

Decision 90 05 034 MAY 4 1990

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

I.87-02-023
(Filed February 11, 1987)

OPINION DENYING MODIFICATION OF DECISION 88-09-030

Background

Decision (D.) 87-12-063 authorized Pacific Bell (PacBell), GTE California, Inc. (GenTel), Citizens Utilities Company of California (Citizens), and Continental Telephone Company of California to establish a "balancing account" on their respective books of account to record revenue requirement impacts caused by the adoption of the Federal Communications Commission (FCC) Part 32 and Part 36, Uniform System of Accounts (USOA). The utilities were required to file documentation supporting their USOA balancing account in March 1988, based on two months of actual data and to terminate the USOA balancing account on or before January 1, 1989.

Subsequently, by D.88-09-030, the utilities were authorized to update their USOA balancing account with six months of actual 1988 data annualized.

PacBell's Petition

On October 25, 1989 PacBell filed a petition for modification of D.88-09-030. PacBell requests that the decision be

modified so that it may true-up its USOA balancing account to reflect a full year of 1988 actual USOA impacts.

Although PacBell filed a September 30, 1988 advice letter to close its balancing account based on six months of 1988 actual data annualized, its requested recovery of USOA revenue requirement deficiencies was based on settlement information provided by GenTel. The same settlement data was used by GenTel in its September 29, 1988 advice letter filing to recover its USOA revenue requirement deficiencies.

PacBell proposed in its advice letter to true-up its 1988 USOA revenue requirement impacts with 12 months of actual data, and to adjust its 1989 amounts to reflect more accurate data. By Resolution F-623, dated December 9, 1988, we adopted a recovery mechanism for PacBell. We also denied PacBell's true-up request because it was not in compliance with D.88-09-030.

The settlement information used in PacBell's and GenTel's advice letter filing was consistent with GenTel's claims for payment from the intrastate toll and private line settlement pools. However, in May 1989 GenTel provided revised 1988 settlement claims to PacBell thereby increasing GenTel's net claim from the settlement pools from \$181 million to \$215 million. This revised claim resulted in PacBell owing GenTel an additional \$34 million. After consulting with GenTel, PacBell concluded that the changes in settlement claims were due to the 1988 and 1989 USOA "memorandum account balances."¹

PacBell estimates that its 1988 advice letter filing was understated by \$13.5 million because of GenTel's revised settlement

1 PacBell uses the terms balancing account and memorandum account interchangeably. A balancing account, as required by D.87-12-063, is recorded in a utility's accounting records and reflected in its financial statement. A memorandum account is a side record, not a part of a utility's financial statement.

claims. When actual 1988 figures for other USOA components are considered, PacBell estimates that it recovered approximately \$24 million less than it would have recovered if 12 months of actual data were used. The \$24 million represents a \$12 million revenue deficiency in 1988 and a \$12 million revenue deficiency in 1989.

Since the settlement data originally used by PacBell and GenTel in their respective 1988 advice letter filing was incorrect, PacBell seeks to modify D.88-09-030 so that it may true-up its USOA memorandum account to reflect 12 months of recorded 1988 data and to recover the \$24 million revenue requirement deficiency.

GenTel's Petition

In response to PacBell's petition, GenTel filed a petition on November 1, 1989. GenTel acknowledges that it also requested in its advice letter filing authorization to true-up its 1988 USOA revenue requirement impacts with 12 months of actual data, and to adjust its 1989 amounts to reflect more accurate data. However, similar to PacBell, we concluded that a true-up was not in compliance with D.88-09-030 and should not be granted.

GenTel concurs with PacBell that a true-up will result in a significant revenue requirement impact on PacBell. However, any such true-up will also result in a significant revenue requirement impact on GenTel. This is because the actual settlement impacts were different than the settlement data submitted with the advice letter filings, based on six months' recorded data annualized.

GenTel did not intend to file a petition to modify D.88-09-030 to further adjust its revenue requirement on a prospective or retroactive basis in order to reflect the actual impacts of USOA on its separations/settlements revenues or on its nonsettlement revenue requirement. However, in compliance with D.89-10-031, the alternative regulatory framework decision, GenTel filed start-up revenue requirement adjustments based on eight months' actual data, annualized, with a 11.50% rate of return.

That filing reflects all 1989 settlement revenues GenTel expects to receive during the eight-month period.

If PacBell's petition is granted, GenTel represents that it will experience a substantial loss of revenues because PacBell would reduce its settlement payments to GenTel both on a retroactive and on a prospective basis, based on the use of 1988 actual revenue, expense, and investment data. Therefore, GenTel filed its petition to enable it to recover any revenue requirement shortfall that may occur as a result of the grant of PacBell's petition. GenTel represents that it will withdraw its petition if PacBell's petition is denied.

Opposition to Petition

On November 27, 1989 the Division of Ratepayer Advocates (DRA) filed an opposition to PacBell's petition. DRA opposes the petition because D.87-12-063 specifically provided that the utilities should be allowed an opportunity to recover USOA revenue requirement impacts through the use of a balancing account for a period not to exceed one year. The decision did not intend to provide the utilities a guaranteed recovery of the additional revenue requirement impacts.

Further, D.88-09-030 specifically required the balancing account to be based on six months' recorded data and specifically required the utilities to file an advice letter no later than October 1, 1988 to propose a method to close out their USOA balancing accounts. The advice letters were timely filed and approved.

DRA is not convinced that PacBell's revenue requirement shortfall is primarily due to settlements. However, if we are inclined to grant PacBell's petition, DRA believes that the shortfall needs to be investigated and analyzed. This may necessitate further hearings.

Discussion

As DRA points out in its protest, the USOA balancing account was established to provide utilities an opportunity, not a guarantee, to recover revenue requirement deficiencies resulting from the adoption of the FCC's USOA. D.87-12-063 specifically informed the utilities that the USOA balancing account would be based on the traditional trending procedure used for ratemaking purposes, such as in the recovery of costs associated with the implementation of a new maintenance program.

Consistent with this philosophy, utilities were required to file a summary of their balancing account based on two months of recorded data. DRA and other parties were requested to file a response on the reasonableness of the utilities' balancing account.

Citizens and GenTel, as part of their balancing account filing, recommended that the USOA report not be used to project the utilities' USOA revenue requirement impact because the first two months of a calendar year represent below average construction activity and below average operating activity. Citizens recommended the adoption of "several months" experience and GenTel recommended five months of recorded data. DRA concurred with Citizen's and GenTel's recommendation for a true-up of the USOA balancing account, but recommended using six months of actual data.

By D.88-09-030 we adopted DRA's proposal to use six months of actual data because six months of recorded data represented a more realistic estimate than the use of two months of actual data, including settlement data.

Pursuant to D.88-09-030, PacBell and GenTel filed advice letters in September 1988 to terminate their USOA balancing account based on six months of actual 1988 data annualized.

While it is true that PacBell's actual expenses related to the USOA have turned out to be higher than those forecasted on the basis of the first six months' experience, at that time PacBell and GenTel were still under traditional cost-of-service regulation. In that framework we set rates based on forecasts for the entire

range of expenses as well as for sales volumes. This afforded PacBell and GenTel a reasonable opportunity to earn a reasonable return on their overall investment in utility service. We determined the allowed rate effects for USOA on that basis, and will not go back to correct the forecast at this time based on experience, just as we would not go back and true-up other revenue or expense items whose actual levels differed from those originally set on the same forecasted basis. Therefore, PacBell's petition should be denied. With the denial of PacBell's petition GenTel's petition is moot and should be dismissed.

Findings of Fact

1. D.87-12-063 authorized certain utilities to establish a balancing account on their books of account to record revenue impacts caused by the adoption of the FCC's USOA.

2. D.87-12-063 required the balancing account to terminate on or before January 1, 1989.

3. D.88-09-030 authorized the utilities to update their respective USOA balancing account with six months of actual data.

4. GenTel's and PacBell's advice letter filing to close their respective USOA balancing account, based on six months of actual 1988 data and settlement information provided by GenTel, was approved by the Commission.

5. PacBell's and GenTel's advice letter request to true-up their balancing accounts with 12 months of actual 1988 data was denied because it was not in compliance with D.88-09-030.

6. The settlement information used in PacBell's and GenTel's advice letter filing was consistent with GenTel's claims for payment from the intrastate toll and private line settlement pool.

7. GenTel filed revised 1988 settlement claims in May 1989 which resulted in PacBell owing GenTel an additional \$34 million.

8. GenTel's revised settlement claims allegedly result in a \$24 million revenue requirement deficiency associated with adoption of the FCC's USOA.

9. GenTel represents that it will withdraw its petition if PacBell's petition is denied.

10. D.87-12-063 specifically informed utilities that the USOA balancing account would be based on the traditional trending procedure used for ratemaking purposes, such as in the recovery of costs associated with the implementation of a new maintenance program.

Conclusions of Law

1. PacBell's petition for modification of D.88-09-030 should be denied.

2. GenTel's petition to modify D.88-09-030 should be dismissed as moot.

ORDER

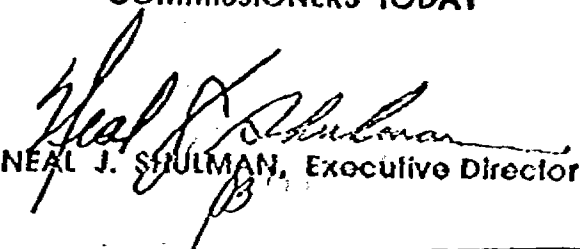
IT IS ORDERED that Pacific Bell's petition for modification of Decision 88-09-030 requesting authority to true-up its Uniform System of Accounts balancing account with 12 months of actual 1988 data and to recover related revenue requirement deficiencies is denied, and that GTE California, Inc.'s petition for modification of D.88-09-030 is dismissed as moot.

This order is effective today.

Dated MAY 04 1990, at San Francisco, California.

G. MITCHELL WALK
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

- 7 -

NEAL J. SHULMAN, Executive Director