SERVICE DATE

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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of:	)	
	)	DOCKET NO. UT-940926
GTE NORTHWEST INCORPORATED	)	
	)	THIRD SUPPLEMENTAL ORDER
for Depreciation Accounting Changes	)	APPROVING SETTLEMENT
	)	AGREEMENT
. . . .	)	

SUMMARY

PROCEEDINGS: On July 8, 1994, GTE Northwest Incorporated (GTE or company) petitioned for an order authorizing it to adopt and utilize the equal life group (ELG) depreciation methodology for intrastate accounting and ratemaking purposes, effective on or after January 1, 1995, at the company's election. As later amended, the petition requests authorization to adopt ELG on a going-forward basis beginning with 1995 vintage plant; requests a finding that its intrastate reserve deficiency is outside generally accepted reserve parameters and an order allowing GTE to amortize this deficiency over a five-year period; and requests the prescription of "new" remaining life rates necessitated by the new reserve level parameters resulting from the requested reserve deficiency amortization.

HEARINGS: A prehearing conference was held before administrative law judge John Prusia on November 20, 1995. On December 15, 1995, the parties filed a proposed Settlement Agreement that would resolve all issues. GTE and Commission Staff filed written testimony in support of the Settlement Agreement. All parties agree that no additional pleading or testimony is necessary for determination of the petition. All parties waive entry of an initial order.

APPEARANCES: A. Timothy L. Williamson, attorney, Everett, represents GTE. Steven W. Smith, Assistant Attorney General, Olympia, represents the Commission. Robert F. Manifold, Assistant Attorney General, Seattle, appears as Public Counsel.

COMMISSION: The Commission adopts the Settlement Agreement. By adopting the Settlement Agreement, the Commission grants GTE authority: to adopt ELG on a going-forward basis beginning with vintage year 1995; for book purposes, to amortize the existing $17,466,000 reserve deficiency over a two-year period beginning January 1, 1995; for ratemaking purposes, to amortize that existing reserve deficiency over a five-year period, effective January 1, 1995, with the proviso that if GTE does not file a rate case using the 1995 or 1996 test periods, then the five-year amortization would no longer be necessary or appropriate; and to revise the remaining life rates as set forth in the Agreement.

MEMORANDUM

On July 8, 1994, GTE Northwest Incorporated (GTE or company) petitioned for an order authorizing it to adopt and utilize the Equal Life Group (ELG) depreciation methodology for intrastate accounting and ratemaking purposes, instead of the vintage group (VG) methodology, effective on or after January 1, 1995, at the company's election. GTE amended the petition on May 5, 1995, and amended it a second time on August 31, 1995. As finally amended, the petition requests authorization to adopt ELG on a going-forward basis beginning with 1995 vintage plant; requests a finding that GTE's intrastate reserve deficiency is outside generally accepted reserve parameters and an order allowing GTE to amortize this deficiency over a five-year period; and requests the prescription of "new" remaining life rates necessitated by the new reserve level parameters resulting from the requested reserve deficiency amortization. The amended petition alleges that GTE requests essentially the same authorization regarding use of the ELG depreciation methodology that the Commission granted U S WEST Communications, Inc., in Docket No. UT-940641.

The Commission held a prehearing conference on November 20, 1995. A Prehearing Conference Order was served on November 28, 1995, which established a schedule for filing written testimony. On December 15, 1995, the parties filed a proposed Settlement Agreement, signed by all the parties, and GTE and Commission Staff filed testimony is support of Commission adoption of the Settlement Agreement. In the Settlement Agreement, the parties agree that no additional pleading or testimony is necessary for the determination of this petition, and they waive the entry of an initial order.

The parties' Settlement Agreement is summarized as follows:

- The parties agree that GTE's utilization of the ELG depreciation methodology for intrastate accounting and ratemaking purposes effective January 1, 1995, is reasonable. They further agree that the adoption of ELG methodology on a going-forward basis beginning with vintage year 1995 is reasonable.

- The parties agree that for book purposes, GTE should be authorized to amortize its existing depreciation reserve deficiency for intrastate operations over the two-year period beginning January 1, 1995.

- The parties agree that because the level of the depreciation reserve and ELG methodology are components used in the calculation of depreciation rates, the currently approved remaining life rates require revision. They agree on revised rates to be used to calculate intrastate depreciation expenses effective January 1, 1995.

- The parties agree that for ratemaking purposes GTE's $17,466,000 reserve deficiency will be amortized over a five-year period requiring an annual amortization of $3,493,000 effective January 1, 1995. They agree that this five-year period would be applicable if GTE files a rate case utilizing the 1995 or 1996 test year periods and for other specified purposes, but that it would not be necessary or appropriate if GTE does not file a rate case using the 1995 or 1996 test year periods.

The Commission considered similar requests by U S WEST Communications, Inc., in Docket No. UT-940641. In its Fourth Supplemental Order in that docket, entered May 26, 1995, the Commission authorized U S WEST to adopt ELG on a going-forward basis, starting with plant of 1995 vintage, and authorized the company to amortize its reserve deficiency over five years. In that order, the Commission discussed the differences between the ELG and the VG methodology that the Commission generally has required firms operating in Washington to utilize. Under the VG method, assets are grouped according to the year they are placed in service. Recovery is on a straight-line basis for each year of service life. The ELG method subdivides the vintage groups into subgroups of assets with the same anticipated service life. The ELG method allows greater recovery in earlier years of a vintage group's actual life in comparison to the VG method. The Commission concluded that ELG is not inherently superior to VG, but is an acceptable method. The Commission noted that ELG had been approved for U S WEST by all of the other state commissions in U S WEST's service territory. For the sake of consistency within U S WEST's territory, the Commission allowed U S WEST to adopt ELG on a going-forward basis.

The Commission has had the opportunity to examine the Settlement Agreement, the exhibits attached to it, and the prefiled testimony of GTE witness Fred L. Kaufman and Commission Staff witness Thomas L. Spinks. The Commission finds that the Settlement Agreement is consistent with its Fourth Supplemental Order in Docket No. UT-940641. The Commission finds that the Settlement Agreement is consistent with the public interest. Competition is rapidly developing in the telecommunications industry. It is likely that U S WEST and GTE increasingly will be in direct competition in this state. Under these circumstances, it is reasonable to allow GTE to adopt the same depreciation methodology as U S WEST utilizes for intrastate accounting and ratemaking purposes. The proposed amortization of depreciation reserve deficiency, calculation of depreciation rates, and ratemaking provisions appear reasonable. The Commission approves the Settlement Agreement, and authorizes GTE to make the changes set out there.

FINDINGS OF FACT

Having discussed above in detail the written testimony and the documentary evidence concerning all material matters, and having stated findings and conclusions, the Commission now makes the following summary of the facts as found. Those portions of the preceding detailed findings pertaining to the ultimate findings are incorporated herein by this reference.

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with authority to regulate rates, services, facilities, practices, rules, accounts, and transfers of public service companies, including telecommunications companies.

2. GTE Northwest Incorporated (GTE) is engaged in the business of furnishing telecommunications services to customers in the state of Washington as a public service company.

3. On July 8, 1994, GTE filed a petition requesting an order granting GTE authority to adopt the equal life group (ELG) depreciation methodology for intrastate accounting and ratemaking purposes, effective on or after January 1, 1995, at GTE's election. GTE amended the petition on May 5, 1995, and again on August 31, 1995. As finally amended, the petition requests authorization to adopt ELG on a going-forward basis beginning with 1995 vintage plant; requests a finding that its intrastate reserve deficiency is outside generally accepted reserve parameters and an order allowing GTE to amortize this deficiency over a five-year period; and requests the prescription of "new" Remaining Life rates necessitated by the new reserve level parameters resulting from the requested reserve deficiency amortization.

4. On December 15, 1995, the parties filed a Settlement Agreement that would resolve all issues. GTE and Commission Staff filed written testimony in support of the Settlement Agreement. All parties agree that no additional pleading or testimony is necessary for determination of the petition. All parties waive entry of an initial order. A copy of the Settlement Agreement is attached as Appendix A and incorporated by this reference.

5. Fred L. Kaufman filed testimony is support of the Settlement Agreement. Mr. Kaufman is a staff administrator with GTE. He explained the difference between ELG depreciation and VG depreciation. The VG methodology groups plant according to the year placed (vintage) while ELG further divides each vintage group into subgroups consisting of plant which has equal expected lives. The premise for this grouping is that each ELG subgroup is recovered during its

useful life rather than over the average life of all of the plant in the vintage grouping. Mr. Kaufman also explained what is meant by a depreciation reserve deficiency. A depreciation reserve deficiency is the difference, positive or negative, between the actual depreciation reserve and the calculated "theoretical depreciation reserve." A theoretical depreciation reserve is the depreciation reserve that should exist based on agreed upon salvage and life parameters. GTE had a depreciation reserve deficiency as of January 1, 1995, of $17.466 million. Mr. Kaufman also described the parties' proposed Settlement Agreement. He testified that all of the parties to this proceeding support the Settlement Agreement.

6. Thomas L. Spinks filed testimony in support of the Settlement Agreement. Mr. Spinks is a regulatory consultant with the Commission. Mr. Spinks explained the terms of the proposed Settlement Agreement. He testified that since GTE is the first telephone company to elect to implement ELG, two questions about the implementation had to be addressed. First, the company proposed, and staff agreed, that ELG depreciation rates should be weighted with vintage group rates into a single composite depreciation rate. The single composite rate is administratively simpler to implement and is the procedure used by the FCC in the calculation of interstate depreciation rates. Second, in order to produce a composite depreciation rate beginning with the 1995 plant vintage, the amount of 1995 investment had to be identified. Staff accepted the use of estimated 1995 plant additions for purposes of this calculation. To the extent that the estimate differs from actual 1995 investment, the composite rates will subsequently be "trued up" in the next three way depreciation represcription.

From the foregoing findings of fact, the Commission enters the following conclusions of law.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of and the parties to this proceeding.

2. The terms of the proposed Settlement Agreement are consistent with the public interest. The Commission should adopt the Settlement Agreement.

3. The Commission should authorize GTE to adopt the ELG depreciation methodology, amortize its intrastate reserve deficiency, and revise the currently approved remaining life rates as set out in the Settlement Agreement.

4. An initial order may properly be omitted in this matter.

On the basis of the foregoing findings of fact and conclusions of law, the Commission hereby makes and enters the following Order.

ORDER

THE COMMISSION ORDERS:

1. The Commission approves the Settlement Agreement filed herein, which includes: authorization to adopt the equal life group (ELG) methodology on a going-forward basis, beginning with vintage year 1995; amortization for book purposes of GTE's existing depreciation reserve deficiency for intrastate operations over the two-year period beginning January 1, 1995; use of revised remaining life rates as set forth in Exhibit A to calculate intrastate depreciation expenses effective January 1, 1995; and, for ratemaking purposes, amortization of GTE's $17,466,000 reserve deficiency over a five-year period requiring an annual amortization of $3,493,000 effective January 1, 1995, with the proviso that this five-year period would be applicable if GTE files a rate case utilizing the 1995 or 1996 test year periods and for other specified purposes, but would not be necessary or appropriate if GTE does not file a rate case using the 1995 or 1996 test year periods.

2. The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 24th day of January 1996.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Sharon L. Nelson

SHARON L. NELSON, Chairman

Richard Hemstad

RICHARD HEMSTAD, Commissioner

William R. Gillis

WILLIAM R. GILLIS, Commissioner

NOTICE TO PARTIES:

This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-09-820(1).