

P-405/M-91-609 ORDER DEFERRING CONSIDERATION OF COST RECOVERY
PLAN

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 Vista Telephone
Company of Minnesota's Four-
Party Upgrade Plan

ISSUE DATE: January 27, 1993

DOCKET NO. P-405/M-91-609

ORDER DEFERRING CONSIDERATION OF
COST RECOVERY PLAN

PROCEDURAL HISTORY

In 1991 the Minnesota Legislature enacted legislation to eliminate four-party service to Minnesota telephone subscribers. Minn. Stat. § 237.068 (Supp. 1991). The legislation requires all local exchange companies offering or providing four-party service to file plans to substitute two-party or one-party service by October 31, 1993. The Commission is to review and approve these plans, to monitor performance under the plans, and to report to the Legislature on January 1, 1992 and January 1, 1993 on progress in eliminating four-party service.

On August 12, 1991, Vista Telephone Company of Minnesota (Vista or the Company) filed its plan to eliminate four-party service. On October 2, 1991, the Department of Public Service (the Department) filed comments recommending approval of the plan. The Department also recommended requiring the Company to revise its tariffs as conversion occurs and requiring the Company to make a filing describing how it proposes to recover the costs of conversion.

On December 9, 1991, the Commission issued its ORDER APPROVING PLAN AND REQUIRING PROGRESS REPORTS in this matter. Among other things, the Order directed the Company to propose 1) a plan for recovering the costs of eliminating four-party service and 2) the ratemaking treatment for those costs on or before October 31, 1992.

On November 2, 1992, Vista filed a Cost Recovery Proposal and Report of Progress. The Report of Progress was considered by the Commission separately. See ORDER GRANTING ADDITIONAL TIME TO ELIMINATE FOUR-PARTY LOCAL EXCHANGE SERVICE (December 28, 1992).

On December 7, 1992, the Minnesota Department of Public Service (the Department) filed comments regarding Vista's cost recovery proposal.

On December 23, 1992, Vista filed Reply Comments.

On January 12, 1993, the Department responded to Vista's Reply Comments.

On January 19, 1993, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

Vista's Proposed Cost Recovery Plan

Vista requested that the Commission authorize it to establish regulatory accounting procedures that would permit it to

- 1) determine the Accumulated Net Revenue Requirement (i.e. multiply the rate of return authorized by the Commission in Vista's next general rate case by the Net Upgrade Investment¹ and deduct Upgrade Revenues) of its investment in four-party upgrade *from January 1, 1993 to the effective date of interim rates* in Vista's next general rate case and
- 2) recover the Accumulated Net Revenue Requirement through increased intrastate rates, amortizing that requirement over a three (3) year period.

At issue in this matter is Vista's proposal to recover a return on its Net Upgrade Investment during the period prior to the start of its interim rates. Absent approval of the Company's proposal, it would earn no return on that investment during the period January 1, 1993 to the effective date of interim rates.²

Positions of the Parties

In its initial comments, the Department objected to that part of Vista's proposal. The Department stated that with respect to investments made subsequent to the prior rate case (such as the Company's Net Upgrade Investment) it was unaware of any previous

¹ Vista proposed that the "Net Upgrade Investments" include all investments for four-party upgrades from the start of upgrading through December 31, 1992, less depreciation of such investments.

² It is expected that the time period in question (January 1, 1993 to the effective date of interim rates) would be 4 months. Vista projects filing its rate case on March 1, 1993. Normally, interim rates would go into effect 60 days after that filing, i.e. on May 1, 1993.

Commission decision that permitted either a recovery of or a return on such investments during the period preceding the filing of the next rate case.

The Department indicated that there was no reason to make an exception to allow Vista to earn a return on its Net Upgrade Investment on January 1, 1993 (4 months prior to the projected effective date of interim rates in the Company's next rate case) because the Company could have obtained that result by simply filing its rate case November 1, 1992, with interim rates (calculated to include recovery of a return on that investment) going into effect 60 days later, i.e. on January 1, 1993. Having decided to delay the filing of its rate case until March 1, 1993, the Company was in no position to request special treatment to avoid the consequences of that decision.

Vista replied that, contrary to the Department's assertion, the Commission has frequently used an approach like Vista's proposal. The Company cited the Commission's treatment of the costs of FASB 106, manufactured gas plant site investigatory and clean-up costs, and CIP costs. In addition, the Company argued that its right to have filed a rate case on November 1, 1992 (thereby earning a return on its Net Upgrade Investment in interim rates effective January 1, 1993) is not grounds to reject its proposal. Vista asserted that it has a statutory right to recover costs of the upgrade along with a return on those costs and taking such a position would accelerate rate case filings resulting in prematurely higher rates and greater regulatory costs.

Responding, the Department denied that the statute mandated the recovery of upgrade costs outside of a rate case filing. According to the Department, whether to allow recovery of a return on out of test year expenses by virtue of a deferred account may be within the Commission's discretion, but is not required by the statute.

The Department also clarified that it was not opposed to Vista recovering its upgrade costs, including recovery of a return on its investment. However, since it was known that the Company was filing a rate case very soon, the Department argued that the issue should be incorporated into Vista's expected rate case where it could be analyzed in that context.

Commission Action

The Commission will defer Vista's proposal and consider it in the Company's next rate case. In that context, the Commission will be able to examine the effect of the proposal in light of the Company's full financial picture rather than in isolation.

In so deciding, the Commission neither adopts nor rejects the arguments made by the Department in its initial comments and Vista in its filings. Specifically, the Commission is not deciding that the Company will not be allowed to earn its rate of return on its Net Upgrade Investment between January 1, 1993 and

the effective date of the interim rates. If, after considering this matter in Vista's rate case, the Commission finds that the statute mandates such a recovery or that it is appropriate for the Company to earn a return during that period, the Company's final rates can be adjusted to do so.

The Commission's decision to defer this matter is based on its preference to treat entire questions in context. Recovery of the cost of converting from four-party service under Minn. Laws 1991, Ch. 152 entails recovery of two kinds of "costs": the cost of the capital investments and a return on those investments.³ The Commission disfavors piecemeal consideration of the cost recovery questions. This Order assures that the Commission will consider both elements of cost recovery (cost of the capital investments and a return on those investments) at the same time and, equally important, where they can be considered in the broad context of Vista's overall financial condition, i.e. in the Company's rate case.

Vista is not prejudiced by this Order. The Commission's action does not prohibit or delay actual recovery of earnings on its Net Upgrade Investment for the period in question. Even if the Commission had approved the Company's proposal at this time and guaranteed return on the Company's Net Upgrade Investment for the period in question (January 1, 1993 to the effective date of interim rates), the Company would not have started to recover those earnings until the final rates became effective, i.e. the same date that the Company would begin such recovery if the Commission, after consideration of the matter in the Company's next rate case, decided that this was appropriate.

ORDER

1. Consideration of Vista's four-party cost recovery proposal is deferred to the Company's anticipated rate case.
2. This docket, P-405/M-91-609, is hereby closed.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)

³ These costs are sometimes referred to as the carrying costs associated with the upgrade capital investments.