ALJ/ECL/jt

Decision 90 02 050 FEB 23 1990

ORIGINAL

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

(See D.87-08-051 and D.87-12-070 for appearances.)

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I N D E X

FINAL OPINION

I. Summary of Decision

This decision provides General Telephone Company of California (GTEC) with a rate design based on the record in Application 87-01-002, its Test Year 1988 General Rate Case. Our primary objective was to review GTEC's rates and to amend to better reflect current costs. In recognition of the fact that ratepayers within California should enjoy similar pricing for similar services provided by utilities with adjacent serving areas, we adjust GTEC's rates for some services to more closely resemble Pacific Bell's (Pacific) rates. However, in every case, the amount of increase is not burdensome. Consideration of fairness limited some increases to the documented increase in the Consumer Price Index which occurred between the test years, 1984 and 1988. These rate changes will result in only minimal change to GTEC's revenues which will be recovered in the billing surcharge. Changes which have been ordered in prior phases of this rate case, as well as changes due to advice letter filings, will continue to be implemented through the current billing surcharge.

Revenues from analog private lines will increase by approximately $2.834 million. Service connection charges will be increased to produce an additional $7.454 million. Revenues from various miscellaneous services will be increased by about $2.083 million. The total increase in revenues will be approximately $12.371 million.

There is no change in the basic exchange rate for residential and business customers. However, GTEC's proposal to revise its local usage rates and expand local measured service is adopted. We anticipate reductions of $10.77 million and $28.033 million, respectively, in revenues from these services. When these reductions are applied to the above increases, the result will be an overall decrease of $30.872 million in GTEC's revenue. The settlement pooling arrangements which would formerly have resulted in a revenue requirement for GTEC of less than the amount billed are no longer in effect. This amount will be recovered via an incremental 4.12% bill and keep surcharge on all intraLATA exchange billing.

At present, the revenue requirement decreases in this proceeding have combined with the effects of other prior decisions to yield surcharges of -18.51% for access, 2.40% for exchange, and -2.49% for toll. These surcharges reduce GTEC's billed revenues by $43.952 million. In this decision we order rate design changes that decrease GTEC's receipts from billings by a net $30.872 million. Therefore, we are increasing GTEC's surcharge on exchange service by 4.12% to a total of 6.52% to recover this additional amount. After this decision, the effect of the combined surcharges will be to reduce GTEC's billed revenues by $13.080 million.

The revised rates and surcharges shall take effect on April 1, 1990. Further changes to these rates and surcharges will take place in supplemental rate design as part of Phase III in I.87-11-033.

The changes in GTEC's 1988 customer billings and revenues at adopted rates and charges are summarized in Table 1, below.

Table 1

GTE CALIFORNIA
Summary of Changes in 1988 Customer Billings
And Revenues at Adopted Rates and Charges
($000)

	Item	Change in Billings/Revenues
1.	BEALS	($32,177)
2.	Local Usage	(12,362)
3.	Reservation of Telephone Number	4
4.	Rotary Service	1,050
5.	Farmer Line Service	2
6.	Shared System Listing Service	30
7.	Interexchange Receiving Service	9
8.	Foreign Exchange Service	126
9.	Miscellaneous Billing Services	11
10.	Service Connection, Move and Change Charges	8,556
11.	Telephone Directory Services	643
12.	List Service	-
13.	Telephone Directory Reproduction Rights	15
14.	Special Service Arrangements	104
15.	Private Line and Private-Line Like Services	2,774
16.	Telephone Answering Services	255
17.	Visit Charge	88
18.	SUBTOTAL	(30,872)
19.	TOTAL SURCHARGE	30,872

II. Procedural and Regulatory Context of this Decision

A. Procedural History

Three interim opinions have been issued in this general rate case proceeding, resulting in a $330.26 million reduction in the revenue requirement of GTEC. The decrease ordered by the first interim opinion, Decision (D.) 87-12-070, and adjusted by Advice Letter 5125 and D.88-08-061 totaled $112.19 million. The second interim opinion, D.88-08-061, as modified by D.88-12-101, ordered a reduction of $218.071 million. The Commission immediately passed through these reductions by ordering a negative surcharge (also known as a "surcredit") on access services and other-than access services. The Commission intended to address "the final apportionment of the rate reduction to the various customer groups and the final tariff schedules, based on this record" in the next interim decision in the general rate case.

In August of 1988, the Commission anticipated that a supplemental rate design would be necessary to carry out its decision in its Investigation into Alternative Regulatory Frameworks for Local Exchange Carriers (LEC), I.87-11-033 ("the OII"). GTEC's general rate case was consolidated with the OII by D.88-08-024. In that interim opinion in the OII, the Commission stated:

> "Consolidation of further rate design proceedings for Pacific and GTEC with the investigation would enhance the Commission's ability to formulate consistent rate design policies for the two companies and to implement any regulatory changes which may be adopted on a consistent basis. We conclude that these proceedings should be consolidated."

The record in the OII shows the need for both LECs to have rate designs which reflect current customer preferences, costs, and market conditions as a basis for supplemental rate design. A rate design was adopted for Pacific in its test year

1986 general rate case in July of 1988. GTEC's current rate design was adopted in 1984. Although the decision to consolidate Pacific's and GTEC's rate design was effectively a decision to postpone rate design for GTEC, the Commission determined in D.89-09-100 that GTEC's rate design should be updated now.

This decision adopts a rate design for GTEC using the existing rate design record. Eleven days of evidentiary hearing were held on rate design proposals. The issue was last briefed in March of 1988. Since then, the billing surcharges have been amended to account for the 1988 and 1989 effects of changes to the Uniform System of Accounts (USOA), 1989 attrition, 1989 "Subscriber Plant Factor" to "Subscriber Line Usage" (SPF-to-SLU) reallocation, and the latest reduction in GTEC's revenue requirement (D.88-08-061), as well as toll settlements effects of the rate design adopted for Pacific in (D.88-07-022). These changes result in a specific revenue reduction which cannot be quantified without an updated billing base. Since we do not have evidence of the 1989 customer volumes on the record, we will refrain from incorporating revenues from the surcredits into the revenue for which we design rates. Furthermore, adjustments to the surcharge levels will be made in compliance with existing Commission orders relative to 1990 SPF-SLU and the USOA. They will further reduce the revenue yields of the existing surcredit. Thus, any attempt to roll the surcharges into rates would be akin to working with a moving target.

The administrative law judge (ALJ) assigned to the evidentiary phase of this GTEC rate case required the parties to submit rate designs for revenue requirement that hypothetically had been reduced by amounts of $115 million, $250 million, $500 million, and $700 million. At this point, we do not intend to alter GTEC's revenue requirement or revenues. The billing surcharges/surcredits will continue in effect. Each party's recommendations will be reviewed on a service-by-service basis.

While rates for individual services are changed, these changes result in no change to the company's revenues because the net change in revenues will be recovered by an incremental change in the surcharge.

B. <u>Regulatory Context</u>

In designing rates for GTEC, we are guided by several of the same policy considerations that have shaped our recent actions in the field of intrastate telecommunications. The competition engendered by the federal segregation of inter- and intraLATA services, the deregulation of communications services once provided, if at all, by the local monopoly, and the widespread availability of telecommunications technology require the authorization of rates which better approximate cost. While cost information was not uniformly provided for every service in this proceeding, several types of service were studied by GTEC. Where sufficient basis for a move toward cost exists, we take that step. While in the course of the OII the Commission anticipates competition for LECs, we cannot assume that competitive alternatives already exist for every service. Our economic pricing must be modified by an equitable recognition of market circumstances. Therefore, while we base rates on cost we do not set them exactly at what we perceive the cost to be.

Secondly, the communications needs of the entire state must be recognized. GTEC recommends restructuring its local usage rates to match Pacific's per-minute rates. We think that uniformity of rates for like services is an important objective, as this will lessen customer confusion and allow ratepayers to make economic choices when purchasing services to meet their communications needs.

The Commission has undertaken a review of the regulatory framework within which local, or intraLATA telephone service is provided in California in the OII. The changes in revenue allocation expected to result from the OII will be spread through a consolidated supplemental rate design proceeding for GTEC, Pacific, and other LECs. Supplemental rate design should not be distorted or sidetracked by the need to overcome inequities between classes of ratepayers that can be rectified today. Inequities exist where rates are set too low to recover the cost of service. Thus, one objective of this decision is to increase rates so that they approach cost, in the overall context of maintaining GTEC's present revenue requirement.

To the extent supported by this record, GTEC's rates will be revised to position GTEC for the new regulatory framework.

C. <u>Parties' Comments on ALJ's Proposed Decision</u>

The proposed decision of the administrative law judge was filed and mailed to the parties of record on January 8, 1990. We have received and reviewed Section 311 comments from GTEC, the Commission's Division of Ratepayer Advocates (DRA), and Western Burglar and Fire Alarm Association (WBFAA). Reply comments were received from Toward Utility Rate Normalization (TURN), API Alarm Systems, Inc. (API), Pacific, DRA, and GTEC. Comments which merely reargue the parties' positions have been accorded no weight, consistent with Rule 77.3 of the Commission's Rules of Practice and Procedure.

DRA believes the Commission should abstain from authorizing new rates for GTEC and defer GTEC rate changes to the supplemental rate design phase of the investigation into alternative regulatory frameworks for local exchange carriers, I.87-11-033. DRA claims that this decision's increase in rates for some customers, coupled with changes resulting from the supplemental rate design, will undermine the public's confidence in the new regulatory framework plan. We share DRA's concern, but believe that the need to base supplemental rate design on rates which more closely reflect the utility's costs outweighs that concern.

DRA objects to the ALJ's proposal to decrease the late payment charge, citing prior Commission decisions that found that the late payment charge is a penalty, is not related to the company's cost of capital, and should be uniform among utilities. Given the need for statewide uniformity of rates, we will refrain from decreasing GTEC's late payment charge in this case.

DRA suggested that the requirement for notice regarding the availability of measured service be changed. That change is inappropriate, since it is intended that GTEC customers who currently subscribe to measured service should have the opportunity to compare their measured service to flat rate service. At DRA's suggestion, a figure in Appendix A has been changed to make the appendix consistent with finding of fact 67.

GTEC pointed out that as of January 1, 1990, GTEC and Pacific Bell EAS and intraLATA toll private line revenues will no longer be pooled pursuant to historical settlements arrangements. D.89-12-048 provides that GTEC and Pacific's intercompany intraLATA toll settlements will be based on a fixed annual payment, so that revenues for EAS and intraLATA toll will be billed on a bill and keep basis. For this reason, a reduction in GTEC's revenues will not result in a corresponding decrease in Pacific's revenues. Pacific should not be authorized to increase its surcharge to collect those revenues. GTEC should be authorized to increase its bill and keep surcharge to offset the full amount of GTEC's billing adjustment. The total change in billings should be $30,872,000. This includes an increase of $259,000 over the sum which appeared in Table 1 of the proposed decision to reflect the rejection of an increased returned check charge.

This requires the incremental surcharge on all GTEC intraLATA exchange billings to be increased by 4.12%. There is no change in the surcharge on toll billings. This change has been reflected in Table 1.

The dates for implementing local measured service should be postponed from May 1990 to August 1990, according to GTEC, which listed other mandated programs that will demand its resources during early 1990 in its comments. The conversion would be accomplished within eight months, as proposed by the ALJ. This change would enable GTEC to accomplish the conversion within its resources and without delay. Therefore, Appendix C is substituted for the originally proposed schedule.

GTEC proposes amendments to the tariff schedule for private line services attached as Appendix A. Those amendments would correct an alleged "inequity" between rates for GTEC's private line and tie line services that GTEC has only now brought to the Commission's attention. This is not a matter that can be addressed through the Section 311 comment process. GTEC may raise this issue in one of the proceedings contemplated by D.89-10-031.

GTEC is concerned that where Appendix A specifies "No Change," the figure shown in Appendix A of Exhibit 233 is adopted. In some cases, Exhibit 233 shows no monthly rate for the service. We clarify that "No Change" as used in Appendix A of this decision means that GTEC is authorized to charge its current rates for that service.

GTEC now claims that adoption of its recommendation for a different foreign exchange rate structure for measured business service for customers within the San Francisco and Los Angeles urban areas causes a significant discriminatory pricing problem. This was not GTEC's testimony at the hearing. There is no record of the revenue impact of offering the favorable rate on a statewide basis. GTEC may propose this change in the supplemental rate design or other appropriate proceeding.

III. Rate Design Objectives of the Parties

A. GTEC's Application

GTEC proposed a comprehensive rate design which would meet the decrease in customer billings of $122.7 million as ordered in D.87-12-070. It recommended adoption of the proposal which it submitted for the hypothetical $115 million reduction in revenue requirement.

John Jensik, GTEC's primary rate design witness, stated the company wished to collect a portion of the estimated $183.499 million that was being collected as surcharge revenues from specific local exchange services at the time of the hearings. The portion of surcharge revenues which is not so collected in rates would not be recovered by GTEC. According to Jensik, only two major nontoll and nonaccess areas remain from which to recover this revenue requirement. These two areas are local private line services and basic local exchange services.

Most of the company's proposed rate reduction would result from eliminating the billing surcharges for exchange services and intrastate access services. According to GTEC's calculation, the surcharge elimination would result in a reduction of about $188 million. Another reduction of about $23 million would occur from the restructuring of local usage rates. Currently, where local usage is measured, it is rated at seven cents per five-minute period or portion of five-minute time period. GTEC proposed to charge four units for the initial minute of each call and one unit for each additional minute of the same call at a rate of one cent per unit with time of day discounts consistent with those employed in Zone Usage Measurement (ZUM). Another $0.678 million would be eliminated by the retention of the existing rate structure for Electronic Business System Service (EBSS), modified to contain a common rate of $3 per station instead of the current graduated rate schedule for intrasystem service.

GTEC's proposed restructuring of tariffs for private line and private line-like services into one tariff and a move toward cost-based rates, limited to a 50% increase in rates, would increase billings for these services by $15.452 million.

GTEC also proposed a number of incremental rate changes for its customer services, semi-public coin phone service, line extension, farmer line, foreign exchange, and telephone directory-related functions.

B. <u>DRA's Rate Design Proposal</u>

The DRA's primary rate design was based on an assumed reduction in revenue requirement for GTEC on a 1988 test year basis of $700 million. It urged the Commission to lay the foundation for restructuring certain rates and charges, such as intraLATA message toll service, to increase rates and charges so they will be closer to cost, and to maintain universal telephone service. DRA pointed out that GTEC finds itself in a decreasing revenue requirement environment and the consequent benefits should be shared by all classes of customers, where appropriate.

The DRA's proposed rate changes were driven by three basic parameters: (1) Reduction of the existing customer billing surcharges to zero, (2) Retention of statewide rates and charges for usage-related service such as message toll services and ZUM as well as achieving similar usage charges for local usage on local calling routes between utilities, and (3) Distribution of rate reductions in an equitable, reasonable, and rational manner.

According to DRA, the Commission should, without regard to the level of test year annual revenue requirement which might be adopted by the Commission, reduce surcharges to zero; increase rates and charges for private line; increase service connection charges, including charges applicable to the provision of foreign exchange services; and reflect the 1988 impact of the phased conversion of interLATA SPF-to-SLU by reducing rates for access services.

The DRA also urged the Commission to decrease GTEC's revenue requirement by standardizing charges for local usage, eliminating the charge for touch tone, reducing charges for access services, and reducing rates for message toll (MTT) and Basic Exchange Access Line Services (BEALS). The exact reduction in rates for access, toll and local exchange services would depend on the rate of return adopted for the rate base allocated to these categories of service.

DRA had estimated that 1988 annual surcharge revenues of approximately $202.2 million would need to be flowed through in rates. Because we will not eliminate the surcharges at this time, we will not evaluate the merits of the staff methodology for allocating reductions in revenue to the four categories of services (access, intraLATA MTT, intraLATA private line and exchange) here. However, we think that DRA's emphasis on a move to cost-based rates with concurrent preservation of universal service is appropriate.

C. Rate Design Objectives of Other Parties

The parties in the rate design phase who either presented testimony or actively participated in cross-examination during the 11 days of hearing on rate design included WBFAA, API, Telephone Answering Services of California (TASC), TURN, Consumers Coalition of California (CCC), American Telephone and Telegraph Company (AT&T), and the Department of Defense on behalf of the consumer interests of all Federal Executive Agencies (FEA).

WBFAA commented on GTEC's proposal to restructure and reprice private lines. It recommended that because GTEC admittedly did not conduct a study of the cost of providing private lines according to the cost manual for private lines, existing rate structure and rates should be retained. Alternatively, a new rate structure may be adopted, but at rates which retain the current revenues from private line and private line-like services. WBFAA claimed that without proper cost studies to support the new rate structure and proposed rates the new structure should be rejected. WBFAA cited D.85-07-090, the Sonitrol case, as authority for a policy limiting increases in rates to 50% of existing rates.

API also focused on the rates and charges applicable to private line alarm circuits. The FEA asserted that the proper application of marginal cost pricing is needed to prevent it and other large users from bypassing GTEC for private line services. TASC focused on the rates charged for secretarial lines.

TURN sought parity between the rate structures of GTEC and Pacific. TURN urged the elimination of the touch tone charge, reduction of pay phone charges to 10 cents per call, reduction of the residential flat rate to $6 per month, and reductions to various fees levied for customer services. It claimed that these changes could be effected through the elimination of the surcharge and a $128 million reduction in revenues. TURN also recommended elimination of ZUM charges and the adoption of its residential rate simplification plan.

AT&T advocated cost-based access rates that reflect accurate estimates of access volumes and revenues. Carrier common line charges should reflect current SPF-to-SLU non-traffic sensitive cost phase-downs, according to AT&T. It believes that a unified private line and special access tariff should be adopted for GTEC.

IV. Summary of Revenue Impacts of Recommendations

A. GTEC

GTEC's recommended rate design is the proposal submitted to the ALJ for the $115 million revenue requirement reduction. This incorporates the effects of eliminating the billing surcharges for intraLATA toll and exchange services and intrastate access services, a decrease of $188 million. Restructuring of local usage rates would reduce billing by $22.9 million. A change in the rate structure for EBSS would reduce billings by $.7 million. Its proposed rate design for private line and private line-like services would increase billing by $15.5 million. Minor billing effects would result from GTEC's proposal to change rates for customer service-related items.

B. DRA

In its reply brief, DRA revised its separated summary of earnings to reflect then-current surcharges for GTEC which yielded a negative $73.287 million revenue requirement. It revised its rate design to reflect a downsizing in revised separated results for the four categories of service. However, the DRA's recommendation was premised on a $403.6 million reduction in revenue requirement consisting of $73.3 million in surcharge revenues plus the $330.3 million revenue reductions ordered in previous decisions in this proceeding. Since the surcharge is not being eliminated today, DRA's overall revenue allocation scheme need not be considered. However, its rate design for particular services under the $115 million revenue reduction scenario is still useful and will be discussed in the following sections.

C. TURN

TURN's proposals would result in a revenue reduction of $128.2 million. The largest reductions stem from its proposed universal $6 residential flat rate ($85 million) and its estimated cost of eliminating the touch tone charge ($28 million).

V. Basic Residential and Business Service

A. Exchange Services

GTEC shared DRA's and TURN's goal of eliminating the billing surcharge. It believed that local service rates should be adjusted to recover revenues then being collected by the surcharge on local services. The two local services that were subject to the surcharge, local private line and Basic Exchange Access Line Service (BEALS), were targeted for an increase.

Since GTEC's proposal to increase BEALS rates was premised on shifting surcharge revenues to test year-based revenue requirement, we will not adopt those changes. However, GTEC's BEALS rate design is summarized here as a base case for evaluating proposals to amend GTEC's BEALS in the future.

1. GTEC

a. BEALS

In its rate design proposal, GTEC observed the long-standing practice of pricing BEALS residually. It first calculated the effect of its proposal regarding other exchange services and the effect of eliminating all surcharges. It then concluded that an additional $104.833 million should be collected through BEALS rates.

This would be accomplished by increasing all existing flat rates (residential and business) by $4.10 per line. The monthly tariffed rate for Metro Flat-Rated (M-FR) services would increase from $9.75 to $13.85.

Residential Measured Rate (R-MR) service would be increased from a $5.25 per month line charge, which currently includes a $3 calling allowance, to $8 per month under the proposed Metro Standard Measured (M-SM) rate. DRA noted that GTEC concurrently proposes to withdraw the present offering of one-party measured-rate residence BEALS which includes a $3 usage allowance applicable to local usage as well as ZUM Zones 2 and 3 usage.

The business flat rate would increase from $21.70 to $25.80, while the Metro Flat Business (M-FB) rate for PBX trunks would increase from $32.70 to $36.80. Where Metro Measured Business (M-MB) service is available, the line rate for business service would increase from $9.10 to $13.20.

In addition, GTEC desires to change all of its residential BEALS to a form of "Metro Optional Flat Rate" which it calls "Vintage I" gradually over a three-year period. Vintage I would replace all other forms of measured service. Under Vintage I service, residential customers may choose between flat-rated and measured service. The 1988 flat rate would be $14.85. The measured service rate would consist of a line rate of $8 plus a usage rate which, when combined with the line rate, could not exceed $14.85 per month. In areas where measured service is offered, flat rate service will cost $14.85 per month, but in areas where measured service is not available, flat rate service would cost $13.85. Where Vintage I had not been put in place, flat rates would prevail.

Under Vintage I, business customers would be offered measured service only in measured rate exchanges, as they are today. Business customers would not enjoy a cap on usage charges. The business line rate would be the same as the line rate proposed for existing measured service exchanges, $13.20. In flat-rated exchanges, business customers would be converted from a flat rate of $25.80 for a business line, or $36.80 for PBX trunk, to the business line rate of $13.20, plus the Vintage I usage prices.

The Vintage I proposal incorporates GTEC's proposed revisions to local usage pricing (see below). The usage prices would apply to all calls terminated in the local calling area and extended service areas.

GTEC believes that the introduction of Vintage I pricing offers customers the opportunity to save money and will induce customers to migrate to measured service. Affordable local telephone service will ultimately require greater reliance on measured-rate local service, according to GTEC.

b. Local Usage

GTEC proposes to expand the offering of local measured BEALS into additional exchanges as the central office capability to offer such services becomes available. It also proposes to revise its pricing of local usage, where measured. Currently, local usage is priced at $.07 per five-minute increment or fraction thereof. GTEC proposes to price local usage on a unit basis, as Pacific does. Each initial minute of usage consists of four units which, at $.01/unit, would cost $.04. Each additional minute is another unit and would cost $.01. Time of day discounts will apply. GTEC estimates that this pricing structure would result in an incremental revenue decrease of approximately $23.467 million.

2. DRA

DRA's goal was to reduce the customer billing surcharge applicable to the rates and charges for services in the Exchange category which was 11.75% at the time of the hearings, along with all other billing surcharges. This would have required an increase in rates and charges for services in the Exchange category, including a $65 million increase in the residually priced BEALS under the ($115) million rate design. It is clear from DRA's testimony that the increases were proposed in order to allow elimination of the estimated $202.20 million then being collected under the billing surcharge. As discussed above, the surcharge is not being eliminated here. Thus, DRA's proposals to change BEALS' rates will not be evaluated on their merits in this decision.

DRA criticized GTEC's proposed elimination of the differential between flat rate and measured-rate BEALS and the implication that a flat rate residence BEALS should bear the same rate burden as a flat rate business trunk.

DRA also urged the Commission to reject GTEC's Vintage I proposal. DRA pointed out that the opportunity for residential customers to save money by subscribing to measured-rate service already exists. It cited GTEC's own estimates that by mid-1988 at present rates only approximately 43,000 or 3% of 1.3 million residential customers who have the option will have elected measured-rate residence BEALS.

On the other hand, DRA supported GTEC's proposal to convert local usage rates to the one-minute structure presently in effect for Pacific. This incorporates a 30% and 60% discount for calls in the evening and at night (including weekends). It approved of GTEC's proposal to offer measured-rate BEALS in areas where only flat business and residential rates are available as central offices attain the capacity to do so. Implementation of this service would follow GTEC's proposed schedule for deploying Vintage I service (Attachment 6 to Exhibit 214).

DRA pointed out that under both GTEC's and Pacific's tariffs, the $3 usage allowance included in the monthly rate for a one-party residence measured-rate BEALS in areas where ZUM service is offered applies to local calls, ZUM Zone 2 calls, and ZUM Zone 3 calls. DRA proposed that the allowance be made applicable to local calls as measured service becomes available, even though ZUM service has not been offered in those exchanges. This would make GTEC's $3 allowance identical to that of Pacific. DRA does not agree with GTEC's claims that elimination of the $3 call allowance for measured service simplifies the structure of this offering and makes it easier to compare measured service with flat rate service.

3. <u>TURN</u>

TURN condemned GTEC's proposals to induce residential phone customers to subscribe to measured-rate service as uneconomic. It is uneconomic because in order to price measured service attractively, GTEC will incur higher costs to measure, record, and bill usage. TURN introduced a counterproposal which it calls the Residential Rate Simplification Plan (Rate Simplification Plan). TURN would replace local measured service with a flat rate and abolish ZUM, measured Call Bonus, and Wide Area Plan options. Calls to these areas would be subsumed within the ratepayer's flat-rated "local calling area". TURN also proposed a new "Flat Rate Metropolitan Service" (Metro Service). Under this plan, for a premium flat monthly rate, a ratepayer would receive unlimited, untimed calling within a defined metropolitan area. ZUM and local measured service would be superseded by Metro Service. Based on Pacific's studies, TURN believes that the monthly rate of $5 would more than compensate the phone company for Metro Service provided during off-peak hours.

Regardless whether the Commission adopts its novel proposals, TURN advocated parity between GTEC and Pacific rate structures. It asserted that customers who live in proximity to each other should not pay different rates for services that should cost the same to provide. It recommended reduction of the residential flat rate charge to $6 per month. All customers would be served under flat rates, including lifeline customers. Universal Lifeline Telephone Service (ULTS) customers would pay $2 per month, which is half the basic rate plus credits for terminal equipment and inside wire. The revenue effect of reducing the monthly basic exchange rate would be a decrease of $85 million. However, TURN did not calculate the toll and ZUM revenues now collected under the measured service rate that would not be collected under its flat rate proposal.

4. <u>Discussion</u>

The question of what constitutes basic local exchange service is before the Commission in the OII. By embarking on its industry-wide investigation into the regulatory frameworks of LECs, the Commission has indicated its interest in achieving a uniform state policy regarding basic exchange services. The OII has overtaken this general rate case in terms of timing and content.

Indeed, in D.88-08-024, issued August 10, 1988 in the OII, this rate case was consolidated with the OII to facilitate the implementation of any resultant statewide policy in both Pacific's and GTEC's rate structure. While the march of events may be distressing to the parties, the Commission's desire for uniformity means that GTEC's rates should be revised, if at all, to more resemble those of Pacific.

Thus, because we are not eliminating the surcharge, none of the parties' rate increase proposals will be adopted. We will not analyze the recommendations of the parties regarding BEALS in great detail, but will briefly address the major points of contention, below.

GTEC has proposed a new service, Vintage I, as well as revisions to the measured service rate structure. As the DRA pointed out, the $3 monthly call allowance is provided to measured-rate residential customers of Pacific. GTEC currently offers the call allowance to its measured-rate customers. Any change to the extent of service obtained under the rubric "local exchange service" should be undertaken pursuant to statewide policy which results from the OII. Clearly, the Commission has chosen the OII as the forum where it will define the structure and pricing of exchange service. It would only frustrate the Commission's wish for a consistent result for all LECs if GTEC's proposals were adopted in this case. Therefore, we will not approve GTEC's Vintage I plan or its elimination of the call allowance for measured-rate residential customers.

GTEC's proposal to revise its local calling rates to a per-minute basis would result in rates identical to Pacific's. We should approve the change from GTEC's 7 cents per five-minute increment to a 4 units per-initial minute plus 1 unit per additional-minute schedule with a rate of 1 cent per unit. The time of day discounts proposed by DRA should be approved for those local usage rates.

As a result of changes to its central offices, GTEC will be able to offer measured service to more residential customers. Since measured service will be nonoptional for business customers and optional for residential customers, we approve GTEC's proposal to convert to measured BEALS. GTEC should implement local measured service in the same order of exchanges as proposed in Attachment 6 of Exhibit 214, even though we are not approving the Vintage 1 plan. For those exchanges where ZUM will be expanded, GTEC should implement local measured service prior to or coincident with ZUM expansion. Since it is considerably past the date GTEC had assumed implementation would commence, i.e., May 1, 1988, GTEC should be prepared to commence implementation no later than May 1, 1990, and complete all conversions by year end 1990.

The revenue effects of these revisions were estimated by GTEC and the DRA. While GTEC had estimated a revenue decrease of $23.467 million, the DRA estimated a decrease of $10.77 million. DRA notes that although GTEC proposes to eliminate the $3 usage allowance associated with one-party measured residence service, GTEC does not reflect the removal of this BEALS' allowance in the development of the revenue effects at proposed rates. DRA also claims that GTEC did not include in its revenue stream payments received from the Lifeline Fund for service connection charges. We find that the latter figure is more reasonable and will adopt it.

Other than authorizing the above changes, we refrain from amending the rate design for BEALS. GTEC's basic exchange access rates will be maintained at their current levels. We agree with DRA that service connection charges should be waived for a period of 90 days from the day upon which residence local measured service is implemented. We intend for residential customers to have the opportunity to compare service and rates under both flat rate and measured rate service options. Customers who are on flat rate schedules should be able to switch to measured rate services without charge. If they are not satisfied with measured rate service, they may return to flat rate service, also without charge. Customers currently on measured rate service should also be able to compare these service options. Charges will be waived if they switch to flat rate service, but since they already have experience with measured rate service, conversion charges will apply if they return to measured rate service.

GTEC should give written notice to residence customers in exchanges where measured service is currently offered and will be offered. The notice should describe the difference between flat rate and measured service. It should advise when such measured service will be implemented. It should state that customers will be able to compare service and rates under both flat rate and measured rate without paying the charges associated with conversion from the customer's current type of service for a period of 90 days after the first full billing period during which measured service has become available. In exchanges where measured service is currently available, the 90-day period should run from the start of the first full billing period following receipt of the notice. Customers currently on measured rate schedules shall pay no charges for converting to flat rate. Customers currently on flat rate schedules shall pay no charges for conversion either to measured rate or back to flat rate.

Adopting DRA's estimated revenue reduction of $10.77 million for local usage includes the following:

1. Conversion from the present 7 cents per 5-minute unit structure to a 1 cent per unit structure similar to that of Pacific in which each initial minute is 4 units and each additional minute is 1 unit.

2. Implement time of day discounts for local measured calls.

3. Retain the present $3 allowance included in the monthly rate for a one-party measured residence BEALS.

4. Revise the present overallowance charges for measured residence lifeline BEALS of 10 cents per call for each call in the range of 61 to 70 calls and 15 cents for each call over 70 calls to 8 cents per call for calls over the allowance of 60 calls.

5. Expand local measured service into additional exchanges where the capability to offer measured BEALS has been and will be installed.

Expansion of local measured service will result in an annual revenue reduction of $28.033 million for an annual reduction in customer billings of $32.177 million.

B. <u>ULTS - Universal Lifeline Telephone Service</u>

GTEC proposed changes to ULTS in tandem with its proposals to amend BEALS. At present, ULTS customers have the option of a measured rate at the cost of $2.62 a month, with a 60-call allowance. As measured service becomes available in an exchange, GTEC proposes that lifeline customers be converted to a line rate which is half the measured service line rate. ULTS measured service would cost $4 per month for access, which is one-half the proposed access rate for residential measured-rate service, but usage rates would be the same as that charged all other customers in the exchange. The ULTS measured-rate 60-call allowance would be eliminated and replaced with a cap on total monthly charges for measured service ULTS. The cap would be equal to the cost of flat rate lifeline service.

Flat rate ULTS would be offered at one-half the flat monthly rate, or $7.40. In addition to the flat rate and measured-rate options, Vintage I would be offered ULTS customers. It would consist of an access rate of $5.25 plus local usage charges assessed on a per-minute basis, or a flat rate of $9.75. In exchanges where Vintage I is not offered, the maximum ULTS charge would be $6.90, rather than $7.40. Lifeline customers would continue to receive the $.75 terminal equipment credit and $.25 inside wire credit.

DRA pointed out that GTEC's proposal would not provide a usage allowance on measured ULTS of "60 untimed local calls" as required by General Order (GO) 153. GO 153 is applicable to all LECs. The DRA believes that statewide uniformity should be maintained with respect to this service.

As discussed in the previous section, our adoption of DRA's local usage revenue reduction of $10.77 million includes the revision of the present overallowance charges to 8 cents per call for measured residence lifeline BEAL service. The per call charge for calls over the 60-call allowance is thus consistent with that adopted for Pacific in D.88-07-022, A.85-01-034, Pacific's general rate application.

It is unnecessary and premature to consider other revisions to ULTS while the question of how local exchange service should be provided and priced is pending in the OII. We are revisiting this question in the OII where GTEC is a party, and for that reason GTEC's proposals to redesign ULTS in this form are not adopted.

C. <u>Foreign Exchange Service</u>

Foreign Exchange Service (FEX) allows either the business or residential customer to obtain local telephone service from an exchange other than the one in which the customer is located. FEX enables a customer to avoid paying toll or message charges for calls to a distant exchange.

GTEC characterized FEX as a combination private line/switched service consisting of a dedicated line between the customer's location and the distant (foreign) central office which provides the dial tone heard by the customer. GTEC would characterize its FEX service as a private line and rate it accordingly. The rate would consist of charges for a voice grade special access line for the local loop at the closed end of the circuit, a voice grade transport between the customer's "serving" central office and the dial tone office, and local usage at the dial tone end. The price for usage would be the rate for an individual measured line found in Schedule A-1. If the foreign central office is not equipped to provide measured service, the FEX customer would be charged the difference between the proposed individual business flat rate line rate of $25.80 and the individual business measured-rate line rate of $13.20. Under GTEC's proposed rate design, the difference would amount to $12.60. The specific rates for the special transport rate element are found on pages 9-11 of Exhibit 215. The proposed special access rates are found on page 16 of Exhibit 215.

Existing residential FEX and Optional Prefix Service (OPS) customers of record as of December 31, 1987 would face a maximum 50% increase in existing rates. All other FEX and OPS customers would be served from the proposed rate structure, which incorporates increases of 3% to 640%. GTEC believes that its proposal will shift billing from the company's usage schedules to its access line schedules. While the resultant migration off the FEX schedule would result in an estimated $26.6 million revenue decrease, GTEC believes the pricing of services to approximate cost warrants this effect. It further expects this impact to be offset by changes to the private line and BEALS rate structure.

DRA did not support GTEC's rate restructuring. It disputed the premise of the rate structure - that the most reasonable means of providing FEX is through the use of interoffice facilities. The DRA acknowledged that while bringing a dial tone from the "foreign" office to the ratepayer's serving central office is the common practice, the use of a dedicated prefix is more efficient. Under DRA's preferred method, a portion of the customer's serving central office facilities is assigned to a prefix which is a foreign exchange prefix. Customers who subscribe to FEX are assigned a number under this foreign prefix. All calls to and from this foreign exchange number are sent and received through the ratepayer's serving office. No long haul interoffice facilities are used. DRA pointed out that GTEC already uses two dedicated foreign exchange prefixes. DRA believed it unfair to charge subscribers for the use of interoffice facilities when they are not used. Moreover, DRA challenged GTEC's current pricing of FEX to a continuous exchange, whereby rates are assessed for mileage based on the distance from the customer premises to the boundary between the local and foreign exchange. This does not reflect the actual method of providing FEX service, according to DRA.

DRA urged the Commission to order GTEC to develop a service which will provide the same service as contiguous FEX service without the need for using expensive, dedicated long-haul interoffice facilities. Absent such a service, DRA proposed an increase in the monthly rates for business and residence FEX as well as the nonrecurring charges for such services. The installation charge provided by Schedule A-19 would be increased from $175 to $200, consistent with DRA's proposed 15% increase in the service connection, move, and change charges. As discussed more fully below, this proposal was supported by DRA's testimony that the company's costs of performing a service connection far exceed its revenues through charges, and the difference is being borne by other ratepayers in the class who themselves have not caused the company to incur the costs.

We agree with DRA that GTEC's proposed method of rating FEX service, which does not reflect the actual method of providing that service, is not reasonable. GTEC has not refuted DRA's showing that it is possible to provide FEX service by a less costly method. Since GTEC proposes to increase rates which are based on a less than optimal usage of facilities, and do not reflect actual practice in some cases, we cannot adopt GTEC's proposed rates. The DRA's proposal with respect to nonrecurring charges and measured local usage appears to be equitable and should be adopted. This Schedule A-19 nonrecurring charge is in addition to the service connection charge applicable under Schedule A-41 for the provision of FEX.

DRA also proposed a revision of the usage charges for local calls originated from measured FEX in the San Francisco-East Bay (SF) or Los Angeles (LA) extended areas where GTEC is the provider of the dial tone and the FEX customer is a customer of GTEC. These rates would be changed from the current structure of 10 cents per 5-minute unit to the 1-minute structure we have approved for measured local calls. Each unit would be priced at 1.2 cents. This would place FEX usage rates on the same billing unit as local usage rates. This proposal is logically consistent with the structure of FEX service and should be adopted.

The revenue effect of DRA's recommendation is a $.11 million increase. This includes revenue effects for proposed changes in nonrecurring charges and measured local usage associated with FEX services.

D. Service Connection Charges

GTEC sought to increase charges listed in its Schedule A-41, "Service Connection, Move and Change Charges." The rate elements for Service Order Activity, Central Office Activity, Premises Visit, and Station Number Change - EBSS (business only) would be increased by approximately 50%. GTEC submitted its service connection cost study in support of its request. It claimed that the increase is consistent with forecasted 1988 cost increases, yet would result in prices still below their applicable costs. As a result, revenues from these services are expected to increase by $17.9 million.

The DRA concurred in the conclusions of GTEC's cost study regarding the estimated cost of service connection for simple residential and business services is appropriate. However, DRA claimed that the proposed increases are not justified by the cost study. The company should have factored in increases in productivity which will occur as GTEC's existing and planned modernization programs bear fruit. Specifically, DRA cited GTEC's recent mechanization of its service order processing system and the impending deployment of an on-line service order system in June of 1988.

As an alternative, DRA suggested an increase of approximately 15% in these service charges. This would yield about $7.454 million on a 1988 test year basis. This increase is consistent with the Consumer Price Index Factors used by GTEC to bring 1985 rates to 1988 levels. An increase of 50% was opposed on the ground that it would result in residential service connection charges and business charges that exceed by 67% and 25%, respectively, the comparable charges proposed by DRA in Pacific's general rate case, A.85-01-034.

We believe that DRA's position on these charges is the reasonable one. An increase is required to bring the rates for service connection, etc., closer to cost and to alleviate the burden on other ratepayers in the residential and business class who are not responsible for the costs incurred. However, we realize that when establishing the cost of a service on a test year basis, we must consider the efficiencies which are likely to be realized during the test year cycle. GTEC's study, while consistent with our previously approved methodology, did not address those anticipated efficiencies. It is not a reliable indicator of GTEC's likely cost of providing these services. Thus, we do not find that a 50% increase is warranted. Instead, we believe the increase in the Consumer Price Index since the last general rate case is a reasonable factor by which to increase the rates for these services.

DRA also proposed an increase of approximately 15% to the nonrecurring charges applicable to the provision of EBSS and Centrex services to business customers only. Since business trunks which are provided as BEALS compete with EBSS and Centrex, an increase in BEALS' service connection charges alone would upset the competitive relationship between these services. We do not intend such disruption, so we will adopt DRA's recommendation and increase the nonrecurring charges to business customers for EBSS and Centrex by approximately 15%. The service connection, move and change, and any other nonrecurring charges for BEALS will be increased as shown in Exhibit 228, the DRA's service connection exhibit. The corresponding charges for EBSS and Centrex service will be increased to those rates set forth in Appendix 1-E of Exhibit 230. We also adopt DRA's forecasted test year revenue effect of an incremental $7.454 million increase in revenues.

E. Etiwanda Exchange

GTEC sought to establish an extended area service (EAS) route between the Ontario Exchange and the Etiwanda Exchange. Pursuant to Commission decision, GTEC had implemented the second phase of ZUM conversion in June of 1986. The ZUM plan revised calling between these two exchanges from local (EAS) to ZUM Zone 2, which meant that once-free calls became toll calls. This generated customer complaints. GTEC observed that since the time the ZUM plan was prepared, the calling interest of the communities within Etiwanda Exchange has shifted toward the City of Ontario, in the Ontario Exchange.

Although this proposal was presented as part of the rate design testimony, it was adopted in the second interim decision, D.88-08-061 (August 24, 1988) and has been implemented so need not be discussed further here.

VI. Private Lines

Private lines are dedicated telephone lines permitting unlimited usage between two points. They are not connected to the switched telephone network and are generally used for data transmission and for burglar and fire alarm circuits. In the context of this decision, the term "local private lines" means intracompany intraexchange private lines; "toll private lines" means intracompany interexchange private lines. Some private lines originate in the serving area of one utility but terminate in that of another, e.g. GTEC and Pacific. These are called "intercompany private lines". Recurring and non-recurring rates for both local and toll private lines are affected by this decision.

A. <u>GTEC's Proposal</u>

GTEC offers private line service pursuant to 10 tariffs for local service on file with the California Public Utilities Commission (CPUC), one intrastate access tariff, one federal tariff, and pursuant to its concurrence in certain tariffs of Pacific. It proposed to consolidate these tariffs and to restructure its ten intraexchange and interexchange private line and private line-like tariff offerings.

Presently, depending on the jurisdictional parameters acknowledged by the customer for traffic carried over specific circuits, the choice of private line tariff will result in a different price to the customer. Those jurisdictional factors include whether the originating and terminating points of the communication are both within the customer's exchange (local), are in different exchanges within GTEC's service territory (toll), or if one of the points lies in the serving territory of another company, (intercompany) or outside of the state (interstate). GTEC does not oversee its customers' selection of tariff options. GTEC asserted that the pressure of competition compels it to restructure its private line tariffs. It would use the structure embodied in its special access tariff on file with the Federal Communications Commission (FCC).

GTEC's FCC tariff separates special access service into four functions, each of which is separately priced. Those functions are analogous to the functions of private lines, according to GTEC. The Special Access Line (SAL) is the dedicated loop that runs between the customer's premises and the central office which serves that premises. Special Transport is the extension of the private line between central offices via trunks to reach the central office which connects to a second SAL which terminates at the customer's designated destination. Multiplexing Arrangements and Supplemental Features are customer-requested services that are provided within the central office to enhance the quality of the SAL and Special Transport. These four elements of private line service would be priced regardless of the jurisdictional characteristics of the communications they are to carry, under GTEC's proposal.

As a result of GTEC's proposed restructuring, the company would have three tariff structures with substantially similar rate elements but different prices. Customers would still "tariff shop". The special access provisions contained in the interstate and intrastate access tariffs and the SAL offered by the local private line tariff would all be similarly structured but list different prices. The difference will be maintained, temporarily, to avoid unduly burdensome rate increases. GTEC's ultimate goal is a single set of prices which are uniform regardless of the jurisdictional aspects of the customer's proposed use. It believes that the rate structure it proposes for local private line services would provide the foundation for a meet-point billing arrangement with Pacific in lieu of concurrence in Pacific's private line tariffs.

At the time the record in this proceeding was being developed, GTEC priced intercompany private lines, any portion of which used Pacific's facilities, at Pacific's rates. In addition, GTEC concurred in Pacific's tariffs for Digital Data Service, Channels for the Transmission of Closed Circuit Television Signals, and Telpak Channels and Services. GTEC proposed no change to either the rates or rate structure for these particular private line services.

GTEC stated that the prices in its proposed private line tariff were derived using the cost study methodology adopted by the Commission in D.83-04-012, the "cost manual decision". The determination of fully allocated access costs is to be done using the methodology set out in Parts 67[1] and 69 of the FCC's Rules and Regulations. Part 67 prescribes a method for allocating costs by jurisdiction while Part 69 prescribes the method for allocating costs by rate element. Therefore, GTEC believed it could reasonably use Parts 67 and 69 to analyze the fully allocated cost of access to the network and the cost of transport between central offices. These costs were first developed on a company-wide average basis. Then, GTEC focused on the costs of its SAL and Special Transport rate elements.

GTEC divided the total access cost by the total forecast of loops to produce a unit cost per "loop" or SAL. The total interoffice transport cost was divided by the total forecast of Special Transport miles to produce a unit cost for Special Transport per mile. To develop costs for the Supplemental Features and Multiplexing Arrangements, GTEC relied on the cost manual decision. Rather than develop costs for all circuit design configurations, GTEC's engineers developed typical circuit design configurations for the various offerings. Loaded labor rates multiplied by the estimated work times yielded the cost of the nonrecurring activities.

The proposed prices were first adjusted downward to achieve an average 50% price increase. Then, because GTEC's sample

1 Part 67, "Separations Manual" of FCC Rules and Regulations has been codified as Part 36 "Separations Manual" which became effective January 1, 1988.

of 151 billing accounts showed an increase of 180% over current revenues, rates were again adjusted downward for local private line to generate an overall revenue increase of 50%. Base case revenues are $6.579 million. GTEC estimates a $1.661 million increase in private line revenues for 1988 as a result. At these rate levels, a repression rate of 16.5% is assumed.

GTEC also proposed use of a wire center-based method of measuring Special Transport mileage. By "wire center based" we interpret GTEC to mean the distance between the customer's serving wire center and the wire center on the physical circuit which is closest to the customer's specified destination. Special Transport mileage is currently measured using the distance between rate centers associated with GTEC's exchanges. Thus, for a private line originating and terminating within one exchange, there is presently no mileage-based transport rate.

On the other hand, Pacific has been measuring mileage on a wire center basis since July 1, 1984. The location of wire centers is designated on a national basis according to a grid of V+H coordinates. That grid was approved by the Commission in 1988 for siting all primary and secondary central offices of all local exchange companies in California. It is embodied in Pacific's Tariff Schedule 175-T (Res. T-12087). With the use of that tariff schedule, GTEC may now recompute the airline mileages of all private line circuits. Under GTEC's proposal, Special Transport mileage would be measured between serving wire centers associated with a private line circuit, or the wire centers on the private line circuit which are closest to the service point, as is done under Pacific's private line tariff.

Except for the imposition of mileage charges on circuits which originate and terminate within an exchange (such that there was no transmission between "wire centers", and hence, no mileage charge under GTEC's existing scheme), the difference in mileage measured on a rate center versus wire center basis is not primarily an increase or a decrease.

While GTEC proposed to consolidate its recurring rates, it proposed to replace its present nonrecurring charge (NRC) with more elemental charges. Nonrecurring charges are one-time charges that apply to an installation activity or to a change to an existing facility. The NRC is assessed once on a per-termination basis and should recover all costs for inward order activity and disconnection. GTEC would assess an Initial Order Processing Charge, a Subsequent Order Processing Charge, a Design Change Charge, and an Installation Charge instead of its currently effective omnibus NRC.

DRA generally supported the restructuring of GTEC's private line services tariffs and the proposal to utilize a wire center-based pricing structure. However, DRA took issue with the increase in recurring costs and believed that the revenue impact of GTEC's proposal has been understated. Once calculated on a comparative basis, DRA found that the proposal resulted in a best case reduction of 33.7% and a worst case increase of 434.1% in an individual billing.

DRA did not support the NRC as proposed by GTEC because the increase would violate the 100% limit for increases in NRC observed for Pacific. Secondly, DRA maintained that it is impossible to reasonably quantify the result of GTEC's proposed rates for inward order activity since GTEC presently does not track installations on that basis. It proposed an alternative revamping of GTEC's private line rates.

B. <u>DRA's Proposal</u>

DRA observed the same policy guidelines and rate design methodology that it used in Pacific's private line rate design in A.85-01-034. Based on its finding that toll private line services earn a rate of return of only 0.67% when the company's operations are broken down into separate operations, DRA stated that private line services are priced below cost. It believed that GTEC's cost allocation study and study of nonrecurring costs likewise demonstrate that revenues from private lines fail to cover their costs. DRA's counterproposal adopts GTEC's restructuring of its tariffs into four rate elements, but incorporates DRA's, not GTEC's rates. The resultant increase in private line billings was designed not to exceed 50%.

Using data supplied by GTEC, DRA performed an analysis of the sensitivity of each currently tariffed service to the proposed rate changes. DRA concluded that two special transport rates are needed, one for intracompany interexchange and one for intraexchange private lines. If only one transport rate were used, rates for the interexchange customers would be reduced. It would then appear that intraexchange customers were being unfairly singled out for increases. Secondly, DRA concluded that the difference between existing and GTEC's proposed tariff schedules for Sound Reproduction, One-way Loudspeakers, and Mileage Rates was so radical that a different rating system is warranted for these services. DRA's counterproposal would also apply to Program Services, Tie Lines, Telephone Answering Services (TAS), and Off Premises Extensions.

DRA submitted a counterproposal to the restructuring offered by GTEC to avoid "rate shock". DRA's proposed SAL rates would be lower than GTEC's for both 2-wire and 4-wire loops. Although its goal is for GTEC's interexchange special transport rate to be identical to Pacific's, realization of that goal would engender excessive rate increases. Thus, GTEC's special transport mileage rates would continue to be below Pacific's. All Supplemental Features and Multiplexing Arrangements rates would remain unchanged from present rates.

DRA recommended that the one NRC common to most existing private line services be adopted for all private line services and increased by 100%. DRA also developed the equivalent of an NRC for

Tie Lines, Secretarial Lines, and Centrex Off Premise Extensions based on GTEC's present practice of assessing charges for individual Service Order, Central Office, and Customer Premise Visit Charges. This charge was then rated on a per-termination basis and increased by 100%. DRA pointed out that its NRC would be below GTEC's proposed NRC for these services and even below Pacific's NRC for these same activities. DRA's NRC proposal is supported by API, an intervenor.

DRA asked the Commission to require GTEC to develop the wire center mileage for all services, to report all volumes to DRA on an ongoing basis, and to make this information available as part of GTEC's next general rate case application. DRA recommended that GTEC should also be required to develop as part of its next general rate case application a history of inward movement activity, so that the volumes of initial service orders, as opposed to subsequent service orders, are available.

DRA estimated that adoption of its proposal would increase Test Year 1989 private line billings by $2.890 million instead of $18.379 million, which it claimed would result from GTEC's plan. This would result in a total $2.834 million incremental revenue effect, which takes into account lower demand and cost savings associated with repression.

C. <u>Positions of Intervenors</u>

WBFAA presented testimony and participated actively in this phase of the proceeding. WBFAA is an association representing over 500, mostly small, burglar and fire alarm companies and equipment manufacturers in California. It strongly criticized GTEC for using a methodology to quantify the cost of private line service other than the private line costing methodology ordered in D.83-04-012. WBFAA claimed that the utility's sampling of circuits was not representative of the array of private line services, since it did not include any bridged alarm services and few multipoint services. The change from rate center to wire center mileage will have a severe financial impact on any circuit that consists of intraexchange mileage elements, according to WBFAA. It believed the NRC rates proposed by GTEC to be unfair and unsubstantiated, because the NRC for two services which have similar technical and labor requirements may differ widely.

WBFAA would have the Commission disregard GTEC's cost study on private line nonrecurring costs because the witness who sponsored the study could not explain it, the information was not product specific as mandated by the Cost Manual, time and motion studies were used instead of the panels of estimators prescribed by the Cost Manual, alarm transport service was not specifically studied, and it was assumed that every activity occurs on every order. WBFAA also sought to discredit GTEC's recurring cost study, stating that the study was nothing more than a company-wide allocation of costs on an average basis using the FCC methodology which cannot identify the costs of specific service groups and product lines. Specifically, GTEC failed to perform a disaggregated loop study, to determine the average original cost for the eight basic cost elements, or to provide any type of reconciliation between tops-down and bottoms-up, as mandated by the Cost Manual. Finally, the WBFAA claimed that costs for elements other than loops are overstated.

DRA's proposal to increase private line rates is justified only by a presupposition that private line rates are below cost, according to WBFAA. DRA did not address GTEC's cost studies and merely reviewed the rate impact. While less extreme than GTEC's proposal to increase recurring rates, DRA's proposed rates would result in 22% increases. This is unacceptable to WBFAA.

WBFAA also complained that GTEC's bills are often untimely, fail to adequately explain charges, contain incomplete order identification, and provide insufficient detail to allow reconciliation. This prevents any consideration of meet-point billing. We note API complained of these practices in Case (C.) 87-06-022 (API v GTEC) and that D.88-12-036 in that case determined that Phase II of that complaint proceeding is the proper forum for resolving the problem of providing adequate information on GTEC's bills for private line services.

The FEA claimed that large increases in the cost of private lines will cause large users such as itself to seek other vendors of private lines or to construct their own private line systems.

D. Discussion

GTEC's rate design proposal for private lines contains two major components - a restructuring of rates and an increase in rates. The rates charged for a service should reflect the cost to the utility of providing the service, and the first step toward that goal is to correctly identify the components of that service. GTEC has logically described the elements of private line service. Moreover, GTEC's construct is consistent with the elements of service provided other customers who seek to use the utility system as other than GTEC's proprietary, integrated, switched system. For example, interLATA carriers must pay an access charge, analogous to the proposed special transport charge for transport from their point of presence to their interLATA subscriber's service point. The use of consistently defined service components will better position GTEC to respond to our redefinition of local exchange service than adherence to the old system, which differentiated not between function but between the content and destination of the transmission. Therefore, GTEC's proposal to restructure private line rates into four elements consisting of an SAL, Special Transport, Multiplexing Arrangements, and Supplemental Features is approved.

Next, we consider whether and how much of an increase in private line rates is warranted. GTEC's so-called fully allocated cost study showed that the average cost of SAL and Special

Transport is not recovered in private line rates. We believe GTEC's findings are reliable enough to show that its costs are not met by revenues, even though GTEC did not complete its showing by reconciling its findings with a bottoms-up study. The bottoms-up study would be indispensible if we were relying on GTEC's study to set the specific rates themselves. However, that is not our purpose. The DRA's testimony corroborates GTEC's position that an increase in private lines is necessary. When applying a 10.57% return on rate base to GTEC's separated results of operations, DRA found that intraLATA private line was one of the four major categories of services for which a change in revenue was needed to enable GTEC to earn its return for that category of service. From this, the DRA concluded that private line rates are greatly below cost. As pointed out by DRA, to the extent that private line services do not recover the costs of providing the service, the difference must be borne by the residually priced BEALS.

Although we adopt GTEC's proposal to restructure its private line tariff, we do not adopt the rates contained in the proposed tariff. GTEC's proposed increase is limited to 50% of revenues. This does not prevent increases in individual billings from exceeding 50%, as shown by DRA's testimony. Our guidelines limit increases in recurring rates to 50%. DRA's proposed recurring rates observe this guideline more closely and would limit "rate shock" to private line customers. DRA's proposal for separate intraexchange and intracompany interexchange special transport rates is reasonable because it would avoid handing interexchange customers a reduction in special transport rates when it is acknowledged that current rates do not recover costs. A differentiation is also warranted because formerly no mileage charge was assessed for transport within one rate center. This differential will be approved on an interim basis, to enable such intraexchange private line customers to more readily absorb the increase in recurring rates due to the transition to wire center-based mileage. The differential should be phased out in a subsequent proceeding.

Regarding nonrecurring charges, GTEC's NRC proposal would violate the 100% limit for increases to NRC which the Commission recently observed in Pacific's general rate case, A.85-01-034 (D.88-07-022, mimeo. p. 184). We find DRA's proposal to increase the existing NRC by 100% to be consistent with precedent. The DRA equivalent of an NRC cost for Tie Lines, Secretarial Lines, and Centrex Off Premise Extensions is supported by API. We find that it is also fair, since it reflects GTEC's current charges for nonrecurring type services, increased by 100%.

We next address GTEC's proposal to rate recurring charges on a wire center basis. On June 8, 1988, we adopted Resolution T-12087 approving Pacific's Tariff Schedule 175-T containing V+H coordinates of all primary and secondary central offices of all local exchange telephone companies serving California. In D.88-12-036 we found that, "No other commonly used method of measuring interexchange mileage approaches the accuracy of the V+H coordinate method." Although not much discussed in this proceeding, we note that testimony elicited in C.87-06-022 showed that GTEC's current method of assessing mileage on a rate center basis is often arbitrary. While GTEC's mileage is supposed to be measured on an airline mileage basis using "base rate and exchange area maps" contained in a schedule on file with the Commission, such measurement is impossible. There are no V+H coordinates in effect for GTEC's rate centers, the exchange maps do not show the physical location of any rate centers, and measurements across multiple exchanges are cumbersome.

In C.87-06-022, API asserted that private line customers could not confirm their billings due to the lack of V+H coordinates under the rate center method. We perceive that substantial customer confusion would be alleviated if private line rates were assessed on an accurate and consistent basis. The V+H coordinates embodied in Pacific's Tariff Schedule 175-T would enable GTEC to measure its special transport mileages much more accurately than it did under its rate center system.

GTEC's proposal to rate special transport mileage on a wire center basis is adopted. The existence of V+H coordinates for the entire state in Pacific's Tariff Schedule 175-T will ease the conversion of rate center to wire center-based rates by enabling GTEC's customers to calculate rate impacts for themselves. GTEC has already been directed to revise its tariff schedules to concur in the use of V+H coordinates of all wire centers and central offices by D.88-12-036.

At this time, we are adopting for GTEC the practice of rating circuits from wire center to wire center as was approved for Pacific in D.84-06-111.

GTEC's request to disaggregate elements of its NRC may be renewed if it tracks inward movement activity as recommended by DRA. Moreover, the Commission will require detailed information on private line volumes to enable it to continue to move these rates toward cost. This information should be made available to the Commission Advisory and Compliance Division staff on an annual basis.

DRA's private line proposal is presented in tariff form as Appendix A to Exhibit 233, Prepared Testimony of Richard Shankey. Except for the proposed recurring special access line rate for telephone answering service, discussed below, DRA's private line proposal is adopted. We find that DRA's proposal will increase annual revenues from private line services by $2.834 million.

VII. Secretarial Lines

Secretarial lines is a "private line-like" service. The cost of secretarial lines was of concern to TASC. TASC notes that it and GTEC have agreed to concur in the proposal of the DRA that the nonrecurring charge for secretarial lines be set at $87.75. This compromise appears to be reasonable and will be adopted.

The current telephone answering service (TAS) to central office recurring rate is $1.75 per quarter mile per month (mile/mo.). GTEC would telescope the four existing mileage bands into two. It would amend the recurring charge to assess a rate of $3.50 per month where the TAS is located one-half mile or less from its serving central office, and to $10 per month where the TAS is located over one-half mile from the central office. TASC suggests an increase to $2.50 per quarter mile/mo. The DRA proposes a flat rate of $3.50 regardless of the distance between the TAS and its serving central office.

TASC's proposal provides roughly 43% in additional revenues to GTEC. DRA's proposal would yield about 48% more revenues, and GTEC's proposal would result in 80% more revenues from this service. It appears that 82.8% of the TAS are located within one-half mile of the serving central office and would experience a 100% rate increase in recurring charges under GTEC's and DRA's proposals. No significant justification has been given for discontinuing the mileage-based system of rating TAS recurring charges. However, in its opening brief, GTEC stated that it would agree to a greater subdivision of the SAL rates for a limited set of customers, for a limited time, as a means of reducing rate shock. We find that given TAS reliance on mileage-based rates, which presumably at one time we thought to be cost-based, it is reasonable to retain mileage-based rates. DRA's proposal is not mileage-based but TASC's is. The rate increase inherent in TASC's proposal comes close to the 50% benchmark generally relied upon in this decision to prevent "rate shock". TASC's proposal should be adopted.

The recurring charge for the leg of secretarial lines between serving central offices is currently $1.15 per quarter mile/mo. GTEC proposed a rate of $5 per mile/mo. TASC proposed a rate of $1.50 per quarter mile/mo. Since we have decided to retain mileage sensitive rates for the customer to central office leg, we will adopt TASC's distance sensitive rate proposal of $1.50 per quarter mile/mo. for the inter-central office portion of secretarial lines.

VIII. Message Telecommunications Services

GTEC did not propose to modify its Message Telecommunications Services (MTS or "toll") rates. These rates are charged for interexchange, intraLATA "long distance" calls. Pursuant to Commission policy, MTS rates are uniform throughout the state.

The DRA agreed that message toll service should be priced at uniform statewide rates. However, in its rate designs premised on revenue reductions ranging from $115 million to $700 million, the DRA proposed reductions in revenues from MTS services. DRA's ultimate recommendation for MTS reductions would depend on the adopted intrastate rate of return on rate base, since it believes that rates for this service should result in a return on rate base no lower than the adopted intrastate rate of return. In order to maintain statewide toll rates and avoid impacts to other LECs, DRA proposed that GTEC's own intraLATA MTS revenues be decreased by adjusting the flow of settlement payments from Pacific to GTEC and decreasing statewide toll rates by a corresponding amount. As noted throughout this decision, we do not intend to change GTEC's revenues so it is unnecessary to consider changing GTEC's MTS revenues. GTEC's test year revenue requirement is currently reflected as a bill-and-keep billing surcharge/surcredit authorized by GTEC's results of operation decision, D.88-08-061. Therefore, it is not necessary to review DRA's MTS revenue reduction proposal at this time.

IX. Access Charges

In its testimony proposing the elimination of the then-current 11.75% surcharge on local exchange and intraLATA toll services, GTEC did not suggest that any of its access charges should be increased. DRA recommended an increase of $16.69 million in access revenues under its $115 million revenue reduction scenario. This $16.69 million is the net difference between the effect of reducing the 8.48% access billing surcharge to zero, a test year 1988 revenue requirement increase of $25.74 million and the effect of the 1988 interLATA SPF-to-SLU conversion, a revenue decrease of $9.05 million.

We will not consider the DRA's proposal to spread the revenues currently collected in the surcharge on access charges and the 1988 effects of the SPF-to-SLU conversion since we do not intend to convert those surcharge revenues into rates in this decision. Therefore, GTEC's rates for access services shall remain unchanged.

X. Miscellaneous Services

GTEC proposed changes to its Farmer Line Service, Telephone Directory Services, Public Telephone Service, Special Service Arrangements, Shared System Listing Service, Interexchange Receiving Service (Zenith), Miscellaneous Billing Service, List Service (Directory), Telephone Directory Reproduction Rights, Line Extension Charges, and Visit Charge.

A. Farmer Line Service

Farmer Line Service is the provision of a dial tone line to a point of connection that may not be localized with the customer's instrument. The customer furnishes, owns, and maintains all lines and facilities beyond the point of connection. This service is specified in Schedule A-12, Farmer Line Service. The current rates are based on the "suburban mileage" schedule, which was eliminated by D.84-07-108. GTEC proposes to replace those rates with equivalent rates or nonmetropolitan flat-rated business/residential service when the service is for individual line customers. The rates would be $25.80 and $13.85, respectively. For multi-party customers, the utility proposes new flat rates in the amounts of $20.85 and $12.80, respectively. An annual revenue increase of $1,992 would result from annual billings of $3,874.

B. Telephone Directory Services

GTEC wished to revise the monthly rates for primary service listings in directories other than that of the customer's serving exchange, when furnished at the customer's request. These listings are placed primarily by businesses to expand their presence into areas outside of their "home" exchange. The current rates of $1.50 and $.75 for business and residence customers, respectively, would be revised to a uniform rate of $1.75 per month. GTEC believes that the rates should reflect the value that customers place on the service. Rates for additional listings would be revised to $1.75. The rates for street address telephone directories, which vary according to the number of listings, would be increased by approximately 39%; they have not been increased since 1981. Finally, the rate for nonpublished listing service would be increased from $.60 to $1. GTEC anticipated that the annual billing from Telephone Directory Services at the proposed rates will be $12.844 million, which results in an incremental revenue increase of approximately $3.4 million.

C. Public Telephone Service

An increase in the local coin phone rate of 20 cents to 25 cents was proposed to make coin telephone service more compensatory. GTEC claimed that according to its 1985 coin telephone study, this service had a net operating loss of over $8 million. GTEC also proposed that the $26.45 monthly rate for semi-public pay stations, which includes service, instrument, maintenance and housing, be increased to $37.10. This $37.10 monthly rate would be split into two rate components, a monthly line rate of $13.20 and a monthly instrument rate of $23.90. GTEC expected that annual billing would be approximately $37.50 million, which includes an incremental revenue increase of about $2.3 million.

GTEC claimed that its exclusion of toll revenues and access revenues generated by toll calls from its calculation of pay phone profitability is justified. Those revenues are either collected by other carriers, or if collected by GTEC, the toll revenues would be collected whether or not the coin phone is the property of GTEC. The DRA strongly questioned GTEC's line of reasoning.

D. Special Service Arrangements

Special Service Arrangements are provided pursuant to Schedule E-1. Each Special Service Arrangement is furnished under contract to meet a specific service requirement of a particular customer. It is not a general tariff offering and must therefore be approved by the Commission through the G.O. 96-A process. GTEC proposed to increase all monthly rates by a percentage ranging from approximately 12% to 23%, based on the change in the Consumer Price Index since the existing rates for each special serving arrangement became effective. The result would be an incremental revenue increase of approximately $90,000 and annual billing of $717,000 at the proposed rates.

E. Other

Shared System Listing Service allows a person who occupies the premises of a subscriber to be listed in the alphabetical and classified directories. List Service (Directory) provides telephone numbers for names and addresses supplied by the customer. GTEC proposes to increase rates for these two services by 12%.

GTEC proposes to increase rates for Miscellaneous Billing Service, Telephone Directory Reproduction Rights, and Line Extension by 17%. GTEC also proposes to increase its Returned Check and Visit Charges by 20% and 23%, respectively. Finally, GTEC proposes to increase the $7.50 monthly rate for Interexchange Receiving Service (Zenith) to $10, the $5 monthly rate for Reservation of Telephone Numbers to $6, and the $1 monthly rate for Rotary Service to $1.25. These increases are intended to recover a portion of the current surcharge revenues from the rates for those services. GTEC projects an incremental revenue increase of $1.311 million from these service offerings and annual billings of approximately $7.8 million at the proposed rates.

TURN objected to GTEC's proposed increase in its returned check charge, from $10 to $12, and recommended that the charge be reduced to $7, which is Pacific's rate. It recommends elimination, or at least reduction, of the late payment charge from 18% to 7%. TURN claims that service connection, move, and change costs should not be increased, but should be the same as Pacific's.

The DRA supported some of these increases in the context of its rate design which assumed a $115 million decrease in revenue requirement. The DRA opposed certain increases, discussed below. DRA estimated that the revenue effect of these increases would total $1.321 million instead of the $1.311 million projected by GTEC.

F. Discussion

Where GTEC's increase for these miscellaneous services is calculated to reasonably recover the increase in the cost of providing the service since the last rate case, those increases will be allowed. Many of the miscellaneous services for which GTEC seeks increases are relatively labor-intensive and are not very likely to benefit from the productivity gains GTEC will realize in the provision of other services. Except for the proposed increases to nonpublished directory, coin telephone, and line extension, the proposed increases appear to be conservatively restricted to increases commensurate with inflation that has occurred since the last general rate case.

The DRA objected to the proposed increase in the monthly rate of maintaining a nonpublished telephone number. TURN also objected. GTEC has not performed any cost studies to justify its proposed 40-cent increase. Even if it had, GTEC has not demonstrated whether the charge is imposed merely to discourage a customer from exercising the option of having a nonpublished number, or than to recover a specifically incurred cost. The charge for Nonpublished Service will not be increased.

The DRA and TURN objected to proposals to raise the price of a local pay phone call from 20 cents to 25 cents. We do not agree with GTEC's witness that toll revenues should be excluded from calculations of the profitability of coin phones because those calls would have been made regardless of the ownership of the phone. In reality, the great majority of coin phones in GTEC's service territory are owned by GTEC, toll calls and interLATA calls are made from those phones, and GTEC earns revenues from those calls. Expenses, as well as revenues, should be attributed to those toll and interLATA calls. In that case, the cost of operating and maintaining coin phones would be reduced. GTEC's cost study is not persuasive and provides no justification for its proposed increase in the charge for a local coin sent paid phone call. Moreover, it would be unreasonable to increase the charge for local calls made from pay phones when we have declined to increase rates for BEALS. GTEC's pay phone rate for local calls will remain at 20 cents.

The proposed increase to the Line Extension charge was not supported by GTEC's most recent filing. The Line Extension charge will not be increased.

While we agree that customers should be encouraged to pay their GTEC bills promptly, there is no good reason to increase the returned check charge from $10 to $12. The added incentive to write good checks is negligible.

We reject TURN's proposal to reduce the late payment charge since the 18% charge was established for all utilities. It would be inappropriate to change only GTEC's late payment charge in this rate design.

GTEC would discontinue an obsolete mileage schedule and substitute currently comparable rates for Farmer Line Service, so its changes in Farmer Line Service should be approved. We adopt GTEC's proposals to increase these miscellaneous charges, except that rates for nonpublished directory service, local calls from coin phones, and line extensions shall not be increased. We adopt the DRA's estimate of revenue increase as shown on page 84 of Exhibit 230, that is, $1.971 million on a test year 1988 basis. The adopted rates for Farmer Line Service will result in an estimated annual increase in revenues of an additional $1,992.

XI. Schedule D&R Tariff Amendment

Finally, we address the DRA's proposal to amend the tariffs of GTEC and Pacific governing discontinuance and restoration of service which is shown in Appendix 1-I of Exhibit 230. The DRA urges addition of the phrase "including dedicated facilities" and the phrase "all private line and private line-like services" to the list of services subject to this rule to prevent discriminatory treatment and favoritism towards nonswitched access customers who do not pay their bills. No party opposed this proposal. GTEC should amend its Schedule D&R to conform with Appendix A of this decision and Pacific should amend its Schedule A-2 to conform with Appendix B of this decision.

XII. Conclusion

In this decision, we have fully considered the rate design proposals of GTEC and DRA as well as the positions of intervenors concerning portions of the proposals. Since the time of evidentiary hearings, the Commission has reevaluated its goals for regulation of local exchange telephone companies. Some of the Commission's goals are consistent with certain recommendations of GTEC and DRA. Thus, some of the parties' rate design proposals have vitality even in this changing regulatory environment.

We have accepted GTEC's proposal to restructure its private line tariff. We agreed with DRA that certain rates must be increased to bring them closer to cost, yet in a reasonable manner. Such increases include our increase of private line transport rates; private line nonrecurring charges; service connection, move and change charges; nonrecurring charges for foreign exchange service; and other miscellaneous services. GTEC's local usage rates have been restructured to mirror those of Pacific's. While this was recommended in order to avoid customer confusion and dissatisfaction, we find that more uniform rate structures are desirable as we continue our statewide investigation into how local exchange services should be provided and priced. The Commission has ordered the elimination of the monthly charge for touch tone dialing in the OII. However, we will refrain from doing this for GTEC at this time, since further proceedings during 1990 are contemplated by D.89-10-031.

The net revenue result of today's limited restructuring is an annual decrease in GTEC's billings of $30.872 million.

Since the billing surcharges are retained, this slight decrease in billings will be recovered through the appropriate surcharge. The revenue impact of this decision is properly collected through a surcharge on all exchange services except for access and toll services. GTEC should propose an amendment to its intraLATA billing surcharge to collect an additional $30.872 million in annual revenues through a surcharge on exchange intraLATA revenues by filing an advice letter within 15 days of the effective date of this decision. The incremental increase in billing surcharge is set forth in Appendix A of this decision.

<u>Findings of Fact</u>

1. This decision adopts a rate design for GTEC using the rate design record compiled in A.87-01-002 during 11 days of evidentiary hearing. The issue of rate design was last briefed in March of 1988.

2. Since the close of the evidentiary record, the billing surcharges/surcredits have been amended to account for 1988 and 1989 USOA effects, 1989 attrition, and 1989 SPF-to-SLU reallocation, as well as toll settlements effects of the rate design adopted for Pacific in (D.88-07-022) and the latest reduction in GTEC's revenue requirement (D.88-08-061).

3. The surcharges on exchange and intraLATA toll services and on access charges will be retained because:

a. Changes to GTEC's billing surcharge which have been ordered since the close of the evidentiary record have resulted in a specific revenue reduction which cannot be quantified reliably without an updated billing base.

b. Since there is no evidence of the current customer volumes on the record, revenues from the surcharges may not be incorporated into the revenue for which rates are designed.

c. Adjustments to the surcharge levels will be made in compliance with existing Commission orders relative to 1990 SPF-SLU and the USOA. They will further reduce the revenue yields of the existing surcredit. Thus, any attempt to roll the surcharge into rates would be akin to working with a moving target.

4. Because GTEC's revenues will not be revised for the purpose of eliminating the surcharges, the merits of each party's rate design recommendation have been reviewed on a service-by-service basis and proposals for specific services which are consistent with the Commission's policies have been adopted.

5. Today's change in rates for individual services results in no change in the company's revenue requirement.

6. Uniformity of rates for like services is an important objective, as this will lessen customer confusion and allow ratepayers to make economic choices when purchasing services to meet their communications needs.

7. The supplemental rate design proceeding which will spread the changes in revenue allocation expected to result from the OII should not be distorted or sidetracked by the need to overcome inequities among classes of ratepayers.

8. GTEC proposed a rate design which would carry out the $122.7 million decrease in customer billings ordered in D.87-12-070. It recommended adoption of the proposal which it submitted for a hypothetical $115 million reduction in revenue requirement.

9. GTEC proposed that a portion of the surcharge revenues be collected from rate increases for local private line services and basic local exchange services, and proposed rate reductions to eliminate the billing surcharges for intraLATA services and intrastate access services. Another reduction would occur from the restructuring of local usage rates.

10. GTEC also proposed moving charges for private line and private line-like services toward cost and proposed a number of incremental rate changes for its customer services, semi-public coin phone service, line extension, farmer line, foreign exchange, and telephone directory-related functions.

11. The DRA's primary rate design was based on an assumed $700 million reduction in revenue requirement for GTEC on a 1988 test year basis.

12. DRA urges the Commission to reduce surcharges to zero, increase rates and charges for private line service, increase service connection charges - including charges applicable to the provision of foreign exchange services, and reflect the 1988 impact of the phased conversion of interLATA SPF-to-SLU by reducing rates for access services without regard to level of test year annual revenue requirement which might be adopted by the Commission.

13. Also, DRA recommends the Commission reduce GTEC's revenue requirement by standardizing charges for local usage, eliminating the charge for touch tone, reducing charges for access services, and reducing rates for message toll (MTT) and local exchange services (BEALS). Under this proposal, which DRA submitted before the interim opinion establishing GTEC's rate of return was issued, the exact reduction in rates for access, toll, and local exchange services would depend on the rate of return adopted for the rate base allocated to these categories of service.

14. Since no substantial reduction in revenues will be made in this decision, we will not evaluate the merits of the staff methodology for allocating reductions in revenue to the four

categories of services (access, intraLATA MTT, intraLATA private line and exchange) at this time.

15. The Western Burglar and Fire Alarm Association (WBFAA), API Alarm Systems (API), Toward Utility Rate Normalization (TURN), Consumers Coalition of California (CCC), American Telephone and Telegraph Company (AT&T), and the Department of Defense on behalf of the consumer interests of all Federal Executive Agencies (FEA) intervened in the rate design portion of this proceeding.

16. WBFAA opposed GTEC's proposal to increase rates for private line services on the grounds that GTEC did not support its request with studies required by D.83-04-012. API also focused its attention on the rates and changes applicable to private line alarm circuits.

17. The FEA asserted that the proper application of marginal cost pricing is needed to prevent it and other large users from bypassing GTEC for private line services.

18. TASC addressed the rates charged for secretarial lines.

19. TURN sought parity between the rate structures of GTEC and Pacific. TURN advocated the elimination of the touch tone charge, reduction of pay phone charges to 10 cents per call, reduction of the residential flat rate to $6 per month, and reductions to various fees levied for customer services. This would result in elimination of the surcharge and a $128 million reduction in revenues, according to TURN. TURN also recommended elimination of ZUM charges and the adoption of its residential rate simplification plan.

20. AT&T urged the adoption of cost-based access rates and stressed the need for accurate estimates of access volumes and revenues. It believes that a unified private line and special access tariff should be adopted for GTEC.

21. GTEC shared DRA's and TURN's goal of eliminating the billing surcharge. It believed that the two local services subject

to the surcharge, local private lines and BEALS, should be increased to recover those revenues.

22. GTEC proposed that an additional $104.833 million should be collected through BEALS rates by increasing all existing flat rates (residential and business) by $4.10 per line. Residential measured rate service would be increased by $2.75 and the $3 calling allowance would be eliminated.

23. Since we do not intend to eliminate the current billing surcharge/surcredit, there is no need to increase rates to collect revenues currently being collected by the surcharge/surcredit. We do not adopt GTEC's proposal to increase BEALS' rates.

24. GTEC's proposal to expand the offering of local measured service into additional exchanges as the central office capability to offer such services becomes available gives its ratepayers more service options and makes efficient use of its increased technical capability. It does not prejudice existing service options and is adopted. Customers should be notified of the opportunity to switch from their current form of service, i.e., flat rate or measured rate, to the other form of service without charge during the 90-day period commencing with the first full billing cycle after notice is received. Flat rate customers who try measured service may switch back to flat rate service without charge during this 90-day period. Measured rate customers may switch to flat rate service without charge during the 90-day period, but would pay the conversion charge if they revert to measured service.

25. GTEC has proposed to revise its local usage pricing to a unit basis whereby each initial minute of usage consists of four units which, at $.01/unit, would cost $.04 and each additional minute is another unit and would cost $.01. This proposal would result in local usage rate structure identical to Pacific's and improve ratepayer satisfaction. GTEC has also proposed optional measured service for residential customers and the conversion of business customers to measured service as central offices are

upgraded. These changes in pricing structure plus the time of day discounts, retention of the $3 call allowance, and revision to the overallowance rate for ULTS would result in the incremental revenue decrease proposed by DRA, that is, approximately $10.77 million. They are adopted.

26. GTEC proposed to change gradually all of its residential BEALS to a measured rate schedule called "Vintage I" schedule over a three-year period. GTEC hopes to induce its ratepayers to migrate to measured service.

27. We do not adopt GTEC's Vintage I proposal because it would be counterproductive to alter the current offering of flat and measured rate local exchange service by one local exchange company, GTEC, while the statewide definition of local exchange service is being reviewed in the OII.

28. The DRA proposed a $65 million revenue increase from BEALS in its rate design based on a negative $115 million revenue requirement in order to fund the elimination of the customer billing surcharge attributable to BEALS. Since the surcharge is not being eliminated, the merits of DRA's proposals are not evaluated at this time.

29. Since BEALS is unchanged, the $3 call allowance for measured service will be retained. Elimination of the $3 allowance is not necessary to enable customers to compare existing residential measured-rate service with flat rate service.

30. Since reasonable statewide uniformity is our objective, GTEC's $3 call allowance will be amended to resemble that of Pacific. The allowance will also be applicable to local usage charges incurred by measured-rate single party residential customers as measured-rate service becomes available and for whom ZUM rates do not exist.

31. Whether or not GTEC's proposals to induce residential phone customers to subscribe to measured-rate service are uneconomic as TURN alleges may be explored in the OII. TURN may

also introduce its Residential Rate Simplification Plan and its Flat Rate Metropolitan Service in that proceeding, where their merits may be examined in the context of other optional flat rate or discount toll and local calling area plans.

32. Revising the overallowance charge to $.08 per call for calls over the 60-call allowance for measured residence lifeline BEAL service is consistent with that adopted for Pacific in D.88-07-022, A.85-01-034 (Pacific's general rate application).

33. The rates and terms of service for ULTS should not be otherwise revised until ULTS has been evaluated along with the question of how local exchange service should be priced and provided in the OII.

34. GTEC's characterization of its FEX service as using dedicated interoffice facilities and its proposed rating does not reflect the most efficient means of providing FEX service nor its current practice, as two dedicated foreign exchange prefixes are now in use.

35. GTEC should develop a service which will provide the same service as contiguous FEX service without the need for using expensive, dedicated long-haul interoffice facilities.

36. The nonrecurring charges for FEX services should be increased consistent with DRA's proposed increases in the service connection, move, and change charges.

37. The usage charges for local calls originating from measured FEX in the San Francisco-East Bay (SF) or Los Angeles (LA) extended areas where GTEC is the provider of the dial tone and the FEX customer is a customer of GTEC should be changed to the 1-minute structure proposed by DRA for measured local calls. Each unit would be priced at 1.2 cents.

38. The revenue effect of these revisions to FEX is a $.11 million increase in GTEC's annual revenue.

39. GTEC's proposal to increase charges listed in its Schedule A-41, Service Connection, Move and Change Charges by

approximately 50% to recover its cost of service is excessive because the company failed to factor in increases in productivity which will occur as GTEC's existing and planned modernization programs bear fruit.

40. An increase of approximately 15% in Service Connection, Move and Change charges is reasonable because it is consistent with the Consumer Price Index Factors used by GTEC to bring 1985 rates to 1988 levels. This would yield about $7.454 million in revenues on a 1988 test year basis.

41. An increase of approximately 15% to the nonrecurring charges applicable to the provision of EBSS and Centrex services is needed to preserve the competitive relationship between business trunks (BEALS) and EBSS and Centrex. The corresponding nonrecurring charges for EBSS and Centrex service will be increased to those rates set forth in Appendix 1-E of Exhibit 230.

42. GTEC proposed to consolidate the tariffs by which it offers private line service and to restructure the service to assess separate charges for the special access line (SAL), Special Transport, Multiplexing Arrangements, and Supplemental Features ordered by the customer.

43. GTEC proposed rates for its SAL and Special Transport services based on the fully allocated cost of access to the network. Although no reconciliation of this top-down methodology with a bottom-up study was performed, because it used the methodology employed in Part 67 (now Part 36), the FCC's "Separations Manual" and Part 69, the FCC's method of allocating costs by rate element, GTEC's study may be relied on to establish that rates are inadequate to recover costs. GTEC's proposed rates for local private line were adjusted downward to generate an overall revenue increase of 50%.

44. GTEC would replace its current one time nonrecurring charge which is assessed on a per-termination basis with more

elemental charges that would be assessed upon initial order processing and on each subsequent order activity.

45. GTEC also proposed to replace its current rate center-based method with a wire center-based method for measuring Special Transport mileage.

46. The Commission has approved the use of V+H coordinates to establish the location of all primary and secondary central offices, which house the wire centers, throughout the state. Those coordinates appear in Pacific's Tariff Schedule 175-T.

47. The toll private line service of GTEC earns a rate of return of 0.67% when the utility's separate results of operations are calculated for that service. As shown by DRA, when a 10.57% return on rate base is applied to GTEC's separated results of operations, revenues from intraLATA private line fails to provide the company with its authorized return.

48. GTEC's proposal to restructure its private line tariff accurately depicts the manner by which service is provided and eliminates rate distinctions that are arbitrarily based on the content of communication. It should be approved, except for the proposal to unbundle the nonrecurring charge to recover separate charges for subsequent order changes because the cost of those services has not been shown.

49. GTEC should track and report to CACD monthly inward activity movements so that a listing of separate volumes and cost for initial service orders and for subsequent service orders would be available for use in developing separate NRC for these activities in a further proceeding.

50. GTEC's private line services are priced below cost. Rates for private line services must be increased.

51. GTEC's proposed rates will cause individual bills to increase by more than 50% and are therefore excessive. The DRA's proposed recurring rates more closely observe our guideline that

increases in recurring rates should be limited to a 50% increase in charges.

52. Since no charge has been assessed for the intraexchange portion of private lines under the former practice of rating on a rate center basis, assessment of identical rates for intraexchange and intracompany interexchange special transport would create "rate shock". The DRA's proposal for separate intraexchange and intracompany interexchange special transport rates would alleviate rate shock and shall be adopted. The differential shall be phased out in a subsequent proceeding.

53. The DRA's proposal to increase the nonrecurring charge by 100% is consistent with our precedent and will be adopted.

54. Because the use of established V+H coordinates will enable GTEC to measure its special transport mileage more accurately than it has in the past, and GTEC's customers will more easily corroborate the utility's calculations, GTEC's proposal to rate special transport mileage on a wire center basis will be adopted.

55. GTEC should file an advice letter proposing to adopt the rates and terms of service set forth in Appendix A to Exhibit 233, the Prepared Testimony of DRA's witness on private lines, amended as necessary to conform with Appendix A of this decision.

56. The nonrecurring charge for secretarial lines should be $87.75, consistent with the compromise reached by the parties.

57. The recurring rate for the segment of secretarial lines between the telephone answering service and its serving central office will continue to be assessed on a mileage basis. The rate will be $2.50 per quarter mile per month. The recurring rate for inter-central office mileage will be $1.50 per quarter mile per month.

58. Message Telecommunications Services (MTS or "toll") rates are charged for interexchange, intraLATA "long distance" calls.

Pursuant to Commission policy, MTS rates are uniform throughout the state.

59. Since GTEC's revenues are not to be changed in order to eliminate the current billing surcharges, rates for MTS will not be redesigned to collect their allocated return on rate base. Therefore, MTS rates shall remain at their current levels.

60. GTEC did not suggest that any of its access charges should be increased. Under the $115 million revenue reduction scenario, and assuming that the effect of 1988 interLATA SPF-to-SLU conversion would be offset by the reduction of the billing surcharge to zero, the DRA proposed an increase of $16.69 million. Since the billing surcharge has incorporated the SPF-to-SLU effect and will remain in place, no change in GTEC's access charges will be made.

61. GTEC's proposal to replace its suburban mileage schedule with its equivalent rate or, in the case of individual customers, with nonmetropolitan flat-rated business/residential service for Farmer Line Service is reasonable.

62. GTEC's request to revise the monthly rates for primary service listings in directories other than that of the customer's serving exchange, and to increase the charge for street address telephone directories is reasonable.

63. The rate for nonpublished listing service will not be increased from $.60 to $1 because there was no evidence that the $.40 increase is justified by such an increase in cost.

64. GTEC's proposal to increase the local coin phone rate of 20 cents to 25 cents to make coin telephone service more compensatory was not supported by persuasive evidence. An increase in the charge for local calls made from pay phones would be unreasonable when no increase in rates for BEALS has been authorized. The rate of a local coin phone call shall remain 20 cents.

65. An increase of all monthly rates for Special Service Arrangements based on the change in the Consumer Price Index since the rate for each special serving arrangement became effective (ranging from 12% to 23%) will reasonably allow GTEC to recover actual increases in the cost of providing these services. The result would be an incremental revenue increase of approximately $90,000 and annual billing of $717,000.

66. GTEC's proposal to increase rates for Shared System Listing Service and List Service (Directory) by 12%, to increase rates for Miscellaneous Billing Service, Telephone Directory Reproduction Rights, and Line Extension by 17%, and to increase its Returned Check and Visit Charges by 20 and 23%, respectively, is reasonable. GTEC's proposal to increase the monthly rate for Interexchange Receiving Service (Zenith) to $10, the monthly rate for Reservation of Telephone Numbers to $6, and the monthly rate for Rotary Service to $1.25 is a reasonable means of recovering a portion of its current surcharge revenues from the rates for those services. GTEC will experience an incremental revenue increase of $1.3 million and annual billings of approximately $7.8 million from these services.

67. GTEC's returned check charge should remain $10 and its late payment charge should remain at 1.5% per month in order to encourage timely payment of GTEC's charge for services.

68. The monthly charge for Nonpublished Service will remain at $.60 because GTEC has not performed any cost studies to justify its proposed 40-cent increase.

69. GTEC has apparently withdrawn its request to increase the Line Extension charge. The Line Extension charge will not be increased.

70. The miscellaneous services for which GTEC seeks increases are relatively labor-intensive and not very likely to benefit from the productivity gains GTEC will realize in the provision of other services. Except for the proposed increases to nonpublished

directory and coin telephone, the proposed increases appear to be conservatively restricted to increases commensurate with inflation that have occurred since the last general rate case. The proposed increases are reasonable and will increase GTEC's revenues by $1.971 million on a test year 1988 basis.

71. The DRA's proposal to amend GTEC's Schedule "D&R" and Pacific's Schedule A-2 Rule No. 11 governing discontinuance and restoration of service, shown at Appendix 1-I of Exhibit 230, will help to prevent discriminatory treatment and favoritism towards nonswitched access customers who do not pay their bills.

72. The rate changes authorized by this decision will not reduce Pacific's settlement revenues because D.89-12-048 provides that GTEC and Pacific's intercompany intraLATA toll settlements will be based on a fixed annual payment.

Conclusions of Law

1. No major change in the rate design for GTEC should be made because the scope of service and means of revenue recovery by CPUC-regulated local exchange service telephone companies, of which GTEC is one, is still under review in I.87-11-033.

2. The current design of BEALS should remain unchanged until the Commission completes its investigation in I.87-11-033.

3. It is appropriate to base rates on cost, rather than to set them exactly at what we perceive the cost to be, because we have not completed our investigation in I.87-11-033 and determined what competitive alternatives exist to the various components of local exchange services at this time.

4. Rates for services which are significantly below the utility's cost to provide those services should be increased to reflect cost at this time so long as the increase is not unduly burdensome to ratepayers.

5. A fully allocated cost study may be relied on to establish the fact that costs exceed rates, even though no reconciliation between bottom-up and top-down cost study has been

made, so long as the fully allocated cost study itself is not used to establish the rates.

6. Access line service should be priced without regard to the jurisdictional nature of the communications carried over them, but considerations of fairness limit the increase in special access line rates authorized for private lines in this decision.

7. 1988 Customer Billings and Revenues at adopted rates and charges should be adopted as shown on Table 1. As of January 1, 1990, GTEC's billings will equal its revenues for intraLATA toll and EAS services due to D.89-12-048.

8. GTEC's rates for certain services shall be revised as shown in Appendix A.

9. A cost study performed in accordance with CPUC-approved methodology is not determinative of the reasonable rate for test year ratemaking purposes if foreseeable gains in productivity have not been considered and included.

10. The change in GTEC's revenue requirement resulting from revised rates shall be recovered through an incremental 4.12% surcharge on all intraLATA exchange billing and no change to the surcharge on toll billing. These incremental surcharges are to be added to the currently authorized Schedule Cal. P.U.C. A-38 billing adjustments.

11. The revised rates and surcharge shall take effect on April 1, 1990.

12. GTEC should amend its Schedule D&R to conform with Appendix A and Pacific should amend its Schedule A-2 Rule No. 11 to conform with Appendix B of this decision.

13. Further revisions to GTEC's rate design will be made as a result of I.87-11-033.

FINAL ORDER

IT IS ORDERED that:

1. Fifteen days after the effective date of this order General Telephone Company of California (GTEC) shall file revised schedules to implement the revisions to rates shown in attached Appendix A of this decision as of April 1, 1990 pursuant to the advice letter procedure set forth in General Order 96, except, however, the revised tariff shall become effective when approved by the Chief of the Telecommunications Branch of the Commission's Advisory and Compliance Division.

2. Fifteen days after the effective date of this order GTEC shall file a revised Schedule D&R to conform with Appendix A and Pacific shall file a revised Schedule A-2 Rule No. 11 to conform with Appendix B pursuant to General Order 96, except that the advice letter shall be effective 10 days after the date of filing.

3. GTEC shall provide detailed information on private line inward movement activity volumes to the Commission Advisory and Compliance Division (CACD) staff on an annual basis. Within 30 days of this decision, GTEC shall meet with CACD to determine the information required to enable GTEC to disaggregate elements of its private line nonrecurring charge according to cost.

4. GTEC shall implement local measured service commencing August 1, 1990 and complete all conversions by March 31, 1991, in accordance with the schedule shown in attached Appendix C of this decision. GTEC shall notify the CACD if it anticipates that the expansion of Zone Usage Measurement which was the subject of D.88-07-022, Ordering Paragraph 41 may not be implemented by December 1, 1990.

5. GTEC shall notify all customers exchanges wherein measured rate service either is available or will be available pursuant to this order of their opportunity to try measured rate or flat rate service without payment of the conversion charge for a

90-day period commencing with the first full billing period following: (1) the customer's receipt of the notice in exchanges where measured service is currently available, or (2) the effective date of conversion where measured service will be newly offered. The bill notice shall:

a. Describe the difference between measured and flat rate service,

b. State that both types of service are available in the customer's exchange,

c. State that a conversion charge of $40.25 applies each time a customer changes between measured rate and flat rate service, and

d. State that conversion charges will be waived for a 90-day period for flat rate customers who convert to measured rate service, those customers who are not satisfied with their trial and convert back to flat rate service, and for measured rate customers who convert to flat rate service.

This order is effective today.

Dated FEB 23 1990, at San Francisco, California.

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

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director

APPENDIX A
Sheet 1

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-1
Individual Line and Private Branch
Exchange Trunk Line Service

The following rates and charges are ordered:

	Monthly Rate
6. Rotary Service	
a. Each individual line or PBX trunk line, including foreign exchange service, arranged for rotary service.	$1.25
b. Each rotary number reserved	$1.25

8. Measured Rate

a. Measured Rate Service

Local Calls

Initial Period, 1 minute or portion thereof	4 Units
Each Additional Minute or portion thereof	1 Unit
Each calling unit - Day Rate	$.010

The calling unit rate is applicable during the time of day when the conservation takes place. This is in accordance with the time system - standard or daylight saving - legally or commonly in use, and will determine whether day rate discount rate treatment applies. In cases where a message extends beyond one rate period, the appropriate rate treatment as specified below applies to the respective periods of conversation.

Calling unit Day Rate and Discounts apply as follows:

(1)

Monday thru Friday

HOURS*	RATE	DISCOUNT
8:00 A.M. to 5:00 P.M.	DAY	NONE

*To, but not including.

APPENDIX A
Sheet 2

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-1
Individual Line and Private Branch
Exchange Trunk Line Service - continued

8. Measured Rate - continued

a. Measured Rate Service - continued

Local Calls - continued

Calling unit Day Rate and Discounts apply as follows:

(1) - Continued

Monday thru Friday

HOURS*	RATE	DISCOUNT
5:00 P.M. to 11:00 P.M.	EVENING	30%
11:00 P.M. to 8:00 A.M.	NIGHT	60%

Saturday and Sunday

HOURS	RATE	DISCOUNT
ALL	NIGHT	60%

(2) Day rates are applicable to all local calls based on the initial and additional minutes used with discounts applicable to all calls originated during the periods as shown in (1) above. Local calls are discounted based on the summary of the calls placed during the discounted period. Fractional amounts are rounded down to the lower cent.

(3) Night rate applies on Holidays. Holidays are shown in Pacific Bell's Schedule Cal. P.U.C. No. A6.2.

10. Reservation of Telephone Number	Monthly Rate
a. Residence	$6.00
b. Business	$6.00

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*To, but not including.

APPENDIX A
Sheet 3

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-3
Electronic Business System Service

The following charges are authorized:

A. Station Line

3. Installed primary station line capacity — NRC

a. First 40 station lines — $632.00

b. Each additional station line — $ 15.80

Schedule Cal. P.U.C. No. A-6
Private Branch Exchange Service

The following charges are authorized:

VIII. CENTREX SERVICE (AE-SXS 311 TYPE EQUIPMENT)

A. Applicable to Centrex Service furnished to a business customer exclusive of hotel type

2. Primary Line Rates apply to restricted semirestricted and nonrestricted

b. Installed line capacity — NRC

(1) First 200 or less lines — $4,810.00

(2) Each additional line — $ 24.05

Schedule Cal. P.U.C. No. A-12
Farmer Line Service

The following rates are authorized:

A. Each Local and/or Extended Service

Rates Per Month		Rates Per Month	
Bus. Service Individual Line	Bus. Service Multi-Party	Res. Service Individual Line	Res. Service Multi-Line
$25.80	$20.85	$13.85	$12.80

APPENDIX A
Sheet 4

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-13a
Shared System Listing Service

The following rate is authorized:

	Monthly Rate
A. Shared System Listing (SSL) associated with individual line service, EBSS/Centrex, DID, MLTS, PBX Systems, each listing	$2.80

Schedule Cal. P.U.C. No. A-17
Interexchange Receiving Service

The following rate is authorized:

	Monthly Rate
Each interexchange receiving service	$10.00

APPENDIX A
Sheet 5

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-19
Foreign Exchange Service

The following charges are authorized:

A. Primary Service

1. Residence - Usage charges may be applicable in addition to the residence foreign exchange primary line rate.

	Monthly Rate
Rate for same grade of service in foreign exchange, plus increment as follows:	Refer to exchange schedule of Utility or connecting utility
	NCR*
a. Individual line	$200.00

2. Business

Usage charges are applicable in addition to the business foreign exchange primary line rate.

a. Each trunk or individual line	$200.00

d. The rate for measured exchange units of local calling when this Utility is the serving company within the Los Angeles or San Francisco-East Bay extended areas is 1.2 cents per unit and applies to measured local usage as set forth in Tariff Schedule A-1 as revised in this Appendix.

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*Plus applicable charges as set forth in Schedule A-41.

APPENDIX A
Sheet 6

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-22
Universal Lifeline Telephone Service

The following rates and charges are ordered:

1. Basic Exchange Service

a. Local Message Rate Service

Individual line message rate service is provided with an allowance of 60 local messages. Local messages over this allowance are provided at all days and hours at the rates following:

Messages	Rate Per Message
61 and over	8 cents

Schedule Cal. P.U.C. No. A-33
Miscellaneous Billing Service

The following rates and charges are authorized:

	NRC	Monthly Rate
A. Special Billing Number Service		
1. First group of 50, or less, Special Billing Numbers	$ -	$ 21.05
2. Each additional group of 50, or less, Special Billing Numbers	$ -	$ 10.55
B. Magnetic Tape Reproduction		
1. Arrangement to provide one magnetic tape containing all information on the customer's monthly printed statement, each billing account	$585.00	$235.00
2. Each duplicate tape	$ 75.00	$ -
C. Level Bill Plan (LBP)		
Each Account	$ 33.00	$ 24.75

APPENDIX A
Sheet 7

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-38
Billing Adjustment

The following surcharge increments are ordered:

RATES	Monthly Percentage
Adjustment Factor (See Special Condition 1)	No Change
Adjustment Factor (See Special Condition 2)	3.56
Adjustment Factor (See Special Condition 3)	(0.38)

SPECIAL CONDITIONS

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

2. 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 list of excepted services shall remain unchanged.

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

APPENDIX A
Sheet 8

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-41
Service Connections,
Move and Change Charges

The following charges are authorized:

A. All exchange services (except Centrex and Inward Dialing Services)

1. SERVICE ORDER ACTIVITY

	NRC BUS	NRC RES
a. Initial Order		
(1) First central office line on order		
(b) All other services	$34.50	$23.00
(2) Each additional central office line on the same order		
(b) All other services	$17.25	$17.25
b. Subsequent Order		
(1) Moves and Changes (All applicable individual line services, except Smart Call Services)	$34.50	$17.25
(4) Number Changes	$34.50	$17.25

2. CENTRAL OFFICE ACTIVITY

	BUS	RES
b. All others	$35.25	$23.00

3. PREMISES VISIT

	BUS	RES
a. Each visit	$40.25	$40.25

B. Other services, moves and changes of wiring and rearrangements (in addition to Rate A.1.b., A.3 plus A.4 and A.5a above)

3. STATION NUMBER CHANGE - EBSS

	NRC
a. Number change or change in restrictive status of an EBSS station	
(1) First line of an order	$14.00
(2) Each additional line of the same order	$ 2.75

APPENDIX A
Sheet 9

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. D&R
Definitions and Rules

The following revisions are authorized:

DEFINITIONS

Delete the definition of Exchange Unit.

RULE NO. 11 - DISCONTINUANCE OF SERVICE

A. Nonpayment of Bills

1. Flat Rate Services (including dedicated facilities), Measured Rate and Message Rate Exchange Service

   Flat rate services (including dedicated facilities), measured rate and message rate exchange service of a particular service, separately served and billed, may be temporarily or permanently discontinued for the nonpayment of that bill, providing that the bill therefor has not been paid within

   Thirty calendar days after presentation, when bills are normally made out yearly;

   Fifteen calendar days after presentation, when bills are normally made out monthly;

   Seven calendar days after presentation, when bills are normally made out fortnightly;

   Four calendar days after presentation, when bills are normally made out weekly.

   but in no case less than the above prescribed number of days after the first day of service covered by the bill.

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GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. D&R
Definitions and Rules

RULE NO. 11 - DISCONTINUANCE OF SERVICE - continued

A. Nonpayment of Bills - continued

1. Flat Rate Services - continued

If a balance from a previous bill has not been paid, service may be discontinued prior to the date referred to above. If service is discontinued, restoration will not be made until the charges for which the service has been discontinued have been paid. If service is temporarily disconnected, restoration will not be made until the above charges and the restoration charge covered in Rule No. 5.C.3 have been paid.

APPENDIX A
Sheet 11

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. D-1
Telephone Directory Services

The following rates are authorized:

	Monthly Rate
A. Alphabetical Directories	
1. Primary service listing in a directory other than that of the serving exchange when furnished at the customer's request, each	
a. Business	$1.75
b. Residence	$1.75
2. Additional listings	
a. Business, each	$1.75
b. Residence, each	$1.75
c. Guests of hotel, each	$1.75
d. Reference to another service of the customer, each	$1.75
e. Reference to service of another customer, each	$1.75
f. Cross-reference listing, each	$1.75
g. Line of information, each	$1.75

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GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. D-1
Telephone Directory Services - continued

C. Street Address Telephone Directories

1. Grouping information

Number of Listings Included Within a Directory	Rate Group Number	Monthly Rate/Copy
0 - 26,000	1	$ 7.80
26,001 - 34,000	2	$ 8.30
34,001 - 42,000	3	$ 8.90
42,001 - 52,000	4	$ 9.60
52,001 - 62,000	5	$10.30
62,001 - 72,000	6	$11.15
72,001 - 87,000	7	$12.25
87,001 - 107,000	8	$13.35
107,001 - 132,000	9	$14.45
132,001 - 162,000	10	$15.60
162,001 - 197,000	11	$16.70
197,001 - 237,000	12	$18.35
237,001 - 282,000	13	$20.00

APPENDIX A
Sheet 13

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. D-2
List Services

The following charges are authorized:

	NRC
Each Area Code	$15.90
Each Listing	$ .25

Schedule Cal. P.U.C. No. D-4
Telephone Directory Reproduction Rights

The following charges are authorized:

Reproduction rights, each directory, each issue	$117.00
Each 1,000 Listings, or Fraction thereof	$117.00

Schedule Cal. P.U.C. No. E-1
Special Services Arrangement

All monthly rates are authorized to increase by 17 percent with the following exceptions:

	ISC	Monthly
General Dynamic	09438	$4,036
General Dynamic	09439	$2,438
Rockwell	09477	$9,842
Rockwell	03033	$3,456
SDC	09619	$1,528
SDC	09639	$1,528

Schedule Cal. P.U.C. No. V-1
Visit Charge

The following charges are authorized:

	NRC
1. Each visit to a customer's premises resulting from trouble conditions caused in whole or in part by customer-provided facilities.	
a. Exchange Service, per visit	$68.00
b. Private Line Service, per visit	$68.00
c. Wide Area Telephone Service, per visit	$68.00

APPENDIX A
Sheet 14

GTE CALIFORNIA
RATES AND CHARGES

Schedule Cal. P.U.C. No. P-1
IntraLATA Private Line Service

The rates, charges, and conditions set forth in Schedules Cal. P.U.C. Nos. G-1 through G-6, G-9, G-13, and G-26 shall be withdrawn in total. In addition the rates set forth in Schedule Cal. P.U.C. A-4 Sections I.B.1, I.B.3, III.A., III.B and Schedule Cal. P.U.C. A-41 Sections A.1.a.1.a., A.1.a.2.a., A.1.a.3., A.1.a.4., and A.2.a. shall be withdrawn.

The revisions set forth on Sheets 1 through 19 of 19 in Appendix A of Exhibit 233 except as modified below are authorized.

II. Special Access

C. Special Transport

1. Mileage is measured between wire centers serving customer designated premises.

	Monthly Rate
2. Per channel, per airline mile	
a. Tie Lines	No Change
b. Centrex Off Premises Extension	$5.00
c. Program Services	No Change
3. Per channel, per quarter airline mile	
a. Telephone Answering Service	$1.50
D. Special Access Lines	
a. Tie Lines	$3.50
b. Centrex Off Premises Extension	No Change
c. Program Services	$3.50
d. Per channel, per quarter airline mile	
1. Telephone Answering Service	$2.50

Sheet 19 of 19 in Appendix A of Exhibit 233, Section III.I.2.a. replace the words "NECA Tariff FCC No. 2" with "Pacific Bell Tariff Schedule 175-T."

(END OF APPENDIX A)

APPENDIX B

PACIFIC BELL
RATES AND CHARGES

Schedule Cal. P.U.C. No. A2
General Regulations

2.1 RULES

2.1.11 RULE NO. 11 - DISCONTINUANCE AND RESTORATION OF SERVICE

A. REASONS FOR DISCONTINUANCE OF SERVICE

2. Nonpayment of Bills

a. All Classes, Types and Grades of Exchange and Toll Service, and all private line and private line like-services

Bills shall be considered past due (delinquent) and service to a particular premises, separately served and billed, may be temporarily or permanently discontinued for the nonpayment of a bill for the service furnished, provided:

(1) The bill has not been paid within the period specified below:

By the "Due By Date" shown on the bill or, if not shown, by fifteen calendar days after date of presentation of monthly bills, special bills, and all other bills, except yearly.

Thirty calendar days after date of presentation when bills are rendered yearly and for custom work billing orders (CWBO).

(2) The Utility first gives notice of such delinquency and impending termination at least 7 calendar days prior to the proposed termination by first class mail addressed to the customer to whom the service is billed, or delivered in person or delivered to the customer's billing address.

Further, the Utility will not cause cessation of service on any Saturday, Sunday or legal holiday observed by the Utility.

(END OF APPENDIX B)

GTE CALIFORNIA INCORPORATED
MEASURED LOCAL SERVICE RATE RESTRUCTURE
IMPLEMENTATION SCHEDULE

ADDCO	EXCHANGE NAME	CENTRAL OFFICE
EFFECTIVE AUGUST 7, 1990	CONVERSION CYCLE AUGUST CY 04	
81691	Westminster	Westminster
EFFECTIVE SEPTEMBER 16, 1990	CONVERSION CYCLE SEPTEMBER CY 07	
82031	Huntington Beach	Huntington Beach
82034	Huntington Beach	Bushard
82080	Huntington Beach	Warner-Huntington Beach
82081	Huntington Beach	Slater
EFFECTIVE OCTOBER 7, 1990	CONVERSION CYCLE OCTOBER CY 04	
82132	Laguna Beach	Laguna Beach
82147	Laguna Beach	Aliso
87071	Redondo	El Nido
87072	Redondo	Palos Verdes
87073	Redondo	Manhattan
87074	Redondo	Redondo
87075	Redondo	Rolling Hills
87076	Redondo	Del Amo
EFFECTIVE OCTOBER 16, 1990	CONVERSION CYCLE OCTOBER CY 07	
81401	Alamitos	Alamitos
82079	Alamitos	Warner-Long Beach
81384	Alamitos	Termino
81385	Alamitos	Clark
81436	Lakewood	Lakewood-Stadium
EFFECTIVE OCTOBER 22, 1990	CONVERSION CYCLE OCTOBER CY 09	
81145	Long Beach	Market
81255	Long Beach	Uptown
81325	Long Beach	M. L. King (California)
81343	Long Beach	Main
EFFECTIVE NOVEMBER 4, 1990	CONVERSION CYCLE NOVEMBER CY 03	
81703	Norwalk	Artesia
81709	Norwalk	Bellflower
81857	Norwalk	Norwalk
81958	Norwalk	Alondra

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EFFECTIVE NOVEMBER 13, 1990 CONVERSION CYCLE NOVEMBER CY 06

81819	Downey	Florence
81820	Downey	Downey
81821	Downey	Imperial
86061	La Habra	La Habra
86066	La Habra	Whitwood
86062	Pico Rivera	Rio Hondo
86063	Pico Rivera	Pico
86064	Whittier	Valley View
86065	Whittier	Whittier South

EFFECTIVE NOVEMBER 25, 1990 CONVERSION CYCLE NOVEMBER CY 10

70203	San Fernando*	Sepulveda
70204	San Fernando*	Granada
73132	San Fernando*	San Fernando
73133	San Fernando*	Pacoima
73134	San Fernando*	Sylmar
73335	Sunland/Tujunga	Sunland

EFFECTIVE DECEMBER __, 1990 CONVERSION CYCLE DECEMBER CY __
(parentheses denotes what is to change in the ZUM Expansion)

RIVERSIDE/SAN BERNARDINO COUNTIES

51670	Elsinore	Elsinore-Main
51671	Elsinore	Elsinore-Grand
51474	Hemet (Hemet DA)	Hemet
51476	Hemet (Anza DA)	Anza
51477	Hemet (Homeland DA)	Homeland
51478	Hemet (San Jacinto DA)	San Jacinto
51479	Hemet (Hemet DA)	Valle Vista
(51482)	(Hemet Sage DA)	Hemet RSU)
51681	Moreno	Edgemont
51685	Moreno	Moreno Valley
51672	Murrieta	Murrieta
51683	Perris	Perris
(51691)	(Lakeview Nuevo)	Perris RSU)
51262	Redlands	Redlands
51263	Redlands (Calimesa)	Calimesa
51264	Redlands	Loma Linda
51266	Redlands (Mentone)	Mentone
51267	Redlands (Calimesa)	Yucaipa
55490	San Bernardino (Marshall)	Muscoy
55292	San Bernardino	San Bernardino
55489	San Bernardino (Marshall)	Marshall
51641	Sun City	Quail Valley
51684	Sun City	Sun City
51673	Temecula	Rancho California

VENTURA COUNTY

71458	Oxnard	Mantilla
71422	Oxnard (El Rio)	El Rio

71449	Oxnard (Point Mugu)	Mugu
71410	Oxnard (Camarillo)	Camarillo
71461	Oxnard	Oxnard
(71409)	(Somis)	Camarillo RSU)
71556	Thousand Oaks (Newbury Park)	Newbury Park
71584	Thousand Oaks (Conejo)	Conejo
(71582)	(Conejo)	Camarillo RSU)
71585	Thousand Oaks	Thousand Oaks

* MLS rate restructure has no affect on the San Fernando Exchange's involvement in the ZUM EXPANSION.

EFFECTIVE JANUARY 7, 1991 CONVERSION CYCLE JANUARY CY 04

71898	Malibu	Zuma
71846	Malibu	Malibu
72506	West Los Angeles	Bel Air
72517	West Los Angeles	Bundy-West Los Angeles
72589	West Los Angeles	University
72590	West Los Angeles	West Los Angeles
72592	West Los Angeles	Westwood

EFECTIVE JANUARY 13, 1991 CONVERSION CYCLE JANUARY CY 06

72648	S M-Mar Vista DA	Mar Vista
72693	S M-Mar Vista DA	Del Rey
71619	S M-Santa Monica DA	Bundy-Santa Monica
71662	S M-Santa Monica DA	Palisades
71678	S M-Santa Monica DA	Santa Monica
71686	S M-Santa Monica DA	Topanga
72627	S M-Santa Monica DA	Sunset

EFFECTIVE JANUARY 22, 1991 CONVERSION CYCLE JANUARY CY 09

41111	Azusa-Glendora	Azusa
41122	Azusa-Glendora	Glendora
49134	Covina-Baldwin Park	Maplegrove-Covina
47112	Covina-Baldwin Park	Baldwin Park
47121	Covina-Baldwin Park	Covina
49133	Covina-Baldwin Park	Maplegrove-LaPuente
49131	La Puente	La Puente
49132	La Puente	Rowland
41141	Monrovia	Monrovia
41113	San Gabriel Canyon	San Gabriel RSU
41142	Sierra Madre	Sierra Madre
41143	Sierra Madre	Hastings

EFFECTIVE FEBRUARY 10, 1991 CONVERSION CYCLE FEBRUARY CY 05

57255	Chino	Chino
57261	Chino	Los Serranos
57256	Claremont-San Dimas	Claremont
57257	Claremont-San Dimas	La Verne

57259	Claremont-San Dimas	San Dimas
57260	Diamond Bar	Walnut
57288	Diamond Bar	Diamond Bar
59220	Etiwanda	Etiwanda
59210	Ontario	South Ontario
59221	Ontario	Ontario
57258	Pomona	Pomona
59219	Upland	Cucamonga
59222	Upland	Upland

EFFECTIVE FEBRUARY 19, 1991 CONVERSION CYCLE FEBRUARY CY 08

55486	Arrowhead	Arrowhead
51268	Banning-Beaumont	Banning
51269	Banning-Beaumont	Beaumont
55487	Crestline	Crestline
53650	Desert Center	Desert Center East
53228	Desert Hot Springs	Desert Hot Springs
53651	Eagle Mountain	Eagle Mountain
76470	Hi Vista	Hi Vista RSU
53433	Homestead Valley	Homestead Valley
51480	Idyllwild	Idyllwild
53640	Indio	Indio
53642	Indio	Coachella
53643	Indio	La Quinta
53644	Indio	Mecca
53645	Indio	North Shore
53646	Indio	Oasis
53648	Indio	Thermal
53435	Joshua Tree	Joshua Tree
76467	Lake Hughes	Lake Hughes
76465	Lancaster	Antelope
76466	Lancaster	Quartz Hill
76469	Lancaster	Lancaster
53436	Morongo Valley	Morongo Valley
53647	Palm Desert	Palm Desert
53649	Palm Desert	Washington (Brmuda Dunes)
53654	Palm Desert	Thousand Palms
53225	Palm Springs	Palm Springs
53226	Palm Springs	Rancho Mirage
53639	Pinyon	Pinyon
53652	Salton	Salton
53653	Salton	Desert Shores
53429	Twentynine Palms	Twentynine Palms
53430	Twentynine Palms	Desert Heights
53431	Twentynine Palms	Marine Palms
53437	Yucca Valley	Yucca Valley

EFFECTIVE MARCH 10, 1991 CONVERSION CYCLE MARCH CY 05

56893	Badger	Badger
71311	Carpinteria	Carpinteria
56404	Courtland	Courtland

56403	Courtland	Clarksburg
56895	Dunlap	Dunlap
56605	Fowler	Fowler
71374	Gaviota	Gaviota
56897	Grant Grove	Grant Grove
70930	Guadalupe	Guadalupe
56406	Isleton	Isleton
93337	Kenwood	Kenwood
56711	Lindsay	Lindsay
56717	Lindsay	Strathmore
71041	Lompoc	Lompoc
71083	Lompoc	Surf
71038	Lompoc	Mesa
70942	Los Alamos	Los Alamos
92123	Los Gatos	Mountain
92125	Los Gatos	Montebello
92129	Los Gatos	Blossom Hill
56896	Miramonte	Miramonte-Pinehurst
95153	Morgan Hill	Morgan Hill
93335	Novato	Novato
71323	Santa Barbara	Ellwood
71312	Santa Barbara	Las Positas
71328	Santa Barbara	Goleta
71353	Santa Barbara	Montecito
71373	Santa Barbara	Santa Barbara
70907	Santa Maria	Bradley
70977	Santa Maria	Santa Maria
71779	Santa Paula	Santa Paula
71080	Santa Ynez	Santa Ynez
56894	Squaw Valley	Squaw Valley
56412	Meadowview	Meadowview
56814	Reedley	Reedley
56418	Walnut Grove	Walnut Grove

(END OF APPENDIX C)