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Decision 91-02-032 February 21, 1991

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 service.

Application 83-07-02 (Filed July 1, 1983) (Petition for Modification filed October 31, 1990)

And Related Matters.

OII 83-08-02 (Filed August 3, 1983)

Case 82-10-08 (Filed October 28, 1982)

Robert N. Herrera and Kenneth K. Okel, Attorneys at Law, for GTE California Incorporated, applicant.

Randolph Deutsch, Attorney at Law, for AT&T Communications Inc., interested party.

Helen Mickiewicz, Attorney at Law, for the Division of Ratepayer Advocates.

OPINION MODIFYING DECISION 84-07-108

On October 31, 1990, GTE California Incorporated (GTEC), formerly General Telephone Company of California, filed a petition for modification of Decision (D.) 84-07-108. GTEC seeks authority to combine its network sales activity with the customer premise equipment (CPE) sales activity of a subsidiary, GTEL, for all GTEC major account customers.

Pursuant to Ordering Paragraph 10 of D. 84-07-108 GTEC established a separate subsidiary, GTEL, to market, install, and maintain all unregulated CPE. Since the establishment of GTEL approximately six years ago, GTEC and GTEL have been required to offer their respective telecommunications services independent of

each other. However, Ordering Paragraph 10 was modified by D.86-08-056 to allow GTEL personnel to sell GTEC's custom calling network services at GTEL phone marts.

By D.89-11-064, Ordering Paragraph 10 was modified to allow GTEC to conduct a pilot program, beginning October 1, 1989, whereby it may combine its network sales activity with GTEL's CPE sales activity for GTEC's 44 largest banking industry customers. The pilot program was scheduled to end on December 31, 1990.

GTEC was ordered, as part of its banking pilot program, to implement the Federal Communications Commission (FCC) affiliate transactions rules identified in FCC Docket 86-111 for intercompany affiliate billing purposes and the GTE cost allocation manual for the separation of costs between regulated and non-regulated activities. If after the end of the banking pilot program GTEC wanted to implement the program, GTEC was to file a new application requesting authority to continue the program and demonstrating that the program is in the public interest, cost effective, and does not subsidize non-regulated operations or result in market abuse.

GTEC seeks authority to expand its banking pilot program to all of its major account customers, customers whose monthly bills exceed \$5,000, at this time because the first nine months results of the banking pilot program demonstrated that the program is a success, is contributing to long-term customer satisfaction, and is eliminating duplication of efforts. GTEC believes that this same level of success can be achieved with its other major account customers.

Subsequent to GTEC's filing of its petition for authority to add all major account customers to the pilot program, GTEC sent a letter to the Commission's Executive Director seeking authority to extend its pilot program beyond the December 31, 1990 termination date set by D.89-11-064, and to continue the banking pilot program pending resolution of its petition. On November 2,

1990 GTEC obtained its requested authority, pursuant to Rule 43 of the Commission's Rules of Practice and Procedure.

Protest

The Division of Ratepayer Advocates (DRA) filed a protest to GTEC's petition to expand the banking pilot program on December 3, 1990. DRA objects to an expansion of GTEC's banking pilot program because it believes that GTEC's banking pilot program record keeping is insufficient to justify expansion of the program to other major customer accounts. However, DRA does not object to the extension of the banking pilot program from December 31, 1990 to June 30, 1992.

Prehearing Conference

A prehearing conference (PHC) was held on January 4, 1991 in San Francisco to identify issues, witnesses, and to set a hearing date. However, at the PHC GTEC modified its filed petition. GTEC now seeks authority to expand its banking pilot program to only state and local government agencies effective July 1, 1991. GTEC no longer seeks authority to expand its banking pilot program to all major account customers.

DRA, seeing a need for additional time to evaluate GTEC's safeguards and to limit customers to the pilot program, concurs with GTEC's petition as modified at the PHC.

DRA explained that it will conduct an audit of GTEC program safeguards beginning April 1, 1991. If DRA finds "major problems" with GTEC procedures, DRA intends to raise its concerns in a pleading accompanying the audit report.

Document Under Seal

Concurrent with GTEC's petition, GTEC filed a motion to accept its business plan under seal pursuant to General Order 66-C. GTEC submits its business plan to support its contention that the banking pilot program is a success. GTEC requests that its business plan be kept under seal because it contains both

confidential and proprietary data. Release of the business plan to GTEC's competitors may place GTEC at an unfair business disadvantage and may cause irreparable harm to GTEC's operations.

Since there is no protest to GTEC expanding its banking pilot program to state and local government agencies, and the program will continue as a trial program, GTEC's business plan is irrelevant and need not be a part of the record. However, GTEC should make available its business plan to DRA upon request and pursuant to General Order 66-C. GTEC should recover all copies of its business plan filed October 31, 1990 under seal within 30 days of the effective date of this order.

Findings of Fact

1. GTEL personnel are authorized to sell GTEC's custom calling network services at GTEL phone marts.
2. GTEC has been authorized to conduct a pilot program, beginning October 1, 1989, whereby it may combine its network sales activity with GTEL's CPE sales activity for GTEC's 44 largest banking industry customers.
3. GTEC's banking pilot program was scheduled to end on December 31, 1990.
4. GTEC's petition seeks authority to expand its banking pilot program to all of its major account customers, and to expand its program to June 30, 1992.
5. GTEC has authority to extend its banking pilot program beyond the December 31, 1990 termination date set by D.89-11-064, and to continue the program pending resolution of its petition.
6. DRA filed a protest to GTEC's petition.
7. GTEC modified its petition from seeking authority to expand its pilot program from all major account customers to only state and local agencies effective July 1, 1991.
8. GTEC's business plan filed under seal is moot.
9. DRA does not oppose GTEC's petition as modified at the PHC.

Conclusion of Law

GTEC should be authorized to extend its pilot sales program for its state and local government agencies, and to extend the pilot program from December 31, 1990 to June 30, 1992.

ORDER

IT IS ORDERED that:

1. GTE California, Incorporated's (GTEC) banking pilot program authorized by Decision (D.) 89-11-064 shall be extended to June 30, 1992. Effective July 1, 1991 GTEC is authorized to add its state and government agency customers to the banking pilot program which combines its network sales activity with GTEL's customer premise sales activity for GTEC's 44 largest banking industry customers.

2. The Division of Ratepayer Advocates' protest filed on December 3, 1990 is denied.

3. Ordering Paragraph 10.c. of D.84-07-108 shall be modified, as shown in Appendix A, to state:

10.c. GTEC is authorized to conduct a pilot program, beginning October 1, 1989, whereby it may combine its network sales activity with GTEL's customer premise sales activity for GTEC's 44 largest banking industry customers. Effective July 1, 1991, GTEC may add its state and local government customers to the pilot program. The pilot program shall end on June 30, 1992. If GTEC wants to implement his program after the pilot program ends, it shall file an application requesting such authorization demonstrating that the program is in the public interest, cost-effective, and does not subsidize non-regulated operations or results in market abuse.

4. GTEC's motion to accept its business plan under seal is denied. GTEC shall recover all copies of its business plan filed October 31, 1990 under seal within 30 days from the effective date of this order.

This order becomes effective 30 days from today.  
Dated February 21, 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners

I abstain.

DANIEL WM. FESSLER  
Commissioner

I abstain.

NORMAN D. SHUMWAY  
Commissioner

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

NEAL J. SHIMAN, Executive Director

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DECISION 84-07-108 ORDERING PARAGRAPHS  
REVISED PURSUANT TO D.86-08-056, D.89-11-064 and D.91-02-032

IT IS ORDERED that:

1. This order is final with respect to the General Telephone Company of California's (General) test year 1984 revenue requirement. While consolidated Case (C.) 82-10-08 is closed by this order, Application (A.) 83-07-02 and Order Instituting Investigation (OII) 83-08-02 remain open to consider: General's 1985 attrition filing, staff's recommendations on means of reducing uncollectibles, and any prospective rate adjustments in the event General's access charges for interLATA carriers are adjusted as a result of further orders in A.83-01-22 et al. (access charge proceedings).

2. The relief requested in C.82-10-08 is granted to the extent reflected in today's adopted rates; in all other respects it is denied.

3. General shall continue to be subject to Ordering Paragraphs 7, 8, and 9 or Decision (D.) 82-04-028. However, those paragraphs 7 and 9 are modified to read as follows:

7. After today General shall collect data on customer trouble reports per 100 lines and dial service indices on a central-office-by-central-office basis for the following central offices: Baldwin Park, Azuza, Sierra Madre, Coachella, La Puente, Elsinore Main, Perris, Sun City, Claremont, Los Serranos, Pomona, Banning, Muscoy, San Bernardino, Sepulveda, Malibu, Zuma, Del Rey, Mar Vista, Ocean Park, Sunset, San Fernando, Santa Barbara, Bundy Santa Monica, Palisades, Santa Monica, Bel Air, Bundy, University, West Los Angeles, Westwood, Norwalk, Laguna Beach, Market, Uptown, California, Long Beach Main, El

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Nido, Manhattan, Redondo, Whittier South,  
Blossom Hill, Montebello, and Mountain.

9. A surcredit of \$3.80 a line shall be imposed for each line in a central office where in two of three consecutive months the customer trouble reports per 100 lines are at least 10.0 and in two of the three months including utility-owned terminal equipment reports (not necessarily the same two months) the dial service index is less than 97.0%. General may petition the Commission staff to be relieved of the penalty in D.82-04-028, on a central office basis when measurements for both indices are within General Order (GO) 133 reporting level for at least six consecutive months.

4. General may discontinue submitting to the Commission the quarterly reports required by Ordering Paragraph 3 of D.92366, which consisted of 17 indices.

5. General's customers served by the following central offices shall be refunded, by billing credit or check, 65.2% of the applicable 21.3% surcharge on their recurring basic exchange charges between January 1, 1984 and the date the new rates authorized today are effective: Malibu, Zuma, Topanga, Ocean Park, Muscoy, Perris, and Los Alamos. These refunds shall be made within 90 days. Customers in the Kenwood exchange shall receive the same refund, and they shall not be subject to any increases in recurring rates, as authorized by this order, until 12 months from the date the revised rates authorized by this order for all other customers become effective.

6. General's Rule 10 shall be modified to provide that if a customer shows a billing postmark that is later than the bill's printed mailing date, that postmark date is controlling in determining whether the late payment charge applies. Other than



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that change, General's proposed 18% annum late payment charge is authorized.

7. General's competitive bidding plan for central office switching equipment (COSE), adopted by Resolution T-10642, is modified as follows: (a) General is authorized to limit the receipt of competitive bids for COSE to three vendors once it has purchased switches of a given technological level or family from three different vendors; and (b) a single test unit of COSE representing new technology may be purchased without seeking competitive bids.

Within six months from today General shall submit the following information to aid our staff in its investigation of COSE expenditures:

- a. Copies of the cost studies or justification that existed prior to General's selecting No. 2 EAX COSE.
- b. Copies of all cost studies or other economic justification for collocating new digital COSE next to No. 2 EAX switches.
- c. Quantification of the full incremental capitalized costs caused by collocated COSE, broken down by each central office location.

8. General shall, within 90 days, make the following changes in its books and account, either directly or through the use of memoranda accounts (and staff shall follow-up to ensure compliance):

- a. IDC on short-term construction projects, now in memoranda accounts, shall be retired at approximately the same rate the plant itself is retired.

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- b. Uninvoiced receipts more than one-year old shall be excluded from materials and supplies (both for bookkeeping and ratemaking).
- c. Work orders in the in-progress of fabrication account that are over one-year old shall be written off to extraordinary income charges (both for bookkeeping and ratemaking).
- d. General shall process its payments to affiliated vendors in the same manner as those to nonaffiliated vendors, and institute a common purchase order verification system.
- e. Premium refunds from General's medical insurance carriers shall be charged as a credit to the relief and pensions account; however, any portion of such refunds that can clearly be assigned to unregulated operations may be credited below the line.
- f. General shall, on an ongoing basis, assign a portion of general office salaries of "managers and above" to construction.
- g. General shall reclassify all embedded and new company official business telecommunications equipment to new Account 262. Its request to reclassify this equipment to other accounts and write-off company-used station apparatus over five years is denied.
- h. General shall cease accruing IDC on advances in aid of construction, and on an ongoing basis reduce its plant account by the balance in the advances account.
- i. All plant additions related to the 1984 Olympics shall be reclassified from plant-in-service to the miscellaneous physical property account after the 1984 Olympics

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until definite plans are developed for their use.

When proposing depreciation lives for company-used communications equipment in Account 262, General shall submit a separate study which recognizes the specialized and lighter use this equipment receives, and which includes a detailed analysis on whether as an alternative to purchasing new PBXs it could have used vacant centrex capacity.

9. General and all other telephone utilities are authorized to expense minor items, going back to January 1, 1983, having a total cost of \$200 or less.

10.<sup>1</sup> Within six months from today General shall form a separate corporate subsidiary for marketing, installing, and maintaining all unregulated customer premises equipment (CPE), and within one year it shall have fully segregated its facilities and resources between the unregulated subsidiary and regulated operations. The only resources that can be shared between regulated operations and the unregulated subsidiary are:

- a. Corporate officers and directors; including their immediate support personnel and headquarters.
- b. Legal services and accounting services; provided, however, that accounting services may be provided for a maximum of two years.
- c. Customer billing for integrated unregulated CPE billing along with network services. Billing expense shall be billed to its unregulated subsidiary, GTEL, on a contract

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<sup>1</sup> Revised in accordance with D.86-08-056, D.89-11-064, and D.91-02-032.

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basis with such charges reflecting General's fully allocated costs.

- d. Phone mart direct expense shall be directly charged to the unregulated subsidiary.

10.a. After January 1, 1988, GTEL personnel may continue to sell General's custom-calling network services at its Phone Mart locations and through its Direct Marketing Distribution channels on a per transaction charge basis.

10.b. General is to provide and maintain both the network services and unregulated CPE associated with E911 emergency services. General is to track all expenses, investment, and revenues associated with E911 CPE on a "below-the-line" basis.

10.c. GTE California Incorporated (GTEC) is authorized to conduct a pilot program, beginning October 1, 1989, whereby it may combine its network sales activity with GTEL's customer premise sales activity for GTEC's 44 largest banking industry customers. Effective July 1, 1991, GTEC may add its state and local government customers to the pilot program. The pilot program shall end on June 30, 1992. If GTEC wants to implement this program after the pilot program ends it shall file an application requesting such authorization demonstrating that the program is in the public interest, cost effective, and does not subsidize non-regulated operations or result in market abuse.

11. Within 30 days from today General shall file tariffs governing its sale of in-place and from inventory-embedded CPE as proposed in Exhibit 119, and implement the program on the timetable and with the terms as proposed, but with the following modifications:

- a. The average net book value for the CPE shall be computed using the average 1984 remaining regulatory net book value.

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- b. The 43% return on sales or profit mark-up on "from-inventory" multi-line CPE shall be reduced to 25%.
- c. For purchases in excess of \$1,000, General shall offer an optional six-month installment plan, with simple interest of 10% per annum.

12. The sales price for newer electronic PBXs (GTD-120, Rolm and Focus) shall be either the tariffed sales price or the optional purchase price according to the existing contract, whichever is lowest.

13. During June of both 1985 and 1986 General shall file revised tariffs with prices for both single- and multi-line CPE which reflect the incremental change from using average 1985 and 1986 net book value, respectively, for those years. No other sales price components shall be adjusted. Within 60 days from today General shall start separately itemizing on residential bills the recurring monthly charges for leased CPE.

14. General shall revise its tariffs to reflect revised sales prices for single-line CPE within 30 days, recalculating net book value based on 1984 average net book value.

15. General shall retain its complete workpapers underlying the development of all embedded CPE sales prices, as directed by this order, for five years, and the workpapers shall be available for inspection by the public.

16. In June of both 1985 and 1986 General shall file a report with the Commission Advisory and Compliance Division detailing the results of its embedded single- and multi-line CPE sales programs, including the types and quantities sold, the present "take," and the net gain or loss.

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17. Within 90 days General shall make a compliance filing with the Docket Office, and give notice of the filing to all appearances showing the results of embedded multi-line CPE sales price adjustments to customers who bought such CPE under negotiation after December 22, 1983 (see Ordering Paragraph 1 of interim D.83-12-067).

18. Within 120 days General shall include a bill insert notice to all residential customers advising them of the terms for purchasing embedded single-line CPE and the revised 1984 prices. This notice shall also clearly explain that starting in 1986 dial sets, in most localities, can be used to obtain equal access among competing long distance carriers.

19. General is authorized to implement a local directory assistance charge plan with the free call allowance and charges adopted for Pacific Bell. The adopted conditions for General's proposed Schedule D-3 shall be applicable, and customers shall be allowed to receive up to three numbers per local directory assistance call. General's tariffs shall provide that customers may, upon request, receive one copy of any additional local calling area directories. The additional copies may be either picked up or mailed, at the customer's election. General shall clarify the information printed in its directories to reflect that additional local calling area directories are available at no charge. This change shall be made over the forthcoming directory publishing cycle starting 90 days from today.

20. For the sole purpose of gathering critical information and conducting essential consumer impact studies regarding measured service, General shall study the potential impact of the three hypothetical USS rate structures as outlined in today's decision. It shall work with our staff in devising the hypothetical rates to

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ensure they are realistic and result in no overall revenue shift or change within the study areas. General's study shall be filed with our staff by the end of 1986, and made available to any party requesting it. Specifically, the study shall address:

- a. The rate impact on residential customers broken down by low, moderate, and upper income, as well as by age and size of household.
- b. How USS could be structured to provide low and moderate income families with effective options for reducing their telephone costs consistent with their usage needs.

21. Limited hearings shall be held in connection with the attrition filings for both 1985 and 1986. General shall make an advice letter filing no later than October 1 in both 1984 and 1985, to be served on all appearances, for rate adjustments based on the attrition mechanism in Appendix A, but with the following modifications:

- a. In accordance with the filing made for 1985, General, staff, and other parties may submit proposals on methodologies for deriving the following: (1) changes in materials, rents, and services, (2) changes in rate base, (3) changes in the normalized revenues. The adopted methodologies shall be used for the 1986 filing.
- b. The annual changes in revenues shall be adjusted for: (1) quantifiable changes directly attributable to CPE revenues, (2) local directory assistance call charging, (3) intraLATA toll revenue, (4) access charge revenue from interLATA carriers, (5) net revenues from extending ZUM, and (6) net revenue change from 1 FR customers converting to MLS lifeline.

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- c. The annual traffic expense savings from directory assistance call repression shall be applied.
- d. Adopted changes to the assessment ratios used to derive ad valorem tax shall be applied.
- e. General may propose only technical updating in connection with 1985's depreciation expense, and for 1986 it may propose only changes adopted in re-prescription review.
- f. General's authorized return on rate base for 1986 may be adjusted, based on today's adopted cost components, if it demonstrates it will achieve a higher equity ratio (up to 47.4% in 1986; all cost factors will be held constant.
- g. If General, in connection with each attrition filing, does not clearly demonstrate compliance with our order to form a separate corporate subsidiary for marketing unregulated CPE its revenue requirement will be adjusted downward by: assigning all costs connected with phone marts to unregulated operations, and reducing the authorized return on equity by .5%.
- h. The prudence of General's COSE expenditures in connection with both No. 2 EAX and GTD-5 COSE shall be reviewed and addressed by staff in hearings on General's filing for 1986.

General shall submit a draft of its proposed advice letter to the Division of Ratepayer Advocates by (DRA) September 1 of each year. The filed advice letter shall be accompanied by prepared testimony, and it shall clearly set out how results of operations components were derived consistent with this order. It shall be accompanied



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by a surcharge rate design consistent with the criteria adopted in today's decision. General shall serve a copy of the advice letters and prepared testimony on all appearances in these proceedings, and copies of its workpapers shall be furnished to parties requesting them. The limited hearings on General's 1985 attrition filing will be held in conjunction with those on Pacific Bell's.

22. General shall keep at least two loaner TDDs in each phone mart and convenience center to loan to customers whose TDDs must be kept for repair.

23. Before January 1, 1985, General shall file a report with this Commission stating its Female/Minority Business Enterprise (F/MBE) goals for calendar years 1985 and 1986. Commencing in 1985, on March 1 and October 1 of each year, General shall file a report on the progress made by its F/MBE program. The March 1 report shall cover program activity from July 1 through December 31 of the previous year and the October 1 report shall cover activity from January 1 through June 30. The semiannual reports shall present F/MBE data according to the ethnic classifications used by agencies of the State of California and by contract categories in which \$2 million of business or more was done in the prior year. General shall meet and confer with minority group representatives in preparing their goals and reporting procedures.

24. General may file revised tariffs, in compliance with GO 96-A, not sooner than 15 days after this order is effective, which:

- (a) fully contain the rates and conditions set out in Appendix B, and
- (b) concurrently eliminates the existing 21.3 and 13% surcharges. The revised rates shall become effective five days after filing and shall only apply to service provided on or after

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their effective date. General's tariffed sales prices for multi- and single-line CPE shall be effective five days after filing.

25. General's revised rates for local coin station calls, as contained in General's Advice Letter No. 4886, are effective today.

26. Pacific Bell shall file revised tariffs, in compliance with GO 96-A, to increase its negative surcharge on local exchange service rates to a negative 1.12%. It shall file its revised tariffs within 10 days after this order is effective, and they shall apply to all service rendered on or after the date General's revised rates are effective.

27. A.83-07-02 and OII 83-08-02 remain open. Consolidated C.82-10-08 is closed, with relief granted to the extent reflected in today's authorized rates.

(END OF APPENDIX A)