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Decision 91-04-066 April 24, 1991

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)

ORIGINAL

In the Matter of the Petition of Pacific Bell, a corporation, to modify Resolution F-626.

Application 90-12-050 (Filed December 17, 1990)

OPINION

This decision modifies Resolution F-626 and Decision (D.) 90-08-029 to change the effective date of an accounting change approved in Resolution F-626. The changed date coincides with the effective date of corresponding rate relief authorized by Decision D.90-08-029. These modifications increase Pacific Bell's (Pacific) revenue requirement by \$6.04 million.

Background

On July 22, 1988, the Federal Communications Commission (FCC) authorized Pacific to increase the expense limit for purchases of certain telephone plants from \$200 to \$500. On November 22, 1989, the Commission adopted, in Resolution F-626, this FCC accounting change for intrastate purposes. The resolution approved an effective date for the accounting change of January 1, 1989 and gave the telephone companies the option to implement it not later than January 1, 1990. The resolution directed utilities seeking corresponding revenue requirement changes to file applications.

On February 23, 1990, Pacific filed Application 90-02-050 seeking such a revenue requirement change. D.90-08-029 granted these revenue requirement change, but did not allow recovery for amounts

entered into the accounts prior to the effective date of the decision. We found that such recovery would constitute retroactive ratemaking.

Pacific filed an application for rehearing of D.90-09-029, arguing that the effective date of rate relief should be January 1, 1989, as Pacific's application had originally requested. D.90-012-036 denied Pacific's application for rehearing of D.90-08-029, restating our view that a change in the effective date of relief would violate the rule against retroactive ratemaking. We did, however, invite Pacific to seek a change to the effective date of the accounting change established in Resolution F-626.

Petition to Modify Resolution F-626 and D.90-08-029

Pacific asks the Commission to modify Resolution F-626 so that the effective date of the accounting change is no later than August 8, 1990, the effective date for the rate relief adopted in D.90-08-029. According to Pacific, unless the Commission authorizes this change, Pacific will be unfairly denied recovery of expenses incurred solely as a result of complying with Resolution F-626. Pacific states that if this relief is granted, D.90-08-029 must also be changed to reflect an adjusted revenue requirement. According to Pacific's calculations, granting its petition to modify Resolution F-626 will increase the revenue requirement granted in D.90-08-029 by \$6.04 million.

Response by Division of Ratepayer Advocates

Division of Ratepayer Advocates (DRA) does not object to Pacific's petition as long as (1) the proposed rate adjustment of \$6.04 million is amended to \$6.157 million; (2) the 1990 increment of \$1.397 million is considered a one-time adjustment to rates; (3) additional rate recovery resulting from this accounting implementation change is achieved through a new advice letter to coincide with Pacific's next major rate adjustment; and (4) the order granting a subsequent implementation date for the accounting

change is not treated as a precedent for avoiding rate relief limitations by after-the-fact amendment of similar Commission-ordered implementation dates.

DRA comments that Pacific should have sought a rate increase simultaneously with both its request for authority and its implementation of the accounting changes.

Discussion

Pacific states that without a change in the effective date of the accounting change it will be unfairly denied recovery of expenses incurred "solely as a result of compliance with Resolution F-626." Pacific sought an accounting date change of January 1, 1989 and we granted it in Resolution F-626. Pacific made the subject accounting changes on January 1, 1989, prior to the issuance of a resolution authorizing the accounting changes. Somewhat ironically, Pacific now complains that it might lose revenues by complying with a decision approving its own proposal.

One of the reasons Pacific may not recover its revenue requirement is that it made the accounting change prior to authorization of associated rate relief. We have never granted retroactive recovery of revenues where an accounting change is made prior to approval for corresponding rate relief. Normally, relief granted pursuant to accounting changes is effective as part of a subsequent attrition year offset proceeding or other application. Pacific's application for associated rate relief was filed 14 months after it began booking the accounting change. Under the circumstances, Pacific should not be surprised that we declined to grant retroactive relief.

Because of the way revenue recovery for accounting changes is normally handled, and the timing of Pacific's accounting changes, Pacific could not have expected full recovery under any circumstances without a modification to Resolution F-626. On the other hand, we do not wish to deny Pacific the opportunity to recover revenues which are reasonable. We will grant Pacific's

petition to modify D.90-08-029 and Resolution F-626 with the modifications proposed by DRA.

Specifically, the figures set forth in D.90-08-029 are incorrect because they did not assume an implementation date of August 1, 1990. Using the August 8, 1990 implementation date, the recovery for 1991 is \$13.89 million and the revenue "step-down" for 1992 is \$3.15 million. Because of the amount of the "Z" factor adopted in Pacific's 1991 annual update, the revenue adjustment is \$5.157 million, which includes \$1.397 million for the 1990 increment and \$4.760 million for the 1991 adjustment. The \$1.397 million adjustment is to be considered a one-time adjustment to rates, consistent with Resolution T-14235. These adjustments shall be made pursuant to a separate advice letter filing.

As DRA suggests, our action in this case does not signal a willingness to make similar adjustments in the future if utilities fail to seek rate increases coincident with accounting changes.

Findings of Fact

1. Pacific seeks modification of Resolution F-626 and D.90-08-029 to affect accounting changes and revenue requirement changes on August 8, 1990.
2. Pacific originally sought an accounting change to become effective January 1, 1989 but did not seek associated revenue requirement changes until 14 months after it began booking the accounting changes.
3. D.90-08-029 denied Pacific's request to recover revenues retroactively.
4. The revenues for which Pacific seeks recovery in its petition for modification of D.90-08-029 and Resolution F-626 are reasonable because they result from authorized accounting changes.

Conclusions of Law

1. Pacific's petition to modify D.90-08-029 and Resolution F-626 should be granted as set forth herein, with modifications to recognize that Pacific's 1991 annual update has been resolved.
2. Pacific's request for \$1.37 million in 1990 should be considered a one-time adjustment to rates.
3. Pacific should file an advice letter to recover revenues authorized by this decision in the "Z" Factor in its annual price cap indexing filing adopted in D.89-10-031.
4. This decision should not be construed as setting precedent for recovery of revenues which are authorized pursuant to accounting changes.

ORDER

IT IS ORDERED that:

1. Ordering Paragraph 3 of Resolution F-626 is modified to read:

The effective date of the accounting change for intrastate purposes is January 1, 1990; however, the telephone companies have the option to implement it no later than August 8, 1990.

2. The Ordering Paragraph of Decision (D.) 90-08-029 is modified to read:

IT IS ORDERED that Pacific Bell's (Pacific) application, as amended, is approved with the exception that rate relief shall not be retroactive. Pacific may recover the yearly effect of the accounting changes approved by Resolution F-626 as of the effective date of this order through 1999. That recovery, in the amount of \$6.157 million (plus interest) for 1990 and \$13.89 million for 1991 shall be included in the "Z" factor in the next annual price cap indexing filing adopted in D.89-10-031 or by separate advice letter. Of the 1990 adjustment, \$1.397 million will be recovered only during the first year of

implementation of revenue requirement changes resulting from accounting changes authorized in Resolution F-626. In its annual price cap indexing filing, Pacific shall include in its "Z" factor calculation a step-down revenue reduction of \$3.15 million for 1992, \$2.55 million for 1993, \$2.39 million for each of the years 1994 through 1997, \$1.91 million for 1998, and \$0.72 million for 1999. Pacific shall reduce its revenue by \$7.39 million in 1998 and by \$11.21 million in 1999 to reflect the associated reduction in net plant. In order to assure recovery for amounts which accrue from the effective date of this order until the effective date of Pacific's advice letter filing, Pacific is authorized to establish a memorandum account to reflect such amounts.

- 3. Application (A.) 90-02-050 and A.90-12-050 are closed. This order becomes effective 30 days from today. Dated April 24, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

Neal J. Saulman
NEAL J. SAULMAN, Executive Director