

Decision 90 09 084 SEP 25 1990

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

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

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

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

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

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

And Related Matters.

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

OII 84
(Filed December 2, 1980)

C.86-11-028
(Filed November 17, 1986)

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

C.87-07-024
(Filed July 16, 1987)

A.88-07-020
(Filed July 15, 1988)

(See Appendix A in Decision 88-08-024,
Attachment D in Decision 89-10-031, and Appendix A in
Decision 90-04-023 for appearances.)

**INTERIM OPINION ON JOINT PETITION OF GTE
CALIFORNIA INCORPORATED AND PACIFIC BELL
TO MODIFY DECISION 89-10-031**

On July 10, 1990, GTE California Incorporated (GTEC) and Pacific Bell (Pacific) jointly filed a petition to modify Decision (D.) 89-10-031. GTEC and Pacific request that they be permitted to implement the 1991 rate adjustments provided by D.89-10-031 through a change to their billing surcharges/surcredits rather than through changes to their tariffed rates, as required by D.89-10-031. The Commission's Division of Ratepayer Advocates (DRA) filed a response on July 16, 1990 in which it supports the joint petition.

In D.89-10-031, the Commission adopted a price cap indexing mechanism whereby annual adjustments are to be made to GTEC's and Pacific's rates for Category I (basic monopoly) services and those Category II (discretionary or partially competitive) services which are not flexibly priced, as well as to the rate ceilings for the Category II services which are flexibly priced. In addition, the rate floors for flexibly priced Category II services are to be adjusted each year by the change in the Gross National Product Price Index (GNP-PI).

The indexing mechanism was first applied as part of a startup revenue adjustment effective January 1, 1990. For 1990, D.89-10-031 required that adjustments be made to GTEC's and Pacific's billing surcharges/surcredits rather than to tariffed rates, rate ceilings, and rate floors. In anticipation that the surcharges/surcredits would be incorporated into rates in 1990 in the planned supplemental rate design proceeding, the Commission required that annual changes after 1990 due to the indexing mechanism be implemented directly through changes in tariffed rates for nonflexibly priced services and tariffed rate ceilings and floors for flexibly priced services. In D.89-12-048 the Commission modified D.89-10-031 to permit GTEC to place the revenue increase

associated with its 1990 startup adjustment in a memorandum account pending further action by the Commission.

In their petition, GTEC and Pacific note that they still have significant surcharges/surcredits in effect and that they will be required to make further surcharge/surcredit adjustments as a result of the Commission's decisions to eliminate Touch Tone charges, expand local calling areas, and expand Zone Usage Measurement (ZUM) service. They submit that customers would experience less confusion if the 1991 price cap index changes were implemented as surcharge/surcredit adjustments rather than as changes in tariffed rates. In addition, they submit that their preferred approach would result in significant administrative cost savings both to the companies and to the Commission. GTEC and Pacific conclude that the costs required to update tariff sheets and billing systems would be unreasonable in light of the changes in their surcharges/surcredits that will take place and the significant rate changes that are anticipated in the supplemental rate design proceeding, which has not yet been initiated.

Discussion

We agree with GTEC and Pacific that application of the price indexing mechanism should continue on a surcharge/surcredit basis for 1991, both for administrative ease and to reduce customer confusion.

We note, however, that these companies do not propose continuation of the across-the-board surcharge/surcredit approach adopted in D.89-10-031 for the January 1, 1990 startup revenue adjustment. In particular, GTEC and Pacific would not modify the surcharges/surcredits applicable to flexibly priced Category II services. Instead, they propose to adjust only the rate floors for these services by the GNP-PI. Without explanation, they do not propose parallel adjustments to rate ceilings for these services.

Given the pendency of the supplemental rate design proceeding and the continued existence of significant surcharges/surcredits, we see no basis for applying the 1991 price adjustments any differently than through the approach adopted in D.89-10-031 for the 1990 startup revenue adjustment. We see no rationale for adjusting the rate floors but not the ceilings of flexibly priced services, as GTEC and Pacific request in their petition. Further, it appears to us that, were the rate floors adjusted, the proper adjustment would recognize the cumulative effects of both the 1989-90 and 1990-91 GNP-PI rather than just the 1990-91 effects, consistent with guidance in D.89-10-031 at mimeo. page 194. However, insertion of these issues would complicate the October 1, 1990 advice letter filings with no clear purpose. For these reasons, we conclude that the price indexing mechanism should be applied for 1991 on a surcharge/surcredit basis to all tariffed services to which surcharges and surcredits normally apply (not, for example, to coin services and contracts), including flexibly priced services. This change to the relief requested by GTEC and Pacific is reflected in the adopted modifications to D.89-10-031.

Findings of Fact

1. In D.89-10-031, the Commission required that GTEC and Pacific file advice letters no later than October 1 of each year, beginning in 1990, to update rates for basic monopoly services and nonflexibly priced Category II services and rate ceilings and floors for flexibly priced services according to the price indexing mechanism adopted in that decision, with new rates, ceilings, and floors to be effective the following January 1.

2. In D.89-10-031, the Commission required that startup revenue adjustments be implemented effective January 1, 1990 for GTEC and Pacific through bill-and-keep surcharges/surcredits applied to intrastate access, intraLATA toll, and local exchange services to which surcharges and surcredits normally apply.

3. GTEC and Pacific still have significant surcharges/surcredits in effect and further changes to these surcharges/surcredits will be required as a result of other pending proceedings.

4. It is anticipated that the surcharges/surcredits will be incorporated into rates in the supplemental rate design proceeding, which has not yet been initiated.

5. Implementation of the 1991 price indexing adjustments through adjustments to the surcharges/surcredits could reduce customer confusion and would be less costly, compared to modifications to tariffed rates, rate floors, and rate ceilings.

6. GTEC and Pacific do not explain in their petition to modify D.89-10-031 why they would adjust rate floors but not rate ceilings for flexibly priced services.

7. In D.89-10-031, the Commission provided that rate floors in effect prior to January 1, 1990 should be adjusted in the supplemental rate design proceeding by the GNP-PI used in calculating the 1990 startup revenue adjustment.

8. It is reasonable to apply the price indexing mechanism for 1991 on a uniform bill-and-keep surcharge/surcredit basis to all tariffed services to which surcharges and surcredits normally apply, including flexibly priced services, in order to reduce customer confusion, for administrative ease, and to maintain consistency with the 1990 startup revenue adjustment.

Conclusions of Law

1. D.89-10-031 should be modified to provide that the price indexing mechanism be applied for 1991 on a uniform bill-and-keep surcharge/surcredit basis to all tariffed services to which surcharges and surcredits normally apply, in order to reduce customer confusion, for administrative ease, and to maintain consistency with the 1990 startup revenue adjustment.

2. In order to provide timely implementation of revenue changes required by D.89-10-031, this order should be effective today.

INTERIM ORDER

IT IS ORDERED that:

1. Ordering Paragraph 14a is added to Decision (D.) 89-10-031 as follows:

"GTEC and Pacific shall file advice letters in accordance with General Order 96-A no later than October 1, 1990 for Commission consideration and approval to apply the adopted price cap mechanism through adjustments to their surcharges/surcredits to be effective January 1, 1991. In these advice letters, GTEC and Pacific shall:

- "a. Propose revenue adjustments which (i) reflect an adjustment to rates for the 1991 intraLATA SPF-to-SLU settlements effects and (ii) reflect an adjustment to rates for the 1991 interLATA SPF-to-SLU revenue shift.
- "b. Propose further revenue adjustments to apply the adopted price cap indexing mechanism for 1991.
- "c. Propose the adjustments required by subparagraphs (a) and (b) above via a bill-and-keep surcredit/surcharge based on recorded customer billings for the first eight months of 1990 annualized. The bill-and-keep surcharge/surcredit shall be applied to intrastate access, intraLATA toll and local exchange services to which surcharges and surcredits normally apply.
- "d. Use recorded intrastate ratemaking demand, expenses, and revenues (excluding the effects of temporary surcharges/surcredits) for the first eight months of 1990 annualized to make the revenue adjustments.

"Copies of the advice letters shall be served at the time of filing on all parties in Investigation (I.) 87-11-033 and on anyone requesting such service."

2. Ordering Paragraph 15 of D.89-10-031 is modified to read as follows:

"Beginning in 1991, GTEC and Pacific shall file advice letters in accordance with General Order 96-A no later than October 1 of each year for Commission consideration and approval to update rates for basic monopoly services and non-flexibly priced Category II services and rate caps and floors for flexibly priced services according to the adopted price cap mechanism with new rates, caps, and floors to be effective the following January 1. In these advice letters, GTEC and Pacific shall:

- "a. Propose adjustments to December 31 rates which reflect on a revenue-neutral basis any rate rebalancing authorized to be effective on January 1 of the coming year.
- "b. Propose further adjustments to the rates described in (a) to apply the adopted price cap indexing mechanism for the coming year.
- "c. Base demand estimates used in any rate rebalancing on recorded data for as much of the year as possible, with estimates used for the remaining months.

"Copies of the advice letters shall be served at the time of filing on all parties in I.87-11-033 and on anyone requesting such service."

3. To the extent not otherwise granted by this order, the Joint Petition of GTE California Incorporated and Pacific Bell to Modify Decision 89-10-031 is denied.

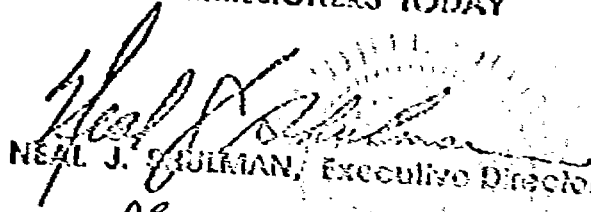
This order is effective today.

Dated SEP 25 1990, at San Francisco, California.

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

Commissioner John B. Ohanian,
being necessarily absent, did
not participate.

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


NEAL J. S. SULMAN, Executive Director