues in this case:

(1) The reasonable original cost of Western's plant in service which is used and useful in providing telephone service to the public within this State.

(2) The fair value of such plant.

(3) The fair value of Western's plant and working capital allowance - i.e., the rate base.

(4) The reasonable operating expenses, including depreciation, actually incurred by Western during the test year.

(5) The actual revenues generated by the present rate structure during the test year and the revenues which would have been generated by the proposed rate structure.

(6) The overall and district levels of quality of service provided by Western to its customers.

(7) The fair rate of return which Western should be allowed the opportunity to earn on the fair value of its properties.

(8) The just and reasonable rates by which Western may generate the revenues that it needs in order to obtain the rate of return to which it is entitled.

Based upon the verified application and exhibits, the prefiled expert testimony and exhibits and cross-examination thereof, the testimony given during the public hearings and previous Commission Orders in Docket No. P-58 concerning Western Carolina's quality of service, which together comprise the record herein, the Commission now makes the following:

FINDINGS OF FACT

1. That Western Carolina Telephone Company is a duly organized North Carolina corporation and is a subsidiary of Continental Telephone Corporation. Western holds a franchise from this Commission to provide public utility telephone service in twelve (12) exchanges which are located in seven (7) counties, principally in western North Carolina. Western is properly before the Commission in this proceeding, pursuant to G.S. 62-133, for a determination of the justness and reasonableness of its telephone rates and charges.

2. That the total increase in rates and charges being sought by Western for intrastate and local service in its franchised area would produce approximately $1,451,240 in additional annual gross revenues as applied to the test year ending December 31, 1973. This additional annual gross revenue would be raised through an average increase of 45.6% in local exchange service rates together with increases in service connection charges and other telephone related services, such as extension phones, directory listings, key system services and private branch exchange equipment.

3. That Western Carolina's intrastate net investment in utility plant in service should be adjusted to exclude excess profits in the amount of $157,000 resulting from affiliated Company transactions between Western Carolina and the manufacturing affiliates of Continental Telephone Corporation.

4. That the reasonable original cost of Western Carolina's utility plant used and useful in providing intrastate telephone service in North Carolina is $25,004,679 (excluding excess profits), the accumulated depreciation is $2,506,116, and the reasonable original cost less depreciation is $22,498,563.

5. That the reasonable replacement cost less depreciation of Western Carolina's utility plant used and useful in providing intrastate telephone service in North Carolina is $25,764,000.

6. That the fair value of Western Carolina's plant which is used and useful in providing intrastate service to the public within North Carolina at the end of the test year is $23,587,042.

7. That the reasonable allowance for working capital is $634,483.

8. That the fair value of Western Carolina's property used and useful in providing telephone service to the public within this State (the rate base) is $24,221,525, consisting of the fair value of plant in service of $23,587,042 plus the reasonable working capital allowance of $634,483.

9. That Western Carolina's approximate gross revenues for the test year after accounting and pro forma adjustments under present rates are $5,778,271 and, after giving effect to the Company proposed rates, are $7,229,511.

10. That the level of test year operating expenses after accounting and pro forma adjustments, including taxes and interest on customer deposits, is $4,376,047, which includes an amount of approximately $1,207,651 for actual investment currently consumed through reasonable actual depreciation after annualization to year end.

11. That Western Carolina has met most of the service standards heretofore ordered by the Commission in Docket No. P-58, Subs 61 and 85, on a companywide basis. While Western has made significant and continuing improvement in its level of service, particularly in the Eastern District, the Commission finds that such level of service continues to be insufficient and inadequate, especially in the Western District. In view of Western's past performance (and the Commission's determinations in the dockets referred to above), continued supervision by the Commission is necessary to insure that an adequate level of service is achieved and maintained by each division as well as overall.

12. That the fair rate of return which Western Carolina should have the opportunity to earn on the fair value of its property investment used and useful in providing telephone service to its customers in this State is 7.65%, which equates to a rate of return of 8.40% on bock equity as adjusted to include the fair value increment.

13. That based upon the fair rate of return, fair value of property and reasonable test year operating expenses and revenues as previously determined, Western will require additional annual gross revenues from its North Carolina intrastate customers of $1,003,663.

14. That the rate increases proposed by Western in this docket would produce additional annual revenues in excess of those determined to be just and reasonable herein. The proper rates to be approved by the Commission should be ones which will generate only $1,003,663 in additional annual gross revenues. The proper rate design for Western Carolina should be structured in accordance with Appendices B, C and D attached hereto.

CONCLUSIONS

The Commission will now discuss the evidence which led to the foregoing Findings of Fact and will state its conclusions based thereon.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACTS NO. 1 AND 2

The evidence for these two findings is contained in the verified application, public records on file with the Commission, and the testimony of Company witnesses Gum, Holt, Brennan and Buck and Staff witnesses Hoover, Kiltie and Goins. No question concerning these findings was raised by any of the parties hereto, and the Commission hereby concludes that such facts have been proved by the greater weight of evidence.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 3

The Commission's analysis of this finding involves the testimony of Company witness Buck and Staff witnesses

Hoover, Clemmons, and Goins concerning affiliated Company transactions and intercompany profits.

Mr. Hoover testified that a very close, even if not less than arms-length, relationship exists between Western Carolina and the manufacturing subsidiaries of Continental Telephone Corporation. The manufacturing subsidiaries of Continental are Superior Continental Corporation and Vidar Corporation. Western Carolina, Superior, and Vidar are all subsidiaries of Continental Telephone Corporation.

Mr. Hoover testified that the affiliated domestic telephone companies of Continental Telephone Corporation have purchased approximately 37.25% of the total volume of equipment manufactured and supply sales of the manufacturing affiliates during the seven-year period 1967 through 1973. During such seven-year period (1967-1973) Western Carolina purchased approximately 62.31% of its total purchases of equipment and supplies from the Continental manufacturing affiliates with a high-low range of 29.85% in 1967 to 78.41% in 1973. During the five-year period 1969 through 1973 the manufacturing affiliates earned a return on average shareholder equity of approximately 25.40% on sales to Continental System Domestic Telephone Companies, such as Western. The return on average shareholder equity ranged from a high of 34.28% in 1970 to a low of 21.10% in 1972.

Mr. Hoover testified that his study of 78 companies, 76 of which comprise the electrical equipment/electronics industry as grouped by The Value Line Investment Survey, and the other two being General Dynamics and International Telephone and Telegraph Company, showed for the years 1972 and 1973 that these 78 companies had weighted average earnings on equity of 13.9% and 14.4%, respectively. Earnings of the manufacturing affiliates and the weighted average debt percent to total capital for 1972 and 1973 compare with the 78 companies, Western Electric Company and Automatic Electric Company as follows:

Company	Return on Net Worth		Funded Debt % Total Capital	
	1972	1973	1972	1973
Western Electric Company (AT&T)	9.7%	10.5%	20.0%	23.9%
78 Companies 1/	13.9%	14.4%	27.6%	26.9%
Automatic Electric Company (Gen. Tel.)	14.7%	16.9%	11.5%	10.2%
Manufacturing Affiliates (Superior and Vidar) 1/	21.4%	24.2%	37.8%	40.8%

1/ Weighted Average

Mr. Clemmons presented a study of the prices paid for equipment and plant purchased by Western Carolina from

affiliated manufacturers as compared to purchases of like-kind equipment by other telephone companies operating in North Carolina. Mr. Clemmons presented thirteen specific price comparisons of comparable items of equipment sold and exchanged between Western Electric and the Bell System as compared to prices charged by the manufacturing affiliates on sales to Western Carolina during 1973. Eleven of the price comparisons showed the Western Carolina cost to be higher than the Bell cost, one price comparison showed the cost to be the same and one price comparison showed the Western Carolina cost to be less than the Bell cost. For example, in a specific price comparison, one version of the five-line telephone set purchased by Western Carolina from the manufacturing affiliates cost $58.60 while the same version purchased by the Bell System from Western Electric cost $27.21. The cost to Western Carolina was 115% higher than the cost to the Bell System on purchases of comparable equipment from Western Electric. In another specific price comparison presented by Witness Clemmons, the cost of four conductor station wire to Western Carolina on purchases from the manufacturing affiliates was $27.00. The Bell cost from Western Electric was $10.90. The Western Carolina cost was 148% higher than the cost to the Bell System.

Mr. Clemmons presented fourteen specific price comparisons of comparable items of equipment sold and exchanged between General Telephone and Automatic Electric Company as compared to prices charged by the manufacturing affiliates on sales to Western Carolina during 1973. Ten of the price comparisons showed the Western Carolina cost to be higher than the General Telephone cost, one price comparison showed the price to be the same, and three of the price comparisons showed the Western Carolina cost to be less than the General Telephone cost. In comparing Western Carolina's cost ($58.60) on the purchase of a five-line telephone set from the manufacturing affiliates to the same version purchased by General Telephone from Automatic Electric ($57.40), Mr. Clemmons found the cost to Western Carolina from the manufacturing affiliates to be 2% higher than the cost to General Telephone on purchases from Automatic Electric. In comparing Western Carolina's cost ($27.00) of four conductor station wire on purchases from the manufacturing affiliates to General Telephone cost ($23.34) on purchases from Automatic Electric, Mr. Clemmons found the cost to Western Carolina from the manufacturing affiliates to be 16% higher than the cost to General Telephone on purchases from Automatic Electric. In other comparisons Mr. Clemmons presented data which reflect findings similar to those demonstrated by the specific price comparisons mentioned hereinabove as examples.

Mr. Goins testified that there were two methods of judging the reasonableness of transfer prices between the manufacturing affiliates (Superior and Vidar) and Western Carolina. One method is to compare the transfer prices between the manufacturing affiliates and Western Carolina with prices for similar equipment between affiliated

companies in both the Bell and non-Bell markets for telephone equipment and supplies (as performed by Mr. Clemmons). The other method is to compare the rates of return earned by the manufacturing affiliates on sales to Western with the rates of return earned by comparable manufacturing companies on sales to their affiliated companies.

Mr. Goins testified that the transfer prices between the manufacturing affiliates and Western Carolina are unreasonably high. Witness Goins testified that the unreasonableness of the transfer prices was exhibited through comparisons of the return on equity earned by the Continental manufacturing affiliates on sales to Western with the return on equity earned by comparable manufacturing companies, including Western Electric and Automatic Electric, on sales to their affiliated companies; and that the unreasonableness of the transfer prices between the manufacturing affiliates and Western Carolina was further evidenced by price comparisons of comparable items of equipment exchanged between Western Electric and the Bell System and exchanges of equipment between General Telephone and Automatic Electric.

Mr. Goins testified that he considered a 15% return on shareholders' equity to be a reasonable rate of return for the manufacturing affiliates to earn on sales to Western Carolina. Witness Goins' recommended return of 15% reflects an upward adjustment for the additional risk associated with the debt-heavy capital structure of the manufacturing affiliates.

Company Witness Buck testified that, in order to place the Commission Staff's references and comparisons of the Continental Manufacturing Group with Western Electric and Automatic Electric into proper perspective, certain differences must be considered. The areas of difference enumerated by Mr. Buck were relative size, manufacturing operations, nonaffiliated sales, and price competition. In summarizing these differences, Mr. Buck testified that the Continental Manufacturing Group is distinct and even unique from Western and Automatic. Witness Buck testified the Continental Manufacturing Group is not a dominant factor in the industry, it does not have the market power to administer its prices, and it does not constitute an integrated operation since it manufactures a limited product line. Rather, the Continental Manufacturing Group has a minor position in the industry, its prices are subject to the laws of economics and the demands of the marketplace, and it carries business risks similar to those of any industrial enterprise.

Witness Buck, in referring to Witness Hoover's deduction of accumulated deferred income taxes - intercompany profits in arriving at the net investment in telephone plant in service, testified that once the rate base has been reduced by the tax refunds, it follows that there are no affiliated

profits remaining in the rate base, because the amount of the intercompany gross profit eliminated on the consolidated income tax return exceeds the amount of net profit on affiliated sales capitalized. Mr. Buck also testified that using the benchmark established by a decision of this Commission in Docket No. P-19, Subs 133 and 136 (North Carolina Division of General Telephone Company of the Southeast) and the risk measurement suggested by Witness Goins, the use of the 20% rate of return on common equity would seem conservatively adequate on Continental's Manufacturing Group affiliated company transactions to compensate for the commitment of capital.

Witness Hoover testified in rebuttal that removal of deferred income taxes relating to the elimination of intercompany profits in the consolidated tax return has absolutely no effect on the amount of the manufacturing affiliates' gross profit, net profit, or excess profits included in the original cost net investment of Western. Witness Hoover stated that, should the Commission decide a 15% return on common equity is a fair and reasonable rate of return for the manufacturing affiliates to earn on sales to Western Carolina, there exists in the plant accounts of Western Carolina Telephone Company as of December 31, 1973, $205,000 of excess profits, $185,000 of which is related to the Company's North Carolina intrastate operations.

Based on the evidence presented by these witnesses, the Commission finds that the transfer prices placed on exchanges of telephone equipment and supplies between Western and the manufacturing affiliates of Continental Telephone Corporation (Superior Continental Corporation and Vidar Corporation) have been unreasonable and excessive to the extent they produce a rate of return on the common equity of the manufacturing affiliates in excess of 15%. The Commission cannot permit parent holding companies to use affiliated companies as a device for transmitting an unreasonable level of profits to such parent holding company from goods or services supplied the operating company by way of an affiliated company (G.S. 62-153). In transactions between affiliates such as the Applicant and Superior and Vidar which are each wholly-owned subsidiaries of Continental Telephone Corporation, several state regulatory commissions including North Carolina have limited the earnings of the supplier affiliate to a reasonable rate of return on equity.

The Commission concludes that the Applicant's net investment in utility plant in service should be adjusted to exclude "excess profits" surviving in the plant accounts at December 31, 1973, in the amount of $185,000 and that the accumulated provision for depreciation should be reduced in the amount of $28,000 to eliminate accumulated depreciation applicable to these excess profits. This results in a net reduction in utility plant in service investment of $157,000. The Commission further concludes that depreciation expense for the test year should be reduced in

the amount of $9,120 to reflect the exclusion of the "excess profits" from depreciable utility plant in service. The adjustment is based on the concept of limiting the earnings of the supplier affiliate to a reasonable rate of return on equity. The Commission concludes that on transfers of equipment and supplies between the manufacturing affiliates of Continental and the Applicant, a return of 15% is a reasonable rate of return on equity.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 4

There were several differences in the testimony and exhibits presented by Company Witness Holt and Staff Witness Hoover concerning the original cost net investment in telephone plant in service. The following chart summarizes the amount which each of these witnesses contends is proper for this item:

Item (a)		Company Witness Holt (b)	Staff Witness Hoover (c)
Investment in telephone plant in service		$25,189,677	$25,004,679
Less:	Accumulated depreciation	2,537,112	2,534,116
	Customer deposits		42,675
	Advance payments and billings		147,807
	Unamortized investment tax credit - pre 1971		181,838
	Accumulated deferred income taxes:		
	Accelerated depreciation		1,000,429
	Intercompany profits		946,806
	Other deferred credits		10,181
	Deferred debit		(24,488)
Total deductions		2,537,112	4,839,364
Net investment in telephone plant in service		$22,652,565	$20,165,315

As shown in the above chart, the witnesses do not agree with regard to the components which should be used to calculate the net investment in telephone plant in service. Where they do agree with respect to components, they disagree with regard to the amount.

The first area of disagreement is the amount properly includable as investment in telephone plant in service. This difference is primarily the excess profits adjustment proposed and presented by Staff Witness Hoover. Witness Hoover's excess profit adjustment has already been presented and discussed apart from the other issues; therefore, at

this point, it will suffice to say that we adopt this adjustment as proper and will use the investment in telephone plant in service of $25,004,679 proposed by Witness Hoover in calculating the original cost net investment.

The witnesses agree that the depreciation reserve should be included as a deduction in calculating the net investment in telephone plant in service. However, the witnesses do not agree on the proper amount to be deducted. Company Witness Holt testified that the accumulated provision for depreciation was $2,537,112. Staff Witness Hoover testified that the accumulated provision for depreciation was $2,534,116 which is $2,996 less than Witness Holt. The difference results from additional adjustments to depreciation expense proposed by Staff Witnesses Hoover and Clemmons. The adjustments are set forth in Hoover Exhibit 1, Schedule 3-2. The adjustments proposed by Witness Hoover were:

(1) To increase depreciation expense related to telephone plant in service but not closed per book to an end of period level of $13,068.

(2) To decrease depreciation expense to remove from test year operations depreciation expense related to excess profits in the amount of $9,120.

(3) To increase depreciation expense in the amount of $1,789 to reflect correction of an arithmetical error in the Company's calculation of end of period depreciation expense.

It is the Commission's statutory duty to set rates based on end of period results. In arriving at the appropriate level of operating expenses, we have added an amount of $14,857 ($13,068 + $1,789) to bring depreciation expense to an end of period level. A corollary adjustment is required to increase the accumulated provision for depreciation by this amount for ratemaking purposes.

Consistent with the Commission's earlier finding regarding the propriety of Witness Hoover's excess profits adjustment to telephone plant in service, it is also entirely consistent, in arriving at the appropriate level of operating expenses, to remove depreciation expense taken on excess profits included in the plant accounts. In addition to and consistent with the Commission's conclusion that the excess profits adjustment should be a net adjustment to plant in service, it is entirely proper to remove the depreciation reserve applicable to excess profits surviving in the plant accounts at December 31, 1973, in the amount of $28,000. This includes Mr. Hoover's adjustment to eliminate depreciation expense related to excess profits.

The adjustments to depreciation expense proposed by Staff Witness Clemmons represent adjustment to the various depreciation rates used to depreciate cross-bar and

electronic central office equipment and pole lines (joint usage). Such adjustments are included in Hoover Exhibit I, Schedule 3-2. Witness Clemmons testified that Western Carolina Telephone Company neither sought nor received Commission approval for the establishment of the depreciation rate of 4.7% for cross-bar and electronic central office equipment. Witness Clemmons recommended that a depreciation rate of 3.7% be used for cross-bar and central office equipment. This witness' recommendation was based on depreciation rates for like-kind equipment which have been established for other telephone companies operating in North Carolina. Witness Clemmons further testified that Western neither sought nor received Commission approval to establish a 20% depreciation rate for a subaccount of the pole-line account entitled joint usage. Witness Clemmons recommended that the previously established Western pole-line depreciation rate of 5% be used for the total account until such time as the Company provides satisfactory justification for the 20% rate. The Commission agrees with Staff Witness Clemmons and concludes that the depreciation expense is overstated by $17,854 as a result of the Company using depreciation rates in excess of the rates approved by this Commission. This overstatement is composed of $8,474 relating to depreciation on cross-bar and central office equipment, and $9,380 relating to depreciation on pole lines. In light of the previous discussion of the Hoover adjustments, it is entirely consistent to decrease the accumulated provision for depreciation by $17,854 for ratemaking purposes.

The Commission having adopted the depreciation adjustments of Witnesses Hoover and Clemmons and the excess profit adjustment net of accumulated depreciation concludes that accumulated provision for depreciation in the amount of $2,506,116 should be used (Staff's position of $2,534,116 less accumulated depreciation related to excess profits of $28,000) in calculating the net investment in telephone plant in service.

The next item of controversy relates to Witness Hoover's deduction from investment in utility plant in service the investment supported by non-investor-supplied capital. The controversy surrounds the rate-making principle that a regulated utility should be allowed an opportunity to earn a fair rate of return on investment in telephone plant in service which is supported by capital provided by the debt and equity investors; stated another way, a utility should not earn a return on investment provided by capital obtained from sources other than the debt and equity investor.

The first item of noninvestor-supplied capital deducted by Witness Hoover in his calculation of the net investment in telephone plant in service was customer deposits. Customer deposits represent cash deposited by the customers with the Company as security to insure payment for telephone service provided by the Company. Commission Rule R12-4c requires each utility to pay interest on any customer deposits held

more than 90 days at the rate of 6% per annum. Consistent with Witness Hoover's deduction of customer deposits in arriving at the net investment in telephone plant in service, the related interest cost on customer deposits has been included in arriving at the end of period level operating expenses. It would be inequitable to require the ratepayer to pay in through the rate structure the established fair rate of return (usually over 7%) on capital that he has provided to the company in the form of customer deposits, for which the company is only required to pay interest at the rate of 6% or less. To prevent this inequity, it would be entirely proper for the Commission to deduct customer deposits of $42,675 in arriving at the original cost net investment. However, the Commission believes that, for purposes of this case, it is more appropriate to deduct customer deposits in calculating the Applicant's working capital requirement, rather than deducting them in calculating the net investment in telephone plant in service. Either treatment allows the Company to recover the cost of customer deposits and gives appropriate recognition to the ratepayer for having provided this item of capital.

The remaining noninvestor-supplied items of capital deducted by Witness Hoover in arriving at the net investment in telephone plant in service represent cost-free capital. With the exception of "accumulated deferred income taxes - intercompany profits" and "other deferred credits" the cost free capital was provided in total by customers of Western Carolina Telephone Company at no cost to the Company. The first item of noninvestor-supplied cost free capital included as a deduction by Witness Hoover was advanced payments and billings of $147,807. Advanced payments and billings represent operating revenues billed in advance. These funds, provided by the ratepayer in advance of the payment of costs by the Company, provide the Company with a source of cost-free working capital. If this item of cost free capital is not given its proper recognition by this Commission in setting rates, the ratepayer will be required to pay in through the rate structure a cost that in fact does not exist. In essence, the ratepayer would be required to provide revenues to pay a return on capital which he has provided at no cost to the Company. To give proper recognition to this item of cost free capital, the Commission will deduct advanced payments and billings in the amount of $147,807 in calculating the Applicant's working capital requirement.

The next item of noninvestor-supplied cost free capital deducted by Witness Hoover in arriving at the net investment in telephone plant in service was the unamortized balance of the investment tax credit in the amount of $181,838 realized under the Revenue Act of 1962. Witness Hoover testified that Congress passed a law in 1962 which generally allowed utilities to reduce their federal income tax liability by 3% of the cost of qualifying property. This Commission issued a general rulemaking order which permitted utilities to

follow what is commonly referred to as "normalization accounting" for investment tax credits. By this accounting procedure the Company reflects, for financial reporting and regulatory purposes, a greater federal income tax expense than it actually incurs. Concurrently, a corresponding credit is set up on the balance sheet in an unamortized investment tax credit account to reflect the difference between the normalized book income tax expense and the actual income tax liability. The investment tax credit is then amortized as a reduction to book federal income tax expense over the useful life of the qualifying property.

The unamortized balance of the investment tax credit represents a source of cost free capital which has been provided by the ratepayer. This is so because, in setting rates, the Commission has consistently included the normalized book federal income tax expense in the Company's cost of service. The cost of service of any public utility is defined as the sum total of proper operating expenses, depreciation expense, taxes, and a reasonable return on the net valuation of property. It would be ineguitable and unreasonable to include in this utility's cost of service a return on investment supported by noninvestor supplied cost free capital. Therefore, in arriving at the overall cost of capital in this case, the Commission will include the unamortized balance of the investment tax credit (pre 1971) of $18,838 in the Applicant's capital structure at zero cost.

The next item of cost free capital included as a deduction by Witness Hoover in arriving at the net investment in telephone plant in service was accumulated deferred income taxes - accelerated depreciation, which results from normalizing the income tax effect of accelerated depreciation. As mentioned above, this Commission has consistently included normalized income tax expense in the Company's cost of service for ratemaking purposes. By using the "normalization accounting concept" the Company reflects, for financial reporting and ratemaking purposes, a greater federal income tax expense than it actually incurs. In other words, the utility uses an accelerated method of depreciation to calculate the depreciation deduction in determining its actual income tax liability, but calculates income tax expense for ratemaking purposes by using a depreciation deduction based on the straight-line method of depreciation. Thus, the income tax expense for ratemaking purposes is calculated without giving effect to accelerated depreciation. The excess of the normalized tax expense based on straight-line depreciation over the actual tax liability based on accelerated depreciation is recorded in the account entitled accumulated deferred income taxes - accelerated depreciation. Until such time as the actual tax liability based on accelerated depreciation exceeds the book income tax expense based on straight-line depreciation, the Company has use of this cost free capital. In substance, the ratepayer has paid in through the rate structure a cost that the Company has not incurred and will not incur until

such time as straight-line book depreciation exceeds tax depreciation. It would be unreasonable and inequitable to require the ratepayer to pay a return on investment supported by capital that he has provided at no cost to the Company. Hence, in arriving at the overall cost of capital the Commission will, for purposes of this decision, include accumulated deferred income taxes - accelerated depreciation of $1,000,429 in the Applicant's capital structure at zero cost.

The next item of noninvestor supplied cost free capital included as a deduction by Witness Hoover in arriving at the net investment in telephone plant in service was accumulated deferred income taxes - intercompany profits of $946,806. This amount represents payments received from the Applicant's parent, Continental Telephone Corporation. The payments result from the elimination of intercompany profits in the consolidated tax return. Pursuant to closing agreements with the Internal Revenue Service, the income taxes on profits on sales by manufacturing and supply affiliates to operating telephone companies are deferred and recognized over the life of the property to which they relate. This is in keeping with the normalization concept of ratemaking and, as Mr. Hoover testified, the deferred taxes represent a source of cost free capital. The Commission concludes that Western's accumulated deferred income taxes - intercompany profits account represents $946,806 of cost free capital for the same reasons that have been previously discussed. The Commission in this proceeding will include such cost free capital in the Applicant's capital structure at zero cost.

The final item of noninvestor supplied cost free capital included as a deduction by Mr. Hoover in arriving at the net investment in telephone plant in service was other deferred credits in the amount of $10,181. Mr. Hoover testified that this account for the most part represents undistributed salvage and is a source of noninvestor supplied cost free capital. As stated hereinabove it would be both inequitable and unreasonable to require the ratepayer to pay in through the rate structure a return on investment supported by capital which has absolutely no cost to the Company. Accordingly, the Commission will deduct other deferred credits in the amount of $10,181 in calculating the Applicant's working capital requirement. As discussed above with regard to customer deposits and advance payments and billings, the Commission believes that, for purposes of this proceeding, it is more appropriate to include other deferred credits as a deduction in calculating the working capital requirement, rather than as a deduction in calculating the net investment in telephone plant in service.

Ms. Holt did not speak to the issue of cost free capital in her direct testimony; however, with regard to the practice of deducting the cost free capital from the rate base or treating it as cost free in the total company capital structure she testified on cross-examination that

there was about an equal split between the state regulatory commissions before which she has testified. She further testified that if the two methods were handled properly the results of either method would be the same. Ms. Holt did not elaborate on how the cost free capital should be treated under either method so as to obtain the same results.

Mr. Brennan, Western's cost of capital witness, also testified on cross-examination that properly computed and in terms of revenue requirements, it makes no difference whether the cost free capital is included as a deduction in arriving at the original cost net investment or included in the total company capital structure. Mr. Brennan testified that in developing the cost of capital, a lower rate would result when cost free capital is included in the capitalization ratio and that this lower cost would be applied to a higher base, because in developing the original cost net investment, the items of plant financed with cost free capital would not have been deducted. Conversely, Mr. Brennan testified that if the cost free capital is deducted in arriving at the original cost net investment, the result would be a higher rate or cost of capital which would then be applied to a lower base.

The Commission agrees that if properly computed and accounted for, either method would provide the same results. However, it should be noted that when cost free capital is included in the total company capitalization ratio at zero cost in developing the overall rate of return on investment, it has the effect of assigning a portion of cost free capital to the company's nonutility operations. The record does not show how that portion of cost free capital assigned to the Company's nonutility operations would be treated so as to provide the same result as deducting it in arriving at the original cost net investment. Witness Hoover testified that including cost free capital as a deduction in arriving at the net investment in telephone plant in service insures that proper consideration has been given the noninvestor supplied cost free capital. The Commission will in the near future invite representatives from some of the major utilities to discuss the propriety of the various ratemaking treatments accorded cost free capital. However, for purposes of this decision, the Commission will continue its present practice of including major items of cost free capital in the capital structure at zero cost.

The remaining difference between Ms. Holt's and Mr. Hoover's respective presentations of the net investment in telephone plant in service is the deferred debit of $24,488 included as an addition by Mr. Hoover. The deferred debit results from Mr. Hoover's adjustment to increase net operating income for return to reflect the normalized federal income tax expense resulting from the normalization of accelerated depreciation in calculating test period state income tax expense. Having adopted as proper Mr. Hoover's adjustment to normalize this cost in arriving at net operating income for return, the Commission will include the

deferred debit of $24,488 in the total company capital structure by deducting it from accumulated deferred income taxes - accelerated depreciation. This treatment is in keeping with the Commission's present practice of including major items of cost free capital in the capital structure at zero cost.

Based on the testimony and evidence presented by these witnesses and summarized herein, the Commission concludes that $22,498,563 is the proper amount to be used as net investment in telephone plant in service.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 5

Evidence of replacement cost was presented by Company Witness Goodman. Mr. Goodman started with surviving original costs, distributed by him to vintage years, applied a set of trend factors developed by him to obtain his calculation of reproduction cost new, applied a set of mass impulse factors developed by him to adjust reproduction cost new into replacement cost new and then applied condition percent or depreciation factors developed by him to obtain his consideration of replacement cost new less depreciation. Mr. Goodman then testified that, in his opinion, the replacement cost new less depreciation thus calculated is equal to the fair value of the plant in service. Staff Witness Clapp presented certain questions and comments concerning the suitability and reliability of Witness Goodman's trended original cost study. Mr. Goodman presented rebuttal testimony to Mr. Clapp's analysis of his study of replacement cost new less depreciation.

The Commission based upon the foregoing concludes that, while Witness Goodman made reasonable use of the data available, he did not properly adjust his mass impulse factors to account for reductions in average purchase price of materials, which could be expected under mass purchasing; he made no adjustment for excess plant which had to be installed solely to correct unsafe plant conditions due to poor previous installation; he made no adjustment for excess profits on intercorporate transactions; he improperly depreciated the trended original cost; and he did not adjust for productivity changes in materials and equipment over time. The Commission is not convinced that correct percentage weightings of labor and materials were used in developing Mr. Goodman's trend factors. In addition, the replacement cost evidence submitted by the Company does not adequately adjust for the higher cost of plant constructed in a "catch-up" program during the years 1968-1973 when the costs of both labor and materials were higher than in previous years. This deficiency is compounded by the trending process.

The Commission, therefore, concludes that the reasonable replacement cost less depreciation of Western's telephone plant used in providing intrastate service is $25,764,000. This amount is derived by adjusting the replacement cost new

less depreciation testified to by Mr. Goodman to account for the deficiencies noted above by Mr. Clapp (i.e., a total company replacement cost new less depreciation of $33,900,000) and by removing that portion of such replacement cost new less depreciation which is not attributable to intrastate service.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 6

In setting the fair value of plant in service, the statute (G.S. 62-133) requires the Commission to consider the reasonable original cost less depreciation, the replacement cost and any other factors relevant to the present fair value. The Commission has considered these "other factors" in setting reasonable original cost and replacement cost. (See Evidence and Conclusions for Findings of Fact Nos. 4 and 5, supra).

Ordinarily, it might be considered that replacement cost would be a closer approximation of present fair value than historical, original cost. However, the evidence in this case tends to indicate that a great deal of the present plant in service has come on line within the last ten years. Most of this new plant has been added since the Commission's Orders in Docket No. P-58, Subs 61 and 85, issued in 1970 and 1972, respectively. (These Orders are discussed in more detail in Evidence and Conclusions for Finding of Fact No. 11, infra.) Thus, much of Western's present plant in service is relatively new and modern, and its original cost is a reasonable measure of its present fair value.

Although the term "replacement cost" envisions replacing the utility plant in accordance with modern design techniques, and with the most up-to-date changes in the modern art of telephony, the trended original cost study presented by Company Witness Goodman is founded upon the premise of basically duplicating Western's plant as is, including certain inefficiencies and outmoded designs. This result is mandated by Mr. Goodman's technique of first trending original cost up to reproduction cost and then adjusting for observed depreciation and obsolescence to arrive at his determination of replacement cost less depreciation. Even though technological obsolescence can be, to an extent, overcome by proper depreciation treatments, the economies of scale present in today's telecommunications (e.g., employing one 600 cable pair down a road instead of six 100 pair cables installed on six different occasions over time) are not fully recognized in the trending process. We recognize, as does Mr. Goodman, that to require a replacement cost analysis to assume replacement of the old plant with only the newest and best (which is also the most expensive) equipment available could seriously distort and inflate the results of such analysis. Western Carolina's inadequate planning prior to 1968 and lack of adequate engineering and construction practices have resulted in higher current plant investment than would otherwise be necessary, and the Commission has considered

the impact of this poor planning in determining the fair value of the Company's plant in service.

The Commission concludes that in this case the fair value of plant in service should be determined by weighting the reasonable original cost of plant of $22,498,563 by two-thirds and by weighting the replacement cost of $25,764,000 by one-third. The fair value of plant in service thus determined is $23,587,042.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 7

The Commission will now analyze the testimony and exhibits presented by Company Witness Holt and Staff Witness Hoover concerning the amount each witness considers to be proper as an allowance for working capital.

Ms. Holt testified that the Applicant's working capital requirement consists of the sum of 1/12 of operating expenses of $195,995 excluding depreciation, average prepayments of $14,346, compensating bank balances of $456,042 and materials and supplies of $212,876 less average tax accruals and customer deposits of $294,864 for a total working capital requirement of $584,395. Ms. Holt offered no practical or theoretical support for the method she used to determine the working capital requirement other than to testify during cross-examination that it was the method previously accepted by this Commission in the past general rate proceeding (Docket No. P-58, Sub 85).

Mr. Hoover determined the Applicant's working capital requirement to be $835,146 or $250,751 more than Ms. Holt's with no breakdown between cash, materials and supplies, etc. Mr. Hoover in presenting his recommended allowance for working capital testified that the Applicant's working capital requirement is not provided in total by the debt and equity investors; therefore, an analysis is required to distinguish between the working capital provided by the debt and equity investor and that provided by others. Mr. Hoover began his analysis by allocating total investor supplied capital of $34,201,242 to the Applicant's North Carolina intrastate operations. Mr. Hoover developed a capital allocation factor of 61.15% by relating the Applicant's North Carolina intrastate net investment in telephone plant in service of $20,078,913 to the Applicant's total company net investment of $32,833,002 comprised of net utility plant and other investments. The capital allocation factor (61.15%) related to total investor supplied capital of $34,201,242 resulted in an allocation of $20,914,059 of investor supplied capital to the Applicant's North Carolina intrastate operations. Mr. Hoover then compared the $20,914,059 of investor supplied capital allocated to the Applicant's North Carolina intrastate operations to the Applicant's North Carolina intrastate net investment in telephone plant in service supported by the debt and equity investors of $20,078,913. This resulted in a difference of $835,146.

Mr. Hoover testified that the $835,146 of investor supplied capital in excess of the Applicant's net investment in North Carolina intrastate telephone plant in service represents capital provided by the debt and equity investor to enable the Company to meet current obligations as they arise and to allow the Company to operate efficiently and effectively. This excess investor supplied capital thus constitutes the Applicant's allowance for working capital for ratemaking purposes.

The Commission has carefully considered the allowance for working capital proposed by both Company Witness Holt and Staff Witness Hoover. Based on the foregoing discussion, the Commission concludes the Applicant's proper working capital requirement is $634,483, which is composed of the $835,146 recommended by Witness Hoover, less customer deposits of $42,675, advance payments and billings of $147,807, and other deferred credits of $10,181. The reductions in Witness Hoover's working capital allowance represent items of cost free capital which Witness Hoover had deducted from Western's original cost net investment but which the Commission, in Evidence and Conclusions for Finding of Fact No. 4, has previously determined and concluded to treat as a reduction in the working capital allowance.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 8

The rate base is comprised of the fair value of plant in service as determined previously in Finding of Fact No. 6 plus the working capital allowance determined in Finding of Fact No. 7. The Commission concludes that these amounts are proper and that the fair value of Western's property used and useful in providing intrastate and local telephone service to its North Carolina customers (or the rate base) is $24,221,525. It is this amount to which the fair rate of return determined hereafter must be applied in computing the gross revenue requirement for Western Carolina.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 9

Company Witness Holt and Staff Witnesses Hoover and Gerringer presented testimony concerning the appropriate level of end-of-period intrastate operating revenues. Ms. Holt and Mr. Hoover are in agreement with regard to the end-of-period level local service revenues. However, Ms. Holt and Mr. Gerringer disagree with regard to the end-of-period level intrastate toll service revenues.

Ms. Holt determined the end-of-period level intrastate toll service revenues to be $2,246,404 while Mr. Gerringer determined the end-of-period level to be $2,179,171. Staff Witness Gerringer testified specifically concerning the separations procedures employed by the Company to separate its operating revenues between jurisdictions. Mr. Gerringer testified that the approach he used to arrive at the end-of-period level intrastate toll service revenues for the test

year is consistent with the manner in which the Company developed its intrastate net investment and intrastate operating expenses for presentation in this proceeding. Ms. Holt did not address herself to this issue.

Based on the testimony and exhibits of all witnesses, the Commission concludes that $5,778,271 is the proper level of North Carolina intrastate operating revenues for the test year. This amount is composed of local service revenues of $3,454,192; intrastate toll service revenues of $2,179,171; and miscellaneous revenues of $144,908. Such test year revenues would have been approximately $7,229,511 had the Company's proposed rate schedules, which were designed to raise an additional $1,451,240 in annual gross operating revenues, been in effect during the test year.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 10

Company Witness Holt and Staff Witness Hoover presented testimony and exhibits showing the end-of-period level North Carolina intrastate operating expenses which each believed should be used for the purpose of fixing the Applicant's rates in this proceeding.

The following chart shows the amounts presented by each witness:

Item (a)	Company Witness Holt (b)	Staff Witness Hoover (c)
Operating expenses	$2,218,283	$2,218,283
Depreciation and amortization	1,219,768	1,207,651
Interest on customer deposits	-	2,768
Other operating taxes	707,604	705,080
Federal income taxes	261,132	255,770
Total	$4,406,787	$4,389,552

As shown in the above chart, the witnesses do not agree concerning the reasonable test year depreciation and amortization expense. The difference results from additional adjustments to depreciation expense proposed by Staff Witnesses Hoover and Clemmons. As discussed above in Evidence and Conclusions for Finding of Fact No. 4, the adjustments proposed by Witness Hoover were:

(1) To increase depreciation expense related to telephone plant in service but not closed per book to an end-of-period level of $13,068.

(2) To decrease depreciation expense to remove from test year operations depreciation expense related to excess profits in the amount of $9,120.

(3) To increase depreciation expense by $1,789 to reflect correction of an arithmetical error in the Company's calculation of end-of-period depreciation expense.

Also discussed previously were the adjustments to depreciation expense proposed by Staff Witness Clemmons, representing changes in the various depreciation rates used for cross-bar and electronic central office equipment and pole lines (joint usage).

We have already adopted the depreciation adjustments of Witnesses Hoover and Clemmons as proper, and will therefore use the end-of-period depreciation expense presented by Witness Hoover of $1,207,651 in calculating the end-of-period level operating expenses.

Interest on customer deposits is the next item shown in the chart comparing the witnesses' end-of-period level operating expenses. While Ms. Holt did not include interest on customer deposits in arriving at the end-of-period level operating expenses, she does not disagree with Mr. Hoover's position that interest on customer deposits should be included in operations if customer deposits are included as a deduction in arriving at the original cost net investment. Consistent with having deducted customer deposits in arriving at the original cost net investment the Commission has included interest on customer deposits of $2,768 in arriving at the end-of-period level operating expenses.

The next area of disagreement is other operating taxes. This difference of $2,524 is the state income tax effect of the adjustments to operating income and the gross receipts tax applicable to the intrastate toll service revenue adjustment proposed by Witness Hoover and Witness Gerringer and adopted by this Commission. After further adjusting the $705,080 herein determined to be proper for the state income tax effect of $1,585 for the interest expense allocation adjustment required by the Commission's conclusion that the excess profits adjustment should be a net adjustment, the Commission adopts $703,495 as the proper amount to be included as other operating taxes in calculating total intrastate operating expenses for purposes of setting rates in this proceeding.

The remaining item of controversy is the adjustment presented by Witness Hoover to reflect the federal income tax effect of normalizing state income tax expense resulting from the normalization of accelerated depreciation. As mentioned hereinabove, this Commission has consistently included normalized income tax expense in the Company's cost of service for ratemaking purposes. Mr. Hoover testified that the Applicant uses an accelerated method of depreciation to calculate the depreciation deduction in

determining its actual state income tax liability, but calculates state income tax expense for ratemaking purposes using a depreciation deduction based on the straight-line method of depreciation. Thus, the state income tax expense for ratemaking purposes is calculated without giving effect to accelerated depreciation. This, of course, is in keeping with the normalization concept. The Company also followed the normalization concept in calculating the depreciation deduction in determining its federal income tax expense for ratemaking purposes. However, the Company quickly abandoned the normalization concept by taking the actual state income tax liability as the state income tax expense deduction in calculating federal income tax expense for ratemaking purposes.

Consistent with the Commission's practice of including normalized income tax expense in the Company's cost of service for ratemaking purposes, the Commission herein adopts Witness Hoover's adjustment. After further adjusting the $255,770 herein determined to be proper for this item by the federal income tax effect of $11,920 for the interest expense allocation adjustment required by the Commission's conclusion that the excess profits adjustment should be a net adjustment, the Commission concludes that $243,850 is the proper amount to be included as federal income tax expense for purposes of fixing rates in this proceeding.

Based upon all the evidence offered by the witnesses concerning the proper level of operating expenses and the adjustments thereto noted above, the Commission concludes that the proper level of operating expenses, including interest on customer deposits, is $4,376,047.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence as to the service provided by Western Carolina which appears in this record consists of the testimony and exhibits of Norman Gum, President of Western Carolina Telephone Company, W. E. Thaxton and Robert T. Payne, Officers of Mid-South Consulting Engineers, Inc., Charles D. Land, Commission Staff Telephone Engineer and by twenty-five (25) public witnesses that appeared at the hearings in Sylva and Asheville.

Mr. Gum testified concerning the unique construction difficulties faced by Western Carolina, the customer growth experienced over the previous five years (including the test year), the results of Western's upgrading program, the Company procedures for handling trouble reports and program for improving toll service, the steps planned to improve customer service and the increase in Company investment per main station. Mr. Thaxton testified about the Company's engineering, construction and maintenance practice and procedures, adequacy and condition of existing plant facilities, and the adequacy and accuracy of plant records and record-keeping facilities as they apply to outside plant facilities. Mr. R. T. Payne testified concerning the same

subject areas as they relate to central office and toll equipment.

Staff Witness, Charles D. Land, testified concerning his investigation and evaluation of telephone service provided by Western. He testified that over 4,000 test calls were made from the Company's twelve (12) exchanges. In addition, analysis was made of data filed on a monthly basis by the Company with the Commission. Mr. Land explained that the call completion test results were reasonably good and, on a company-wide basis, met Commission objectives. Subscriber trouble reports met the Commission objectives on a company-wide basis during only five months of the first ten months of 1974. Four exchanges were cited as having rarely ever met the Commission objective of eight or fewer trouble reports per 100 stations per month. Witness Land stated that the company's record of meeting subscriber demand for service was not good and that the Company was not meeting the Commission objective that calls for working at least 95% of regular service orders within five days. As a result of a strike by craft employees during August of 1974 the Company had accumulated, at one point, a very large number of unfilled service orders. Though this backlog had been significantly reduced at the time of the hearing, Witness Land termed this an "extremely slow recovery". Mr. Land explained that in its Order in Docket No. P-58, Sub 61, issued on July 15, 1970 (and reiterated in Docket No. P-58, Sub 85), the Commission listed 17 standards or requirements for improving service which the Company was to meet. He stated that the Company had met 15 of the 17 requirements and that, of two established Commission objectives not included in this Order (percent of service orders worked within five days and the percent of pay stations found out of service), the Company had failed to meet one of them.

Witness Land further pointed out that the level of service was substantially lower in the Western District than in the Eastern District and, in his exhibits, showed many variations in the level of service between the two districts. The 25 public witnesses who appeared testified that operators refused to verify numbers that had busy signals for extended periods of time, that difficulties were encountered in reaching the number dialed, that frequent service outages were experienced, that difficulties in getting troubles repaired were frequently experienced, that there were delays in obtaining service installations and disconnections, that excessive noise was encountered on telephone lines and that disconnected numbers were not put on operator intercept. Twelve of the subscribers who appeared at the hearing requested the installation of toll free calling privileges to neighboring towns. Four of the public witnesses appeared solely to protest the proposed rates and raised no complaints about telephone service.

While the overall level of service rendered by Western has shown significant improvement, the Commission concludes that, during the test period and up to the time of the

hearings, the Company had not been and was not providing a fully adequate level of service throughout its North Carolina operations. As noted in Witness Land's testimony and exhibits, the Company's Western District failed to meet three (3) of the 17 requirements of prior Commission Orders issued in 1970 and 1972 concerning quality of service, while the Company on a statewide average, failed to meet two of these requirements. The general dissatisfaction of subscribers, particularly Western Carolina University, with delays in meeting service order requests and with continuing service problems are not indicative of the level of adequate, efficient and reasonable service which is required by G.S. 62-131 and which the Commission sought to achieve for Western's customers by its previous Orders referred to above.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

According to Western Carolina, the full amount of the rate increase proposed by the Company would produce a return on end of period net investment of 9.01% and a rate of return on fair value rate base of 7.83%. However, this later return is based on the Company's intrastate replacement cost new less depreciation figure of $26,746,000 instead of the figure actually determined by the Commission to be the fair value - $24,221,525. Using the Commission's determination of fair value, the rate of return on fair value would be raised to 8.65%.

There were two rate of return witnesses who prefiled expert testimony and were cross-examined at the hearing. The Company presented Mr. Joseph F. Brennan, President of Associated Utility Services, Inc.; the Commission Staff presented Mr. Thomas M. Kiltie, Economist of the Operations Analysis Section.

Company Witness Brennan testified that, in his opinion, the overall cost of capital and required return on investment to Western Carolina was 10.07% on original cost, 8.69% on fair value (as determined by Western) and 14% on book common equity based upon an adjusted December 31, 1973, capitalization consisting of 51.6% debt, 5.2% preferred stock, 39.6% common equity and 3.6% deferred taxes. He estimated the cost of common equity capital by employing four basic financial techniques: the earnings/price ratio, the earnings/net proceeds ratio, the discounted cash flow (DCF) technique, and the earnings/book ratio. Since the common equity of Western Carolina is not directly traded in the capital markets, Mr. Brennan examined the most recent market data on AT&T and the five largest telephone holding companies with respect to the above mentioned financial techniques and found that, in his opinion, the risk-adjusted cost of equity was 14% for Western Carolina.

Staff Witness Kiltie testified that the fair rate of return for any regulated utility company is equal to its cost of capital. He further testified that the cost of

equity capital is the expected return that an investor forfeits by not purchasing the stcck of alternative risk-equivalent companies, or his opportunity cost of investment. To find the fair return on equity for Western, Mr. Kiltie performed a DCF analysis of 17 companies with Value Line Safety Grade and beta coefficients equal to those of Continental Telephone Company, the parent corporation of Western Carolina, and testified that, in his opinion, the cost of equity capital to Continental was 14%. He stated that the effective cost of equity to Western Carolina (the subsidiary) is lower than the estimated cost of equity to Continental (the parent) since the equity investment of the parent in the operating subsidiary should be considered to be supported by the total capitalization of the parent. Thus, the cost of equity of the subsidiary is a weighted sum of the cost of equity of the parent and the debt cost of the parent. Mr. Kiltie estimated that the weighted cost of capital to Continental was 12.44% and used this figure as the cost of common equity to Western Carolina. Based upon a projected Mid-1975 capital structure consisting of 58.0% debt, 4.9% preferred stock, and 37.1% common equity, Mr. Kiltie estimated an overall weighted cost of debt and equity capital to Western Carolina of 9.67%.

Following its determination of an inadequate level of service in Western's last general rate increase case (Docket No. P-58, Sub 85), the Commission allowed Western the opportunity to earn a return of 7.10% on the fair value of its property.

Upon consideration of the record herein, this Commission has determined that the level of service continues to be inadequate, while recognizing the improvements testified to by Company Witnesses Gum, Thaxton, Payne and by Staff Witness Land. The Commission, therefore, concludes that a rate of return of 7.65% on the fair value of Western's property would be just and reasonable at this time.

Although the rate of return on fair value is less than that which the Commission would have found to be reasonable if service were adequate, the net operating income which will be produced by application of the schedule of rates necessary to produce the approved rate of return on fair value will be more than sufficient to cover all fixed charges and preferred dividends. Based upon the present level of service quality, such a return is fair and reasonable. A rate of return producing any higher rate of return on fair value would be unjust and unreasonable at this time. It should be noted that the increase in annual gross revenues herein approved ($1,003,663) is almost 70% of the increase requested by the Company ($1,451,240).

The failure or inability of Western Carolina to provide adequate, efficient and reasonable service at the present time is a material factor to be considered in establishing just and reasonable rates for the utility to charge and the subscribers to pay for the level of service being offered.

Especially is this true in light of previous Commission Orders, dating back to 1970, requiring service improvements. As noted above, the testimony by Commission Witness Land and the customer witnesses establish that, even at this late date, the minimum standards previously prescribed by the Commission are not being met in all categories.

In light of the testimony by Mr. Brennan and Mr. Kiltie, the return allowed to Western by the Commission in its last general rate case (9.0% on book common equity in Docket No. P-58, Sub 85), the need of Western to maintain a competitive position in the capital markets in order to pursue programs of expansion which should provide improved service to the ratepayers and the continuing failure by Western to provide an adequate level of service at this time, the Commission concludes that a return of 9.4% on book common equity would be just and reasonable in this case. Further support for this conclusion is provided by the inclusion in the capital structure at zero cost of the cost free items mentioned above in Evidence and Conclusions for Finding of Fact No. 4. In addition, the fair value increment (fair value less original cost) is added to the equity portion of the capital structure. Both of these items, when added to the capital structure, increase the equity ratio and would thus tend to reduce the overall cost of equity.

However, the law of this State [see Commission v. Duke, 285 N.C. 377(1974)] requires that an additional dollar return on common equity be given to the Company to account for the addition of the fair value increment (here $1,088,479) to the equity component of the capital structure. The addition of the fair value increment to book equity results in a larger overall common equity and the return which should be granted to the equity component decreases in percentage, but not in dollar terms. The 7.65% rate of return herein allowed as just and reasonable on the fair value of Western's jurisdictional property or rate base will actually result in the Company having rates set which will produce a rate of return on book common equity of over 9.54% rather than the 9.4% which the Commission believes to be fair. Because of the fair value statute and its proper application, the Commission feels that it must allow the higher 9.54% return on book common equity. The increased revenues allowed herein will produce a return of 8.40% on fair value equity and the Commission concludes that such return is just and reasonable in this case.

The rates of return herein allowed should be sufficient to enable the Company to attract sufficient debt capital from the market and equity capital from its parent to discharge its obligations and to achieve and maintain an adequate level of service to the public. The Commission cannot, of course, guarantee that the Company will, in fact, earn the rates of return herein allowed, but the Commission believes that the Company will be able to reach these levels of return, given efficient management and proper supervision by Continental.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The following charts summarize the gross revenues and the rates of return which the Company should be able to achieve based on the increases approved herein. Such charts incorporate the findings, adjustments and conclusions heretofore and herein made by the Commission.

WESTERN CAROLINA TELEPHONE COMPANY
Docket No. P-58, Sub 93
North Carolina Intrastate Operations
STATEMENT OF RETURN
Twelve Months Ended December 31, 1973

	Present Rates	Increase Approved	After Approved Increase
Operating Revenues			
Gross operating revenues	$ 5,778,271	$1,003,663	$ 6,781,934
Less: Uncollectibles	9,341	2,364	11,705
Total operating revenues	5,768,930	1,001,299	6,770,229
Operating Revenue Deductions			
Operation and maintenance expenses	2,218,283		2,218,283
Depreciation and amortization	1,207,651		1,207,651
Taxes - other than income	667,660	60,078	727,738
Taxes - state income	35,835	56,473	92,308
Taxes - federal income	243,850	424,679	668,529
Interest on customer deposits	2,768		2,768
Total operating revenue deductions	4,376,047	541,230	4,917,277
Net operating income for return	$ 1,392,883	$ 460,069	$ 1,852,952
Original Cost Net Investment			
Telephone plant in service	$25,189,679		$25,189,679
Less: Excess profits surviving	185,000		185,000
Accumulated depreciation and amortization	2,506,116		2,506,116
Net investment in telephone plant in service	22,498,563		22,498,563

Allowance for working capital	835,146		835,146
Less: Customer deposits	42,675		42,675
Advance payments and billings and other deferred credits	157,988		157,988
Total allowance for working capital	634,483		634,483
Total original cost net investment	$23,133,046		$23,133,046
Fair value rate base	$24,221,525		$24,221,525
Rate of return on fair value rate base	5.75%		7.65%

WESTERN CAROLINA TELEPHONE COMPANY
Docket No. P-58, Sub 93
North Carolina Intrastate Operations
REVENUE REQUIREMENTS CORRELATED TO ORIGINAL COST AND FAIR VALUE COMMON EQUITY
Twelve Months Ended December 31, 1973

Item	Original Cost Net Investment Prior to Adjustment for Fair Value Increment
Revenue Requirements:	
Gross revenues - present rates	$5,778,271
Additional gross revenues required to provide 9.40% return on original cost common equity	978,520
Total revenue requirements	$6,756,791
Net income available for return on equity	$ 751,944
Equity component	$7,999,407
Required return on common equity	9.40%

Revenue Requirements:	Fair Value Rate Base
Gross revenues - present rates	$5,778,271
Additional gross revenues required to provide 9.40% return on original cost common equity	978,520
Additional gross revenues required for	

fair value common equity	25,143
Total additional revenues	1,003,663
Total revenue requirements	$6,781,934
Net income available for return on equity	$ 763,474
Equity component	$9,087,886
Return on fair value equity	8.40%
Original cost common equity	$7,999,407
Actual return on original cost common equity	9.54%

WESTERN CAROLINA TELEPHONE COMPANY
Docket No. P-58, Sub 93
North Carolina Intrastate Operations
Twelve Months Ended December 31, 1973

Capitalization	Fair Value Rate Base	Ratio %	Embedded Cost Or Return On Common Equity %	Net Operating Income
	Present Rates - Fair Value Rate Base			
Debt	$12,508,038	51.64	8.06	$1,008,148
Preferred Stock	1,054,867	4.36	7.71	81,330
Common Equity	9,087,886	37.52	3.34	303,405
Cost-free Capital	1,570,734	6.48	-	-
Total	$24,221,525	100.00	5.75	$1,392,883
	Approved Rates - Fair Value Rate Base			
Debt	$12,508,038	51.64	8.06	$1,008,148
Preferred Stock	1,054,867	4.36	7.71	81,330
Common Equity	9,087,886	37.52	8.40	763,474
Cost-free Capital	1,570,734	6.48	-	-
Total	$24,221,525	100.00	7.65	$1,852,952

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

Mr. James G. Mercer, Tariffs Director, Continental Telephone Service Corporation, Eastern Region, proposed changes in local service rates and in other service rates and charges designed to produce $1,451,240 of additional revenues on what he considered to be an equitable basis. A specific item posed by Mr. Mercer was to increase service charges for installation, moves, changes, etc. He also proposed to change the present zone charge schedule by reducing the number of zones, enlarging each zone, and increasing the charges applicable to some subscribers. Other changes were proposed for specific items such as directory listings, special equipment, extension phones and the like.

Mr. Vern W. Chase, Chief Engineer of the Commission's Telephone Rate Section, testified that if the Commission allowed Western Carolina to generate any additional revenue, consideration should be given to: (1) increasing the ratio between business and residence one-party service from 1.9 to 1 up to 2.5 to 1; (2) increasing the ratio between key trunk lines and business one-party lines to a 1.2 to 1 rate ratio instead of a 1.5 to 1 ratio as proposed by the Company; (3) reducing zone charges by retaining the present zone widths and decreasing the charges applicable within each zone; and (4) developing a new format for the Company's service charge tariff.

The Commission concludes that the changes in rate structure proposed by Witness Chase are just and reasonable and should be used in the design of a revised rate schedule. More specifically, the Commission concludes that Western Carolina's service charges should be increased to a level which more closely approximates the actual level of costs involved in doing the work, that the charges applicable for each service request should depend on the actual work function, that the color charges for most station equipment should be included in the basic rate, and that the reduction in rural zone charges is in line with the Commission's objective to reduce and ultimately eliminate those charges. The Commission also concludes that a new format service charge tariff as proposed by the Commission Staff witness is reasonable and appropriate in this case. The Commission finally concludes that the revised rates and tariffs contained in Appendix B, Appendix C and Appendix D* should be approved for use by Western Carolina.

IT IS, THEREFORE, ORDERED:

1. That Western Carolina Telephone Company shall take such action as may be necessary to achieve and/or maintain all of the service objectives outlined in Appendix A* attached hereto.

2. That Western Carolina is hereby authorized to discontinue the submission of traffic study reports to the

Commission, but such usage studies should be continued by the Company for traffic administration purposes. Further, the Company is authorized to establish a depreciation rate of 3.7% for the cross-bar and electronic central office equipment account; and the Company shall establish a depreciation rate of 5% for the joint usage pole line account; no further depreciation accruals shall be made for the vehicle account of Westco Telephone Company so long as the depreciation reserve equals the plant investment.

3. That Western Carolina Telephone Company be, and hereby is, authorized to increase or decrease its intrastate local exchange rates and charges as set forth in Appendixes B, C, and D attached hereto and made a part of this Order. Said rates and charges shall become effective upon one day's notice on all billings rendered in advance on and after the filing with this Commission of revised tariffs reflecting the increases and decreases in rates.

4. That Western Carolina Telephone Company shall file with the Commission on or before December 31, 1975, the service charge tariff attached hereto as Appendix C, and proposed service charges that will approximately offset the revenues produced by the current service charge tariff in effect as a result of this Order and with full explanation of how the current and proposed revenues were determined. The proposed tariffs are to be filed with a proposed effective date of March 1, 1976.

5. That Western Carolina shall file, in Section 17 of its General Exchange Tariff, the color telephone equipment tariff attached hereto as Appendix D.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

* See portions of Appendix B below. For the remainder of Appendix B and Appendices A, C, and D, see official Order in the Office of the Chief Clerk.

APPENDIX B
WESTERN CAROLINA TELEPHONE COMPANY
DOCKET NO. P-58, SUB 93
LOCAL EXCHANGE RATES

		Monthly Flat Rate					
		RESIDENCE			BUSINESS		
GROUP	CALLING SCOPE	1-Pty	2-Pty	4-Pty	1-Pty	2-Pty	4-Pty
	0 - 4,000	9.30	8.50	8.00	23.25	22.00	20.50

2	4,001 - 8,000	9.55	8.75	8.25	23.90	22.65	21.15
3	8,001 - 16,000	9.80	9.00	8.50	24.55	23.30	21.80
4	16,001 - 32,000	10.15	9.35	8.85	25.25	24.00	22.50
5	More than 32,000	10.50	9.70	9.20	25.95	24.70	23.20

Rates by Exchange

	RESIDENCE			BUSINESS		
EXCHANGE	1-Pty	2-Pty	4-Pty	1-Pty	2-Pty	4-Pty
Andrews	9.55	8.75	8.25	23.90	22.65	21.15
Bryson City	9.30	8.50	8.00	23.25	22.00	20.50
Cashiers	9.30	8.50	8.00	23.25	22.00	20.50
Cherokee	9.30	8.50	8.00	23.25	22.00	20.50
Cooleemee	9.30	8.50	8.00	23.25	22.00	20.50
Cullowhee	9.55	8.75	8.25	23.90	22.65	21.15
Franklin	9.55	8.75	8.25	23.90	22.65	21.15
Highlands	9.30	8.50	8.00	23.25	22.00	20.50
Marion	9.55	8.75	8.25	23.90	22.65	21.15
Old Fort	9.55	8.75	8.25	23.90	22.65	21.15
Sylva	9.55	8.75	8.25	23.90	22.65	21.15
Weaverville	10.50	9.70	9.20	25.95	24.70	23.20

DOCKET NO. P-58, SUB 93

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Western Carolina Tele-) ORDER AMENDING TERMS
phone Company for an Adjustment in) OF PRIOR ORDER
its Intrastate Rates and Charges) ESTABLISHING RATES

HEARD IN: The Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Tuesday, July 8, 1975, at 9:00 a.m.

BEFORE: Chairman Marvin R. Wooten, Presiding, and Commissioners Ben E. Roney, Tenney I. Deane, Jr., George T. Clark, Jr., J. Ward Purrington, Barbara A. Simpson and W. Lester Teal, Jr. -- Oral Argument on Exceptions

APPEARANCES:

For the Applicant:

F. Kent Burns
Boyce, Mitchell, Burns & Smith
Attorneys at Law
Box 1406
Raleigh, North Carolina 27602

For the Attorney General:

Robert Gruber
Associate Attorney General
Department of Justice
Raleigh, North Carolina 27602
Appearing for: The Using and Consuming Public

For the Commission Staff:

Robert F. Page
Assistant Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

BY THE COMMISSION: This matter arose upon the filing with this Commission, on May 28, 1974, of an application by Western Carolina Telephone Company (hereinafter referred to as Western Carolina, Western or the Company) for authority to adjust and increase its rates and charges for intrastate and local telephone service rendered in its franchised territory in North Carolina. The case was set for hearing and subsequently was heard in Raleigh, North Carolina, on January 10, 1975; in Sylva, North Carolina, on January 14 and 15, 1975; and in Asheville, North Carolina, on January 16 and 17, 1975.

Following the preparation of the transcript and the submission of briefs by the Company and the Attorney General, the Commission's Order Establishing Rates was issued on April 30, 1975. On May 30, 1975, Western Carolina filed with the Commission three exceptions to the Commission's Order and requested that oral argument be allowed with respect to such exceptions. By subsequent Order, an oral argument before the full Commission was scheduled and heard as noted above.

The three exceptions raised by the Company to the Commission's Order of April 30 are as follows: (1) That three of the Commission's eight specific service objectives (Nos. 1, 2 and 6 of Appendix A attached to the Order of April 30, 1975) are unjust, unreasonable and unwarranted as applied on an exchange by exchange basis; (2) That the degree of penalty imposed by the Commission on the fair rate of return which the Company should be allowed to earn on its common equity was too great in light of the return allowed in the Company's last general rate case, the substantial improvements in quality of service since then and the present cost of A rated public utility bonds; and (3) That the Company, as a part of its conversion and upgrading of public pay station service equipment, ought to be allowed to convert from a 10¢ to a 20¢ local message charge, which charge has previously been approved by the Commission for other North Carolina telephone companies.

At the oral argument on these exceptions, the Commission heard from counsel for all parties hereto, the Company, the Attorney General and the Commission Staff. Based upon the able arguments of counsel, the previous Order of the Commission in this docket and the other matters noticed at the hearing, which collectively comprise the record herein, the Commission now finds, determines and concludes as follows:

1. That the Company should continue to report the three service standards excepted to on an exchange by exchange basis. However, the Company should also report these standards on a service center basis. For the purpose of highlighting possible trouble areas, the Commission will have the first report available. For the purpose of determining overall service adequacy, the Commission will consider that compliance with its objectives on a service center basis, as would be shown on the second report, is prima facie sufficient and the Order of April 30 should be modified so to reflect.

There were three different standards which the Company felt it was unfair for the Commission to judge on an exchange by exchange basis. The exception was grounded on the fact that many of the Company exchanges were very small, such as the Suit exchange, which contains only 500 telephones. In such an exchange, even a relatively small number of infractions could cause the exchange not to comply with the Commission's Order.

The first service standard objected to by the Company was one which limits the number of held orders for new service over 14 days of age to 0.1% of the number of total stations in the exchange. In an exchange the size of Suit, if even one order for new or primary service were held for over 14 days, regardless of the reason, that exchange would not meet the Commission's standard for adequate service. In some instances orders are held for over 14 days for reasons beyond the Company's control such as weekends and holidays (when only emergency service is available), inclement weather (a particular problem in mountainous areas), delays in shipment of necessary equipment and the necessity for securing rights of way. It is worthy of note that over half of the Western exchanges have less than 2,000 stations and, in these exchanges, the Company could never have more than one held order over 14 days old without violating the service objective contained in the Commission's Order of April 30, 1975.

The second service standard objected to required that the number of held orders for regrades (i.e., a phone with fewer parties on the line) not exceed 1% of the total number of stations in an exchange. Since orders for new service and emergency service have priority, it is quite common that held orders for regrades will exceed held orders for new service. The problem with this service standard is, just like the previous one, that the Company exchanges are so

small, that a relatively few violations can render the exchange out of compliance with the Commission's Order. The Commission's Order of April 30, 1975, imposed a stricter standard than had previously been applied to Western on a company-wide basis with regard to held orders for regrades.

Finally, the Company excepted to the standard which requires that not more than 10% of the pay phones in any exchange be out of service for any monthly reporting period. Here again, the problem is one of exchange size, since some of the Company's exchanges have 10 or less pay stations. In these exchanges, if even one pay station were out of order, the Commission's service objective would be violated. Western Carolina and Westco (parent-subsidiary related companies) together have but 428 total public pay stations in 27 exchanges. Two of the primary causes of service outages for pay phones - exposure to the weather and vandalism - are not within the control of the Company.

For the foregoing reasons, the Commission is of the opinion that, in terms of overall adequacy of Company service, we should not require compliance with these three standards on an exchange by exchange basis. Counsel for the Company contended that these standards should be applied on a company-wide or district-wide basis. However, while we agree that the exchange basis is too stringent, we also feel that a company or district basis would be too lax and could perhaps give us the distorted picture that overall company service, in these three objective areas, was good, while hiding several small exchanges in which the standards were continuously not being met and service was poor.

The Commission, therefore, concludes that, for the purpose of judging the Company's adequacy of service in these three areas in future cases, the standards should be primarily judged on a service center basis. The service centers (5 for the two companies here involved) have 16,000 main stations on the average, and the Commission feels that these units are large enough to make the three standards just and reasonable as a measure of performance. However, in the event of continual, chronic failure to meet the performance standards in one or more specific exchanges, the Commission and the customers in such exchanges would be justified in requiring the Company to show that such failure was not the result of any negligence or inattention on the Company's part.

2. The Commission agrees with the contentions advanced by counsel for the Company with regard to the amount of penalty imposed by the Commission in its Order of April 30 on the Company's rate of return. Briefly, these contentions are as follows:

(a) In the Company's last general rate increase case (Docket No. P-58, Sub 85) the Commission allowed the Company to earn a return of 9.0% on its book common equity. The Commission stated that, had service been fully adequate, the

allowed return on book common equity would have been 11.75%. Thus, in the last case, the Commission prescribed a penalty of 2.75% in the book common equity return.

(b) In this case, the Commission allowed a higher return of 9.54% on the Company's book common equity. However, the Commission failed to state what return it would have allowed had it found service to be fully adequate. The Commission merely stated that it was imposing a penalty for inadequate service.

(c) Of the expert witnesses who testified at the public hearings with regard to cost of (or fair rate of return on) equity capital, the lowest fair cost or return rate mentioned was the 12.44% recommended by Staff Witness Kiltie.

(d) Thus, even using Mr. Kiltie's figure, it is apparent that the Commission has imposed a penalty on the equity return in this case of 2.90%. This penalty is greater than the one imposed by the Commission in the Company's last general rate case.

(e) Since the last case, the Company has invested several million dollars ($18,000,000 for Western and Westco combined) to regrade customer service, improve long distance service and billing and upgrade and improve customer service generally. The objective tests performed by the Staff show that service has significantly improved since the last rate case and many of the public witnesses testified that their telephone service was the best it had ever been.

(f) The return which the Commission allowed on book common equity was less than the cost of A rated public utility bonds as of July, 1974.

(g) Since the present case was filed, inflation and attrition, together with regulatory lag have combined to further erode the Company's already inadequate return.

For the foregoing reasons, the Commission concludes that the penalty which it imposed on the Company's equity return by its April 30, 1975, Order Establishing Rates was too severe and that such allowed return on equity should be adjusted upward.

The zone of reasonable return on equity, as testified to at the public hearings was 12.44% according to Staff Witness Kiltie and 14% according to Company Witness Brennan. In arriving at a fair cost of equity capital to the Company, the Commission must take due notice of the source of the Company's equity funds, the cost of such funds to the parent corporation (Continental) and the relationship between the parent and the subsidiary within the holding company framework. The Company's source of equity capital is not the open market, but is ultimately traceable to Continental, which raises these funds through a combination of debt and

equity financing. If all the operating subsidiaries, such as Western, were allowed to earn the same equity return as the parent, the result would be to increase the equity return to the parent. However, the leverage which would produce such an increased return, at the level of the parent, would also tend to increase the risk of the parent's investment in companies such as Western.

In view of the foregoing, the Commission concludes that a return on equity to Western of 12.5% would be just and reasonable and would have been allowed in this case if the Commission had found the Company's level of service to be fully adequate. However, the evidence showed and the Commission has previously found that such level of service continues to be inadequate.

To penalize the Company almost 3% (12.50 - 9.54 = 2.96%) for inadequate service would be unjust and unreasonable. The Commission concludes that it should allow an approved level of earnings on equity of 11.0%. This level equates to a penalty on equity earnings of 1.5%. The 11.0% approved return gives credit for the Company's expanded investment in plant, its improved service level and the effects of inflation, attrition and regulatory lag. The 1.5% penalty gives recognition to the fact that, as of January, 1975, the Company's level of service continued to be inadequate, despite more than five (5) years of constant effort by the Commission to get service up to an acceptable level.

In order to raise the Company's level of equity return, based on test year figures, from the 9.54% previously approved to the 11.0% approved herein, it will be necessary for the Company to generate additional annual gross revenues of $257,534. These additional annual gross revenues will raise the Company's return on rate base from 7.65% to 8.14% and will raise its return on fair value from 8.40% to 9.70%. The higher returns would be within the zone of reasonableness based on the returns heretofore approved and the Commission finds such higher returns to be just and reasonable herein and, therefore, concludes that they ought to be allowed.

Ordinarily the additional annual gross revenues of $257,534 approved herein would be raised by allowing the Company to file increased, across-the-board tariffs for basic, flat rate, local exchange service. However, the Commission concludes that such an increase in local exchange rates will not be necessary because the Company is already earning in excess of the amount of additional gross revenues approved on its intrastate toll service.

In Docket No. P-55, Sub 742, Southern Bell filed for a general rate increase on July 19, 1974. Included as a part of said rate increase was a request for an increase in intrastate toll revenues of more than $16,000,000. Of this amount, $8,607,506 was to be the share of the independent, connecting companies, such as Western. In Docket P-100, Sub

34, a toll settlement investigation, the Commission made all the independent companies, including Western, parties to the increased intrastate toll portion of the Bell case.

On July 1, 1975, all the North Carolina telephone companies, including Western, placed the full amount of the requested toll increase into effect pursuant to G.S. 62-134(b). Based on their combined intrastate toll net investment for three months ending December, 1974, and the anticipated increase in Bell's settlement rate of return, Western and Westco should receive additional annual combined gross revenues of $545,892 from these higher toll rates. Western's share of these revenues, assuming a reasonable percentage split between Western and Westco (69.5% vs. 30.5%) will amount to approximately $379,395 on an annual basis. This sum, which is in excess of the $257,534, approved herein, represents additional annual gross revenues over and above those considered and approved by the Commission in Western's present rate case. When Docket No. P-100, Sub 34, is heard, Western will be able to resist flow through of at least $257,534 of these increased toll dollars because of the provisions of this Order.

The Commission, therefore, concludes that it will not be necessary for Western to increase its rates for local exchange service in order to recover the additional annual revenues approved herein. No such tariffs will be accepted for filing by the Commission.

3. The Commission is unable to accept the Company's contention that pay phone rates should be increased from 10¢ to 20¢ simultaneously with the changeover from multi-slot to single slot pay phone equipment. This changeover in equipment was already taking place when the rate case was heard in January, 1975. It should be, at present, rapidly moving toward the final stages of completion.

Pay phone rates were not one of the items of contention at the hearings. No evidence was introduced to show that any increase in pay phone rates, much less a 100% increase, was cost justified. More importantly, the Company did not apply for an increase in pay phone rates in the general rate case, no notice of any such increase was provided, and the public was not afforded an opportunity to appear and protest such higher rates.

The Commission concludes that such proposed increase would not be lawful. Even assuming, arguendo, that the Commission could consider the matter of pay phone rates separate and apart from other rates without notice and opportunity for hearing, we are of the opinion that it would be very unwise, as a matter of sound regulatory philosophy, to do so this close to the end of a general rate case. It should be noted that the Commission has greatly eased the quality of service standards for pay phones in service (see No. 1 above) and such standards were the Company's principal economic justification for requesting the higher rates.

IT IS, THEREFORE, ORDERED:

1. That items 1), 2) and 6) of the Commission's service objectives for the Company as contained in Appendix A of the Commission's April 30, 1975, Order be, and the same are hereby modified and amended as shown on Appendix A attached hereto.

2. That the Company shall begin keeping statistics on held orders, regrades and pay phones on a service center basis. The Company shall continue to keep such statistics on an exchange by exchange basis and shall furnish copies of same to the Commission and its Staff as and when requested.

3. That, in the event any request for new or regraded service (excluding those which can be worked but are pending customer action) is held for over 14 days without being worked, the Company shall promptly inform the customer by letter of the reasons for the delay and when the request for service will be met. The Company shall provide the Commission with a copy of each letter which is written pursuant to this provision.

4. That the allowed return on the Company's common equity be, and the same is hereby, increased from 9.54% to 11.0%. The Company is already receiving, at least on an accrual basis, more revenues from increased intrastate toll rates than would be necessary to increase the equity return from 9.54% to 11.0% based on data for test year operations. Therefore, no increased local service charges shall be allowed.

5. That the Company's request to increase its rates and charges for a local pay phone call from 10¢ to 20¢ be, and the same is hereby, denied.

6. That, except as modified herein, the Commission's April 30, 1975, Order Establishing Rates shall remain in full force and effect.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX A
DOCKET NO. P-58, SUB 93
Western Carolina Telephone Company

Commission Service Objectives for Western Carolina Telephone Company:

1) The number of held orders for new service in each service center area (excluding those which can be worked but are pending customer action) over 14 days of age shall not exceed 0.1% of the number of total stations in that service center area.

2) Regrade requests shall be worked promptly and the number held over 14 days (excluding those which can be worked but are pending customer action) in each service center area shall not exceed 1% of the total number of stations in that service center area.

* * * * * * * * *

6) The Company shall maintain public pay stations in proper working condition, keeping current and accurate instructions posted on each pay station indicating the telephone number and dialing instructions for local, toll, directory assistance and emergency assistance and have a current directory available for each pay station. Routine maintenance and inspections should be planned so that at no time are more than 10% of the Company's pay stations out of service in any service center area.

DOCKET NO. P-7, SUB 597

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Town of Wade; Merrill McLaurin, et al., Ratepayers and Subscribers to Telephone Service on the Carolina Telephone and Telegraph Company Facilities in the Town of Wade and Surrounding Wade Community Area; Requesting Telephone Service Through the Fayetteville Exchange Instead of Dunn Exchange from Carolina Telephone and Telegraph Company Complainants vs. Carolina Telephone and Telegraph Company Defendant	ORDER DENYING COMPLAINT

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on October 31, 1974, at 10 A. M.

BEFORE: Chairman Marvin R. Wooten, Commissioners Hugh A. Wells, Ben E. Roney, Tenney I. Deane, Jr., and George T. Clark, Jr.

APPEARANCES:

For the Complainants:

Lester G. Carter, Jr.
P. O. Box 1788
Fayetteville, North Carolina 28302

For the Defendant:

William W. Aycock, Jr.
Taylor, Brinson and Aycock
P. O. Box 308
Tarboro, North Carolina 27886

For the Commission Staff:

Lee West Movius
Associate Commission Attorney
Ruffin Building
Raleigh, North Carolina

BY THE COMMISSION: On June 7, 1974, the Town of Wade, North Carolina, and forty-one residents of the Wade Community ("Complainants") filed a complaint with the Commission against defendant Carolina Telephone and Telegraph Company ("Carolina Telephone") praying that the Commission order Carolina Telephone to serve the Wade Community out of the Fayetteville telephone exchange rather than the Dunn exchange, from which the community is presently being served. Carolina Telephone's Answer moved the Commission to dismiss the complaint on grounds that the exact issue had been decided adversely to complainants in proceedings before the Commission in 1963 and 1971. On August 20, 1974, complainants alleged changed circumstances since the previous proceedings and moved for full public hearing on the matter. By order issued September 4, 1974, the Commission set the matter for public hearing on October 31, 1974.

At the hearing, numerous residents of the Wade Community testified in support of or in opposition to the requested transfer of telephone service from the Dunn to the Fayetteville exchange. In addition, complainants introduced into evidence petitions containing signatures of many residents of the community, a Resolution of the Town Commissioners of the Town of Wade enacted August 14, 1974, and the results of an election held in the community in March, 1973. Opponents of the requested change also presented various petitions and letters. Defendant Carolina Telephone offered the testimony and exhibits of Assistant Vice President P. T. Williamson in opposition to the requested change in telephone exchange service.

Upon consideration of all competent evidence adduced at the hearing, the Commission makes the following:

FINDINGS OF FACT

1. The Town of Wade, located on U. S. Highway 301 in northeast Cumberland County, is situated between Fayetteville, to the southwest, and Dunn, to the northeast. The Town has a small population and receives its telephone service through Carolina Telephone's Dunn exchange. Carolina Telephone also operates a telephone exchange in Fayetteville. The boundary line between these two exchanges is but a short distance south of the town limits of Wade. The Commission, in 1957-1958, approved this boundary line upon Carolina Telephone's representation that the location was proper.

2. Much of the governmental activities and services of the Town of Wade require calling Fayetteville. The Wade Community Volunteer Rural Fire Department receives its directions and fire reports from a central dispatching number served by the Fayetteville exchange. The Wade Community's rescue unit is a part of the Cumberland County Rescue Unit whose headquarters and telephone are located in Fayetteville. The Wade Community is part of the Civil Defense Plan of Cumberland County, also headquartered in Fayetteville. The Town of Wade has contact with the Cumberland County Joint Planning Board and the Cumberland County Tax Collector, both of whose headquarters are located in Fayetteville. Finally, the Town of Wade's police services are provided by the Cumberland County Sheriff's Department, whose principal office and main number is in Fayetteville.

3. To contact all the organizations and persons enumerated above, residents of the Town of Wade and members of the Wade Community who live to the north of Wade must call long distance. Under the party line service presently used by most telephone subscribers in the Wade Community, a long distance call to Fayetteville requires (1) dialing a "1" and then the 7-digit Fayetteville number and (2) giving the calling number to the local operator, who comes on the line after the eight numbers have been dialed. The delay occasioned by having to dial an extra digit and then give the calling number to the operator is but a few seconds in duration.

4. Complainants, although making much of this momentary delay, were unable to produce any evidence showing how such delay had reduced or might jeopardize the effectiveness of the Police, Rescue, Fire and Civil Defense services described above. Rather, all delays in obtaining the assistance of such emergency services were the results of either the rural, spread-out nature of the community, the lack of a home telephone, or the persistent use of the line by another member of the caller's party line. None of these problems would be ameliorated or cured by changing telephone service from the Dunn to the Fayetteville exchange.

5. Complainants also emphasize the expense involved in calling long distance. As to the emergency services, however, it is unlikely that a given subscriber would need to place more than a very occasional call to Fayetteville for assistance. As to the tax, planning, and other non-emergency governmental functions requiring calls from Wade to Fayetteville, there was no evidence that the cost was burdensome, especially when contrasted with the costs, which will be described below, that Carolina Telephone would incur in changing exchange service from Dunn to Fayetteville.

6. By Order dated April 22, 1971, in Docket P-7, Sub 517, and by Order dated April 5, 1963, in Docket P-7, Sub 222, the Commission twice dismissed requests from various members of the Wade Community to have all of the community's telephone service served by the Fayetteville exchange. In the 1971 proceeding, Carolina Telephone took a neutral position on the issue, because, at that time, Carolina Telephone was about to expand both its Dunn and Fayetteville exchange facilities and was willing to plan its expansion to include the Town of Wade in either exchange. In reliance on the Commission's April 22, 1971 final Order in that proceeding, Carolina Telephone expanded its Dunn exchange facilities so as to increase that exchange's capacity to service anticipated growth in telephone service demand in the Wade Community. This expansion included markedly increasing cable facilities between Wade and Dunn at an investment of $79,500. To now alter exchange boundaries to place the entire Wade Community within the Fayetteville exchange would substantially duplicate and therefore waste these cable facilities. Furthermore, such a change would necessitate approximately $140,000 additional investment in cable facilities between Fayetteville and the Wade Community. In short, the total capital costs of the requested change in exchange service would approach $220,000.

7. Many members of the Wade Community want their residential telephones to remain serviced by the Dunn exchange. Many Wade businesses, including Tart and Tart, Inc., the community's largest employer, also prefer Dunn exchange service. These customers maintain business and social contacts in the Dunn area. A significant part of the Wade Community is satisfied with or prefers the present exchange service.

8. It is not economically feasible to allow each member of the Wade Community to choose which exchange he or she desires to be served by. This would result in needless duplication and paralleling of Carolina Telephone's facilities.

9. The Commission is aware of and sympathetic to the difficulties and inconveniences the present exchange service causes those persons and businesses who must frequently call Fayetteville exchange numbers long distance. The Commission feels, however, that these problems might possibly be best

alleviated by Extended Area Service between the Dunn and Fayetteville exchanges. Those persons displeased with the present exchange service should explore the potential cost, benefits, and other aspects of Extended Area Service as a solution to their problems.

CONCLUSIONS OF LAW

This proceeding presents a problem which does not resolve itself in a manner which pleases everyone. On the one hand, many residential and commercial customers in the Wade Community have primarily local or Dunn contacts. These persons are pleased with and prefer the present exchange service. On the other hand, many customers have frequent dealings with Fayetteville, the county seat of Cumberland County and center of an area of tremendous development which includes Fort Bragg; these customers would find it expedient to be able to call Fayetteville numbers without incurring toll charges.

In this situation, transferring the Wade Community to the Fayetteville exchange will please those presently aggrieved but work a hardship on those now satisfied with Dunn exchange service. Moreover, the alternative of allowing each customer in the community to choose which exchange he desires to be served by is not economically feasible and would require unwanted duplication and paralleling of telephone lines and services. Finally, allowing the requested change in telephone exchange service would place this Commission in a position of constantly juggling and reorganizing telephone exchange areas; telephone exchanges must, by their nature, have boundaries, and there will inevitably be customers within one exchange who, because of personal, social, or business reasons or changing economic conditions, would prefer service from some other exchange. It is virtually impossible to design a telephone exchange area so as to please all persons within it.

As has been said in previous orders of this Commission on this difficulty, situations of this kind create hard problems of law and fact which test and try the temperament of those who have to resolve them. Having fully considered the matter, the Commission concludes that the facts and circumstances do not justify transferring the area in question from the Dunn to the Fayetteville telephone exchange, that Carolina Telephone should not be required to serve some of the subscribers in the Town of Wade and the Wade Community from one exchange and serve others through the other exchange through a duplication and paralleling of facilities, and that the petition should be dismissed and the relief requested therein be denied.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

That the complaint filed in this matter be, and hereby is, dismissed and that the relief sought therein is denied.

ISSUED BY ORDER OF THE COMMISSION.

This the 16th day of April, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

Commissioner Wells concurs.

DOCKET NO. W-233, SUB 5

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Corriher Water Service, Inc., Route 3, Box 311, China Grove, North Carolina, for a Certificate of Public Convenience and Necessity to Provide Water Utility Service in Barger Park, Safrit Annex-Section 1, & Mt. Hope Estates Subdivisions, Rowan County & Cox's Mill-Phase 1 Subdivision, Cabarrus County, North Carolina, and for Approval of Rates	ORDER GRANTING FRANCHISE AND APPROVING RATES

HEARD IN: Commission Library, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Wednesday, September 17, 1975

BEFORE: Hearing Commissioners Tenney I. Deane, Jr., Presiding, J. Ward Purrington, and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

Thomas M. Grady
Williams, Willeford, Boger & Grady
Attorneys at Law
P. O. Box 2
Kannapolis, North Carolina 28081

For the Commission:

Antoinette Ray Wike
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

John R. Molm
Associate Commission Attorney
North Carolina Utilities Commission

P. O. Box 99|
Raleigh, North Carolina 27602

BY THE COMMISSION: On July 30, |975, the Applicant, Corriher Water Service, Inc., filed an application with the North Carolina Utilities Commission for a Certificate of Public Convenience and Necessity to provide water utility service in Barger Park, Safrit Annex-Section |, and Mt. Hope Estates Subdivisions, Rowan County, North Carolina, and Cox's Mill-Phase |, Cabarrus County, North Carolina, and for approval of rates.

By Order issued on August 7, |975, the Commission scheduled the application for public hearing, and required that Public Notice of the hearing be given by the Applicant. Public Notice was furnished to each customer in the above mentioned Subdivisions by the Applicant, and was published in The Kannapolis Daily Independent, Kannapolis, North Carolina, and in The Salisbury Evening Post, Salisbury, North Carolina, advising that anyone desiring to intervene or to protest the application was required to file their intervention or their protest with the Commission by the date specified in the Notice. No interventions or protests were received by the Commission.

The public hearing was held at the time and place specified in the Commission's Order. Mr. Frank A. Corriher appeared at the hearing as a witness for the Applicant and presented testimony in support of the application. Mr. Richard Seekamp of the Commission Staff presented testimony and offered an exhibit which tended to show that for the period November |974 to July |975 the Division of Health Services (formerly the State Board of Health) Laboratory did not receive monthly water samples from eight (8) of the Applicant's eleven existing service areas. No one appeared at the hearing to protest the application.

Based on the information contained in the application and in the Commission's files and in the records of this proceeding, the Commission now makes the following

FINDINGS OF FACT

1. The Applicant, Corriher Water Service, Inc., is a corporation duly organized under the laws of the State of North Carolina, and is authorized under its Articles of Incorporation to engage in the operation of public utilities, as defined in G.S. 62-3.

2. The Applicant proposes to furnish water utility service in Barger Park, Safrit Annex-Section |, Mt. Hope Estates Subdivisions, Rowan County, and Cox's Mill-Phase | Subdivision, Cabarrus County, North Carolina, and has filed a Schedule of Rates for said service.

3. The Applicant has installed mains and meters capable of serving approximately 24 customers in Barger Park, 27

customers in Safrit Annex, Section |, 26 customers in Mt. Hope Estates, and 80 customers in Cox's Mill-Phase |. These systems presently serve 24, |8, 22 and 8 customers respectively. The applicant proposes to meter the service at, a future date and to charge a flat rate until meters are installed for all customers.

4. The Applicant has entered into agreements securing ownership or control of the water systems and of the sites for the wells.

5. There is an established market for water utility service in the subdivisions, and such services are not now proposed for the subdivisions by any other public utility, municipality, or membership association. There is a reasonable prospect for growth in demand for the proposed utility services in the subdivisions.

6. The quality of the untreated water meets the U.S. Public Health Drinking Water Standards with respect to physical and chemical characteristics.

7. The water system plans are approved by the Division of Health Services.

8. The Applicant has not submitted water samples for bacteriological analysis to the Division of Health Services on a regular basis.

9. The annual revenues, based on the proposed flat rate and on 75 customers, would be approximately $5400 for water service.

|0. In income statements attached to the Application, the Applicant lists operations and maintenance expenses of $60.00-$70.00 per customer for Barger Park, Safrit Annex and Mt. Hope Estates, and $||2.25 per customer for Cox's Mill. The Applicant has allocated office and utility expenses equally at $339.00 per system.

11. The Applicant lists the investment in the four (4) water utility plants as $30,250, based on an unverified balance sheet contained in the application. The Applicant was given each of the water systems and invested none of its own capital in them. The entire investment figure represents contributed property to the Applicant.

|2. The Applicant will provide maintenance and repair service to the water systems in the subdivisions.

|3. The Applicant has specified that the names, addresses, and telephone numbers of the companies or persons responsible for providing maintenance and repair service to the water systems will be listed on the monthly billing statements. The Applicant will be listed in the phone book for the proposed service area as Corriher Water Service, Inc.

CONCLUSIONS

Since the Applicant made no investment in the utility plants, it is not entitled to depreciation expense on this property for the purpose of setting rates. Excluding depreciation expense from the income statements, the Applicant will earn a profit on each system except Cox's Mill, which presently serves only 10% of the proposed customers in that subdivision. The Commission is of the opinion that the eight (8) Cox's Mill customers should not be required to bear all the expenses allocated to a system designed to serve a much greater number. The Commission therefore concludes that the schedule of rates proposed in the application should be reduced in the second rate block from $1.50 per 1000 gallons to $1.00 per 1000 gallons.

There will be a demand and need for water utility service in the above mentioned subdivisions which can best be met by the Applicant.

The initial rates approved by the Commission for water utility service in the above mentioned Subdivisions should be those contained in the Schedule of Rates attached hereto, which are concluded to be just and reasonable for the services described herein.

The Applicant's arrangement for providing maintenance and repair service to the water systems is acceptable.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Applicant, Corriher Water Service, Inc., is hereby granted a Certificate of Public Convenience and Necessity in order to provide water utility service in Barger Park, Safrit Annex-Section 1, Mt. Hope Estates and Cox's Mill-Phase 1 Subdivisions, as described herein and more particularly as described in the application made a part hereof by reference.

2. That this Order in itself shall constitute the Certificate of Public Convenience and Necessity.

3. That the Schedule of Rates attached hereto as Appendix "A" is hereby approved, and that said Schedule of Rates is hereby deemed to be filed with the Commission pursuant to G.S. 62-138.

4. That the Applicant shall maintain his books and records in such a manner that all the applicable items of information required in the Applicant's prescribed Annual Report to the Commission can be readily identified from the books and records, and can be utilized by the Applicant in the preparation of said Annual Report. A copy of the Annual Report form shall be furnished to the Applicant with the mailing of this Order.

5. That the Applicant shall submit water samples from all systems to the Division of Health Services for bacteriological analysis on a regular monthly basis.

6. That the Applicant is hereby cautioned that in the event the present arrangements for providing dependable and prompt maintenance and repair service are terminated, the Applicant shall immediately make alternate arrangements which shall be at least as reliable as the present arrangements, and the Applicant shall immediately notify the Commission of such alternate arrangements.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of September, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"
DOCKET NO. W-233, SUB 5
Corriher Water Service, Inc.
Barger Park - Rowan County
Safrit Annex, Section I - Rowan County
Mt. Hope Estates - Rowan County
Cox's Mill - Cabarrus County

WATER RATE SCHEDULE

METERED RATES: (Residential Service)

Water: Up to first 4,000 gallons per month - $6.00 minimum
All over 4,000 gallons per month - $1.00 per 1,000 gallons

FLAT RATES: (Residential Service)

Minimum rates under metered rates until such time as meters are installed for all customers.

CONNECTION CHARGES:

RECONNECTION CHARGES:

If water service cut off by utility for good cause (NCUC Rule R7-20f): $4.00
If water service discontinued at customer's request (NCUC Rule R7-20g): $2.00

BILLS DUE: On billing date.

BILLS PAST DUE: Twenty-five (25) days after billing date.

BILLING FREQUENCY: Shall be quarterly, for service in

advance while charging minimum charge.

FINANCE CHARGES FOR LATE PAYMENT:

1% per month will be applied to the unpaid balance of all bills still past due twenty-five (25) days after billing date.

Issued in accordance with authority granted by the North Carolina Utilities Commission in Docket No. W-233, Sub 5 on September 30, 1975.

DOCKET NO. W-539

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Devlynn Investment Company, Inc., 127 First Avenue, N.E., Hickory, North Carolina, for a Certificate of Public Convenience and Necessity to Provide Water Utility Service in Jamestowne Subdivision, Catawba County, North Carolina, and for Approval of Rates	RECOMMENDED ORDER GRANTING FRANCHISE AND APPROVING RATES

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on October 15, 1975

BEFORE: Hearing Commissioner Marvin R. Wooten

APPEARANCES:

For the Applicant:

Glen R. Boyd
Appearing for the Applicant

For the Commission Staff:

Jane Atkins
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

WOOTEN, HEARING COMMISSIONER: On August 12, 1975, the Applicant, Devlynn Investment Company, Inc., filed an application with the North Carolina Utilities Commission for a Certificate of Public Convenience and Necessity to provide water utility service in Jamestowne Subdivision, Catawba County, North Carolina, and for approval of rates.

By Order issued on August 25, 1975, the Commission scheduled the application for public hearing, and required that Public Notice of the hearing be given by the Applicant.

Public Notice was furnished to each customer in Jamestowne Subdivision by the Applicant, and was published in the Hickory Daily Record, Hickory, North Carolina, advising that anyone desiring to intervene or to protest the application was required to file their intervention or their protest with the Commission by the date specified in the Notice. No interventions or protests were received by the Commission.

The public hearing was held at the time and place specified in the Commission's Order. Mr. Glen R. Boyd appeared at the hearing as a witness for the Applicant and presented testimony in support of the application. No one appeared at the hearing to protest the application.

Based on the information contained in the application and in the Commission's files and in the records of this proceeding, the Commission now makes the following

FINDINGS OF FACT

1. The Applicant, Devlynn Investment Company, Inc., is a corporation duly organized under the laws of the State of North Carolina, and is authorized under its Articles of Incorporation to engage in the operation of public utilities, as defined in G.S. 62-3.

2. The Applicant proposes to furnish water utility service in Jamestowne Subdivision, Catawba County, North Carolina, and has filed a Schedule of Rates for said service.

3. Jamestowne Subdivision is a residential subdivision consisting of approximately 6 streets and approximately 140 lots. The subdivision is located adjacent to S. R. 1176.

4. The Applicant has initially installed water mains capable of serving approximately 86 customers in the subdivision. The Applicant proposes to meter the water service.

5. The Applicant has entered into agreements securing ownership or control of the water system and of the sites for the wells.

6. There will be an established market for water utility service in the subdivision, and such services are not now proposed for the subdivision by any other public utility, municipality, or membership association. There is a reasonable prospect for growth in demand for the proposed utility services in the subdivision.

7. The quality of the untreated water from Well #2 does not meet the U.S. Public Health Drinking Water Standards with respect to physical and chemical characteristics, as it contains excessive amounts of iron, but treatment will be provided which will control the objectionable

characteristics of that if so ordered by the Division of Health Services.

8. The water system plans are approved by the Division of Health Services (formerly the State Board of Health) to serve |4| connections.

9. The annual revenues, based on the proposed metered rate and on 20 customers, would be approximately $2200 for water service.

|0. The Applicant lists the investment in water utility plant as $48,70|.03, based on an unverified balance sheet contained in the application.

||. The Applicant has entered into a verbal agreement with a local contractor, Huffman Well & Pump Company, Inc., whereby the contractor will provide maintenance and repair service to the water system in the subdivision.

|2. The Applicant has specified that the names, addresses, and telephone numbers of the companies or persons responsible for providing maintenance and repair service to the water system will be listed on the monthly billing statements. The Applicant will be listed in the phone book for the proposed service area as Boyd & Hassell, Realtors.

CONCLUSIONS

There will be a demand and need for water utility service in Jamestowne Subdivision which can best be met by the Applicant.

The initial rates approved by the Commission for water utility service in Jamestowne Subdivision should be those contained in the Schedule of Rates attached hereto, which rates are not in excess of those rates found to be reasonable for similar public water utilities under average operating conditions, and which are concluded to be just and reasonable for the services described herein.

The Applicant's arrangement with a local contractor for providing maintenance and repair service to the water system in Jamestowne Subdivision is acceptable.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

|. That the Applicant, Devlynn Investment Company, Inc., is hereby granted a Certificate of Public Convenience and Necessity in order to provide water utility service in Jamestowne Subdivision, as described herein and more particularly as described in the application made a part hereof by reference.

2. That this Order in itself shall constitute the Certificate of Public Convenience and Necessity.

3. That the Schedule of Rates attached hereto as Appendix "A" is hereby approved, and that said Schedule of Rates is hereby deemed to be filed with the Commission pursuant to G.S. 62-138.

4. That the Applicant shall maintain his books and records in such a manner that all the applicable items of information required in the Applicant's prescribed Annual Report to the Commission can be readily identified from the books and record, and can be utilized by the Applicant in the preparation of said Annual Report. A copy of the Annual Report form shall be furnished to the Applicant with the mailing of this Order.

5. That the Applicant is hereby cautioned that in the event the present arrangements for providing dependable and prompt maintenance and repair service are terminated, the Applicant shall immediately make alternate arrangements which shall be at least as reliable as the present arrangements, and the Applicant shall immediately notify the Commission of such alternate arrangements.

6. That the Applicant shall submit to the Commission a copy of the report on a chemical analysis to be taken on Well #2.

7. That the Applicant shall install and maintain Iron removal equipment at Well #2, if so ordered by the Division of Health Services.

ISSUED BY ORDER OF THE COMMISSION.

This the 23rd day of October, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"
DOCKET NO. W-539
Devlynn Investment Company, Inc.
Jamestowne
Catawba County

WATER RATE SCHEDULE

METERED RATES: (Residential Service)

Water: Up to first 2,000 gallons per month - $6.00 minimum
All over 3,000 gallons per month - $ .80 per 1,000 gallons

CONNECTION CHARGES: $400.00 per tap

RECONNECTION CHARGES:

If water service cut off by utility for good cause (NCUC Rule R7-20f): $4.00
If water service discontinued at customer's request (NCUC Rule R7-20g): $2.00

BILLS DUE: on billing date.

BILLS PAST DUE: Fifteen (15) days after billing date.

BILLING FREQUENCY: Shall be Quarterly, for service in arrears.

FINANCE CHARGES FOR LATE PAYMENT:

1% per month will be applied to the unpaid balance of all bills still past due twenty-five (25) days after billing date.

Issued in accordance with authority granted by the North Carolina Utilities Commission in Docket No. W-539 on October 23, 1975.

DOCKET NO. W-274, SUB 17

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Heater Utilities, Inc., P.O. Box 549, Cary, North Carolina, for a Certificate of Public Convenience and Necessity to Provide Water Utility Service in Coachman's Trail and Cambridge Subdivisions, Wake County, North Carolina, and for Approval of Rates	) RECOMMENDED ORDER GRANTING FRANCHISE AND APPROVING RATES

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on July 16, 1975

BEFORE: Hearing Examiner Jerry B. Fruitt

APPEARANCES:

For the Applicant:

Henry H. Sink
Parker, Sink and Powers
Attorneys at Law
Post Office Box 1471
Raleigh, North Carolina 27602

For the Commission Staff:

Robert P. Page
Assistant Commission Attorney
North Carolina Utilities Commission
Post Office Box 991
Raleigh, North Carolina 27602

FRUITT, HEARING EXAMINER: On May 13, 1975, the Applicant, Heater Utilities, Inc., filed an application with the North Carolina Utilities Commission for a Certificate of Public Convenience and Necessity to provide water utility service in Coachman's Trail and Cambridge Subdivisions, Wake County, North Carolina, and for approval of rates.

By Order issued on May 27, 1975, the Commission scheduled the application for public hearing, and required that Public Notice of the hearing be given by the Applicant. Public Notice was furnished to each customer in Coachman's Trail and Cambridge Subdivisions by the Applicant, and was published in The Raleigh Times, Raleigh, North Carolina, advising that anyone desiring to intervene or to protest the application was required to file their intervention or their protest with the Commission by the date specified in the Notice. No interventions or protests were received by the Commission.

The public hearing was held at the time and place specified in the Commission's Order. Mr. R. B. Heater appeared at the hearing as a witness for the Applicant and presented testimony in support of the application. No one appeared at the hearing to protest the application.

Based on the information contained in the application and in the Commission's files and in the record of this proceeding, the Commission now makes the following

FINDINGS OF FACT

1. The Applicant, Heater Utilities, Inc., is a corporation duly organized under the laws of the State of North Carolina, and is authorized under its Articles of Incorporation to engage in the operation of public utilities, as defined in G.S. 62-3.

2. The Applicant proposes to furnish water utility service in Coachman's Trail and Cambridge Subdivisions, Wake County, North Carolina, and has filed a Schedule of Rates for said service.

3. Coachman's Trail Subdivision is a residential subdivision consisting of approximately 20 streets and approximately 248 lots. The Subdivision is located adjacent to State Road 1005 in Wake County.

4. Cambridge Subdivision is a residential subdivision consisting of approximately 9 streets and approximately 69

lots. The subdivision is located adjacent to State Road 1826 in Wake County.

5. The Applicant proposes to initially install water mains capable of serving approximately 87 customers in Coachman's Trail and 69 customers in Cambridge Subdivision. The Applicant proposes to meter the water service.

6. The Applicant has entered into agreements securing ownership or control of the water systems and of the sites for the wells.

7. There will be an established market for water utility service in the subdivisions, and such services are not now proposed for the subdivisions by any other public utility, municipality, or membership association. There is a reasonable prospect for growth in demand for the proposed utility services in the subdivisions.

8. The quality of the untreated water meets the U.S. Public Health Drinking Water Standards with respect to physical and chemical characteristics.

9. The water system plans are approved by the Division of Health Services (formerly State Board of Health).

10. The annual revenues, based on the proposed metered rate and on 50 customers, would be approximately $5,280 for water service.

11. The proposed rates are the same rates as those approved by the Commission for the Applicant's other franchised utility service areas.

12. The Applicant lists the investment in water utility plant as $132,024, based on an unverified balance sheet contained in the application.

13. The Applicant maintains its own service organization whereby the Applicant can provide maintenance and repair service to the water systems in the subdivisions.

14. The Applicant has specified that the names, addresses, and telephone numbers of the companies or persons responsible for providing maintenance and repair service to the water systems will be listed on the monthly billing statements. The Applicant will be listed in the phone book for the proposed service area as Heater Utilities, Inc.

CONCLUSIONS

There will be a demand and need for water utility service in Coachman's Trail and Cambridge Subdivisions which can best be met by the Applicant.

The initial rates approved by the Commission for water utility service in Coachman's Trail and Cambridge

Subdivisions should be those contained in the Schedule of Rates attached hereto, and which are concluded to be just and reasonable for the services described herein.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Applicant, Heater Utilities, Inc., is hereby granted a Certificate of Public Convenience and Necessity in order to provide water utility service in Coachman's Trail and Cambridge Subdivisions as described herein and more particularly as described in the application made a part hereof by reference.

2. That this Order in itself shall constitute the Certificate of Public Convenience and Necessity.

3. That the Schedule of Rates attached hereto as Appendix "A" is hereby approved, and that said Schedule of Rates is hereby deemed to be filed with the Commission pursuant to G.S. 62-138.

4. That the Applicant shall maintain his books and records in such a manner that all the applicable items of information required in the Applicant's prescribed Annual Report to the Commission can be readily identified from the books and record, and can be utilized by the Applicant in the preparation of said Annual Report. A copy of the Annual Report form shall be furnished to the Applicant with the mailing of this Order.

5. That the Applicant is hereby cautioned that in the event the present arrangements for providing dependable and prompt maintenance and repair service are terminated, the Applicant shall immediately make alternate arrangements which shall be at least as reliable as the present arrangements, and the Applicant shall immediately notify the Commission of such alternate arrangements.

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"
DOCKET NO. W-274, SUB 17
Heater Utilities, Inc.
Coachman's Trail
Cambridge

WATER RATE SCHEDULE

METERED RATES: (Residential Service)

Water: Up to first 2,000 gallons per month - $5.00 minimum
All over 2,000 gallons per month - $.95 per 1,000 gallons

CONNECTION CHARGES:

3/4" X 5/8" meters inside platted subdivision - $135.00
3/4" X 5/8" meters outside platted subdivision - $350.00
Meters exceeding 3/4" X 5/8" - 120% of Cost

RECONNECTION CHARGES:

If water service cut off by utility for good cause (NCUC Rule R7-20f): $4.00
If water service discontinued at customer's request (NCUC Rule R7-20g): $2.00

BILLS DUE: on billing date.

BILLS PAST DUE: Fifteen (15) days after billing date.

BILLING FREQUENCY: Shall be monthly, for service in arrears.

FINANCE CHARGES FOR LATE PAYMENT: None.

Issued in accordance with authority granted by the North Carolina Utilities Commission in Docket No. W-274, Sub 17 on August 4, 1975.

DOCKET NO. W-198, SUB 8

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Mercer Environmental Corporation, P. O. Box 1376, Jacksonville, North Carolina, for a Certificate of Public Convenience and Necessity to Provide Water and Sewer Utility Service in White Oak Estates Subdivision, Onslow County, North Carolina, and for Approval of Rates	) ORDER) GRANTING) FRANCHISE) AND) APPROVING) RATES)

HEARD IN: Commission Library, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Wednesday, September 17, 1975

BEFORE: Hearing Commissioners Tenney I. Deane, Jr., Presiding, J. Ward Purrington, and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

Alex Warlick, Jr.
Warlick, Milstead and Dotson
Attorneys at Law
Drawer W
Jacksonville, North Carolina

For the Commission Staff:

Antoinette Ray Wike
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On August 4, 1975, the Applicant, Mercer Environmental Corporation, filed an application with the North Carolina Utilities Commission for a Certificate of Public Convenience and Necessity to provide water and sewer utility service in White Oak Estates Subdivision, Onslow County, North Carolina, and for approval of rates.

By Order issued on August 14, 1975, the Commission granted the Applicant Temporary Operating Authority, scheduled the application for public hearing, and required that Public Notice of the hearing be given by the Applicant. Public Notice was furnished to each customer in White Oak Estates Subdivision by the Applicant, and was published in The Daily News, Jacksonville, North Carolina, advising that anyone desiring to intervene or to protest the application was required to file their intervention or their protest with the Commission by the date specified in the Notice. No interventions or protests were received by the Commission.

The public hearing was held at the time and place specified in the Commission's Order. Mr. L. T. Mercer appeared at the hearing as a witness for the Applicant and presented testimony in support of the application. Mr. Richard W. Seekamp appeared as a witness for the Commission staff and presented testimony concerning his evaluation of the Applicant's plans for the water and sewer utility operations and for water treatment. Mr. William Gabehart, a customer on the system, appeared at the hearing to register a complaint concerning the presence of hydrogen sulfide gas in the water.

Based on the information contained in the application and in the Commission's files and in the records of this proceeding, the Commission now makes the following

FINDINGS OF FACT

1. The Applicant, Mercer Environmental Corporation, is a corporation duly organized under the laws of the State of

North Carolina, and is authorized under its Articles of Incorporation to engage in the operation of public utilities, as defined in G.S. 62-3.

2. The Applicant proposes to furnish water and sewer utility service in White Oak Estates Subdivision, Onslow County, North Carolina, and has filed a Schedule of Rates for said service.

3. White Oak Estates Subdivision is a residential subdivision consisting of approximately 10 streets and approximately 222 lots. The subdivision is located adjacent to Piney Green Road (S. R. 1406).

4. The Applicant proposes to initially install water and sewer mains capable of serving approximately 50 customers in the subdivision. The Applicant proposes to meter the water service.

5. The Applicant has entered into agreements securing ownership or control of the utility systems and of the sites for the wells.

6. There will be an established market for water and sewer utility service in the subdivision, and such services are not now proposed for the subdivision by any other public utility, municipality, or membership association. There is a reasonable prospect for growth in demand for the proposed utility services in the subdivision.

7. The quality of the untreated water meets the U. S. Public Health Drinking Water Standards with respect to physical and chemical characteristics, but there is hydrogen sulfide gas present in the water which the residents find objectionable and which the Applicant proposes to control by treatment.

8. The water system plans are approved by the Division of Health Services (formerly the State Board of Health). The sewerage system plans are approved by the Division of Environmental Management.

9. The annual revenues, based on the proposed metered rate and on 50 customers, would be approximately $5850 for water service, based on an average consumption of 6,000 gallons of water per month, and approximately $4800 for sewer service.

10. The proposed rates are the same rates as those approved by the Commission for the Applicant's other franchised utility service areas.

11. The Applicant lists the investment in water and sewer utility plant as $353,972.85, based on an unverified balance sheet contained in the application. This figure represents a contract price of cost plus 10% between the Applicant and its subsidiary construction company.

12. The Applicant will provide maintenance and repair service to the water and sewer systems in the subdivision, including daily checks of wells, pumps and stations.

13. The Applicant has specified that the names, addresses, and telephone numbers of the companies or persons responsible for providing maintenance and repair service to the water and sewer systems will be listed on the monthly billing statements. The Applicant will be listed in the phone book for the proposed service area as Mercer Environmental Corporation.

CONCLUSIONS

There will be a demand and need for water and sewer utility service in White Oak Estates Subdivision which can best be met by the Applicant.

The initial rates approved by the Commission for water utility service in White Oak Estates Subdivision should be those contained in the Schedule of Rates attached hereto, which rates are not in excess of those rates found to be reasonable for similar public water and sewer utilities under average operating conditions, and which are concluded to be just and reasonable for the services described herein.

The Applicant's arrangement for providing maintenance and repair service to the water and sewer systems in White Oak Estates is acceptable.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Applicant, Mercer Environmental Corporation, is hereby granted a Certificate of Public Convenience and Necessity in order to provide water and sewer utility service in White Oak Estates Subdivision, as described herein and more particularly as described in the application made a part hereof by reference.

2. That this Order in itself shall constitute the Certificate of Public Convenience and Necessity.

3. That the Schedule of Rates attached hereto as Appendix "A" is hereby approved, and that said Schedule of Rates is hereby deemed to be filed with the Commission pursuant to G.S. 62-138.

4. That the Applicant shall maintain his books and records in such a manner that all the applicable items of information required in the Applicant's prescribed Annual Report to the Commission can be readily identified from the books and record, and can be utilized by the Applicant in the preparation of said Annual Report. A copy of the Annual Report form shall be furnished to the Applicant with the mailing of this Order.

5. That the Applicant is hereby cautioned that in the event the present arrangements for providing dependable and prompt maintenance and repair service are terminated, the Applicant shall immediately make alternate arrangements which shall be at least as reliable as the present arrangements, and the Applicant shall immediately notify the Commission of such alternate arrangements.

6. That the Applicant shall treat the water it provides its customers in order to eliminate problems asscciated with the hydrogen sulfide gas, and shall inform the Commission Staff of its progress within 30 days of the issuance of this Order.

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of September, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"
DOCKET NO. W-198, SUB 8
Mercer Environmental Corporation
White Oak Estates
Onslow County

WATER AND SEWER RATE SCHEDULE

METERED RATES: (Residential Service)

Water:	Up to first 3,000 gallons per month	- $6.00 minimum
	Next 3,000 gallons	- $1.25 per 1,000 gallons
	Next 6,000 gallons	- $1.00 per 1,000 gallons
	All over 12,000 gallons per month	- $ .75 per 1,000 gallons

FLAT RATES: (Residential Service)

Sewer: $8.00 per month

CONNECTION CHARGES: None

RECONNECTION CHARGES:

If water service cut off by utility for good cause (NCUC Rule R7-20f):	$4.00
If water service discontinued at customer's request (NCUC Rule R7-20g):	$2.00
If sewer service cut off by utility for good cause (NCUC Rule 10-16f):	$15.00

BILLS DUE: On billing date.

BILLS PAST DUE: Fifteen (15) days after billing date.

BILLING FREQUENCY: Shall be monthly, for service in arrears.

FINANCE CHARGES FOR LATE PAYMENT:

1% per month will be applied to the unpaid balance of all bills still past due twenty-five (25) days after billing date.

Issued in accordance with authority granted by the North Carolina Utilities Commission in Docket No. W-198, Sub 8 on September 30, 1975.

DOCKET NO. W-482

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Application by Sugar Mountain Utility Company, P.O. Box 369, Banner Elk, North Carolina, for a Certificate of Public Convenience and Necessity to Provide Water and Sewer Utility Service in Sugar Mountain Subdivision, Avery County, North Carolina, and for Approval of Rates	) RECOMMENDED ORDER GRANTING FRANCHISE AND APPROVING RATES

HEARD IN: Commission Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Wednesday, December 11, 1974

BEFORE: Hearing Examiner Robert F. Page

APPEARANCES:

For the Applicant:

James C. Ray
Ragsdale and Liggett
Attorneys at Law
Box 349
Raleigh, North Carolina 27602

For the Commission Staff:

Lee West Movius
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991
Raleigh, North Carolina 27602

PAGE, HEARING EXAMINER: On October 22, 1974, the Applicant, Sugar Mountain Utility Company, filed an application with the North Carolina Utilities Commission for

a Certificate of Public Convenience and Necessity to provide water and sewer utility service in Sugar Mountain Subdivision, Avery County, North Carolina, and for approval of rates.

By Order issued on November 20, 1974, the Commission scheduled the application for public hearing, and required that Public Notice of the hearing be given by the Applicant. Public Notice was furnished to each customer in Sugar Mountain Subdivision by the Applicant, and was published in The Avery Journal, Newland, North Carolina, advising that anyone desiring to intervene or to protest the application was required to file their intervention or their protest with the Commission by the date specified in the Notice. Several letters were received from persons being served by the Applicant, protesting the amount of rates being sought by the Applicant. No one filed a formal petition for leave to intervene as a party of record.

The public hearing was held at the time and place specified in the Commission's Order. Mr. Wiley Bunn, Vice President of the Applicant, Mr. Ned Fowler, an engineer for the Applicant, and Mr. G. C. Cooper, the comptroller for the Applicant, appeared at the hearing as witnesses for the Applicant and presented testimony in support of the application. Mr. J. Roderic Bailey appeared as a witness for the Commission staff and presented testimony concerning his evaluation of the Applicant's water and sewer utility operations. Mr. S. J. Raiter, a customer of the utility system appeared at the hearing to protest the rates requested by the Applicant.

Based on the information contained in the application and in the record of this proceeding, the Hearing Examiner now makes the following

FINDINGS OF FACT

1. The Applicant, Sugar Mountain Utility Company, is a corporation duly organized under the laws of the State of North Carolina, and is authorized under its Articles of Incorporation to engage in the operation of public utilities, as defined in G. S. 62-3.

2. The Applicant proposes to furnish water and sewer utility service in Sugar Mountain Subdivision, Avery County, North Carolina, and has filed a Schedule of Rates for said service.

3. Sugar Mountain Subdivision is primarily a recreational subdivision presently consisting of approximately 30 streets and approximately 500 lots. The subdivision is located on State Highway 105 approximately 15 miles southwest of Boone, North Carolina.

4. The Applicant presently serves approximately 330 water customers and 285 sewer customers. The Applicant

could eventually serve as many as 1,118 water customers and 439 sewer customers when full development is reached.

5. The Applicant has entered into agreements securing ownership or control of the water and sewer systems and of the sites for the wells.

6. There is an established market for water and sewer utility service in the subdivision, and such services are not now proposed for the subdivision by any other public utility, municipality, or membership association. There is a reasonable prospect for growth in demand for the proposed utility services in the subdivision.

7. The water system plans are approved by the State Division of Health Services. The sewerage system plans are approved by the Division of Environmental Management of the Department of Natural and Economic Resources.

8. The Applicant lists its net investment in the present water utility plant as $612,261, and its net investment in the sewer plant as $469,695, based on an unverified balance sheet contained in the application.

9. The water and sewer plants, as presently installed, are designed to serve a much greater number of customers than those presently being served. Therefore, a portion of the Applicant's annual depreciation expense of approximately $20,000 should not be allowed since only a portion of the actual capacity of the utility plants are presently being used.

10. The Applicant proposes for residents a $5.50 minimum charge for the first 2,000 gallons of water used per month, $1.70 per thousand gallons for the next 5,000 gallons used, and $1.50 per 1,000 gallons for water usage exceeding 7,000 gallons per month. The sewer rate, as proposed, is 100% of the water charge.

11. The rate charged by other regulated water utilities rarely exceeds $1.00 per 1,000 gallons of water used over the minimum. If a $1.00 rate were used for usage over the minimum in computing the revenues in exhibit B of the application, then for the immediate future, based on the Applicant's expense and usage figures, the Applicant will essentially be able to cover his operating expenses. As the number of customers increases toward the projected level of full development, the Applicant's return should increase steadily toward a reasonable rate of return.

12. The Applicant has its own personnel available for providing maintenance and repair service to the water and sewer systems in the subdivision.

13. The Applicant has specified that the names, addresses, and telephone numbers of the companies or persons responsible for providing maintenance and repair service to

the water and sewer systems will be listed on the billing statements.

Based on the foregoing findings, the Hearing Examiner now reaches the following

CONCLUSIONS

There is a demand and need for water and sewer utility services in Sugar Mountain Subdivision which can best be met by the Applicant.

The minimum rate proposed by the Applicant for water and sewer service is reasonable, however, the proposed rates for usage over the minimum appear to be excessive. The Applicant should not expect the present customers to cover the depreciation expense of water and sewer systems designed to serve a much greater number of customers. The proposed rates would begin producing an excessive return as the subdivision grows toward full development and should therefore not be allowed. In a speculative development of this nature, the utility company should not expect to begin making a reasonable return until the water and sewer plants near full utilization. Otherwise, the early utility customers will be bearing the expense of operating the utility plant which they are not using.

The initial rates approved by this Commission for water and sewer utility service in Sugar Mountain Subdivision should be those attached to the Schedule of Rates attached hereto, which rates are concluded to be just and reasonable for the services described herein.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Applicant, Sugar Mountain Utility Company, is hereby granted a Certificate of Public Convenience and Necessity in order to provide water and sewer utility service in Sugar Mountain Subdivision, as described herein and more particularly as described in the application made a part hereof by reference.

2. That this Order in itself shall constitute the Certificate of Public Convenience and Necessity.

3. That the Schedule of Rates attached hereto as Appendix "A" is hereby approved, and that said Schedule of Rates is hereby deemed to be filed with the Commission pursuant to G. S. 62-138.

4. That the Applicant shall maintain his books and records in such a manner that all the applicable items of information required in the Applicant's prescribed Annual Report to the Commission can be readily identified from the books and records, and can be utilized by the Applicant in the preparation of said Annual Report. A copy of the Annual

Report form shall be furnished to the Applicant with the mailing of this Order.

5. That the Applicant is hereby cautioned that in the event the present arrangements for providing dependable and prompt maintenance and repair service are terminated, the Applicant shall immediately make alternate arrangements which shall be at least as reliable as the present arrangements, and the Applicant shall immediately notify the Commission of such alternate arrangements.

ISSUED BY ORDER OF THE COMMISSION.

This the 9th day of January, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"
DOCKET NO. W-482
Sugar Mountain Utility Company
Sugar Mountain - Avery County

WATER AND SEWER RATE SCHEDULE

METERED WATER RATES:

A. Residential Service
Up to first 2,000 gallons per month, minimum $5.50
All over 2,000 gallons per month, per 1,000 gallons $1.00

B. Commercial Service
Up to first 2,000 gallons per month, minimum $10.00
All over 2,000 gallons per month, per 1,000 gallons $1.00.

SEWER RATES: Residential and Commercial

100% of monthly water charge

FLAT RATES: Minimum under metered rate until meters are installed on all connections

CONNECTION CHARGES:

Water -	3/4 inch Service and Meter	$180
	1 inch Service and Meter	$180
	Services larger than 1 inch	At cost to utility
Sewer -	6 inch Service (Normal Conditions)	$100
	6 inch Service (After Street is paved)	At cost to utility
	Larger Services	At cost to utility

FIRE HYDRANT RENTAL: $6.00 per month (payable by Sugar Mountain Community)

RECONNECTION CHARGES:

If water service cut off by utility for good cause (NCUC Rule R7-20f)	$4.00
If water service discontinued at customer's request (NCUC Rule R7-20g)	$2.00
If sewer service cut off by utility for good cause (NCUC Rule R10-16f)	$15.00

BILLS DUE: on billing date.

BILLS PAST DUE: Sixteen (16) days after billing date.

BILLING FREQUENCY: Shall be monthly, for service in arrears.

FINANCE CHARGES FOR LATE PAYMENT:

1% per month will be applied to the unpaid balance of all bills still past due thirty (30) days after billing date.

Issued in accordance with authority granted by the North Carolina Utilities Commission in Docket No. W-482, on January 9, 1975.

DOCKET NO. W-200, SUB 6

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by LaGrange Waterworks Corporation, 271 Reilly Road, Fayetteville, North Carolina, for Authority to Increase Rates for Water Utility Service in LaGrange (including Deerwood and Northshore), Borden Heights, Braxton Hills, Simmons Heights, Welmar Heights, Valley Forge, and Murray Fork Subdivisions, Cumberland County, North Carolina	) RECOMMENDED ORDER DENYING RATE INCREASE

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina, on Wednesday, June 18, 1975, at 9:30 a.m.

BEFORE: E. Gregory Stott, Hearing Examiner

APPEARANCES:

For the Applicant:

George B. Herndon, Jr.
Vance, Collier, Singleton, Kirkman & Herndon
Attorneys at Law

P. O. Drawer 120
First Union National Bank Building
Fayetteville, North Carolina 28302

For the Commission Staff:

Lee West Movius
Associate Commission Attorney
North Carolina Utilities Commission
P. O. Box 991 - Ruffin Building
Raleigh, North Carolina 27602

STOTT, HEARING EXAMINER: On October 17, 1974, LaGrange Waterworks Corporation filed an application with the North Carolina Utilities Commission for approval of increased water rates in LaGrange (including Deerwood and Northshore), Borden Heights, Braxton Hills, Simmons Heights, Welmar Heights, Valley Forge and Murray Forks Subdivisions, Cumberland County, North Carolina.

By Order of November 5, 1974, the Commission declared the application a general rate case pursuant to G. S. 62-133, suspended for 270 days the proposed new rates pursuant to G. S. 62-134, required the Applicant to give public notice of its application, and set the matter for public hearing on March 7, 1975, in the Commission's Hearing Room, Ruffin Building, One West Morgan Street, Raleigh, North Carolina. Public Notice was furnished to each customer by the Applicant, and was published in The Fayetteville Observer, Fayetteville, North Carolina, advising that anyone desiring to intervene or to protest the application was required to file their intervention or their protest with the Commission by the date specified in the Notice.

On January 24, 1975, Mr. Luther O. Wickline, Jr., spokesman for a small group of residents in Valley Forge Subdivision, filed a letter of protest to the Applicant's proposed rate increase.

On March 4, 1975, the Applicant's attorney filed a motion for the hearing to be continued in order that the Applicant's chief witness could compile further data to present before the Commission. The Applicant's motion further waived the six month and 270 day provision, as provided in G. S. 62-135 and G. S. 62-134, respectively, by the number of days the hearing would be continued from its original date.

By Order issued on March 11, 1975, the Commission rescheduled the hearing to June 18, 1975. The Order further required the Applicant to give its customers Notice of the rescheduled hearing.

The Commission received the Applicant's prefiled testimony on June 16, 1975.

The public hearing was held at the time and place specified in the Commission's March 11, 1975, Order. The Applicant offered the testimony of Mr. D. P. Bruton, President of LaGrange Waterworks Corporation and Mr. Dan T. Barker, Accountant for the Applicant. Mr. Bruton testified concerning the general utilities operations, and Mr. Barker testified concerning the Applicant's financial condition. Mr. Jesse Kent, Jr., appeared as a witness for the Commission Accounting Staff and testified concerning the original cost net investment, revenues, and expenses of the Applicant. No one appeared at the hearing to protest the application.

Based on the information contained in the application and in the Commission's files and in the record of this proceeding, the Commission now makes the following

FINDINGS OF FACT

1. That it is the duty of this Commission to protect the public by requiring service at just and reasonable rates and that duty also requires this Commission to fix rates which are just and reasonable.

2. That the total original cost of the water plant and facilities is $455,587. To this figure the cash requirement of $5,379 is added to produce total investment of $460,966.

3. That from the total investment figure, the following deductions must be made: (a) depreciation reserve - $62,966, (b) contributed property - $226,935, and (c) average tax accruals - $3,883.

4. That subtracting the total deductions of $293,784 from the total investment figure of $460,966 produces an original cost net investment of $167,182.

5. That the Applicant's revenues under its existing rates for the test period were $86,890.

6. That the Applicant would collect $117,945 in total operating income under its proposed rates.

7. That the Applicant's expenses after adjustments for the test period totalled $63,254 of which $5,206 was interest expenses.

8. That the Applicant's total expenses for the test period, if the proposed rates were in effect, would total $79,239.

9. That the Applicant has not been in compliance with Commission Rule R12-5(b) since it has not refunded deposits in accordance with the provisions of that rule. In addition, the Applicant is in violation of Rule R12-4(c) in that it does not accrue or pay interest on deposits in accordance with that rule.

Based on the foregoing Findings of Fact, the Hearing Examiner now reaches the following

CONCLUSIONS

The Examiner concludes that an operating ratio of 72.80% would produce a fair and reasonable return. This ratio will produce total operating revenues of $86,890 which yields a rate of return of 14.59% on the original cost net investment. To the extent that the Applicant's proposed rates would produce a rate of return of 23.90%, the Examiner concludes that the proposed rates are unjust and unreasonable.

The Applicant further states that it has been instructed by the Division of Health Services to install chlorinators on each of its wells before any more connections can be made to its systems, at a cost of $8,904. The Applicant estimates that the annual operations and maintenance cost will be $43,470.

The Examiner, however, concludes that the testimony presented by the Applicant concerning the chemical feeders cannot be included in the determination of this case, since this equipment is not presently "used and useful". The Examiner also questions the estimate of the Applicant's operations and maintenance figures for this equipment since this estimate ($43,470) exceeds the Applicant's total operation and maintenance expenses attributable to all its systems for the test year ($43,034).

The Examiner concludes that an exception should not be granted to the Applicant concerning interest paid on deposits which is outlined in Rule R12-4(c). However, the Examiner does feel that due to the transient nature of the Applicant's customers an exception should be made in Rule R12-5(b) to extend the one year provision to two (2) years.

The Applicant contends that the Staff's figure of $167,182 (original cost net investment) is in error because it does not include $40,750 paid in by Mr. Bruton "upon the organization of the water utility," as outlined in a contract dated May 3, 1965. It is the Examiner's opinion that the above-mentioned contract expressly states that the party of the first part, Mr. D. P. Bruton and wife Margaret H. Bruton, as contractors and developers were to pay to the party of the second part, LaGrange Waterworks Corporation, contributions-in-aid of construction in the amount of $250 per lot in return for a service tap to that lot and, therefore, is not includable in the rate base.

IT IS, THEREFORE, ORDERED as follows:

1. That the increases proposed by the Applicant, LaGrange Waterworks Corporation, be, and the same hereby are, denied for the reason that the Applicant has failed to

sustain the burden of proof to show that the proposed rates and charges are just and reasonable as required by law.

2. That upon the actual installation of the aforementioned chemical feeders and upon the completion of three (3) months' operating experience by the Applicant with said feeders, the Commission may review the actual costs incurred by the Applicant and consider increasing the Applicant's rates to cover said costs without considering such a review as a general rate case.

3. Rule R12-5(b) is amended, only in this docket, to read as follows:

"On one stated date every two years, each utility company shall review its customer deposit accounts and shall automatically refund the deposit of any customer who has paid his bills for service for the preceding twenty-four (24) consecutive bills without having had service discontinued for nonpayment of bill or had more than two (2) occasions in which a bill was not paid when it became due, and the customer is not then delinquent in the payment of his bills."

ISSUED BY ORDER OF THE COMMISSION.

This the 4th day of August, 1975.

NORTH CAROLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

DOCKET NO. W-262, SUB 17

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application by Piedmont Construction and Water Company, Inc., Post Office Box 6, Stony Point, North Carolina, for Authority to Increase Rates for Water Utility Service in all its Service Areas in Iredell, Alexander, and Catawba Counties, North Carolina	ORDER GRANTING RATE INCREASE

HEARD IN: The Hearing Room of the Commission, Ruffin Building, One West Morgan Street, Raleigh, North Carolina

DATE: Wednesday, August 27, 1975, at 10:00 A.M.

BEFORE: Commissioners Tenney I. Deane, Jr., Presiding, George T. Clark, Jr., and W. Lester Teal, Jr.

APPEARANCES:

For the Applicant:

William Anderson
Weaver, Noland & Anderson
Attorneys at Law
Post Office Box 2226
Raleigh, North Carolina 27602

For the Commission Staff:

Wilson B. Partin, Jr.
Assistant Commission Attorney
North Carolina Utilities Commission
Post Office Box 991
Raleigh, North Carolina 27602

Antoinette Ray Wike
Associate Commission Attorney
North Carolina Utilities Commission
Post Office Box 991
Raleigh, North Carolina 27602

BY THE COMMISSION: On June 4, 1975, Piedmont Construction and Water Company, Inc., filed an application with the North Carolina Utilities Commission for authority to increase water utility rates in all its service areas in Iredell, Catawba, and Alexander Counties, North Carolina.

By Order of June 20, 1975, the Commission declared the application a general rate case pursuant to G.S. 62-133, suspended the proposed new rates for 270 days pursuant to G.S. 62-134, required the Applicant to give public notice of its application and set the matter for hearing on August 27, 1975, in the Commission Hearing Room, Ruffin Building, Raleigh, North Carolina.

On June 12, 1975, the Applicant's attorney filed a motion with the Commission asking for emergency rate relief in the amount of a 20% increase. By Order issued on June 23, 1975, the Commission authorized the interim rate increase of 20% subject to refund with 6% interest per annum pending the final determination of the rate case before the Commission.

Public Notice was furnished to each customer of the Applicant by the Applicant, and was published in the Hickory Daily Record, Hickory, North Carolina, and the Statesville Record & Landmark, Statesville, North Carolina, advising that anyone desiring to intervene or to protest the application was required to file their intervention or their protest with the Commission by the date specified in the Notice. The Commission received one (1) letter protesting the proposed rate increase.

The public hearing was held at the time and place specified in the Commission's Order of June 20, 1975. The

Applicant requested that its rates be established on an operating ratio basis. The Applicant offered the testimony of Mr. B. B. McCormick, Jr., President of Piedmont Construction and Water Company, Inc., in support of the application. The Staff offered the testimony of Mr. Jesse Kent, Jr., Staff Accountant, on the original cost net investment, revenues and expenses.

No one appeared at the hearing to protest the application.

Based on the information contained in the application, in the Commission's files and in the record, the Commission now makes the following

FINDINGS OF FACT

1. That Piedmont Construction and Water Company, Inc., is a North Carolina corporation, and it holds franchises to furnish water utility service in thirty-seven (37) subdivisions in Iredell, Catawba and Alexander Counties, North Carolina. Further, the Applicant provides water utility service to approximately 1,100 customers.

2. That the Applicant has not increased its rates for water utility service since it was issued its first Certificate of Public Convenience and Necessity on February 25, 1970.

3. That the original cost of the Applicant's utility plant in service is $170,116 and the depreciation reserve is $79,325, resulting in a net depreciated original cost of utility plant of $90,791.

4. That the total original cost net investment of the Applicant's water systems is $101,025. This consists of the net depreciated original cost of $90,791, plus material and supplies of $1,700, plus a reasonable allowance for working capital of $9,001, and less average tax accruals of $467.

5. That there is not sufficient evidence in the record as to the reasonable replacement cost of the utility plant in service. The Commission, therefore, finds that the fair value of the Applicant's property is the original cost net investment of $101,025.

6. That the gross revenues for the test year are $75,514 under the present rates and $115,483 under the rates proposed by the Applicant in its Schedule III.

7. That the Applicant is presently experiencing operating expenses of $92,018 which includes depreciation expense of $11,715. Under the proposed rates, the Applicant would incur expenses that total $102,060.

8. That the rate of return which the company is presently earning on the fair value of its property used and useful in rendering utility service is a negative 18.1% and

the operating ratio is 125.17%. Under the Applicant's proposed rates, the rate of return would be 14.93% and the operating ratio would be 88.38%.

9. The Applicant must undertake the following improvements to its plant and service: upgrading the water system to at least Health Department minimum requirements to adding at least ten (10) additional tanks and wells to serve existing customers, and improving the service to its Catawba and Alexander County customers either by opening a local office with a full-time employee in Hickory, North Carolina, or by establishing a toll-free phone service from the Catawba and Alexander County customers to the Applicant's central office in Iredell County. Funds for these improvements would be available only under the Schedule III rates.

10. The reconnection charges provided in Commission Rule R7-20f and R7-20g do not adequately compensate the Applicant for the costs it incurs in disconnecting and reconnecting customers for nonpayment of bills rendered or at the customer's request. These costs are compounded by the fact that the Applicant's systems are widely spread throughout three (3) counties.

Based on the foregoing Findings of Fact, the Hearing Commissioners now reach the following

CONCLUSIONS

It is the duty of this Commission to protect the public by pricing service at just and reasonable rates and that duty also requires this Commission to fix rates which are just and reasonable to the utility.

The Commission concludes that an operating ratio of 88.38% would produce rates that could not be deemed unjust and unreasonable. This ratio will produce total operating revenues of $115,483 or an increase in revenue of $41,969 over the test year period. This additional revenue will enable the Applicant to earn a return on its investment of 14.93%. The Commission, therefore, concludes that the Applicant's proposed rates are just and reasonable.

Furthermore, the rates approved by the Commission in this Order will enable the Applicant to undertake the improvements to its plant and service which were proposed by it in its rate Schedule III and stipulated to at the hearing. The scope of these improvements are set forth in Finding of Fact No. 9 above.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

1. That the Schedule of Rates attached hereto as Appendix "A" is hereby approved, and that said Schedule of Rates is hereby deemed to be filed with the Commission pursuant to G.S. 62-138.

2. That said Schedule of Rates is hereby authorized to become effective for water service rendered on or after the effective date of this Order.

3. That the revenue produced by the interim rates approved by the Commission's Order of June 23, 1975, are hereby approved as permanent revenues of the Applicant and shall not be refunded.

4. That the Applicant shall undertake within a reasonable time the improvements proposed by it and set forth above in Finding of Fact No. 9 and shall report to the Commission its progress in completing the above-described improvements.

ISSUED BY ORDER OF THE COMMISSION.

This the 8th day of September, 1975.

NORTH CARCLINA UTILITIES COMMISSION
Katherine M. Peele, Chief Clerk

(SEAL)

APPENDIX "A"
DOCKET NO. W-262, SUB 17
Piedmont Construction & Water Co., Inc.
All its Service Areas in Iredell,
Catawba and Alexander Counties

WATER RATE SCHEDULE

METERED RATES: (Residential Service)

Water: Up to first 2,000 gallons per month - $6.00 minimum
All over 2,000 gallons per month - $1.50 per 1,000 gallons

FLAT RATES: (Residential Service) $8.30

CONNECTION CHARGES: $450.00 per tap

RECONNECTION CHARGES:

If water service cut off by utility for good cause - $15.00
If water service discontinued at customer's request - $ 5.00

BILLS DUE: on billing date.

BILLS PAST DUE: twenty-five (25) days after billing date.

BILLING FREQUENCY: Shall be monthly, for service in arrears except tenants who shall pay in advance.

FINANCE CHARGES FOR LATE PAYMENT:

1% per month will be applied to the unpaid balance of all bills still past due twenty-five (25) days after billing date.

Issued in accordance with authority granted by the North Carolina Utilities Commission in Docket No. W-262, Sub 17 on September 8, 1975.

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3.	Continental Southeastern Lines, Inc. - Order Granting Proposed Discontinuance & Reduction of Certain Bus Passenger Service Between Certain Designated Points in Western North Carolina	B-69, Sub ||9	9-9-75
4.	Continental Southeastern Lines, Inc. - Order Granting Petition & Cancelling Hearing	B-69, Sub ||9	9-30-75
5.	Love, Mumford Clyde - Recommended Order Vacating Suspension & Show Cause Proceedings	EB-||4	5-|9-75
6.	Rountree, William Edward Order Cancelling Permit & Vacating Order of Suspension	B-|54, Sub 5	|2-22-75
7.	Statesville Motor Coach Co. Application for Relief from Terms of Tariff Rules - Authority Granted	B-87, Sub 8	8-29-75
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2.	Bible Enterprises, Inc. Recommended Order Dismissing Application Without Prejudice to Refiling	T-|753	8-25-75
3.	Dixon Transport - Recommended Order Dismissing Application	T-|733	3-26-75
4.	Elk Transport Company, Inc. Recommended Order Denying Operating Authority	T-|756	8-4-75
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6.	Frederickson Motor Express Corporation - Final Order Denying Common Carrier Authority	T-645, Sub 16	10-31-75
7.	German, F. L. - Recommended Order Denying Application for Authority to Transport Group 21, Mobile Homes, Modular Homes, Travel Campers & Field Portable Offices, Within Caldwell, Burke, Catawba, Alexander, Wilkes, Watauga, Ashe & Cleveland Counties	T-1757	6-25-75
8.	Graham, Garland Robertson Recommended Order Denying Application	T-1724, Sub 1	2-24-75
9.	Hearn Trucking Company Recommended Order Denying Operating Rights	T-1734	4-18-75
10.	J & J Freight Distribution Services, Inc. - Order Allowing Withdrawal of Application & Closing Docket	T-1699, Sub 1	4-23-75
11.	Public Transport Corporation Order Dismissing Application & Denying Proposed Transfer of Rights	T-1039, Sub 4	2-4-75
12.	Ratley's Mobile Home Sales & Service - Recommended Order Denying Application	T-1723	4-18-75
13.	Ricks Trailer Park - Recommended Order Denying Application	T-1405, Sub 2	4-29-75
14.	Roblyn Enterprises, Inc. Recommended Order Dismissing Application & Closing the Docket	T-1747	4-11-75
15.	Tri-State Motor Transit Co. Order Allowing Withdrawal of Application & Closing Docket	T-1730	2-5-75
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3.	C & H Mobile Home Movers Order Granting Application	T-1768	9-11-75
4.	Carolina Crane Corporation Order Granting Operating Authority	T-1381, Sub 2	2-28-75
5.	Colonial Building Maintenance Company, Inc. - Recommended Order Granting Permit	T-1731, Sub 1	7-17-75
6.	Duncan, Norman - Recommended Order Granting Application	T-1732	3-28-75
7.	Forest Dale Motors, Inc. Recommended Order Granting Contract Carrier Authority	T-1754	6-9-75
8.	Frederickson Motor Express Corporation - Recommended Order Granting Application	T-645, Sub 16	8-28-75
9.	Godwin Transport Company, Inc. Recommended Order Granting Permit	T-1739	2-25-75
10.	Haines, Earl, Inc. - Recommended Order Granting Permit	T-1751	7-30-75
11.	Holmes, Ray, Contract Carrier Recommended Order Granting Contract Carrier Authority	T-1783	12-10-75
12.	Industrial Transportation & Carolina Taxi - Recommended Order Granting Permit	T-1743	5-2-75
13.	King, Neb, Inc. - Recommended Order Granting Permit	T-1737	2-12-75
14.	Lane's Repair Service Recommended Order Granting Authority	T-1736	3-11-75
15.	Lisk, Howard - Recommended Order Allowing Withdrawal of Application (Sub 2) & Granting Application as Amended (Sub 3)	T-1685, Sub 2 T-1685, Sub 3	5-14-75
16.	O'Boyle Tank Lines, Incorpo-	T-804, Sub 7	11-21-75

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17.	O'Kelly, W. J., Trucking Line Recommended Order Granting Permit	T-1770	9-17-75
18.	O'Neal Trailer Sales - Recommended Order Granting Application in Part	T-1679, Sub 1	1-14-75
19.	Piedmont Delivery Service, Inc. Recommended Order Granting Amended Application in Part & Denying in Part	T-1776	11-28-75
20.	Stewart, Henry Carl - Recommended Order Granting Permit	T-1742	4-25-75
21.	Strader, R. B., Contractors, Inc. - Order Approving Merger of Strader Motor Lines, Inc., into R. B. Strader Contractors, Inc.	T-1668, Sub 4	10-10-75
22.	Strickland, Thad - Recommended Order Granting Application in Part	T-1728	3-21-75
23.	Superior Motor Express, Inc. Recommended Order Granting Application	T-830, Sub 7	12-10-75
24.	Umstead Brothers, Inc. - Order Granting Authority to Assign Operating Rights	T-1439, Sub 2	11-4-75
25.	United Limestone Products, Inc. Order Granting Additional Contract	T-1510, Sub 1	2-6-75
26.	United Limestone Products, Inc. Errata Order Correcting Order dated 2-6-75	T-1510, Sub 1	2-20-75
27.	WPK Transport Company - Order Granting Petition for Temporary Authority to Lease a Portion of Certificate No. C-120 from Carroll's Transfer, Incorporated	T-1795	12-23-75
28.	West Brothers Transfer & Storage, Inc. - Order Granting Motion to Amend Certificate No. CP-16	T-367, Sub 6	6-13-75

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1. Barbour Transfer - Recommended Order Cancelling Certificate	T-1623	9-22-75
2. J & J Freight Distribution Services - Recommended Order Revoking Operating Authority	T-1699, Sub 1	12-9-75
3. Mercer Marine Transport Corporation - Recommended Order Revoking Operating Authority	T-1341	12-9-75

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1. Alray Truck Line - Order Cancelling Certificate & Discontinuing Proceeding	T-1306, Sub 1	2-7-75
2. Batts, Earnest - Order Cancelling Certificate No. C-469	T-577, Sub 1	9-24-75
3. Church, C. E. - Order Cancelling Permit No. P-190 & Vacating Show Cause Proceeding	T-1321, Sub 1	12-1-75
4. Cole, M. C. - Order Cancelling Certificate No. C-432	T-548, Sub 1	8-13-75
5. Crumpler, Dwight L. - Order Cancelling Permit No. P-234	T-1588	4-23-75
6. Davis, Lewis Thompson, Jr. Order Cancelling Permit No. P-184	T-1313, Sub 2	10-14-75
7. Diggs, Ester - Order Cancelling Certificate No. C-836	T-1198, Sub 1	2-5-75
8. Floyd, Ted Leo - Order Cancelling Permit No. P-213 & Discontinuing Show Cause Proceedings	T-1465	9-24-75
9. Fuel Oil Service Company, Inc. Order Cancelling Permit No. P-112	T-995, Sub 2	7-15-75
10. Garland, R. H., & Company, Inc. Order Cancelling Permit & Order of Suspension	T-249, Sub 2	2-20-75
11. Griffin, Walter Johnson Order Cancelling Certificate & Discontinuing Proceeding	T-1438, Sub 1	6-5-75
12. H & H Transit Company - Order	T-1325, Sub 1	2-5-75

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13.	Lane's Repair Service - Order Cancelling Certificate No. C-1048 & Discontinuing Show Cause Proceedings	T-1736	9-24-75
14.	Spruill Transport Company, Inc. Order Cancelling Permit No. P-198	T-1382, Sub 1	12-29-75
15.	Strickland Transfer - Order Cancelling Certificate No. C-359 & Vacating Show Cause Proceeding	T-317	8-19-75
16.	Sun Oil Company - Order Cancelling Recommended Order dated 9-3-74 & Closing Docket	T-117, Sub 9	3-7-75
17.	Truitt's Express - Order Cancelling Permit No. P-243	T-1629	12-29-75
18.	Warren Delivery Service Order Cancelling Permit No. P-229	T-1529	11-18-75
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2.	D & N Motors - Order Approving Change in Name	T-1732, Sub 1	5-28-75
3.	Greenwood Transfer & Storage Company, Inc. - Order Approving Change in Name	T-240, Sub 4	1-23-75
4.	Horne Storage Company, Inc. Order Approving Change of Corporate Name	T-1651, Sub 2	8-13-75
5.	Quality Oil Transport - Order Approving Change in Name	T-459, Sub 2	7-22-75
6.	Stegall, T. G., Trucking Company - Order Approving Change in Trade Name	T-813, Sub 5	6-17-75
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2. Rates-Truck - Motor Common Carriers of Asphalt, in Bulk, in Tank Trucks - Order Vacating Order of Suspension dated 1-21-75 & Allowing Tariff Filing to Become Effective — T-825, Sub 188 — 2-27-75

3. Rates-Truck - Motor Common Carriers of Petroleum & Petroleum Products, in Bulk, in Tank Trucks - Order Vacating Order of Suspension dated 1-21-75 & Allowing Tariff Filing to Become Effective — T-825, Sub 189 — 2-27-75

4. Rates-Truck - Motor Common Carriers of Cement & Related Articles - Order Vacating Order of Suspension dated 4-3-75 & Allowing Tariff Filing to Become Effective — T-825, Sub 191 — 4-9-75

5. Citizen Express, Inc. - Order Allowing Increase in Rates & Charges & Cancellation of Hearing — T-68, Sub 8 — 2-7-75

G. Sales and Transfers

1. Akers Motor Lines, Incorporated Order Approving Sale & Transfer of Corporate Stock of Central Motor Lines, Incorporated — T-209, Sub 3 — 1-13-75

2. American Distributions Systems, Inc. - Order Approving Sale & Transfer from AAA Van Service, Inc. — T-1758 — 6-13-75

3. Barnett Truck Lines, Inc. Order Approving Sale & Transfer from Hebenofa Truck Line, Incorporated — T-1012, Sub 5 — 6-13-75

4. Bartlett Transfer Company, Incorporated - Order Approving Sale & Transfer of Stock from Jack E. Bartlett to Robert Welch & Granting Motion — T-950, Sub 2 — 11-12-75

5. Billings Transfer Corporation, Inc. - Order Approving Change of Control Through Stock Transfer — T-273, Sub 2 — 9-2-75

6.	Branch Moving & Storage Company Order Approving Application to Incorporate & Transfer Certificate from W. B. Branch, d/b/a W. B. Holt Transfer & Storage	T-895, Sub 2	1-8-75
7.	Bright's Transfer Moving & Storage - Order Approving Sale & Transfer from James C. Bright to Joe W. Bright	T-1288, Sub 1	8-8-75
8.	Brown Transport Corporation Order Approving Sale & Transfer from Harper Motor Lines, Inc.	T-1777	9-29-75
9.	Brown Transport Corporation Errata Order	T-1777	10-27-75
10.	Camel Service Company - Order Approving Sale & Transfer from Williams Haulers	T-1738	2-5-75
11.	Carolina Asphalt & Petroleum Company - Order Approving Sale & Transfer of Stock from Allan K. Barrus, Jr., John M. Bowens & B. M. Cameron to PEN Industries	T-1033, Sub 3	12-15-75
12.	Carolina Mobile-Movers, Inc., from Planning Associates, Inc. Recommended Order Granting Transfer	T-1481, Sub 3	5-27-75
13.	Carolina Movers & Riggers Order Approving Sale & Transfer from Reid Crouch	T-1748	4-23-75
14.	Champion Transfer Company Order Approving Sale & Transfer from C. C. Rathbone to James Ronald Rathbone	T-976, Sub 1	3-7-75
15.	Citizen Express, Inc. - Order Approving Sale & Transfer from Multimedia, Inc., to Douglas H. Pearson	T-68, Sub 10	12-11-75
16.	Clark Transfer Company, Inc. Order Approving Incorporation & Transfer of Certificate from Clark's Transfer	T-919, Sub 2	2-21-75
17.	Consolidated Freightways Corporation of Delaware - Order	T-1760	6-26-75

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18.	DBE, Inc. - Order Approving Sale & Transfer from Eastern Transit-Storage Company	T-1782	12-11-75
19.	Daniels Garage - Order Approving Sale & Transfer from A. K. Motors	T-1759	6-10-75
20.	Dimsdale Moving & Storage Order Approving Sale & Transfer from Steve Monroe Dimsdale to C. Douglas Parton & Monroe M. Hendrix	T-1192, Sub 4	9-11-75
21.	Dimsdale Moving & Storage Errata Order	T-1192, Sub 4	9-16-75
22.	Eastern Oil Transport, Inc. Order Approving Sale & Transfer of Stock from Northeast Industrial Oil Corporation to PEN Industries, Inc.	T-114, Sub 6	12-15-75
23.	Eastern Oil Company, Inc. Errata Order Approving Sale & Transfer of Stock	T-114, Sub 6	12-22-75
24.	Electronics Transport, Inc. Order Approving Sale & Transfer from Electronic Moving & Storage Company	T-1778	10-16-75
25.	F & B Truck Line, Inc. - Order Approving Transfer of Control from Max Dean Murrow & William S. Murrow to William S. Murrow	T-159, Sub 4	5-19-75
26.	Fisher & Brother/Carolina, Inc. Order Approving Sale & Transfer from Benton Moving & Storage Company of North Carolina	T-1740	3-7-75
27.	Fleet Transport Company, Inc. Order Approving Transfer from Maybelle Transport Company	T-1436, Sub 2	9-2-75
28.	Forbes Refrigerated Transport, Inc. - Order Approving Sale & Transfer from Polar Transport, Inc.	T-1710, Sub 1	11-18-75
29.	Goodwin, K. W., Transfer	T-875, Sub 4	8-8-75

	Company - Order Approving Sale & Transfer from Kenneth W. Goodwin to Edward E. Parkinson		
30.	Hall's Transfer - Order Approving Sale & Transfer from Walter Hall to Richard James Haigler	T-851, Sub 1	9-29-75
31.	Harper Trucking Company from Vernon G. James - Recommended Order Granting Transfer	T-521, Sub 16	6-16-75
32.	Harper Trucking Company, Inc. Order Approving Incorporation & Transfer from Thomas Oliver Harper, Jr., d/b/a Harper Trucking Company to Harper Trucking Company, Inc.	T-521, Sub 17	7-24-75
33.	Harper Trucking Company, Inc. Errata Order	T-521, Sub 17	8-5-75
34.	Hill's Truck Line, Inc. - Order Approving Transfer of Certificate from L. E. Vinson Farms & Vacating Order to Show Cause	T-140, Sub 8	3-14-75
35.	Industrial Asphalt Transport, Inc. - Order Allowing Incorporation & Transfer of Certificate from Tar Heel Oil Company	T-1619, Sub 1	1-10-75
36.	Jones' Mobile Home Service, Inc. - Order Approving Incorporation & Transfer of Certificate from Jones' Mobile Home Service	T-1575, Sub 1	5-2-75
37.	Lawrence Transfer & Storage Corporation - Order Approving Sale & Transfer from Fidelity Van & Storage, Inc.	T-1765	8-8-75
38.	M & M Movers - Order Approving Sale & Transfer from Hall's Mobile Homes, Inc.	T-1750	4-23-75
39.	McCreary Mobile Home Towing Service - Order Approving Sale & Transfer from C & G Mobile Homes Towing Service	T-1746	3-21-75
40.	Media Express, Inc. - Order Approving Sale & Transfer from Multimedia, Inc., to	T-1722, Sub 2	12-10-75

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41.	Mercer Bros. Trucking Company Order Approving Sale & Transfer from Read's Truck Line & Canceling a Portion of Certificate No. C-524	T-1764	8-28-75
42.	Piedmont Movers - Order Approving Sale & Transfer from Aluminum Manufacturing Corporation to Microtron Industries, Inc.	T-1771	9-26-75
43.	Queen City Moving & Storage Company - Order Approving Sale & Transfer of Stock from Frank E. Watson, Jr., to David H. Johnson	T-1568, Sub 1	4-21-75
44.	Roney, W. C., Trucking Co., Inc. - Order Approving Sale & Transfer from W. C. Roney Trucking Co.	T-498, Sub 2	4-8-75
45.	Russ Transport, Inc., from Terminal City Transport, Inc. Recommended Order Granting Transfer	T-1745	6-11-75
46.	Russ Transport, Inc., from Terminal City Transport, Inc. Order Overruling Exceptions & Affirming Recommended Order	T-1745	8-5-75
47.	S.T.G. Transport, Inc. - Order Approving Incorporation & Transfer of Certificate from Sam T. Gresham, Jr.	T-557, Sub 4	1-23-75
48.	STG Transport, Inc. - Errata Order to Correct Name from S.T.G. Transport, Inc., to STG Transport, Inc.	T-557, Sub 4	3-18-75
49.	Service Recovery Corporation Order Approving Sale & Transfer from P & Y Mobile Homes, Incorporated	T-1752	5-6-75
50.	Shelby Moving & Storage Company - Order Approving Sale & Transfer from Eugene Dimsdale to Ruth Naomi Dimsdale	T-1554, Sub 2	3-7-75
51.	Short Trucking Co., Inc. Order Approving Sale &	T-1741	3-7-75

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52.	Spruill, Norman Arlington Order Approving Sale & Transfer from J. W. Tyson	T-154, Sub 2	10-30-75
53.	Spruill's Mobile Home Moving Order Approving Sale & Transfer from Norman Arlington Spruill to Delores Spruill	T-1779	10-29-75
54.	Stegall Milling Co., Inc. Order Approving Sale & Transfer from Stegall Milling Company	T-632, Sub 5	3-7-75
55.	Super Motor Lines, Inc. - Order Approving Sale & Transfer from William L. Scott, J. Franklin Bullard & Charles L. Lennon to Thomas W. Randleman	T-155, Sub 4	10-31-75
56.	Thompson Trucking, Inc. - Order Approving Sale & Transfer from Burris Express, Inc.	T-1755	5-19-75
57.	Whitley Moving & Storage, Inc. - Order Approving Sale & Transfer from Queen's Moving & Storage Company, Inc.	T-1762	7-3-75
58.	Wil-Com Truck Line, Inc. Order Approving Incorporation & Transfer from Wil-Com Truck Line	T-1607, Sub 1	5-19-75
H.	Miscellaneous		
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2.	Ellington Transport, Inc. Order Approving Substitution of Contracts with L. C. Pope, d/b/a East 70 Service Station for a Contract with Jack E. Gates, d/b/a Gates Oil Company	T-1718, Sub 1	8-13-75
V.	RAILROADS		
A.	Authority Granted		
1.	Norfolk & Western Railway Company - Order Granting Appli- cation to Change its Agency	R-26, Sub 27	6-5-75

	Station at Stoneville, Rockingham County, N.C., to Non-Agency Station & to Retire Station Building		
2.	Norfolk Southern Railway Company - Order Granting Application to Sell Station Building at Walstonburg, N.C., or to Retire & Dismantle Same	R-4, Sub 88	4-1-75
3.	Norfolk Southern Railway Company - Order Granting Petition for Authority to Retire & Dismantle Station Building at Middlesex, N.C.	R-4, Sub 89	6-3-75
4.	Seaboard Coast Line Railroad Company & Southern Railway Company - Order Granting Application to Abandon & Remove Jointly Owned Passenger Station at Selma, N.C.	R-71, Sub 45	3-12-75
5.	Seaboard Coast Line Railroad Company & Southern Railway Company - Order Granting Motion to Donate Passenger Station at Selma, N.C., to the Town of Selma, N.C.	R-71, Sub 45	11-13-75
6.	Seaboard Coast Line Railroad Company - Order Granting Application to Relocate Rocky Mount, N.C., Freight Agency Station	R-71, Sub 50	9-11-75
7.	Seaboard Coast Line Railroad Company - Order Granting Petition to Make Reparation Refund to Boren Clay Products Company	R-71, Sub 51	8-13-75
8.	Seaboard Coast Line Railroad Company - Order Granting Application to Discontinue Nonagency Station at Kendrick, N.C.	R-71, Sub 52	8-28-75
9.	Seaboard Coast Line Railroad Company - Order Granting Application to Retire its Team Track No. VT-3 at Peachland, N.C., & to Change its Status from Nonagency Station to Private Siding	R-71, Sub 53	9-16-75
10.	Seaboard Coast Line Railroad Company - Order Granting	R-71, Sub 54	10-13-75

	Authority to Retire Team Track at Northside, N.C., & to Discontinue that Point as Mobile Agency Station		
11.	Seaboard Coast Line Railroad Company - Order Granting Petition to Waive Collection of Undercharges	R-71, Sub 55	10-28-75
12.	Southern Railway Company Order Allowing Abandonment of Intrastate Passenger Trains Nos. 3 & 4 Between Salisbury & Asheville	R-29, Sub 213	8-6-75
13.	Southern Railway Company Order Affirming Prior Commission Order Allowing Abandonment	R-29, Sub 213	11-19-75
14.	Southern Railway Company Order Granting Application to Retire & Remove Side Track Located at Rutherfordton, N.C.	R-29, Sub 214	2-21-75
15.	Southern Railway Company Order Granting Application to Remove & Retire Industry Track Located at Biltmore, N.C.	R-29, Sub 215	5-6-75
16.	Southern Railway Company Order Granting Application to Remove Stations at Cherryfield & Selica, N.C., from Open & Prepay Tariff	R-29, Sub 216	5-1-75
17.	Southern Railway Company Order Granting Application to Retire & Remove Side Track Located at Waynesville, N.C.	R-29, Sub 218	5-6-75
18.	Southern Railway Company Order Granting Application to Retire & Remove Side Track Located at Hickory, N.C.	R-29, Sub 220	5-6-75
19.	Southern Railway Company Order Granting Petition to Discontinue Agency Station at Tryon, N.C., & to Dismantle & Remove Station Building	R-29, Sub 221	5-20-75
20.	Southern Railway Company Order Granting Petition to Remove Station of Hillgirt, N.C., from Open & Prepay	R-29, Sub 223	7-29-75

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21.	Southern Railway Company Order Granting Petition to Discontinue Agency Station at Forest City, N.C., & to Dismantle & Remove Station Building	R-29, Sub 224	9-8-75
22.	Southern Railway Company Order Granting Petition to Retire & Remove Industrial Side Tracks Located at West Hendersonville, N.C.	R-29, Sub 225	11-13-75
23.	Southern Railway Company Order Granting Petition to Retire & Remove Freight Station Building & to Move Freight Agency Force to Passenger Station at Statesville, N.C.	R-29, Sub 226	11-5-75
24.	Southern Railway Company Order Granting Application to Retire & Remove Side Track Located at Hanes, Forsyth County, N.C.	R-29, Sub 227	12-3-75
25.	Southern Railway Company Order Granting Application to Retire & Remove Side Track Located at South Gastonia, N.C.	R-29, Sub 228	11-28-75
26.	Southern Railway Company Order Approving Application to Relocate Passenger Ticket Sales to its Freight Station Building at High Point, N.C.	R-29, Sub 229	12-3-75
27.	Southern Railway Company & Seaboard Coast Line Railroad Company - Order Granting Application to Discontinue Agency Station at Cary, N.C., & to Dismantle & Remove Present Station Building	R-29, Sub 230	12-29-75

B. Discontinuance of Agency Stations

1.	Southern Railway Company Recommended Order Approving Abandonment of Agency Station at Brevard, N.C.	R-29, Sub 207	3-27-75

C. Mobile Agency Concept

1.	Norfolk Southern Railway Company - Order Approving Petition to Implement Mobile Agency Service in Newton, N.C., Area on Permanent Basis	R-4, Sub 81	6-19-75
2.	Norfolk Southern Railway Company - Order Approving Petition to Make Permanent Mobile Agency Concept Now Operating out of Badin, N.C., on Six Months' Trial Basis	R-4, Sub 83	7-29-75
3.	Norfolk Southern Railway Company - Order Approving Petition to Make Permanent Mobile Agency Concept Operating out of Star, N.C.	R-4, Sub 84	9-8-75
4.	Norfolk Southern Railway Company - Order Approving Petition to Make Permanent Mobile Agency Concept Operating out of Star, N.C.	R-4, Sub 85	8-19-75
5.	Norfolk Southern Railway Company - Order Approving Petition to Make Permanent Mobile Agency Concept Operating out of Elizabeth City, N.C.	R-4, Sub 86	9-11-75
6.	Seaboard Coast Line Railroad Company - Order Approving Application to Implement Mobile Agency Concept in Shelby, N.C., Area on a Permanent Basis & to Retire or Dispose of Station Buildings at Forest City, Stanley, Caroleen, Rutherfordton, Cherryville & Ellenboro, N.C.	R-71, Sub 42	5-29-75
7.	Seaboard Coast Line Railroad Company - Order Granting Motion to Implement Mobile Agency Concept in Warsaw, N.C., Area & to Dispose of Station Buildings at Burgaw, Clinton, Magnolia, Rose Hill, Wallace & Faison, N.C.	R-71, Sub 43	9-15-75
8.	Seaboard Coast Line Railroad Company - Order Approving Application for Authority to Make Permanent Mobile Agency Concept in Henderson, N.C.,	R-71, Sub 44	12-30-75

	Area & to Dispose of Station Buildings at Greystone, Norlina, Littleton, & Louisburg, N.C.		
9.	Seaboard Coast Line Railroad Company - Recommended Order Granting Application for Authority to Implement Mobile Agency Concept in Roanoke Rapids, N.C., Area & Make Certain Changes in Tarboro Mobile Agency Concept	R-71, Sub 47	10-27-75
10.	Seaboard Coast Line Railroad Company - Recommended Order Granting Application in Part & Denying it in Part for Authority to Include Agency Stations of Lewiston & Severn, N.C., into Mobile Agency Concept Operating out of Conway, N.C.	R-71, Sub 49	9-5-75
11.	Southern Railway Company Order Approving Petition to Make Permanent Mobile Agency Concept Operating out of Rural Hall, N.C.	R-29, Sub 211	9-11-75
D.	Rates		
1.	Rates-Railroad - Suspension & Investigation of Proposed Increase in Minimum Charges per Carload Shipments - Order Granting Rate Increase	R-66, Sub 66	1-13-75
VI.	TELEGRAPH		
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1.	Western Union Telegraph Company, The - Order Granting Authority to Sell Unsecured Promissory Notes in an Amount not to Exceed $50,000,000	WU-99	4-21-75
VII.	TELEPHONE		
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1.	Carolina Telephone & Telegraph Company - Order Requiring Certain Annual Reports on File with the Commission to be Verified under Oath	P-7, Sub 603	2-18-75

2.	Central Telephone Company Order Requiring Certain Annual Reports on File with the Commission to be Verified under Oath	P-10, Sub 348	2-18-75
3.	General Telephone Company of the Southeast - Order Requiring Certain Annual Reports on File with the Commission to be Verified under Oath	P-19, Sub 16	2-18-75
4.	Southern Bell Telephone & Telegraph Company - Order Requiring Certain Annual Reports on File with the Commission to be Verified under Oath	P-55, Sub 747	2-18-75
B.	Rates		
1.	Carolina Telephone & Telegraph Company - Errata Order Correcting Order dated 10-24-75	P-7, Sub 601 P-7, Sub 481	10-31-75
2.	Carolina Telephone & Telegraph Company - Order Clarifying Base Rate Area	P-7, Sub 601 P-7, Sub 481	11-3-75
3.	Concord Telephone Company Order Permitting Changes in Service Charge Tariff	P-16, Sub 124	11-24-75
4.	Norfolk & Carolina Telephone & Telegraph Company Approval of Rates	P-40, Sub 139	12-19-75
C.	Sales and Transfers		
1.	Coastal Carolina Communications, Inc. - Order Granting Transfer of Certificate & Authority for Sale of Albemarle Communications to Coastal Carolina Communications, Inc.	P-126	7-8-75
2.	Southern Bell Telephone & Telegraph Company - Order Allowing Transfer of Bald Head Island from Carolina Beach Exchange to Southport Exchange	P-55, Sub 718	6-30-75
3.	Williams, Lynwood A. - Order Granting Transfer of Ownership from Rockfish Radio Telephone Services to Lynwood A. Williams	P-117, Sub 1	4-7-75

D. Securities

1.	Central Telephone Company Order Approving Increase in Advances from Parent (Central Telephone & Utilities Corporation) & Affiliated Corporation	P-10, Sub 354	7-16-75
2.	Central Telephone Company Order Granting Authority to Issue & Sell Bonds, Series Z	P-10, Sub 356	10-30-75
3.	Concord Telephone Company Order Vacating Order dated 6-28-74 Approving Stock Conversion Plan	P-16, Sub 123	2-4-75
4.	Concord Telephone Company, The - Order Granting Authority to Declare & Issue a Common Stock Dividend	P-16, Sub 126	11-4-75
5.	Continental Telephone Company of Virginia - Order Granting Authority to Issue & Sell Preferred Stock & First Mortgage Bonds	P-28, Sub 19	10-15-75
6.	Continental Telephone Company of Virginia - Amendment to Order dated 10-15-75 Granting Authority to Sell Preferred Stock & First Mortgage Bonds	P-28, Sub 19	11-26-75
7.	Ellerbe Telephone Company Order Granting Authority to Borrow Funds from the United States of America Through Rural Telephone Bank	P-21, Sub 28	3-26-75
8.	First Colony Telephone Company Order Granting Approval of Merger, Transfer of Franchise, Approval of Indenture & Authority to Issue Securities	P-28, Sub 18	4-18-75
9.	General Telephone Company of the Southeast - Order Granting Authority to Issue & Sell First Mortgage Bonds	P-19, Sub 159	1-9-75
10.	Lexington Telephone Company Order Granting Authority to Issue Additional Shares of Common Stock	P-31, Sub 99	6-3-75

11.	Lexington Telephone Company Supplemental Order Granting Authority to Sell its 10-1/4% Promissory Notes	P-31, Sub 99	10-28-75
12.	Mebane Home Telephone Company, Inc. - Order Granting Authority to Borrow Funds from the Rural Telephone Bank	P-35, Sub 61	7-9-75
13.	Mebane Home Telephone Company, Inc. - Amendment to Order dated 7-9-75 Granting Mebane Authority to Borrow Funds from the Rural Telephone Bank	P-35, Sub 61	9-3-75
14.	Mid-Carolina Telephone Company Order Granting Authority to Issue & Sell Securities	P-118, Sub 2	2-6-75
15.	Norfolk & Carolina Telephone & Telegraph Company, The - Order Granting Authority to Issue & Sell First Mortgage Bonds, Series F	P-40, Sub 136	1-31-75
16.	Norfolk & Carolina Telephone & Telegraph Company, The - Order Granting Authority to Issue & Sell Securities	P-40, Sub 138	10-15-75
17.	North State Telephone Company Order Granting Authority to Issue & Sell 10-1/4% Sinking Fund Notes	P-42, Sub 84	11-4-75
18.	Ra-Tel Company, Inc. - Order Canceling Authority to Transfer Stock	P-92, Sub 12	8-12-75
19.	United Telephone Company of the Carolinas, Inc. - Order Granting Authority to Issue & Sell First Mortgage Bonds & to Increase the Common Equity Capital	P-9, Sub 134	12-9-75
20.	Western Carolina Telephone Company - Order Approving Acquisition Agreement Covering the Purchase of a Toll Line from Georgia State Telephone Company	P-58, Sub 95	1-23-75
21.	Western Carolina Telephone Company - Order Granting Authority to Amend Bond	P-58, Sub 96	2-4-75

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1. Central Telephone Company Order Approving Tariff on Less than Statutory Notice	P-10, Sub 349	3-3-75
2. Concord Telephone Company Order Permitting Changes in Service Charge Tariff	P-16, Sub 124	11-24-75
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1. Barnardsville Telephone Company Order Approving Service Agreement Between Affiliates of the Parent Company, Telephone & Data System, Inc.	P-75, Sub 17	9-11-75
VIII. WATER AND SEWER		
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2. Soul City Utilities Company Order Granting Exemption from Regulation	W-186, Sub 96	2-4-75
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1. Aqua Company - Order Cancelling Certificate of Public Convenience & Necessity	W-190, Sub 4	10-1-75
2. Aqua Company - Errata Order Correcting Order dated 10-1-75	W-190, Sub 4	10-7-75
3. Bailey's Utilities, Inc. Order Granting Certificate of Public Convenience & Necessity	W-365, Sub 3	11-4-75
4. Beam, Murray V. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-464	5-21-75
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	Order Granting Temporary Operating Authority & Approving Rates		
6.	Benton Water Company - Recommended Order Granting Franchise & Approving Rates	W-522	7-30-75
7.	Bess, Cregg, Inc. - Recommended Order Granting Franchise & Approving Rates	W-281, Sub 2	5-22-75
8.	C & L Utilities, Inc. - Recommended Order Granting Franchise & Approving Rates	W-535	9-17-75
9.	C & L Utilities, Inc. - Recommended Order Granting Franchise & Approving Rates	W-535, Sub 1	9-17-75
10.	Cabarrus County - Order Granting Certificate	W-495	3-20-75
11.	Collins, Robert, Water Supply Recommended Order Granting Temporary Operating Authority & Approving Rates	W-519	7-17-75
12.	Corriher Water Service, Inc. Order Cancelling Certificate of Public Convenience & Necessity	W-233, Sub 6	9-10-75
13.	Crooks Water System - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-511	5-23-75
14.	Duncan, Gordon - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-483	1-14-75
15.	Economy Finance Company of Concord, Inc. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-528	8-4-75
16.	Ervin Company - Order Cancelling Franchise in Starmount No. 10	W-220, Sub 1	8-14-75
17.	FDB, Inc. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-544	11-26-75

18.	F & H Water Company - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-545	11-17-75
19.	Farmer, Arthur V. - Recommended Order Granting Franchise & Approving Rates	W-506	7-28-75
20.	First Investment Mortgage Advisers, Inc. - Recommended Order Granting Franchise & Approving Rates	W-515	6-18-75
21.	First Investment Mortgage Advisers, Inc. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-515, Sub 1	6-18-75
22.	Flanders Filters, Inc. Recommended Order Granting Franchise & Approving Rates	W-542	12-10-75
23.	Garrard, F., Realty & Insurance, Inc. - Recommended Order Granting Franchise & Approving Rates	W-508	5-21-75
24.	Gay Mountain Corporation Recommended Order Granting Temporary Operating Authority & Approving Rates	W-491	4-1-75
25.	Genoa Water System, Inc. Recommended Order Granting Franchise & Approving Rates	W-321, Sub 2	1-27-75
26.	Gensinger, John W. - Recommended Order Granting Franchise & Approving Rates	W-549	11-26-75
27.	Goss Utility Company - Recommended Order Granting Temporary Operating Authority	W-457, Sub 1	9-16-75
28.	H & A Water Service, Inc. Recommended Order Granting Franchise & Approving Rates	W-510	5-23-75
29.	Hazelwood Water Corporation Recommended Order Granting Temporary Operating Authority & Approving Rates	W-516	7-23-75
30.	Heater Utilities, Inc. - Order Cancelling Franchise	W-274, Sub 6	11-13-75

31.	Hickory Hills Service Company, Inc. - Recommended Order Granting Temporary Authority	W-460, Sub 1 W-460, Sub 2	5-16-75
32.	Hodges, James W. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-489	3-13-75
33.	Hollandale Water Company Order Granting Franchise	W-419	3-5-75
34.	Howey Development Company, Inc. - Order Cancelling Franchise	S-3	5-9-75
35.	Hunter Water Company - Recommended Order Granting Franchise & Approving Rates	W-534	9-30-75
36.	Hunter, Willie & Douglas, Everett - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-512	5-19-75
37.	Hydraulics, Ltd. - Recommended Order Granting Franchise & Approving Rates	W-218, Sub 13 W-218, Sub 14	2-10-75
38.	Hydraulics, Ltd. - Recommended Order Granting Franchise & Approving Rates	W-218, Sub 15 W-218, Sub 16	5-14-75
39.	Jackson, Harold L. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-494	3-17-75
40.	Kale, W. R. - Recommended Order Granting Franchise & Approving Rates	W-492	3-17-75
41.	Kannapolis Real Estate Agency, Inc. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-25, Sub 4	8-6-75
42.	Knob Creek Properties, Inc. Recommended Order Granting Franchise & Approving Rates	W-486	2-10-75
43.	Lampe & Vann - Order Cancelling Franchise	W-240, Sub 2	7-16-75
44.	Langwood Mobile Home Park Order Cancelling Water Franchise	W-362	5-5-75

45.	Lloyd, E. M. - Order Granting Temporary Operating Authority & Authorizing Abandonment	W-507, Sub 1	12-16-75
46.	Looper, Clark L. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-501	5-19-75
47.	Miller, R. B., Jr. Recommended Order Granting Franchise, Temporary Operating Authority, & Approving Rates	W-493	3-26-75
48.	Mills, Randolph, Inc. - Order Granting Temporary Operating Authority & Approving Rates	W-536	9-30-75
49.	Mobile Hill Estates Order Cancelling Franchise	W-224	12-5-75
50.	Moore, Jack C. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-434	1-20-75
51.	Morehead Water System - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-525	10-13-75
52.	Morrison, Mott - Recommended Order Granting Franchise & Approving Rates	W-530	8-5-75
53.	Moss Hill Water Works Company Order Granting Franchise	W-459	5-27-75
54.	Mull, John J. - Recommended Order Granting Franchise & Approving Rates	W-476	2-19-75
55.	North Crest Water System, Inc. Recommended Order Granting Franchise & Approving Rates	W-496	4-1-75
56.	Norwood Beach Water System Recommended Order Granting Temporary Operating Authority & Approving Rates	W-498	4-15-75
57.	Oakmont Water Company - Recommended Order Granting Franchise & Approving Rates	W-533	9-15-75
58.	Old South Lane Water System,	W-517	5-19-75

	Inc. - Recommended Order Granting Franchise & Approving Rates		
59.	Picture Park Water Supply, Inc. Recommended Order Granting Franchise & Approving Rates	W-538, Sub 1	11-24-75
60.	Pinery Realty Water System Order Cancelling Franchise	W-155	10-28-75
61.	Pless, Ben R. - Recommended Order Granting Franchise & Approving Rates	W-553	12-1-75
62.	Poole Brothers Building & Trading Company - Recommended Order Granting Franchise & Approving Rates	W-513	5-27-75
63.	Pope, Mrs. A. R. - Recommended Order Granting Franchise & Approving Rates	W-485	4-1-75
64.	Ricks, Frank - Order Granting Temporary Operating Authority & Approving Rates	W-529	5-22-75
65.	Robeson Water System - Recommended Order Granting Franchise & Approving Rates	W-348, Sub 1	8-5-75
66.	Rosewood Water Company Recommended Order Granting Franchise & Approving Rates	W-305, Sub 1	5-15-75
67.	Rosewood Water Company - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-305, Sub 2	5-20-75
68.	Rushing Agency, Inc. Additional Interim Order Continuing Certificate for Temporary Operating Authority	W-353	5-20-75
69.	Routh & Hennis, Inc. - Recommended Order Granting Franchise & Approving Rates	W-497	4-1-75
70.	Sanders Water Company Recommended Order Granting Temporary Operating Authority & Approving Rates	W-532	10-3-75
71.	Sandhill Acres Investment Company, Inc. - Recommended	W-479	1-30-75

	Order Granting Franchise & Approving Rates		
72.	Springdale Water Company Recommended Order Granting Franchise & Approving Rates	W-406, Sub 1	5-15-75
73.	Superior Well Supply Company, Inc. - Recommended Order Granting Franchise & Approving Rates	W-524	9-26-75
74.	Surry Water Company, Inc. Order Granting Franchise & Approving Rates	W-314, Sub 15	8-4-75
75.	Taylor, J. Buel - Recommended Order Granting Franchise & Approving Rates	W-531	7-25-75
76.	Tobacco Branch Village, Inc. Recommended Order Granting Franchise & Approving Rates	W-504	5-15-75
77.	Transylvania Utility Company Order Granting Franchise & Approving Rates	W-378	7-1-75
78.	Trexler Water System - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-505	4-17-75
79.	Urban Water Company, Inc. Recommended Order Granting Franchise & Approving Rates	W-256, Sub 8	1-9-75
80.	Vander Water Company, Inc. Recommended Order Granting Franchise & Approving Rates	W-488	4-4-75
81.	White Oak Community Water System, Inc. - Recommended Order Granting Franchise & Approving Rates	W-520	5-27-75
82.	Wilson Water Service Recommended Order Granting Temporary Operating Authority & Approving Rates	W-554	12-1-75
83.	Wilson Woods Water - Recommended Order Granting Franchise & Approving Rates	W-509	5-21-75
84.	Wilson Woods Water - Order Reiterating Commission Order	W-509	9-22-75

	dated 5-2|-75 Granting Certificate of Public Convenience & Necessity & Approving Rates		
85.	Windsor Lake Water Company Recommended Order Granting Franchise & Approving Rates	W-523	5-27-75
86.	Woodrun Utilities, Inc. Recommended Order Granting Franchise & Approving Rates	W-502	4-23-75
87.	Yost, J. M. - Recommended Order Granting Temporary Operating Authority & Approving Rates	W-5|4	5-|6-75
C.	Rates Denied		
|.	Falls, Ralph L. - Increase denied	W-268, Sub 2	3-|9-75
D.	Rates Granted		
|.	Brightwater Water Company granted	W-|5|, Sub 3	7-25-75
2.	Brynn Marr Utility Company granted	W-235, Sub 2	8-7-75
3.	Carolina Water Service, Inc. granted	W-354, Sub	7-8-75
4.	Central Utilities, Inc. Barclay Downs Utilities, Inc. North Forest Utilities, Inc. Ridge Haven Utilities, Inc. Gaylee Village Utilities, Inc. & Country Hill Utilities, Inc. - granted	W-400A, Sub	7-||-75
5.	Colfax Water Systems, Inc. granted	W-326, Sub	8-7-75
6.	Community Water Works, Inc. (Lincoln Estates & River Hills Heights Subdivisions) granted	W-3|6, Sub	6-|0-75
7.	Community Water Works, Inc. (Lincoln Estates & River Hills Heights Subdivisions) amended Order	W-3|6, Sub	6-|8-75
8.	Paw, Mrs. F. S. - Order Granting Rate Increase	W-87, Sub 4	9-30-75
9.	H & H Water Company, Inc.	W-|47, Sub 2	|2-|6-75

	Order Granting Rate Increase		
10.	Matthews Utilities, Inc. granted	W-219, Sub 1	9-15-75
11.	Minnesott Beach Water Works Order Approving Rate Schedule Revision	W-443, Sub 1	6-26-75
12.	O/A Utility, Inc. - Order Approving Rate Increase	W-392, Sub 1	4-18-75
13.	Overhills Water Company, Inc. (Overhills Park Subdivision & Ponderosa Subdivision) granted	W-175, Sub 5 W-175, Sub 6	11-17-75
14.	Piedmont Construction & Water Company, Inc. - Order Approving Emergency Rate Relief	W-262, Sub 17	6-23-75
15.	Quality Water Supplies, Inc. Pine Valley Water Company, Inc. Cape Fear Utilities, Inc. Sanitary Utilities, Inc. Essential Utilities, Inc. Consolidated Utilities, Inc. granted	W-225, Sub 13 W-242, Sub 3 W-279, Sub 3 W-284, Sub 2 W-297, Sub 4 W-332, Sub 1	6-20-75
16.	Robeson Water Systems - Order Approving Increased Tap Fee	W-348	7-16-75
17.	Southeastern Water & Utilities Company - granted	W-61, Sub 12	7-14-75
18.	Spring Water Company (Oak Haven & Crown Point Subdivisions) - granted	W-337, Sub 1	2-18-75
19.	Touch & Flow Water System Order Approving Emergency Rate Increase & Assessment of Sewer Customers for System Repairs	W-201, Sub 14	7-14-75
20.	Waterco, Inc. - granted	W-80, Sub 20	2-18-75
21.	Westwood Utility Company, Inc. (Forest Pawtuckett Development) granted	W-222, Sub 1	8-26-75
E.	Sales and Transfers		
1.	Beaufort, Town of, from Carolina Water Company - Order Approving Transfer	W-54, Sub 23	4-10-75

2.	Charlotte, City of, from George Goodyear Company - Order Cancelling Franchise & Approving Transfer	W-|3|, Sub 3	2-4-75
3.	Chimney Rock Water Works from Zeb Dalton & James Morris Order Granting Temporary Operating Authority & Approval of Rates	W-|02, Sub 3	6-25-75
4.	Davidson Water, Inc., from H. S. Lanier - Order Approving Sale & Cancelling Franchise	W-264, Sub	5-5-75
5.	East Rutherford Water Systems from Carl Glenn Robbins Approved	W-527	8-|4-75
6.	Heater Utilities, Inc., from Pine Park Water System, Inc. Approved	W-274, Sub |6	7-2|-75
7.	High Meadows Water & Utilities Company from Southeastern Water & Utilities Company - Order Approving Transfer	W-6|, Sub |3	||-|8-75
8.	Hydraulics, Ltd., from Guil-Rand Realty & Home Building Company - Order Allowing Transfer	W-2|8, Sub |7	6-|3-75
9.	Morgan, John H., from Cocoa Homes, Inc. - Order Approving Transfer of Franchise	W-552	|2-23-75
|0.	Onslow County from Brynn Marr Utility Company - Order Authorizing Transfer & Cancelling Certificate	W-235, Sub 3	|0-|7-75
||.	Shook, Jimmy L., from John H. Shook - Order Approving Transfer	W-4|2, Sub	3-27-75
|2.	Statesville, City of, from Piedmont Construction & Water Company, Inc. - Order Approving Transfer & Cancelling Franchise	W-262, Sub |6	6-2-75
|3.	Touch & Flow Water System from Donald L. Wagstaff Order Denying Transfer	W-20|, Sub |2	7-|8-75

F. Securities

1. Hanover Services, Inc. - Order Approving Transfer of Capital Stock of Hanover Service, Inc., from Kemper Corporation to American Motorists Insurance Company	W-323, Sub 2	5-6-75
2. Transylvania Utility Company & Jackson Utility Company Order Approving Stock Transfer of Each Company to Resort Utilities, Inc.	W-378, Sub 2	12-31-75
3. Urban Water Company, Inc. Order Authorizing Pledging Assets & Purchasing Water Systems	W-256, Sub 9	5-6-75

G. Miscellaneous

1. Bruton, D. P., & Margaret H. Bruton - Order Authorizing Abandonment of Water System Effective 9-1-76	W-555	12-5-75
2. Finger, Robert J. - Order Authorizing Abandonment	W-468	5-27-75
3. Stewart, Paul A. - Requiring Improvements	W-414, Sub 1	5-14-75
4. W. E. Caviness, d/b/a Touch & Flow Water Systems Requiring Improvements	W-201, Sub 13	4-15-75
5. W. E. Caviness, t/a Touch & Flow Water Systems - Abandonment of Franchise - Emergency	W-201, Sub 14	2-5-75
6. Utility Systems, Ltd. Requiring Certain Procedures	W-463, Sub 1	11-10-75