GD

ORIGINAL

Decision No. 83540

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to increase certain intrastate rates and charges applicable to telephone services furnished within the State of California.	Application No. 53587 (Filed September 19, 1978)
In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to increase certain intrastate rates and charges applicable to telephone services furnished within the State of California.	Application No. 51774 (Filed March 17, 1970)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, separations, practices, contracts, service and facilities of the telephone operations of all the telephone corporations listed in Appendix A, attached thereto.	Case No. 9504 (Filed January 30, 1973)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, separations, practices, contracts, service and facilities of The Pacific Telephone and Telegraph Company.	Case No. 9503 (Filed January 30, 1973)

GD Ap. 53587, et al.

ORDER MODIFYING OPINION AND PRIOR
ORDER AND DENYING REHEARING

We have previously considered and, after due consideration, denied the petitions for rehearing of William M. Bennett, Consumers Lobby Against Monopoly, and Scott-Buttner Communications (Decisions Nos. 83293, 83294 and 83295). Subsequent to the filing of those petitions, additional petitions for rehearing were filed by the Cities of San Diego, Los Angeles and San Francisco (Cities), Olan Mills, Business Telephone Systems Division of Litton Systems Inc. (BTS), California Public Interest Law Center, General Services Administration (GSA), Mrs. Sylvia Siegel and Patricia Muscatelli. Unlike the petitions which were denied by Decisions 83293 and 83294, certain of the petitions now before us have set forth in detail the grounds upon which rehearing is sought, together with references to the record and to precedential authorities (see, e.g., Petition of the Cities of San Diego, Los Angeles and San Francisco). We find such petitions of assistance and have thoroughly examined those portions of the record upon which petitioners rely and we have given consideration to each point raised. For reasons which will be fully described in the remainder of this decision, we have determined to modify Decision No. 83162 as to certain issues raised by the petitions now before us.

Before taking up the principal grounds which have been advanced by petitioners, we will deal briefly with a basic misunderstanding which has pervaded certain of the petitions. Several petitioners have suggested that our decision is of dubious validity because the revenue requirement which we found reasonable exceeds by approximately $313 million the revenue requirement recommended by the staff. In this respect petitioners misconceive

both the role of the staff in our proceedings and the elements which went into the determination of a reasonable revenue requirement for The Pacific Telephone and Telegraph Company (Pacific).

First, the differences between the revenue requirement which we found reasonable and that which was recommended by the staff is attributable almost exclusively to four issues: rate of return, pension expense, wage annualization and limitation of wage increases to 5.5%, and accelerated depreciation with normalization accounting. The grounds upon which our determination is based as to each of these issues are set forth at length in Decision No. 83162. We think it significant, however, that the rate of return which we authorized produces approximately $72 million less than the return requested by Pacific; that none of the petitioners (except Mrs. Siegel) take issue with our determination of pension expense; that the wage annualization treatment adopted here has been applied in our decisions to a number of California utilities without objection by any party and one such decision has been affirmed by the California Supreme Court (City of San Diego v. PUC, S.F. 22912, Writ Denied October 12, 1972) that the staff's proposed limitation of wage increases to 5.5% has never been imposed on any other utility and did not receive the support of any other party to this proceeding; and, that even our staff recommended use of flow-through only if it would not jeopardize Pacific's eligibility for accelerated tax depreciation.

Second, comparisons between the revenue requirement recommended by the staff and that found reasonable by the Commission obscure the fact that Pacific's request exceeded by approximately $100 million the revenue increase which we found reasonable. Those petitioners who seek to suggest that all significant issues were decided in Pacific's favor overlook the fact that the revenue increase found reasonable in Decision No. 83162 reduced by almost one-third the amount which Pacific sought, all as a result of issues which were decided against Pacific.

Lifeline Service.

Several petitioners have asserted that the Commission erred in establishing a gross income limitation of $7,500 as a condition to the establishment of lifeline service. These petitioners misconceive the purposes for which lifeline service was first established and is now offered, and overlook the Income Poverty Guidelines of the Office of Economic Opportunity which establish the poverty level for a non-farm family of 8 at $7,510 (39 F.R. 17969). As was pointed out in our decision, lifeline service was established "primarily to take care of the needs of the poor, the infirm, and the shut-ins" (Gen. Tel. Co. of Cal., Decision No. 75873, 69 Cal. P.U.C. 601, 676). The $7,500 income limitation was intended to promote that goal.

Lifeline is a subsidized service. If a substantial number of persons able to afford other service avail themselves of lifeline service instead, Pacific's revenues could erode to such a point as to compel it to seek a rate increase. Furthermore the continuation of this subsidized service could in such circumstances be jeopardized. Our concern is to preserve this needed service. For this reason we were convinced that an income limitation is essential.

However, the petition of the Cities has persuaded us to take a further step. We will require Pacific to make a full study of all factors which may bear upon preserving lifeline service whether by a specific income limitation as a condition to eligibility for lifeline service or by any other manner whatsoever. We will require Pacific to make such a study and submit the results within 120 days. The study will be served on our staff and all parties who will have 30 days to reply thereto and make comments thereon. To permit completion and evaluation of the study, Decision No. 83162 will be modified to delete the imposition of the $7,500 income limitation. Parties desiring to submit studies similar to the one we have ordered Pacific to make may

do so within 120 days, and will serve all parties. Replies thereto will be served 30 days thereafter.

Rate of Return

Certain of the petitioners challenge our rate of return determination on the ground that the authorization of 8.85% on investment and 11% on equity is inadequately explained and that no explicit recognition was accorded to the risk-reducing effect of the normalization of accelerated depreciation. Neither assertion offers good cause for rehearing.

Decision No. 83162 not only analyzes in depth the evidence of record with respect to accelerated depreciation, but it devotes over 7 pages to a detailed explanation of the reasons underlying our judgment that Pacific requires an equity return of 11% and thus requires a return on investment of 8.85%. We concluded that, although "Pacific asks too much" (p. 14), the requirement to raise the capital necessary to assure good and improving service to consumers, the requirement to give fair consideration to investors, and the importance of maintaining interest coverage in the face of increasing cost of debt require a return on equity of 11%. The determination of rate of return obviously requires the exercise of Commission judgment. The reasons underlying that exercise of judgment are fully and completely set forth.

Nor do we believe that the contention that we did not take into account the risk-reducing effect of normalization has merit. The impact of normalization upon risk, and hence upon rate of return, was taken into account in the Commission's deliberations and was one of the factors which caused us to reduce the equity return authorized for Pacific below that authorized for other California utilities of similar capital structure. The impact of normalization on Pacific's risk was not specifically discussed because it was not disputed; all parties, including

Pacific, conceded that the authorization of normalization reduces risk below that which would otherwise result. This uncontradicted evidence was taken into account in fixing rate of return. Because it was uncontradicted, however, this evidence, like much other evidence which has a bearing upon risk and authorized rate of return, was not specifically discussed in our opinion.

Exchange Message Unit Rates.

Olan Mills seeks rehearing with respect to the exchange message unit rate. Pacific sought authority to increase its message unit rate from 4.5 cents to 5.7 cents whereas the staff proposed varying increments up to 5 cents depending upon the revenue increase which was ultimately authorized. We authorized Pacific to increase its message unit rate to 5 cents.

We are of the view that the arguments which Olan Mills has advanced in its petition do not demonstrate good cause for rehearing. On the one hand, petitioner apparently argues that it does not seek a special business message unit rate, while at the same time it argues that message unit rates should not be increased because business message units are "presently profitable" (Olan Mills Petition, p. 4). The evidence shows that the cost associated with the average business and residence local message is 5.0 cents whereas the former rate was 4.5 cents. If there is to be a common business and residence message unit rate - and no party, including Olan Mills, suggests otherwise - an increase in message unit charges is necessary.

Petitioner also errs in contending that "identifiable business services" must be priced to return a profit. Basic telephone service is at least as important to the small businessman as it is to the residence customer. It is for this reason that basic telephone service in this state has always been priced to assure its availability to the widest possible segment of the

population. The losses incurred in rendering basic service have, in turn, been recovered in the rates for the optional business and residence services which, although convenient and often important, are not essential. Decision no. 83162 perpetuates this philosophy.

We recognize that petitioner's own needs, because it solicits business by telephone, could best be served if the rates for local exchange messages were reduced and the rates and charges for the installation of business service and for basic business telephone service were further increased. To do so, however, would require the establishment of a special business message rate and would impose substantial hardship on thousands of small business men who depend upon basic telephone service for their livelihood.

In addition, petitioner apparently misconceives the nature of the rate increases which were authorized for business service. Petitioner complains that business basic exchange rates, service connection charges and move-and-change charges have not been sufficiently increased, while local message unit rates have been increased by an excessive amount. In Decision No. 83162 we increased basic exchange business rates by 25% (from $6 to $7.50), business service connection charges by 40% (from $25 to $35), and business move-and-change charges by 25% (from $10 to $12). By way of contrast, the local message unit charges of which petitioner complains were increased by only 11% (from 4.5 cents to 5 cents). If we were to adopt the Olan Mills position we would shift the existing subsidy of long duration business callers to short duration business callers.

No ground appears for rehearing with respect to the exchange message unit rates authorized by Decision No. 83162.

Key Equipment Services

Business Telephone Systems Division of Litton Systems Inc. (BTS) seeks rehearing on the ground that the Commission has

erred in adopting the staff-proposed rates for key telephones (COMPAK II and III), keyless business extensions, and illuminated lines. We have carefully considered the BTS petition and perceive no ground which would suggest the necessity for rehearing.

BTS alleges that the Commission has misunderstood BTS's proposed rate structure. Difficulty arises in assessing this argument because the BTS rate structure is not a part of the record in this proceeding. BTS did not offer its proposed rates and resulting revenue effect in evidence so that they could be the subject of examination by the parties and where any ambiguities could be resolved. Instead, its rate structure and estimated revenue effects first appeared in the briefing stage of the proceeding. The failure of BTS to introduce evidence as to proposed rates fully justifies us in disregarding the BTS proposals. Nevertheless, although hampered by the absence of any on-the-record explanation of BTS rate structure, we gave consideration to the proposals set forth in BTS' brief and, for reasons set forth in our decision, found them wanting. BTS' petition suggests no basis for modifying that determination.

BTS also alleges that the staff-proposed rates which were adopted by the Commission do not cover the cost of providing the services in which BTS is interested. But there is ample evidence of record with respect to the costs of providing these services and that evidence fully supports our determination that the staff-proposed rates will not only recover the cost of service but will help to support basic exchange service.

BTS further alleges that profits on residential service are supporting business equipment users. This allegation, which appears to be a basic and critical element in BTS' argument, is inconsistent with recorded evidence relating to the cost of providing residential telephone service. Both the staff and Pacific were in agreement that basic residence service is furnished at a loss and the evidence fully supports their contention.

BTS complains that the rates set forth in our decision are not the rates proposed by BTS. As noted earlier, the problem here is that BTS' proposed rates and the resulting revenues were not offered in evidence, they are not a part of the record and they could have been disregarded by the Commission. We will, however, modify our decision to substitute the rates which BTS now says that it proposes for the rates previously set forth. This substitution does not have any bearing upon the outcome. The BTS rates were set forth only for comparative purposes. As is apparent from the face of the decision, our decision with respect to key telephones, business extensions, and illuminated lines did not turn on the level of rates proposed by BTS but on BTS' failure to offer sufficient evidence to support its cost estimates.

Finally, BTS alleges that we gave inadequate consideration to the competitive consequences of the rates authorized in Decision No. 83162. We are fully cognizant of our obligation to give full weight to the competitive effects of our rate orders and we made express reference in our decision to BTS' arguments concerning competition. Here the weight of the evidence supports our determination that the staff-proposed rates will recover the costs of providing key telephones, illuminated lines, and keyless business extensions and will, moreover, help to subsidize basic exchange service.

Accelerated Depreciation

The Cities, the California Public Interest Law Center and others challenge the Commission's decision with respect to accelerated depreciation. Before taking up the Cities' petition and our determination that the points raised justify modification of Decision No. 83162, we will deal briefly with the allegations which are common to several of the petitions.

Petitioners suggest a parallel between this proceeding and Decision No. 77984, which was annulled in City of San Francisco v. P.U.C. (1971) 6 Cal.3d 119. That decision was annulled for failure to consider lawful alternatives in calculation of federal income tax expense. Here in response to the Court's decision, we have done so.

As noted in our decision, more than 19 hearing days were devoted to the subject of accelerated depreciation alone. No time constraints of any kind were placed on any party who chose to introduce evidence on the subject of accelerated depreciation in order to assure that no party was foreclosed. The subject of the "lawful alternatives in calculation of federal income tax expense" (City of San Francisco, 6 Cal.3d 119, 130) was given the fullest possible consideration. We have exhaustively considered the merits of each alternative which has been advanced and have evaluated each such alternative in the light of current federal income tax statutes.

The Cities have alleged that the Commission refused to accept any evidence with respect to the federal income tax regulations which issued on June 7, 1974, and that the Commission restricted the subject matter of briefs on that issue. On June 18, 1974, we issued Decision No. 83012 which reopened the proceedings for the purpose of receiving additional briefs "on the matters raised in the amended Internal Revenue regulations." We imposed no limit upon the subjects to be discussed in those briefs except to request that they include a discussion of whether pro-forma

normalization was permissible. The Cities were free, therefore, to discuss any issues relevant to the new regulations provided only that the problem of pro-forma normalization was a part of that discussion.

The Cities' contention that the Commission "refused to accept any evidence" on alternative methods of ratemaking which would be consistent with the June 7th regulations is equally without merit. The Cities did not ask leave to introduce additional evidence in light of the June 7th regulations and the Cities' petition gives no suggestion as to what the additional evidence might be.

We are likewise unpersuaded by the Cities' contention that the Commission gave inadequate consideration to flow-through as an alternative. Not only did the Commission receive the staff's flow-through evidence without limitation as to time or content, but the Cities themselves took the position that flow-through was not a "viable alternative" (City of Los Angeles Br., p. 35, see also pp. 32-33) and that "something other than ... flow-through was required of necessity as a result of the change in the law" (City of San Diego Br., p. 4).

The allegations that the Commission erred in refusing to require automatic rate reductions without the consent of Pacific afford no ground for rehearing. Petitioners misconstrue the thrust of our decision. Any order which would have the effect of automatically reducing the rates of any utility without hearing and without the opportunity for hearing would be inconsistent with the Public Utilities Code unless the consent of the utility was first obtained. Our rejection of the automatic reduction method stems not from any undue consideration for Pacific but from a due regard for statutory limitations.

Turning to the principal thrust of the Cities' petition, petitioners argue that the Commission erred in failing to require the use of pro-forma normalization, the method which we believe

most closely accords with conventional ratemaking procedures. The Cities' petition with respect to the issue was thoughtful and constructive. Although we do not deem a rehearing required, consideration of the points raised by the Cities has led us to conclude that Decision No. 83162 should be modified in significant respects. These modifications will, we believe, meet the legitimate concerns which have been expressed in the Cities' petition.

This is one of many cases where, if our discretion were unfettered, the Commission might take different action than that which it has adopted (for example, the Commission is barred from retroactive ratemaking, despite strong policy arguments that might be advanced in its favor). Here, pro-forma normalization, a method which otherwise holds considerable attraction, is unequivocally barred by federal income tax regulations.

Paragraph 1.167(h)(6) (39 F.R. 20194, 20201, June 7, 1974) of the regulations is as follows:

> "(6) Exclusion of normalization reserve from rate base. (i) Notwithstanding the provisions of subparagraph (1) of this paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167 (i) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's tax expense in computing cost of service in such ratemaking."

The plain language of the regulation would directly affect a taxpayer using pro-forma normalization inasmuch as under that method the amount of the reserve for deferred taxes which is excluded from rate base for ratemaking purposes exceeds the amount of such reserve for the period used in determining the taxpayer's tax expense in computing cost of service.

The income tax regulations make clear beyond reasonable doubt that to adopt pro-forma normalization would be worse than self-defeating. Adoption of pro-forma normalization would foreclose the availability of accelerated tax depreciation to Pacific while at the same time fixing its rates on the false assumption that the utility was actually paying its taxes on the basis of accelerated tax depreciation. The end result would be severely to impair and possibly to eventually destroy service. When the advantages of pro-forma normalization are weighed against the certain consequences of loss of accelerated tax depreciation, the public interest requires that pro-forma normalization be set aside in favor of the approach which we have adopted in our decision.

In reaching our determination that normalization should be adopted and that, given the unequivocal federal income tax regulations, pro-forma normalization must be rejected, we also gave consideration to the facts that:

(1) To force Pacific to straight-line depreciation for payment of its federal income taxes would inevitably require further rate increases amounting to many tens of millions of dollars. Such rate increases would be necessary to avert the financial disaster that would result from depriving Pacific of its eligibility for accelerated depreciation while at the same time fixing its rates on that basis.

(2) We are not rewarding Pacific for past imprudence. We calculate from the record that the utility has lost revenues in excess of $175 million as a result of the annulment of the 1971 rate order and is threatened with the loss of over $100 million in back taxes and interest if it is declared ineligible for accelerated tax depreciation for the years 1970-1972 by reason of the fact that its rates were calculated on a flow-through basis in those years. To assess further penalties for a decision of the utility which was made years ago would in these circumstances be excessively punitive.

(3) Normalization does not offend basic ratemaking principles. As the United States Court of Appeals pointed out in its recent decision approving the use of normalization by the Federal Power Commission:

> "We find no conflict between the rate increase allowed Texas Gas and the 'actual expenditures theory' by which rates of utilities are supposed to reflect actual payments. For while Texas Gas is not currently paying taxes at straight-line rates, it is incurring the liability now to pay increased taxes in the future. Such a method as normalization, whereby current customers are prevented from forcing future customers to pay their deferred taxes, does not amount to causing an increase of rates based on fictional taxes. And the Supreme Court specifically noted in its opinion in this case [FPC v. Memphis Light, Gas & Water Div. (1973) 411 U.S. 458, 472-473] that normalization was permissible even though it might result in an increase in rates [as compared to flow-through]" (Memphis Light, Gas and Water Division v. Federal Power Commission (June 26, 1974) 74-2 USTC par. 9531) (No. 24,517 et al. D.C. Cir 1974).

(4) Normalization holds unquestionable advantages to utility customers when compared with straight-line depreciation. No party contends otherwise. As the Federal Power Commission pointed out in adopting normalization:

> "[T]he record shows that after a limited period . the cost of service declines more rapidly under normalization than under flow-through" (Re Texas Eastern Transmission Corp.(49 F.P.C. 1359, 1365 (1973) 99 PUR 3d 494, 499).

We believe that it would be an abdication of regulatory responsibility to ignore the regulations and to fix rates on the basis of pro-forma normalization, thus requiring Pacific to attempt to overturn the regulations in order to preserve its eligibility. If Pacific, which we presume would be vigorously opposed by the Internal Revenue Service, were to fail in its effort to overturn the regulations, the result, which would not be known for many years to come, could have an effect on the Company and its service so disastrous that it might never be overcome. Communication

service is too vital to expose the public and the state to a risk of this magnitude.

As our decision makes clear, we are impressed with the importance of taking all possible steps to assure that the customers obtain the full benefits of accelerated tax depreciation and that Pacific does not profit as a result of normalization. Pacific will experience a windfall if the deferred tax reserve grows disproportionately from other items of expense, revenue and investment. Pro-forma normalization would have prevented this possibility. For the reasons fully stated above in our decision, this alternative is not in the public interest.

There is yet another approach, however, which will assure that customers obtain the full advantage of normalization without destroying the utility's eligibility for accelerated tax depreciation. By this order we will require Pacific to submit to the Commission a number of reports of results of operations which are described with particularity in Appendix A hereto. These reports which are available to public inspection, will assist us in determining whether it appears that Pacific is realizing earnings that result in a rate of return in excess of that authorized in Decision No. 83162. Concurrently with this decision, the Commission will issue an ongoing Order Instituting Investigation, (Case No. 9802 into the rates and operations of Pacific so as to enable the Commission promptly to take those steps necessary to order refunds if, after hearing, the Commission finds that Pacific's rates have resulted in realized earnings that produce a rate of return in excess of that allowed in Decision No. 83162. If it appears to the Commission,based on the information Pacific submits pursuant to the order contained in this decision, that Pacific may be earning a rate of return in excess of that allowed by Decision No. 83162, the Commission will, in Case No. 9802 issue an order which will so advise Pacific and the parties to that proceeding and which will provide for

hearings. Moreover, in that order the Commission intends to require that all jurisdictional rates collected by Pacific after the date of such order will be subject to refund pending final determination, after hearing, of the rates which are just and reasonable for the future.

If, after hearing, the Commission finds that Pacific's rates have produced earnings in excess of the return found reasonable in Decision No. 83162, the Commission will require Pacific to make appropriate refunds of rates collected subject to refund. By providing for a refund condition from the date of the Commission's order advising Pacific and the parties to the investigation proceeding that it appears to the Commission that Pacific's rates result in a realized rate of return in excess of that allowed by Decision No. 83162, the protection afforded Pacific's customers pursuant to Case No. 9802 instituted today will be maximized. We recognize that this procedure may create an issue of retroactive ratemaking because the refund condition affects rates collected before a hearing and finding as to just and reasonable rates for the future. Therefore, we will direct Pacific to indicate whether it consents to the imposition of a refund provision as described herein in any order which may hereafter be issued in Case No. 9802. Such an indication or rejection is to be filed with the Commission within five (5) days after the date of this decision and shall be served on the parties in these proceedings. If Pacific does not consent to this procedure within five (5) days of this order, we shall set hearings in Case No. 9802 for the purpose of determining the Commission's jurisdiction to impose such a refund provision without the consent of the utility.

The procedure authorized herein possesses all of the advantages and none of the disadvantages of pro-forma normalization. It assures that if, because of the growth of the deferred tax reserve or any other factor, the utility's earnings exceed authorized levels, the machinery will exist for a prompt reduction in rates without, at the same time, threatening the utility's eligibility to continue to use accelerated tax depreciation.

With this step, we believe that the issue of the ratemaking treatment to be accorded Pacific's federal income taxes, which has been open and unresolved since Janury, 1970, should be brought to a final conclusion. All issues must ultimately be resolved and the time has come to resolve this one.

The Commission has fully carried out the Court's mandate in City & County of San Francisco v. Public Utilities Com. (1971) 6 Cal. 3d 119, 130, in which the Court stated that:

> "Upon further consideration the commission should consider whether to adhere to the 1969 method of determining federal income tax expense [flow-through] and whether to adopt the accelerated depreciation and normalization method adopted by the decision before us."
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> * * * * *
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> "Although the method opened to the non-telephone utilities is not open to Pacific, the Commission is not compelled to adopt one of the two extremes set forth above but may adopt a compromise striking a proper balance between the interests of the ratepayers and Pacific in the light of current federal income tax statutes."

To conform the opinion and order in Decision No. 83162 with the views expressed herein, IT IS ORDERED THAT:

1. The certification requirement set forth at page 2 of Appendix C in Decision No. 83162 that present and new lifeline customers certify that the combined general gross income of all persons living at the premises where lifeline service is installed is less than $7,500 is hereby deleted.

2. The Pacific Telephone and Telegraph Company is directed to make a full study of all factors which may bear upon preserving lifeline service whether by the imposition of a specific income limitation as a condition to eligibility for lifeline service or by any other manner whatsoever. The study is to be submitted within 120 days of the effective date of this order and will be served on all parties to this proceeding. Parties will be

afforded 30 days from the last day of the 120-day period to reply to or to comment on any aspect of the study. All parties may within 120 days of the effective date hereof file similar studies with replies or comments thereto due within 30 days after the last day of the 120-day period. We are prepared to order hearings on the matter of the future treatment of lifeline service subsequent to the receipt of the reports and comments provided for in this paragraph.

3. The Pacific Telephone and Telegraph Company is hereby directed to file with this Commission intrastate results of operations reports, both on a reported and on a Decision No. 83162 basis, on or before November 30, 1974, detailing its earnings for the month of September 1974, and the 12-month period ending September 30, 1974, as specified in "Appendix A" of this order. The Pacific Telephone and Telegraph Company is further directed to file intrastate results of operations reports for each month subsequent to September 1974, detailing its earnings for that month and for the 12-month period ending that month as specified in "Appendix A" of this order. Each monthly report subsequent to the initial report shall be filed no later than 60 days after the close of the month involved.

4. The Pacific Telephone and Telegraph Company shall within five (5) days of the date of this order advise the Commission and the parties to these proceedings whether, in connection with any order issued by the Commission in Case No. 9802 instituted concurrently herewith indicating to the Company that it appears to the Commission that the Company may be realizing earnings which result in a rate of return in excess of that allowed by Decision No. 83162, it consents to the inclusion in such order of a provision requiring that rates collected subsequent to the date of such order will be subject to refund pending determination by the Commission, after hearing, of the justness and reasonableness of said rates, and thereby waives the prior hearing requirement set forth in Section 728 of the Public Utilities Code.

5. The rates set forth for comparative purposes in a column under the heading PROPOSED RATES - BTS at page 90 of the opinion in Decision No. 83162 are deleted and there are substituted therefor the rates proposed by Business Telephone Systems Division of Litton Systems, Inc. in its brief.

6. Pacific is ordered to notify all customers affected by the lifeline income certification requirement pursuant to Appendix B.

IT IS FURTHER ORDERED THAT the petitions for rehearing of the Cities of San Diego, Los Angeles, and San Francisco, Olan Mills, Business Telephone Systems Division of Litton Systems, Inc., California Public Interest Law Center, General Services Administration, Mrs. Sylvia Siegel and Patricia Muscatelli are individually hereby denied.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 1st day of OCTOBER, 1974.

Vernon L. Sturgeon
President

William Symons Jr.

I abstain.
Commissioner

Commissioners

APPENDIX A
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The Pacific Telephone and Telegraph Company shall prepare and file, with the California Public Utilities Commission, monthly and 12 months ended California intrastate results of operations reports, detailing its earnings on an as reported, and on a Decision No. 83162 adopted basis for each monthly period and 12-month ending period commencing with the month of September, 1974, and continuing each month thereafter.

Each intrastate Results of Operation report shall contain the following detailed information:

1. OPERATING REVENUES
   a. Local Service Revenues
   b. Toll Service Revenues
   c. Miscellaneous Revenues
   d. Uncollectibles
   e. Total

2. OPERATING EXPENSES
   a. Current Maintenance
   b. Depreciation & Amortization
   c. Traffic Expense
   d. Commercial Expenses
   e. General Office Salaries & Expenses
   f. Operating Rents
   g. General Services & Licenses
   h. Other Operating Expenses
   i. Total

3. TAXES
   a. Federal Income
   b. California Corporation Franchise
   c. Social Security
   d. Other
   e. Total

4. BALANCE NET REVENUES

5. AVERAGE NET PLANT AND WORKING CAPITAL
   a. Telephone Plant in Service
   b. Property Held for Future Telephone Use
   c. Telephone Plant Acquisition Adjustment
   d. Working Cash
   e. Material and Supplies
   f. Depreciation Reserve
   g. Reserve for Deferred Taxes
   h. Total

APPENDIX A

6. PERCENT BALANCE NET REVENUES TO AVERAGE NET PLANT & WORKING CAPITAL (RATE OF RETURN)

Each results of operation reports shall contain information separately computed on each of the following bases:

I. AS REPORTED (CALIFORNIA INTRASTATE RESULTS OF OPERATION)

II. ADJUSTED TO ELIMINATE UNUSUAL OR NONRECURRING ITEMS, WITH EXPLANATIONS AS NECESSARY

III. DECISION NO. 83162 BASIS INCLUDING THE FOLLOWING DECISION NO. 83162 ADOPTED ADJUSTMENTS:

a. California Corp. Franchise Tax Current Basis
b. California Corp. Franchise Tax Accelerated Depreciation Flow-Through
c. California Corp. Franchise Tax Pro forma Flow-Through
d. Depreciation Expense and Reserve - Straight Line Remaining Life
e. Relief and Pensions
f. Dues, Donations, and Contributions
g. Legislative Advocacy
h. Advertising
i. License Contract
j. Western Electric Price Adjustment
k. Investment Credit
l. Accelerated Depreciation on Account 176-02, (Cal. Corp. Franchise Tax Flow-Through)
m. Working Cash Allowance
n. Pay TV
o. Adjustment from Wages as Paid and Expensed to Wages Annualized, with Associated Settlement Effects
p. Other Decision No. 83162 Adjustments
q. Other Rate-Fixing Adjustments as Appropriate

IV. DECISION NO. 83162 BASIS AS ABOVE BUT WITH DECISION NO. 83162 RATES ANNUALIZED AND REFLECTING ASSOCIATED SETTLEMENT EFFECTS

The first report, for the period ending September 30, 1974, shall be filed on or before November 30, 1974. Each subsequent report shall be filed no later than 60 days after the close of the reporting month.

APPENDIX B

The Pacific Telephone and Telegraph Company shall mail the following notice to all residential customers affected by the income limitation requirements on page 2 of 5 of Appendix C of Decision No. 83162. Such notification shall be made to all Lifeline customers of record on July 23, 1974, and to all new residential customers (of all grades of service) added since that date in the San Francisco-East Bay, Los Angeles, Orange County, and San Diego Extended Areas. Such mailing shall occur not later than 30 days after the effective date of the order herein.

The notice shall read as follows:

"The California Public Utilities Commission recently ordered that all customers with Lifeline service should certify that the combined income of each household did not exceed $7,500 per year. This income certification was also applicable to new customers requesting Lifeline service.

"After giving the matter further consideration, the Commission has decided to study the matter further and to cancel the income certification requirement for the time being.

"The purpose of this notice is to inform you of the change in the Commission's order and to determine the type of service that you desire now that the income certification is no longer required. The three grades of residential service available to you are:

Lifeline--one party measured with 30 local calls[1]	$2.50 per month
Measured--one party measured with 60 local calls[1]	$3.75 per month
Flat Rate--Unlimited local calls	$5.70 per month

1/ Additional local calls above the 30 or 60 - 5¢ each.

"If you were formerly a Lifeline customer and were changed to a more expensive grade of service, your service will be restored to Lifeline unless you notify our business office that you do not want to go back to Lifeline service.

"If you are a new customer since July 23, 1974, and did not take Lifeline service because of the income certification, you may now wish to change to Lifeline service. If so, please contact our business office and request this change--there is no charge."