

P-421/EI-89-860 ORDER ESTABLISHING PROCESS FOR EVALUATING THE  
CURRENT INCENTIVE REGULATION PLAN OF U S WEST COMMUNICATIONS,  
INC. AND POSSIBLE REGULATORY STRUCTURES FOR FUTURE CONSIDERATION

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 Evaluation  
of U S West Communications'  
Current Incentive Regulation  
Plan and Future Regulatory  
Structures

ISSUE DATE: June 29, 1993

DOCKET NO. P-421/EI-89-860

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EVALUATING THE CURRENT INCENTIVE  
REGULATION PLAN OF U S WEST  
COMMUNICATIONS, INC. AND  
POSSIBLE REGULATORY STRUCTURES  
FOR FUTURE CONSIDERATION

**PROCEDURAL HISTORY**

On April 9, 1993, the Commission solicited comments on a staff proposal for evaluating the current incentive regulation plan of U S West Communications, Inc. (U S West or Company) and exploring different regulatory structures for future consideration. The Commission received comments from the Residential Utilities Division of the Attorney General's Office (RUD-OAG), the Department of Public Service (Department), the Minnesota Business Utility Users Council (MBUUC), Minnesota Cable Communication Association (Cable Association), AT&T Communications of the Midwest, Inc. (AT&T, Vista Telephone Company of Minnesota (Vista), MCI Telecommunications Corporation (MCI), and the Minnesota Independent Coalition (Independent Coalition).

The matter came before the Commission on June 3, 1993.

**FINDINGS AND CONCLUSIONS**

In 1990 the Commission approved a plan placing U S West under incentive regulation. Incentive regulation was authorized by the Legislature in 1989 as an alternative to traditional rate of return regulation. Minn. Stat. § 237.625 (1992). The incentive regulation statute authorizes the Commission to approve a plan which allows a company to earn amounts in excess of its

authorized rate of return, subject to sharing the additional earnings with ratepayers in proportion to the relative risks the plan imposes on the company and its ratepayers. Incentive regulation is intended to encourage telephone companies to improve operating efficiency while maintaining or improving the quality of service.

The U S West incentive plan approved by the Commission will expire August 1, 1995 when the authorizing statute is automatically repealed. The Commission considers it necessary at this point to evaluate the impact the plan has had on the Company and its ratepayers and to do so before the plan expires. This should provide information that can help the public and decision-makers determine the appropriate regulatory approach for U S West in the future. The review may also provide information that proves useful in identifying alternative approaches to regulating other local exchange companies.

The Commission also finds it appropriate to conduct a more comprehensive inquiry into alternative regulatory structures for all local exchange companies in Minnesota and possible revisions to Minnesota Statutes, Chapter 237. This inquiry, however, should be conducted in a separate, less formal process that runs parallel to the formal evaluation of U S West's incentive plan. This less formal process should involve a study group under the direction of Commission staff.

#### ORDER

1. The Commission hereby initiates a review and evaluation of the U S West incentive regulation plan.
2. The Commission also hereby establishes a study group to examine issues related the regulation of telephone companies under Minnesota Statutes, chapter 237, including alternatives to traditional rate of return regulation. Commission staff shall organize and direct the activities of the study group.
3. To facilitate the evaluation of U S West's incentive plan, the Company shall, on or before July 1, 1993, provide written comments related to the implementation of its incentive regulation plan which must, at a minimum, include the following information:
  - a. actual financial data for calendar years 1990 through 1992, including detailed rate base, expense, capital structure and earnings data;

- b. all relevant efficiency ratios, including but not limited to the ratio of access lines to number of employees, the ratio of total revenues to number of employees, the ratio of total revenues to total operating expenses and annual change in net plant investment for Minnesota and the other 13 U S West states for the years 1988 through 1992;
- c. a summary of the annual sharing amounts that have been derived or distributed to date, including the total amounts distributed to the three customer classes on both an aggregate and a per line or per carrier basis;
- d. a description and analysis of the expense and revenue changes that resulted in an increase in the Company's earnings under incentive regulation;
- e. a financial report that uses the actual financial data for calendar years 1990 through 1992 but applies traditional rate of return regulation, including detailed rate base, as well as expense, capital structure and earnings data for each year;
- f. a summary for calendar years 1988 through 1992 of the quality of service items required under the existing incentive regulation plan, including trouble reports per 100 access lines, move/installation service intervals, time taken to resolve complaints, adherence to scheduled cut-overs and dial-tone speed;
- g. a summary and analysis of the Company's "held order" experience for the years 1990 through 1992, including an assessment of the impact the incentive plan has had on U S West's inventory of facilities for new construction, and on the Company's ability to provide new service installations in a timely manner;
- h. a summary and analysis of the cost and benefits of deploying the Company's digital transmission and switching technology under the incentive plan, considering all relevant factors, including the availability and quality of service;
- i. a summary and analysis of public reaction to the Company's incentive plan, including an assessment of the frequency and nature of customer complaints for the years 1989 through 1992 and an evaluation of customer reaction to the profit-sharing mechanism under the plan;

- j. suggestions for possible future regulatory structures to be applied to U S West, including a statement of goals to be achieved through these alternative structures and an assessment of the need for a separate comprehensive rate design or general rate proceeding before replacing or extending the current incentive plan.
4. The financial report provided pursuant to ordering paragraph 3 (e) must specifically identify the assumptions used to obtain the results under the hypothetical application of traditional rate regulation.
5. Parties are entitled to reasonable discovery on matters related to the operation of U S West's current incentive plan, subject to appropriate proprietary agreements. Reasonable discovery may also extend to the Company's earnings and operations in other states for comparison purposes. Any unresolved disputes regarding the reasonableness of discovery requests shall be submitted to the Commission in writing.
6. Interested parties may, on or before September 3, 1993, submit written comments on U S West's filing pursuant to this Order. These comments should, at a minimum, address the following topics:
  - a. U S West's actual financial experience under the incentive plan during the years 1990 through 1992; and
  - b. possible future regulatory structures to be applied to U S West, including a list of goals to be achieved through these regulatory structures and an assessment of the need for a separate comprehensive rate design or general rate proceeding before replacing or extending the current incentive plan.
7. U S West and all interested parties may file reply comments on or before October 1, 1993.
8. All filings shall be submitted to the Commission and served on the parties on the service list for this proceeding.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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