Service Date: December 22, 1993

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER Of the Application	)	UTILITY DIVISION
of U S West Communications for	)	DOCKET NO. 88.1.2
a General Rate Increase.	)	ORDER NO. 5354f

PROPOSED FINAL ORDER

Pursuant to . 2-4-621, MCA, the Montana Public Service Commission (Commission) hereby issues the following Proposed Final Order in the above captioned Docket.

1. In Order No. 5354d, the Commission found that the parties concerned with affiliated interest standards, U S WEST Communications (USWC) and the Montana Consumer Counsel (MCC), should attempt to develop standards and reporting requirements for affiliated interest transactions by August 15, 1989. After several requests for additional time the parties filed a Stipulation and Report of U S WEST Communications and Montana Consumer Counsel Regarding Affiliate Interest Issues. The stipulation was dated May 31, 1990, and was signed by Dennis Lopach and Mary Wright. A copy of the stipulation is attached to this Order as Attachment A.

2. On July 27, 1990 the Commission issued a Notice of

Stipulation Meeting. On August 21, 1990, pursuant to the Notice, the Commission held a stipulation meeting where USWC and MCC explained the benefits of the stipulation from their respective points of view.

3. On February 7, 1991 the Commission issued a Notice of Commission Action which set a briefing schedule for the Affiliated Interest issues in Docket No. 88.1.2. Both parties elected to file only initial briefs.

4. On October 21, 1992 the Commission held a work session to discuss the stipulation. At that work session the Commission decided to postpone consideration of the stipulation until after January 1, 1993, because it was felt that the newly elected Commission should decide the issue.

5. On July 28, 1993 the Commission held another work session to discuss the stipulation. At that work session it was decided to wait for receipt of the Watson Report on Affiliated Interests. That report was formally presented to the Commission on November 8, 1993.

6. On December 14, 1993 the Commission held a work session to consider the stipulation. The Commission finds it proper to approve the stipulation on Affiliated Interests between USWC and MCC, and hereby closes Docket No. 88.1.2.

CONCLUSIONS OF LAW

1. The Commission is charged with supervision and regulation of public utilities. . 69-3-102, MCA.

2. U S WEST Communications is a public utility providing regulated telecommunications service. . . 69-3-101 and 69-3-803, MCA.

3. The Commission has provided adequate public notice and an opportunity to be heard herein, pursuant to the Montana Administrative Procedure Act. Title 2, Chapter 4, MCA.

ORDER

1. The stipulation between U S WEST Communications and the Montana Consumer Counsel related to Affiliated Interests is hereby approved and Docket No. 88.1.2 is closed.

2. U S West Communications is ordered to provide the affiliate information set forth in the Stipulation by April 1st of each year. The requirements of the Stipulation (Attachment A hereto) are incorporated herein by this reference.

3. This is a proposed order pursuant to . 2-4-621, MCA. Any party may file exceptions to this Order, present briefs and request oral argument before the full Commission. Exceptions and

supporting briefs must be filed with the Commission within twenty (20) days from the date of service of this proposed order. Briefs opposing exceptions may be filed within ten (10) days thereafter. ARM 38.2.4803.

Done and Dated this 14th day of December, 1993 by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

_____
BOB ANDERSON, Chairman

_____
BOB ROWE, Vice Chairman
(Concurring Opinion Attached)

_____
DAVE FISHER, Commissioner

_____
NANCY MCCAFFREE, Commissioner

_____
DANNY OBERG, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: This Proposed Order is a proposal for decision. Each party has the opportunity to file exceptions, present briefs, and request oral argument before the PSC prior to Final Order. See, Section 2-4-621, MCA. Exceptions and briefs must be filed within 20 days of the service date of this Proposed Order. Briefs opposing exceptions must be filed within 10 days thereafter. Oral argument, if requested, must be requested at or prior to the time of briefing. See, ARM 38.2.4803 and 38.2.4804.

OPINION OF COMMISSIONER ROWE
(Docket No. 88.1.2, Order No. 5354f)

A state utility commissioner attempting to responsibly regulate a multi-state multi-business concern is in the same position as the blindfolded person attempting to understand an elephant part-by-part. This is especially true of U S WEST, probably the most complex regulated firm in the western United States.

The Commission's order in this docket, approving a stipulation which does include reporting requirements is a good step toward gaining a better understanding of the corporation, and therefore toward more appropriately regulating those matters which come under the Commission's jurisdiction. This effort will be furthered should the Commission move to implement the recommendations contained in Docket N-93-67, the omnibus affiliate transactions study, concerning the four major multi-state utilities which do business in Montana.[1]

Unfortunately, the Commission could have done even more in

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[1] That report, prepared by Tim Watson, states that it is impossible for the utilities studied to have truly arms-length transactions with their affiliates, and that the magnitude of potential risk to ratepayers requires that the "no harm" to ratepayers standard for evaluating affiliate transactions be replaced with a requirement that, "but for the affiliated relationship, the utility ratepayers would be worse off." Public Utility Affiliated Transaction Review and Report (October 15, 1993), pp. I-4 to I-6. The report has been submitted to the concerned utilities for comment.

the present docket, but elected not to. The record in this case contains an extensive and detailed evaluation of U S WEST transactions with affiliates, prepared originally for the Utah Public Service Commission in 1987: Price Waterhouse, Mountain Bell Transactions With Affiliates. (Exhibit MCC-9.) The report was the subject of discovery and examination in this docket. Most of the recommendations were endorsed by the parties, including by U S WEST. (Testimony of Ruben Hernandez, Transcript, pp. 529-533.) A series of recommendations concerned standardized planning and reporting requirements for strategic sourcing decisions, evaluation of alternatives, reporting and analysis of when it is appropriate to form an unregulated affiliate, and when it is appropriate to return affiliate functions to the parent.

Although prepared originally in 1987, the Price Waterhouse recommendations are not dated. Rather, they establish a framework for evaluating a range of possible transactions now and in the future. They compliment more than duplicate the recommendations contained in the affiliate transactions study now the subject of Docket N-93-67. Further, because the Price Waterhouse recommendations are part of a contested case record, they are available for immediate implementation as part of an order in this case. Any order which may flow from Docket N-93-67 is many

months away. At the very least, the full record in the affiliated interests portion of Docket 88.1.2, including the Price Waterhouse report, should be included in any formal proceeding which may flow out of Docket N-93-67.

Most of the major issues involving U S WEST which come before this Commission in some way relate to the complex corporate structure, and corporate decisions to shift or prioritize investments in one or another part of its regulated or unregulated business. Implementing the Price Waterhouse recommendations would have afforded this Commission a rational, thorough and prompt means to assess the effects of affiliate transactions on Montana jurisdictional customers.

RESPECTFULLY SUBMITTED this 16th day of December, 1993.

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BOB ROWE
Vice Chair

DEPARTMENT OF PUBLIC SERVICE REGULATION

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MONTANA

* * * * *

IN THE MATTER Of the Application of MOUNTAIN STATES TELEPHONE AND TELEGRAPH (U S WEST Communications or Mountain Bell) for a General Rate Increase.	)	UTILITY DIVISION DOCKET NO. 88.1.2
IN THE MATTER of the Application of MOUNTAIN STATES TELEPHONE AND TELEGRAPH (U S WEST Communications or Mountain Bell) for Authority to Incorporate An 800 Service Circuit Termination on a Centron 6 or 30 Service.	)	DOCKET NO. 88.9.33
IN THE MATTER of the Application of MOUNTAIN STATES TELEPHONE AND TELEGRAPH (Mountain Bell or U S WEST Communications) for Authority To Incorporate Revised Directory Assistance Tariffs Into Its Tariff To State Alternative Terms of Service For Customers of Independ-ent Local Exchange Carriers.	)	DOCKET NO. 88.8.44

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STIPULATION AND REPORT OF U S WEST COMMUNICATIONS AND MONTANA CONSUMER COUNSEL REGARDING AFFILIATE INTEREST ISSUES

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4. Through prefiled testimony of witness Alan Buckalew in this proceeding, the Montana Consumer Counsel (MCC) requested

that the Montana Public Service Commission (PSC or Commission) adopt reporting procedures and standards governing transactions between U S WEST Communications (USWC) and its affiliates. MCC also proposed that the Commission open a separate docket for the purpose of investigating those affiliate transactions. USWC and MCC subsequently entered a stipulation regarding revenue requirement in this docket. That stipulation asked that the PSC permit the parties the opportunity to negotiate "a workable set of standards" regarding affiliate interests.

5. In its Order No. 5354d in this proceeding, the PSC approved the revenue requirement stipulation. Finding No. 30 of that Order (page 13) stated that:

> The Commission finds that the stipulation on this issue is reasonable. The Commission will allow the parties until August 15, 1989, to develop standards and reporting requirements. MCC and USWC shall be required to file a report of their progress with the Commission by this date. Following consideration of the report, the Commission may proceed to issue a final order on this subject, based upon the record before it in this Docket, or take other action which it deems appropriate.

6. The August 15, 1989 report date was extended by the PSC several times at the request of the parties. This Stipulation and Report represents the result of the efforts by USWC and MCC to agree upon an approach to the regulation of affiliate interest

transactions. While neither party is fully satisfied with this approach, both believe that it represents an improvement over the status quo.

7. USWC will file by April 1 of each year, the following materials pertaining to the prior year (unless a general rate case is pending as of April 1 and USWC has already provided the information in connection with the case):

a. A report regarding affiliate interests in the form that USWC has agreed to supply to the Colorado Public Utilities Commission. This report would provide Montana intrastate amounts paid by USWC to affiliates and by affiliates to USWC; it would detail the specific contract under which payments were made; it would display the proportion of an affiliate's revenue which was attributable to USWC; and, finally, it would provide a comparison of payments from the two prior years, together with information on the percentage variance from year to year and an explanation of those instances in which the variance was substantial.

b. The annual report would also include information regarding creation and dissolution of affiliates whose operations affect Montana, and new or changed affiliate contracts having a Montana intrastate effect of $250,000 or more and regular value studies as proposed by USWC to the Regional Oversight Committee

(ROC) of state regulators. USWC would make arrangements for visits by MCC or PSC staff to its affiliates on a regular basis, also as proposed in the document presented to the ROC.

c. The foregoing list of information to be supplied by USWC would not be deemed to be modified and replaced by any agreement which USWC is subsequently able to reach with the ROC unless approved by the Commission.

d. USWC would supply, as a supplement to its annual affiliate interest report, the following information:

i. A list of the intrastate dollar amounts charged to Montana in the prior year for research performed by U S WEST Advanced Technologies, Bell Communications Research, or any other research affiliate, together with work packages or work descriptions for each research project.

ii. Information from USWC's cost manual filed with the Federal Communications Commission (FCC) pursuant to Part X rules regarding any activities in which an affiliate charges USWC for services or in which USWC charges an affiliate.

iii. Annual balance sheets and income statements of all affiliates charging or being charged by USWC.

iv. Certain reports and portions of reports filed with the FCC under the Automated Reporting Management Information

System (ARMIS). These reports, which would be provided in both paper and magnetic disk format, include

--An annual report, designated as form 4301, consisting of a high level summation of USWC's financial information.

--An annual report, designated as form 4302, consisting of balance sheet information for USWC and its three operating companies.

--A report, designated as form 4303, which is a joint cost report containing regulated/non-regualted information.

--A report, designated as form 4304, containing separations detail. The information to be supplied would apply to Montana only.

--A report, designated as form 495a, containing information with regard to public packet switching.

--A report, designated as form 495b, containing forecast information regarding public packet switching services.

8. The filing of an annual report on affiliate interests would in no way affect or limit the rights under law of the MCC or the PSC staff to pursue additional information on this subject from USWC, or to audit the books and records of USWC.

9. USWC would be free to seek to protect from public disclosure any of the information to be filed pursuant to this stipulation which would qualify for protection under Montana law.

10. USWC acknowledges that it has the burden of proof in ratemaking of demonstrating through data and information the

reasonableness and propriety of affiliate services and the reasonableness of the cost of those services.

11. USWC and MCC request that the PSC, following its consideration of this stipulation, approve this stipulation and order that the affiliate interests aspects of Docket No. 88.1.2 be closed.

DATE: May 31, 1990

U S WEST Communications	Montana Consumer Counsel
by:_____	by:_____
DENNIS R. LOPACH	MARY WRIGHT