(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC.  FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR REGULATED TITLE 61 SERVICES. | )  )  )  )  )  )  )  ) | CASE NO. USW-S-96-5  HEARING ON RECONSIDERATION VACATED  ORDER NO.  27204 |

On October 17, 1997, U S WEST Communications and the Commission Staff filed a third Settlement and Stipulation in this case.  The parties asserted that this Stipulation resolves the outstanding issues on reconsideration.  It included a recommended permanent rate design.  They urged the Commission to adopt the Stipulation and implement the proposed Title 61 service rates.  After reviewing the Stipulation, the Commission finds that it is reasonable to adopt the Stipulation  but not the proposed rates.  Having finally resolved the remaining issues in this case, this Order authorizes an increase in the Company’s Title 61 annual revenue requirement of $5.222 million and establishes final Title 61 rates necessary to recover the increased revenues.  The one-party monthly residential rate for unlimited local calling in the eight exchanges outside the local calling regions is $11.49; the monthly residential rate inside the calling regions is $16.99.  The one-party monthly business rate for unlimited local calling in the eight exchanges outside the local calling regions is $26.50; the monthly business rate inside the calling regions is $32.00.  We also vacate, at the request of the parties, a technical hearing on reconsideration scheduled for November 20, 1997.

PROCEDURAL HISTORY

On August 12, 1997, the Commission issued final Order No. 27100 deciding more than 70 issues in U S WEST’s general rate case.  In that Order, the Commission directed U S WEST to reduce its annual revenues by $327,000 and establish new local rates.  Generally, residential rates inside the three local calling regions increased while business rates decreased.  On August 18, 1997, U S WEST filed a petition to stay that portion of Order No. 27100 requiring the Company to reduce its Title 61 business rates.  The Company asserted that the Commission’s calculation of the authorized revenue requirement “inadvertently overlooked” inclusion of a “memorandum expense” in the amount of approximately $2.5 million.(footnote: 1)  U S WEST Petition at 2; Order No. 27100 at 52.  Although the Staff did not agree with U S WEST on the precise revenue impact of the alleged error, the Staff acknowledged that an error may have occurred.  The Staff did not oppose the stay of the Title 61 business rates.

In Order No. 27112 issued August 20, 1997, the Commission stayed the reduction in Title 61 business rates.  The Commission noted that “[w]ithout fully deciding the merits of the Company’s contention, we find it is reasonable to stay the reduction of Title 61 business rates.  It makes little sense to reduce business rates now if there is a likelihood that those rates may subsequently change again because of adjustments to the Company’s revenue requirement.”  Order No. 27112 at 2.

On September 2, 1997, U S WEST and the Commission Staff filed timely Petitions for Reconsideration.  On September 9, 1997, U S WEST and the Staff filed Answers and Cross-Petitions for Reconsideration.  In Order No. 27152 issued September 30, 1997, the Commission resolved nearly twenty issues on reconsideration and scheduled an evidentiary hearing to reconsider the memo expense issue.  The Commission also calculated that the Company was entitled to increase its annual Title 61 revenues by $3.097 million.  Given the remaining issue, the Commission declined to adjust rates until it resolved the memo expense issue on rehearing.  The Commission stated that it was unreasonable to adjust rates on a piece-meal basis and would approve new rates when it issued a final order on reconsideration.  Order No. 27152 at 37.

The Commission also set a deadline of October 6, 1997, for parties to notify the Commission Secretary of their intent to participate in the rehearing phase of the case.  Order No. 27152 at 26-27, 38.  Only the Staff and U S WEST indicated their desire to participate in the rehearing phase of this proceeding.

THE STIPULATION AND SETTLEMENT

U S WEST and the Staff resolved several issues in the Stipulation.  In addition, they also recommended a permanent rate design for Title 61 services.  These issues are discussed in greater detail below.

1.  Memo Expense and Final Revenue Requirement.  In its direct case, U S WEST asserted that it had incurred a memo expense in the amount of $2.5 million.  In its Answer and Cross-Petition for Reconsideration, Staff raised various questions about the appropriate amount of the memo expense.  In particular, the Staff questioned whether the memo expense was adjusted to reflect the sale of 12 rural exchanges sold in 1995 and 1996.  The Staff also questioned the appropriateness of using “tariff or market rates” in the Company’s calculation of the memorandum costs.  Staff maintained that the calculation of Title 62 expenses should be based on actual costs not market or tariffed prices.  Order No. 27152 at 25.

Recognizing the likelihood that neither the Company nor the Staff would fully prevail in their arguments concerning the precise amount of the memorandum expense, they agreed that a reasonable amount of memo expense was $2.125 million.  Stipulation at 4.  Adding this amount to the interim revenue calculation of $3.097 million, results in a total Title 61 annual revenue increase of $5.222 million.  Id. at 5.

2.  Forbearance of Appeal Right.  Despite its concerns regarding several of the Commission’s decisions on reconsideration, the Company recognized that there “is value in reaching a final resolution of the revenue requirement and rate design issues without further litigation.”  Id. at 4.  In particular, U S WEST was troubled by the Commission’s decision on reconsideration to “directly assign” the investment of 15 facility accounts to the Company’s Title 62 operations.  Id. at 4; Order No. 27152 at 4-8.  Although U S WEST believed this decision was contrary to the evidence in the record, it recognized that this case has been long and difficult and “that the evidence presented on many issues was conflicting and capable of more than one interpretation.”  Stipulation at 4.

Conditioned upon the Commission’s acceptance of the Stipulation, U S WEST agreed, with one exception, “to forego any and all opportunities to appeal the decisions of this Commission in this docket concerning the resolution and calculation of the Company’s revenue requirement.”(footnote: 2)

3.  Tech Plus and Tech II Investments and Accumulated Depreciation.   In reconsideration Order No. 27152, the Commission adopted a position advocated by the Staff that the accumulated depreciation associated with the Tech Plus and Tech II projects be directly assigned to Title 61.(footnote: 3)   The Commission agreed with the Staff that the accumulated depreciation associated with these projects should be directly assigned to Title 61.  Order No. 27152 at 17. The Company expressed strong concern over the Commission’s decision regarding the accounting treatment for Tech Plus and Tech II.  The Company’s primary concern regarding this issue was to limit the precedential effect of the Commission’s decision.  Accordingly, U S WEST and the Staff agreed that the Commission should clarify its decision relating to the Tech Plus and Tech II investment and accumulated depreciation.  The parties specifically proposed that the Commission clarify its Order No. 27152 by adopting the following clarification:

The Company and the Staff have stipulated that the allocation of Tech Plus and Tech II investment and the assignment of all accumulated Tech Plus and Tech II depreciation for purposes of developing a Title 61 revenue requirement be restricted to this proceeding only.  In future cases, if any, U S WEST will be free to advocate that other ratemaking treatment [should be] accorded to the accumulated depreciation associated with Tech Plus and Tech II in this case.  Likewise, in any future proceeding Staff will be free to advocate any ratemaking treatment of said investment and accumulated depreciation as it deems appropriate and will not be entitled to rely on the treatment accorded in this case as precedent.

Stipulation at 6.

4.  Proposed Rate Design.  The parties noted that the Commission’s Order No. 27152 did not adopt a final rate design because the final revenue requirement would not be decided until the Commission resolved the memo expense issue.  Given the fact that the agreement now adopts a final revenue requirement of $5.222 million, the parties provided a Title 61 rate design proposal.  In developing its rate design, the parties recognized the need to: (1) keep Title 61 residence services affordable; (2) preserve a ratio differential between residence and business services similar to that originally adopted [1.84]; (3) reflect the value of inclusion in the calling region by maintaining a reasonable differential between the “in” and “out of” region; and (4) avoid rate shock occasioned by the increase of Title 61 business rates.  Stipulation at 7.  With these principles in mind, the parties recommended that the Commission adopt the following rate design.

ServiceMonthly “Out” RateEAS AdditiveMonthly “In” Rate

One-party residential$11.10$5.89$16.99

One-party business  26.60  4.85  31.45

If adopted, the business-residential ratio in the regional calling areas would be 1.85.

Both parties argued that the third Stipulation and Settlement Agreement represents a reasonable resolution of this case.  They recognized the complexity of the issues, the amount of effort and resource expended by all parties, and the length of time that has elapsed since this case was first initiated in June 1996.  The parties maintained that the rate design set out above represents just and reasonable rates sufficient to collect the increased revenue requirement.  Given the limited participation in the rehearing phase, U S WEST and the Staff did not believe a hearing on the Settlement was warranted and urged the Commission to adopt the Stipulation.

COMMISSION DISCUSSION

After reviewing the third Settlement and Stipulation entered into between U S WEST and the Staff, we find the Settlement Agreement to be reasonable and, consequently, we adopt it with one exception discussed in further detail below.  As we noted in Order No. 27152, the memo expense issue was not discussed by any party at the technical hearing.  In granting reconsideration, we noted that the Company is entitled to recover some amount of memo expense.  Order No. 27152 at 26.  However, we also recognized that the Company’s claim of a memo expense should be adjusted “to take into account appropriate offsetting adjustments.”  Id.  Given the parties’ satisfaction of the memo expense and the lack of any objection, we find it is reasonable to accept the stipulated memo expense calculation in the amount of $2.125 million.

We also adopt the parties’ proposal to clarify our language relating to the Tech Plus and Tech II investment and accumulated depreciation.  As we have previously indicated, Tech Plus and Tech II  represented unique regulatory projects.  In both projects, ratepayers and the Company benefitted by an improvement in network facilities in conjunction with unique regulatory accounting.  The Commission finds that it is reasonable to acknowledge that the Company as well as the Staff may advocate different ratemaking treatment for the Tech Plus and Tech II investment and accumulated depreciation in the future.  This, of course, does not affect the Commission’s authority to determine the appropriate ratemaking treatment of this issue in the future.

The parties urged us to adopt the rate design set out above.  After reviewing the rate design, we decline their invitation.  Although we agree with many of the rate design principles (maintain affordable service, preserve the business-residence ratio, and create rates that recognize the value and cost differential between customers located inside and outside of the EAS regions), we cannot accept the proposed rate design.  Although we believe it is just and reasonable to establish a one-party monthly residential rate of $16.99 for customers located inside the three regional calling areas, we find it is unreasonable to assess a larger EAS surcharge for residential customers than business customers.  With the creation of the EAS regional areas, business customers have enjoyed the same, and some would argue more, benefits from the vastly expanded local calling areas.  We find it is reasonable that the EAS additive should be comparable for both business and residential customers.  Consequently, we find it is just and reasonable to establish the EAS additive at $5.50 per month for both residential and business services.

We also believe it is reasonable to increase both the residential and business monthly recurring rates to satisfy the Company’s annual revenue increase.  In our adopted rate design set out below, residential and business rates for customers located within the regional calling areas were both increased from their existing levels by $.89.  We believe it is appropriate and reasonable to apportion the revenue increase in this manner.  The adopted rate increases are identified below.

Finally, we find that it is reasonable that the differential between business and residential rates should be decreased—as it was in our initial Order No. 27100. The rates below reflect a business-residential rate differential of approximately 1.88.  This is comparable to our initial rate differential adopted in Order No. 27100 of 1.84.

Monthly Rate Outside Monthly Rate Inside

Service     Calling Region      EAS Additive     Calling Region

Residential Unlimited Calling$11.49$5.50$16.99

Business Unlimited Calling  26.50  5.50  32.00

Business-Residential Ratio 1.88

In our Order No. 27100, the Commission established the rates for nonlisted and nonpublished directory services as $.50 and $.75, respectively.  Order No. 27100 at 65.  The increase in revenue requirement approved in this Order also causes adjustment to these service rates.  Given our adoption of a final rate design as set out above and contained in greater detail in the Appendix to this Order, we find the rates for nonlisted and nonpublished directory listing services should be $.75 and $1.25, respectively.  The rates we adopt in this Order for these services represent decreases of approximately 70% from rates in effect prior to this case.  The Commission finds that the rates set out in the Appendix to this Order are fair, just, reasonable and nondiscriminatory.

ULTIMATE FINDINGS OF FACTS AND CONCLUSIONS OF LAW

U S WEST Communications is a telecommunications corporation subject to our regulatory jurisdiction pursuant to Idaho Code, Titles 61 and 62.  The Commission has jurisdiction over this matter as authorized by Idaho Code §§ 61-502 and 61-622A.

Having reviewed the Stipulation and our prior Order on reconsideration, we find that the Company’s current annual revenue requirement for Title 61 services is unreasonable.  We find that the Company’s Title 61 annual revenues should be increased by $5.222 million.  We affirm that it is just and reasonable for the Company to receive an 11.2% return on equity and an overall rate of return of 9.44%.  We further find that the third Stipulation is reasonable and we adopt it except for the rate design as modified above.  We further agree that additional hearings are not required in this case, given the limited participation of the parties in the reconsideration phase and the resolution of the remaining issues by stipulation.

We have established the Company’s revenue requirement at a level that will allow it the opportunity to earn a reasonable return on its investment, and we have significantly altered the Company’s rate design structure to more closely reflect relative cost levels.  We find that the rates and charges for Title 61 services set out in the Order and Appendix are fair, just, reasonable and nondiscriminatory.

O R D E R

IT IS HEREBY ORDERED that the third Stipulation and Settlement entered into between U S WEST and the Commission Staff is adopted with the exception of those modifications to the rate design contained in the Appendix to this Order.

IT IS FURTHER ORDERED that U S WEST Communications institute the rate changes contained in the Appendix of this Order.  The Company should submit Title 61 tariffs conforming to the rates set out in the Appendix.

IT IS FURTHER ORDERED that the hearing on reconsideration scheduled for November 20, 1997 is vacated.

THIS IS A FINAL ORDER ON RECONSIDERATION.  Any party aggrieved by this Order or other final or interlocutory Orders previously issued in this Case No. USW-S-96-5 may appeal to the Supreme Court of Idaho pursuant to the Public Utilities Law and the Idaho Appellate Rules.  See Idaho Code § 61-627.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of November 1997.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC.  FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR REGULATED TITLE 61 SERVICES. | )  )  )  )  )  ) | CASE NO. USW-S-96-5  ERRATA NOTICE TO  THE APPENDIX OF  ORDER NO.  27204 |

On November 5, 1997, IPUC Order No. 27204 was issued by this Commission.  The following change should be made to the Appendix of that Order.  A new Appendix is attached to this Notice.

Page 1, line Measured ITAP, column Monthly Rate With EAS

READS:

“ $6.60”

SHOULD READ:

“ $6.50”

DATED at Boise, Idaho, this          day of November 1997.

                                                                                                                                              Myrna J. Walters

Commission Secretary

RESIDENTIAL SERVICE

Monthly Rate(footnote: -6666)Monthly Rate

ServiceUSOC           Without  EAS        With  EAS

Unlimited Local Calling

1FR$11.49$16.99

AFH$11.49$16.99

Measured Local Calling

LW1$  6.75$10.00

AKN$  6.75$10.00

Unlimited ITAP

LFV$  7.99$13.49

Measured ITAP

LW3$  3.25$  6.50

1 Pty Service Station

1SS$11.49$16.99

4 Pty Service Station4SS$  7.80$13.30

BUSINESS SERVICE

Monthly Rate\*Monthly Rate

ServiceUSOC           Without  EAS        With  EAS

Unlimited Local Calling

1FB$26.50$32.00

AFK$26.50$32.00

91I$11.50$17.00

Measured Local Calling

LMB$11.50$17.00

ALM$11.50$17.00

Computer Port Access

1FA$26.50$32.00

AFV$26.50$32.00

B4Q$11.50$17.00

A4Q$11.50$17.00

S3L/F$26.50$32.00

A2Y$16.43$16.43

Measured Trunks

TV1$11.50$17.00

TVW$11.50$17.00

TTT$11.50$17.00

Message Trunks

TMB$11.50$17.00

Flat Trunks

TFB$34.08$36.69

THHCX$62.00$62.00

TFU$34.08$36.69

TFN$34.08$36.69

TDD$42.08$44.69

1PZ$51.71$51.71

1WN$32.40$37.90

1WE$26.50$32.00

1WK$32.40$37.90

Joint User

JUF$13.25$16.00

JND/F$17.25$20.00

JUP$21.04$22.35

Semi-Public

1SP$23.50$29.00

Nonlisted Directory$    .75$    .75

Nonpublished Directory$  1.25$  1.25

**FOOTNOTES**

1:

 In U S WEST’s direct case, the Company claimed that its cost accounting allocation system (CAAS) allocated approximately $2.5 million of Title 62 expenses to Title 61.  The Company asserted that these expenses arise from its use of Title 62 services to support the provision of its Title 61 services.  Order No. 27100 at 52; Order No. 27152 at 25-26.

2:

 The Company expressly reserved its right to appeal the Commission’s decision to classify “toll restriction” as a Title 61 service.  Stipulation at 7, Order No. 27100 at 58-59; Order No. 27152 at 30-33.

3:

 Tech Plus was a 5-year project that upgraded more than 50 obsolete rural telephone switches to state-of-the-art digital switches at a cost of approximately $65 million.  Tech II was a 3-year local network improvement project costing approximately $40 million.  This later project resulted in the improvement of local networks in more than 30 small rural exchanges in southern Idaho.

-6666:

The eight exchanges located outside a regional calling area (i.e., without EAS) are:  Burley, Glenns Ferry, Hailey, Ketchum, Mountain Home, New Plymouth, Payette, and Weiser.

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

November 5, 1997