

Decision 90 08 029 AUG 8 1990**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 Pacific Bell, a corporation, for )  
 authorization to increase rates )  
 due to revision of the expense )  
 limit for certain items of plant )  
 costing \$500 or less. )

Application 90-02-050  
 (Filed February 23, 1990)

O P I N I O N

This decision grants Pacific Bell (Pacific) authority to increase rates \$11.8 million annually to reflect the increased costs associated with an accounting change that allows Pacific to place certain items in expense accounts rather than ratebase plant accounts.

On February 23, 1990, Pacific filed this application seeking the revenue requirement increase. It did so following a July 1988 decision of the Federal Communications Commission decision in Docket No. 87-135 (3 FCC Rcd 4464, 1988) increasing the expense limit for purchases of certain telephone plant from \$200 to \$500. On November 22, 1989, this Commission issued Resolution F-626, adopting the FCC expense limit change for intrastate accounting purposes. The Commission denied Pacific's request to offset its associated revenue requirement increase against lower depreciation expense, requiring Pacific to seek rate relief by way of an application. The Commission stated that Pacific should consider potential cost or productivity savings which might result from the adopted accounting change.

AT&T Communications of California, Inc. (AT&T) and the Division of Ratepayers Advocates (DRA) filed protests to this application. The protests argue that Pacific's application fails to take into consideration the reduction in revenue requirement which would occur in future years because expensing the items will

reduce Pacific's rate base. DRA also argues that Pacific understated by \$600,000 the administrative savings resulting from the accounting limit change.

On June 22, 1990, Pacific amended its application. The amendment acknowledges the declining rate base attributable to the capital-to-expense shift. Pacific agrees with protestants that Pacific's rates should be reduced in 1997 by \$18.6 million. Pacific also amends the application to increase its administrative savings from \$600,000 annually to \$1.2 million annually.

After Pacific filed its amendment, both AT&T and DRA withdrew their protests to the application.

Commission Resolution F-626, issued November 22, 1989, approved the accounting changes for which Pacific seeks rate relief by this application. Pacific has amended its application to make it conform with Decision (D.) 88-09-030 and D.89-12-048, which provided that revenue requirement should fall over time as a result of capital-to-expense shifts. No protests to the application, as amended, are outstanding. We will therefore grant Pacific's application as amended, except that we will not grant retroactive rate relief. Resolution F-626 adopted an accounting change but did not provide that future rate relief would be subject to retroactive recovery.

#### Findings of Fact

1. In Resolution F-626, issued November 22, 1989, the Commission approved an accounting change which would allow certain telephone plant costing \$500 or less to be expensed rather than capitalized.
2. D.88-09-030 and D.89-12-048 provided that revenue requirement should fall over time as a result of capital-to-expense shifts, such as that authorized in Resolution F-626.
3. Pacific's amended application seeks an annual increase in revenue requirement to reflect the costs of accounting changes adopted in Resolution F-626. It also proposes to reduce its rates



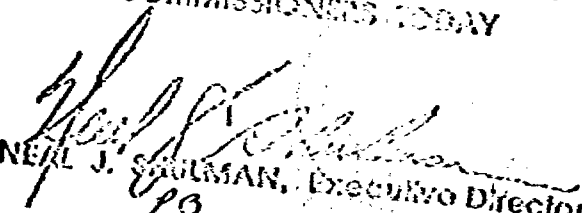
order until the effectiveness of its 1991 annual price cap adjustment, Pacific is authorized to establish a memorandum account to reflect such amounts and to seek recovery in the next annual price cap indexing filing.

This order is effective today.

Dated August 8, 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

  
NEIL J. SULMAN, Executive Director  
8/9