

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Investigation on)	
the Commission's Own Motion into the)	DOCKET NO. UT-951425
Propriety and Adequacy of Certain)	
Depreciation Rates of)	FIFTH SUPPLEMENTAL ORDER
)	ACCEPTING STIPULATION;
U S WEST COMMUNICATIONS, INC.)	AUTHORIZING REVISIONS TO
)	DEPRECIATION RATES AND
And the Changes, if any, that Should)	PARAMETERS
be Ordered to such Depreciation)	
Rates.)	
.)	

SUMMARY

PROCEEDINGS: This is an investigation on the Commission's own motion into the propriety and adequacy of certain current depreciation rates of U S WEST Communications, Inc. (U S WEST or the Company), and the changes, if any, that should be ordered to such depreciation rates. The Commission on February 1, 1997, entered an order instituting investigation into these matters and ordering that hearing in this matter be held. On August 4, 1997, the parties filed a Stipulation, stipulating that U S WEST's current depreciation parameters should be revised, resulting in an increase in current depreciation expense, and stipulating that the Commission should authorize the depreciation rates set forth in specified prefiled testimony and exhibits.

HEARINGS: The Commission held a prehearing conference in this matter on February 27, 1997. The Commission held a hearing to consider the Stipulation on August 13, 1997, before Chairman Sharon L. Nelson, Commissioner Richard Hemstad, Commissioner William R. Gillis, and Administrative Law Judge John Prusia.

APPEARANCES: The parties are represented as follows: Sally G. Johnston, Assistant Attorney General, represents Staff of the Washington Utilities and Transportation Commission (Commission Staff). Edward T. Shaw and Lisa A. Anderl, attorneys, represent U S WEST Communications, Inc. Simon ffitch, Assistant Attorney General, Office of the Attorney General, Public Counsel Section, appears as Public Counsel. Arthur A. Butler, attorney, represents Telecommunications Ratepayers for Cost-based and Equitable Rates (TRACER).

SUMMARY: The Commission accepts the Stipulation as filed, authorizing U S WEST to revise its depreciation parameters and depreciation rates as set forth therein.

MEMORANDUM

I. SCOPE OF PROCEEDINGS

This is an investigation on the Commission's own motion into the propriety and adequacy of the current depreciation rates for thirty-five accounts reflected on the books of U S WEST and the changes, if any, that should be ordered to the current parameters used to determine such depreciation rates.

The Commission set the matter for hearing and convened a prehearing conference on February 27, 1997. It served the First Supplemental Order on Prehearing Conference on March 5, 1997, which established a schedule for the proceeding and resolved other preliminary matters. The Third Supplemental Order, served March 26, 1997, modified the schedule. On August 4, 1997, the parties filed a Stipulation which would settle all issues before the Commission.

II. STIPULATION

The parties' Stipulation is summarized as follows:

- The parties have reviewed U S WEST's depreciation study and determined that current depreciation parameters should be revised, resulting in an increase in current depreciation expense. They agree that it is in the public interest to revise U S WEST's depreciation rates and to provide the associated revenue to U S WEST in order to afford the Company a reasonable opportunity for capital recovery and to create reasonable incentives for it to invest in its telecommunications network in Washington.
- The Commission should authorize the depreciation rates set forth in the supplemental rebuttal testimony and exhibit of Thomas L. Spinks.
- The Commission should order U S WEST to provide Commission Staff a new depreciation study to be filed with the Commission no later than January 1, 1999.
- The parties will work together to develop increased tariffed rates equal to the revenue requirement associated with the increase of accruals resulting from this settlement. The intrastate increases in accruals used in this calculation, based on January 1, 1997, plant balances, is \$36,323,000. The increase in revenue requirement associated with this accrual is \$36,789,758. The parties expect to include this amount in an informal audit of U S WEST's results of operations currently underway in Docket

No. UT-970765. If rate implementation of the results of the informal Commission audit does not occur by December 31, 1997, U S WEST will have the right to file tariff changes affecting the increased revenue requirement resulting from the increased revenue expense recognized in the Stipulation.

- Staff retains the rights to audit U S WEST's required future depreciation study, and to propose revisions as necessary prior to any recovery in rates.

The exhibit to the supplemental rebuttal testimony of Thomas L. Spinks, which has been admitted as Exhibit No. 7, sets out various depreciation parameters for the thirty-five plant categories, a revised depreciation rate for each category effective January 1, 1997, and shows a composite depreciation rate of 7.4% (including amortization approved in Docket No. UT-940641). The parties clarified at hearing that they agree to the depreciation rates calculated for the individual accounts, including the projection lives and other parameters used in the calculations, and that the Commission's approval of the Stipulation would constitute approval of the individual rates and the underlying parameters set out in the exhibit.

The supplemental rebuttal testimony of Mr. Spinks indicates a 2% or approximately \$90 million depreciation reserve imbalance resulting from the change in depreciation rates. The Stipulation does not provide for amortization of that imbalance, other than inclusion in the remaining life depreciation rate.

III. COMMISSION DISCUSSION AND DECISION

At hearing on August 13, 1997, the Commission swore in Commission Staff witnesses Thomas L. Spinks and Glenn Blackmon, and U S WEST witnesses Theresa Jensen and William R. Easton. The Commission proceeded to pose questions on the elements of the Stipulation described above.

The Commission has examined the Stipulation and the written testimony and exhibits of Commission Staff witness Spinks, whose prefiled testimony and exhibits are the only exhibits admitted into the record in support of the Stipulation, has heard the testimony of the parties' witnesses and the argument of counsel. The Commission finds that the proposed Stipulation is consistent with the public interest and should be accepted.

The Commission acknowledges the time and effort of the parties in accomplishing this settlement. The Commission generally encourages parties to pursue efforts to reach reasonable settlement of matters before the Commission. Settlements eliminate the need for protracted litigation, and save both time and money for all parties. We understand the settlement agreement approved by this Order may be only one

component of a pending broader assessment of U S WEST's revenue requirement needs. We encourage U S WEST, Commission Staff, Public Counsel, and other parties to continue to negotiate on revenue requirement and rate design. However, we nonetheless are compelled to express two caveats regarding any future settlements of related issues arising in this context.

While the parties to a settlement may understand the process, the factual basis, and the rationale that supports their settlement proposal to the Commission, those criteria are not always evident from the parties' stipulation or the record. The Commission requires a record of adequate detail to assess the merits of any proposed agreement. Specifically, the Commission requires that an adequate factual basis exist for its Order, and that settlements be as easy for the Commission and the public to understand as possible. The settlement should be transparent, not a "black box." To accommodate this requirement, parties may need to supplement the record, either with a written report, supplemental testimony in support of the settlement, or an oral presentation of sufficient detail to provide that necessary transparency.

The Commission is concerned with the rate implementation which necessarily will flow from the instant settlement, and, more specifically, how it will be coordinated with other rate changes that may occur over the next several months. Rate stability for customers is an important goal for both the Commission and the Company. To avoid customer confusion, we prefer that implementation of rate changes which may occur as a result of the Order in this proceeding be coordinated with any rate changes related to the ongoing informal audit and any rate changes that may be occasioned by the Washington Supreme Court decision in the appeal of our Order in U S WEST's general rate case, Docket No. UT-950200.

FINDINGS OF FACT

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

2. U S WEST Communications, Inc. (U S WEST) is engaged in the business of furnishing telecommunications service within the state of Washington.

3. On February 1, 1997, the Commission entered an order instituting investigation into the propriety and adequacy of depreciation rates of thirty-five categories of plant reflected on the books of U S WEST, and the changes, if any, that should be ordered to the current parameters used to determine such depreciation rates.

4. On August 4, 1997, the parties filed a Stipulation. The Stipulation has been entered into the record as Exhibit No. 8. The Stipulation recommends that the Commission authorize the depreciation rates set forth in the supplemental rebuttal testimony and exhibit of Thomas L. Spinks, filed in this docket on July 30, 1997. It further recommends that the Commission should order U S WEST to provide Commission Staff a new depreciation study to be filed no later than January 1, 1999; provides a process for rate implementation of the increased revenue requirement associated with the increase of accruals resulting from this Stipulation; provides that Staff retains its rights to audit U S WEST's new depreciation study ordered herein and to propose revisions prior to any recovery in rates; and stipulates that the prefiled testimony and exhibits of Thomas L. Spinks should be entered as record evidence in support of the Stipulation.

5. The Stipulation is consistent with the public interest.

CONCLUSIONS OF LAW

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

2. The terms of the Stipulation filed by the parties on August 4, 1997, which has been entered of record as Exhibit No. 8, are consistent with the public interest. The Stipulation should be approved.

ORDER

THE COMMISSION ORDERS:

1. The Commission approves the Stipulation of the parties filed August 4, 1997, which has been entered of record as Exhibit No. 8. In doing so:

a. The prefiled testimony and exhibits of Thomas L. Spinks are entered as record evidence.

b. The Commission approves the depreciation rates set out in Column H on Page 2 of 4 of Exhibit No. 7, which is the exhibit to the supplemental rebuttal testimony of Thomas L. Spinks, and approves the projection lives set out on Page 1 of 4 of Exhibit No. 7 as well as the other depreciation parameters set out in the exhibit that were used in the calculation of the approved depreciation rates. We are accepting the revised depreciation rates to be effective January 1, 1997.

c. The Commission authorizes U S WEST to use the depreciation rates that are approved in this order.

d. The Commission orders U S WEST to provide Commission Staff a new depreciation study to be filed with the Commission no later than January 1, 1999.

e. The Commission orders that if rate implementation of the results of the informal audit referred to in the Stipulation is delayed beyond December 31, 1997, U S WEST will have the right to file tariff changes reflecting the increased revenue requirement resulting from the increased depreciation expense recognized by the Stipulation, subject to the normal suspension and hearing process.

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

DATED at Olympia, Washington, and effective this 15th day of August 1997.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



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).