- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the filing by US WEST COMMUNICATIONS, INC. of its 1998 Depreciation Technical Update Program.	)))	DOCKET NO. 98-049-18 REPORT AND ORDER

ISSUED: December 9, 1998

BY THE COMMISSION:

SYNOPSIS

The Commission Orders technical updates to the remaining lives and depreciation rates for the US West Communications, Inc. intrastate investments using plant balances as of January 1, 1998. We also Order establishment of a special 5 year amortization of investments with original values of $2,000, or less, in accounts 2115, 2116, 2122, 2123.1, 2123.2, and 2124. We further acknowledge that the Ordered increase to the depreciation rate for the 1A Analog Electronic Switching Systems account 2211 is based on confirmation from US West that it will retire the remaining investments by mid-year 2000. All depreciation rate and remaining life changes, and the special 5 year amortization, are to be applied for all accrual and amortization bookings beginning January 1, 1998.

A. Background

1. The Commission's order in Docket No. 94-049-08 required US West Communications, Inc. (US West) to update annually, the remaining lives and depreciation rates of its regulated investments. The Commission's order in Docket No. 97-049-16 reaffirmed the annual technical update requirement.

2. On June 9, 1998, US West filed a "Request for Extension of Time" to file its 1998 technical update schedules and supporting information because the Commission had not issued the final order in the 1997 Depreciation Case Docket No. 97-049-16. The Commission issued that Order June 16, 1998.

3. US West filed its initial 1998 technical update schedules and analog electronic switching system retirement list on June 30, 1998. The Division received its copy of the filing on August 21, 1998, after which it started an investigation. During that investigation, US West filed a revised technical update on October 23, 1998.

4. On October 30, 1998, the Division filed a letter with exhibits A through M, describing the Division's findings. The letter offered alternative recommendations. The alternatives were subject to US West confirming that it would fund the retirements of the 1A Analog Electronic Switching System (1AESS) investments in accordance with the schedule attached to the company's October 23, 1998 revised technical update filing.

5. On November 12, 1998, US West filed a letter with the Commission stating that US West Network Organization had finalized the plan to complete the 1AESS switch conversions by mid-2000.

6. On November 19, 1998, the Division recommended that: the Commission approve the 1998 US West depreciation technical update changes for remaining lives, depreciation rates, and the 5-year amortization for items $2,000, or less, in accounts 2115, 2116, 2122, 2123.1, 2123.2, and 2124; all changes be effective on January 1, 1998; and, because there are no disputed issues, the Commission approve the changes without hearing. The Division also requested that the Commission reaffirm the requirement that US West file future technical updates prior to June 30th of each year.

B. Findings of Fact and Conclusions of Law

1. US West previously received FCC approval to separate embedded investments, and related reserve and net plant

balances, in accounts 2115, 2116, 2122, 2123.1, 2123.2, and 2124, where the original purchase value was $2,000 or less, and to amortize the net plant balances over five years. In a revised October 23rd filing, US West requested Commission approval for the same separation and amortization treatment for the intrastate investment in these accounts.

The Commission previously approved expensing, in lieu of capitalizing, future equipment purchases of $2,000 or less. Maintaining different depreciation and amortization programs for state and interstate jurisdictions can cause complexity in the future and create booking conflicts and errors. Calculations that the Division and US West presented, show that the requested amortization will decrease intrastate expenses by approximately $432,561. The Division recommended adoption of the special amortization program.

The Commission finds that the request to specially amortize the small value investments is reasonable, and approval would help maintain consistency with the depreciation and amortization programs approved by the FCC.

2. The growth in the US West Utah total and net investments from January 1, 1997 to January 1, 1998 declined compared to all prior annual periods. This decline was primarily the result of significant investment retirements in the General Purpose Computer and Digital Circuit Equipment accounts. The decline in growth, and the depreciation and amortization adjustments jointly proposed by US West and the Division in this docket, will result in an overall $1,109,836 decrease in annual intrastate depreciation expenses, based on January 1, 1998 investment balances.

The Commission recognizes, that overall intrastate depreciation expenses have decreased about $6,500,000 since the 1996 depreciation program. The Commission also recognizes that the primary reason for the decrease is due to the Commission's generous depreciation rate approved for the 1AESS equipment in 1996. We approved the 1AESS 1996 depreciation rate based on the previous US West plan to accelerate the retirement of all of this equipment by year-end 1999. US West apparently abandoned the plan after June 1997.

The leveling off of net investment, the decrease in overall depreciation expenses, and the continued growth in revenues would have been cause for a rate case under traditional regulation, but that is precluded by U.C.A. §54-8b-2.4(3).

3. The US West June 30, 1998 technical update changed the 1AESS retirement schedule, deferring the replacement of more than half of the investments to the years 2001 and 2002. Negotiations between the Division and US West resulted in US West reassessing the proposed schedule. The October 23, 1998 US West technical update revised the 1AESS retirement schedule so those investments would be replaced by the end of the year 2000. The Division reflected the retirement dates for each central office in Exhibit J, from which the jointly proposed 1998 depreciation rate of 7.9 percent was calculated. The Division also indicated that the depreciation expenses, associated with the 1996 planned accelerated retirement of all 1AESS by the end of 1999, are included in customer rates today. US West confirmed its revised scheduled 1AESS retirement plans in a letter to the Commission dated November 12, 1998.

4. The Commission finds that the planned 1AESS scheduled retirements by year end 2000, as shown in Division Exhibit J, is a reasonable alternative under the current circumstances. Because existing customer rates include the expenses for the 1996 planned accelerated retirements and the proposed 1998 depreciation rate again accelerates the depreciation of these investments, the Commission will require that US West not defer future 1AESS retirements without prior notification to the Commission and the Division.

5. US West and the Division have jointly proposed technical update changes to the remaining lives and/or depreciation rates for all accounts, except the 1AESS account and the separated investments to be specially amortized. The proposed changes realign the lives and rates to the actual investment, retirement and accrual transactions that occurred in 1997.

C. ORDER

Based on our consideration of the evidence and the joint filing recommending technical updates in this matter, we order:

1. Establishment of a special 5 year amortization of the separated investments with original values of $2,000, or less, in accounts 2115, 2116, 2122, 2123.1, 2123.2, and 2124. No added investments may be booked to the specially separated amounts, as shown in Exhibit B of this order, during the amortization period.

2. The 7.9 percent 1998 depreciation rate for the 1A Analog Electronic Switching Systems account 2211 is contingent on US West retiring the remaining investments by mid-year 2000.

3. US West shall notify both the Commission and the Division prior to deferring any 1AESS retirements beyond those shown in Exhibit J of the Division's October 30, 1998 filing for this Docket.

4. The 1998 technical update to depreciation rates and remaining life for all accounts as shown on attached summary Exhibit No A., and the detailed Exhibit No. B are approved.

5. All depreciation rate changes and the special 5 year amortization shall be applied for all accruals and amortization bookings beginning January 1, 1998.

6. US West file its 1999 depreciation technical update schedules and remaining 1AESS retirement list by June 30, 1999.

DATED at Salt Lake City, Utah, this 9th day of December, 1998.

/s/ Stephen F. Mecham, Chairman

(SEAL) /s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary