

ALJ/ECL/btr

Decision 89 09 100 SEP 27 1989**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 Pacific Bell (U 1001 C), a )  
 corporation, for authority to )  
 increase intrastate rates and )  
 charges applicable to telephone )  
 services furnished within the State )  
 of California. )

Application 85-01-034  
 (Filed January 22, 1985;  
 amended June 17, 1985 and  
 May 19, 1986)

Application of General Telephone )  
 Company of California (U 1002 C), )  
 a California corporation, for )  
 authority to increase and/or )  
 restructure certain intrastate )  
 rates and charges for telephone )  
 services. )

Application 87-01-002  
 (Filed January 5, 1987)

In the Matter of Alternative )  
 Regulatory Frameworks for Local )  
 Exchange Carriers. )

I.87-11-033  
 (Filed November 25, 1987)

I.85-03-078  
 (Filed March 20, 1985)

OII 84  
 (Filed December 2, 1980)

And Related Matters. )

Case 86-11-028  
 (Filed November 17, 1986)

I.87-02-025  
 (Filed February 11, 1987)

Case 87-07-024  
 (Filed July 16, 1987)

OPINION

On September 7, 1989, the Assigned Commissioner issued a  
 ruling proposing a rate design be adopted for GTE California

Incorporated (GTE) based on the record in GTE's Test Year 1988 GTE Rate Case (Application (A.) 87-01-002). Such action would require the Commission to modify its procedural order in this proceeding (Decision (D.) 88-08-024) because the Commission had concluded that it was reasonable to defer further rate design for GTE until a later stage in this proceeding. Parties to this proceeding were given ten days to file their response to the Assigned Commissioner's Ruling.

Comments have been received from GTE, Western Burglar & Fire Alarm Association (WBFAA), and the Commission's Division of Ratepayer Advocates (DRA). GTE favors a rate design decision for the reasons outlined in the Assigned Commissioner's Ruling, saying that the decision will reduce the number of services for which rates will have to be set in the contemplated supplemental rate design. GTE went on to summarize its position on rate design, which had already been submitted through testimony and its briefs. WBFAA opposes a rate design for GTE primarily on the basis that it is not a necessary foundation for supplemental rate design, that the resultant multiple rate changes will confuse customers, the record is stale, and the administrative law judge (ALJ) now assigned to the case cannot judge the credibility of witnesses because she did not conduct the hearing. WBFAA took the opportunity to reargue its position on analog private lines in the event the Commission decides to proceed with a rate design decision. The DRA believes that the current annual surcredit is so different from the numbers for which the parties designed rates that additional hearings are necessary to receive GTE's and DRA's rate design recommendations. It also states that the Commission will have difficulty assessing GTE's private line rates and volumes as a result of D.88-12-036. The DRA believes that the Commission staff's time could be more productively spent on subsequent phases of this OII than conducting the evidentiary hearings it believes necessary to supplement the stale record on which the rate design

would be based. However, DRA is not opposed to the reopening of the existing record in A.87-01-002 so that a new rate design may be adopted for GTE.

The comments in opposition to the adoption of a rate design for GTE appear well-intentioned, but they are not persuasive. Two primary interests must be reconciled. The first is the need to update GTE's rates to better reflect cost. If nothing else, the passage of almost five years and the attendant escalation in price indexes since the adoption of GTE's current rates must be recognized in rates. Moreover, given the Commission's focus on competition as a means of securing the benefits of advanced technology to consumers, it is imperative to eliminate cross subsidies between classes of service as much as reasonably possible. Those cross subsidies must be curbed before we embark on supplemental rate design, or even attempt to evaluate the advice letters contemplated by our Phase II decision. We recognize that this is an ambitious task, and that the issue of cost-based rates will continue to be addressed in this proceeding. However, the record in A.87-01-002 provides us with a starting point to place GTE on equal footing with Pacific. Therefore, D.88-08-024 should be modified to provide that a rate design decision for GTE based on the record in A.87-01-002 will be issued.

Findings of Fact

1. D.88-08-024 states:

"It is reasonable to defer further rate design for GTEC and Pacific until after Phase II."  
(Conclusion of Law 1.)

2. The rate design in effect for GTE is based on test year 1984 results.

3. The evidence in A.88-01-002 shows that escalation in the economy has increased GTE's cost of providing certain services, and that certain services are now priced below cost.

4. It is necessary to revise GTE's rates to reflect better the cost of service at this time, since GTE will be allowed limited pricing flexibility as a result of the Phase II decision in this proceeding, existing rates will constitute a de facto starting point for rates, and the existing rates which do not reflect known costs will not provide a reliable measure of GTE's ability to perform in the new regulatory environment envisioned by the Phase II order.

Conclusion of Law

Conclusion of Law 1 of D.88-08-024 and the relevant portions of text should be modified to provide that a rate design will be adopted for GTE based on the record in A.87-01-002.

O R D E R

IT IS ORDERED that:

1. Conclusion of Law 1 of D.88-08-024 is modified to state:

"It is reasonable to adopt a rate design for GTEC based on the record in A.87-01-002, but to defer further rate design for Pacific until after Phase II."

2. The text on page 10 of the mimeo, immediately following the heading, "Discussion" is amended to state:

"We will adopt the recommendations of the assigned Commissioners regarding the timing of further rate design proceedings, except that we will proceed to a decision on GTE's test year 1988 rate design. A rate design based on the record in A.87-01-002 is needed to better align GTE's rates with its costs of providing service. We agree that a supplemental rate

design proceeding could require development of a more extensive record and thus could take longer than originally contemplated. Such an undertaking at this time would necessarily entail significant delay in Phase II."  
(Underlined language is hereby added.)

This order is effective today.

Dated SEP 27 1989, at San Francisco, California.

G. MITCHELL WILK  
President  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners

Commissioner Frederick R. Duda,  
being necessarily absent, did  
not participate.

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

*Wesley Franklin*

WESLEY FRANKLIN, Acting Executive Director