

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

	Barbara Beerhalter	Chair
	Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner	
	Robert J. O'Keefe	Commissioner
	Darrel L. Peterson	Commissioner

In the Matter of the Deregulation of the Installation and Maintenance of Inside Wiring, based on the Second Report and Order in FCC Docket 79-105 Released February 24, 1986

ISSUE DATE: December 3, 1987

DOCKET NO. P-999/CI-86-747

ORDER CLARIFYING ACCOUNTING TREATMENT OF INSIDE WIRE AND HOUSE RISER CABLE

PROCEDURAL HISTORY

On December 31, 1986, the Minnesota Public Utilities Commission (the Commission) issued an Order in this matter deregulating inside wire and house riser cable. That Order, and the proceeding leading to it, resulted from a Federal Communications Commission (FCC) Order in FCC Docket 70-105 dated February 24, 1986. The FCC Order deregulated inside wiring and prohibited state regulation of inside wiring as of January 1, 1987.

In its Order implementing the FCC decision, the Commission deregulated not only inside wiring, but house riser cable as well. The Order provided in part as follows: "By February 13, 1987, all telephone companies shall file a report with the Commission and the DPS showing the actual amount of 1986 inside wire maintenance expense, the actual amount of 1986 house riser cable maintenance expense, and the amount of house riser cable to be removed from rate base, a proposal for amortizing house riser cable, and revised local service rates..."

The telephone companies duly complied with the Order. Their compliance filings provided for the final amortization and depreciation of inside wire and house riser cable. Their filings also provided for the companies to recover and earn a return on their unamortized investment in inside wire and house riser cable. The Commission approved these filings.

In August of 1987 confusion arose regarding whether or not telephone companies should be allowed to recover and earn a return on their unamortized investments in inside wire and house riser cable. On October 2, 1987, the Commission received a petition from the Department of Public Service (DPS or the Department) requesting clarification and amendment of the December 31 Order in this regard. The petition also requested a variance from Minn. Rules, part 7830.4100, which requires a petition to amend an order to be brought within 20 days of its issuance.

All parties to the original proceeding were given notice and an opportunity for written and oral argument. The Office of the Attorney General, Residential Utilities Division (RUD-AG), Northwestern Bell Telephone Company (NWB or the Company), Lakedale Telephone Company (Lakedale), and the Minnesota Independent Coalition (MIC) all submitted written comments. Of these, all but Lakeland appeared before the Commission on November 4 and made oral argument.

THE POSITIONS OF THE PARTIES

THE DPS

The DPS stated that the following language in the Order is ambiguous and requires clarification: "...all telephone companies shall file a report ...showing ...the amount of house riser cable to be removed from rate base, a proposal for amortizing house riser cable" Order, p. 12. The ambiguity became apparent in August 1987 when Commission staff returned several depreciation certification capsule summaries for inside wire and house rise cable to the DPS. Staff asked whether depreciation rates for inside wire and house riser cable needed to be certified in light of the December 31, 1986 Order.

The DPS saw three possible interpretations of the December 31 Order:

1. Inside wire and house riser cable are to be removed from rate base. The companies will be allowed neither a recovery of nor a return on these investments.
2. Unamortized inside wire and house riser cable are to remain in rate base, with the companies both recovering and earning a return on these investments, until they have been fully amortized.
3. Unamortized inside wire and house riser cable are to be removed from rate base, but recovery of these investments will be allowed as a depreciation expense. No return on these investments will be allowed.

The DPS did not take a position on which interpretation the Commission should adopt.

RUD-AG

The RUD-AG urged the Commission to adopt the third interpretation suggested by the DPS. They stated that allowing companies to recover their investments without earning a return would best balance the interests of the companies and ratepayers, since the ratepayers now have most of the responsibilities of ownership in regard to inside wire.

NWB

NWB argued there was no ambiguity regarding the accounting treatment of inside wire and house riser cable, as evidenced by the fact that their approved compliance filings set forth their intention both to recover and to earn a return on their remaining investments. Furthermore, the Company has implemented a Commission-approved \$5.2 million rate reduction based upon this interpretation of the Order.

NWB also argued that any changes in existing practice on the treatment of inside wire and house riser cable would be more appropriately made in the context of the "NWB DOD Rate Case," Docket No. P-421/CI-86-354, where the issue is before an Administrative Law Judge. That case would give the Commission the benefit of a fully developed record.

NWB argued that any Order denying the Company the right to recover and earn a return on its unamortized investment in inside wire and house riser cable would be an unconstitutional taking of property without adequate compensation.

Finally, NWB argued that allowing both recovery and return was consistent with the FCC's order regarding inside wire.

LAKEDALE

Lakedale argued that the telephone companies had made prudent investments in inside wire and house riser cable to provide service to their customers, and that companies should be allowed to both recover and earn a return on their remaining investments.

MIC

MIC argued that further clarification of the Order would result in added expense and confusion. They also emphasized the value of consistency between Commission treatment of this issue and the FCC orders and compliance filings made by their member telephone companies.

MIC also expressed concern that any accounting requirements imposed not be too elaborate for small companies with little or no investment in house riser cable.

STATEMENT OF ISSUES

The issues before the Commission are whether its Order of December 31, 1986 requires clarification and, if so, what is the appropriate accounting treatment of inside wire and house riser cable.

FINDINGS AND CONCLUSIONS

The Commission finds that clarifying its earlier Order is necessary and in the public interest. The DPS's ability to perform its enforcement duties will be severely hampered without clarification of the proper accounting treatment of inside wire and house riser cable. The telephone companies' ability to set proper rates and make sound financial decisions will also be compromised. The Commission will therefore clarify its Order.

The Commission finds that telephone companies made prudent investments in inside wire and house riser cable to fulfill their regulatory obligations. These investments are still used by and useful to the ratepayers. Disallowing recovery of and return on these investments would be contrary to general ratemaking principles followed by the Commission.

This interpretation is consistent with the FCC's Order regarding inside wire. It is consistent with the companies' compliance filings previously approved by the Commission. It is the interpretation underlying the \$5.2 million rate reduction implemented by NWB and approved by the Commission. This interpretation reflects the original intent of the Commission.

For these reasons the Commission will clarify its December 31, 1986 Order by adopting what the DPS characterized as the second possible interpretation of its treatment of inside wire and house riser cable. These investments will be retained in rate base until they have been fully amortized. The companies will be allowed both to recover and earn a return on these investments.

ORDER

1. The Commission's December 31, 1986 Order in this matter is hereby clarified to provide that unamortized investments in inside wire and house riser cable embedded prior to January 1, 1987 shall remain in rate base until they have been fully amortized. While these investments are in rate base, telephone companies are entitled to recover them and to earn a return on them.
2. All other inside wire/house riser cable investments shall be removed from rate base.
3. Depreciation expense on embedded inside wire at October 1, 1981, and embedded house riser cable at January 1, 1987, shall continue to be charged to Account 608, Depreciation. The corresponding credits shall continue to be made to Account 171, Depreciation Reserve, for the remaining amortization period approved for each company. The installation and maintenance of inside wire charged to Account 605, since October 1, 1981, and the installation and maintenance of house riser cable since January 1, 1987, shall be charged to Account 106, Nonregulated Investments, beginning January 1, 1987. Companies shall continue to request annual certification for the remaining lives of inside wire, including house riser cable, for the remaining amortization period.
4. This Order is effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)