

P-421, 405, 407, 430, 426, 520, 427/CI-87-76 ORDER DENYING
RECONSIDERATION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Petitions
of Certain Subscribers in the
Exchanges of Zimmerman,
Prescott, Waconia, Belle Plaine,
North Branch, Lindstrom, New
Prague, Cambridge, Hudson,
Houlton, LeSueur, Cannon Falls,
Delano, Northfield, Buffalo, and
Watertown for Extended Area
Service to the Minneapolis/St.
Paul Metropolitan Calling Area

ISSUE DATE: May 21, 1992

DOCKET NO. P-421, 405, 407, 430,
426, 520, 427/CI-87-76

ORDER DENYING RECONSIDERATION

PROCEDURAL HISTORY

On December 20, 1991, the Commission issued an Order requiring U S West Communications Inc. (U S West or the Company) to replace its current tier rate design in the metropolitan calling area with a uniform rate for residential customers and for business customers by class of service. The Order required the Company to calculate its new uniform rate on a revenue neutral basis and submit the result to the Commission within 90 days. Parties were required, within the same 90 day period, to submit comments regarding the form and scope of notice to be given before implementing the new rates. A 30 day period for reply comments was also established.

On January 8, 1992, the Office of the Attorney General, Residential Utilities Division (RUD-OAG) filed a petition for reconsideration of the December 20 Order. On March 11, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

Revenue Neutrality

The RUD-OAG asserts that the income neutrality issue has not been addressed by the parties in sufficient depth. Therefore, the

RUD-OAG recommends that the Commission establish a comment period on the issue of income neutrality. The Suburban Rate Authority (SRA) agrees with the RUD-OAG's recommendation; however, the SRA is concerned that any further proceedings might delay the implementation of the revised rates.

The Commission's December 20, 1991 Order required U S West to calculate a new uniform rate on a revenue neutral basis. The Commission reaffirms that decision here. Revenue neutrality was contemplated throughout the proceedings in this docket. The January 22, 1991 comments of U S West provided estimates of a uniform residential rate determined on a revenue neutral basis. Comments of Tier 1 customers opposed uniform rates on the assumption that those rates would be revenue neutral. The option of leveling metropolitan rates at Tier I levels was presented to the Commission at its November 5, 1991 meeting; this option was rejected.

As the Commission indicated in its December 20, 1991 Order, leveling rates on a revenue neutral basis is likely to decrease the rates of subscribers in Tiers 3 and 4 dramatically, by as much as three dollars per month. Tier 2 rates are likely to stay the same, while the monthly rates of Tier 1 subscribers increase by approximately 50 cents. The benefit to outer-tier customers should clearly exceed any harm to their counterparts in the innermost tier.

Establishing uniform rates at the current Tier 1 levels would undermine the purpose of the U S West Incentive Plan. The Incentive Plan is intended to increase U S West's incentive to achieve operating efficiencies by allowing the Company to earn amounts in excess of its authorized rate of return, subject to returning a specified percentage of these earnings to ratepayers. Rate stability and income stability are two cornerstones of this Plan. The adoption of a uniform metropolitan rate is necessary given the absence of any credible justification for the tier rate structure, notwithstanding the importance of stable rates. However, the relatively small increase in the rates of subscribers in one of the four tiers is not sufficient to compel departure from the principle of income stability. As the Commission stated previously, "income neutrality will often be appropriate in making miscellaneous rate adjustments over the course of the Plan." In the Matter of Northwestern Bell Telephone Company's d/b/a U S West Communications' Proposed Incentive Regulation Plan, Docket No. P-421/EI-89-860 (June 7, 1990), pp. 22-23. Income neutrality is clearly proper in this case.

Notice

The RUD-OAG expressed concern that a more comprehensive notice should be given before implementing a rate design change of this

nature. The Commission's December 20, 1992 Order in this proceeding solicited comments from the parties on the issue of notice. The Commission believes these comments will provide an adequate basis for addressing this issue.

ORDER

1. The petition for reconsideration filed by the Residential Utilities Division of the Office of the Attorney General is denied.
2. The parties shall submit the information and comments required under the Commission's December 20, 1992 Order within 45 days of the date of this Order.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)