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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 the Commission's Division of)
 Ratepayer Advocates for Modification)
 of Resolution No. T-12079 Re Revenue)
 Requirement Impact of 1988 Attrition)
 for Pacific Bell.)

Application 88-05-009
 (Filed May 6, 1988)

**OPINION RE DIVISION OF RATEPAYER ADVOCATES'
 APPLICATION FOR MODIFICATION OF RESOLUTION T-12079**

Procedural Background

On April 13, 1988, this Commission issued Resolution T-12079 ordering a 1988 attrition year revenue requirement reduction of \$64.911 million for Pacific Bell, and specifying memorandum account treatment of this reduction until further order. We also required Pacific Bell, on or before July 15, 1988, to file an application, testimony, and exhibits in connection with a review of 1989 capital structure and cost of capital (Resolution T-12079, Ordering Paragraph 3). Further, we required Pacific Bell, by October 1, 1988, to file an advice letter for 1989 operational attrition using the adopted attrition methodology, as implemented by Resolution T-12079. Finally, we required Pacific Bell, on or before January 31, 1989, to file its 1988 actual realized productivity factor, to enable the Commission Advisory and Compliance Division (CACD) to review this information in the context of the productivity sharing mechanism adopted in Decision (D.) 87-12-067. Resolution T-12079 contemplated that if there is a productivity sharing, Pacific Bell will file an advice letter to

flow through the ratepayers' share of the savings at the time it files its 1988 actual realized productivity factor.

On May 6, 1988, the Division of Ratepayer Advocates (DRA) filed this application seeking certain modifications of Resolution T-12079. DRA asserts that the relief it requests would be primarily procedural, and if granted, would facilitate processing Pacific Bell's and General Telephone Company of California's (GTE-C) 1989 attrition filings.

Specifically, DRA requests that we (1) advance the filing date for Pacific Bell's 1989 financial attrition application from July 15, 1988 to June 15, 1988, and require GTE-C to file a similar financial attrition application on June 15, 1988; (2) specify that the Pacific Bell/GTE-C financial attrition reviews be heard on a consolidated record; and (3) order Contel of California, Inc (Contel), Citizens Utilities Company of California (Citizens), and Roseville Telephone Company (Roseville) to file financial attrition rate adjustment applications on or before February 1, 1989. DRA also requests resolution of certain outstanding operational attrition issues at an early stage in the financial attrition hearings in order to provide guidance to Pacific Bell and GTE-C prior to their 1989 operational attrition filings. DRA notes that we have required Pacific Bell to make its 1989 operational attrition filing on October 1, 1988, and requests formal confirmation that GTE-C is required to make its operational attrition filing on that same date.

Both Pacific Bell and GTE-C have filed formal protests, opposing DRA's requests. In addition, Contel, Citizens, and Roseville have filed requests for extensions of time to July 31, 1988 to file protests or otherwise respond to DRA's application. The substantive points raised in the Protests are discussed below.

Operational Attrition Issues

DRA believes that certain issues the Commission dismissed as "interpretive" in Resolution T-12079 should be resolved before the 1989 operational attrition filings are made. These issues of interpretation are outlined in Resolution T-12079 at pages 8-10 and 12-14.

The first interpretive issue involves the forecasting methodology for developing growth in access lines and growth in revenue per access lines as set forth in the Commission's generic attrition decision (D.86-12-099). During the 1988 attrition review, a dispute arose between Pacific Bell and DRA over the number of data points to be used in the linear regression methodology in order to comply with the Commission's attrition formula. Resolution T-12079 determined that Pacific Bell's linear regression methodology (using 66 data points of 12 month moving averages based on 77 months of recorded data--the same approach used in the 1987 attrition filing) was within "the spirit" of the attrition formula adopted by the Commission. However, the Commission specified: "The parties may raise the issue of the number of months in a future proceeding (such as Phase II of our investigation into alternative regulatory frameworks for local exchange companies, I.87-11-033) in which the attrition mechanism will be re-examined." (Resolution T-12079, page 10.)

In the application before us, DRA requests that we clarify a somewhat broader set of forecast issues:

"Further specificity...with respect to forecast methodology.

- "i. number of data points.
- "ii. switched or total access lines.
- "iii. how to use the linear regression formula." (DRA's application, p. 2.)

The appropriateness of Pacific Bell's calculation of the benefits portion of the composite wages and salaries factor was the second interpretive issue addressed in Resolution T-12079. Citing consistency with the approach followed in the 1987 attrition review, we allowed Pacific Bell to include a team incentive plan and benefits plan in the 1988 attrition calculation, while noting that this outcome should be reviewed in a future proceeding re-examining the attrition mechanism.

In its application, DRA requests that this second interpretive issue, which it poses as "what elements should be included in the wages and salaries escalator", should also be resolved prior to the Commission's review of 1989 attrition.

The third issue of interpretation centers on the productivity sharing plan adopted for Pacific Bell in D.87-12-067. During the 1988 attrition debate, DRA recommended that the Commission make explicit the manner in which productivity sharing would be accomplished in 1989 and onward. Resolution T-12079 characterized the controversy as follows:

" . . . Pacific takes issue with DRA's estimated savings of \$80 million and quotes D.87-12-067, 'The labor attrition formula should be re-computed after the attrition year using the actual realized productivity factor' (Ordering Paragraph 13, mimeo. p. 330-331) (Emphasis added). Pacific also states that it believes there is a methodology in place in the Phase II Results of Operations decision (D.87-12-067) and alleges that DRA is introducing a different methodology in that DRA proposes use of average levels rather than end-of-period levels of access lines and employees. Further Pacific believes the earliest date for which interest should begin accruing is January 1, 1989 when the actual amount, if any, will be known.

"We find that Pacific has applied the productivity factor in compliance with D.86-12-099 and used the value, 2.9%, adopted in D.87-12-067. Since the Productivity Sharing Plan as modified and adopted in D.87-12-067 was litigated at length in Pacific's A.85-01-034,

it is more appropriate for DRA to express its recommendation for changes in the methodology in a petition for modification of D.87-12-067. However, we will take steps to implement the Productivity Sharing Plan.

"Actual productivity savings for 1988 will not be known until after the year's end. Therefore, we will direct Pacific to file its actual realized 1988 productivity factor with CACD for review on or before January 31, 1989, using the Productivity Sharing Plan adopted in D.87-12-067. If the actual realized productivity factor is greater than 2.9%, Pacific should file an advice letter to flow-through the ratepayers' share of savings at the time it files its productivity factor." (Resolution T-12079, pages 15 to 16.)

In its application, DRA request that the Commission clarify the following productivity sharing mechanism issues:

"Complete specification of a vague productivity sharing mechanism:

- "i. whether excess productivity savings should be shared with interest.
- "ii. whether the savings are shared for only one year or more.
- "iii. whether rebates should be on a one-time basis or spread over a time interval.
- "iv. what rates should be affected." (DRA Application, page 2.)

Both GTE-C and Pacific Bell have responded to DRA's request for clarification of these three interpretive issues. GTE-C opposes the imposition of any requirement that it file testimony addressing the productivity sharing mechanism, raising the procedural objection that DRA should have petitioned to modify D.87-12-067 as Resolution T-12079 specified. GTE-C also notes that a productivity sharing mechanism is in issue in its pending general rate case, and argues that it is possible based upon the

record in that proceeding that the Commission may either decline to adopt such a mechanism or adopt a plan that is different from the one found reasonable in D.87-12-067. Finally, GTE-C opposes the Commission's consideration of any interpretive issues in this proceeding, arguing that such issues should be addressed, if at all, in Phase II of I.87-11-033.

Pacific Bell opposes DRA's request because it believes the entire attrition process will be reviewed in Phase II of I.87-11-033. It quotes several recent decisions discussing the Commission's desire to review the overall attrition mechanism in the proceeding investigating alternative regulatory frameworks. Pacific Bell believes DRA's request is premature and contrary to the Commission's desire to address changes to the attrition process in a more fundamental sense. Further, Pacific Bell believes it would be highly inefficient for the parties and the Commission to devote time and resources to a separate proceeding litigating potential changes to attrition on an expedited basis given the intention to review the attrition process during I.87-11-033.

We too share the concern that delving into the interpretive issues at this time poses a certain risk of inefficiency. On the other hand, DRA asserts that it is not attempting to develop new formulas or attack earlier attrition awards, but merely to settle three outstanding issues whose resolution should simplify our review of the 1989 operational attrition filings. Thus it appears that DRA wishes to limit the inquiry to certain discrete issues it believes need immediate resolution, rather than engage in wholesale litigation of the attrition mechanism. However we also recognize that these disputed issues may have large dollar impacts in 1989 as they did in 1988. For example, in 1988 the forecasting issue alone involved a \$51 million revenue requirement impact (Resolution T-12079, page 9). Given the potential dollar impacts, it is reasonable to assume that

the parties may seek to litigate these issues at length, thereby complicating what should be an expedited review.

On balance, we are persuaded that the issues must be addressed due to the magnitude of their impact on ratepayers. However our review will be more limited in scope than DRA requests, and will be keyed to resolving only those issues which require resolution in order to simplify (1) review of the operational attrition advice letters, and (2) the near term implementation of the productivity sharing mechanism. By narrowly focusing the issues at this point, we hope to achieve the goal of simplification, which is especially important given the additional resource demands associated with undertaking 1989 financial attrition reviews during 1988. To that end, we place the parties on notice that this focused review of operational attrition issues is not the proper forum for raising the broader attrition issues to be reviewed in Phase II of I.87-11-033.

We will examine, prior to the operational attrition filings for 1989, the following interpretive issues:

1. Based on our earlier determination that Pacific Bell's use of the linear regression model comports with the "spirit" of the adopted attrition methodology, we will allow the parties to explore the issue of the number of data points (also referred to in Resolution T-12079 as the "issue of the number of months"). We expect that, in addition to DRA, both Pacific Bell and General Telephone will address this issue. We do not wish to explore the second and third subissues raised by DRA ("switched or total access lines" and "how to use the linear regression formula"), since we have determined that Pacific Bell's overall approach is within the "spirit" of our prior decisions. Given time constraints and our narrow focus, we intend to resolve only those issues which will expedite our review of the 1989 operational attrition filings.

2. In the area of the composite salaries and wages factor, we will allow a re-examination of the appropriateness of including the team incentive plan and benefits plan for purposes of the 1989 attrition calculation only. Again, we expect both Pacific Bell and DRA to address this issue. It is uncertain from the pleadings whether this issue impacts GTE-C, but if it does, the ALJ can take the appropriate steps to ensure that GTE-C addresses the issue as necessary to develop the record.

3. We will require that three of the four implementation issues raised by DRA in connection with the productivity sharing mechanism be addressed by Pacific Bell and DRA, to the extent necessary to clarify those issues in connection with Pacific Bell's January 31, 1989 filing (Resolution T-12079, Ordering Paragraph 5 and its 1989 attrition filing. These issues are: (1) whether excess productivity savings should be shared with interest; (2) whether rebates should be on a one-time basis or spread over a time interval; and (3) what rates should be affected. We do not wish to review at this time the issue whether the savings are to be shared for only one year or more, since that issue need not be decided either to process the January 31, 1989 advice letter, or to implement our 1989 attrition order. In addition, it should be clear to the parties that we are not modifying that portion of Resolution T-12079 which required Pacific Bell to make a productivity sharing filing on or before January 31, 1989, premised on the actual (1988) realized productivity factor (Resolution T-12079, Ordering Paragraph 5).

Since the issue of adoption of a productivity sharing mechanism for GTE-C is still before us in a separate rate proceeding, it is premature to require GTE-C to address it now. However, if it becomes necessary to augment the record in this proceeding at a later point, we anticipate that the assigned ALJ

will require that additional testimony be presented by GTE-C and DRA on these issues.

Operational Attrition Filing Dates

This order does not modify the requirement imposed in Resolution T-12079 that Pacific Bell file its 1989 operational attrition advice letter by October 1, 1988 (Resolution T-12079, Ordering Paragraph 4). The issue posed by DRA's modification request is whether GTE-C should be required to file its 1989 operational attrition advice letter during the same time frame.

GTE-C asserts that it should not be ordered to file for 1989 operational attrition until the Commission has issued a decision finally determining the company's test year 1988 revenue requirement, as well as the test year impact of changes associated with the Uniform System of Accounts (USOA) rewrite and the Tax Reform Act of 1986 (TRA). In compliance with previous Commission orders GTE-C has established memorandum accounts to track the impacts of USOA and TRA; however, it believes these two items will affect significantly the final test year revenue requirement which will itself serve as a base for calculating GTE-C's 1989 operational attrition adjustment. Given these uncertainties, GTE-C argues for deferral of its operational attrition filing.

GTE-C also maintains that USOA and TRA must be considered in the attrition calculation as governmental or regulatory actions which have a definitely quantifiable effect on the attrition year revenue requirement (D.86-12-099, mimeo. p. 25), implying that the attrition calculation should be postponed until these impacts can be reflected in the calculation.

GTE-C also argues that it needs a minimum of six weeks from the effective date of its general rate case decision to correlate adopted operating expenses with the attrition formula; it characterizes this problem as one of allocating expense levels between nonlabor and labor related components, indicating that this allocation is a complex process in the first attrition year

following a test year. Finally, GTE-C asserts that certain technical update information bearing on depreciation expense estimates will be unavailable until August, thus supporting its argument that the operational attrition filing date should be deferred.

GTE-C's arguments for deferral are very similar to arguments made last year by Pacific Bell for suspension or delay of the 1988 attrition review, based on pendency of A.85-01-034 (Phase 2) and the undecided USOA and TRA proceedings. In that instance Pacific Bell formally requested relief five weeks before the October 1, 1988 filing date; we agreed there was a degree of uncertainty given the pendency of these events, and postponed the filing date to January 30, 1988. (D.87-10-075, Ordering Paragraph 1.) As events ultimately unfolded, we issued the Phase 2 decision in A.85-01-034 on December 22, 1987, and Pacific Bell made its attrition filing on January 29, 1988.

It is now early June, and the ALJ's Proposed Decision in the GTE-C general rate proceeding has been completed and will be published soon. We anticipate issuance of our decision in timely fashion thereafter. Absent some unusual or unforeseen delay in this process, we believe the October 1 date provides ample opportunity for GTE-C to review the decision and prepare its attrition advice letter. We will order GTE-C to file its 1989 operational attrition advice letter by October 1, 1988. Naturally at that time, GTE-C may make an argument for inclusion of the impacts of governmental or regulatory actions (such as USOA and TRA) if those items have a definitely quantifiable effect on the attrition year revenue requirement, as specified in D.86-12-099, Section M.

Financial Attrition Filing Dates

As noted earlier, DRA requests that we advance Pacific Bell's July 15th financial attrition filing date to June 15, 1988, and also impose the same filing requirement and date on GTE-C. DRA apparently believes this acceleration is necessary in order to

accommodate the hearing of the interpretive operational attrition issues and complete this proceeding before the operational attrition filings are due.

Pacific Bell opposes acceleration of the already compressed filing schedule, especially since DRA apparently contemplates that additional testimony on the interpretive issues would also be included in the materials Pacific Bell is now required to submit with its financial attrition application.

GTE-C also opposes the requested acceleration. GTE-C indicates that it currently intends to file its financial attrition application on or before October 1, 1988. (D.85-03-042, mimeo. p. 85.) It objects to an earlier filing date because it believes it needs to incorporate in its filing the impacts of its yet undecided general rate case decision; it also argues that a later filing date will eliminate the need to update the record to account for recent financial data.

Even taking the additional interpretive issues into account, we agree with Pacific Bell that it is unnecessary to accelerate the July 15th date, since there is no need to issue a decision on financial attrition prior to the filing of the operational attrition advice letters on October 1. Our experience with the annual financial attrition reviews for energy utilities is that it is possible to meld the effects of the financial attrition decision and the operational attrition advice letter and derive one set of rates for the attrition year. Our practice has been to conduct financial attrition hearings in late summer, and release the ALJ's Proposed Decision in time to allow for a year-end decision. Meanwhile the operational attrition filings are processed separately by CACD. The year end rate changes occasioned by resolution of both financial and operational attrition issues are accomplished by close coordination between CACD and the assigned ALJ. (See, D.87-12-068 in A.87-08-006 et al.) While recognizing the added complication posed by a review of the interpretive

operational attrition issues, we see no reason why a similar schedule will not work for Pacific Bell and GTE-C.

GTE-C's arguments that a pre-October filing date is inappropriate are not persuasive. First, the case authority cited for the October 1 date, D.85-03-042, relates to the operational attrition formula, not the requisites of a financial attrition showing. Second, the need for updating to reflect more current financial indicators has been recognized in prior Commission reviews (see, e.g., D.87-12-064, mimeo. p. 4, fn. 1), and is not a persuasive argument for delay in any event. Third, given this prior recognition, we fail to see why GTE-C should be constrained, despite the pendency of a second interim opinion in its general rate case proceeding, from developing the information necessary to address financial attrition issues (i.e., business and financial risk associated with the cost of capital, embedded debt costs, financing plans for attrition year 1989). Therefore, we will require a July 15, 1988 financial attrition filing by GTE-C as well.

Consolidation Issues

DRA has requested that the Commission conduct its review of 1989 financial attrition for Pacific Bell and GTE-C on a consolidated basis in the interests of using scarce staff resources efficiently, and promoting consistency by enabling the Commission to base its decision on contemporaneous financial indicators. Pacific Bell and GTE-C oppose consolidation on the basis that it will muddle the relative investment risks of the two utilities and submerge their significant differences. In particular, Pacific Bell cites the need to evaluate the two utilities' individual business positions within the telecommunications marketplace in any rate of return review. Pacific Bell also highlights the different business and financial risks faced by each utility in terms of unique regulatory considerations, and different demographic concerns and competitive influences.

To the extent that the efficiency of the hearing process is furthered by the opportunity to assess the differing business and financial risks Pacific Bell and GTE-C may face during the same time period, the argument for consolidation is strong. Nonetheless we are fully aware of the need to develop a record which reflects the differing risks of the two utilities, as well as the commonalties of the time period in question. We have balanced this concern in the past during consolidated attrition reviews for energy utilities, by providing the applicants the opportunity to develop a complete record of the risks peculiar to their operations, as well as risks common to the industry. As long as the record is developed in this fashion, premised on a full and fair opportunity to be heard, the argument against consolidation becomes less persuasive. In short, we believe we can protect the due process rights of the applicants while facilitating the efficient working of our own process through consolidation of the financial attrition reviews, and we will so order. We will also hear the disputed interpretive issues on a consolidated record. We plan to issue a separate decision resolving the interpretive issues prior to October 1, 1988, when Pacific Bell and GTE-C will make their separate operational attrition advice letter filings, and a separate decision on financial attrition issues prior to the end of the year.

Outstanding Procedural Matters

A Prehearing Conference (PHC) will be held before Administrative Law Judge Carew on June 21, 1988 at 10:00 a.m. in the Commission Courtroom, 505 Van Ness Avenue, San Francisco, California, for the purpose of establishing a preliminary hearing schedule and additional testimony submission dates in connection with the consolidated reviews of financial attrition and disputed operational attrition issues. We encourage DRA, Pacific Bell and GTE-C to consider whether any or all of the operational attrition

issues can be resolved by stipulation or informal workshops, and to make recommendations to the ALJ on this point at the PHC. ✓

The requests of Contel, Citizens, and Roseville for an extension of time to respond to DRA's application are hereby granted. Such responses are due on July 29, 1988.

Findings of Fact

1. DRA has requested that the Commission resolve certain outstanding operational attrition issues bearing on the forecast methodology, the composite wages and salaries factor, and the productivity sharing mechanism prior to undertaking 1989 operational attrition reviews for Pacific Bell and GTE-C.

2. Pacific Bell and GTE-C oppose DRA's requested review of outstanding operational attrition issues in view of the Commission's expressed desire to review the overall attrition mechanism in I.87-11-033.

3. A narrowly focused review of the outstanding attrition issues, as detailed in the preceding text, keyed to simplification of the 1989 operational attrition filings and resolution of near term implementation issues associated with the productivity sharing mechanism, is appropriate, in recognition of the magnitude of the ratepayer interest at stake.

4. The interpretive issues to be explored in connection with the 1989 operational attrition reviews are: (1) the appropriate number of data points to be used in the forecasting model; (2) the appropriateness of including the team incentive plan and benefits plan in calculating the composite wages and salaries factor; and (3) three implementation issues associated with the productivity sharing mechanism (interest, rebates, and rates related issues).

5. An October 1, 1988 filing date for operational attrition allows GTE-C ample time to reflect impacts from its upcoming rate case decision.

6. It is unnecessary to advance the financial attrition filing date for Pacific Bell from July 15th to June 15, 1988, since

there is no need to issue a decision on financial attrition prior to October 1, 1988.

7. GTE-C has presented no persuasive argument in support of deferring a financial attrition filing to October 1, 1988.

8. Consolidation of the financial attrition reviews for Pacific Bell and GTE-C can be undertaken in a manner that enables independent assessment of any disparate business and financial risks relevant to the rate of return analysis, while promoting the overall efficiency of the Commission's hearing process.

Conclusions of Law

1. DRA's request that the Commission undertake a review of specified interpretive operational attrition issues in connection with the 1989 attrition year, should be granted to the extent consistent with the preceding text.

2. GTE-C should be required to file its advice letter for 1989 operational attrition on or before October 1, 1988.

3. GTE-C should be required to file an application for 1989 financial attrition on or before July 15, 1988.

4. Our review of interpretive operational attrition issues, and our review of the Pacific Bell and GTE-C financial attrition filings are proceedings involving related questions of law and fact, and at the time the two utility applications are filed, they should be consolidated with this docket pursuant to Rule 55.

ORDER

IT IS ORDERED that:

1. Division of Ratepayer Advocates (DRA's) application for modification of Resolution T-12079 is hereby granted to the extent consistent with the preceding discussion, Findings of Fact, and Conclusions of Law; to the extent DRA's application is

inconsistent with the relief granted in this order, the application is denied.

2. On or before July 29, 1988, Contel of California, Inc., Citizens Utilities Company of California, and Roseville Telephone Company shall file formal Protests or other appropriate pleadings responsive to DRA's application, so that the Commission can assess the merits of undertaking attrition proceedings for these three telephone utilities.

3. General Telephone Company of California (GTE-C) shall file an advice letter for 1989 operational attrition by October 1, 1988, using the Commission's adopted attrition methodology.

4. On or before July 15, 1988, GTE-C shall file an application, testimony and exhibits, constituting its affirmative showing for capital structure and cost of capital review for attrition year 1989.

5. The 1989 financial attrition applications of Pacific Bell and GTE-C shall be consolidated with this docket, pursuant to Rule 55 of the Commission's Rules of Practice and Procedure.

6. A Prehearing Conference will be held before Administrative Law Judge Carew on June 21, 1988 at 10:00 a.m. in the Commission Courtroom, 505 Van Ness Avenue, San Francisco, California, for the purpose of establishing a preliminary hearing schedule and additional testimony submission dates in connection with the consolidated reviews of financial attrition and disputed operational attrition issues.

This order is effective today.

Dated June 8, 1988, at Carson, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN

Commissioners
I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

Victor Weisser
Victor Weisser, Executive Director

To the extent that the efficiency of the hearing process is furthered by the opportunity to assess the differing business and financial risks Pacific Bell and GTE-C may face during the same time period, the argument for consolidation is strong. Nonetheless we are fully aware of the need to develop a record which reflects the differing risks of the two utilities, as well as the commonalties of the time period in question. We have balanced this concern in the past during consolidated attrition reviews for energy utilities, by providing the applicants the opportunity to develop a complete record of the risks peculiar to their operations, as well as risks common to the industry. As long as the record is developed in this fashion, premised on a full and fair opportunity to be heard, the argument against consolidation becomes less persuasive. In short, we believe we can protect the due process rights of the applicants while facilitating the efficient working of our own process through consolidation of the financial attrition reviews, and we will so order. We will also hear the disputed interpretive issues on a consolidated record. We plan to issue a separate decision resolving the interpretive issues prior to October 1, 1988, when Pacific Bell and GTE-C will make their separate operational attrition advice letter filings, and a separate decision on financial attrition issues prior to the end of the year.

Outstanding Procedural Matters

A Prehearing Conference (PHC) will be held before Administrative Law Judge Carew on June _____, 1988 at 10:00 a.m. in the Commission Courtroom in San Francisco, for the purpose of establishing a preliminary hearing schedule and additional testimony submission dates in connection with the consolidated reviews of financial attrition and disputed operational attrition issues. We encourage DRA, Pacific Bell and GTE-C to consider whether any or all of the operational attrition issues can be

resolved by stipulation or informal workshops, and to make recommendations to the ALJ on this point at the PHC.

The requests of Contel, Citizens, and Roseville for an extension of time to respond to DRA's application are hereby granted. Such responses are due on July 29, 1988.

Findings of Fact

1. DRA has requested that the Commission resolve certain outstanding operational attrition issues bearing on the forecast methodology, the composite wages and salaries factor, and the productivity sharing mechanism prior to undertaking 1989 operational attrition reviews for Pacific Bell and GTE-C.

2. Pacific Bell and GTE-C oppose DRA's requested review of outstanding operational attrition issues in view of the Commission's expressed desire to review the overall attrition mechanism in I.87-11-033.

3. A narrowly focused review of the outstanding attrition issues, as detailed in the preceding text, keyed to simplification of the 1989 operational attrition filings and resolution of near term implementation issues associated with the productivity sharing mechanism, is appropriate, in recognition of the magnitude of the ratepayer interest at stake.

4. The interpretive issues to be explored in connection with the 1989 operational attrition reviews are: (1) the appropriate number of data points to be used in the forecasting model; (2) the appropriateness of including the team incentive plan and benefits plan in calculating the composite wages and salaries factor; and (3) three implementation issues associated with the productivity sharing mechanism (interest, rebates, and rates related issues).

5. An October 1, 1988 filing date for operational attrition allows GTE-C ample time to reflect impacts from its upcoming rate case decision.

6. It is unnecessary to advance the financial attrition filing date for Pacific Bell from July 15th to June 15, 1988, since

there is no need to issue a decision on financial attrition prior to October 1, 1988.

7. GTE-C has presented no persuasive argument in support of deferring a financial attrition filing to October 1, 1988.

8. Consolidation of the financial attrition reviews for Pacific Bell and GTE-C can be undertaken in a manner that enables independent assessment of any disparate business and financial risks relevant to the rate of return analysis, while promoting the overall efficiency of the Commission's hearing process.

Conclusions of Law

1. DRA's request that the Commission undertake a review of specified interpretive operational attrition issues in connection with the 1989 attrition year, should be granted to the extent consistent with the preceding text.

2. GTE-C should be required to file its advice letter for 1989 operational attrition on or before October 1, 1988.

3. GTE-C should be required to file an application for 1989 financial attrition on or before July 15, 1988.

4. Our review of interpretive operational attrition issues, and our review of the Pacific Bell and GTE-C financial attrition filings are proceedings involving related questions of law and fact, and at the time the two utility applications are filed, they should be consolidated with this docket pursuant to Rule 55.

ORDER

IT IS ORDERED that:

1. Division of Ratepayer Advocates (DRA's) application for modification of Resolution T-12079 is hereby granted to the extent consistent with the preceding discussion, Findings of Fact, and Conclusions of Law; to the extent DRA's application is inconsistent with the relief granted in this order, the application is denied.

2. On or before July 29, 1988, Contel of California, Inc., Citizens Utilities Company of California, and Roseville Telephone Company shall file formal Protests or other appropriate pleadings responsive to DRA's application, so that the Commission can assess the merits of undertaking attrition proceedings for these three telephone utilities.

3. General Telephone Company of California (GTE-C) shall file an advice letter for 1989 operational attrition by October 1, 1988, using the Commission's adopted attrition methodology.

4. On or before July 15, 1988, GTE-C shall file an application, testimony and exhibits, constituting its affirmative showing for capital structure and cost of capital review for attrition year 1989.

5. The 1989 financial attrition applications of Pacific Bell and GTE-C shall be consolidated with this docket, pursuant to Rule 55 of the Commission's Rules of Practice and Procedure.

This order is effective today.

Dated JUN 8 1988, at San Francisco, California.

STANLEY W. HULETT
President
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JOHN B. OHANIAN
Commissioners