Decision 88 09 028 SEP 14 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

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)
Application of GTE California Incorporated, a corporation, (U 1002 C), for authority to increase certain intrastate rates and charges for telephone services to offset 1989 financial attrition.	Application 88-07-017 (Filed July 15, 1988)
In the Matter of the Application of PACIFIC BELL (U 1001 C), a corporation, for a review of its cost of capital and capital structure.	Application 88-07-019 (Filed July 15, 1988)

OPINION ON ATTRITION METHODOLOGY ISSUES

Summary of Decision

This decision considers and adopts a stipulation presented by the Division of Ratepayer Advocates (DRA), Pacific Bell, GTE California Incorporated (GTE-C), Toward Utility Rate Normalization (TURN), and AT&T Communications of California (AT&T-C) resolving three disputed operational attrition issues. At issue are: (1) a data point forecasting controversy; (2) questions about the calculation of the composite salaries and wages factor; and (3) clarification of the productivity sharing mechanism. The parties' stipulation is designed to facilitate the Commission's consideration of the 1989 operational attrition advice letters of Pacific Bell and GTE-C, due for filing October 1, 1988.

Procedural Background

The three disputed issues have surfaced in past attrition reviews, and in anticipation of the 1989 attrition proceedings, DRA requested that the Commission formally clarify them. DRA's request was docketed as an Application For Modification of Resolution T-12079.[1]

In Decision (D.) 88-06-024, issued June 8, 1988, the Commission considered DRA's request and the responses of Pacific Bell and GTE-C, and opted for a focused review of the three issues, as follows:

> "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.

1 Resolution T-12079 was the Commission's order relative to Pacific Bell's 1988 attrition review. In addition to ordering a revenue requirement reduction of $64.911 million, the Commission specified the filing dates for 1989 financial and operational attrition showings (July 15, 1988 and October 1, 1988, respectively), and required Pacific Bell to file its 1988 actual realized productivity factor, as well as an advice letter to flow through any associated ratepayer share of productivity savings, by January 31, 1989.

"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. . . ." (D.88-06-024, mimeo. pp. 7-8.)

We also encouraged the parties to consider whether any or all of these operational attrition issues could be resolved via workshops. At the June 21, 1988 Prehearing Conference the parties reported to the assigned Administrative Law Judge (ALJ) that they wished to hold workshops on June 29 - 30, 1988 to attempt informal resolution of these matters. The ALJ reserved hearing dates in August, but encouraged the parties to proceed with workshops. Thereafter DRA served a "Notice of Settlement Conference" and the workshops were held as planned. The workshop participants were

DRA, Pacific Bell, GTE-C, TURN, AT&T-C, and the Commission Advisory and Compliance Division.

Pursuant to a June 24, 1988 ALJ Ruling, at the conclusion of the workshops DRA filed its Attrition Methodology Workshop Report (the Report), including attached stipulation. This document, filed on July 12, 1988, was signed by DRA, Pacific Bell, GTE-C, AT&T-C, and TURN, and embodied their consensus resolution of all disputed issues. On July 18, 1988, the ALJ issued a Ruling allowing opening and reply comments on the Report. DRA and Pacific Bell filed opening comments on August 12, 1988; GTE-C filed its opening comments on August 29, 1988.[2] No party chose to file reply comments, due on September 7, 1988.

The Workshop Report

The Report and its attachment, the stipulation, are appended to this opinion (the Appendix). The parties reached agreement on all issues, premised on applicability of the stipulation solely to the 1989 attrition review, and the further caveat that: ". . . [T]he decision of a party to sign the Report does not necessarily constitute its endorsement of any agreement reached in the Report. Therefore, the Report cannot be cited as either binding or persuasive precedent in any future proceeding."

The Report also differentiates between "interested parties," who actively participated in discussions of the issues and concurred in their resolution, and "other parties" who

2 GTE-C requested and received an extension of time to file its opening comments since it wished to address the consensus resolution of the productivity sharing mechanism in light of the Commission's pending Second Interim Opinion in Application 87-01-002. The Commission acted on that matter on August 24, 1988, and GTE-C filed its comments on August 25, 1988.

participated minimally or not at all in particular discussions, but did not object to the consensus resolution.[3]

Issue No. 1 - Number of Data Points (Number of Months)

The opening positions of the four interested parties (DRA, Pacific Bell, GTE-C, and TURN) diverged considerably,[4] but ultimately they agreed that Pacific and GTE-C should use 60 "raw" (i.e., actual monthly) data points in the linear regression equation to determine the growth rates in access lines and in revenue per access line, for 1989 attrition purposes.

None of the parties who filed comments addressed this issue further, and it appears reasonable to adopt the consensus view that use of 60 raw data points is appropriate for use in the 1989 attrition review.

Issue No. 2 - Inclusion of Team Incentive Plan and Benefits Plan in the Composite Wages and Salaries Factor

Interested parties (DRA, Pacific Bell, and TURN) agreed that specific, quantifiable changes in contractual elements related to Pacific Bell's Team Incentive Plan and Benefits Plan should be included in the determination of the growth in composite salaries and wages. However, DRA and Pacific Bell disagreed about the treatment of certain "secondary effects" such as estimated increases or decreases in employee participation in a benefit plan

3 For example, GTE-C is listed as an "other Party" relative to two issues which either do not directly impact it (the wages and salaries factor issue), or which arguably did not impact it directly at the time the workshops were held (the productivity sharing mechanism).

4 DRA argued that 49 moving average data points should be used; Pacific Bell argued that 66 moving average data points should be used; GTE-C argued for the use of six annualized data points; TURN commented that use of 60 date points would be appropriate.

flowing from contractual changes in the offered benefit. DRA argued for exclusion of such "secondary effects," while Pacific Bell wished to include them in recognition that they are part of the total benefits package. Additionally, Pacific Bell argued for inclusion of estimated benefits impacts (such as medical cost increases) which can be estimated by the application of an independently verifiable escalation factor.

The interested parties ultimately agreed that "secondary effects" and the estimated benefit cost increases should not be included for attrition year 1989.[5] None of the parties who filed comments addressed Issue No. 2 further, and it appears reasonable to adopt the consensus resolution. Therefore, for purposes of attrition year 1989, we will recognize specific, quantifiable changes in contractual elements related to Pacific Bell's Team Incentive Plan and Benefits Plan, but we will not recognize "secondary effects" and estimated benefit cost increases.

Issue No. 3 - Productivity Sharing Mechanism
Should excess productivity savings be shared with interest?

Interested parties (DRA, Pacific Bell, and TURN) agreed that the December 31, 1987 to December 31, 1988 time period should be used for measuring 1988 productivity savings. However, Pacific Bell disagreed with DRA and TURN that interest should be applied in 1988 to the ratepayers' portion of excess 1988 productivity savings. Nonetheless, the final consensus resolution is in accord with the DRA/TURN position.

Interested parties agreed that it is appropriate to use the average 90-day commercial paper interest rate covering the time period July 1, 1988 to December 31, 1988, as published by the

---

5 This resolution was based partially on the fact that 1989 is a collective bargaining year.

Federal Reserve Statistical Release ("Annual Interest Rate"). However, the parties disagreed on the accrual time period. DRA and TURN argued that productivity sharing interest should begin on the first day of 1988 since Pacific Bell will have the use, during all of 1988, of any revenues that will eventually be shared. Pacific Bell argued that interest should begin to accrue on the first day of 1989, when the actual amount to be refunded will be known.

Finally, the interested parties compromised and opted to use a mid-year accrual date (i.e., July 1, 1988). They developed the following formula for calculating and applying interest:

> [Ratepayers' Share of Annual Productivity Savings, divided by two] multiplied by [one-half of the Annual Interest Rate].

In its comments DRA suggested a further clarification of the formula which is apparently unopposed.[6] DRA suggests that for the period January 1, 1989 until the date the surcredit implementation takes place (presumably following the Commission's action on Pacific Bell's January 31, 1989 advice letter), the formula for calculating interest should reflect not only the productivity refund but also any interest accrued during 1988 and each succeeding month. DRA suggests the following [corrected] formula be used monthly to calculate the 1989 portion of the interest, based on the monthly 90-day commercial paper interest rate as published by the Federal Reserve Statistical Release:

> [Ratepayers' Share of Annual Productivity Savings plus the Accumulated Accrued Interest] multiplied by [one-twelfth of the Annual Interest Rate].

The consensus reached on the interest question for the 1989 attrition year appears reasonable, and will be adopted as more specifically detailed in the ordering paragraphs which follow.

6 Neither Pacific Bell nor GTE-C addressed DRA's suggested clarification in reply comments. This order corrects DRA's formula, which included a misplaced bracket, to effect DRA's intention.

Should rebates occur on a one-time
basis or spread over a time interval?

Interested parties (DRA, TURN, Pacific Bell, and AT&T-C) had various positions. DRA recommended that any productivity sharing rebate be spread from the date the 1989 attrition advice letter is resolved to December 31, 1989. TURN argued for return of the money as soon as practicable, with the determination whether to employ single or multiple rebates to depend upon the amount available for sharing. TURN asserted that the rebate period should not exceed four months in any event. AT&T-C supported TURN's position. All other parties recommended rebates be made on a one-time basis.

There was general agreement among the parties that the rebate be handled in the shortest practicable time, and eventually a consensus centered around a four-month period. However, in the event the size of the rebate makes such an interval impractical, the parties agree that Pacific Bell may spread the rebate over a lesser number of months, provided that the interested parties (DRA, TURN, and AT&T-C) concur with Pacific Bell's proposal.

The parties have provided no guidance about their definition of "impractical," so it is difficult to know whether adoption and use of the four-month consensus figure will be feasible until the rebate amount is known. For now, we will agree that the four-month period seems to be a reasonable figure, but we recognize that events may overtake our desire for certainty in this area, and it may be necessary in a situation of "impracticality" to follow the alternative course of action the parties themselves recommend and permit Pacific Bell to disburse the rebate over a shorter period, under the conditions outlined above.

What rates should be affected?

Interested parties (DRA, Pacific Bell, TURN, and AT&T-C) agree that the benefits of any productivity sharing should accrue to end users. They further agree that the customer rebates should be accomplished using the procedures established in Pacific Bell's Tariff Schedule A2 (Rule No. 33). Interested parties also agreed that customer billing surcharges/surcredits applicable to all intraLATA services (including access services) provided by Pacific Bell should be adjusted to reflect the productivity sharing rebate. These agreements will be adopted for attrition year 1989, as more specifically detailed in the ordering paragraphs which follow.

The Productivity Sharing
Mechanism for GTE-C

During the pendency of this matter, the Commission was considering the ALJ's Proposed Decision in GTE-C's general rate proceeding, including a recommendation that a productivity sharing mechanism similar to that in place for Pacific Bell be implemented for GTE-C. Now the Commission has adopted D.88-08-061. However, there are some chronologically driven differences that must be recognized. GTE-C had a 1988 test year, rather than an attrition year,[7] and the adopted GTE-C productivity mechanism will be premised initially on GTE-C's actual experience in 1989, the attrition year following the 1988 test year. While 1989 will be a productivity sharing year for GTE-C, actual implementation will be triggered by a January 31, 1990 advice letter (similar to Pacific Bell's January 31, 1989 advice letter to flow through 1988 productivity savings). Therefore, the productivity sharing implementation issues discussed in this order for the 1989 attrition year are of somewhat less immediacy for GTE-C than for Pacific Bell. Nonetheless, given D.88-08-061, GTE-C has now formally expressed its concurrence with the procedures agreed upon in the Report:

7 In contrast, Pacific Bell had a 1988 attrition year, and will make its productivity sharing advice letter, to reflect 1988 experience, by January 31, 1989.

> "In light of the foregoing, GTEC concurs with the procedures agreed upon in the Report for sharing productivity cost savings in excess of the savings that the Commission has built into the attrition formula in D.88-08-061. However, should the Commission modify the attrition mechanism in response to a Petition to Modify D.88-08-061, or as a result of its decision in Phase II of I.87-11-033, the sharing mechanism in the Report would have to be revised for GTEC to conform to that decision." (GTE-C Comments, pp. 2-3.)

Given GTE-C's concurrence, we need only underscore that the procedures outlined in the Report apply to it in the absence of a contrary Commission decision.

Findings of Fact

1. DRA, Pacific Bell, GTE-C, TURN, and AT&T-C have presented the stipulation appended hereto, as a consensus resolution of three interpretive operational attrition issues that would otherwise be disputed in the 1989 attrition year reviews of Pacific Bell and GTE-C.

2. The parties to the stipulation agree that Pacific Bell and GTE-C should use 60 "raw" (i.e., monthly) data points in the linear regression equation to determine the growth rates in access lines and in revenue per access line, for 1989 attrition purposes.

3. The parties to the stipulation agree that specific, quantifiable changes in contractual elements related to Pacific Bell's Team Incentive Plan and Benefits Plan should be included in the determination of the growth in composite salaries and wages for attrition year 1989, but that "secondary effects" and estimated benefits impacts should be excluded in the determination of the growth in composite salaries and wages for attrition year 1989.

4. The parties to the stipulation agree that 1988 productivity savings should be measured by the December 31, 1987 to December 31, 1988 time period and that interest should be applied

in 1988 to the ratepayers' portion of excess 1988 productivity savings.

5. The parties to the stipulation agree that the average 90-day commercial paper interest rate, as published by the Federal Reserve Statistical Release ("Annual Interest Rate"), should be used covering the time period July 1, 1988 to December 31, 1988, and that a July 1, 1988 accrual date should be used.

6. The formula for calculating and applying interest is agreed to be: [Ratepayers' Share of Annual Productivity Savings, divided by two] multiplied by [one-half of the Annual Interest Rate]. DRA suggests (and no party explicitly opposes the suggestion) that for the period January 1, 1989 until the date the surcredit implementation takes place, the formula for calculating interest should reflect not only the productivity refund but also any interest accrued during 1988 and each succeeding month. DRA suggests the following formula be used monthly for the 1989 portion of the interest calculation, based on the monthly 90-day commercial paper interest rate as published by the Federal Reserve Statistical Release: [Ratepayers' Share of Annual Productivity Savings plus the Accumulated Accrued Interest] multiplied by [one-twelfth of the Annual Interest Rate].

7. The parties to the stipulation agree any productivity sharing rebate be returned to ratepayers over a four-month period; however, in the event that the size of the rebate makes such an interval "impractical" the parties agree that Pacific Bell may spread the rebate over a lesser number of months, provided that all interested parties concur with Pacific Bell's proposal.

8. The parties to the stipulation agree that the benefits of any productivity sharing should accrue to end users; that Pacific Bell should follow its Tariff Schedule A2 (Rule No. 33) in making such rebates; and that customer billing surcharges/surcredits applicable to all intraLATA services (including access services)

provided by Pacific Bell should be adjusted to reflect the productivity sharing rebate.

9. Following issuance of D.88-08-061, GTE-C filed comments in this Docket formally concurring in the procedures for sharing productivity cost savings which are the subject of the appended stipulation.

10. The consensus resolution of the disputed operational attrition issues reflected in the Appendix will eliminate several areas of controversy that would otherwise complicate the Commission's review of Pacific Bell's and GTE-C's 1989 operational attrition advice letter filings; therefore, adoption of the settlement will further the public interest.

Conclusion of Law

The stipulations appended to this opinion are in the public interest and should be adopted for purposes of facilitating the Commission's review of the 1989 operational attrition advice letter filings of Pacific Bell and GTE-C.

O R D E R

IT IS ORDERED that:

1. The stipulation appended hereto is adopted for purposes of the Commission's review of the 1989 operational attrition reviews of Pacific Bell and GTE California Incorporated (GTE-C), as more particularly set forth below.

2. In their 1989 operational attrition advice letter filings, due October 1, 1988, Pacific Bell and GTE-C shall use 60 "raw" (i.e., actual monthly) data points in the linear regression equation to determine the growth rates in access lines and in revenue per access lines.

3. In its 1989 operational attrition advice letter filing, Pacific Bell shall include only specific, quantifiable changes in

contractual elements relative to its Team Incentive Plan and Benefits Plan, in accordance with the preceding discussion.

4. 1988 productivity savings shall be measured by the December 31, 1978 to December 31, 1988 time period, and interest shall be applied in 1988 to the ratepayers' portion of excess 1988 productivity savings. The average 90-day commercial paper interest rate, as published by the Federal Reserve Statistical Release ("Annual Interest Rate"), shall be used covering the time period July 1, 1988 to December 31, 1988, based on use of a July 1, 1988 accrual date. The formula for calculating and applying interest is: [Ratepayers' Share of Annual Productivity Savings, divided by two] multiplied by [one-half of the Annual Interest Rate]. For the period January 1, 1989 until the date surcredit implementation occurs, the formula for calculating interest, based on the monthly 90-day commercial paper interest rate as published by the Federal Reserve Statistical Release, is: [Ratepayers' Share of Annual Productivity Savings plus the Accumulated Accrued Interest] multiplied by [one-twelfth of the Annual Interest Rate].

5. The agreement of the parties that any productivity sharing rebate be returned to ratepayers over a four-month period is adopted, consistent with the preceding discussion.

6. The benefits of any productivity sharing shall accrue to end users.

7. Pacific Bell shall follow its Tariff Schedule A2 (Rule No. 33) consistent with the agreements contained in the Appendix.

8. Customer billing surcharges/surcredits applicable to all intraLATA services (including access services) provided by Pacific Bell shall be adjusted to reflect any productivity sharing rebate.

9. The procedures outlined in the Appendix for sharing productivity cost savings apply to GTE-C subsequent to issuance of D.88-08-061.

This order is effective today.

Dated SEP 14 1988, at San Francisco, 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

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

FILED
PUBLIC UTILITIES COMMISSION
JUL 12 1988
SAN FRANCISCO OFFICE

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

ATTRITION METHODOLOGY WORKSHOP REPORT FILED BY THE DIVISION OF RATEPAYER ADVOCATES IN COMPLIANCE WITH THE ADMINISTRATIVE LAW JUDGE'S JUNE 24, 1988 RULING

In compliance with the Administrative Law Judge's June 24, 1988 Ruling, the Division of Ratepayer Advocates (DRA) hereby submits a Report (attached hereto) describing the results of technical workshops held on June 29 and 30, 1988, which addressed three "interpretive" issues related to the operational attrition methodology. These disputed issues concern the proper number of data points to be used in the forecasting methodology; the inclusion of various team incentive and benefits plans in the calculation of growth in composite wages and salaries; and three issues related to the productivity sharing mechanism — (see D.88-06-024, pp. 7-8).

As shown in the Report (Attachment A), agreement was reached on each of the disputed issues. However, it must be emphasized that the agreements contained in the Report are applicable only to this 1989 attrition proceeding. Additionally, it is understood that the decision of a party to sign the Report does not necessarily constitute its endorsement of any agreement reached in the Report. Therefore, the Report cannot be cited as either binding or persuasive precedent in any future proceeding.

Decision No. 88-06-024 notified all parties on the service list for the Pacific Bell rate case (A.85-01-034) and the GTE California Incorporated (GTEC) rate case (A.87-01-002) as well as the appearances at the June 21, 1988 prehearing conference in this proceeding, of the technical workshops scheduled for June 29 and 30. Accordingly, notice of the workshops had wide circulation. Interested parties had ample opportunity to participate.

Workshop participants included DRA, Pacific Bell, GTEC, Toward Utility Rate Normalization, AT&T-Communications of California, and the Commission's Advisory & Compliance Division. In the Report, the parties are described as either "interested parties" or "other parties" for each issue. "Interested parties" are those parties who actively participated in discussions on the issue and who expressed affirmative concurrence in the agreed-upon resolution of the issue. "Other parties" are those parties who participated minimally or not at all during the discussion of the issue, yet they did not object to the agreed-upon resolution of the issue. GTEC is listed as an "other party" with respect to two of the three issues because those two issues, at present, only relate to Pacific Bell.

APPENDIX
Page 3

In compliance with the ALJ's June 24, 1988 Ruling, it is respectfully requested that the attached Report be adopted by the Commission with respect to those parties identified with each issue as "interested parties."

Rufus G. Thayer
Staff Counsel

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
(415) 557-3272

July 11, 1988

ATTACHMENT A

Report On Resolution Of Certain Interpretive Issues Concerning The Operational Attrition Methodology

Issue No. 1 - Number of Data Points (Number of Months)

Interested Parties: DRA, Pacific Bell, GTE California Incorporated, and TURN
Other Parties: AT&T and CA&CD

The DRA's position was that 49 moving average data points should be used, while Pacific Bell ("Pacific") argued that 66 moving average data points should be used. GTE California Incorporated (GTEC) recommended the use of six annualized data points, which it had used in its previous attrition filings. TURN commented that the use of 60 data points would be appropriate. AT&T and CA&CD did not recommend a specific number of data points that Pacific or GTEC should use. The parties recognized that the attrition formula supported reasonable interpretations for all of the parties' positions. However, in the spirit of compromise, the interested parties agreed that for 1989 attrition purposes, Pacific and GTEC should use 60 "raw" (i.e., actual monthly) data points in the linear regression equation to determine the growth rates in access lines and in revenue per access line. The parties agreed that the attrition formula, which calls for "five years of recorded data, including six months of actual test year recorded data," can be read to support this compromise position.

Issue No. 2 - Inclusion of Team Incentive Plan and Benefits Plan in the Composite Wages and Salaries Factor.

Interested Parties: DRA, Pacific Bell and TURN
Other Parties: GTEC, AT&T and CA&CD

All interested parties agreed that specific, quantifiable changes in contractual elements related to the Team Incentive Plan and Benefits Plan should be included in the determination of the growth in composite salaries and wages. However, the DRA argued that estimated benefit impacts and "secondary effects," such as an estimated increase or decrease in employee participation in a benefit plan because of a contractual change in the offered benefit, should not be included as a part of attrition. Pacific believed that such secondary effects should be included, because such effects are part of the total compensation package. In addition, Pacific believed that estimated benefit impacts such as medical cost increases should be included in the growth in the composite wages and salaries component. Pacific stated that increases in medical costs can be estimated by application of an independently verifiable Data Resources, Inc. ("DRI") escalation factor to the medical expense component. Other parties expressed no other recommendation regarding the possible inclusion of secondary effects or estimated benefit cost increases.

After much discussion, the interested parties agreed that "secondary effects" and estimated benefit cost increases will not be included as part of 1989 attrition. This resolution was based partly in recognition of the fact that 1989 is a labor contract bargaining year.

Issue No. 3 - Productivity Sharing Mechanism

a. "Whether excess productivity savings should be shared with interest?"

Interested Parties: DRA, Pacific Bell and TURN
Other Parties: GTEC, AT&T and CA&CD

As an initial matter, all interested parties agreed that the time period for measuring the 1988 productivity savings for Pacific should be from December 31, 1987 to December 31, 1988.

The DRA and TURN both argued that interest should be applied in 1988 to the ratepayers' portion of Pacific's excess 1988 productivity savings. Pacific did not believe that such interest was properly applicable, according to the Commission's adopted productivity sharing mechanism. After discussing the matter thoroughly, the interested parties decided that interest would be applicable for 1988; however, the interested parties agreed that issues such as the proper interest rate and time period for accrual of interest needed to be resolved.

Regarding the proper interest rate, the interested parties agreed that the average 90-day commercial paper interest rate covering the time period July 1, 1988 to December 31, 1988, as published by the Federal Reserve Statistical Release (hereinafter "Annual Interest Rate"), would be used.

Regarding the accrual time period, the DRA and TURN both recommended that productivity sharing interest should begin to accrue on the first day of 1988, since Pacific will have use of any revenues that will eventually be shared for all of 1988. On the other hand, Pacific believed that interest should begin to accrue on the first day of 1989, when the actual amount to be refunded, if any, will become known. After lengthy discussions, the interested parties reached a compromise position that interest would begin to accrue at mid-year (i.e., July 1, 1988). The formula for calculating and applying such interest was agreed upon by all interested parties as follows:

> [Ratepayers' share of Annual Productivity Savings, divided by two] multiplied by [one-half of the Annual Interest Rate]

Although GTEC was present during the discussion on this issue, GTEC stated that it would be premature for it to comment on Issue No. 3 at this time. As stated in D.88-06-024, dated June 8, 1988, a productivity sharing mechanism is an issue in GTEC's pending 1988 general rate case (A.87-01-002). GTEC reserved the right to address this issue at a later date in this proceeding once a final decision is issued in its general rate case.

b. "Whether rebates should be on a one-time basis or spread over a time interval?"

Interested Parties: DRA, Pacific Bell, TURN and AT&T
Other Parties: GTEC and CA&CD

There was considerable discussion on the acceptable time interval for distributing productivity savings with interest. The DRA recommended that productivity sharing rebates should be spread from the date the 1989 attrition advice letter is resolved to December 31, 1989. TURN wanted to have the money returned as soon as practicable and the determination of whether a single refund or multiple refunds should be utilized should depend upon the amount available for sharing. TURN further stated that in no instance should the refund period exceed 4 months. AT&T supported TURN's position. All other parties recommended refunds be made on a one-time basis. There was general agreement among the interested parties that the rebate should be handled in the shortest time practicable. All interested parties eventually agreed that the productivity refund would be spread over a 4-month period. However, in the event that the amount of the refund makes such an interval impractical, Pacific may spread the refund over a lesser number of months provided that all interested parties concur with Pacific's refund proposal.

DRA subsequently discussed this proposal with TURN during several telephone conversations and TURN stated that it does not have a problem with the above-described agreement.

c. "What rates should be affected?"

Interested Parties: DRA, Pacific Bell, TURN and AT&T
Other Parties: GTEC and CA&CD

The interested parties agreed that the benefits of any sharing should accrue to end users. All interested parties further agreed that any customer refunds should be accomplished using the procedures established in Pacific's Tariff Schedule A2 (Rule No. 33). The interested parties also agreed that the customer billing surcharges/surcredits applicable to all intraLATA services (including access services) provided by Pacific be adjusted to reflect the productivity sharing rebate.

CONCLUSION

The undersigned respectfully request that the Commission expeditiously approve this Attrition Methodology Workshop Report Filed By The Division Of Ratepayer Advocates In Compliance With The Administrative Law Judge's June 24, 1988 Ruling without modification as a settlement of the issues discussed herein, as they apply to the "interested parties" hereto.

Respectfully submitted,

DATE	NAME	PARTY REPRESENTED
7/11/88	[illegible]	DRA
7/11/88	[illegible]	Pacific Bell
7/11/88	Frederick K Hesse	GTEC
7/11/88	Mark Barmore	TURN
7/11/88	Randolph W Deutsch	AT&T

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all known parties of record in this proceeding by mailing by first-class mail a copy thereof properly addressed to each such party.

Dated at San Francisco, California, this 11th day of July, 1988.

/s/ CINDY I. PHILAPIL

Cindy I. Philapil

(END OF APPENDIX)

Federal Reserve Statistical Release ("Annual Interest Rate"). However, the parties disagreed on the accrual time period. DRA and TURN argued that productivity sharing interest should begin on the first day of 1988 since Pacific Bell will have the use, during all of 1988, of any revenues that will eventually be shared. Pacific Bell argued that interest should begin to accrue on the first day of 1989, when the actual amount to be refunded will be known.

Finally, the interested parties compromised and opted to use a mid-year accrual date (i.e., July 1, 1988). They developed the following formula for calculating and applying interest:

> [Ratepayers' Share of Annual Productivity Savings, divided by two] multiplied by [one-half of the Annual Interest Rate].

In its comments DRA suggested a further clarification of the formula which is apparently unopposed.[6] DRA suggests that for the period January 1, 1989 until the date the surcredit implementation takes place (presumably following the Commission's action on Pacific Bell's January 1, 1989 advice letter), the formula for calculating interest should reflect not only the productivity refund but also any interest accrued during 1988 and each succeeding month. DRA suggests the following formula be used monthly for the 1989 portion of the interest calculation, based on the monthly 90-day commercial paper interest rate as published by the Federal Reserve Statistical Release:

> [Ratepayers' Share of Annual Productivity Savings] plus the Accumulated Accrued Interest multiplied by [one-twelfth of the Annual Interest Rate].

The consensus reached on the interest question for the 1989 attrition year appears reasonable, and will be adopted as more specifically detailed in the ordering paragraphs which follow.

6 Neither Pacific Bell nor GTE-C addressed DRA's suggested clarification in reply comments.

<u>Should rebates occur on a one-time basis or spread over a time interval?</u>

Interested parties (DRA, TURN, Pacific Bell, and AT&T-C) had various positions. DRA recommended that any productivity sharing rebate be spread from the date the 1989 attrition advice letter is resolved to December 31, 1989. TURN argued for return of the money as soon as practicable, with the determination whether to employ single or multiple rebates to depend upon the amount available for sharing. TURN asserted that the rebate period should not exceed four months in any event. AT&T-C supported TURN's position. All other parties recommended rebates be made on a one-time basis.

There was general agreement among the parties that the rebate be handled in the shortest practicable time, and eventually a consensus centered around a four-month period. However, in the event the size of the rebate makes such an interval impractical, the parties agree that Pacific Bell may spread the rebate over a lesser number of months, provided that all interested parties concur with Pacific Bell's proposal.

The parties have provided no guidance about their definition of "impractical," so it is difficult to know whether adoption and use of the four-month consensus figure will be feasible until the rebate amount is known. For now, we will agree that the four-month period seems to be a reasonable figure, but we recognize that events may overtake our desire for certainty in this area, and it may be necessary in a situation of "impracticality" to follow the alternative course of action the parties themselves recommend and permit Pacific Bell to disburse the rebate over a shorter period, under the conditions outlined above.

<u>What rates should be affected?</u>

Interested parties (DRA, Pacific Bell, TURN, and AT&T-C) agree that the benefits of any productivity sharing should accrue to end users. They further agree that the customer rebates should in 1988 to the ratepayers' portion of excess 1988 productivity savings.

5. The parties to the stipulation agree that the average 90-day commercial paper interest rate, as published by the Federal Reserve Statistical Release ("Annual Interest Rate"), should be used covering the time period July 1, 1988 to December 31, 1988, and that a July 1, 1988 accrual date should be used.

6. The formula for calculating and applying interest is agreed to be: [Ratepayers' Share of Annual Productivity Savings, divided by two] multiplied by [one-half of the Annual Interest Rate]. DRA suggests (and no party explicitly opposes the suggestion) that for the period January 1, 1989 until the date the surcredit implementation takes place, the formula for calculating interest should reflect not only the productivity refund but also any interest accrued during 1988 and each succeeding month. DRA suggests the following formula be used monthly for the 1989 portion of the interest calculation, based on the monthly 90-day commercial paper interest rate as published by the Federal Reserve Statistical Release: [Ratepayers' Share of Annual Productivity Savings] plus the Accumulated Accrued Interest multiplied by [one-twelfth of the Annual Interest Rate].

7. The parties to the stipulation agree any productivity sharing rebate be returned to ratepayers over a four-month period; however, in the event that the size of the rebate makes such an interval "impractical" the parties agree that Pacific Bell may spread the rebate over a lesser number of months, provided that all interested parties concur with Pacific Bell's proposal.

8. The parties to the stipulation agree that the benefits of any productivity sharing should accrue to end users; that Pacific Bell should follow its Tariff Schedule A2 (Rule No. 33) in making such rebates; and that customer billing surcharges/surcredits applicable to all intraLATA services (including access services)

contractual elements relative to its Team Incentive Plan and Benefits Plan, in accordance with the preceding discussion.

4. 1988 productivity savings shall be measured by the December 31, 1978 to December 31, 1988 time period, and interest shall be applied in 1988 to the ratepayers' portion of excess 1988 productivity savings. The average 90-day commercial paper interest rate, as published by the Federal Reserve Statistical Release ("Annual Interest Rate"), shall be used covering the time period July 1, 1988 to December 31, 1988, based on use of a July 1, 1988 accrual date. The formula for calculating and applying interest is: [Ratepayers' Share of Annual Productivity Savings, divided by two] multiplied by [one-half of the Annual Interest Rate]. For the period January 1, 1989 until the date surcredit implementation occurs, the formula for calculating interest, based on the monthly 90-day commercial paper interest rate as published by the Federal Reserve Statistical Release, is: [Ratepayers' Share of Annual Productivity Savings] plus the Accumulated Accrued Interest multiplied by [one-twelfth of the Annual Interest Rate].

5. The agreement of the parties that any productivity sharing rebate be returned to ratepayers over a four-month period is adopted, consistent with the preceding discussion.

6. The benefits of any productivity sharing shall accrue to end users.

7. Pacific Bell shall follow its Tariff Schedule A2 (Rule No. 33) consistent with the agreements contained in the Appendix.

8. Customer billing surcharges/surcredits applicable to all intraLATA services (including access services) provided by Pacific Bell shall be adjusted to reflect any productivity sharing rebate.