ALJ/MJG/rsr

Decision 88 09 030 SEP 14 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into a) whether the FCC Part 32, Uniform System of Accounts for Telephone Companies (USOA) should be adopted for telephone companies subject to the Commission's jurisdiction, b) the effect on intrastate rates if all or any portion of the USOA is adopted and c) the ratemaking treatment of the implementation cost associated with the USOA.	I.87-02-023 (Filed February 11, 1987)

(For appearances see Decision 87-12-063.)

FINAL OPINION

Summary

This opinion concludes our investigation into the Federal Communications Commission's (FCC) Part 32, a new Uniform System of Accounts (USOA) for Telephone Companies. This opinion addresses the reasonableness of Pacific Bell's, General Telephone Company of California's (GenTel), Continental Telephone Company of California's (ConTel), and Citizens Utilities Company of California's (Citizens) USOA balancing accounts authorized by Ordering Paragraph 4 of Decision (D.) 87-12-063.

By this opinion, the four utilities are authorized to update their respective USOA balancing accounts to reflect six months of available data and are required to modify their USOA revenue requirement impact calculations in accordance with this

opinion. Also, each utility is required to file in its annual attrition filing, until its next general rate case proceeding, the reduced revenue requirement impacts from the adopted USOA. Absent an attrition filing, the utility should submit an advice letter to reflect its reduced revenue requirement needs on an annual basis.

Interim D.87-12-063 provided for recovery of the USOA balancing account to be addressed in the rate flexibility investigation (I.87-11-033). Subsequently, an interim opinion (D.88-08-024) has been issued in the rate flexibility investigation. Ordering Paragraph 4 of D.88-08-024 requires Pacific Bell and GenTel to file an advice letter no later than October 1, 1988 which, among other matters, is to propose a method to close out their existing memorandum account balances, including the USOA balancing account.

The rate flexibility opinion is silent on the disposition of ConTel and Citizens USOA balancing accounts. Therefore, ConTel and Citizens should submit an advice letter no later than October 15, 1988 with supporting workpapers, which updates their USOA balancing account in accordance with this opinion and proposes a method to close out their USOA balancing account. Citizens and ConTel should also provide notice of their advice letter through customer bill inserts pursuant to Public Utilities Code Section 454.

Background

This investigation was opened to determine whether the FCC's Part 32 should be adopted for telephone companies subject to the Commission's jurisdiction. Although any decision on Part 32 would have an impact on future ratemaking, the investigation specifically stated that this investigation will not in and of itself change existing rates.

By Interim Decisions (D.) 87-12-063 and 88-03-072 the FCC's Part 32 and Part 36 (Separations Manual) with modifications discussed in the two decisions were adopted for all telephone companies under the Commission's jurisdiction. Pacific Bell, GenTel, ConTel, and Citizens are authorized to record USOA revenue requirement impacts in a balancing account. The disposition of the USOA balancing account is to be addressed in the rate flexibility investigation (I.87-11-033), pursuant to Ordering Paragraph 7 of D.87-12-063. All other telephone utilities are to address their individual USOA revenue requirement impacts in their next general rate proceeding.

This investigation has been kept open to determine the reasonableness of Pacific Bell's, GenTel's, ConTel's, and Citizens' USOA revenue requirement impact for the two month period ended February 28, 1988.

This opinion addresses the reasonableness of the utilities' USOA balancing account report (USOA report) and DRA's recommendations related to the utilities' USOA report. Matters addressed in DRA's report not pertaining to the reasonableness of the utilities' USOA balancing account, such as data continuity, are not germane to the issues remaining in this investigation and will not be addressed in this opinion.

This opinion also addresses GenTel's June 20, 1988 petition for modification of D.87-12-063 and GTE West Coast, Incorporated's (GTE West Coast) August 11, 1988 petition for modification of D.88-03-072.

Utilities Report

The utilities authorized to implement a USOA balancing account were to file a USOA report with the Docket Office on or before March 31, 1988, pursuant to Ordering Paragraph 5 of D.87-12-063. However, because of the utilities' difficulties in calculating the monthly USOA revenue requirement impact, additional time was provided so the utilities could file complete USOA reports. These reports were filed between March 31, 1988 and May 2, 1988.

Two of the utilities, Citizens and GenTel, recommend that the USOA report not be used to project the utilities' USOA revenue requirement impact because January and February represents below average construction activity and below average operating activity. Citizens recommends that the USOA revenue requirement be based on "several months" experience. GenTel recommends the USOA revenue requirement be based on five months recorded data.

The filed USOA reports show that each utility has incurred a revenue requirement deficiency for the two-month period ended February 28, 1988 as follows:

Pacific Bell	$23,897,400
GenTel	17,211,000
ConTel	551,000
Citizens	465,922

Reasonableness Report

Ordering Paragraph 6 of D.87-12-063 required DRA and invited other interested parties to file a reasonableness report on the utilities' USOA reports. Because the utilities needed additional time to file complete USOA reports, the reasonableness report filing on Pacific Bell's, GenTel's, and ConTel's USOA reports was extended from May 2, 1988 to May 20, 1988. The reasonableness report on Citizens USOA report was extended to 30 days from the date Citizens files its USOA report. DRA was the only party to file a reasonableness report.

DRA reviewed the methodologies and underlying data and assumptions used by the utilities to calculate their respective USOA revenue requirement. Based on this review, DRA has identified USOA balancing account procedures germane to all utilities and procedures specific to individual utilities which DRA believes need to be corrected.

<u>All Utilities</u>

Based on its review, DRA recommends that the utilities should:

a. Use the Federal Reserve Statistical Release 90-day commercial paper rate to calculate interest on the average monthly balance in the USOA balancing account;

b. True up their settlement calculations with six months of available data;

c. Submit an annual estimate of their reduced revenue requirement impacts; and

d. Be subject to revenue requirement adjustments that may result from a Commission decision on the FCC's Part 64 (Allocation of Cost between utilities and their subsidiaries).

Ordering Paragraph 4 of D.87-12-063 authorizes the utilities to accrue interest on the USOA balancing account at a 90-day commercial paper interest rate. DRA's interest rate recommendation clarifies the Commission's intent to use a common interest rate on a consistent base and should be adopted. Therefore, the utilities should use the Federal Reserve Statistical Release 90-day commercial paper rate to calculate interest on the average monthly USOA revenue requirement balance.

DRA recommends that settlement calculations be trued-up with six months of available data. This is consistent with Citizen's and GenTel's recommendation that the USOA balancing account reflect several months of available data. Both of these recommendations are attainable because six months of USOA data is now available and the use of such data will result in a more realistic estimate than the use of two months of USOA data. Therefore, the utilities should update their respective USOA balancing accounts to reflect six months of actual data, including settlement data.

DRA points out that any recovery of USOA revenue requirements based on only the first year of implementation will result in excessive revenue recovery from the ratepayers. This is because the revenue requirement impact associated with the capital to expense shifts, discussed and adopted in D.87-12-063, will result in a yearly revenue requirement reduction, and over a period of years will result in a negative revenue requirement. DRA's report shows that Pacific Bell's and GenTel's revenue requirement needs will be reduced $14 million and $4 million, respectively, in 1989 from 1988.

Ratepayers should realize the benefit of reduced revenue requirement impacts that will occur in future years. To accomplish this goal DRA recommends that each utility be required to file the reduced revenue requirement impacts from the adoption of the USOA in its annual attrition filing, until the utility's next general rate case proceeding. Absent an attrition filing, DRA recommends that the utility submit an annual advice letter to reflect the utility's reduced revenue requirement.

The USOA balancing account was implemented so the utilities could recover revenue requirement deficiencies which resulted from the adoption of the FCC's USOA. Because DRA's annual filing proposal will give the utilities an opportunity to meet this goal and enable ratepayers to realize the benefit of reduced revenue requirement impacts from the adoption of the FCC's USOA, we will adopt DRA's annual filing proposal.

DRA recommends that the revenue requirement, which results from the adoption of the FCC USOA, should be subject to adjustments that may result from a decision from a Part 64 proceeding. DRA's July 18, 1988 reply comments assert that Part 64 will impact the USOA balancing account. Therefore, any overcollection resulting from a Part 64 decision should be refunded to ratepayers based on the January 1, 1988 implementation date.

Part 64 is not an issue in this investigation. Currently, there is no Part 64 investigation. Even if the Part 64 impact is considered it is unknown when the impact, if any, could be determined. DRA and other interested parties were to address only whether the utilities' USOA filing reflected USOA adopted revenue requirement impacts. DRA's proposal is not relevant to the reasonableness report and should not be adopted.

Pacific Bell

DRA's analysis of Pacific Bell's USOA report results in three specific recommendations:

a. The cross connection capital to expense shift should be reduced by an annual $1.2 million;

b. The software expense to capital shift should be deferred until reliable data can be provided; and,

c. The compensated absence[1] impact should be deferred until reliable data is available.

DRA acknowledges that Pacific Bell will reduce the cross connection capital to expense shift by an annual $1.2 million, which occurred from recording the same entry twice. This recommendation is moot and need not be adopted.

DRA believes that Pacific Bell's $0 (zero) software capital to expense shift estimate for the two month period ended February 1988 is not a reasonable approximation of Pacific Bell's 1988 capitalized software costs. Pacific Bell estimated a $10 million annual expense to capital shift. Subsequently, Pacific Bell indicated to DRA that this shift would be lower because Pacific Bell's software purchases will be reduced with the completion of its equal access conversion. DRA believes that

1 Compensated absence represents the salary expense for employee's earned but unused vacation, personal days, floating holidays, and compensated days plus loadings.

Pacific Bell can shift software costs to different periods in 1988 because software purchases, unlike other capital to expense shifts, can be made on a discretionary basis. DRA recommends that the software impact be deferred until the USOA balancing account is terminated.

DRA had a similar concern with the use of only two months of settlement data. We are adopting DRA's proposal that six months of data should be used instead of two months of data. Further, we are adopting Citizens' and GenTel's proposal that the utilities true-up their respective USOA balancing account, with six months of available data. Because the software capital to expense shift is a component of the USOA balancing account six months of data will replace the $0 estimate derived from two months of data. DRA presents no compelling reason why software shifts should be treated differently from settlement costs or other USOA components. DRA's deferral of the software impact should not be adopted.

DRA also recommends that the compensated absence impact be deferred. However, unlike the software shift, neither DRA nor Pacific Bell is able to estimate the compensated absence impact. Pacific Bell acknowledges to DRA that the compensated absences data base is overstated approximately $6.2 million, and that Pacific Bell is revising its data base. Because Pacific Bell does not expect to finalize its compensated absence data base until September 1, 1988, DRA is unable to determine the reasonableness of Pacific Bell's compensated absence shift.

Absent reliable data, the compensated absence shift can not be estimated. Therefore, Pacific Bell should exclude any compensated absence impact from its USOA balancing account. Pacific Bell should provide its 1988 compensated absence data base results and estimated impact to DRA. After DRA reviews this data, Pacific Bell should submit an advice letter for recovery of the compensated absence impact, consistent with the advice letter required in D.88-08-024.

GenTel

DRA's analysis of GenTel's USOA report results in seven specific recommendations. One of the recommendations, which pertains to the application of interest, has already been addressed and resolved in this opinion and need not be addressed further. The six remaining recommendations are:

a. The insurance component of the capital to expense shift should be reduced by an annual $397,000;

b. The general overhead component of the capital to expense shift should include costs which the Commission has previously ordered GenTel to capitalize;

c. The net to gross multiplier should not apply to settlement impacts;

d. The unitary tax method should be used to estimate the tax effects if the unitary tax method is adopted in GenTel's current rate proceeding (A.87-01-002);

e. The rate base impact should be based on the prior month's rate base plus the current month's average additions; and

f. The effect of the construction budget amount not allowed in GenTel's rate application (A.87-01-002) should be applied to the actual capital to expense shift as reported in the USOA balancing account.

DRA recommends that GenTel's insurance component of the capital to expense shift should be reduced by an annual $397,000 of insurance costs not applicable to the capital to expense shift. Because DRA acknowledges that GenTel made the appropriate adjustment, this recommendation is moot and need not be adopted.

Although GenTel reflects the Part 32 expensing of general office salaries, DRA asserts that GenTel did not comply with the USOA interim opinion. The interim opinion authorizes the utilities to adopt USOA capital to expense shifts only to the extent that the items shifted do not conflict with current ratemaking policies.

DRA asserts that D.82-04-028 and D.92366, dated October 22, 1980, which require GenTel to allocate a portion of GenTel's general office salaries to construction for both accounting and ratemaking purposes, sets a ratemaking policy for the capitalization of GenTel's general office salaries and that this policy takes precedence over the USOA capital to expense shift.

On June 20, 1988, GenTel filed a petition for modification of D.87-12-063 requesting that GenTel be authorized to expense general office salaries, consistent with the adopted USOA and consistent with the method authorized for all other California telephone companies.

Prior to January 1978 GenTel followed the industry practice of capitalizing a percentage of all its general office managers' salaries. Subsequently, GenTel modified its practice and is now capitalizing a percentage of only some general office managers' salaries. However, by D.82-04-028 and D.92366, GenTel's general office managers' salaries were treated as if GenTel's capitalization practice had not changed. The decisions cited did not deviate from past practice because, given the magnitude of GenTel's construction program, the Commission found it difficult to conceive that GenTel's managerial personnel were not involved in the construction program.

DRA filed a reply to GenTel's petition on July 18, 1988. DRA asserts that the issue of retaining Commission policies with the adoption of Part 32 has been fully litigated during this investigation. Not only has it been addressed in DRA's testimony it has been addressed by GenTel in its comments on the proposed decision and in DRA's reply comments on the proposed decision. DRA recommends that the petition be denied.

Each party to this investigation, including DRA, concurred that the FCC's USOA accounting change for indirect construction costs, which includes general office managers' salaries, should be adopted for accounting and ratemaking purposes. Prior to DRA's reasonableness report, the only dispute on this issue was over how the utilities should recover the revenue requirement deficiency.

DRA's recommendation is predicated on a regulatory policy which requires GenTel to capitalize a portion of GenTel's general office managers' salaries. However, the capitalization requirement is not itself regulatory policy, it is the result of implementing a regulatory policy. This result was imposed because GenTel deviated from the adopted USOA and from the industry practice. The regulatory policy set in D.92336 and affirmed in D.88-04-028 is that GenTel should conform to the adopted USOA for telephone companies and with industry practice.

If GenTel is required to continue this capitalization practice it will be the only California telephone company required to do so and it would now require GenTel to deviate from the adopted USOA. Part 32 with modifications was adopted in the interim opinion with the intent of simplifying and coordinating the accounting and reporting requirements imposed on those telephone companies operating under the jurisdiction of both this Commission and the FCC and of recognizing competitive, technological, and economical changes within the telecommunications industry.

DRA's capitalization recommendation should not be adopted because it will require GenTel to deviate from the adopted USOA and from the capitalization practices of all other California telephone companies. GenTel's petition is granted.

DRA recommends that GenTel not use the net to gross multiplier for settlement impacts. Because DRA's report states that GenTel concurs with DRA's position and that GenTel will comply with DRA's position in a future USOA filing, this issue is moot and need not be adopted.

DRA's analysis of GenTel's methodology discloses that GenTel used the statutory tax rate to calculate the income tax impacts. The use of the statutory tax rate versus the use of the unitary tax method is an issue in GenTel's current rate proceeding. DRA does not object to the statutory tax method if that method is adopted in GenTel's rate proceeding. However, if the unitary tax method is adopted, DRA asserts that GenTel should be required to calculate its tax effect under the unitary tax method.

Subsequently, at its August 24, 1988 meeting, the Commission issued D.88-08-061 adopting the statutory tax rate in GenTel's general rate proceeding. Consistent with this opinion, GenTel's statutory tax method is reasonable and should be used to calculate USOA tax impacts.

DRA asserts that GenTel's rate base impact is overstated because GenTel adds each month's average capital additions to develop a cumulative rate base balance and applies a pro-rata share (1/12 of the adopted rate of return) to the cumulative rate base balance. DRA recommends that GenTel's cumulative rate base balance be derived by adding the prior month's rate base to the current month's average additions. Again, DRA acknowledges that GenTel concurs with DRA's recommendation. This recommendation is moot and need not be adopted.

DRA is concerned that GenTel's revenue requirement impact estimate is also overstated because GenTel assumes that budgeted construction will equal actual construction. DRA believes that this concern can be resolved if the effect of GenTel's construction budget not allowed in GenTel's current rate proceeding is reflected in GenTel's USOA balancing account calculations.

GenTel's July 20, 1988 reply comments acknowledge DRA's concern. GenTel proposes that a defined approach should be adopted to calculate GenTel's construction program revenue requirement effect. GenTel recommends two solutions: first, that its Part 32 revenue requirement change could be based on the use of percentage factors relative to adopted 1988 test year account balances; second, that 1988 actual account balances be used.

Of the two proposals, GenTel recommends the first solution because it will reflect any disallowance to GenTel's estimated test year results of operations. The second solution is not recommended because it will require additional hearings on the reasonableness of GenTel's actual levels.

DRA concurs with GenTel's desire to adopt a defined approach. By its July 18, 1988 reply to GenTel's response, DRA states that it has held productive discussions with GenTel to consider a joint solution to this issue.

Subsequently, in DRA's and GenTel's August 9, 1988 joint motion, a solution to this issue has been proposed. DRA and GenTel recommend that a specific adjustment factor be adopted. This adjustment factor is to be applied to the actual 1988 capital to expense shift figure to yield an adopted capital to expense shift for USOA revenue requirement purposes. The adjustment factor is to be used only if actual 1988 gross plant additions exceed adopted 1988 gross plant additions. This adjustment factor is derived from dividing the adopted 1988 gross additions (Part 31 basis) by the actual 1988 gross additions (Part 31 equivalent basis).

DRA's and GenTel's joint solution for estimating GenTel's construction program revenue requirement effect is reasonable and should be adopted.

<u>ConTel</u>

DRA's analysis of ConTel's USOA report results in four specific recommendations. Two of the recommendations, the application of interest and the use of weighted average rate base, have already been addressed and resolved in this opinion. Therefore, ConTel should conform to the methods adopted in this opinion.

The remaining recommendations pertain to the exclusion of joint costs in Account 677, Expenses Charged to Construction, and the use of the unitary tax method to calculate income tax impacts. However, DRA acknowledges that ConTel will exclude its $25,000 of joint cost from ConTel's USOA revenue requirement impact and will use the unitary tax method to calculate the income tax impact. Because ConTel agrees to exclude joint costs and to use the unitary tax method, these recommendations are moot and need not be adopted.

Citizens

DRA's analysis of Citizens' USOA report results in five specific recommendations. Two of the recommendations, which pertain to the application of interest and weighted average rate base, have already been addressed and resolved in this opinion. Therefore, Citizens should conform to the methods adopted in this opinion. Another recommendation, which pertains to the inclusion of separations impacts has been resolved with Citizens' May 2, 1988 revised USOA report and will not be addressed in this opinion. The two remaining recommendations are:

a. The general overhead component of the capital to expense shift should be based on the most current overhead rate applicable to Citizens' Stamford Administrative Office (SAO) and;

b. The compensated absence component of the Generally Accepted Accounting Principle (GAAP) shift should exclude the current year's impact.

DRA objects to Citizens method of calculating SAO overhead costs. Citizens developed its SAO overhead costs by dividing 1988 SAO estimated general and administrative expense by 12 months. This results in a 11.04% and 6.71% overhead factor for January and February 1988, respectively.

DRA asserts that Citizens' method does not reflect a correlation between construction expenditures and general overheads, and does not reflect Citizens' traditional general overhead methodology. DRA recommends that Citizens should use the most current general overhead rate for SAO, currently 3.85%.

In its July 15, 1988 comments, Citizens argues that DRA's method will distort the monthly overhead rate because such overhead costs are incurred evenly over the calendar year.

In its July 27, 1988 reply brief, DRA asserts that Citizens argument assumes that the budgeted construction expenditures and the budgeted administrative and general expenses used to develop the overhead rate will be equal to actual expenses at year end. However, DRA's analysis of Citizens' prior experience shows that this will not be the case, unless there is a year end true-up.

The intent of the USOA balancing account is to provide the utilities an opportunity to recover revenue requirement deficiencies incurred due to the adoption of a new USOA. Citizens should not revise its traditional SAO overhead procedure for this balancing account. As discussed in this opinion the utilities are to true-up their respective USOA balancing accounts with six months of data. Therefore, Citizens should use actual SAO administrative and general expenses overhead costs applicable to the first six months of 1988.

DRA also recommends that Citizens exclude $39,000 of 1988 compensated absence impact because the current year accruals are potentially recoverable in future rate proceedings and because D.87-12-063 did not address current year GAAP impacts.

Citizens disagrees with DRA's conclusion. Citizens believes that the current year requirement as well as the embedded balance should be included in the USOA balancing account because both conform to the USOA and are a recoverable ratemaking expense.

DRA's interpretation of D.87-12-063 is correct. Citizens should reduce its compensated absence impact by the $39,000 of current year accruals.

GTE West Coast's Petition for Modification

On August 11, 1988 GTE West Coast filed a petition for modification of D.88-03-072. GTE West Coast requests that D.88-03-072 be modified to allow GTE West Coast to use the Financial Accounting Standards Board Opinion No. 87 (FASB 87) unit projected credit method to account for its pension costs instead of the adopted aggregate cost method.

All personnel carrying out GTE West Coast's utility operations are on the payroll of its parent company, GTE Northwest. The administrative functions are performed in Washington by GTE Northwest's employees who devote only a small portion of their time to GTE West Coast. Full time employees based in California are also on GTE Northwest's payroll.

GTE Northwest operates in Washington, Oregon, Idaho, and Montana. The respective state Public Utilities Commissions authorize GTE Northwest to use the FASB 87 unit projected method for intrastate operations. The FCC authorizes GTE Northwest to use the FASB 87 unit projected credit method for interstate operations.

GTE West Coast asserts that the aggregate cost method adopted in D.88-03-072 will produce a significantly higher revenue requirement than the FASB 87 projected unit credit method. In addition, GTE West Coast will need to perform a separate actuarial study at an annual cost of approximately $10,000.

The revenue requirement impact of FASB 87 was addressed in D.88-03-072. GTE West Coast has provided no new information regarding revenue requirement impacts. However, GTE West Coast has demonstrated that its unique operation in California warrants consideration of a deviation from the aggregate cost method to the projected unit cost method. GTE West Coast's petition should be granted for accounting purposes. However, the reasonableness of its pension expense should be an issue in rate proceedings before this Commission. Therefore, GTE West Coast should provide workpapers comparing the aggregate cost method and the unit projected cost method with its applications and/or advice letters for rate increases.

Findings of Fact

1. Pacific Bell, GenTel, ConTel, and Citizens are authorized to record USOA revenue requirement impacts in a balancing account.

2. The disposition of the USOA balancing account is to be addressed in I.87-11-033.

3. This investigation has been kept open to determine the reasonableness of the utilities' USOA revenue requirement impacts for the two-month period ended February 28, 1988.

4. The utilities authorized to implement a USOA balancing account filed a USOA report between March 31, 1988 and May 2, 1988.

5. Pacific Bell's USOA report shows that it incurred a $23,897,000 revenue requirement deficiency as of February 28, 1988.

6. GenTel's USOA report shows that it incurred a $17,211,000 revenue requirement deficiency as of February 28, 1988.

7. ConTel's USOA report shows that it incurred a $551,000 revenue requirement deficiency as of February 28, 1988.

8. Citizens USOA report shows that it incurred a $465,922 revenue requirement deficiency as of February 28, 1988.

9. DRA was the only party to file reports on the reasonableness of the utilities' USOA reports.

10. Ordering Paragraph 4 of D.87-12-063 authorizes the utilities to accrue interest on the USOA balancing account.

11. DRA's interest recommendation clarifies Ordering Paragraph 4 of D.87-12-063.

12. Six months of data is available to true-up the USOA balancing account.

13. The revenue requirement impacts associated with the capital to expense shift will result in a yearly revenue requirement reduction.

14. Pacific Bell's and GenTel's revenue requirement impacts will be reduced by $14 million and $4 million, respectively, in 1989 from 1988.

15. Part 64 is not an issue in this investigation.

16. DRA acknowledges that Pacific Bell will reduce the cross connection capital to expense shift by an annual $1.2 million.

17. DRA believes that Pacific Bell's $0 software capital to expense shift is not reasonable.

18. Neither Pacific Bell nor DRA is able to estimate Pacific Bell's compensated absence impact.

19. Pacific Bell does not expect to finalize its compensated absence data base until September 1, 1988.

20. DRA acknowledges that GenTel will reduce GenTel's insurance capital to expense shift by an annual $397,000.

21. GenTel filed a petition to modify D.87-12-063 to allow it to expense general office managers' salaries.

22. GenTel reflects the Part 32 expensing of general office salaries.

23. The interim opinion authorizes utilities to adopt capital to expense shifts only to the extent that the items shifted do not conflict with current ratemaking policy.

24. Prior to January 1978 GenTel followed the industry practice of capitalizing a percentage of its general office managers' salaries.

25. GenTel modified its practice of capitalizing all general office managers' salaries.

26. D.82-04-028 and D.92366 treated GenTel's general office managers' salaries as if a portion of all such managers' salaries were capitalized.

27. Each party to this investigation, including DRA, concurred that the FCC's USOA accounting change for indirect construction costs, which includes general office managers' salaries, is reasonable.

28. Part 32, with modifications, was adopted with the intent of simplifying and coordinating the accounting and reporting requirements imposed on those telephone companies operating under the jurisdiction of both this Commission and the FCC and to recognize competitive, technological, and economical changes within the telecommunications industry.

29. GenTel was required to capitalize a portion of all of its general office managers' salaries because such practice conforms to the adopted USOA and to industry practice.

30. DRA acknowledges that GenTel will not use the net to gross multiplier for settlement impacts.

31. The statutory tax method was adopted in GenTel's general rate proceeding.

32. DRA acknowledges that GenTel will derive GenTel's cumulative rate base balance from adding the prior month's rate base to the current month's average additions.

33. GenTel's revenue requirement impact assumes that budgeted construction will equal actual construction.

34. DRA and GenTel concur that an adjustment factor should be used to estimate GenTel's construction program impact.

35. DRA acknowledges that ConTel will exclude joint costs and will use the unitary tax method.

36. Citizens developed its SAO overhead costs from dividing 1988 SAO estimated general and administrative expense by 12 months.

37. Citizens revised its traditional SAO overhead procedure for this balancing account.

38. Citizens' compensated absence impact includes current year compensated absence accruals.

39. Current year compensated absence accruals are recoverable in future rate proceedings.

40. GTE West Coast filed a petition to modify D.88-03-072 to allow it to use the FASB 87 unit projected credit method to account for its pension costs.

41. All personnel carrying out GTE West Coast's utility operations are on GTE Northwest's payroll.

42. GTE Northwest provides local exchange telephone service in Washington, Oregon, Idaho, and Montana and is authorized by the respective state public utilities commissions to use the FASB 87 unit credit method for GTE Northwest's pension cost.

43. The FCC authorized GTE Northwest to use the FASB 87 unit credit method for its interstate operations.

Conclusions of Law

1. The utilities should use the Federal Reserve Statistical Release 90-day commercial paper rate to calculate interest on the average monthly USOA revenue requirement balance.

2. The utilities should update their respective USOA balancing account with six months of data.

3. Ratepayers should realize the benefit of reduced revenue requirement impacts that will occur in future years.

4. Each utility authorized to utilize a balancing account should file in its annual attrition filing, until its next rate case proceeding, the reduced revenue requirement impacts from the adopted USOA. Absent an attrition filing, the utility should submit an annual advice letter filing to reflect its reduced revenue requirement needs on an annual basis.

5. The USOA revenue requirement impact should not be subject to Part 64 impacts.

6. Pacific Bell's software capital to expense shift is a component of its USOA balancing account and should be updated with six months of available data.

7. Pacific Bell should exclude any compensated absence impact from its USOA balancing account.

8. Pacific Bell should provide its 1988 compensated absence impact results to DRA and should file an advice letter for recovery of its compensated absence impact, consistent with D.88-08-024.

9. GenTel should expense its general office managers' salaries to comply with the adopted USOA and to be consistent with all other California telephone companies.

10. GenTel's statutory tax method is reasonable and should be used to calculate USOA tax impacts.

11. GenTel should apply an adjustment factor to its construction program impacts if actual 1988 gross plant additions exceed adopted 1988 gross plant additions. The adjustment factor should be the adopted 1988 gross additions (Part 31 basis) divided by the actual 1988 gross additions (Part 31 equivalent basis).

12. DRA's recommendations pertaining to Pacific Bell's cross-connection costs; GenTels insurance component and net-to-gross multiplier; and, ConTel's exclusion of joint cost and use of unitary tax method, which DRA acknowledges that the utilities will implement, should be considered moot and need not be adopted.

13. ConTel and Citizens should use the same weighted average rate base method that GenTel will use.

14. Citizens should use actual SAO administrative and general expenses overhead cost applicable to the first six months of 1988.

15. Citizens should not include current year's compensated absence accruals in its USOA impact calculations.

16. GTE West Coast's petition to use the FASB 87 unit cost method for pension accounting should be authorized.

17. GTE West Coast should provide workpapers comparing the aggregate cost method and the unit projected credit method with its applications and/or advice letter filings requesting rate increases.

FINAL ORDER

IT IS ORDERED that:

1. Pacific Bell, General Telephone Company of California (GenTel), Continental Telephone Company of California (ConTel), and Citizens Utilities Company of California (Citizens) shall use the Federal Reserve Statistical Release 90-day commercial paper rate to calculate interest on the average monthly USOA revenue requirement balance.

2. Each utility shall update its Uniform System of Accounts (USOA) balancing account with six months of data.

3. Each utility shall file the reduced revenue requirement impacts from the adopted USOA in its annual attrition filing, until its next rate case proceeding. Absent an attrition filing, the utility shall submit, on or before October 1 of each year, an annual advice letter to reflect its reduced revenue requirement needs.

4. The USOA revenue requirement impact shall not be subject to Part 64 impacts.

5. Pacific Bell shall exclude compensated impacts from its USOA balancing account. It shall provide its 1988 compensated absence impact results to the Commission's Division of Ratepayer Advocates and shall file an advice letter for recovery of its compensated absence impact, consistent with D.88-08-024.

6. GenTel shall expense its general office managers' salaries to comply with the adopted USOA and to be consistent with all other California telephone companies.

7. GenTel shall use its statutory tax method to calculate USOA tax impacts.

8. GenTel shall apply an adjustment factor identified in this opinion to its construction program impacts if 1988 actual gross plant additions exceed adopted 1988 gross plant additions.

9. Recommendations identified in Conclusion of Law 12, which DRA acknowledges that the utilities have agreed to implement, are moot and need not be adopted.

10. ConTel and Citizens shall use the same weighted average rate base method that GenTel shall use.

11. Citizens shall use actual SAO administrative and general expense overhead cost applicable to the first six months of 1988.

12. Citizens shall not include its current year's compensated absence accruals in its USOA balancing account.

13. GTE West Coast's, petition for modification of D.88-03-072 is granted. GTE West Coast shall use the Financial Accounting Standards Board Opinion No. 87 unit cost method for pension accounting. GTE West Coast shall provide workpapers comparing the aggregate cost method and the unit projected credit method with its applications and/or GO 96-A advice letters requesting general rate increases.

14. Pacific Bell and GenTel shall file advice letters no later than October 1, 1988 which, among other matters identified in Ordering Paragraph 4 of D.88-08-024, proposes a method to close out their existing USOA balancing accounts.

15. ConTel and Citizens shall file advice letters no later than October 15, 1988 with supporting workpapers, which update their USOA balancing accounts in accordance with the above ordering paragraphs and propose a bill and keep surcharge/surcredit method to close out their USOA effective January 1, 1989.

balancing accounts. This surcharge/surcredit shall become effective only upon Commission approval by resolution. Citizens and ConTel shall provide notice of their advice letters through customer bill inserts pursuant to Public Utilities Code Section 454.

16. This investigation is closed.

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

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balancing accounts. Citizens and ConTel shall provide notice of their advice letters through customer bill inserts pursuant to Public Utilities Code Section 454.

16. This investigation is closed.

This order is effective today.

Dated ____________________, at San Francisco, California.

8. GenTel shall apply an adjustment factor identified in this opinion to its construction program impacts if 1988 actual gross plant additions exceed adopted 1988 gross plant additions.

9. Recommendations identified in Conclusion of Law 12, which DRA acknowledges that the utilities have agreed to implement, are moot and need not be adopted.

10. ConTel and Citizens shall use the same weighted average rate base method that GenTel shall use.

11. Citizens shall use actual SAO administrative and general expense overhead cost applicable to the first six months of 1988.

12. Citizens shall not include its current year's compensated absence accruals in its USOA balancing account.

13. GTE West Coast's, petition for modification of D.88-03-072 is granted. GTE West Coast shall use the Financial Accounting Standards Board Opinion No. 87 unit cost method for pension accounting. GTE West Coast shall provide workpapers comparing the aggregate cost method and the unit projected credit method with its applications and/or advice letters requesting rate increases.

14. Pacific Bell and GenTel shall file advice letters no later than October 1, 1988 which, among other matters identified in Ordering Paragraph 4 of D.88-08-024, proposes a method to close out their existing USOA balancing accounts.

15. ConTel and Citizens shall file an advice letters no later than October 15, 1988 with supporting workpapers, which updates their USOA balancing accounts in accordance with the above ordering paragraphs and to propose a method to close out their USOA

17. GTE West Coast should provide workpapers comparing the aggregate cost method and the unit projected credit method with its applications and/or advice letter filings requesting rate increases.

FINAL ORDER

IT IS ORDERED that:

1. Pacific Bell, General Telephone Company of California (GenTel), Continental Telephone Company of California (ConTel), and Citizens Utilities Company of California (Citizens) shall use the Federal Reserve Statistical Release 90-day commercial paper rate to calculate interest on the average monthly USOA revenue requirement balance.

2. Each utility shall update its Uniform System of Accounts (USOA) balancing account with six months of data.

3. Each utility shall file the reduced revenue requirement impacts from the adopted USOA in its annual attrition filing, until its next rate case proceeding. Absent an attrition filing, the utility shall submit an annual advice letter to reflect its reduced revenue requirement needs.

4. The USOA revenue requirement impact shall not be subject to Part 64 impacts.

5. Pacific Bell shall exclude compensated impacts from its USOA balancing account. It shall provide its 1988 compensated absence impact results to the Commission's Division of Ratepayer Advocates and shall file an advice letter for recovery of its compensated absence impact, consistent with D.88-08-024.

6. GenTel shall expense its general office managers' salaries to comply with the adopted USOA and to be consistent with all other California telephone companies.

7. GenTel shall use its statutory tax method to calculate USOA tax impacts.