

Decision 90-07-020 July 6, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's)
own motion into the proposed separate)
billing plan of AT&T Communications)
of California, Inc., a corporation,)
for interstate and interLATA business)
and residence toll telecommunications)
services within the State of)
California (U 5002 C).)

ORIGINAL

I.88-01-007
(Filed January 13, 1988) ✓

O P I N I O N

AT&T Communications of California, Inc. (AT&T) moves that the Commission issue an order that will:

1. Permit AT&T to withdraw without prejudice its petition to modify Decision (D.) 88-06-048;
2. Identify the \$9.1 million intrastate expense deferral for customer service and billing functions discussed in D.88-06-036 and D.88-06-048 as an accomplished revenue requirement reduction; and
3. Close Investigation (I.) 88-01-007.

On June 17, 1988, the Commission issued D.88-06-036 in Application 85-11-029, AT&T's general rate application. That decision deferred recovery of \$9.1 million in customer service and billing expense, directed that interest accrue on the \$9.1 million to offset AT&T's loss of productive use of funds, and designated I.88-01-007 as the venue for reviewing AT&T's plans for directly billing its customers.

Also on June 17, 1988, the Commission issued D.88-06-048 in I.88-01-007. D.88-06-048 envisioned that in a future rate proceeding, but no earlier than six months following full

implementation of AT&T's direct customer billing, AT&T could present further evidence to support its claim to the \$9.1 million deferred amount, with interest. D.88-06-048 also required that AT&T modify its plan to take back its billing function from the local exchange companies (LEC) which had been performing AT&T's billing. The modifications were designed to mitigate the effects on customers of receiving telephone service bills from both AT&T and a LEC.

On July 18, 1988, AT&T filed a Petition of AT&T Communications of California, Inc. for Modification of D.88-06-048 (Petition), requesting that the Commission remove the conditions which it imposed on AT&T's plans for takeback of billing functions. The Division of Ratepayer Advocates (DRA) partially opposed this petition.

On December 19, 1988, in its investigation into a new regulatory framework for the interLATA market, the Commission issued D.88-12-091, granting AT&T limited regulatory flexibility. That decision allows AT&T to change prices within predetermined limits on five days' notice in response to changes in market conditions and costs, including billing and collection costs. This new flexibility regime under which AT&T now operates in California moves AT&T away from the historic rate-base/rate-of-return regulation basis which produced the earlier Commission directives regarding the \$9.1 million deferred amount.

Finally, in April of 1989, Pacific Bell (Pacific) and AT&T entered into a new arrangement for billing and collection services which provided AT&T with new billing deployment options and eliminated any immediate concern that AT&T customers for intrastate switched services would be somehow disadvantaged by receiving separate bills from AT&T.

Subsequently, Pacific and AT&T engaged in negotiations to extend AT&T's purchases of billing and collection services into the future. These new service arrangements, which included Pacific's

unbundling of billing and collection functions and allowance for considerable flexibility in the scheduling and extent of AT&T's takeback of billing functions, were successfully concluded by joint execution of an agreement on April 14, 1989. On May 15, 1989, Pacific filed its Advice Letter No. 15551 (subsequently supplemented) seeking Commission approval of its Special Serving Arrangement (SSA) No. 89-1 designed to implement the terms and prices of its agreement with AT&T. The Commission approved Pacific's SSA No. 89-1 by Resolution T-13073, issued on June 21, 1989.

SSA No. 89-1 provides that Pacific will continue to render customer bills for AT&T services with Pacific's bills for local exchange services through 1990 as it has in the past. It also provides that Pacific might continue to render bills for AT&T through 1995 under arrangements still to be developed. Since AT&T will not be taking back bill rendering for its customers in the immediate future and since its plans will be substantially changed, AT&T requests permission to withdraw its Petition, without prejudice.

AT&T does not presently object to any of the Commission's conditions of takeback in D.88-06-048, except for the reference to interstate billing which, it asserts, is beyond the authority of this Commission. In D.88-06-048, Ordering Paragraph 1 states, in part, "AT&T may not implement its billing functions for interstate and interLATA business...". AT&T would like the reference to interstate billing stricken.

In regard to the \$9.1 million expense deferral, AT&T refers to Ordering Paragraph 3 of D.88-06-048 in I.88-01-007, which states:

"This investigation will remain open for the limited purpose of determining any revenue, expense, and rate impacts to AT&T's California intrastate operations resulting from AT&T's full implementation of its separate billing program, such determination shall be considered

after six full months of operation of the separate billing system."

AT&T points out that D.88-06-048 was issued when AT&T was subject to traditional regulation. However, since the pricing flexibility granted in D.88-12-091 enables AT&T to adjust its prices upon its own analysis and within limited bands to reflect changes in underlying costs and market conditions, AT&T no longer sets rates based exclusively on costs of service. Consequently, a Commission review of revenues, expenses, and rate base as contemplated in D.88-06-048 is unlikely to occur. Moreover, if the \$9.1 million were left in an interest-bearing account for a number of years, it could eventually constitute a significant impact on AT&T's customers if it were recognized in rates, a result not in AT&T's, nor likely the Commission's, interest.

The practical effect of the ordered deferral of the \$9.1 million amount on AT&T and its customers has been that of a disallowance, reducing AT&T's revenue and rates. To certify this outcome and to allow the Commission to close I.88-01-007, AT&T recommends that the Commission issue a final order in I.88-01-007 identifying the \$9.1 million as an accomplished revenue requirement reduction. Since only a memorandum account is involved, this action will not change AT&T's financial results.

DRA supports AT&T's motion to withdraw its Petition to Modify and that the \$9.1 million expense deferral be treated as a revenue requirement reduction. But DRA opposes AT&T's request that the references in D.88-06-048 to interstate billing be altered.

In regard to AT&T's request to strike the word "interstate" from Ordering Paragraph 1 of D.88-06-048, AT&T asserts that reference to interstate services within the State of California in the order is a typographical error. DRA does not believe that the reference is in error, although, of course, DRA agrees with AT&T's statement that the Federal Communications Commission has exclusive jurisdiction over services which are

strictly interstate. However, MTS is multi-jurisdictional and is billed through the LECs. The Commission has jurisdiction over the LEC's billing and collection practices, particularly as they relate to billing rules and standards, and the enforcement of collection through the ability to cut off local service. Accordingly, DRA supports D.88-06-048 as written, and urges that there is no typographical error which must be corrected as suggested by AT&T.

DRA, for its own part, requests that if we grant AT&T's motion, we condition our grant with an order to AT&T to report the level of cost savings it has realized in billing and collection expense, and report how, if at all, these cost savings have been reflected as price reductions to AT&T's end users. This information would permit DRA to monitor the ratemaking effects of AT&T's billing and collection expense levels, and determine if these cost savings have been reflected in rates. Because billing expenses are a major area of concern within the AT&T monitoring program, the reporting alternative would eliminate the prospect of having the investigation kept open for an indefinite period of time, while providing at the same time, a resolution of the billing expense issue. AT&T opposes DRA's request on the ground that it is "baseless" and a disguised attempt to create a mechanism pursuant to which AT&T's rate may be adjusted to reflect cost changes attributable to new billing and collection arrangements.

We will deny DRA's request that we order AT&T to report the level of cost savings, but not for the reasons proffered by AT&T. We deny the request because the statutes governing reporting by utilities are more than ample to provide authority for DRA to request the information and compel a utility to provide it. We do not have to keep this investigation open to get that information. We do not wish to have the inference that DRA must obtain a Commission order before requesting information from a utility.

Public Utilities (PU) Code § 314 provides:

"(a) The commission, each commissioner, and each officer and person employed by the

commission may, at any time, inspect the accounts, books, papers, and documents of any public utility. The commission, each commissioner, and any officer of the commission or any employee authorized to administer oaths may examine under oath any officer, agent, or employee of a public utility in relation to its business and affairs. Any person other than a commissioner or an officer of the commission, demanding to make any inspection shall produce, under the hand and seal of the commission, authorization to make the inspection. A written record of the testimony or statement so given under oath shall be made and filed with the commission.

- "(b) Subdivision (a) also applies to inspections of the accounts, books, papers, and documents of any business which is a subsidiary or affiliate of, or a corporation which holds a controlling interest in, an electrical, gas, or telephone corporation with respect to any transaction between the electrical, gas, or telephone corporation and the subsidiary, affiliate, or holding corporation on any matter that might adversely affect the interests of the ratepayers of the electrical, gas, or telephone corporation."

PU Code § 581 provides:

"Every public utility shall furnish to the commission in such form and detail as the commission prescribes all tabulations, computations, and all other information required by it to carry into effect any of the provisions of this part, and shall make specific answers to all questions submitted by the commission.

"Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure."

PU Code § 584 provides:

"Every public utility shall furnish such reports to the commission at such time and in such form as the commission may require in which the utility shall specifically answer all questions propounded by the commission. The commission may require any public utility to file monthly reports of earnings and expenses, and to file periodical or special reports, or both, concerning any matter about which the commission is authorized by any law to inquire or to keep itself informed, or which it is required to enforce. All reports shall be under oath when required by the commission."

Should DRA request information and a utility refuse to provide it, DRA can then proceed against the utility in a proceeding before the Commission and ask for appropriate relief. DRA needs no specific authorization from the Commission before asking for information from a utility or affiliate described in the statutes.

Findings of Fact

1. The \$9.1 million expense deferral should be treated, at the request of AT&T, as a revenue requirement reduction. This will not require any change in rates and will not change AT&T's financial results.

2. The reference to "interstate" in D.88-06-048 was not a typographical error and should not be deleted.

3. DRA does not need an order from the Commission to request information from AT&T regarding the level of cost savings it has realized in billing and collection expenses, or for any information DRA needs in order to perform its duties under the Public Utilities Code.

Conclusions of Law

1. AT&T's motion to withdraw without prejudice its petition to modify D.88-06-048 should be granted.

2. DRA's motion to request information from AT&T should be denied, because it is not necessary.
3. I.88-01-007 should be closed.

O R D E R

IT IS ORDERED that:

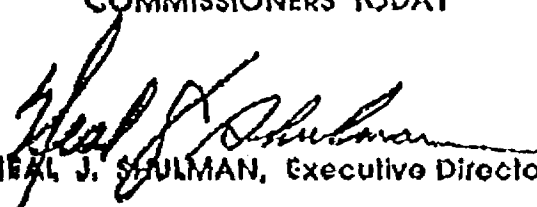
1. AT&T Communications of California, Inc.'s motion to withdraw without prejudice its petition to modify D.88-06-048 is granted.
2. Division of Ratepayer Advocates' motion to request information is denied as unnecessary.
3. AT&T's \$9.1 million intrastate expense deferral for customer service and billing functions discussed in D.88-06-036 and D.88-06-048 shall be treated as a revenue requirement reduction.
4. I.88-01-007 is closed.

This order is effective today.

Dated JUL 6 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, Executive Director