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Decision 88 12 101 DEC 19, 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone Company of California, a California corporation (U 1002 C), for authority to increase and/or restructure certain intrastate rates and charges for telephone services.	Application 87-01-002 (Filed January 5, 1987
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, costs separations practices, contracts, service and facilities of GENERAL TELEPHONE COMPANY OF CALIFORNIA, a California Corporation; and of all the telephone corporations listed in Appendix A, attached hereto.	I.87-02-025 (Filed February 11, 1987)

ORDER MODIFYING DECISION 88-08-061, DENYING REHEARING, AND DENYING DRA'S PETITION FOR MODIFICATION

GTE California, Inc. (General), has filed an application for rehearing of D.88-08-061 (the Decision), in which the Commission reduced General's annual revenue requirement by an additional $218.304 million. The Division of Ratepayer Advocates (DRA) has filed a petition for modification of the Decision. General has filed a response opposing the requested modification, and DRA has replied to the opposition. We will address General's application for rehearing first.

General argues that we should remove a revenue requirement adjustment and ordering paragraphs relating to referrals to GTEL (a General subsidiary that deals with unregulated customer premises equipment). General argues that we should take this action because, after we issued the Decision, it decided to stop referring customers to GTEL. However, it appears that referrals to GTEL continued at least through early October of test year 1988. Moreover, General's argument fails to establish legal error. We made a proper decision based on the record before us. An application for rehearing is not an appropriate vehicle for attempting to introduce new evidence. If General wishes us to modify the Decision's provisions concerning referrals on the basis of new evidence, it is free to file a petition for modification.

General argues that the Decision, issued in 1988, improperly made a one-time reduction in its rates to implement interest synchronization for 1987. Our order instituting investigation, OII 86-10-002, did not make General's 1987 rates subject to refund to account for interest synchronization. We therefore conclude that, under the circumstances present here, it was contrary to Commission ratemaking policy to make this adjustment for 1987 interest synchronization in the present Decision (which we issued in 1988). In D.88-10-037, we stayed the ordering paragraph that would have implemented this adjustment for 1987 interest synchronization; we will now modify the Decision to eliminate the adjustment.

General's application points out two errors in the Decision's calculation of the 1988 gross additions to Account 100.1 for analog COSE (Account C207). In translating a capital budget figure to an Account 100.1 figure, the Decision made the same adjustment twice for a portion of Account C207. This double-adjustment reduced the Account 100.1 figure for analog COSE by too great an amount. The Decision also increased its figure for Account 100.1 for analog COSE to reflect the telephone plant index. This increase was not warranted because the parties' estimates were already stated in 1988 dollars. We will modify the Decision to correct these two errors. The net effect of these two corrections is an increase of $233,000 in General's annual revenue requirement.

We will authorize General to increase its billing surcharge for intrastate access service, intraLATA toll service, and local exchange service by an increment of 0.02%, effective

January 1, 1989, to recover this increase of $233,000 in its annual revenues on an ongoing basis. General is also entitled to recover this increase from September 6, 1988 (the date the rate revisions adopted in the Decision went into effect) through December 31, 1988. The incremental revenue requirement for this period is approximately $75,000. We will authorize General to amortize this amount over the four month period from January 1, 1989 through April 30, 1989 by means of an additional incremental increase of 0.01% in the billing surcharge. Thus, we authorize a total incremental increase in the billing surcharge of 0.03%, effective January 1, 1989 through April 30, 1989. On May 1, 1989 the billing surcharge will be reduced by an increment of 0.01% (leaving the ongoing 0.02% incremental increase in place).[1]

Ordering Paragraph 13 of the Decision directed CACD to confer with DRA and General to identify for tracking purposes the amounts included in the Decision for detariffed inside wire maintenance (IWM). General says it is concerned that the parties may be unable to reach an agreement on this IWM issue. General therefore asks that we modify Ordering Paragraph 13 so that any party may request a hearing on this issue if the parties are unable to reach a mutual agreement regarding the revenues and expenses adopted in the Decision for IWM. We will make the modification that General requests. However, we expect the parties to negotiate in good faith to reach an agreement, and hope that a hearing will not be necessary.

The Decision requires General to perform a competitive analysis of its options for directory publishing which, at a minimum, should compare the terms of General's contract with its affiliate, GTE Directories Corporation, with the terms of directory contracts of other major telephone companies. In its application for rehearing, General hypothesizes that it will be

1 Other changes to General's billing surcharge are also scheduled to become effective May 1, 1989.

unable to obtain this comparative material without an order of this Commission. General therefore asks us to order all local exchange carriers who are respondents to this proceeding to provide copies of their publishing agreements (and related materials) to General upon request. General seems to ignore the possibility that it might obtain the necessary information from out-of-state telephone companies or from directory publishing companies. Moreover, General has not shown any actual difficulty in obtaining the needed information. We are reluctant to issue an order like that which General requests in the absence of any showing that General is in fact unable to obtain sufficient information to complete the study. Accordingly, we will deny General's request.

No other issues raised in General's application for rehearing require further discussion at this point. However, we have carefully considered all of the issues and arguments raised in General's application, and are of the opinion that sufficient grounds for granting rehearing have not been shown. Still, we will modify the Decision in a number of respects in response to General's application. We will also take this opportunity to correct a number of typographical and similar errors throughout the Decision.

We are acting today on General's application for rehearing, even though notice of this matter did not appear on our public agenda for today's conference. However, an emergency exists in that it is necessary to coordinate the rate changes being ordered in response to General's application for rehearing with other rate changes scheduled to take effect January 1, 1989, so that all of these changes can go into effect simultaneously. Accordingly, our acting today is justified under Public Utilities Code §306(b). Also, this is our last scheduled conference before the first of the year, and we wish to avoid the customer confusion that would occur if we delayed this decision's rate changes until after January first, which would mean several rate changes in rapid succession.

Next, we turn to consider DRA's petition for modification. DRA's petition for modification deals with an adjustment the Decision made to General's telephone plant in service account (Account 100.1). This adjustment appears in the table on page 149 of the Decision on the line labelled: "Transfer from Account 100.2". We made this adjustment in response to one of General's Comments on the ALJ's Proposed Decision. In its petition, DRA argues that the Decision does not explain this change from the ALJ's Proposed Decision and that the change was improper. We agree with the DRA that the Decision could use a more ample explanation of this adjustment; but we do not agree that the adjustment was improper. Some background information will be helpful to better understand this adjustment.

Determination of a telephone utility's telephone plant in service (TPIS) is an important element in calculating its rate base. The prior year's balance is the starting point for determining the test year balance in the TPIS account (Account 100.1). Test year gross additions to TPIS are added to the prior year's balance, and test year retirements are subtracted. "Gross additions to telephone plant in service" (gross additions to Account 100.1) refers to the cost of plant first placed into service during the test year. This plant may have been paid for in the test year or in prior years. The cost of plant that has been paid for but not yet placed into service is booked into an account known as telephone plant under construction or construction work in progress (CWIP) (Account 100.2).

The usual starting point for calculating gross additions to plant in service is the utility's test year construction or capital budget. The test year construction budget includes the capital expenditures which the utility expects to make during the test year. Part of this budget will be spent on capital projects that will go into service during the test year. (These sums increase the utility's test year plant in service account (Account 100.1).) Part of the test year's capital budget will be spent on capital projects that will not go into service until future years. (These sums are booked to the utility's CWIP account (Account 100.2).) Furthermore, capital expenditures made in previous years for projects that first go into service during the test year will be transferred from CWIP to plant in service. Therefore, the test year gross additions to plant in service is equal to: (i) the test year construction budget; minus (ii) the portion of the test year construction budget that is booked to CWIP; plus (iii) test year transfers from CWIP to plant in service.

Test year gross additions to plant in service can be calculated by separately calculating each of the three above items, that is, by calculating how much of the construction budget is booked to CWIP and how much of the CWIP balance will go into service during the test year. However, items (ii) and (iii) combined, equal the net change in CWIP. Therefore, test year gross additions to plant in service also equals the test year construction budget adjusted by the test year's net change in CWIP. (See General Telephone's 1980 test year rate case, 4 Cal. Pub. Util. Comm. 2d 428, 479 (1980).)[2]

Most of the adjustment in question here was made because it appeared that the ALJ's Proposed Decision did not adequately adjust General's construction budget to account for the net change in CWIP (Account 100.2).[3] A net decrease in CWIP, as here, means that more money from prior years is being transferred from Account 100.2 to plant in service (to reflect plant paid for in prior years that is first going into service

2 Furthermore, CWIP balances can be estimated as a historical percentage of the total construction budget. (See 4 Cal. Pub. Util. Comm. 2d at 479.) Thus, it is possible to calculate gross additions to plant in service using just the construction budget and the historical ratio, without having to separately calculate test year expenditures booked to CWIP or CWIP balances transferred to plant in service during the test year.

3 A smaller portion of the adjustment reflected an additional increment of IDC (interest during construction).

during the test year) than is flowing from the test year construction budget into Account 100.2. This net decrease in CWIP reflects a transfer from Account 100.2 to plant in service, and appears here in the adjustment labelled "Transfer from Account 100.2." This adjustment was intended to estimate more accurately the cost of plant that will actually go into service for the first time during the test year, by adequately reflecting the net change in CWIP. Therefore, the Commission rejects DRA's contention that the Decision improperly allowed plant not yet in service into Account 100.1 (and thus into rate base); we are not abandoning our policy that construction work in progress (CWIP) not be included in rate base.[4] Accordingly, we will deny DRA's petition for modification, although we will modify the Decision to better explain why we made this adjustment.

Having explained why we made this adjustment, we would like to add a few comments in the hope of avoiding the need for such last minute adjustments (and resulting controversy) in the future. The confusing state of the record here was one of the main reasons why this adjustment was made at the last minute. Such confusion could be avoided if parties used the appropriate terminology clearly, carefully, and consistently. The use of the term "gross additions" without specification of the account involved (e.g. TPIS or CWIP) leaves an unclear record. Similarly, terms such as "gross additions capital budget" muddy the record, as it is not immediately clear whether they refer to the capital budget or to the gross additions to some specific account. We have set out above the usual method for calculating gross additions to telephone plant in service. While other methods may be entirely proper, parties who use a different method should clearly explain on the record their methodology and

4 See, e.g., Pacific Gas & Electric Co., 7 Cal. Pub. Util. Comm. 2d 349, 356 (1981). Southern California Edison Co., 81 Cal. Pub. Util. Comm. 49, 94-96 (1976).

how they calculate their figures. Similarly, parties who employ the usual method should be sure to perform all of the steps that it requires.

Findings of Fact

1. The incremental increase of $233,000 in General's annual revenue requirement approved in this decision increases General's billing surcharge by an increment of 0.02% on an ongoing basis.

2. This increase in General's annual revenue requirement for the period from September 6, 1988 (the effective date of the rate revisions authorized by D.88-08-061) through December 31, 1988, totals approximately $75,000. This amount can be amortized by an additional increment of 0.01% in the billing surcharge for the four month period from January 1, 1989 through April 30, 1989.

Conclusions of Law

1. It is appropriate to amortize General's recovery of the $75,000 (covering the period from September 6, 1988 through December 31, 1988) by means of a four month increase in the surcharge from January 1, 1989 through April 30, 1989, as other changes to General's billing surcharge will occur on those dates.

2. D.88-08-061 should be modified.

3. General's application for rehearing should be denied.

4. Notice of our disposition of General's application for rehearing did not appear on the Commission's public agenda; however, an emergency exists in that it is necessary to coordinate the rate changes being ordered in response to General's application for rehearing with other rate changes scheduled to take effect January 1, 1989, so that all of these changes can go into effect simultaneously, which justifies our action today under Public Utilities Code Section 306(b).

5. DRA's petition for modification should be denied.

Therefore, good cause appearing,

IT IS ORDERED that D.88-08-061 is modified as follows:

1. In the third line of the first paragraph on page 2, the figure "$218.304 million" is changed to "$218.071 million".

2. In the seventh and eighth lines of the first paragraph on page 2, the figure "$330.494 million" is changed to "$330.261 million".

3. In the first line of the third paragraph on page 2, the figure "$218.304" million is changed to "$218.071" million.

4. In the second line of the third paragraph on page 2, the figure "13.45%" is changed to "13.43%".

5. The second sentence in the first paragraph on page 3 is modified to read:

> The net effect of the requested changes would have been to reduce its test year revenue requirement by approximately $114 million to provide a rate of return of 11.90% on General's intrastate rate base.

6. The second paragraph on page 3 is modified to read:

> To enlarge the scope of these proceedings to cover essentially all aspects of General's public utility operations, this Commission issued Order Instituting Investigation (I.) 87-02-025 into the rates, tolls, rules, charges, operations, costs, separations, practices, contracts, services, and facilities of General and all of the California telephone utilities that interconnect with General, including Pacific Bell (Pacific).

7. The paragraph beginning at the bottom of page 5b and continuing on the top of page 5c is deleted.

8. The second full paragraph on page 5c is modified to read:

> General alleges that the proposed decision understates the 1988 Test Year Account 100.1 balance because it fails to reflect the appropriate level of transfers from Account

> 100.2 to Account 100.1. We will make the requested adjustment because it appears that the proposed decision did not adequately adjust General's construction budget to account for the net change in Account 100.2. The adjustment we are making also reflects an additional increment of IDC (interest during construction).

9. The last sentence on page 5e is deleted.

10. The last sentence in the first partial paragraph on page 28 is replaced with the following:

> We will therefore order General to bill GTEL for the previously unbilled Yellow Pages "filler" advertising for the period July 1985 through 1988. Furthermore, we will use staff's recommendation to estimate the test year impact of these revenues to be received for Yellow Page fillers as an annual adjustment plus interest factor of $687,000.

11. The first full sentence on page 33 is modified to read:

> The order that follows will also provide that General: establish referral guidelines to track successful and unsuccessful referrals to GTEL; perform a study to determine both the market price and the cost plus 10% markup for each referral made to GTEL; and bill GTEL the market price or the cost plus 10% markup whichever is higher for all referrals, and the market value of successful referrals.

12. In the second line of the first full paragraph on page 62, the word "Research" is changed to "Resource".

13. In the last line of the paragraph following the table on page 69, the name "Don Anderson" is changed to "Tom Anderson".

14. Page 84 is replaced by Revised page 84, attached hereto.

15. In the last line on page 88 the figure "$16,310,000" is changed to "$16,325,000".

16. In the last line of the first paragraph on page 89, the figure "$822,393,000" is changed to "$822,499,000".

17. The last two lines of paragraph 8 on page 107 are modified to read:

> is superior to that currently available from Pacific Bell."

18. Paragraph 9 on page 107 is modified to read:

> 9. For the Van Nuys area in 1986, Pacific Bell, without the added feature of the personal response unit (which should save one second on AWTs), had a recorded AWT of 18.7 seconds. General, in its best showing, had projected an AWT of 19.8 seconds, for a system that includes the personal response unit.

19. A new paragraph, numbered 9a, is inserted on page 107, following paragraph 9:

> 9a. Pacific Bell's 1986 year-end, statewide AWT for directory assistance was 19.3 seconds.

20. The last full paragraph on page 112 is modified to read:

> We have recounted the points asserted by DRA and General in support of their respective estimates of AWT for ACD-served installations. From this evidence we conclude that General, with equipment equivalent or superior to Pacific Bell's, reasonably should be able to achieve an AWT for 1988 nearly as low as the AWT of 19.3 seconds that Pacific Bell had achieved in its statewide operations by year end 1986. Moreover, General's rebuttal witness had difficulty, especially on cross-examination, in attempting to supply relevant facts that might have cast doubt on DRA's comparative analysis. Accordingly, we will adopt DRA's AWT of 19.8 seconds.

21. In the next to last line on page 136, the word "divided" is changed to "dividend".

22. The last full paragraph on page 144 and the first two full paragraphs on page 144a are deleted.

23. In the tenth line of the first full paragraph on page 148, the figure "$525,864,000" is changed to "$526,176,000".

24. In the eleventh line of the first full paragraph on page 148, the figure "$2,015,626,000" is changed to "$2,015,782,000".

25. Page 149 is replaced by Revised page 149, attached hereto.

26. The last sentence in the first full paragraph on page 150 is modified to read:

> We are persuaded that such trunking is necessary and should be computed separately for purposes of estimating capital expenditures.

27. The last sentence in the first partial paragraph on page 151 is modified to read:

> We will also adopt the balance of General's electromechanical Account C203 budget amounts for purposes of this proceeding, making a total of $5.524 million for General's capital budget for 1988 and $5,200,000 as our gross additions to Account 100.1 for 1988 for this account.

28. The first full paragraph on page 151 is modified to read:

> DRA's estimate for gross additions to TPIS for Account C205-Circuit Carrier Equipment for test year 1988 was $46,273,000 as contrasted to General's estimate of $84,385,000. The difference reflects the disallowance by DRA of three items of the account detail, namely "pending plans", "special services undetailed", and

"unidentified". General subsequently introduced into this proceeding Exhibit 182 which lists all of the Account C205 projects that make up its total budget in work order detail. These work orders support General's estimate of the TPIS gross additions to this account of $84,385,000 and we will adopt this figure as reasonable for this proceeding.

29. The sentence beginning at the bottom of page 151 and continuing on the top of page 152 is modified to read:

> According to the testimony, the main difference between DRA's and General's estimates with respect to this account relates to DRA's use of an estimated cost per L/T of $425 and DRA's disallowance of items characterized as "other projects" with no explanation or information as to what the projects are.

30. The last three sentences in the first full paragraph on page 152 are replaced with the following:

> We will, therefore, adopt a compromise between the two showings of $12.245 million for line addition growth. To this, we will add $274,000 for equal access and $14,000 for USS/MSS included in both General's and DRA's estimates, which yields $12,533,000.

31. The paragraph beginning at the bottom of page 152 and continuing on the top of page 153 is modified to read:

> According to the record, witness Danish also excluded from General's total C207 capital budget of $26.111 million the $4.768 million that General included for "Other Projects", on the basis that General provided "no explanation or any information, today, as to what these projects involved". General subsequently provided as Exhibit 184 a document which identified all of the projects by work order number. Translating this figure to gross additions to Account 100.1 for the test year 1988 yields a figure of

> $3.305 million for previously unidentified projects. Adding this figure to the amounts discussed above yields a total figure of $15,838,000 for C207 gross additions to Account 100.1 for 1988, which we will adopt as reasonable for this proceeding.

32. In the table on page 153 the heading "Analog/Misidentified" is changed to "Analog/MISS".

33. The first sentence in the last, partial paragraph on page 154 is modified to read:

> This witness further testified that he applied the ratio of General's capital budget to its gross additions to Account 100.1 to derive revised figures for COE tools, enhanced switching, emergency generators, USS/MSS, analog/MISS, and the outside plant.

34. The sentence beginning on the bottom of page 155 and continuing on the top of page 156 is modified to read:

> Under these circumstances it would be inappropriate to allow the amount as a gross addition to TPIS for the test year 1988.

35. In the next to last line of the first full paragraph on page 156 the word "probably" is changed to "properly".

36. In paragraph 6 on page 158, "TPIS" is changed to "the TPI".

37. In the second line of the first full paragraph on page 159, "Ms. Young" is changed to "Mr. Young".

38. In the third sentence of the first full paragraph on page 161, the word "budget" is deleted.

39. The last sentence on page 161 is replaced with the following:

> The total capital additions to Account 100.1 for test year 1988, computed as discussed above, is $673,778,000, which we will adopt as reasonable for this proceeding. (This

amount includes a transfer from Account 100.2 to Account 100.1 of $36.987 million to reflect the net change in Account 100.2 and an additional increment of IDC (interest during construction).)

40. Pages 162, 164, 166, 167, 168, and 180, are replaced by Revised pages 162, 164, 166, 167, 168, and 180, attached hereto.

41. Finding of Fact No. 1 on page 184 is modified to read:

> 1. An additional incremental revenue requirement reduction of $218.071 million for a total reduction of $330.261 million is appropriate for the test year 1988.

42. Finding of Fact No. 6 on page 184 is modified to read:

> 6. DRA's 19.8 AWT figure for directory assistance is reasonable because General, with equipment equivalent or superior to Pacific Bell's, should be able to achieve an AWT for 1988 nearly as low as the AWT of 19.3 seconds that Pacific Bell had achieved in its statewide operations by year end 1986.

43. Finding of Fact No. 16 on page 185 is modified to read:

> 16. It is reasonable to adjust General's revenue requirement for test year 1988 by $687,000 to reflect revenues to be received from GTEL for Yellow Page fillers.

44. Finding of Fact No. 18 on pages 185-86 is modified to read:

> 18. It is reasonable to require General to establish referral guidelines to track successful and unsuccessful referrals to GTEL, and to perform a study to determine both the market price and the cost plus 10% markup for each referral made to GTEL, and to bill GTEL for such referrals.

45. In Finding of Fact No. 31 on page 187, the figure "$353,000" is changed to "$2 million."

46. Conclusion of Law No. 1 on page 189 is modified to read:

> 1. The Commission concludes that an incremental revenue reduction of $218.071 million in addition to the $112.190 million reduction ordered by D.87-12-070 for a total of $330.261 million is appropriate.

47. A new Conclusion of Law, numbered 3a, is inserted on page 189, following Conclusion No. 3:

> 3a. General should be required to bill GTEL for previously unbilled Yellow Page fillers for the period July 1985 through 1988.

48. Conclusion of Law No. 4 on page 189 is modified to read:

> 4. General should be required to establish referral guidelines to track continuing successful and unsuccessful referrals to GTEL and perform a study to determine both the market price and the cost plus 10% markup for each referral made to GTEL.

49. A new Ordering Paragraph, numbered 3a, is inserted on page 191, following Ordering Paragraph No. 3:

> 3a. General shall bill GTEL for previously unbilled Yellow Page fillers for the period July 1985 through 1988.

50. Ordering Paragraph No. 4 on page 191 is modified to read:

> 4. General shall establish referral guidelines to track any continuing referrals to GTEL, both successful and unsuccessful.

51. Ordering Paragraph No. 5 on page 191 is modified to read:

> 5. General shall submit a study of both the market price and the cost plus 10% markup for any continuing referrals made to GTEL, and thereafter bill GTEL the market price or the cost plus 10% markup, whichever is higher, for all referrals. This study shall cover the third through fifth months of any continuing referrals, and shall be submitted within one month thereafter.

52. The last word in Ordering Paragraph 6 on page 192 is changed from "investment" to "markup".

53. Ordering Paragraph 12 on page 193 is deleted and the Ordering Paragraph on page 194 is renumbered accordingly.

54. The following is added at the end of the Ordering Paragraph on page 194:

> If DRA and General (and any other party participating in performing the above calculations) are unable to reach a mutual agreement as to the identity of the revenue and expense amounts adopted in this decision for IWM, then any of these parties may request the Commission to hold a hearing on the issue, in this proceeding.

55. Appendices A, C, and D are replaced by Revised Appendices A, C, and D, attached hereto.

IT IS FURTHER ORDERED that:

56. Rehearing of D.88-08-061 as modified herein is denied.

57. DRA's petition for modification of D.88-08-061 is denied.

58. General is authorized to recover the incremental annual revenue requirement increase of $233,000, and the one-time revenue increase of $75,000 for the period from September 6, 1988 through December 31, 1988, by filing an advice letter with tariff revisions under General Order 96 series. The advice letter shall

reflect an incremental billing surcharge increase of 0.03% on intrastate access service, intraLATA toll service, and local exchange service effective January 1, 1989 to remain in effect through April 30, 1989. Effective on May 1, 1989 the incremental billing surcharge shall be reduced to 0.02%. The incremental billing surcharge shall be on a bill-and-keep basis and applied to services rendered on and after the effective date of the tariff revisions.

This order is effective today.

Dated DEC 19 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, Executive Director

Item	DRA	General	General Exceeds DRA Amount	General Exceeds DRA Percent	Adopted
		(Thousands of Dollars)			
Subscriber Station Revenues:					
Monthly Svce Chg.	$ 441,753	$ 430,926	$ (10,827)	(2.5)	$ 441,7[illegible]
Service Conn.	66,336	71,436	5,100	7.7	66,3[illegible]
Semi-public	7,000	7,019	19	0.3	7,0[illegible]
Total Mess. Chgs.	113,400	116,131	2,731	2.4	113,[illegible]
Gross ZUM Chgs.	97,890	95,273	(2,617)	(2.7)	97,8[illegible]
Conn. Co. Chgs.& Cr.	3,259	2,887	(372)	(11.4)	1,[illegible]
Subtotal	729,638	723,672	(5,966)	(0.8)	727,6[illegible]
Local Service Revenues					
Public Tel. Rev.	33,260	31,798	(1,462)	(4.4)	33,2[illegible]
Local PL Intrastate	3,900	5,559	1,659	42.5	3,9[illegible]
Other Local Rev. (EAS)	12,430	18,439	6,009	48.3	16,[illegible]
Subtotal	49,590	55,796	6,206	1.3	53,[illegible]
Toll Service Rev.:					
IntraLATA	781,079	814,847	33,768	4.3	822,[illegible]
Intrastate Access	215,908	258,978	43,070	19.9	206,5[illegible]
Interstate Access	480,425	480,425	0	0.0	480,[illegible]
Subtotal	1,477,412	1,554,251	76,839	5.2	1,509,[illegible]
Miscellaneous Rev.:					
Telegraph Comm.	19	19	0	0.0	[illegible]
Directory	231,480	198,292	(33,188)	(14.3)	205,0[illegible]
Rent Revenues	1,804	1,804	0	0.0	1,[illegible]
Gen. Serv. & Lic.	1,133	1,133	0	0.0	1,[illegible]
Other Misc. Rev.	37,740	17,450	(20,290)	(53.8)	23,[illegible]
Intrastate Bill. & Coll.	26,675	20,253	(6,442)	(24.1)	26,6[illegible]
Interstate Bill. & Coll.	23,819	23,819	0	0.0	23,8[illegible]
Gain on Sale of Property	10,490	0	(10,490)	(100.0)	4,[illegible]
Subtotal	333,160	262,770	(70,390)	(21.1)	286,[illegible]
Surcharge Revenues	72,287	184,675	111,388	152.7	74,[illegible]
Total	2,663,087	2,781,164	118,077	4.4	2,651,8[illegible]
Less: Uncoll.	18,594	24,368	5,774	31.1	21,[illegible]
Total	2,644,493	2,756,796	112,303	4.2	2,630,[illegible]
Adjustments:					
-1987 Attrition	*	(52,978)	(52,978)	(100.0)	*
-AL 5110	*	(2,944)	(2,944)	(100.0)	*
-FASB 87	*	9,113	9,113	100.0	*
-IntraLATA SPF to SLU	*	3,050	3,050	100.0	*
Total Revenues	2,644,493	2,713,037	68,544	2.6	2,630,[illegible]

(Red Figure)

*Reflected in appropriate revenue categories.

(Rev. 12/8[illegible]

Lybrand Carl O. Thorsen; and (7) General's Network Operations Planning Manager Kevin A. Young.

The tabulation below sets forth DRA's estimate of gross additions to TPIS for the test year 1988, together with General's estimate and our adopted results. The basis for the adopted results is set forth in the ensuing paragraphs.

Acc. No.	Item	DRA	General	General Exceeds DRA Amount	General Exceeds DRA Percent	Adopted
		(Dollars in Thousands)				
C11	Land	$ 2,527	$ 2,527	$ 0	0.0	$ 2,527
C12	Buildings	29,491	29,491	0	0.0	29,491
C201	Electronic Toll	619	619	0	0.0	619
C203	Electro-mechanical	2,048	6,729	4,681	228.6	5,200
C205	Carrier Equip.	46,273	84,385	38,112	82.4	84,385
C206	Radio	10,576	10,576	0	0.0	10,576
C207	Analog	8,445	19,927	11,482	136.0	15,838
C209	Digital	91,748	186,014	94,266	102.7	127,498
C4XX-	Station Apparatus	16,727	16,727	0	0.0	16,727
C60	Outside Plant	139,846	322,908	183,062	130.9	305,190
C8XX	General Plant	32,032	41,507	9,475	29.6	38,740
	Transfer from Acct. 100.2	-	-	-	-	36,987
Total		380,332	721,410	341,078	89.7	673,778

General's capital budget for 1988 for Account C203-Electromechanical was $7,042,000, consisting of $996,000 lines and terminals, $1,290,000 trunking, $1,838,000 pair gain CO terminals, and $2,918,000 unidentified. According to the testimony of DRA witness Danish, the combined cost of lines and terminals of $996,000 and trunking of $1,290,000 is $2.286 million, which for the 1,610 lines and trunks to be installed in test year 1988 computes to be a cost of $1,400 per line. According to this witness, $1,400 per line is excessive. DRA's estimate for the SxS additions (Account C203) was derived by multiplying the proposed 1,610-line additions by a cost of $160 per L/T to arrive at an amount of $252,000 for SxS growth. To this, witness Danish added

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Both DRA and General agree that property held for future use is equal to $79,000 and the Communications System Corporation adjustment is a negative $15,122,000. Adding these figures to the above $673,778,000 yields a total figure for telephone plant added for test year 1988 of $658,735,000.

M. Rate Base

Rate base consists of the sum of weighted average plant in service, property held for future use, working cash allowance, materials and supplies less the sum of depreciation reserve, and deferred taxes, and adjustments for interstate construction work in progress, commission corp. TPIS, and commission corp. depreciation reserve. The following tabulation sets forth the rate base for test year 1988 as estimated by DRA and General, together with our adopted results:

Rate Base

Item	DRA	General	General Exceeds DRA Amount	General Exceeds DRA Percent	Adopted
			(Thousands of Dollars)		
Wtd. Avg. Plant in Service	$6,320,960	$6,843,968	$523,008	8.3%	$6,676,225
Interstate Tel. Plt. Under Const.	-	48,112	48,112	0.0	-
Property Held For Future Use	79	79	-	0.0	79
Materials & Supplies	16,874	25,021	8,147	48.3	23,258
Working Cash Allow.	15,785	4,726	(11,059)	(70.1)	18,780
Less: Depr. Resv.	2,024,056	2,051,951	27,895	1.4	2,015,782
Deferred Taxes	656,125	695,140	39,015	5.9	679,418
Total Rate Base	3,673,518	4,174,815	501,297	13.6	4,023,142
Adjustments:					
L&B Transfer	(1,756)	-	1,756	(100.0)	-
Competitive Bid	(50,000)	-	50,000	(100.0)	(7,900)
Cash Compensation	(8,100)	-	8,100	(100.0)	-
Comm. Syst. TPIS	(15,122)	(15,122)	-	0.0	(15,122)
Thousand Oaks	(42,700)	-	42,000	(100.0)	-
Comm. Syst. Depr. Resv.	11,837	11,706	(131)	(1.1)	11,706
Total Adjustment	(105,840)	(3,416)	102,424	(96.8)	(11,316)
Net Adjusted Rate Base	$3,567,678	$4,171,399	$603,721	16.9	$4,011,826

(Red Figure)

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Working Cash Allowance

Item	DRA	General	General Exceeds DRA Amount	General Exceeds DRA Percent	Adopted
		(Thousands of Dollars)			
Gross Working Cash Requirement:					
Misc. Spec. Deposits	$ 1,887	$ 1,918	$ 31	1.6	$ 1,887
Misc. Receivables	57,702	58,658	956	1.8	57,702
Working Funds	325	329	4	1.2	325
Other Deferred	32,512	33,596	1,084	3.3	32,512
Prepayments	16,303	16,572	269	1.7	16,303
Pay Exp. Before Revenues	-	15,055	15,055	0.0	0
Total Gross Req.	108,729	126,128	17,399	16.0	108,729
Deduction of Funds Not Supplied By Investors:					
Avg. Amt. Coll. Before Exp.	(23,652)	-	23,652	-100.0	(24,657
Excise Taxes	692	692	0	0.0	692
City Users Tax	451	451	0	0.0	451
Employee Withhold.	11,665	11,864	199	1.7	11,665
Other Def. Credits	73,923	75,147	1,224	1.7	73,923
Rev. Settlements	(16,666)	(16,666)	0	0.0	(16,666
Cr. from Suppliers for Cap. Mat'l.	30,379	30,379	0	0.0	30,379
Lag Pay Cap. Items	14,162	19,535	5,373	37.9	14,162
Total Deductions	90,954	121,402	30,448	33.5	89,949
Working Cash Allow.	15,785	4,726	(11,059)	(70.1)	18,780

(Red Figure)

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N. Summary of Earnings

The following tabulation summarizes our adopted results of operation for test year 1988 for the company as a whole and its intrastate operations which is also reflected in Appendix D of this decision:

General Telephone Company of California
Summary of Earnings
1988 Test Year
($000)

	Total Company		Adopted	
Item	DRA	General	Total Company	Intrastate
Operating Revenues				
Local Service	$ 779,228	$ 835,224	$ 781,172	$ 781,[illegible]
Toll Service	781,079	825,325	822,499	822,[illegible]
Intrastate Access	215,908	201,963	206,526	206,[illegible]
Interstate Access	480,425	480,425	480,425	-
Miscellaneous	322,670	262,770	281,981	258,[illegible]
Surcharge	73,287	184,675	74,730	74,[illegible]
Gain on Sale on Prop.	10,490	0	4,485	3,[illegible]
1987 Attrition	-	(52,978)	-	-
Less: Uncollectibles	18,594	24,368	21,638	20,[illegible]
Total Operating Rev.	2,644,493	2,713,036	2,630,180	2,126,[illegible]
Operating Expenses				
Maintenance	412,062	491,676	432,977	338,[illegible]
Traffic	60,633	74,563	63,624	56,[illegible]
Commercial	240,198	275,725	257,207	212,[illegible]
Gen. Off. Sal. & Exp.	179,385	197,636	190,072	160,[illegible]
Other Oper. Exp.	133,213	235,711	191,456	156,[illegible]
Subtotal	1,025,491	1,275,311	1,135,336	924,[illegible]
Depreciation	497,161	539,288	524,806	428,[illegible]
Taxes Other than on Income	94,516	113,506	106,135	84,[illegible]
State Income Tax	71,528	59,464	68,292	57,[illegible]
Federal Income Tax	243,333	184,207	181,501	147,[illegible]
Total Operating Exp.	1,932,029	2,171,776	2,016,070	1,641,[illegible]
Net Operating Income	712,464	541,260	614,110	484,[illegible]

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General Telephone Company of California (Cont'd.)
Summary of Earnings
1988 Test Year
($000)

Item	Total Company DRA	Total Company General	Adopted Total Company	Adopted Intrastate
Adjustments of Income				
CCFT	-	(2,802)	-	-
Communications System	-	865	-	-
GTE Directories	-	4,131	-	-
Total Adjust. to Income	-	2,194	-	-
Net Adjusted Income	712,464	543,454	614,110	484,84[illegible]
Rate Base				
100.1 Tel. Plant in Service	6,203,282	6,843,968	6,653,203	5,267,4[illegible]
100.2 Tel. Plant Under Const.	0	48,112	0	[illegible]
100.3 Prop. Held For Future Use	79	79	79	6[illegible]
Materials & Supplies	16,874	25,021	23,258	17,5[illegible]
Working Cash	15,785	4,726	18,780	15,2[illegible]
Less: Depr. Reserve	2,012,217	2,051,951	2,004,076	1,590,86[illegible]
Less: Def. Taxes	656,125	695,140	679,418	537,1[illegible]
Total Rate Base	3,567,678	4,174,815	4,011,826	3,172,4[illegible]
Adjustment to Rate Base				
Communications System	-	(3,416)	-	-
Net Adjusted Rate Base	3,567,678	4,171,399	4,011,826	3,172,4[illegible]
Rate of Return	19.97%	13.03%	15.31%	15.28%

(Red Figure)

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O. Net-to-Gross Multiplier

The net-to-gross multiplier (NTG) is 1.56267 computed as follows:

Item	Intrastate Total
	1.00000
Uncollectible rate	0.01200
Difference	0.98800
CCFT at incremental rate 0.018635	0.01841
Difference	0.96959
FIT at 34%	0.32966
Difference	0.63993
1.0000 ÷ 0.63993 =	1.56267

P. Intrastate Revenue Requirement ($000)

Rate Base	$3,172,412
Rate of Return (D.87-12-070)	0.1090
Net Revenue	345,793
Net Revenue at pres. rates	484,841
Difference	(139,048)
Revenue requirement (Diff. * NTG)	(217,287)
Interstate USF (High Cost)	(784)
D.87-12-070 Rev. Req. Add Back	(112,190)
Total Revenue Requirement	$(330,261)

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Financial attrition will be heard on a consolidated record for General and Pacific, as ordered in D.88-06-024.

VIII. Rate Design

To expedite the flow through of the revenue reduction and avoid any conflict with other ongoing proceedings, we will not address the final rate design at this time.

As previously noted, the gross revenue requirement reduction adopted in this decision is $330.261 million which includes the revenue requirement reduction of $112.190 million derived from the billing surcharges/surcredits ordered in interim decision, D.87-12-070 as revised by Advice Letter No. 5125, filed February 29, 1988.

For this interim decision, we will be spreading the additional revenue requirement reduction of $218.071 million ($330.261 less $112.190) by an incremental bill and keep surcredit of 13.43% on access services, on intraLATA message toll and toll private line services and on local exchange services. (I.e., for access services negative 0.296% plus negative 13.43% equals negative 13.726%.)

The development of the incremental bill and keep surcredit and the adopted billing bases are as follows:

	Adopted Billing Base ($000)	Revenue Requirement ($000)	Incremental Surcredit
Intrastate Access	$ 233,201	$ -31,329	-13.43%
IntraLATA Toll	663,367	-89,121	-13.43%
Local Exchange	726,639	-97,621	-13.43%
Total	$1,623,207	$-218,071	-13.43%

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REVISED APPENDIX A
Sheet 1 of 1

SCHEDULE CAL. P.U.C. NO. A-38
BILLING ADJUSTMENT

The following revisions are ordered:

Rates	Monthly Percentage Increment
Adjustment Factor	(13.43%) *
Adjustment Factor	(13.43%) **
Adjustment Factor	(13.43%) ***

* The monthly percentage factor applies to all services provided under Tariff Schedule C-1, Facilities for Intrastate Access.

** The monthly percentage factor applies to all recurring and nonrecurring rates and charges for service or equipment provided under all of the Utility's Tariff Schedules except the following:

The present list of excepted services shall remain unchanged.

*** The monthly percentage factor applies to all intraLATA toll and toll private line services.

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REVISED
APPENDIX C

GTC CALIFORNIA
California Corporation Franchise Tax
Test Year 1988
($000)

Operating Revenues	$2,630,180
Operating Expenses	1,135,336
Taxes On Other Than Income	106,135
Subtotal	1,241,471
Net Before Adds & Deducts	1,388,709
Net Deductions from Taxable Income	
State Tax Depreciation	425,625
Fixed Charges	140,227
Pensions & Benefit Capitalized	44,146
Use Tax Capitalized	6,929
Payroll Taxes Capitalized	14,626
Cost of Removal	22,835
Subtotal of Deductions	654,388
Net State Taxable Income	734,321
CCFT @ 9.3%	$68,292

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REVISED
APPENDIX C

GTC CALIFORNIA
Federal Income Tax
Test Year 1988
($000)

Operating Revenues	$2,630,180
Operating Expenses	1,135,336
Taxes On Other Than Income	106,135
State Income Tax	68,292
Subtotal	1,309,763
Net Before Adds & Deducts	1,320,417
Net Deductions from Taxable Income	
Federal Tax Depreciation	471,498
Deferred Tax Reversal	73,538
Fixed Charges	150,042
Construction Period Taxes	(3,633)
Reserve for Uncollectibles	(1,850)
Dividend Paid Credit	77
Subtotal of Deductions	689,672
Net Federal Taxable Income	630,745
FIT @ 34%	214,453
Adjustment:	
ITC Amortization	(32,952)
Net FIT	$181,501

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REVISED APPENDIX D

GTC CALIFORNIA
Revised Adopted Separated Summary of Earnings
Test Year 1988
($000)

		Total Company	Inter-State	IntraState: Total	IntraState: Access	IntraState: IntraLATA Total	IntraState: IntraLATA MTT	IntraState: IntraLATA PL	IntraState: Exchange
		(a)	(b)	(c)=(a-b)	(d)	(e)=(f+g)	(f)	(g)	(h)=(c-d-e)
	OPERATING REVENUES								
1	Local Revenues	781,172	0	781,172	0	0	0	0	781,172
	Intrastate								
2	Access Revenues	206,526	0	206,526	206,526	0	0	0	0
3	Toll Revenues	822,499	0	822,499	0	822,499	787,411	35,088	0
4	Interstate Access Revenues	480,425	480,425	0	0	0	0	0	0
5	Miscellaneous Revenues	281,981	23,819	258,162	26,675	0	0	0	231,487
6	Surcharge Revenues	74,730	0	74,730	(6,903)	29,338	28,719	619	52,295
	Gain on Sale of Properties	4,485	846	3,639	425	1,317	1,183	134	1,897
7	Other Miscellaneous	0	0	0	0	0	0	0	0
8	LESS: Uncollectibles	21,638	1,200	20,438	0	7,960	7,779	181	12,478
9	Total	2,630,180	503,890	2,126,290	226,723	845,244	809,534	35,710	1,054,323
	OPERATING EXPENSES								
10	Maintenance	432,977	94,917	338,060	44,142	118,675	103,772	14,903	175,243
11	Traffic	63,624	6,836	56,788	1,952	27,141	26,979	162	27,695
12	Commercial	257,207	44,382	212,825	13,365	28,231	27,190	1,041	171,229
13	General Office Sal. & Exp.	190,072	29,590	160,482	20,732	57,884	54,564	3,320	81,866
14	Other Operating Expenses	191,456	34,936	156,520	16,830	49,566	45,463	4,103	90,124
15	Subtotal	1,135,336	210,661	924,675	97,021	281,497	257,968	23,529	546,157
16	Depreciation	524,806	96,553	428,253	56,501	147,346	129,519	17,827	224,406
17	Taxes Other than on Income	106,135	22,000	84,135	10,171	28,450	25,186	3,264	45,514
18	State Income Tax	68,292	11,008	57,284	3,598	27,027	28,073	(1,046)	26,659
19	Federal Income Tax	181,501	34,399	147,102	10,961	95,612	101,544	(5,932)	40,529
20	Total	2,016,070	374,621	1,641,449	178,552	579,932	542,290	37,642	882,965
21	Net Revenues	614,110	129,269	484,841	48,171	265,312	267,244	(1,932)	171,358
	RATE BASE								
22	100.1 - Tel Plt in Serv	6,653,203	1,385,716	5,267,487	684,264	1,842,846	1,600,869	241,977	2,740,377
23	100.2 - Tel Plt under Const.	0	0	0	0	0	0	0	0
24	100.3 - Prop Held for Future Use	79	17	62	8	22	19	3	32
25	Materials & Supplies 122	23,258	5,701	17,557	2,296	6,173	5,389	784	9,088
26	Working Cash	18,780	3,485	15,295	1,605	4,656	4,267	389	9,034
27	LESS: Depreciation Reserve	2,004,076	413,214	1,590,862	208,708	545,052	466,048	79,004	837,102
28	LESS: Deferred Tax	679,418	142,291	537,127	69,596	186,677	162,530	24,147	280,864
29	Total	4,011,826	839,414	3,172,412	409,879	1,121,968	981,766	140,002	1,640,565
30	RATE OF RETURN	15.31%	15.40%	15.28%	11.75%	23.65%	27.22%	-1.38%	10.44%