

*Reprinted*

SENATE FILE 506  
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO SSB 213.3)

Passed Senate, Date 4/2/91 (p. 1165) Passed House, Date \_\_\_\_\_  
Vote: Ayes 49 Nays 0 Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to establishing incentive regulation for  
2 utilities furnishing communication services.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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*SF 506*

*504 amend all*

1 Section 1. Section 476.2, Code 1991, is amended by adding  
2 the following new subsection:

3 NEW SUBSECTION. 8. Notwithstanding section 476.3 or  
4 476.6, the board may adopt rules authorizing and establishing  
5 incentive regulation for utilities furnishing communication  
6 services. The purpose of incentive regulation is to provide  
7 an incentive to utilities furnishing communication services to  
8 improve their operating efficiency while maintaining or  
9 improving the quality and availability of their services. The  
10 rules may provide for profit sharing, customer refunds, and  
11 rate flexibility. Incentive regulation shall be related to  
12 the rate of return established by the board for each  
13 participating utility. Refunds by a utility under incentive  
14 regulation shall be equitably shared among all the customers  
15 of the participating utility.

16 EXPLANATION

17 The bill authorizes the utilities board to implement a  
18 program of incentive regulation for telephone utilities. The  
19 bill provides that the purpose of incentive regulation is to  
20 provide an incentive to telephone utilities to become more  
21 efficient while protecting the quality of service to  
22 customers. Incentive regulation would provide for profit  
23 sharing, customer refunds, and rate flexibility.

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## SENATE FILE 506

S-3304

1 Amend Senate File 506 as follows:

2 1. By striking everything after the enacting  
3 clause and inserting the following:

4 "Section 1. NEW SECTION. 476.2A INCENTIVE  
5 REGULATION.

6 Notwithstanding section 476.3 or 476.6, the board  
7 may adopt rules authorizing and establishing incentive  
8 regulation for rate-regulated local exchange telephone  
9 utilities. The purpose of incentive regulation is to  
10 provide an incentive to the utilities to improve the  
11 operating efficiency of the utilities while  
12 maintaining or improving the quality of the services  
13 provided by the utilities. If a utility increases its  
14 earnings above the utility's rate of return pursuant  
15 to incentive regulation, the utility shall share the  
16 increased earnings with its customers to the extent  
17 and in a manner consistent with this section and any  
18 rules adopted by the board. Any rules adopted by the  
19 board for incentive regulation, may provide for rate  
20 flexibility, and shall include the following  
21 requirements:

22 1. A local exchange telephone utility shall share  
23 any increased earnings which are over the authorized  
\*24 rate of return, and which are equal to, or less than,  
25 five hundred basis points over the authorized rate of  
26 return during the term of the local exchange telephone  
27 utility's participation in incentive regulation with  
28 all of its customers on an equitable basis. At least  
29 fifty percent of the increased earnings subject to  
30 division between the utility and its customers shall  
\*31 be returned to the customers. The division of  
32 increased earnings which are subject to division  
33 between the utility and its customers shall reflect  
34 the degree to which the utility has assumed a risk of  
35 earning less than its authorized rate of return. All  
36 increased earnings which are not subject to division  
37 shall be returned to the utility's customers.

38 2. A local exchange telephone utility which elects  
39 to participate in incentive regulation shall  
40 participate for a minimum of two years. However, a  
41 local exchange telephone utility is not required to  
42 participate in incentive regulation.

43 3. A participating local exchange telephone  
44 utility must make periodic reports to the board to  
45 document that the sharing requirements between the  
46 utility and its customers are being properly  
47 implemented. The utility's earnings and rates are not  
48 subject to section 476.3, subsection 2, during the  
49 utility's participation in incentive regulation.  
50 However, the consumer advocate may request a hearing

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Page 2

1 concerning any part of the utility's report. If the  
2 board determines that there are reasonable grounds for  
3 proceeding with the hearing, the board shall promptly  
4 initiate a formal proceeding.

5 4. The consumer advocate or any other interested  
6 person may file a complaint with the board concerning  
7 a participating utility's adjustment of its rates  
8 pursuant to rate flexibility under incentive  
9 regulation. In reviewing a complaint, the board shall  
10 apply the standards as provided in section 476.5 and  
11 the procedures for complaints found in section 476.3,  
12 subsection 1."

By MICHAEL E. GRONSTAL

S-3304 FILED APRIL 3, 1991

*Adopted as amended by 3336 4/8 (p. 1105)*

SENATE FILE 506

S-3327

1 Amend the amendment, S-3304, to Senate File 506, as  
2 follows:

3 1. Page 1, by striking lines 24 through 26, and  
4 inserting the following: "rate of return during the  
5 term of the local exchange telephone".

6 2. Page 1, line 31, by inserting after the word  
7 "customers" the following: ", and the board may  
8 require that all of the increased earnings above an  
9 amount as determined by the board must be returned to  
10 the utility's customers".

By WILLIAM D. PALMER  
HARRY SLIFE

S-3327 FILED APRIL 4, 1991

*Placed o/o 4/8 (p. 1105)*

SENATE FILE 506

S-3336

1 Amend the amendment, S-3304, to Senate File 506, as  
2 follows:

3 1. Page 1, by striking lines 24 through 26, and  
4 inserting the following: "rate of return during the  
5 term of the local exchange telephone".

6 2. Page 1, line 31, by inserting after the word  
7 "customers" the following: ", and the board may  
8 require that all of the increased earnings above an  
9 amount as determined by the board must be returned to  
10 the utility's customers".

By WILLIAM D. PALMER  
HARRY SLIFE  
BERL E. PRIEBE

S-3336 FILED APRIL 5, 1991

*Adopted 4/8 (p. 1104)*

House Committee 4/8/91 Re. Sen 4/11/91  
Amend + No Pass with H-5420 3/20 (p. 740)

SENATE FILE 506  
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO SSB 213.3)

(AS AMENDED AND PASSED BY THE SENATE APRIL 8, 1991)  
ALL New Language by the Senate

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

- 1 An Act relating to establishing incentive regulation for
- 2 utilities furnishing communication services.
- 3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
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S.F. 506

1 Section 1. NEW SECTION. 476.2A INCENTIVE REGULATION.

2 Notwithstanding section 476.3 or 476.6, the board may adopt  
3 rules authorizing and establishing incentive regulation for  
4 rate-regulated local exchange telephone utilities. The  
5 purpose of incentive regulation is to provide an incentive to  
6 the utilities to improve the operating efficiency of the  
7 utilities while maintaining or improving the quality of the  
8 services provided by the utilities. If a utility increases  
9 its earnings above the utility's rate of return pursuant to  
10 incentive regulation, the utility shall share the increased  
11 earnings with its customers to the extent and in a manner  
12 consistent with this section and any rules adopted by the  
13 board. Any rules adopted by the board for incentive  
14 regulation, may provide for rate flexibility, and shall  
15 include the following requirements:

16 1. A local exchange telephone utility shall share any  
17 increased earnings which are over the authorized rate of  
18 return during the term of the local exchange telephone  
19 utility's participation in incentive regulation with all of  
20 its customers on an equitable basis. At least fifty percent  
21 of the increased earnings subject to division between the  
22 utility and its customers shall be returned to the customers,  
23 and the board may require that all of the increased earnings  
24 above an amount as determined by the board must be returned to  
25 the utility's customers. The division of increased earnings  
26 which are subject to division between the utility and its  
27 customers shall reflect the degree to which the utility has  
28 assumed a risk of earning less than its authorized rate of  
29 return. All increased earnings which are not subject to  
30 division shall be returned to the utility's customers.

31 2. A local exchange telephone utility which elects to  
32 participate in incentive regulation shall participate for a  
33 minimum of two years. However, a local exchange telephone  
34 utility is not required to participate in incentive  
35 regulation.

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1 3. A participating local exchange telephone utility must  
2 make periodic reports to the board to document that the  
3 sharing requirements between the utility and its customers are  
4 being properly implemented. The utility's earnings and rates  
5 are not subject to section 476.3, subsection 2, during the  
6 utility's participation in incentive regulation. However, the  
7 consumer advocate may request a hearing concerning any part of  
8 the utility's report. If the board determines that there are  
9 reasonable grounds for proceeding with the hearing, the board  
10 shall promptly initiate a formal proceeding.

11 4. The consumer advocate or any other interested person  
12 may file a complaint with the board concerning a participating  
13 utility's adjustment of its rates pursuant to rate flexibility  
14 under incentive regulation. In reviewing a complaint, the  
15 board shall apply the standards as provided in section 476.5  
16 and the procedures for complaints found in section 476.3,  
17 subsection 1.

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SENATE FILE 506

H-3693

1 Amend Senate File 506, as amended, passed, and  
2 reprinted by the Senate, as follows:  
3 1. Page 2, by inserting after line 17, the  
4 following:  
5 "5. The board shall not authorize any local  
6 exchange telephone utility to operate under a plan of  
7 incentive regulation unless the utility has filed with  
8 the board, and started implementation of, a network  
9 upgrade plan. For purposes of this section, a  
10 "network upgrade plan" means a plan for the  
11 replacement of all nondigital central office switches  
12 with digital central office switches and associated  
13 improvements in other facilities as required to allow  
14 the transmission of signals within the local exchange  
15 at a level consistent with the quality allowed by the  
16 digital switch. The network upgrade plan shall be  
17 implemented in good faith by the utility involved.  
18 Such replacement and associated improvements under the  
19 plan shall be completed no later than January 1, 1994.  
20 If the board authorizes operation under a plan for  
21 incentive regulation but later finds that a filed  
22 network upgrade plan has not been implemented in good  
23 faith by the utility involved, the utility shall  
24 refund to customers all earnings under the plan for  
25 incentive regulation which are over the authorized  
26 rate of return for the utility."

By DICKINSON of Jackson

H-3693 FILED APRIL 17, 1991

SENATE FILE 506

H-3728

1 Amend Senate File 506, as amended, passed, and re-  
2 printed by the Senate, as follows:  
3 1. Page 1, line 35, by inserting after the word  
4 "regulation." the following: "Any election by a local  
5 exchange telephone utility to participate in incentive  
6 regulation shall be filed concurrently with a request  
7 to increase or decrease rates pursuant to section  
8 476.6, or a request for a determination of the  
9 reasonableness of the utility's existing rates  
10 pursuant to section 476.7. An election by a local  
11 exchange telephone utility to participate in incentive  
12 regulation shall not become effective until the board  
13 takes final action in the proceeding under section  
14 476.6 or 476.7 commenced pursuant to this subsection."

By HOLVECK of Polk  
CHAPMAN of Linn

H-3728 FILED APRIL 18, 1991

SENATE FILE 506

H-3719

1 Amend Senate File 506, as amended, passed, and  
2 reprinted by the Senate, as follows:

3 1. Page 1, by inserting after line 35, the  
4 following:

5 "A local exchange telephone utility shall not  
6 participate under a plan of incentive regulation for a  
7 period of greater than four years. Also, after such  
8 utility has been under the plan for the minimum two-  
9 year period, the board shall initiate a contested case  
10 proceeding to review all of the following:

11 a. How investment, revenue, and expenses under the  
12 plan compare to what investment, revenue, and expenses  
13 would probably have been under traditional rate of  
14 return regulation.

15 b. How rates to customers under the plan compare  
16 to what rates to customers would probably have been  
17 under traditional rate of return regulation.

18 c. How service quality under the plan compares to  
19 what service quality would probably have been under  
20 traditional rate of return regulation.

21 d. Whether the utility's plans for future  
22 operations are consistent with maintaining or  
23 improving the quality of telecommunications service.

24 e. Whether the cost of capital to the utility has  
25 changed from the cost of capital currently used under  
26 the incentive plan.

27 As a result of this review, the board may approve  
28 continued operation under the plan, terminate the  
29 plan, or modify the plan. If the plan is modified by  
30 the board, the utility may, within thirty days, choose  
31 to return to traditional rate of return regulation  
32 rather than continue operating under the plan of  
33 incentive regulation."

By HOLVECK of Polk

H-3719 FILED APRIL 18, 1991

SENATE FILE 506

H-3729

1 Amend Senate File 506, as amended, passed, and  
2 reprinted by the Senate, as follows:

3 1. Page 2, by inserting after line 17 the  
4 following:

5 "Sec. \_\_\_\_\_. The board shall not approve, and a  
6 local exchange telephone utility shall not initiate, a  
7 plan of incentive regulation after July 1, 1996.  
8 However, all local exchange telephone utilities  
9 participating in incentive regulation pursuant to  
10 section 476.2A shall continue to participate for the  
11 duration of the plan or the minimum two-year period,  
12 as applicable."

By HOLVECK of Polk  
HALVORSON of Webster

H-3729 FILED APRIL 18, 1991

SENATE FILE 506

H-5079

1 Amend Senate File 506 as amended, passed, and  
2 reprinted by the Senate, as follows:

3 1. Page 2, by inserting after line 17 the  
4 following:

5 "\_\_\_\_\_. The consumer advocate and the utilities  
6 division shall conduct a study of the incentive  
7 regulation program established pursuant to this  
8 section. The study shall include a description of the  
9 program, the number of local exchange telephone  
10 utilities participating, and an analysis of the  
11 effects of the program. The analysis of the effects  
12 shall include a comparison of what the rates would  
13 have been, and how those rates would have changed,  
14 without incentive regulation, and the actual rates  
15 resulting under the incentive regulation program. The  
16 study shall provide a comparison of such rates for  
17 each calendar year during the study period beginning  
18 January 1, 1993, and continuing through calendar year  
19 1996. The consumer advocate and the utilities  
20 division shall submit a report of the study's findings  
21 to the general assembly no later than February 1,  
22 1997.

23 \_\_\_\_\_ . This section is repealed July 1, 1997."

24 2. Renumber as necessary.

By GRONINGA of Cerro Gordo

H-5079 FILED FEBRUARY 18, 1992

SENATE FILE 506

H-5589

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 2, line 39, by inserting after the word  
5 "The" the following: "legislative fiscal bureau,  
6 after consulting with the".

7 2. Page 2, line 40, by striking the word  
8 "division" and inserting the following: "division,".

By GRONINGA of Cerro Gordo

H-5589 FILED MARCH 30, 1992

SENATE FILE 506

H-5666

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 3, by inserting after line 6 the  
5 following:

6 "Sec. \_\_\_\_ . Section 476.32, Code 1991, is amended  
7 to read as follows:

8 476.32 REVIEW OF ANNUAL REPORTS -- ADDITIONAL  
9 INFORMATION.

10 1. The board shall review annual reports submitted  
11 by rate-regulated public utilities. The board shall  
12 commence rate-review proceedings under this chapter if  
13 an annual report indicates that the earnings of the  
14 public utility are excessive.

15 2. A local exchange telephone utility  
16 participating in incentive regulation under section  
17 476.2A shall provide information in addition to the  
18 utility's annual report as requested by the board or  
19 the consumer advocate. The board or the consumer  
20 advocate shall request additional information, as  
21 necessary, to evaluate the impact of incentive  
22 regulation on the rates and operations of such  
23 utility."

24 2. Renumber as necessary.

By OSTERBERG of Linn

H-5666 FILED APRIL 2, 1992

## SENATE FILE 506

H-5420

1 Amend Senate File 506, as amended, passed, and  
2 reprinted by the Senate, as follows:

3 1. By striking everything after the enacting  
4 clause and inserting the following:

5 "Section 1. NEW SECTION. 476.2A INCENTIVE  
6 REGULATION.

7 Notwithstanding section 476.3 or 476.6, the board  
8 may adopt rules authorizing and establishing incentive  
9 regulation for rate-regulated local exchange telephone  
10 utilities. The purpose of incentive regulation is to  
11 provide an incentive to such utilities to take  
12 advantage of technological opportunities and  
13 efficiencies to improve the operating efficiency of  
14 the utilities while maintaining or improving the  
15 quality of the services provided by the utilities. A  
16 utility shall not be allowed to participate in a plan  
17 for incentive regulation unless the board makes a  
18 finding within twelve months of the time participation  
19 in incentive regulation is allowed that the rates of  
20 the utility are just and reasonable. If a utility  
21 increases its earnings above the utility's authorized  
22 rate of return pursuant to incentive regulation, the  
23 utility shall share the increased earnings with its  
24 customers to the extent and in a manner consistent  
25 with this section and any rules adopted by the board.  
26 Any rules adopted by the board for incentive  
27 regulation, may provide for rate flexibility, except  
28 that basic monthly service rates for residence and  
29 business customers shall not be increased without  
30 express approval of the board in a contested case  
31 proceeding. The rules shall include the following  
32 requirements:

33 1. A local exchange telephone utility shall share  
34 any increased earnings which are over the authorized  
35 rate of return during the term of the local exchange  
36 telephone utility's participation in incentive  
37 regulation with all of its customers on an equitable  
38 basis. At least fifty percent of the increased  
39 earnings subject to division between the utility and  
40 its customers shall be refunded to the customers, and  
41 the board may require that all of the increased  
42 earnings above an amount as determined by the board  
43 must be refunded to the utility's customers. The  
44 division of increased earnings which are subject to  
45 division between the utility and its customers shall  
46 reflect the degree to which the utility has assumed a  
47 risk of earning less than its authorized rate of  
48 return. All increased earnings which are not subject  
49 to division shall be refunded to the utility's  
50 customers.

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1 2. A local exchange telephone utility which elects  
2 to participate in incentive regulation shall  
3 participate for a minimum of two years in the absence  
4 of exceptional and unforeseeable circumstances. In  
5 the case of exceptional and unforeseeable  
6 circumstances, the utility or the consumer advocate  
7 may request that the board terminate participation in  
8 incentive regulation for the utility. However, a  
9 local exchange telephone utility is not required to  
10 participate in incentive regulation.

11 3. A participating local exchange telephone  
12 utility must make periodic reports to the board to  
13 document that the sharing requirements between the  
14 utility and its customers are being properly  
15 implemented. The utility's earnings and rates are not  
16 subject to section 476.3, subsection 2, during the  
17 utility's participation in incentive regulation.  
18 However, the consumer advocate shall have the power to  
19 investigate compliance with incentive regulation  
20 requirements and may request a hearing concerning any  
21 part of the utility's report. If the board determines  
22 that there are reasonable grounds for proceeding with  
23 the hearing, the board shall promptly initiate a  
24 formal proceeding.

25 4. The consumer advocate or any other interested  
26 person may file a complaint with the board concerning  
27 a participating utility's adjustment of its rates  
28 pursuant to rate flexibility under incentive  
29 regulation. In reviewing a complaint, the board shall  
30 apply the standards as provided in section 476.5 and  
31 the procedures for complaints found in section 476.3,  
32 subsection 1.

33 5. For purposes of this section, "basic monthly  
34 service for residence and business customers" means  
35 local exchange service, existing extended area  
36 service, enhanced 911 service, and all other local  
37 services necessary for any customer to use local  
38 exchange facilities.

39 6. The consumer advocate and the utilities  
40 division shall conduct a study of the incentive  
41 regulation program established pursuant to this  
42 section. The study shall include a description of the  
43 program, the number of local exchange telephone  
44 utilities participating, and an analysis of the  
45 effects of the program. The analysis of the effects  
46 shall include a comparison of what the rates would  
47 have been, and how those rates would have changed,  
48 without incentive regulation, and the actual rates  
49 resulting under the incentive regulation program. The  
50 study shall provide a comparison of such rates for

H-5420

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1 each calendar year during the study period beginning  
2 January 1, 1993, and continuing through calendar year  
3 1996. The consumer advocate and the utilities  
4 division shall submit a report of the study's findings  
5 to the general assembly no later than February 1,  
6 1997."

By COMMITTEE ON COMMERCE  
HANSEN of Woodbury, Chairperson

## SENATE FILE 506

H-5567

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 1, line 22, by striking the words "rate  
5 of return" and inserting the following: "rate of  
6 return by taking specifically identifiable measures to  
7 improve its efficiency".

8 2. Page 1, line 23, by inserting after the word  
9 "share" the following: "in".

10 3. Page 1, lines 23 and 24, by striking the words  
11 "with its customers" and inserting the following:  
12 "attributable to the specifically identifiable  
13 measures".

14 4. Page 1, line 33, by inserting after the word  
15 "share" the following: "in".

16 5. Page 1, line 35, by inserting after the word  
17 "return" the following: "which are attributable to  
18 specifically identifiable measures taken to improve  
19 efficiency".

20 6. Page 1, line 37, by striking the words "with  
21 all of its customers".

22 7. Page 1, line 38, by inserting after the word  
23 "basis." the following: "Increases in earnings over  
24 the authorized rate of return which are not  
25 attributable to specifically identifiable measures  
26 taken to improve efficiency are not subject to  
27 division between the utility and its customers and  
28 shall be refunded in total to the utility's  
29 customers."

30 8. Page 1, line 48, by inserting after the word  
31 "return" the following: "; provided, however, that  
32 the utility shall receive no share of any increased  
33 earning which result solely from a reduction in the  
34 number of employees".

35 9. Page 2, line 20, by inserting after the word  
36 "and" the following: "whether increases in the  
37 utility's earnings are caused by specifically  
38 identifiable measures taken by the utility to improve  
39 its efficiency, and the consumer advocate".

40 10. Page 2, line 23, by inserting after the word  
41 "hearing," the following: "including a showing that  
42 the increases in earnings are in substantial part  
43 caused by factors other than specifically identifiable  
44 measures taken by the utility to improve its  
45 efficiency,".

By HOLVECK of Polk  
OSTERBERG of Linn  
CHAPMAN of Linn  
BURKE of Marshall

BROWN of Lucas  
HALVORSON of Webster  
MURPHY of Dubuque  
SHOULTZ of Black Hawk

H-5567 FILED MARCH 26, 1992

## SENATE FILE 506

H-5566

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 2, line 25, by inserting after the figure  
5 "4." the following: "If a utility's earnings under a  
6 plan for incentive regulation are above a level set by  
7 the board by rule, the board shall require the utility  
8 to revise its rates downward so that its earnings do  
9 not exceed the rate of return authorized under  
10 incentive regulation, plus a portion of the increased  
11 earnings subject to division which are attributable to  
12 the preceding year's operation."

By OSTERBERG of Linn

H-5566 FILED MARCH 26, 1992

## SENATE FILE 506

H-5545

1 Amend the committee amendment, H-5420, to Senate  
2 File 506, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 2, by inserting after line 32, the  
5 following:

6 "\_\_\_\_. The board shall not authorize any local  
7 exchange telephone utility to operate under a plan of  
8 incentive regulation unless the utility has filed with  
9 the board, and started implementation of, a network  
10 upgrade plan. For purposes of this section, a  
11 "network upgrade plan" means a plan for the  
12 replacement of all nondigital central office switches  
13 with digital central office switches and associated  
14 improvements in other facilities as required to allow  
15 the transmission of signals within the local exchange  
16 at a level consistent with the quality allowed by the  
17 digital switch. The network upgrade plan shall be  
18 implemented in good faith by the utility involved.  
19 Such replacement and associated improvements under the  
20 plan shall be completed no later than January 1, 1994.  
21 If the board authorizes operation under a plan for  
22 incentive regulation but later finds that a filed  
23 network upgrade plan has not been implemented in good  
24 faith by the utility involved, the utility shall  
25 refund to customers all earnings under the plan for  
26 incentive regulation which are over the authorized  
27 rate of return for the utility."

28 2. Renumber as necessary.

By DICKINSON of Jackson

H-5545 FILED MARCH 26, 1992

SENATE FILE 506

H-5646

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. By striking page 1, line 7 through page 3,  
5 line 6 and inserting the following:

6 "A telephone utility which is able to reduce its  
7 expenses by increasing the efficiency of its  
8 operations shall be allowed to retain all of the net  
9 income attributable to the increase in efficiency  
10 until the next proceeding setting rates for the  
11 utility. In that next proceeding setting rates for  
12 the utility, the utility may be allowed, at the  
13 discretion of the board, to retain lesser amounts of  
14 the net income attributable to the increase in  
15 efficiency. If substantial competition exists for a  
16 service provided by a telephone utility that has not  
17 been deregulated by the board under section 476.1D,  
18 the board may approve a tariff for the service which  
19 provides for rate flexibility within a range  
20 prescribed in the tariff. For rate changes within the  
21 range specified by the tariff, the utility need not  
22 comply with the requirements of section 476.6,  
23 subsections 5, 6, and 7."

By HOLVECK of Polk

H-5646 FILED MARCH 31, 1992

SENATE FILE 506

H-5615

1 Amend the committee amendment, H-5420, to Senate  
2 File 506, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 2, by striking lines 1 through 10, and  
5 inserting the following:

6 "2. All local exchange telephone utilities shall  
7 participate in incentive regulation for a minimum of  
8 two years, unless participation is otherwise  
9 terminated pursuant to this subsection. In the event  
10 of exceptional and unforeseeable circumstances, the  
11 utility or the consumer advocate may request that the  
12 board terminate participation in incentive regulation  
13 for the utility."

By OSTERBERG of Linn

H-5615 FILED MARCH 31, 1992

SENATE FILE 506

H-5629

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 1, by striking lines 18 and 19, and  
5 inserting the following: "finding that the rates of".

6 2. Page 1, line 20, by inserting after the word  
7 "reasonable" the following: "at the time  
8 participation in incentive regulation is allowed".

By BRAND of Benton

H-5629 FILED MARCH 31, 1992

SENATE FILE 506

H-5630

1 Amend the committee amendment, H-5420, to Senate  
 2 File 506, as amended, passed, and reprinted by the  
 3 Senate, as follows:  
 4 1. Page 1, lines 29 through 31, by striking the  
 5 words "without express approval of the board in a  
 6 contested case proceeding".

By BRAND of Benton

H-5630 FILED MARCH 31, 1992

SENATE FILE 506

H-5634

1 Amend the amendment, H-5420, to Senate File 506, as  
 2 amended, passed, and reprinted by the Senate, as  
 3 follows:  
 4 1. Page 1, line 40, by inserting after the words  
 5 "the customers," the following: "twenty percent of  
 6 the increased earnings subject to division between the  
 7 utility and its customers shall be used for improving  
 8 the quality of the services provided and upgrading the  
 9 system of the utility,".

10 2. Page 1, line 41, by inserting before the words  
 11 "the board" the following: "ten percent of the  
 12 increased earnings subject to division between the  
 13 utility and its customers shall be deposited in the  
 14 state communications network fund established in  
 15 section 18.137, and".

16 3. Page 1, line 42, by inserting after the word  
 17 "earnings" the following: "after the above  
 18 distributions are made and".

By BRAND of Benton

H-5634 FILED MARCH 31, 1992

SENATE FILE 506

H-5650

1 Amend the amendment, H-5420, to Senate File 506, as  
 2 amended, passed, and reprinted by the Senate, as  
 3 follows:

4 1. Page 2, by inserting after line 38 the follow-  
 5 ing:

6 "\_\_\_\_\_. Unless otherwise provided, this section does  
 7 not apply to a telephone company organized as a  
 8 corporation under chapter 491 qualifying pursuant to  
 9 an internal revenue service letter ruling under I.R.C.  
 10 501(c)(12) as a nonprofit corporation entitled to  
 11 distribute profits in a manner similar to a chapter  
 12 499 corporation, or to a telephone cooperative  
 13 organized under chapter 499."

14 2. Renumber as necessary.

By KREMER of Buchanan

H-5650 FILED APRIL 1, 1992

## SENATE FILE 506

H-5718

1 Amend the committee amendment, H-5420, to Senate  
2 File 506, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 2, by inserting after line 38, the  
5 following:

6 "6. The board may approve the operation of a  
7 telephone utility under a plan for incentive  
8 regulation if the board finds, after notice and an  
9 opportunity for evidentiary hearing, all of the  
10 following:

11 a. Operation under a plan for incentive regulation  
12 is necessary to achieve operating efficiencies which  
13 could not otherwise be achieved.

14 b. Operation under a plan for incentive regulation  
15 is likely to provide lower rates to customers for  
16 communications services that would not be possible  
17 under traditional rate base/rate of return regulation.

18 c. Operation under a plan for incentive regulation  
19 will not result in the degradation of the quality or  
20 availability of communications services.

21 These findings may be made as part of a contested  
22 case determining the reasonableness of a utility's  
23 rates."

24 2. Renumber as necessary.

By HOLVECK of Polk

H-5718 FILED APRIL 3, 1992

## SENATE FILE 506

H-5712

1 Amend amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 2, line 36, by inserting before the word  
5 "enhanced" the following: "911 or".

By OSTERBERG of Linn

H-5712 FILED APRIL 3, 1992

## SENATE FILE 506

H-5714

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed and reprinted by the Senate, as  
3 follows:

4 1. Page 1, line 35, by inserting after the word  
5 "return" the following: ", plus an amount as  
6 determined by subsection 3A,".

7 2. Page 2, by inserting after line 24 the  
8 following:

9 "3A. The utility board shall adopt rules  
10 establishing a telephone utility productivity index  
11 for the purpose of determining the portion of any  
12 increased earnings which are to be shared with a  
13 utility's customers pursuant to subsection 1. The  
14 productivity index is a percentage equal to the  
15 average increase or decrease in costs within the  
16 telephone utility industry as compared to the  
17 preceding calendar year. The rules shall establish a  
18 formula for the comparison of each telephone utility's  
19 performance with that total industry performance. The  
20 board shall require a telephone utility to return all  
21 excess earnings to the telephone utility's customers  
22 which are attributable to expected efficiency  
23 improvements as measured by the productivity index.  
24 The percentage of any amount which is in excess of the  
25 utility's authorized rate of return after being  
26 adjusted by the productivity index is subject to  
27 sharing pursuant to subsection 1. The board shall  
28 examine the productivity increase of all telephone  
29 utilities in Iowa in each of the last ten years in  
30 determining the annual telephone utility productivity  
31 factor to be used pursuant to this subsection and  
32 shall annually update this index. Unless otherwise  
33 determined by the board, the annual telephone utility  
34 productivity factor to be used during the initial year  
35 of incentive regulation shall be six percent."

By OSTERBERG of Linn

H-5714 FILED APRIL 3, 1992

## SENATE FILE 506

H-5716

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 1, lines 30 and 31, by striking the words  
5 "in a contested case proceeding" and inserting the  
6 following: "pursuant to section 476.6".

7 2. Page 3, by inserting after line 6 the follow-  
8 ing:

9 "Sec. \_\_\_\_ . NEW SECTION. 476.2B RATE-REGULATED  
10 LOCAL EXCHANGE TELEPHONE UTILITY STRUCTURE.

11 1. A rate-regulated local exchange telephone  
12 utility shall only provide both basic monthly service  
13 for residence and business customers and other local  
14 exchange telecommunications services. A rate-  
15 regulated local exchange telephone utility which  
16 offers any services in addition to such basic monthly  
17 services and local exchange services shall establish a  
18 plan by no later than January 1, 1993, for the sale  
19 and transfer of such other services and assets which  
20 do not directly involve such basic monthly services or  
21 local exchange services to a separate entity in which  
22 the rate-regulated utility shall not retain any  
23 control or ownership interest. The plan shall be  
24 submitted to the utilities board for approval. A plan  
25 developed by a rate-regulated local exchange telephone  
26 utility pursuant to this section shall be implemented  
27 no later than July 1, 1993.

28 2. The separate entity which purchases the  
29 services and assets from the rate-regulated local  
30 exchange telephone utility which do not involve basic  
31 monthly services and local exchange services may  
32 participate in incentive regulation pursuant to  
33 section 476.2A. A rate-regulated local exchange  
34 telephone utility providing basic monthly services  
35 shall not participate in incentive regulation."

36 3. Renumber as necessary.

By OSTERBERG of Linn

H-5716 FILED APRIL 3, 1992

SENATE FILE 506

H-5724

1 Amend the amendment, H-5420, to Senate File 506, as  
2 amended, passed, and reprinted by the Senate, as  
3 follows:

4 1. Page 1, line 40, by inserting after the words  
5 "the customers," the following: "twenty percent of  
6 the increased earnings subject to division between the  
7 utility and its customers shall be used for improving  
8 the quality of the services provided and upgrading the  
9 system of the utility,".

10 2. Page 1, line 41, by inserting before the words  
11 "the board" the following: "ten percent of the  
12 increased earnings subject to division between the  
13 utility and its customers shall be deposited in the  
14 state communications network fund established in  
15 section 18.137 and shall be used exclusively for  
16 financing Part III of the system, and".

17 3. Page 1, line 42, by inserting after the word  
18 "earnings" the following: "after the above  
19 distributions are made and".

By BRAND of Benton

H-5724 FILED APRIL 6, 1992

## SENATE FILE 506

H-5947

1 Amend the amendment, H-5420, to Senate File 506, as  
 2 amended, passed, and reprinted by the Senate, as  
 3 follows:

4 1. Page 2, by inserting before line 11 the fol-  
 5 lowing:

6 "\_\_\_\_\_. A local exchange telephone utility, which  
 7 elects to participate in incentive regulation, shall  
 8 retain an adequate work force to meet or exceed the  
 9 service standards required under board rules in effect  
 10 on July 1, 1992, or any more stringent service  
 11 standards adopted by rule after that date."

12 2. Renumber as necessary.

By SHERZAN of Polk

H-5947 FILED APRIL 16, 1992

## SENATE FILE 506

H-5950

1 Amend amendment, H-5420, to Senate File 506, as  
 2 amended, passed, and reprinted by the Senate, as  
 3 follows:

4 1. Page 2, by inserting after line 38 the  
 5 following:

6 "\_\_\_\_\_. Notwithstanding any other provision of this  
 7 chapter, a telephone utility applying for or operating  
 8 under incentive regulation shall not increase rates  
 9 charged for basic or enhanced 911 service after  
 10 January 1, 1992, for a period of three years. A  
 11 telephone utility which has increased its rates for  
 12 basic or enhanced 911 service after January 1, 1992,  
 13 shall not apply for incentive regulation for a period  
 14 of three years after such an increase is allowed,  
 15 except that such a telephone utility may apply  
 16 immediately upon decreasing the telephone utility's  
 17 rates for basic or enhanced 911 service to a level  
 18 equal to or less than the level charged by the  
 19 telephone utility on January 1, 1992."

20 2. By renumbering as necessary.

By BLANSHAN of Greene

WISSING of Scott

MERTZ of Kossuth

DVORSKY of Johnson

ERAND of Benton

BRAMMER of Linn

BURKE of Marshall

CHAPMAN of Linn

SVOBODA of Tama

FOGARTY of Palo Alto

KOENIGS of Mitchell

BEATTY of Warren

NIELSEN of Linn

DICKINSON of Jackson

ADAMS of Hamilton

MURPHY of Dubuque

HAVERLAND of Polk

TEAFORD of Black Hawk

H-5950 FILED APRIL 16, 1992

DELUHERY, CH.  
PALMER  
NYSTROM

SSB 213.3  
COMMERCE

SENATE FILE 506  
BY (PROPOSED COMMITTEE ON  
COMMERCE BILL BY  
CHAIRPERSON DELUHERY)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to establishing incentive regulation for  
2 utilities furnishing communication services.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 476.2, Code 1991, is amended by adding  
2 the following new subsection:

3 NEW SUBSECTION. 8. Notwithstanding section 476.3 or  
4 476.6, the board may adopt rules authorizing and establishing  
5 incentive regulation for utilities furnishing communication  
6 services. The purpose of incentive regulation is to provide  
7 an incentive to utilities furnishing communication services to  
8 improve their operating efficiency while maintaining or  
9 improving the quality and availability of their services. The  
10 rules may provide for profit sharing, customer refunds, and  
11 rate flexibility. Incentive regulation shall be related to  
12 the rate of return established by the board for each  
13 participating utility. Refunds by a utility under incentive  
14 regulation shall be equitably shared among all the customers  
15 of the participating utility.

16

EXPLANATION

17 The bill authorizes the utilities board to implement a  
18 program of incentive regulation for telephone utilities. The  
19 bill provides that the purpose of incentive regulation is to  
20 provide an incentive to telephone utilities to become more  
21 efficient while protecting the quality of service to  
22 customers. Incentive regulation would provide for profit  
23 sharing, customer refunds, and rate flexibility.

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