

Mailed

JUL 26 1991

Decision 91-07-056 July 24, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

ORIGINAL
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)

In the Matter of the 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)

Case 86-11-028
(Filed November 17, 1986)

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

Case 87-07-024
(Filed July 16, 1987)

I N D E X

<u>Subject</u>	<u>Page</u>
INTERIM OPINION	2
I. Summary of Decision	2
II. Background	3
III. Discussion of Workshop I, Service-Specific Cost Tracking and Cost Allocations	5
A. Adequacy of the CACD Report	6
B. Impermanence of the Proposed Cost Tracking and Allocation Method	6
IV. Workshop I Issues	9
A. The Need to Reconcile Tracked Costs to Other Records or Proceedings	9
B. The Method of Costing and the Need for Consistency of Costing Methodology	10
1. The Method of Costing	10
2. The Need for Consistency of Methodology Between Phase II Cost Tracking and Phase III Cost Studies	11
3. The Need for Consistency of Service Disaggregation and Reporting Format by the Two Companies	13
4. The Need for Consistency of Costing Methodology Among Service Categories	16
C. The Date for Implementation of Cost Tracking	17
D. The Role of FCC Rules and Regulations	17
E. The Level to Which Services Are to Be Disaggregated for Cost Tracking	18
F. The Frequency With Which Costs Should Be Calculated, Recorded, and Made Available	23
V. Discussion of Workshop II, Monitoring Reporting Requirements	25
A. Adequacy of the CACD Report	26
B. Elimination of Current Reports	27
C. Annual Results of Operations Report	29a
D. Computer Link	31
E. Proprietary Data	34
VI. Specific Monitoring Requirements	37a
A. Major Service Interruptions	38
B. Quality Improvement and Cost-Reduction Programs	38

I N D E X

<u>Subject</u>	<u>Page</u>
C. Public-Opinion (Subscribers and Nonsubscribers) Surveys on Telephone Service Affordability	39
D. Research and Development Budgets	40
E. Information on New Services	41
F. Network Planning, Operations, and Engineering Studies	41
G. Capacity Measures Such as Plant Deployment Plan and Results; Plant Utilization Ratios	48
H. Settlement Flows to and from Independent LECs	50
I. Market Share and Other Relevant Market Power Data for Services in Categories II and III	50
J. Timing of Reports	51
K. Tariff Imputation	52
L. Numbers and Types of Complaints Filed by Competitors Against Local Telephone Companies	53
VII. Discussion of Workshop III, Inclusion of Ratemaking Adjustments in the Earnings Calculation	53
A. The Role of the Rate Cap in the New Framework	53
B. The Role of the Sharing Mechanism	54
C. The Inclusion of Ratemaking Adjustments in the Earnings Calculation	55
D. Comments on Particular Ratemaking Adjustments ...	56
E. Other Issues from the CACD Report	58
1. The Form for Filing the Earnings Calculation	58
2. The Place of FCC Rules and Regulations in the Earnings Calculation	59
3. The Rate Base Components for the Earnings Calculation	59
4. The Mechanics for Handling Future Penalties or Disallowances	60
VIII. Comments: ALJ's Proposed Decision	61
A. Arguments on Issues	61
B. Proprietary Information	61
C. Computer Link	63
D. Fiber Investment Monitoring Reports	64
E. Legal Basis of the Decision	64
F. Tariff Imputation	65
G. Cost Tracking	66
H. DRA's Use of Monitoring Reports	66a

I N D E X

<u>Subject</u>	<u>Page</u>
Findings of Fact	67
Conclusions of Law	73
INTERIM ORDER	79
APPENDIX A Reports Recommended for Continuation, Pacific Bell	
APPENDIX B Reports Recommended for Continuation, GTEC	

INTERIM OPINION

I. Summary of Decision

This decision adopts a monitoring program for Pacific Bell (Pacific) and GTE California Incorporated (GTEC) which eliminates certain existing reports and adds 40 new reports to track the operations of these major telephone utilities under the new regulatory framework (NRF). This comprehensive monitoring program recognizes the Commission's need to continue to oversee the financial and technical activities, and operations of these two local monopoly telephone companies in view of the recent substitution of incentive regulation for the historical and more traditional scrutiny of revenues, expenses, and rate of return, on a depreciated rate base in periodic general rate proceedings.

The decision adopts a policy for treatment of traditional ratemaking adjustments. While most of the prior ratemaking adjustments will be excluded from the new shareable earnings calculation, others will remain and become "Z" factors in determining price caps, above which any further earnings will be shared with ratepayers.

The decision also expresses our disappointment that this initial effort has prompted the termination of only a small number of existing reports. However, we are nonetheless committed to streamlining the reporting requirements of these utilities in the future. This order establishes clear guidelines for eliminating any historical reports which cannot be justified for continuation under the new incentive regulation of the NRF.

Accordingly, this order directs a review of the need for all ongoing reports as part of the planned 1992 review of the NRF.

II: Background

In Decision (D.) 89-10-031, we adopted incentive-based regulation for Pacific and GTEC, the state's two largest local exchange telephone companies (LECs). D.89-10-031 resulted from Order Instituting Investigation (I.) 87-11-033, our investigation into Alternative Regulatory Frameworks for Local Exchange Carriers, which was divided into three phases. Phase I involved limited pricing flexibility and competition for selected services. Phase II adopted an incentive-based regulatory framework in place of the more traditional cost-of-service regulation. Phase III, currently in progress, is examining competition in the marketplace.

In D.89-10-031 we found that the change to incentive-based regulation warranted expansion of our already comprehensive monitoring of these utilities' operations in order to provide prompt signals of potential problems. We therefore requested the Commission Advisory and Compliance Division (CACD) to hold workshops to review Pacific's and GTEC's current reporting requirements and to identify the need for any additional requirements. We also stated that, if necessary, we would issue a follow-up decision on any monitoring issues left unresolved through the workshops.

We stated that our monitoring plan would be dynamic, flexible, and adaptable as needs for more information become apparent. We also encouraged the continued participation of interested parties (in addition to staff and the LECs) because such participation enhances the ability of the Commission to make better decisions.

Although several topics were selected for consideration in workshops, we left it to CACD to decide whether to hold a single workshop or a series of workshops and whether to file one or more workshop reports.

CACD addressed the issues in a series of three workshops and reports in 1990. The first, addressing service-specific cost tracking and cost allocations, was held in six sessions from May 21 to May 29, 1990, in the Commission's San Francisco offices. The second set of workshops, addressing monitoring reporting requirements, was held in seven sessions from July 31 to August 9, 1990. The third set, addressing the need to retain ratemaking adjustments in the new framework's earnings calculation, was held in three sessions from October 29 to 31, 1990. In all, ten parties were represented: AT&T Communications of California (AT&T), Bay Area Teleport (BAT), the California Cable Television Association (CCTA), the City of Los Angeles, the Commission's Division of Ratepayer Advocates (DRA), GTEC, MCI Telecommunications Corporation (MCI), Northern Telecom, Inc., Pacific, and Toward Utility Rate Normalization (TURN).

TURN and others objected generally to the use of workshops to determine monitoring requirements for the NRF. Specifically, TURN stated:

"TURN strongly opposes the use of workshops to decide other outstanding issues resulting from the ARF decision. As TURN feared, due process is being sacrificed to expediency under the new regulatory framework." (TURN Opening Comments, Report I, p. 7.)

AT&T and others disagree. AT&T asserts:

"The workshop process is a reasonable and efficient forum for all parties to present their positions and understand the positions of the other parties outside of formal hearings, and to reach a general consensus where possible. To the extent parties disagree with the conclusions of the workshop, the process has allowed for the filing of written comments for the record. The process is therefore similar in nature to a rulemaking proceeding, and the due process rights of all parties are adequately protected, including the right of parties to request evidentiary hearings. (AT&T Reply Comments, Report I, p. 1.)

On July 12, 1990, CACD filed its "Monitoring Workshop I Report," which detailed CACD's recommendations to the Commission on the utilities' service-specific cost tracking and cost allocations. On September 25, 1990 CACD filed its "Monitoring Workshop II Report," and on December 21, 1990 its "Monitoring Workshop III Report."

In accordance with a schedule established by CACD, parties were given opportunities, first, to file comments on each of CACD's workshop reports, and then to file reply comments. On Workshop I, AT&T, CCTA, DRA, GTEC, MCI, Pacific, and TURN filed comments; AT&T, DRA, GTEC, and Pacific filed reply comments. On Workshop II, AT&T, BAT, CCTA, the City of Los Angeles, DRA, GTEC, MCI, and Pacific filed comments; CCTA, DRA, GTEC, Pacific, and TURN filed reply comments. And finally, on Workshop III, DRA, GTEC, MCI, Pacific, and TURN filed comments; GTEC and Pacific, reply comments.

III. Discussion of Workshop I, Service-Specific Cost Tracking and Cost Allocations

In D.89-10-031 we found that DRA's proposal for ongoing service-specific cost tracking and allocations based on fully distributed embedded costs should be adopted. In view of the limited record available to us at that time, we envisioned a tracking system that would: (1) perform a benefit analysis of a service's profitability, (2) help in evaluating the potential for anticompetitive behavior, and (3) aid in setting price floors or in moving services among categories and in determining whether a rate increase to offset poor earnings might be justified. We determined that such a system would be ongoing, would fully allocate costs (including a share of company overheads) based on embedded costs, would follow the Federal Communications Commission's (FCC) Part 64 methodology for allocation of costs to below-the-line services, and would be applied consistent with the Uniform System of Accounts prescribed by this Commission. We also determined that the cost-tracking system would require only slightly more resources than would occasional studies prepared as needed.¹

Until now, we were not able to reach conclusions regarding service-specific cost tracking and cost allocations, because the Phase II record was not adequately developed for us to do so. Accordingly, we required parties to address this topic in workshops.

The workshop participants were asked to detail specific tracking requirements, both by category and by service; to determine what should constitute a "service"; and to address whether the Part 64 methodology could and/or should be applied on a service-specific basis.

¹ Alternative Regulatory Frameworks for Local Exchange Carriers (1989) 33 CPUC 2d 43, 195.

A. Adequacy of the CACD Report

Of the commenters, CCTA and MCI fault CACD for failing to address major issues from the workshop or for seriously mischaracterizing the workshop developments. CCTA cites specific omissions of "issues or positions raised by parties other than the local exchange carriers . . . or the division of ratepayer advocates." MCI states that the report neglects "the goals set out by the Commission"; does not provide "an accurate reflection of the information derived from the workshops"; is "inconsistent in formulating recommendations in the report"; and neglects "many detailed issues that were covered in the workshop process."

By contrast, DRA says that "CACD has produced a written report covering the basic issues of Workshop I. . . ." AT&T "commends CACD's efforts in producing this report, and supports the recommendations of the report [with exceptions]." Pacific notes that "the report accurately reflects the workshop process and, when combined with the parties' comprehensive monitoring proposals and workshop-related comments, provides a complete foundation from which the Commission can proceed to issuing a cost tracking order." GTEC says "[t]he Report contains a fair and accurate summary of what occurred during the workshop. . . ."

We find that, taken in concert, the CACD report and the comments of the parties fulfill our expectations relative to a workshop product. Together they define the major issues, discuss the parties' views on each issue, and offer recommendations for the Commission's adoption.

B. Impermanence of the Proposed Cost Tracking and Allocation Method

While we view the monitoring plan as a dynamic process, "flexible and adaptable as needs for information become apparent with experience," some parties view the institution of a service-specific cost-tracking program as final.

DRA, for example, views "the monitoring workshop process as the forum for setting the information tracking and reporting requirements needed for effective Commission oversight. . . ." On the contrary, we envision the workshops as the forum for addressing, clarifying, and detailing issues of cost tracking (and other monitoring issues), from which we will set initial requirements. These will necessarily be temporary, as more specific monitoring needs become apparent. Implementation of the monitoring program is a process, not an event. In its comments, DRA criticizes the workshop report for acknowledging that the monitoring program is "imperfect and incomplete." But we maintain that any monitoring program will always be subject to further modification.

Of course, all parties should strive for the best solutions to problems of cost tracking and cost allocation, and we believe they have done so, given the present level of information. Proceeding on their contributions, we issue this order today. But we in no way imply that the matter is forever settled. We reiterate our support for the participation of the parties in critiquing the monitoring program and in bringing problems to our attention.

Our order of February 23, 1990, in I.90-02-047, established a forum for customers, competitors, and interested parties to raise relevant issues which do not fit within other proceedings or procedural options by filing a petition in I.90-02-047. The order required that, before petitions were filed, parties were to attempt to resolve issues informally with CACD.

In this order we impose the same prerequisite on DRA and the LECs as is required of customers, competitors, and interested parties, that is, that prior to filing formal petitions with us in I.90-02-047 or elsewhere, they attempt to resolve issues informally with CACD. In instances where an LEC or the DRA ultimately files a formal petition, we will require that specific documentation be

included therein, setting forth the attempts made to first resolve the issue(s) with the CACD, and the results of such efforts.

In its comments on the workshop report, DRA observes that "[t]he report seems to leave DRA with the responsibility and burden of obtaining GTEC's and Pacific's cooperation in tracking and reporting revenues and costs." DRA asks for "clarification of the process envisioned" where the report recommends that "consistency between the companies be pursued where that consistency is reasonable [but that] disputes as to reasonableness can always be brought to the Commission for resolution" (Report, page 15). Our response to DRA on both of these comments is that CACD is responsible for administering the monitoring program. CACD will receive filings and monitoring reports under the new framework and will retain administrative responsibility for them. CACD is also responsible for assuring that the LECs comply with the spirit and intent of the monitoring program; for maintaining dialogue with the LECs (and other interested parties) regarding necessary modifications; and, finally, for keeping the Commission apprised of developments and problems. As we noted in our Phase II decision, we expect DRA--as advocate for ratepayer interests--to closely monitor the new framework including service-specific cost tracking and cost allocation developments and to investigate areas of concern.²

² Ibid, 196.

IV. Workshop I Issues

A. The Need to Reconcile Tracked Costs to Other Records or Proceedings

A major subject at the workshop was the need to reconcile costs tracked by the utilities to other financial sources. The report, and most of the parties, had little trouble with the notion that the sum of costs tracked, to be valid, should balance to the companies' financial statements. Many parties, however, rejected the report's conclusion that this cross-check is sufficient to verify the validity of the costs tracked. AT&T, CCTA, DRA, MCI, and TURN take the position that costs tracked should also reconcile to the cost studies required in Phase III of these proceedings by the Assigned Commissioner's Ruling, dated November 22, 1989.³ The report recommends that companies "explain differences between Phase III cost studies and Phase II cost tracking."

We will address the need for consistency between Phase II and Phase III in Section IV.B.2., below, and will address the issue further in Phase III, where cost studies are under discussion. For the time being, we will adopt the workshop recommendation and require only that cost tracking in Phase II reconcile to companies' books of accounts and their financial statements and that clear,

³ In this ruling, GTEC and Pacific Bell were required to undertake company-wide, cost-of-service studies. These studies were to be used in determining up-to-date cost data for setting rates in Phase III of these proceedings. We are currently considering the methodology companies should employ in conducting these studies, including the propriety of employing forecasted incremental costs vs. historical embedded for some or all service categories.

concise, up-to-date charts reflecting the flow of cost data from and to the statements be provided.

B. The Method of Costing and the Need for Consistency of Costing Methodology

The workshop report segregates this issue into four sub-questions: (1) the method of costing, (2) the need for consistency of methodology between Phase II cost tracking and Phase III cost studies, (3) the need for consistency of service disaggregation and reporting format between the two companies, and (4) the need for a consistent costing methodology among service categories.⁴

1. The Method of Costing

The workshop report recommends a "Part-64-like"⁵ methodology for service-specific cost tracking, referring to costing procedures of the FCC's joint cost order in FCC Docket 86-111. Specifically, the report recommends the FCC "Part 64 cost-attribution hierarchy . . . for all services, but . . . for Categories I and II, that tariff imputation and three-year plant forecasting be omitted from the hierarchy until such time as the propriety of these procedures to these services can be determined. . . ." Each LEC has developed a costing program that is intended to accomplish this recommendation (Pacific's "Profitability Information System" and GTEC's "Prophet" system). While we do not prescribe the precise means for the companies to accomplish the costing procedures CACD recommends, we do direct that the Part-64 order of cost attribution be followed.

4 D.89-10-031 divided Pacific's and GTEC's services into three categories. Category I designates basic monopoly services. Category II applies to discretionary and/or partially competitive services. Category III represents fully competitive LEC services.

5 47 CFR, Part 64, 10/1/90, Federal Communications Commission - Miscellaneous Rules Relating to Common Carriers, 64.901 Subpart I - Allocations of Costs.

In its comments on the workshop report Pacific says that the description of the recommended costing method as "Part-64-like," is "vague and overbroad" and "subject to myriad interpretation." Pacific's concern is apparently with the label, "Part-64-like," not the intent of CACD's recommendation. DRA, in its reply comments, suggests that the cost imputation hierarchy CACD recommends be called the "California Cost Allocation Methodology." In recognition of Pacific's concern, we agree that the costing methodology should not be labeled Part-64-like. But, while we have no objection to the parties' referring to the agreed-upon costing hierarchy as the California method or something similar, we are reluctant to adopt formally so precise a title for what amounts only to a set of general guidelines. The method CACD recommends is described in general terms; its specific logic resides in the programs of the respective LECs. The important thing here is not the label but that the Part-64 cost-attribution hierarchy be followed.

Further, we accept CACD's recommendation that the Part-64 procedures calling for tariff imputation and plant allocations based on forecasted usage be omitted from costing Category I and Category II services, for now.

2. The Need for Consistency of Methodology Between Phase II Cost Tracking and Phase III Cost Studies

We are currently considering the LECs' cost studies for Phase III.

Although we do not here decide whether the methodology for Phase II and Phase III cost studies will be identical, a discussion of the need for consistency in financial reports generally is in order.

Many workshop participants felt that the methodology used to develop costs to be tracked in Phase II should be consistent with that used in Phase III costing. The report recommends that

"the Commission adopt the general principle that consistency is a sound objective, [but acknowledge] that consistency in every respect is probably not attainable."

In support of this position, we turn to generally accepted accounting principles (GAAP). This is appropriate, first, because these principles constitute the standard for preparation and presentation of financial reports, and second, because our uniform system of accounts for telecommunications carriers under our jurisdiction, and upon which the service-specific cost tracking is to be based, follows GAAP broadly. Accounting Principles Board (APB) Statement No. 4 describes the qualitative objectives of accounting and financial statements. Among these is comparability, which, the APB statement says, "means the ability to bring together for the purpose of noting likeness and difference." Consistency, as described by GAAP, is only one of several factors of comparability. According to GAAP, consistency in presenting financial data is important so that data can be compared. But is consistency always present? APB Statement No. 4 goes on to say: "If a change of practice or procedure is made, disclosure of the change and its effect permits some comparability, although users can rarely make adjustments that make the data completely comparable." The issue we are discussing here is not a change, but rather differences (inconsistencies) in preparation or presentation (as between Phase III and Phase II costing, for example, or as between costing methods among the service categories). The APB statement recognizes that consistency is not always present, and that changes are sometimes necessary. Where changes (and therefore differences) exist, GAAP requires disclosure of both the change and its effect.

Thus, we agree with the workshop participants on the importance of consistency in cost tracking, generally; but we also agree that consistency is not always attainable. Where it is not attainable, or where sets of data are inconsistent because of

change, we add the GAAP requirement for disclosure of the differences and their effect.

Perhaps this latter requirement is helpful in resolving the participants' differences with regard to consistency between Phase II cost tracking and Phase III cost-studies. The workshop report recommended that "the companies should be prepared to explain and document differences in costs produced for the two purposes--to develop, in other words, a comparability between the two sets of data." MCI, echoing others' comments, criticizes the report for being willing to accept less than "empirical proof" that the two sets of costs reconcile, and observes that "[a]nyone can rationalize why something or anything exists, especially cost differences." Our policy of requiring the LECs to disclose differences and the effect of those differences should help to allay concerns that the LECs can easily rationalize the differences and explain them away. We will expect not only disclosure from the LECs but concrete explanation of the effects of any differences in methodologies. Mindful of GAAP's recognition that "users can rarely make adjustments that make the data completely comparable," our policy endorsing consistency stops short of requiring absolute numerical reconciliation between sets of data.

3. The Need for Consistency of Service Disaggregation and Reporting Format by the Two Companies

The specific issue of the level of service disaggregation required of the respective companies is dealt with in Section E., below.

Our Phase II decision concluded that the new regulatory framework (NRF) should be a "single [one] for Pacific and GTEC, with differences only if there is a compelling justification." We find that general consistency in cost-tracking procedures between the companies is also appropriate. In comments comporting with this view, MCI's position is that, since under the new framework

each company is subject to the same incentives and rewards, both companies should be held to the same cost-tracking standards. Corporate or operational differences notwithstanding, MCI reasoned, both companies comply uniformly with other financial reporting requirements (FCC and SEC reports, for example) and should therefore be able to comply with uniform cost-tracking standards. DRA agreed with the workshop report's conclusion that "[f]or each company to report costs tracked in the same format on the same form [would be] an entirely workable proposition. . . ." Other parties generally support consistency between LECs. The LECs, on the other hand, reject the need for cost-tracking consistency between them. The report supports consistency between the companies as a "sound objective," though maybe not "achievable in every detail, or immediately achievable. . . ."

Before we comment on the parties' views, we turn again to generally accepted accounting principles. The APB statement (Statement No. 4) is basic to the correct preparation and presentation of financial statements, in general, and therefore to cost tracking. While acknowledging that "[c]omparability between enterprises is more difficult to attain than comparability within a single enterprise," the statement nevertheless endorses the "desirability of achieving greater comparability [and therefore consistency] of financial statements."

However, the incentive-based NRF encourages management discretion and innovation. Management differences may inevitably produce some discrepancies in costs tracked and in cost-tracking results. So, while GAAP would prescribe uniform accounting methods and eliminate the use of alternative practices, to require absolute uniformity between the LECs would contravene our higher objective of encouraging management creativity. Thus, we adopt the workshop position recommending consistency between the companies but recognizing that consistency may not be "achievable in every detail, or immediately achievable."

We realize that this conclusion leaves in question where consistency should rule and where differences, resulting from management innovation, should prevail. But our conclusion reflects our view that the monitoring program generally, and the service-specific cost-tracking systems specifically, should be adaptable to a changing industry.

In GAAP's pronouncements on financial statements, the emphasis is on the user of the statement. The opening paragraph of Chapter 4, "Objectives of Financial Accounting and Financial Statements, of APB Statement No. 4, for instance, says, "The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a business enterprise that is useful to statement users. . . ." Any discussion of the need for consistency of cost-tracking standards between LECs must, accordingly, keep in mind the users of that data and their needs.

The users of cost-tracking data will be outside the companies. Cost tracking is a requirement imposed on the companies not for their benefit but for the benefit of those who monitor for service-specific profitability and for cross-subsidies or anticompetitive behavior, primarily the staff of this Commission. Accordingly, the cost-tracking systems of the two LECs should accommodate the needs of the staff.

And what are those needs? Staff uses service-specific cost tracking primarily to monitor cross-subsidies between the respective LECs' monopoly and competitive service divisions, and to monitor anticompetitive behavior by the LEC, but not to compare costs between the two LECs (though clues to cross-subsidization or anticompetitive behavior might be found by comparing LECs' costs).

Differences between Pacific and GTEC, we predict, will become more evident as disaggregation increases. At the level of the financial statement, we should expect close similarity. At the

service-costing and tracking levels there may well be greater differences.

Therefore, while we agree with MCI's observation that the LECs can comply uniformly with other financial reporting requirements (among them, FCC and SEC reports), and can therefore follow uniform cost standards, we do not agree that uniform cost-tracking standards will produce comparable--that is, consistent--results, at the service-specific level. We agree, in other words, with GTEC: "Comparability between companies is retained when monitoring occurs at higher levels of detail aggregation. The degree of comparability will necessarily decrease if tracking is imposed on a more detailed basis."

4. The Need for Consistency of Costing Methodology Among Service Categories

The report concludes that costing methodologies modeled on FCC Part 64 should be adopted for all three service categories. Only MCI and Pacific, in their workshop comments, address this issue. MCI says "CACD has properly concluded that consistency between categories is required." Pacific, on the other hand (while apparently not disagreeing with the report's recommendation of a method modeled after Part 64 for all three categories), expresses concern that "adoption of a principle of 'consistency' among the categories, in and of itself, without considering the effects of such a goal, would improperly exalt form over substance." Pacific maintains that we "should analyze the unique regulatory objectives for each pricing category and adopt appropriate cost tracking methodologies to meet those objectives."

We will adopt for all service categories the report's recommendation for a methodology which follows the Part-64 cost attribution sequence, but, as described in Section IV.B.1., above, omits tariff imputation and three-year plant forecasting for Categories I and II. Like all of our findings with regard to service-specific cost tracking, this adoption is subject to change

as conditions warrant. The question is, shall changes be controlled by a general principle of consistency in costing methodology among the three categories? Or shall they be controlled by Pacific's logic, which would consider a methodology in light of its fit with regulatory objectives? The answer is that both principles should be applied, with decisions coming only after case-by-case analysis.

C. The Date for Implementation of Cost Tracking

The workshop report states this issue simply: "Should companies begin tracking 1989's costs of specific services, or 1990's?" This issue stems from several parties' view, as DRA says in its report comments, that "cost data using the adopted methodology must be provided for 1989 in order for a reconciliation with Phase III cost studies, which are based on 1989 results of operations" (emphasis in original).

We agree that numerical reconciliation between cost tracking and cost studies based on 1989 operations would be facilitated if cost tracking were to begin in 1989. But we do not agree that this is a requirement. We have noted that comparisons of cost tracking and the cost studies would require only that the effect of any existing differences be disclosed. Since many of the issues relating to the Phase III cost studies are still undecided (which study methodology should be used, for example), we are reluctant to precondition a requirement that the cost studies reconcile with service-specific cost tracking and, from that requirement, infer the additional requirement that service-specific cost tracking begin in 1989.

We conclude that service-specific cost tracking may begin in 1990 rather than in 1989, and find that the LECs should do so.

D. The Role of FCC Rules and Regulations

All parties agreed that the LECs should continue to separate their operations between monopoly and competitive services, then between interstate and intrastate services under the

condition that they also separate, jurisdictionally, services which the Commission regulates but which the FCC has deregulated for interstate purposes. The parties agreed, further, that the LECs would submit, by way of advice letter filing, any changes for intrastate purposes in their federal cost allocation manuals to the Commission for approval. We adopt the workshop accord.

E. The Level to Which Services Are to Be Disaggregated for Cost Tracking

No issue met with such universal disagreement as did the recommendation that Pacific and GTEC disaggregate their respective businesses into differing levels for purposes of tracking costs. CCTA calls the recommendation "[t]he most glaring defect in the report . . . [an] apparent willingness to excuse . . . ('GTEC') from meeting key monitoring requirements. . . ." DRA "submits that this finding [permitting Pacific and GTEC to track at different levels of disaggregation] is totally inadequate." MCI calls it a "misguided approach." TURN says that "CACD's recommendation would allow General to ignore the Commission's order [to track costs on a service-specific basis]."

The problem with these allegations is that nowhere does the report recommend permanently differing levels of disaggregation for the two LECs. On the contrary, on page 20, the report cites a list of Pacific's services. This list (which is reproduced in Appendix C of the report) includes approximately 160 services that Pacific and DRA agreed should be tracked by Pacific. Referring to this list, the workshop report concludes: "[it] provides the reasonable starting point for Pacific's service-specific cost tracking. . . ." Then, on page 21, referring to a list of GTEC

services (a list that DRA represents to be comparable to the Pacific list), the report says "[w]e conclude, as we did with regard to Pacific, that DRA's list is a reasonable starting point for GTEC's service-specific cost tracking. . . ." Thus, if we assume that the two lists to which the report refers are comparable (an assumption that no one has challenged), the report recommends precisely the same level of disaggregation for both LECs.

But--citing GTEC's present problem with tracking costs to the level proposed by DRA--the report recommends that "GTEC should initially track to the level it purports to be able to track with accuracy. . . ." [Emphasis added.] Thus, CACD recommends the same level of service disaggregation for Pacific and GTEC, but acquiesces to a higher level of aggregation until GTEC is able to comply with the recommended level.

We concur with CACD and therefore we will accept different levels of disaggregation for Pacific and GTEC for the initial report.

However, we must decide whether or not to adopt the six themes governing the development of a list of services, themes which were recommended first by DRA and then by the report; whether the recommended level of disaggregation is appropriate; and whether GTEC should be allowed its temporary "stay" of compliance with the recommended disaggregation and, if so, whether GTEC should proceed immediately to develop methods of complying (the report recommends that this determination be left to deliberations between staff and GTEC).

We will discuss each of these questions. First, should DRA's six themes governing the development of a list of services be adopted?

In our Phase II decision, we asked workshop participants to determine what should constitute a "service." According to the workshop report, DRA recommended six themes that should be kept in mind:

1. Development of the list should tie to previous Commission decisions.
2. It should recognize that special monitoring can be undertaken as needed.
3. It should recognize the limitations on the Commission's resources.
4. It should keep reporting as simple as possible.
5. It should recognize that other proceedings can acquire data as needed.
6. It should recognize that monitoring is retrospective and provides benchmarks for policy, not for refined analysis.

We adopt these themes as appropriate to the development of a list of services. However, they are of little value if at the same time we also adopt a fixed list of services. Rather, the list of services must be subject to change as conditions in the telecommunications industry and its marketplace change. Only then does adoption of the themes make sense: it gives staff a policy basis upon which to work with the companies to make needed adjustments in the service tracking requirements; it recognizes that future proceedings--recategorizing services or adding new services, for example--can require data beyond that required for cost tracking, and it does give an opportunity for staff and the LECs to work out problems with the procedures. The report specifically refers to the temporary arrangement it recommends for GTEC as one of those items that can be worked out with staff.

We turn now to the second of the questions posed above: Is the recommended level of disaggregation appropriate? As we indicated, there would be no point in our adopting a policy for development of a list of services, the costs of which are to be tracked, if simultaneously we set a fixed list of services. Accordingly, we side with the report language that says that the

lists developed by DRA for the two "LECs" are reasonable starting points. We see abundant potential for modification of these lists as we go forward with incentive-based regulation. We note that in adopting the lists of services proposed by DRA, CACD supports DRA's "billed line item" criterion for determining a "service" to be tracked. We support the principle that the costs of a service tracked should be those by which the service is priced; hence we support the billed line item criterion proposed by DRA, as a general guideline in the development of services whose costs are to be tracked.

This present level of disaggregation will not satisfy those workshop participants (BAT, CCTA, MCI) who argue for rate-element tracking, but it will leave the door open for modification of the list to include rate-element tracking of some services, such as monopoly building blocks, should that be found useful. For now, we agree with DRA which "rejected the concept that routine cost reporting and tracking by every rate element is useful."

That, then, brings us to the final question posed above: Should GTEC be allowed its temporary stay of compliance with the recommended disaggregation and, if so, should GTEC proceed immediately to develop methods of complying with the requirement for the greater service disaggregation?

In its workshop report comments, DRA reminds us of our Phase II dictum that, "[i]f Pacific or GTEC objects to the collection and/or submission of specific data or reports suggested in CACD's workshop reports, it shall state in its opening comments whether the data is currently collected and shall provide an estimate of the incremental cost of meeting the proposed collection or reporting requirements." In its opening comments on the requirement for a greater service disaggregation, GTEC does not specifically object to collection of the data but does indicate that the data is not currently collected. For this lack, DRA would

have us impose sanctions on GTEC "which would include withholding [GTEC's] participation in the new regulatory framework."

To impose sanctions, we conclude, would require a finding either that GTEC does have the data available and is refusing to submit it or that GTEC should have the data available and is remiss in not having it. To find that GTEC does have the data implies a serious misrepresentation by GTEC. To find that the company is remiss in not having the data implies that it should have been prepared, prior to the workshop conclusions, to track to the level of service disaggregation the report now recommends. Neither of these would be a reasonable finding. We therefore reject DRA's recommendation for sanctions. First, there is no indication that GTEC is being less than candid regarding the data it presently collects. Second, it is pertinent to note in December of 1989 (see DRA's workshop report comments, Attachment D, page 5), DRA recommended that "service specific be defined, with slight modification, as the initial pricing categories set in the decision at page 154." Page 154 of our mimeo. Phase II decision⁶ sets forth a list of aggregated services nearly identical to the list GTEC says it is presently able to track. GTEC is, in other words, presently able and willing to track the services DRA recommended in December of 1989. Of course, DRA is free, as is any of the parties, to modify its thinking pursuant to workshop discussions, but we find it unreasonable to impose sanctions on GTEC for being unable to collect data at a greater level of disaggregation than DRA itself had proposed as recently as six months prior to the workshop.

Regarding our requirement that the LECs provide an estimate of the incremental cost of meeting proposed collection or

⁶ Alternative Regulatory Frameworks for Local Exchange Carriers (1989) 33 CPUC 2d 43, 126.

reporting requirements, GTEC says only: "[S]ystem enhancements to provide further service disaggregation will be evaluated."

Our ruling on this issue is that GTEC should proceed with all reasonable haste to collect the data for 1991 operations to the higher level of disaggregation recommended.

In the interim, GTEC should track costs to the aggregate level recommended for initial cost tracking in the workshop report.

**F. The Frequency With Which Costs Should Be
Calculated, Recorded, and Made Available**

The workshop report recommends that "the service-specific cost tracking procedures adopted by the Commission include contemporaneous tracking with periodic (no less than annual) allocation measurement updates, [with a policy that would] allow for such interim allocations as staff might find necessary, but recognize that any interim allocations are subject to annual adjustments."

Of the commenters on the workshop report, only DRA and MCI criticize the report on this issue. DRA "disagrees with the assertion that reliable financial statements are only produced on an annual basis," while MCI "recommends that a monthly measurement of necessary volumes and statistics that are consistent with Part 64 be employed."

First, responding to DRA's concern, we see no implication in the report that "reliable financial statements are only produced on an annual basis." A better characterization of the workshop report's position is that interim cost tracking, like interim financial statements, must, of necessity, include some interim estimates which are trued-up and made final at year end. (General and administrative expenses and income taxes are examples of costs not precisely known until year end, even though interim estimates may be quite accurate.) The interim financial statements of an enterprise are actual, in the sense that they represent best estimates, not pro forma presentations; they are reliable, in that

they are prepared following generally accepted accounting procedures; and they are final, in the sense that they remain as stated (unless certain material developments warrant their restatement). Just so, as we interpret the workshop report, CACD would expect interim cost tracking by the LECs to be actual, reliable, and final.

Regarding interim statements APB Opinion No. 28 says:

Interim financial information is essential to provide investors and others with timely information as to the progress of the enterprise. The usefulness of such information rests on the relationship that it has to the annual results of operations. Accordingly, the [Accounting Principles] Board has concluded that each interim period should be viewed primarily as an integral part of an annual period.

Interim financial statements provide management's best portrayal of the enterprise's progress during the period covered. They are actual, reliable, and final but are limited by their subordination to the annual statement. Users of LECs' interim cost tracking data must be aware of comparable limitations on that data. The costs tracked are actual, reliable, and final, but they must be evaluated in the context of the annual period.

Second, we respond to MCI's recommendation "that a monthly measurement of necessary volumes and statistics that are consistent with Part 64 be employed." The FCC's Part 64 procedures require the LECs to file an independently audited cost allocation manual. The manual sets forth allocators by which specific costs, or pools of costs, are assigned respectively to the LEC's monopoly services and to its competitive services. The allocators are adjusted periodically, based on measurements which are taken biennially, annually, quarterly, monthly, or contemporaneously depending on the allocator being set. The results of the measurements impact the LEC's operations in a subsequent period, generally the following month. Quarterly, the LECs report results

to the FCC. We find this process consistent with the workshop report recommendation which requires "contemporaneous tracking with periodic (no less than annual) allocation measurement updates, [with a policy that would] allow for such interim allocations as staff might find necessary. . . ."

With the proviso, then, that service-specific costs calculated, recorded, and made available at intervals shorter than one year involve interim allocations and therefore must be understood within the context of annual costing periods, we accept the workshop report's recommendation for contemporaneous cost tracking with no less than annual allocation measurement updates.

V. Discussion of Workshop II, Monitoring Reporting Requirements

D.89-10-031, the Phase II decision establishing the incentive regulatory framework, contained a lengthy discussion of our requirements and expectations for a monitoring program. Our expectations are summarized in the following paragraph from the order:

The monitoring objectives described in this section will provide the Commission and interested parties with necessary information to ensure the successful implementation of the adopted regulatory framework for Pacific and GTEC. Under an incentive-based regulatory program, a monitoring framework with both periodic and point-in-time evaluation opportunities will allow us to measure the adopted program's impacts on utilities, ratepayers, and new competitors in the marketplace. In order to accomplish a smooth transition to the adopted regulatory program, we recognize the need to establish meaningful measurement tools that will permit comparison of utility performance under the adopted program to our regulatory goals.

We set forth seven regulatory goals for monitoring in D.89-10-031:

1. Universal Service,
2. Economic Efficiency,
3. Encouragement of Technological Advance,
4. Full Utilization of the Local Exchange Network,
5. Financial and Rate Stability,
6. Avoidance of Cross-Subsidization and Anticompetitive Behavior, and
7. Low Cost, Efficient Regulation.

For each of these goals, we set forth several specific monitoring format requirements. We noted that these requirements may not be all inclusive and may need to be discussed further in workshops. We view the monitoring plan as a dynamic process, a plan that should be flexible and adaptable as needs for information become apparent.

A. Adequacy of the CACD Report

The CACD Monitoring Workshop II Report was filed on September 25, 1990. In D.89-10-031 we provided that CACD hold workshops to review Pacific's and GTEC's current reporting requirements for possible consolidation or elimination. Any additional reporting requirements, in particular those arising from pricing flexibility, increased intraLATA competition, and tracking of service-specific costs, were also to be addressed. CACD was asked to describe each report currently provided to the Commission, to specify which of the Commission staff use the report and for what purpose, and to determine whether the report should be revised, consolidated with other reports, or eliminated.

As required, CACD recommended reporting requirements to fulfill each of the monitoring goals, and the report contained several appendices which described the current reporting requirements.

Parties question two aspects of the report that were not specifically part of the mandate from D.89-10-031, concerning a computer link and proprietary information; these are addressed below. The issue of possible elimination of certain current reporting requirements is also addressed below. One general recommendation by CACD is not challenged by any party. We therefore find reasonable CACD's recommendation that two timely copies of each monitoring report be sent to a central location designated by CACD.

We find that the CACD report is an accurate reflection of the workshop, and that CACD has fulfilled its designated role to describe the current reporting requirements and to recommend to the Commission a monitoring program based on the seven goals in D.89-10-031.

Following are discussions and conclusions on Workshop II issues, as defined by CACD.

B. Elimination of Current Reports

Pacific states that the report's recommendations on the elimination of current reports are "inadequate and fail to comply with the Commission's directive that the parties streamline and consolidate this information flow where sensible to reduce unneeded reporting burdens and to permit the clearest possible presentation of the information." Pacific notes that the report recommends the elimination of "only" four current reports by Pacific. Pacific criticizes CACD for its position that it is "extremely reluctant" to eliminate any report which DRA recommended be continued. Pacific asks that the Commission "direct CACD to further analyze the reporting requirements for Pacific and provide recommendations consistent with the Commission's desire to streamline and consolidate the information flow where sensible to reduce unneeded reporting burdens."

GTEC believes it provided sufficient information in support of eliminating certain obsolete and/or redundant reports.

GTEC criticizes the report as having "succumbed to DRA's anemic and uncritical analysis since it recommends that GTEC continue to provide several of the reports for which GTEC provided ample justification for their elimination." GTEC argues that DRA did not present justification for continuing these reports, but "simply argued that all current reports should continue until the scheduled 1992 review of the new regulatory framework." GTEC also provides its rationale for the elimination of certain reports.

DRA states in reply comments that it has provided individual justification for each report recommended for retention. DRA agrees with a GTEC recommendation that the Commission should again consider streamlining reporting requirements at the scheduled 1992 review.

Low cost, efficient regulation is one of the goals we set forth for monitoring. Pacific in its workshop submissions accurately reflected the intention of this goal. On the other hand, we are committed to an effective and complete monitoring program. To some extent, these goals conflict. The report comes down on the side of continuing all reports for which there is some justification or at least no consensus on their discontinuance. While GTEC correctly notes that DRA did not provide a specific rationale for continuation of individual reports at the workshop, the report notes that DRA did provide this analysis in its comments. The report states: "While CACD would have preferred that DRA present its justifications at an earlier date, this information from DRA only serves to reinforce our recommendations."

We concur on the reports recommended by CACD for elimination as well as those recommended for continuation, with the modifications discussed in this order. However, as stated above, we see monitoring as a dynamic process; over time, we expect further reduction and consolidation of monitoring reports. Of the over 120 reports that the report recommends for continuation for Pacific and the 26 reports for GTEC, there are very likely some

which will not be used in the future, are redundant, or are no longer worth the time and effort to compile. We note that Pacific itself recommended elimination of only 20 existing reports. While DRA shows a need for each of the 20 reports recommended for elimination by Pacific, we anticipate that the maturing of the new regulatory program will satisfy some of these needs. See Appendix A for a list of the current reports supplied by Pacific, and Appendix B for a similar list of reports provided by GTEC.

This order adopts a monitoring program which eliminates few current reports, and adds over 40 new reports. While the record supports this outcome, we are very disappointed to see so little streamlining and consolidation. We are committed to streamlining the reporting requirements for Pacific and GTEC over time to only those reports with clear value. Of particular concern to us is the fact that, under this monitoring program, Pacific will still submit 127 reports to various divisions of this Commission. We recognize that some of these reports are required by our General Orders, or are submitted to us only after a particular event occurs (a service failure, for example, or because a standing report is revised). We also recognize that some of these reports either are not prepared by Pacific, or are prepared by Pacific for internal purposes and copies are simply provided to, but not prepared specifically for, our staff. We realize that these reports are provided not just to DRA and CACD, but also to the Safety and Executive Divisions, including the Office of the Public Advisor, and the Consumer Affairs Branch.

To further progress towards the goal of low-cost, efficient regulation, we will require CACD, as the administrator of the monitoring program, to issue a written assessment on the program at the commencement of the 1992 review. The assessment should explain who prepares each monitoring report the utilities provide to our staff, and what purpose each report serves for the utility and our staff. DRA, the Executive Division, the Safety

Division, the Public Advisor's Office, the Consumer Affairs Branch, and the utilities shall provide to CACD the information it needs to compile this assessment. In its assessment, CACD shall recommend to the Commission which reports, if any, should be eliminated.

C. Annual Results of Operations Report

The report recommends that GTEC be required to submit a Results of Operation (R.O.) report that parallels Pacific's, or that is similar to the R.O. report from GTEC's last rate case. This report would provide a detailed view of the results of operations for GTEC from both the financial and operational perspective, as well as comparative operational statistics and summaries of major Commission decisions impacting the company. This report would provide monitoring information in a format not available elsewhere.

GTEC argues that this recommendation implies that the many reports which GTEC currently submits to the Commission do not supply sufficient information to evaluate the company's financial and operational performance. GTEC claims "this conclusion is simply untenable."

GTEC states that all or most of the data in the R.O. is available in alternative reports that GTEC will provide as part of its monitoring plan, and that the information not available from other sources "is primarily mathematical in nature, and, if of value to an interested party, could be developed by that party through its own calculations."

MCI in reply comments counters that the utility, and not third parties, should perform any necessary mathematics. MCI states that "it would appear that the 'R.O. Report' recommended by CACD would involve minimal work in development and thus should be compiled."

The report recommends that Pacific provide the R.O. report as well as GTEC. Although Pacific proposed its elimination in the workshops, it did not reargue its case in comments.

As discussed above, we will not reduce the reporting requirements for the LECs further than the recommendations of the report at this time. However, we urge the parties to discuss further streamlining and we are committed to streamlining the reporting process in the future.

The R.O. report for GTEC would contain information that has previously been compiled, that in its entirety is not found elsewhere, and that several parties in the workshop claimed is crucial to effective monitoring. Therefore, we find that the Report's recommendation that GTEC compile an R.O. report is reasonable.

D. Computer Link

GTEC and Pacific object to CACD's recommendation that Pacific and GTEC should develop the hardware and software necessary to create a computer link between CACD and the two LECs.

The Report expresses CACD's intention to develop procedures to implement the LEC monitoring program. CACD believes such procedures may include a system to track timely receipt of reports from LECs, computerization of certain monitoring reports for analytical purposes, and possible revision of monitoring reports to enhance their usefulness. CACD states its intention to develop such procedures in consultation with Pacific and GTEC. Specifically, CACD believes a computer link between CACD and the two LECs is imperative for a viable monitoring program and recommends that Pacific and GTEC should provide the necessary hardware and software.

Pacific objects that this issue was not discussed at the workshop, that Pacific has not received any further details of CACD's proposal, and that CACD's recommendation is far beyond the scope of the monitoring workshops. In compliance with Ordering Paragraph 19 of D.89-10-031, Pacific "conservatively estimates" the cost of CACD's recommended undertaking to be between \$400,000 and \$1.7 million.

GTEC "strongly objects" to the CACD recommendation because the issue of direct computer links was not raised during the workshop, in the Phase II hearings, or in any correspondence that preceded the monitoring workshops. GTEC claims that the adoption of this recommendation would be "an unconstitutional denial of both substantive and procedural due process of law." GTEC also states that the absence of a computer link is not a threat to the monitoring process. Further, GTEC is concerned that the creation of a computer link may raise serious privacy and security concerns, including unauthorized access to proprietary information. GTEC also cites Section 1822(f) of the Public

Utilities (PU) Code: "The Commission shall not require a utility to provide a remote terminal or other direct physical link to the computer systems of a utility to a third party."

Not directly related to the computer link question, but relevant to the issue of CACD's authority, are comments by MCI. MCI questions CACD's authority to revise reporting requirements for monitoring, with the statement: "Revisions to monitoring reports can only be executed by approval of the Commission after appropriate proceedings have been conducted and necessary Commission approval received."

CACD is the arm of the Commission whose duty it is to enforce compliance with Commission decisions. CACD is also one of the two arms of the Commission responsible for evaluating the monitoring information. We have recognized that the monitoring program should be flexible and adaptable as the need for information changes. Therefore, CACD must have the ability to arrange for the specifics of how information is gathered by the Commission for effective monitoring. Even Pacific characterizes as "helpful" another CACD recommendation for compliance with the monitoring program: the recommendation that Pacific and GTEC send two copies of all monitoring information to a central location, instead of to designated, but scattered individuals.

GTEC's arguments are unpersuasive. The computer link is merely a faster and better means of transporting data to and from CACD by Pacific and GTEC. This same data would otherwise be sent by US mail, or by facsimile, or in some cases by voice over telephone lines, with the possible introduction of errors. Access to monitoring information can be strictly controlled; the Commission regularly receives and protects proprietary information sent by the various regulated utilities under PU Code § 583. As for Section 1822 of the PU Code, clearly it applies only to access by third parties, not by Commission staff.

We find that Pacific and GTEC should work with CACD to set up the computer link as recommended by the report. We note

that Pacific already provides the Commission limited access to its computer systems with, for example, the Revenue Requirement and Profitability Program (RRAPP) used to compute the CPUC regulatory costing conventions required for product tariff support. We also note that, as communications companies, Pacific and GTEC should not have difficulty in setting up direct communications links with the Commission for monitoring purposes. As the cost of these links is exogenous (i.e. utility management should not have a choice about whether they should be set up), Pacific and GTEC may recover the one-time costs of setting up this link through a Z-factor⁷ adjustment in the next price cap filing. We stress that this computer link should be used only for access by CACD and DRA (except that hard copies of nonproprietary information may also be made available to third parties).

We disagree with MCI's view that the utility can revise the monitoring reports only with Commission approval. CACD, as the compliance arm of the Commission, is fully empowered to implement the monitoring program. This includes minor revisions of reporting requirements ordered by this decision. If staff can seek information, it can change the request or eliminate it. If MCI or another party believes the monitoring program should be changed, we have expressly allowed them to file a petition in I.90-02-047 (the "Forum" OII). We will expect CACD to continually improve the day-to-day administration of reporting requirements of the monitoring program including any modifications necessary to assure that the monitoring requirements adopted herein are fulfilled. In addition CACD retains full authority, as part of the Commission's staff under PU Code §§ 582 to 584, to obtain any information, from any utility, at any time.

7 The "Z-factor" is part of the indexing method for rate changes adopted in D.89-10-031. The "Z-factor" is intended to account for exogenous cost changes beyond the control of the utility.

E. Proprietary Data

Several parties comment on the report's discussion of access to proprietary information, particularly third-party access (parties beyond the LECs and the Commission staff). The report does not take a specific position on which information is proprietary, or on which third parties are entitled to access to such information. The report does discuss the current means by which third parties can attempt to obtain such information; these include attempting to sign a nondisclosure agreement with the LEC, filing a Motion to Compel Production (or similar motion), and filing a petition in I.90-02-047 (the "Forum" OII) to address Commission policies regarding access to proprietary information.

A number of parties believe that access to proprietary information should be either more or less difficult than is set forth in the report. The report, however, merely discussed the current avenues available and did not create any new avenues or close any existing ones. In fact, the report specifically states that the topic of access to proprietary information was not addressed at the workshop.

The issue of designation of utility material as proprietary, and access to such information, is primarily a legal issue. As such, CACD was correct in deferring this topic at the workshops. However, the issues related to proprietary information in the monitoring program are crucial to consider at this time.

Instead of going through the various arguments by the parties and deciding on an appropriate finding in this opinion, we shall propose a mechanism for access to information based on existing PU Code provisions and past Commission decisions. Because this issue was not discussed in the workshops, the parties have not had a chance to comment on our proposal. We will therefore allow for a limited hearing under the mechanism we propose.

PU Code Sections 585, 1822, 1823, and 1824 implement AB 475 (Moore; Stats. 1985, Chapter 1297) concerning access to computer models and certain other information. These sections outline the rules for access by the Commission staff and third

parties in Commission proceedings. D.90-11-052 set forth further rules for application of AB 475.

We propose to apply these AB 475 rules in this proceeding to clarify the issue of access to monitoring information.

AB 475 is intended to apply as follows, according to Section 585:

"[E]very public utility and business specified in subdivision (b) shall in any rate proceeding or proceeding establishing a fact or rule that may influence a rate, provide the commission with access to all computer models, as defined in Section 1821, which are used by that public utility or business to substantiate their showing in the proceeding."

This section clearly applies to Commission staff access to information. This issue is not in dispute in this proceeding; we will not change any provision that allows staff access to utility information, either proprietary or not.

The relevant part of Section 1822(a) that applies to access by third parties is as follows:

"Any computer model that is the basis for any testimony or exhibit in a hearing or proceeding before the commission shall be available to, and subject to verification by, the commission and parties to the hearing or proceedings to the extent necessary for cross-examination or rebuttal, subject to applicable rules of evidence. . . ." [Emphasis added.]

In order to determine if this section is applicable to monitoring, we have to interpret some of the terms. Much of this interpretation has already been done in D.90-11-052. The term "proceeding" is defined in Rule 74.2 of the AB 475 rules as "any application, investigation, rulemaking or complaint before the Commission." "Computer model" is defined in Rule 74.2 as "a computer program created to simulate or otherwise represent some physical phenomenon or utility function, by using input data and producing output based on these data."

While monitoring information is clearly part of I.87-11-033, it is less clear that all monitoring information can

be defined as computer models. Further, we do not specifically plan any further hearings relative to monitoring at this time.

Therefore, AB 475 rules do not apply directly to monitoring information access. However, we do propose that the general concept of access described in the AB 475 rules be adopted for third-party access to monitoring information.

Access to monitoring information by third parties was anticipated by I.90-02-047. The order states: "As a result of review of data or reports gathered in the monitoring program, parties may file a petition questioning adherence to the Commission's monitoring goals established in D.89-10-031. . . ." Since I.90-02-047 specifies that "telecommunications customers, competitors and interested parties may file petitions, it is clear that third parties were expected to have access to monitoring data.

Further we have stated above in this opinion that CACD will make nonproprietary information available to third parties in hard-copy form. The concept in I.90-02-047 concerning access should apply to allow third-party access to nonproprietary monitoring information.

For alleged proprietary information, we again look to the AB 475 rules for guidance. Rule 74.7 of the AB 475 rules regarding Confidential and Proprietary Information states as follows:

"Each sponsoring party who objects to providing access to any computer model, data base, or other information which is used in a computer model pursuant to this article, on the grounds that the requested material is confidential, proprietary, or subject to a licensing agreement, shall file a motion for a protective order. The motion shall be filed concurrently with the service of the testimony or exhibit which is based in whole, or in part, upon the matters to be protected. Any party may file and serve an answer to the motion for a protective order within 15 days after such motion was served. The assigned administrative law judge, for good cause shown, may make any ruling to protect confidential, proprietary or

licensed information from unwarranted disclosure."

In this spirit, and consistent with current Commission rules, monitoring information, like most public utility reports to the Commission, is open to public inspection unless a protective order is issued. Accordingly, we will prescribe the following process for the LECs to obtain an order or orders protecting particularly private data they want to hold proprietary under NRF:

1. LECs will have 60 days from the effective date of this order to file motions for a protective order covering data or reports they consider proprietary. During these 60 days and while these motions are pending, we will consider all monitoring information designated proprietary by Pacific or GTEC to be proprietary and staff (which must receive all monitoring reports and which always has access to all LEC data and reports) is instructed to respect the proprietary nature of the material.
2. Following the normal procedures, and giving an opportunity for other parties to file answers to LEC motions, determinations as appropriate will be made on the motions and staff will release material to interested parties accordingly.
3. Pacific and/or GTEC may in future years file for additional motions for similar protection. All data and reports which we originally determined nonproprietary will remain nonproprietary, however, pending outcome of such additional motions.

8 The LECs may require that parties sign a nondisclosure agreement to obtain any material on which the Commission places a protective order.

4. The assigned administrative law judge (ALJ), for good cause shown, may, at any time, make any ruling to protect confidential, proprietary, or licensed information from unwarranted disclosure.

Pacific and GTEC are admonished not to abuse the process and to ask protection only where revelation of information would cause significant and irreparable harm.

In essence, the utilities will have an annual opportunity to identify reports that should be kept proprietary and to provide justification for that request; the 60-day period following the effective date of this order relates to reports that will be filed during 1991 and until the utilities, if they choose, make a motion during 1992. We strongly prefer to handle this motion, if needed, on a consolidated basis rather than with regard to one or a few reports at a time; the utilities may wish to coordinate their motion with the delivery of the bulk of their reports in a given year.

Just as we condemn the indiscriminate characterization of information as "proprietary," we are determined to avoid abuse of our discovery process. To this end, parties seeking access to information judged proprietary must demonstrate that the information is relevant to establishing a fact or policy contention before the Commission in a formal proceeding.

VI. Specific Monitoring Requirements

The bulk of the report is a discussion of the specific reports recommended by parties to be used as the monitoring tools designated in D.89-10-031, and recommendations by CACD as to the appropriate reports for each monitoring tool.

A number of the reporting recommendations by CACD were not disputed. This shows a commendable effort by the parties to reach consensus on reporting requirements as well as an admirable job by CACD in setting forth practical recommendations. We accept each of these recommendations. We will discuss in this opinion only those items that are contentious. All recommendations not discussed in this opinion are undisputed and are hereby adopted.

A. Major Service Interruptions

The report recommends adoption of the proposals of GTEC and Pacific, but agrees with a DRA proposal that GTEC's summary report should be issued monthly (as Pacific proposed) instead of quarterly (as GTEC proposed). The report's justification for this recommendation is that a monthly summary would be more in line with the Commission's directive in D.89-10-031 that "special attention should be directed to any signs of service diminution."

GTEC argues that a monthly summary would not provide a new measure of service quality since "it would merely summarize information already contained in the Commission's files." GTEC notes that it currently reports to the Commission each major service outage as it occurs.

As we expressed in D.89-10-031, the potential for reduced service is of major concern to us, and to ratepayers. Any reasonable request for monitoring information related to service quality should be given serious consideration. We find little in GTEC's argument to support its claim that "[m]onthly reports . . . make no sense whatsoever," especially given that Pacific proposed a monthly report on the same topic. We find the CACD recommendation to be reasonable and appropriate.

B. Quality Improvement and Cost-Reduction Programs

The report recommends that both Pacific and GTEC make information about quality improvement and cost reduction programs available both on an annual basis and upon request. For GTEC, the

annual report would include, at a minimum, a summary of the relevant information from the capital budget summary, "Yellow Card," (quality of service report) and General Order 133-A reports, plus a summary of any information requested by Commission staff over the year.

GTEC argues that this recommendation would require GTEC to summarize reports that are themselves summaries of certain data, thus creating a redundant report. GTEC stated at the workshop that other information is already available in existing reports which they would provide upon request.

We find that GTEC's offer to make the relevant information about quality improvement and cost reduction programs available upon request is reasonable and will provide an appropriate level of monitoring.

C. Public Opinion (Subscribers and Nonsubscribers) Surveys on Telephone Service Affordability

The report recommends that both Pacific and GTEC conduct a study of telephone service affordability. The report suggests that the LECs may work with outside vendors, may cooperate with each other on the survey, and may work with Commission staff, including the Public Advisor's office (if practical). They should have a mechanism to allow other interested parties to participate, as well.

GTEC comments that this recommendation ignores DRA's proposal to undertake the survey and, instead, places the burden on the LECs. GTEC states that "it is not unreasonable to expect the Commission staff to conduct its own independent surveys to insure customer access to affordable telephone service."

Our only concern is that this monitoring goal be accomplished. We find the report's recommendation reasonable, but if the LECs find that DRA is willing to take on this task, this is also reasonable and the parties should notify CACD of the change.

E. Information on New Services

Based on a CCTA recommendation, the report recommends that a sunset (termination of reporting) clause of three years for tracking requirements for new services be adopted. Both Pacific and GTEC had requested two-year sunset clauses. DRA recommended that sunset clauses be addressed on a case-by-case basis.

Pacific argues that a three-year sunset clause is inconsistent with the two-year tracking period the Commission generally requires for new services, citing Resolutions T-14604, T-14032, T-14043, and T-13032. Pacific suggests that the sunset clause would become effective only if the Commission fails to specify a different tracking mechanism for a particular new service.

Without any further guidance from CCTA on the rationale for a three-year limit, and with no reply to Pacific's argument, we find that Pacific's recommendation for a two-year sunset clause for tracking requirements for new services should be adopted.

F. Network Planning, Operations, and Engineering Studies

The report recommends that Pacific and GTEC provide the monitoring information as agreed between themselves and DRA that would break out investment data between feeder and distribution facilities. The report recommends that Pacific provide, as an attachment to its Capital Budget Summary, a list of optical fiber development projects in units and dollars, and reports showing forecasted and actual access line capacity and working access lines, disaggregated into four central office switching technologies and four geographic sectors. The report also recommends that GTEC adjust the relevant reports to provide similar information as recommended by Pacific.

The report rejects a recommendation by CCTA to break out network interoffice and distribution facilities by wire center, agreeing with Pacific that such a requirement would be burdensome.

and that such data have limited value under the incentive regulatory framework. CCTA, which could lose business if LECs are able to provide cable services after placing fiber optics technology to the end-user, argues that the LECs would compete unfairly with the existing cable companies by cross-subsidizing entry into the cable business. According to the report, CCTA's fears that cross-subsidization could occur if the LECs invest in fiber in the system above the distribution level (e.g. feeder) are unfounded because of the safeguards of the incentive regulatory framework; investments are generally at shareholder risk. Further, the report argues that if competitive services are priced at or above marginal cost, this does not constitute cross-subsidization.

CCTA says that the report appears to confuse marginal cost pricing with cost allocation. According to CCTA, if the LEC has allocated the costs of a competitive service to the monopoly ratepayer, "it can hardly be said that marginal cost pricing reflects risk taking on the part of the LEC," and if costs are misallocated to monopoly ratepayers, the LEC has shifted the risk, "thus obtaining the ability to price the new service at marginal cost without substantial risk of not recovering its costs." [Emphasis in original.]

CCTA is concerned that existing cost allocation procedures (the Part 64 cost allocation methodology adopted in Phase II) "would fail to capture the investment costs associated with future LEC entry into video service markets." Therefore, CCTA recommends that the Commission address its cost allocation concerns through adoption of CCTA's proposals for monitoring the LECs' capital budgets and plant utilization.

MCI believes the recommendation in the report "reveals a lack of understanding about the ability of a dominant company to exercise its market power." MCI states that "a dominant company with an existing ubiquitous network [can] make relatively small investments which will not create a need to raise rates but will

allow the dominant carrier to enter new markets" and that "a large firm [can] put off the recovery of this investment until an acceptable market penetration is achieved. . . ."

MCI states that a utility's large size and monopoly position can result in indirect subsidies, thus eventually dominating a market, even without direct cross-subsidies. While not advocating a specific monitoring device, MCI cautions the Commission that the report's comments are "naive and frightening," that they seem to suggest that the problem of a monopoly can be addressed through re-regulation of the dominant firm, and that the report's views "stem from a desire to set the monopolies free to enter and dominate new markets, regardless of the harm that may befall competitors and, ultimately, consumers."

Pacific comments that the report's recommendation that Pacific provide investment data for metallic feeder and distribution facilities separately is unsupported and would impose a substantial administrative burden. Pacific offered to provide investment data for fiber feeder and distribution facilities separately, and says this would not cause any additional burden. However, Pacific presents its analysis that separation of investment data for metallic feeder and distribution facilities would take approximately 16,000 hours to implement at the individual engineering work order level, at a cost of over \$1 million. Pacific also notes that it would be "impossible to comply with [the Report's] recommendation that Pacific provide . . . the ratio of total subscriber outside plant dollars to switched access line gain . . . for feeder and distribution facilities separately . . . because switched access line gain measures a completed circuit, which includes both feeder and distribution."

Pacific also comments on the report's recommendation for a list of fiber development projects. Pacific states that this recommendation "is not only at odds with the Commission's new regulatory framework, it is inconsistent with the CACD's own

findings." Pacific asserts that DRA stated that it wants the list of fiber development projects in order to study the cost-effectiveness justification. Pacific argues that the regulatory framework expressly states that these cost-effectiveness studies are not to be done, and that DRA's request "is unnecessary and inappropriate." Pacific also argues that the report itself recognizes that investments are at the utilities' risk and do not have a direct impact on rates.

In reply comments, CCTA argues that proposals to sample fiber projects should seek not to second guess or to limit the LECs' investment decisions but "only to ensure that the costs associated with LEC investments in fiber are allocated correctly between monopoly and competitive services."

GTEC also opposes the report's recommendation that investment data for outside plant be broken down between feeder and distribution facilities, noting that GTEC does not do so and that such a segregation would require changes to its capital budgeting methodologies, the benefits of which would be "questionable at best." GTEC also notes that the requirement for prior authorization of fiber installation beyond the feeder system, along with GTEC's provision of a report listing capital projects in excess of \$1 million, will furnish enough data for the Commission to monitor fiber placement.

GTEC opposes the report's recommendation that GTEC file a new report similar to Pacific's Capital Budget Report. GTEC argues that since its reports are used for internal management, they may not be identical to Pacific's reports. Given that DRA and GTEC agree on appropriate reporting, there is no reason to require absolute parity with Pacific.

We first consider the report's recommendation that Pacific and GTEC break out investment data between feeder and distribution facilities. At a minimum, it is reasonable to require the LECs to report fiber investments separately, as Pacific

recommended. Information on the amount of fiber already placed in the feeder system would be useful in analyzing any future application required by D.89-10-031 to place fiber beyond the feeder system. We are not convinced that the reporting of investments of over \$1 million would pick up sufficient information, as fiber investments may be made in small increments in many places over time.

We are less convinced of the need to track metallic investments in the feeder and distribution systems separately. If the concern is fiber investments, then fiber should be tracked. Total investment levels will be known, projects over \$1 million will be identified, and all fiber investments will be reported. Thus, the incremental benefit of separate tracking of metallic investments is not clear beyond a desire to check for prudence and reasonableness, which are expressly denied by the Phase II decision.

We therefore find that Pacific and GTEC should track only fiber investments separately between feeder and distribution systems.

Next we consider Pacific's opposition to the report's recommendation for a list of fiber development projects. While we do not foresee prudence reviews, we do foresee tracking of future fiber deployment. As noted above, Pacific itself proposed to break out fiber projects between feeder and distribution systems, realizing that most fiber projects at this time would not be beyond the feeder system. Therefore, we find it appropriate to monitor fiber projects in general to provide a basis to monitor such modernization of the network for the future.

Concerning GTEC's recommendation on the Capital Budget Summary, the report does not appear to require parity between GTEC and Pacific in their reporting; specifically it recommends that "GTEC make the necessary adjustments to its reports to provide similar information to that CACD recommends for provision

by Pacific." We find that GTEC should provide this information as recommended by the report, but may provide it in its own format.

Regarding the breakdown of investments by wire center, we reiterate our philosophy concerning investments and cross-subsidy under the incentive regulatory framework. First, we will not review investments for reasonableness or prudence; the framework should give sufficient incentives to make appropriate economic decisions, with the associated risk being placed on the LEC. Second, we specifically require that with minor exceptions no investments in fiber beyond the feeder system should be undertaken before specific approval of an application by this Commission. Third, we require a Part 64-like cost accounting system for separation of costs between above-the-line and below-the-line segments of the company. This is intended to ensure that captive ratepayers do not even indirectly bear the costs of investments and expenses in speculative and competitive ventures. Fourth, we have a price indexing system in place which prevents monopoly ratepayers from facing rate increases associated with poor investment decisions, excessive expenses, faltering revenues, or improper cost allocations. While a deliberate attempt to cross-subsidize or other utility actions could reduce the amount of sharable earnings returned to ratepayers, this could occur only if there were sharable earnings in the first place, and such actions would also disadvantage shareholders as much as ratepayers.

CCTA and MCI also are concerned that, regardless of ratepayer impact, there may be potential harm to competitors due to an LEC's direct or indirect cross-subsidization efforts. We are, of course, also concerned about this prospect. We have addressed this issue through adoption of the Part 64 cost allocation methodology, which assigns to below-the-line services the fully allocated costs of these services. This places the LEC at risk for any losses resulting from pricing below fully allocated costs, regardless of the rationale for such pricing. Any pricing below

incremental costs would be subject to antitrust laws, if the intent was to act in a predatory manner.

Given the safeguards in place, we fail to see how the LEC could cross-subsidize through improper cost allocations. While such improper allocations are possible (and we expect staff to review for this), rates could not thereby be raised, and the result would be that the monopoly-side profits would be lower. While the LEC may be able to sustain lower monopoly-side profits for a time, it cannot increase rates to make up for these losses.

What MCI calls indirect cross-subsidy seems to refer to economies of scale and scope. Certainly, the two LECs in question are large firms. But so are some of the other firms in the competitive markets the LECs may enter now or in the future. True, the other firms do not generally have a captive monopoly base behind them. However, we have already discussed the safeguards in place to prevent the use of monopoly profits to cross-subsidize competitive ventures. It seems that CCTA and MCI would have the Commission actively limit LEC efforts to enter certain competitive markets. On the contrary, we have gone to great lengths to balance the interests of the parties. For example, we have ensured that fully allocated costs are assigned to the competitive side, and we placed competitive services below the line; however, we believe the entry of LECs without significant ratepayer risks into legally allowed competitive markets is a positive development for these markets.

CCTA's proposal for wire center level monitoring of investments rests on the premise that captive ratepayers may subsidize entry by the LECs into competitive ventures, in particular cable television. MCI argues that cross-subsidy can occur without harm to ratepayers. As shown, captive ratepayers bear little risk from competitive ventures. MCI's argument does not correspond with a specific monitoring proposal; since we do not

find that the problem MCI discusses is a major concern, we will not adopt any monitoring requirement to address it.

Therefore, we find that the report's rejection of the CCTA proposal for monitoring of investments at the wire center level was proper.

**G. Capacity Measures Such as Plant Deployment
Plan and Results; Plant Utilization Ratios**

The report recommended that we reject CCTA's proposal that Pacific expand its Outside Plant Report in their Capital Budget Summary to include a breakdown between distribution and feeder plant. The report expressed sympathy for CCTA's proposal, but supported DRA's argument that CCTA's request "does not appear to add any more information to achieve the purposes discussed by CCTA and would require the LECs to make major changes to their reporting systems."

CCTA argues that while the information requested may not contribute to full utilization of the local exchange network, it is essential for monitoring aimed at the detection of cross-subsidy. CCTA states that "[u]tilization reporting at the wire center level is needed to provide the Commission a basis to judge whether LEC investments in outside plant were or will be necessary to provide existing services, and, accordingly, how to allocate such investments among present and future services." Further, CCTA believes this data is necessary in order to detect cross-subsidy because utilization levels associated with existing copper facilities are (or should be) a major driver of investment in fiber facilities.

In reply comments, Pacific states that CCTA's arguments are inconsistent with the regulatory framework because CCTA, in Pacific's view, wants to judge whether Pacific's investments were or will be necessary. Pacific argues that CCTA's argument in support of a breakdown between copper pair gain and fiber pair gain is also flawed, as pair gain utilization is not dependent on

whether the transport medium used is copper or fiber, but rather on the electronics installed on each end.

GTEC states that it has agreed to work with DRA to develop a report for interoffice facilities, but takes issue with a statement in the report suggesting that GTEC must conform to a specific reporting format. GTEC proposes (and had proposed at the workshop) to develop a report with the information available within the company, information that may differ from that available within Pacific.

We have already discussed the issue of monitoring of investments for detection of cross-subsidization. While CCTA legitimately questions whether the LEC can leverage off its monopoly-side investments in order to cross-subsidize its more competitive ventures, we have several safeguards in place from D.89-10-031 and a number of monitoring requirements in this opinion, which will be implemented in order to detect such cross-subsidy.

The report recommends adoption of broad reporting requirements regarding plant utilization, and as these were uncontested, they will be adopted. Specifically for Pacific (the apparent main concern of CCTA), there will be an annual report titled Interoffice Facilities Annual View, Deployment and Utilization Forecasts, and a quarterly report entitled Interoffice Facilities Quarterly Deployment and Utilization Results (as specified in Appendix D of the Workshop II report). There will also be central office equipment versions of these reports; in these, Pacific agreed with a DRA suggestion to break out electromechanical reporting between step-by-step and crossbar.

We find that the report is reasonable in recommending against the CCTA proposal in this area.

We also find that GTEC's interoffice facilities report need not be identical to Pacific's, but should include essentially the same information.

H. Settlement Flows to and from Independent LECs

All parties agreed that Pacific should provide monthly settlement data, reported quarterly, including specific data pertaining to GTEC. We concur in that accord, which would mean that no report would be required of GTEC. Citing a DRA-professed need for details of settlement payments to the other LECs in the state, the report recommends, however, that Pacific expand its report to include this detail, a recommendation with which Pacific disagreed in workshops. Although Pacific does not press its case in its comments, we find it appropriate nevertheless to confirm the report recommendation. Pacific has the data; the data are subject to Commission scrutiny, whatever their source; and, as CACD notes, "[i]t makes sense, if for no other reason than that it is consistent with the Commission's goal of low cost and efficient regulation, for Pacific also to report the data."

I. Market Share and Other Relevant Market Power Data for Services in Categories II and III

The CACD report recommends adoption of the DRA position, which is an acceptance, with clarifications and amplifications, of the Pacific proposal that volume and revenue data for Categories II and III be reported. According to the CACD report, DRA also requires that the reports do the following:

1. Measure and compare the number of customers using Centrex and PBX,
2. Track competition and prices for high speed digital private lines and high speed special access,
3. Collect data on access minutes for intrastate estimated intraLATA, information services, and monitor prices and new competitors in the market,
4. Do trend analysis on usage and revenue for billing and collection services,

5. Monitor revenues for directory advertising,
6. Gather data on the number of customers insured and the incidence of actual repair, estimate total repair rate, and track other participants in the inside wire repair market, and
7. Track prices and do market surveys for custom calling/vertical services, protocol conversion, voice mail, and voice store and receive.

We accept the recommendation, for both LECs, for now, noting the workshop discussions and the parties' comments regarding the difficulty of (1) calculating relative market share unless all providers report, and (2) predicting the requirements that will ensue when intraLATA markets are opened to competition. We will say more regarding market share and other relevant market power data in Phase III of these proceedings. We reassure the LECs that they need not be concerned, for the time being, with reporting data on other providers' market shares nor with data they cannot isolate; for example, the intrastate portion of information access services that Pacific mentions.

We also affirm DRA's position that the reports should be provided annually and with filings regarding Categories II and III services.

J. Timing of Reports

Specifically, this issue dealt with the timing of reports, the content of which was determined in Workshop I. CACD recommends that cost-tracking reports be submitted quarterly by the end of the quarter following the reporting period, with annual true-ups due by the end of the first quarter following year end. Although not all parties agree (MCI, for example, recommends more frequent, more detailed reporting), we find this to be a reasonable basis for beginning cost tracking. CCTA urges clarification of the reporting requirement to ensure that service-specific tracking

results are reported at the same level of disaggregation at which they are tracked. We agree that this should be the understanding for the first year reporting requirements. Subsequent reporting requirements may be relaxed or tightened as monitoring requirements evolve.

K. Tariff Imputation

In discussion of Workshop I issues, we agreed with CACD's recommendations on tariff imputation: that imputation is appropriate for cost tracking of Category III services but inappropriate, for the time being, for Category II. CACD now recommends an imputation report for Category II services, explaining that it is not a cost-tracking report but a means for staff to monitor against price squeezes by the LECs in Category II. In its report, CACD describes the potential it sees for price squeezes and explains how the imputation report will provide the safeguard it desires. Only the LECs dispute CACD's conclusions. We fully concur with the report's recommendation and find the LECs' arguments without merit. While the LECs' position (that our mechanism for adjusting price floors in Category II will offer some protection) might prove true over time, as price floors remain unchanged the possibility of price squeezes remains. Moreover, as CACD suggests, the imputation reports will serve to ensure that tariff imputation, a pricing principle we firmly endorsed, is followed by the LECs. CACD also notes the apparent inconsistency in requiring GTEC to compile imputation reports while allowing GTEC to track costs at a much greater aggregation than the imputation reports would require. We acknowledge the apparent inconsistency, but find that this only reinforces our earlier conclusion (in Section II., E., above) that GTEC should proceed "with all reasonable haste" to resolve its temporary delay in reporting at the recommended level of disaggregation. Imputation reports recommended by CACD should be submitted at least once a year.

L. Numbers and Types of Complaints Filed by Competitors Against Local Telephone Companies

Neither LEC opposed submitting a report detailing the number and type of complaints filed against it by competitors, but both disputed the DRA-recommended monthly reports and annual summaries. The CACD report recommended adoption of the DRA position and we concur.

VII. Discussion of Workshop III, Inclusion of Ratemaking Adjustments in the Earnings Calculation

Summarizing our incentive-based framework for Pacific and GTEC, we said that the new program is "centered around a price cap indexing mechanism with sharing of excess earnings above a benchmark rate of return. . . ." ⁹

The background of these two elements--the rate cap and the sharing mechanism--is helpful to a discussion of the propriety or impropriety of including ratemaking adjustments in the earnings calculation under the new framework.

A. The Role of the Rate Cap in the New Framework

In our discussion of the new framework (pages 115-150 of the decision), we contrasted the ability of "carrot" and "stick" regulatory frameworks, respectively, to give incentives to utilities to operate efficiently (page 129). The price cap was characterized as the carrot kind of regulation; traditional rate-of-return regulation was the stick. Under the price cap, we explained, "regulators can exploit a company's basic profit motive by decoupling revenues from costs. . . . By putting a utility's shareholders at a dollar-for-dollar risk, [the pure price cap

⁹ Ibid., 59.

model] provides a strong incentive for managers to operate the utility in the most efficient manner." We contrasted this incentive-based regulation with the traditional type in which regulators determine "whether the utility has run its business efficiently and wisely. . . ." To say it another way, the basic theory of the price cap model is to control management's spending by giving it an incentive to maximize profits; the basic theory of traditional regulation, on the other hand, is for regulators to control spending by deciding what is proper and reasonable and what is not. We concluded that the carrot was the preferred instrument: "the price cap framework for updating rate levels and limiting monopoly profits outperforms traditional rate-of-return regulation . . . , meets our regulatory goals . . . , balances the interests of ratepayers and shareholders and, on the whole, is preferable to traditional rate-of-return regulation for Pacific and GTEC and should be adopted."¹⁰

B. The Role of the Sharing Mechanism

The sharing of excess earnings with ratepayers, we explained, was a departure from a pure price cap indexing model. It was "designed to provide protection to both ratepayers and shareholders from risks that the indexing method may over- or under estimate revenue changes needed to keep the utility financially healthy." Thus, though we were disposed to a pure price cap model for the LECs, our concerns about the lack of checks and balances in the model persuaded us that "a regulatory mechanism which provides some self-correcting protections is more likely to be sustainable and thus would provide more predictable and longer run incentives to utility management than would the pure price cap model."

¹⁰ Ibid., 153.

C. The Inclusion of Ratemaking Adjustments in the Earnings Calculation

In introducing the sharing mechanism, we do not imply a reversion to rate-of-return regulation. Rather, in D.89-10-031, "this decision removes the Commission from detailed review of carriers' costs, . . . [and] customers' rates will not change in relation to specific utility costs."¹¹ Noting, in fact, the reduction in incentive to the LECs that the sharing mechanism would produce, vis-a-vis the pure price cap model, we said we would reexamine the need for any sharing mechanism at all, as a part of the 1992 review of the NRF.

Nor did we intend the sharing mechanism to signal a retreat from the basic tenet of the rate cap model: utility management "is at risk for all investment and operating decisions, [controlled only by] market forces and the utilities' goal of maximizing shareholder value. . . ."¹² Under the new framework, spending decisions are the domain of utility management.¹³ As we noted, the new framework should perform as well as or better than traditional regulation in meeting each of our regulatory goals by, among other things, "[eliminating] the requirement that investments be justified in regulatory proceedings. . . [and] shifting the focus of regulation from evaluation and control of the local exchange carriers' operations to the application of externally controlled inflation and productivity indices. . . ."

¹¹ Ibid., 209.

¹² Ibid., 145.

¹³ Management may act within bounds established by our regulatory goals for the carriers. We still may impose ratemaking adjustments or penalties arising from poor service quality or other management misconduct. However, as we note on page 186 of the decision, and later in this decision, these would better be handled directly in rates.

With the inclusion of the sharing mechanism, however, came the need for an earnings calculation and filing. We had concluded that there was "no need to continue adjustments for expenses which [under the new framework] are within management discretion as part of the sharing calculation." Nevertheless, we reasoned, "any adjustments due to past penalties should be continued," finding that "[t]he current record does not allow us to decide which current ratemaking adjustments should be reflected in the sharing calculation, and which omitted." (Finding of Fact No. 164.) The specific job of the workshop, then, as CACD's report aptly puts it, was to answer "the question of which existing ratemaking adjustments were due to past penalties and which, had they been incurred under the new framework, would be up to management discretion." (Report page 15.)

On the same page of its report, CACD answers the question for us: "[N]one of the current ratemaking adjustments are due to past penalties. . . ." None of the commenters to CACD's report disputes this finding of the report.

D. Comments on Particular Ratemaking Adjustments

DRA in its ongoing comments to Report III that CACD failed: "[T]o consider the parties' meticulous review of each adjustment...." DRA is technically correct. However, CACD views the NRF as establishing new ratemaking principles and regulatory requirements. Nevertheless, some of the ratemaking adjustments of the LECs deserve special comment:

First, CACD recommends retention of one class of ratemaking adjustment in the earnings calculation: depreciable assets that were disallowed by this Commission prior to the inception of our incentive-based framework.

Following that concept, the CACD report recommends that three of GTEC's "current" ratemaking adjustments and one of Pacific's (depreciable assets that were previously disallowed for ratemaking purposes) be retained in future earnings calculations,

along with the asset's associated depreciation or amortization expense and any tax effects, until those assets are fully written off or retired from the books of the utility. Neither GTEC nor Pacific contests this recommendation, in principle. Accordingly, except as noted below, we adopt the recommendation, and require that the respective LECs adjust future earnings calculations to reflect disallowance of the expenditures for the assets in question, along with their associated expense effects, until those assets are no longer on the company's books.

Second, GTEC believes one of the depreciable assets of GTEC that CACD recommends be adjusted out for ratemaking purposes (the CentraNet capital investment, GTEC Item 9 in Appendix A to the CACD Report) should properly be included in the earnings calculation rate base.

GTEC points out in its opening comments that the CentraNet investment was disallowed in GTEC's last general rate case because the associated asset was not yet in service, but that it has since been placed in service. DRA and other parties to the workshop agree. Accordingly, this asset, though otherwise falling within the guidelines for disallowance recommended by CACD, should be included in GTEC's earnings calculation rate base. In other words, contrary to CACD's recommendation, the ratemaking adjustment should not be included in GTEC's earnings calculation.

Finally, there is confusion surrounding the CACD Report's position with regard to the antitrust expense of Pacific (Pacific Item 6 in Appendix A to the CACD Report).

Except in the appendix, the report does not specifically mention this adjustment. DRA and others have understood that CACD recommends including these costs in the earnings calculation. The report, however, at page 18, says that earnings reported in earnings calculations "should . . . be those of the respective LEC . . . recorded in accordance with the Part 32 uniform system of accounts . . . incorporating any modifications to [that] part[1] . . .

instituted by this Commission." As presently instituted by this Commission, LEC accounting requires that expenses of antitrust actions not be included in earnings calculations unless the LEC is successful in its defense against allegations. (See D.86-01-026.) By requiring adherence to Part 32 as it is presently constituted by this Commission, CACD is conforming to DRA's and others' position that antitrust expenses should not be included in the earnings calculation until the company is found innocent of any anticompetitive behavior. Accordingly, we concur in the report's position, as we have interpreted it here; that is, that there should be no change in accounting for antitrust expenses. As a broader principle, we find that the LECs should not profit from illegal activities of any nature; expenditures in unlawful activities should always be discounted from ratemaking or earnings calculations.

We note that in its periodic earnings reports to the Commission, Pacific treats the disputed antitrust costs as a disallowance, not as an accounting difference, as directed by the CPUC. Regardless, the principle is the same: We are not, by this order, changing the method of accounting we had earlier instituted in D.86-01-026 for Pacific's antitrust expense.

E. Other Issues from the CACD Report

Four items from the CACD report need amplification: the form LECs are to use in filing their earnings calculation; the place of FCC Rules and Regulations in the earnings calculation; the proper components of the rate base to be used in the earnings calculation; and, finally, the recommended mechanics for handling penalties under the new framework.

1. The Form for Filing the Earnings Calculation

Our decision asked that the overall format of an annual filing be discussed in the workshop and that CACD apprise us of any consensus that was reached. CACD has appended to its workshop report the form that parties agreed upon for the annual earnings

the 1990s, the number of people in the world who are under 15 years of age is expected to increase from 1.1 billion to 1.5 billion. The number of people aged 65 and over is expected to increase from 200 million to 400 million. The number of people aged 15 and over is expected to increase from 3.5 billion to 4.5 billion. The number of people aged 15 and over is expected to increase from 3.5 billion to 4.5 billion. The number of people aged 15 and over is expected to increase from 3.5 billion to 4.5 billion.

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99

1991

14 GTEC expresses concern that earnings "should reflect adjustments for the reversal of sharings accruals and any out-of-period items that relate to events that occurred prior to adoption of the New Regulatory Framework." (GTEC Opening Comments, p. 14). GTEC's principle is correct. Our intent is that "earnings" should accurately reflect each year's operation.

adopt that standard with the proviso that rate base components associated with below-the-line services are excluded.

4. The Mechanics for Handling Future Penalties or Disallowances

The report recommends that "any future ratemaking adjustments (imposed as penalties or disallowances) be implemented as an adjustment through the Z factor. . . ." The rationale behind this recommendation is that, if the penalty or disallowance is implemented through the Z factor, it will affect customers' rates, whereas if it is implemented through the earnings calculation, ratepayers could be insulated from its effect if the LEC's earnings were below the sharable threshold. While the report's recommendation appears reasonable for circumstances that the parties appear to have in mind, we hesitate to promulgate a rule to cover all circumstances. We prefer to deal with this issue, as particular circumstances are brought to our attention. We believe that parties may share our desire to preserve flexibility to fashion remedies as may be appropriate to the given problem.

No party disputed the LECs' proposal to compile and file "California Cost Allocation Manuals" that reflect cumulative requirements approved by the Commission for allocation of costs. We will adopt the LECs' proposals in this regard.

VIII. Comments: ALJ's Proposed Decision

In accordance with PU Code § 311, the ALJ drafted decision prepared by ALJ George Amaroli was issued on May 21, 1991. Timely comments on the proposed decision (PD) were filed by AT&T-C, BAT, CCTA, Centex Telemanagement, Inc. (Centex), Citizens, DRA, GTEC, MCI, Pacific, and TURN. Reply comments were filed by all of the above parties except CCTA, Citizens, and TURN.

A. Arguments on Issues

A number of the comments received centered on arguments of the parties' positions which were previously raised during the course of the workshops, comments on workshops, and comments on the workshop reports in this proceeding. In keeping with Rule 77.3 of the Commission's Rules of Practice and Procedure such arguments are given no weight.

Such arguments include CCTA's discussion of monitoring of fiber and metallic investments separated between feeder and distribution plant. GTEC's arguments concerning the need to prepare an R.O. Report also fall in the category of reargument. Also, a number of DRA's points merely rearticulate issues raised in their various sets of comments.

B. Proprietary Information

A number of parties commented on the issue of access to proprietary information by third parties, and in the case of GTEC, by DRA. This issue arises both in the context of access to monitoring information in general and access to monitoring information via the computer link discussed herein.

CCTA and other parties comment on an apparent discrepancy between Ordering Paragraph 8 and Conclusion of Law 30 in the PD. While Ordering Paragraph 8 would preclude parties who have executed confidentiality agreements with the LECs from having access to some highly proprietary monitoring information, Conclusion of Law 30 would allow parties who have signed protective agreements access to

all assertedly proprietary monitoring materials. CCTA supports the latter language. TURN agrees with CCTA's interpretation and suggested modified language for Ordering Paragraph 8.

Centex argues that there are valid reasons for placing the burden of seeking protected treatment of allegedly proprietary information on the LECs, as suggested by the PD in requiring the LECs to obtain a protective order to retain proprietary treatment of monitoring information. However, Centex believes the decision should not create a new class of "super-proprietary" information that is not available to third parties even with a nondisclosure agreement.

Pacific, on the other hand, argues that to deem all information to be nonproprietary absent a protective order is inconsistent with current Commission rules and policies, claiming that the Commission currently decides whether specific information should be proprietary on a case-by-case basis after the proprietary designation made by the utility for that information has been challenged. Pacific also states that a Commission decision that certain information is not proprietary could cause irreparable harm to Pacific by requiring public disclosure of information that would be considered proprietary under a more competitive environment that may arise from the Phase III proceeding of I.87-11-033.

GTEC comments that the PD's August 1, 1991 date for filing motions for protective orders is unreasonable, and that the Commission should allow 120 days following the effective date of this order. Further, GTEC requests clarification that the disclosure requirements apply only to the monitoring reports themselves and not to the computer models that generate the information.

Similar arguments by parties are presented in reply comments.

We will adopt the position that all monitoring information should be made available to DRA and CACD, without need

for nondisclosure agreements. Third parties should have similar access upon execution of proprietary (nondisclosure) agreements as recommended by Centex. This places the burden on the LECs to seek a protective agreement, in those rare cases, when providing the information sought by a specific third party would cause irreparable harm to the LEC.

C. Computer Link

GTEC believes that the proposed computer link between the two LECs and CACD and DRA is unreasonable. GTEC disputes whether the benefits of this link outweigh the inconvenience and cost to GTEC and Pacific, and whether the Commission's monitoring abilities will be significantly improved through such a link. GTEC also argues that recurring as well as nonrecurring costs of the link should be recoverable in a Z-factor filing. Pacific concurs on this point. Pacific also would like clarification that the link is only available to DRA and CACD.

Citizens believes there are less expensive, more expeditious, and as-accurate methods of providing monitoring information; this would be through the use of modems and floppy diskettes. Citizens raises the issues of security, privacy, and proprietary information as concerns. Further, Citizens asks that, if a link is established, this method of obtaining monitoring information not be applied to mid-sized or smaller LECs if they propose an alternative regulatory framework in the future.

DRA would like the PD to clarify that DRA should be involved in the computer link's development and that DRA should be provided with its own link.

We have already addressed the rationale for requiring a computer link. We will clarify that the computer link should be accessible to DRA and CACD for all monitoring information, and only to DRA and CACD. We will not comment on Citizen's request in terms of applicability to smaller and mid-sized LECs as these companies

are not now under an alternative regulatory framework. We will deal with that issue when they apply to be regulated under NRF.

As to the questions of recurring costs for the computer link, such costs should be offset in large part by reduced mail and reproduction costs. To the extent that significant additional recurring costs are experienced for the link and associated hardware, the LECs may file recorded data, by application to modify this order as appropriate.

D. Fiber Investment Monitoring Reports

Pacific comments that the PD should reflect the monitoring requirement that investment data for feeder and distribution plant should be provided separately, but only for fiber investments. CCTA argues that both fiber and metallic investments should be tracked separately between feeder and distribution plant.

We agree with Pacific and have revised the PD accordingly. CCTA's arguments have been discussed at length, and our position remains unchanged.

E. Legal Basis of the Decision

TURN argues that PU Code § 1708 requires hearings before the Commission can reverse previous decisions regarding ratemaking adjustments. Given that the PD would eliminate some ratemaking adjustments and no hearings were held leading up to the PD, TURN believes it would be legally improper to take such action at this time. TURN also believes the Commission cannot legally discontinue the adjustment for dues, donations, and political advocacy expenses, citing Pacific Tel. & Tel. Co. v. Public Util. Comm. (1965) 62 Cal. 2nd 634, 668-669 (PT&T). TURN argues that any LEC expenditures on political advocacy or dues and donations offset half or all shareable earnings that would otherwise accrue to ratepayers (if returns are above 13%), and that in this case ratepayers are funding the expenditures just as would occur under traditional regulation.

Pacific in its reply comments argues that the decision regarding which ratemaking adjustments should be included in the sharing calculation does not require the Commission to rescind, alter, or amend any prior decision. Further, Pacific argues that PT&T is inapplicable because the Court decision applied only to the policy of excluding certain expense items for rate fixing purposes in a general rate case, and also that the ratemaking adjustments under discussion were included in the start-up revenue requirement (D.90-12-116) and are therefore permanently embedded in Pacific's rates.

We agree with Pacific that there is no need for a hearing to make this decision on ratemaking adjustments. This monitoring decision is merely an implementation decision stemming from D.89-10-031. In that decision, we changed from a system involving general rate cases to one involving price caps with an indexing mechanism and shareable earnings incentives. In moving away from general rate cases, we left behind the old system of accounting for ratemaking adjustments. Because the record was not clear on which ratemaking adjustments should be retained under the new system, we called for workshops to help make that determination. Therefore, it is appropriate that we now set the policy to implement the new system including the current ratemaking adjustments.

F. Tariff Imputation

DRA, Pacific, GTEC, and AT&T commented that there are currently no formal imputation rules in place for the LECs' services, that such rules for many of the LECs' services will be addressed in the implementation rate design (IRD) proceeding, and that the requirement to file tariff imputation reports should not be imposed at this time. AT&T, however, suggests that the Commission should set forth an unambiguous requirement for Pacific and GTEC to file such reports for services once imputation requirements for those services have been adopted.

MCI disagrees with this interpretation, arguing that the Phase II order enacted the principles of unbundling, imputation, and nondiscriminatory access to serve as safeguards to prevent abuses of the new pricing freedoms granted in Phase II, and directed CACD to develop the necessary reports to achieve these goals. MCI further maintains that AT&T and BAT demonstrated in the workshops a practical method for the preparation of imputation reports.

We agree that imputation rules are not defined clearly enough to require the filing of tariff imputation reports at this time. Therefore, tariff imputation rules will be addressed in the IRD proceeding, and annual reports by the LECs will be required beginning the year after imputation rules are adopted in that proceeding.

G. Cost Tracking

Many parties commented on the PD's cost tracking proposals. GTEC states that the Commission should not dictate the methodologies to be used by the companies in preparing their Phase III cost studies, since a decision so dictating methods at this date would significantly delay the completion of IRD. While BAT does not advocate such a decision by the Commission at this point either, BAT replies to this comment by urging the Commission to reject any presumption that GTEC's cost study methodology is not subject to revision if parties or the Commission find, in Phase III/IRD proceedings, methodological flaws serious enough to require the cost studies to be modified or rerun.

Both arguments have merit, and we will need to take evidence to resolve this issue. Accordingly, the appropriateness of the cost study methodologies employed by the LECs will be decided in Phase III, and will not be finally adopted in this decision.

H. DRA's Use of Monitoring Reports

Only DRA submitted comments on the proposed decision's requirement that, as part of the 1992 NRF review, DRA describe how it uses each monitoring report. In examining Appendices A and B to this decision, which list the reports recommended for continuation for Pacific and GTEC, we make the following observations.

Of the 153 reports Pacific and GTEC provide to various divisions of this Commission, only 35 appear to be provided to DRA alone. Sixty-seven reports are apparently submitted to CACD alone, and 36 are provided to both CACD and DRA, or to CACD, DRA, and other CPUC divisions. The total number of reports which DRA receives approximates 71, while the total number CACD receives is about 104. In addition, some reports are received by the Executive Division, by the Safety Division, by the Office of the Public Advisor, by the Consumer Affairs Branch, or by a combination of these.

Further, of the 35 reports which only DRA receives, 13 appear to be produced by an entity other than Pacific or GTEC (Bellcore, Pacific Telesis), or are standard instruction manuals. An additional 4 reports are provided to DRA only after a specific event occurs (a service failure), or upon request as the report is updated. With these exceptions, then, DRA will continue to receive just 18 monthly, quarterly, or annual monitoring reports which appear from the descriptions in Appendices A and B to be prepared specifically for DRA.

Based on this examination we will not require DRA formally to describe its use of each monitoring report. Such a process would unfairly require the staff of this Commission to explain why it is performing the regulatory function it must perform. Further, were we to require DRA to justify the reports it receives, we also would have to ask other divisions to justify the reports they receive, and we would have to ask the utilities to explain why they should not provide these reports. This would be unduly burdensome on all parties. Instead, we will require CACD to develop an assessment of who prepares each monitoring report and what purpose each report serves. In the assessment we will require that CACD recommend which monitoring reports, if any, should be eliminated. We have revised the order accordingly.

Findings of Fact

1. In D.89-10-031 the Commission adopted a new regulatory framework (NRF) implementing incentive-based regulation for Pacific and GTEC.

2. D.89-10-031 found that adopting incentive-based regulation warranted additional monitoring of Pacific and GTEC.

3. CACD held workshops to review Pacific's and GTEC's current reporting requirements and to recommend appropriate modifications for NRF.

4. CACD held three workshops and subsequently issued three reports, respectively, in 1990.

5. All interested parties were given the opportunity to file comments on each workshop as well as comments and reply comments on the three CACD workshop reports.

6. Workshop reports, in concert with parties' comments fulfill our expectations for a workshop product. Together the reports and the comments define the major issues, discuss the parties' views, and offer recommendations for our adoption.

7. CACD is responsible for administering the monitoring program.

8. It is reasonable and necessary for the LECs and DRA to contact CACD to attempt informal resolution of monitoring issues that come to their attention before filing formal petitions.

9. D.89-10-031 expressed the expectation that DRA would closely monitor the NRF and investigate any areas of concern to it.

10. LECs can reconcile costs tracked in Phase II to their books of account to their financial statements. Clear, concise, up-to-date charts reflecting the flow of cost data from and to their financial statements are needed.

11. In calculating service-specific costs Pacific and GTEC can follow the FCC Part-64 cost-attribution hierarchy. Where Part-64 procedures call for tariff imputation and plant allocations,

based on forecasted usage, these requirements can be omitted from costing submittals for Categories I and II services.

12. Consistency in cost tracking is important. Consistency is not always attainable. Where it is not attainable, or where sets of data are inconsistent because of change, it is reasonable for Pacific and GTEC to follow the GAAP requirement for disclosure of the differences and the effect of those differences.

13. The Commission expects not only disclosure of differences from Pacific and GTEC but clear explanations of the reasons for any differences resulting from differing costing methodologies, as well.

14. General consistency in cost-tracking procedures between Pacific and GTEC is desirable.

15. The monitoring program generally and the service-specific cost-tracking system specifically can be adapted and modified as the requirements of the new framework become evident.

16. Cost tracking is a requirement imposed on Pacific and GTEC for the benefit of staff whose responsibility it is to monitor service-specific profitability and for cross-subsidies or anticompetitive behavior.

17. Uniform cost-tracking standards for both LECs can be followed without producing totally consistent or comparable results at the service-specific level. Greater comparability can be expected at greater cost aggregation.

18. Adherence to regulatory goals, as well as consistency, is a reasonable standard to strive for in the development of service-specific cost-tracking procedures and requirements. Changes in cost-tracking requirements can be accomplished on a case-by-case basis giving consideration both to consistency and to regulatory goals.

19. It is reasonable for service-specific cost tracking to begin with 1990 operations rather than 1989.

20. It is reasonable to require Pacific and GTEC to maintain and file cost allocation manuals that reflect cost allocation requirements of this Commission, and file advice letters to the Commission for approval of any changes for intrastate purposes in their federal cost allocation manuals.

21. The Workshop I accord regarding the sequence for separating LEC operations is reasonable.

22. The list of telecommunications services for cost tracking is subject to change as conditions in the industry and the market place change.

23. DRA developed six themes as a basis for determining a list of such services:

- a. Development of the list should tie to previous Commission decisions.
- b. It should recognize that special monitoring can be undertaken as needed.
- c. It should recognize the limitations on the Commission's resources.
- d. It should keep reporting as simple as possible.
- e. It should recognize that other proceedings can acquire data as needed.
- f. It should recognize that monitoring is retrospective and provides benchmarks for policy, not for refined analysis.

24. The billed line item criterion proposed by DRA is a reasonable general guideline in the development of services which are to be tracked.

25. The lists of services developed by DRA for the respective LECs reasonably approximate the billed line items.

26. It is unreasonable to impose sanctions on GTEC for being unable to collect data at a greater disaggregation than DRA had proposed as recently as December of 1989.

27. It is reasonable for GTEC to track 1990 costs at the level of aggregation recommended by CACD.

28. The workshop recommended policy that the LECs track costs contemporaneously and update allocation measurements no less than annually (unless more frequent measurements are required by staff) is reasonable.

29. In the appendices of its Monitoring Workshop II Report, CACD recommended reporting requirements to fulfill each of the seven monitoring goals set forth in D.89-10-031.

30. CACD is required to report to the Commission before 1992 on the impact of the NRF.

31. Pacific and GTEC are currently required to submit similar Results of Operation (R.O.) Reports in rate case proceedings and at other times.

32. There is no basis for reducing Pacific's and GTEC's R.O. reporting requirements beyond CACD's recommendations in its Monitoring Workshop II Report.

33. It is necessary to develop the most efficient means for CACD to monitor the LEC reporting requirements.

34. The designation of utility material as proprietary, and access to such information, is primarily a legal issue.

35. I.90-02-047 allows access to information by third parties. This access clearly applies to access to, at minimum, nonproprietary monitoring information and to proprietary monitoring information as well, so long as an appropriate protective agreement has been executed.

36. Currently, access to Pacific and/or GTEC's proprietary information, particularly by third parties, may be accomplished by signing a nondisclosure agreement, and only if refused, may be requested by filing a Motion to Compel Production.

37. The LECs may have certain monitoring information which is highly proprietary and which could cause them competitive harm if disclosed to certain third parties.

38. Except as discussed and qualified in the narrative of this order, the reporting requirements recommended by CACD in its Workshop II Report are undisputed.

39. Major service interruptions can be reported monthly by Pacific and GTEC.

40. Pacific can make information about quality improvement and cost reduction programs available both on an annual basis and upon request.

41. GTEC can provide information about quality improvement and cost reduction programs upon request and can provide an appropriate level of monitoring.

42. Pacific and GTEC can, in cooperation with DRA, conduct studies of telephone service affordability.

43. A two-year sunset clause for tracking requirements for new services as recommended by Pacific is reasonable.

44. Pacific and GTEC can provide monitoring information that will break out investment for fiber between feeder and distribution facilities.

45. It is appropriate to monitor fiber projects in general to provide a basis to track modernization of the network in the future.

46. GTEC can provide Capital Budget Summary information in its own format.

47. GTEC's proposed interoffice facilities report is not identical to Pacific's, but includes essentially the same information.

48. Pacific can provide monthly settlement data, reported quarterly, including specific data pertaining to all LECs in the state including GTEC.

49. Pacific and GTEC need not be concerned, for the time being, with reporting data on other providers' market share nor with data they cannot isolate, including as an example the

intrastate portion of information access services that Pacific cites.

50. Market share data reports can be provided annually, at the time filings regarding Categories II and III services are presented, and when recategorization of services is proposed.

51. Cost-tracking reports can be submitted quarterly by the end of the quarter following the reporting period, with annual true-ups by the end of the first quarter of the following year.

52. Annual tariff imputation reports are appropriate when imputation rules are defined.

53. At the time of the implementation of the NRF, GTEC was making nine ratemaking adjustments to its financial results of operations calculations, whereas Pacific was making six.

54. None of these ratemaking adjustments was imposed due to penalties against the companies.

55. CACD recommends that depreciable assets that were disallowed by this Commission prior to the inception of the NRF be retained as ratemaking adjustments in LECs' sharable earnings calculations.

56. Three of GTEC's ratemaking adjustments and one of Pacific's were due to depreciable assets that were previously disallowed for ratemaking purposes.

57. GTEC's CentraNet capital investment, although falling within the depreciable asset criteria for disallowance recommended by CACD, was previously disallowed only because it was not in service (not used and useful). It is now in service.

58. The uniform system of accounts for telecommunications carriers under the jurisdiction of this Commission requires that expenses of antitrust actions not be included in operating expenses until the LEC is successful in its defense against allegations.

59. Workshop participants agreed on a reasonable format that LECs may follow in filing their annual sharable earnings calculations.

60. CACD recommends the following definition of earnings for the sharable earnings calculation: Earnings of the respective LECs (recorded in accordance with the FCC Part 32 uniform system of accounts as modified by this Commission), less its interstate operations (separated by Part 36 procedures), less earnings from Category III services (allocated by Part 64 procedures).

61. The rate base component to be included in future earnings calculations, and the procedures to be followed in calculating the rate base, are to be those that were used in determining the start-up revenues in D.89-12-048 (rate base components associated with below-the-line services are to be excluded).

62. CACD recommends that future ratemaking adjustments (imposed as penalties or disallowances) be implemented through an adjustment to the Z factor.

Conclusions of Law

1. The plan for monitoring LECs' accomplishment of and adherence to goals and requirements under our NRF should be dynamic, flexible and adaptable as the regulatory needs under the NRF become evident.

2. CACD is responsible for administering the monitoring program; accordingly, it should receive all related correspondence and monitoring reports, and should be responsible for LEC compliance with the spirit and intent of the monitoring program.

3. CACD should maintain the necessary dialogue with the LECs and other interested parties regarding any required modifications to the monitoring program and for keeping us apprised of developments with the monitoring program.

4. Prior to filing formal petitions to modify the NRF monitoring program with us, LECs and the DRA should contact CACD in a good faith effort to resolve informally issues that come to their attention.

5. DRA should continue to monitor the NRF from the standpoint of ratepayer well-being and to investigate matters that it perceives harmful to any customer group or class.

6. LECs should reconcile the sum of their costs tracked to the companies' financial statements and should provide clear, concise and up-to-date charts reflecting the flow of cost data to and from the statements.

7. In calculating costs of services to be tracked, the LECs should follow the FCC Part 64 cost attribution hierarchy for all services but, for Categories I and II services, omit the Part 64 requirements for tariff imputation and the three-year plant forecasts until such time as the propriety of applying these latter procedures to these services can be determined.

8. Where inconsistencies exist between costs determined for services tracked in Phase II of these proceedings and costed in Phase III, LECs should disclose the differences and their effect.

9. The cost-tracking systems of Pacific and GTEC should accommodate the needs of the staff.

10. The LECs, together with CACD, should strive for reporting consistency (as between companies) but should recognize that consistency in every respect will not always be attainable.

11. As noted and qualified in Conclusion of Law 7, above, services in all three categories should be costed following the Part 64 cost attribution hierarchy. However, as the service-specific cost-tracking program evolves and develops, modifications should be analyzed on a case-by-case basis, giving consideration to regulatory objectives under the new framework as well as to Part 64 mandates.

12. LECs should begin tracking 1990 service-specific costs.

13. LECs should compile and file California cost allocation manuals reflecting cost allocation requirements of this Commission, and LECs should file advice letters for any proposed revisions for intrastate purposes in their federal cost allocation manuals.

14. The workshop accord on the sequence of applying FCC Parts 64 and 36 should be adopted.

15. LECs should retain records so that costs of services can be jurisdictionally separated.

16. DRA's six themes for evolving a list of which services costs should be tracked are reasonable and should be adopted.

17. The lists of services developed by DRA, for the respective LECs, reasonably approximate the "billed line item" criterion and, with the exception noted in Conclusion of Law 18, should be the beginning list of services tracked.

18. GTEC should track its 1990 costs to the level of disaggregation recommended for initial tracking by CACD.

19. GTEC should proceed immediately to collect the data necessary to track 1991 costs to the greater disaggregation recommended by DRA.

20. GTEC should not be subjected to sanctions for its inability to track 1990 costs to the greater disaggregation recommended by DRA.

21. The policy that LECs should track costs contemporaneously and should update allocation measurements no less than annually (or more frequently where required by staff) should be adopted. Any such policy should recognize that interim allocations are subject to annual true-ups.

22. CACD's Workshop I Report, with the modifications and qualifications discussed in this order, should be adopted.

23. GTEC and Pacific should comply with the recommendations of the Workshop I Report, as modified herein.

24. Pacific, GTEC, and DRA should discuss further streamlining of reports. CACD should be notified by letter of the proposed elimination of any report with copies to all parties of record.

25. Streamlining of reports should be accomplished as discussed in CACD's Workshop II Report, and as modified by this order.

26. The streamlining of reporting requirements for Pacific and GTEC reduces the number of reports to those which are currently needed for effective implementation of the NRF. These needs should be re-evaluated in the 1992 review of NRF.

27. CACD, as the compliance arm of the Commission, is fully empowered to implement and is authorized under PU Code §§ 582 to 584 to obtain any information, from any utility, at any time and to make minor modifications, as may be necessary in the reporting requirements of the monitoring program from time to time in accordance with the spirit and intent of the NRF.

28. At the commencement of the 1992 NRF review, CACD should produce a written assessment explaining who prepares each monitoring report the utilities provide to our staff, and what purpose each of these reports serves for the utility and for the staff. In the assessment, CACD should recommend which reports, if any, should be eliminated. CACD should obtain the information it needs to develop its assessment and its recommendation from DRA, the Executive Division, the Safety Division, the Public Advisor's Office, the Consumer Affairs Branch, and the utilities.

29. Parties should have access to all nonproprietary monitoring information, as anticipated by I.90-02-047.

30. Pacific and GTEC may seek a protective order from the Commission to preclude third party access to truly proprietary information based upon the proposed rule set forth herein. Parties may respond to these motions, and the ALJ may take legal argument or technical evidence at limited hearings (if needed) on such motions. All monitoring information should be considered nonproprietary if no protective order is issued after this process.

31. Parties who have signed protective agreements with Pacific and GTEC should have access to all assertedly proprietary materials for which no protective order is issued by the Commission.

32. Major service interruptions should be reported monthly by Pacific and GTEC.

33. Pacific should make information about quality improvement and cost reduction programs available both on an annual basis and upon request.

34. GTEC should provide information about quality improvement and cost reduction programs upon request and will provide an appropriate level of monitoring.

35. Pacific and GTEC should, cooperatively with DRA, conduct a study of telephone service affordability, and allow DRA to participate if it so desires.

36. There should be a two-year sunset clause for tracking requirements for new services.

37. Pacific and GTEC should provide monitoring information that will break out investment for fiber between feeder and distribution facilities.

38. Because of its limited value under the incentive regulatory framework, Pacific and GTEC should not be required to break out network interoffice and distribution facilities by wire center.

39. Fiber projects should be accounted for and monitored generally to provide a basis to monitor modernization of the network for the future.

40. GTEC should provide Capital Budget Summary information on its own recommended format.

41. GTEC's interoffice facilities report need not be identical to Pacific's, but should include essentially the same information.

42. Pacific should provide monthly settlement data, reported quarterly, including settlement payments to all LECs in the state.

43. The DRA position with regard to reports detailing market share and other relevant market power data for services in Categories II and III should be adopted. LECs should not be required to report market share data of other providers in a market, nor should they be required to provide data they cannot

isolate. Market data reports should be provided annually and with filings regarding Categories II and III services, and when service recategorizations are proposed.

44. Pacific and GTEC should provide cost-tracking reports quarterly, by the end of the first quarter following the reporting period, with annual true-ups due by the end of the first quarter following year end. Tracking reports should be reported at the same level of disaggregation at which they are tracked.

45. When imputation rules are defined, LECs should provide tariff imputation reports annually as recommended by CACD and described in its Workshop II Report.

46. Pacific and GTEC each should submit a report detailing the number and type of complaints filed against it by competitors monthly with annual summaries.

47. CACD's Workshop II Report, with the modifications and qualifications discussed in this order, should be adopted.

48. Except as noted in Conclusion of Law 49, depreciable assets cited by CACD in its Workshop III Report as having been previously disallowed by this Commission should be removed from LECs' sharable earnings filings. Depreciation or amortization expenses of the asset along with the associated tax effects should also be disallowed for purposes of calculating sharable earnings.

49. GTEC's investment in CentraNet, although falling within CACD's guidelines for disallowance, should nevertheless be allowed in calculating sharable earnings.

50. It is unreasonable for Pacific or GTEC to profit from illegal activities of any nature; such expenditures in unlawful activities should always be discounted from ratemaking or earnings calculations.

51. LECs should continue accounting for expenses associated with antitrust actions in accordance with the current policy of this Commission, as specified in D.86-01-026, which is to account

for such expenses below the line until such time as the LEC is found innocent of anticompetitive behavior.

52. Other than noted in Conclusion of Law 48 or as may be determined in the future by this Commission, ratemaking adjustments are inappropriate in sharable earnings calculations.

53. The form agreed upon by workshop participants should be adopted for annual sharable earnings filings until modified informally by CACD or formally by this Commission.

54. The definition of earnings for use in the annual earnings calculations recommended by the CACD Workshop III Report should be adopted.

55. The rate base components (exclusive of below-the-line services) and procedures recommended by CACD for use in the annual earnings calculations should be adopted.

56. Future penalties imposed on LECs should be implemented on a case-by-case basis as particular circumstances are brought to our attention by the parties.

57. CACD's Workshop III Report, with the modifications and qualifications discussed in this order, should be adopted.

INTERIM ORDER

IT IS ORDERED that:

1. The program for monitoring the provision and development of telecommunications services under our new regulatory framework (NRF) for GTE-California, Incorporated (GTEC) and Pacific Bell (Pacific) described and envisioned in the Commission Advisory and Compliance Division's (CACD) three workshop reports and further refined in this order is adopted with the following guidelines:

- a. The plan for monitoring the local exchange companies' (LEC) accomplishment of and adherence to goals and requirements under our NRF shall be dynamic, flexible, and adaptable as the changing regulatory needs become evident.

- b. CACD shall be responsible for administering the monitoring program. Accordingly, all monitoring reports and related correspondence should be forwarded to the CACD LEC Monitoring Coordinator.
- c. CACD shall also be responsible for the LECs' compliance with the spirit and intent of the monitoring program. Therefore, CACD should maintain an ongoing dialogue with the LECs and other interested parties regarding any required modifications to the monitoring program and for keeping the Commission informed of new developments in the program.
- d. Prior to filing formal petitions with us, LECs and DRA shall first contact CACD in a good faith effort to resolve informally any monitoring issues that come to their attention.
- e. Division of Ratepayers Advocates (DRA) shall continue to monitor the NRF from the standpoint of ratepayer well-being and to investigate matters that it perceives harmful to any customer group or class.

2. The service-specific cost-tracking program developed in CACD's Workshop I Report and described and clarified in the narrative, findings of fact, and conclusions of law in this decision is adopted for GTEC and Pacific subject to the following provisions:

- a. The LECs shall reconcile the sum of their costs tracked to the companies' financial statements and provide clear, concise, and up-to-date charts reflecting the flow of cost data to and from the statements.
- b. In calculating costs of services to be tracked, the LECs shall follow the FCC Part 64 cost attribution hierarchy for all services but, for Categories I and II services, omitting the Part 64 requirements for tariff imputation and the three-year plant forecasts until such time as the propriety of applying these latter

procedures to these services can be determined.

However, as the service-specific cost-tracking program evolves and develops, modifications must be analyzed on a case-by-case basis, giving consideration to regulatory objectives under the new framework as well as to Part 64 mandates.

- c. The LECs, together with CACD, shall strive for reporting consistency (as between companies) but should recognize that consistency in every respect will not always be attainable.
- d. Where inconsistencies exist between costs determined for services tracked in Phase II of these proceedings and costed in Phase III, LECs shall disclose the differences and their effect.
- e. The workshop accord on the sequence of applying FCC Parts 64 and 36 shall be incorporated.
- f. LECs shall retain records so that the jurisdictional separation of costs of nonregulated services under the jurisdiction of this Commission can be simulated.
- g. LECs shall begin tracking 1990 service-specific costs.
- h. LECs shall maintain California cost allocation manuals that reflect cost allocation requirements of this Commission, and shall file advice letters for any proposed revisions for intrastate purposes in their federal cost allocation manuals.
- i. DRA's six recommended themes for evolving a list of which services costs should be tracked are to be incorporated in the monitoring program.
- j. The lists of services developed by DRA, for the respective LECs, which approximate the

"billed line item" criteria, are to be used as the beginning list of services tracked.

- k. GTEC may track its 1990 costs to the level of disaggregation recommended for initial tracking by CACD.
- l. GTEC shall proceed immediately to collect the data necessary to track 1991 costs to the greater disaggregation recommended by DRA.
- m. GTEC will not be subjected to sanctions for its inability to track 1990 costs to the greater disaggregation recommended by DRA.
- n. The policy that LECs should track costs contemporaneously and should update allocation measurements annually (or more frequently where required by staff) will be adopted. Any such policy must recognize that interim allocations are subject to annual true-ups.

3. The reporting requirements recommended in CACD's Workshop II Report with the modifications described in this order, as set forth below, are adopted:

- a. Major service interruptions shall be reported monthly by Pacific and GTEC.
- b. Pacific shall make information about quality improvement and cost reduction programs available both on an annual basis and upon request.
- c. GTEC shall provide information about quality improvement and cost reduction programs upon request and will maintain an appropriate level of monitoring.
- d. Pacific and GTEC shall, in cooperation with DRA, conduct a study of telephone service affordability and allow DRA to participate if it so desires.
- e. There will be a two-year sunset clause for tracking requirements for new services.

- f. Pacific and GTEC shall maintain and provide monitoring information that will break out investment for fiber between feeder and distribution facilities.
- g. Because of its limited value under the incentive regulatory framework, Pacific and GTEC will not be required to break out network interoffice and distribution facilities by wire center.
- h. Fiber projects shall be accounted for and monitored generally to provide a basis for tracking the modernization of the telephone network in the future.
- i. GTEC may provide Capital Budget Summary information on its own format.
- j. GTEC's interoffice facilities report need not be identical to Pacific's, but must include essentially the same information.
- k. Pacific shall provide monthly settlement data, reported quarterly, including settlement payments to all LECs in the state.
- l. The DRA position with regard to reports detailing market share and other relevant market power data for services in Categories II and III is adopted. However, LECs will not be required to report market share data of other providers in a market, nor are they required to provide data they cannot isolate. Market data reports will be provided annually, with filings regarding Categories II and III services, and when recategorization of services is requested.
- m. LECs shall provide tariff imputation reports annually as recommended by CACD and described in its Workshop II Report, beginning the first year after imputation rules are defined.
- n. Pacific and GTEC shall each submit a report detailing the number and type of complaints

filed against it by competitors monthly with annual summaries.

- o. Except as noted in Conclusion of Law 49, depreciable assets cited by CACD in its Workshop III Report as having been previously disallowed by this Commission shall be removed from LECs' sharable earnings fillings. Depreciation or amortization expenses of such assets along with the associated tax effects should also be disallowed for purposes of calculating sharable earnings.
- p. GTEC's investment in CentraNet, although falling within CACD's guidelines for disallowance, may nevertheless be allowed in calculating sharable earnings.
- q. It is unreasonable for Pacific or GTEC to profit from illegal activities of any nature; such expenditures in unlawful activities must always be deleted from ratemaking or earnings calculations.
- r. LECs shall continue accounting for expenses associated with antitrust actions in accordance with the current policy of this Commission, which is to account for such expenses below the line until such time as the LEC is found innocent of anticompetitive behavior.
- s. Except as noted in Conclusion of Law 48 or as may be determined in the future by this Commission, ratemaking adjustments are inappropriate in sharable earnings calculations.
- t. The form agreed upon by workshop participants is adopted for annual sharable earnings filings until modified informally by CACD or formally this Commission.
- u. The definition of earnings for use in the annual earnings calculations is that recommended by the CACD Workshop III Report.

- v. The rate base components and procedures (excluding below-the-line services) recommended by CACD shall be used in the annual earnings calculations.
- w. Future penalties imposed on LECs will be implemented pursuant to determinations in further orders of this Commission as individual circumstances dictate.

4. Two copies of each monitoring report shall be sent to the CACD LEC Monitoring Coordinator and two copies shall also be sent to the Director of DRA.

5. CACD and the LECs shall continue with efforts to streamline reporting requirements.

6. CACD shall produce, at the commencement of the 1992 NRF review, a written assessment explaining who prepares each monitoring report the utilities provide to our staff, and what purpose each of these reports serves for the utility and for the staff. CACD's assessment shall recommend which monitoring reports, if any, should be eliminated. DRA, the Executive Division, the Safety Division, the Office of the Public Advisor, the Consumer Affairs Branch, and the utilities shall provide to CACD the information it needs to develop its assessment and recommendation.

7. Pacific and GTEC shall work with CACD to develop the hardware and software necessary to create a direct computer link with CACD. Pacific and GTEC may recover their nonrecurring costs of setting up this computer link through a Z factor adjustment. This computer link will be accessed only by CACD and DRA.

8. Within 60 days after the effective date of this order, Pacific and GTEC may file motions for protective orders, along with their respective monitoring reports, seeking to preclude access to highly restricted proprietary information. If necessary, the assigned administrative law judge will schedule a hearing to take further oral argument or testimony on the motions, after having reviewed all timely filed responses thereto. All monitoring

information shall be considered nonproprietary if no protective order is issued after this hearing process.

9. CACD is hereby directed to place one copy of each of the three workshop reports, together with any and all opening and reply comments received relative to each of the reports, in the formal file of this proceeding (I.87-11-033).

10. GTEC and Pacific shall file their respective annual sharable earnings calculations 1990 in accordance with this order on or before August 23, 1991.

This order is effective today.

Dated July 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. SHULMAN, Executive Director

SECTION I.a.

REPORTS RECOMMENDED FOR CONTINUATION
PACIFIC BELL

REPORT TITLE	FREQUENCY	CURRENT CPUC RECIPIENT
1. G.O. 133-A TELEPHONE SERVICE MEASURES This report provides uniform standards of service for the installation, maintenance, and quality of telephone service.	QUARTERLY	DRA
2. G.O. 152 - SERVICE MEASURES PRIVATE LINE ALARM This report provides uniform standards for the installation, maintenance, and operation of private line alarm services.	QUARTERLY	CACD, DRA
3. MAJOR SERVICE INTERRUPTION REPORT AFTER OCCURRENCE This report on quality of service provides data of a major service interruption.	AFTER OCCURRENCE	DRA
4. MONTHLY APPEALS RESULTS SUMMARY (MARS REPORT) The MARS report is actually three separate reports: 1. MARS Report - Summary of company-wide informal complaints, CPUC complaints and FCC complaints. 2. The Product Report - Displays the MARS results by product. 3. A Customer Appeals Report for Enhanced Services - Record on the individual complaints.	MONTHLY	CACD
5. CORPORATE ACCESS LINE REPORT (CALR) This report provides in-services, inward and outward movement. Change (in/out), and gain of access lines by market segment.	MONTHLY	CACD, DRA
6. MR #23 - PRODUCTIVITY MEASUREMENT (Employee Force Counts) This report provides regular, temporary, full-time, part-time, salaried, and non-salaried employee force levels, and also contains details regarding employee wages and number of employees.	MONTHLY	DRA

7. DIRECTORY ASSISTANCE, CALL VOLUME MONTHLY DRA
(includes appendix)

This report provides monthly call volumes for directory assistance.

8. ZUM TRACKING REPORT ANNUALLY CACD, DRA

This report provides information which aids Commission staff in calculating the number of messages per specific cases of access line growth.

9. BELLCORE CUSTOMIZED WORK ANNUALLY DRA
PROGRAM BINDERS

Bellcore provides centralized research, engineering and other services to its owner-clients. The Applied Research "Work Program" (collection of projects with a common focus) of the Bellcore budget identifies the majority of the research activity at Bellcore. These binders detail the Bellcore Work Programs specific to Pacific and show budget information regarding research, engineering and other services provided by Bellcore.

10. BELLCORE PROJECT BUDGET ANNUALLY DRA
FINAL REVIEW

This report provides the total annual Bellcore project budget.

11. BELLCORE ANNUAL REPORT TO ANNUALLY DRA
SHAREHOLDERS

This report details billed vs. budgeted information on a project-specific basis for each work program.

12. BELLCORE EXCHANGE, AS AVAILABLE CACD, DRA
BELLCORE INSIGHT
BELLCORE DIGEST

Bellcore publications

13. EMPLOYEE PUBLICATIONS: AS AVAILABLE CACD, DRA
o PACIFIC BELL'S UPDATE
o PACIFIC MAGAZINE
o INSIGHT
o OTHER RELEVANT TECHNOLOGY
DEVELOPMENT REPORTS

Pacific Bell publications.

14. CAPITAL BUDGET SUMMARY ANNUALLY CACD, DRA

This report contains a forecast for the current year and two subsequent years. The Capital Budget Summary information includes categories of capital costs associated with assets, growth, replacement, drivers/accomplishments/indicators, and major projects involving new products, services, and system/efficiency improvements. The report was modified during Monitoring Workshop II to include an appendix to Table III. The appendix will provide a description of each project over \$1 million for the life of the project listed in Table III, rationale for undertaking the project and the associated expense.

15. FR #1 - SUMMARY OF REPORTS MONTHLY CACD, DRA

This report is a high level summary of the Pacific's financial information. Sheet 1 is the Income Statement information, i.e., Total Operating Revenues, Total Operating Expenses, Total Operating Taxes, Miscellaneous Income and Deductions, Interest Expense and Net Income. Sheet 2 is the Balance Sheet information, i.e., Assets, Liabilities, and Stockholders' Equity. Sheet 3 contains various averages, percentages calculations, and statistical data.

SUPPLEMENT A TO FR #1 MONTHLY CACD, DRA

This is a summary of the FR #1 and the MR #1 (Sheets 1 and 2, Income Statement and Balance Sheet, respectively) which compares the two reports and details the differences.

16. FR #4 - OPERATING REVENUES MONTHLY CACD, DRA

This report details the lowest possible level of all the Operating Revenue Accounts (5xxx accounts).

**17. MA #4 - BILLED & OPERATING MONTHLY CACD, DRA
 REVENUES**

This report depicts billed and operating revenues. Additionally, it contains current year data organized by market segment, detailing billed, unbilled & earned (total) revenues.

**18. MA #8 - CALL COMPLETIONS MONTHLY CACD, DRA
 & NUMBER SERVICES**

This report contains Call Completion and Number Services Expense Accounts 6532, 6621, 6622, and 6623 which are detailed at the lowest possible level.

19. MA #9 - EXCHANGE/INTEREXCHANGE MONTHLY DRA

This report details Message Telecommunications Service messages. The primary user of this report is the Separations organization.

20. MA #16 - DEPRECIATION RESERVE MONTHLY CACD, DRA

This report details Depreciation Reserve, Account 3100, by lowest level sub-accounts. Included on the report are accruals, gross salvage, retirements, cost of removal, other debits and credits, corresponding plant balances, and reserve to plant percentages, as well as beginning and ending balances.

**21. MR #21 - CONSTRUCTION MONTHLY CACD, DRA
EXPENDITURES RETIREMENT**

This report contains actual construction expenditures by major account, specific estimates, routine estimates, revised material and plant retirements.

**22. SN 1060 - CUSTOMER OPERATIONS MONTHLY DRA
EXPENSE**

This report details Customer Operations Expense Accounts 6611, 6612, 6613, 6623, and 6722.

**23. A 4556 - REVENUES, EXPENSES, MONTHLY DRA
AND NET PLANT AND WORKING CAPITAL**

This report contains selected portions of revenue, expense, net plant and working capital.

24. COMPENSATION - G.O. 77-K ANNUALLY CACD

G.O. 77-K requires that Pacific Bell furnish the CPUC with an annual report which depicts the names, titles, and duties of all employees who receive compensation at the rate of \$75,000 or more per annum. In addition, the report includes the actual compensation and personal business expenses; Dues, Donations, Subscriptions and Contributions; and the Payments of Attorneys.

**25. ANNUAL REPORT, FORM M ANNUALLY CACD, DRA
G.O. 104-A**

This report is required to be filed with the FCC by telephone companies which operate exchanges and have annual operating revenues in excess of \$100,000,000 and telephone companies which do not operate telephone exchanges but operate to overseas points or in the maritime radio service and have annual reporting revenues in excess of \$50,000.

**26. 10-K REPORT (SECURITIES & EXCHANGE ANNUALLY CACD
COMMISSION)**

This is an annual report required to be filed with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

10-K contains the following information:

1. Report of Management
2. Report of Independent Accountants
3. Income Statement
4. Balance Sheet
5. Management discussion and analysis of results of operations.

**27. 10-Q REPORT (SECURITIES & EXCHANGE QUARTERLY CACD
COMMISSION REPORT)**

This is a quarterly report required to be filed with the SEC pursuant to Section 13 and 15(d) of the Securities Exchange Act.

28. ANNUAL REPORT TO SHAREHOLDERS ANNUALLY CACD

This report is distributed to shareholders and is public information. This is now divided into two parts:

1. Summary Annual Report
2. Proxy Statement/notice of Annual Meeting and Consolidated Financial Statements.

**29. BELLCORE FINANCIAL REPORTS QUARTERLY DRA
(FB 2, FB 3, FB 5)**

FB 2 is a Statement of Income, FB 3 is a Balance Sheet, and FB 5 is a Force Summary Report.

30. BELLCORE FINANCIAL REPORT (PR 8) SEMI-ANNUALLY DRA

The PR 8 report provides information on project costs by elements (actual and budget).

**31. BELLCORE FINANCIAL REPORT QUARTERLY DRA
(PR 14-1)**

The PR 14-1 report provides information on project costs by category (actual & budget).

**32. INTRASTATE EQUAL ACCESS ANNUALLY CACD, DRA
BALANCING ACCOUNT**

This report reflects Pacific's actual equal access revenues in the balancing account on a monthly basis.

**33. PLANNING OPERATIONS MODEL DATA ANNUALLY DRA
TRANSMITTAL FORM**

This form is used to provide updates to the Commission's Telecommunication's Model Catalog.

34. TAX AND ACCOUNTING CHANGES WITHIN 90 CACD
 (e.g., uses of different methods DAYS OF
 of procedures) RELEASE

This report provides an analysis of tax and accounting changes within 90 days of their release.

35. 800 PRICE REDUCTION QUARTERLY CACD

This report addresses usage volumes and revenues for 800 services.

36. HIGH CAPACITY DIGITAL SERVICES SEMI-ANNUALLY CACD

This report shows revenues and expenses and any service complaints.

37. SERVICE AREA 800 SEMI-ANNUALLY DRA

This report provides service-specific revenue, volume, implementation costs and all other expenses.

38. CUSTOM 800 QUARTERLY CACD

This report tracks the monthly line volumes by market segment; messages and minutes; total revenues, total volumes and revenues.

39. ADVANCED DIGITAL NETWORK (ADN) SEMI-ANNUALLY CACD

This report provides service-specific revenue, volume and cost tracking for ADN.

40. 495A - FORECAST OF INVESTMENT ANNUALLY DRA
 & USAGE REPORT

This report identifies the forecasted joint investment dollar amounts, forecasted usage, apportionment between regulated and nonregulated services and actual usage true-ups to the original apportionment as needed.

41. 495B - ACTUAL USE OF INVESTMENT ANNUALLY DRA
 REPORT

This report identifies the actual joint investment dollar amounts, actual usage and apportionment between regulated and nonregulated services.

42. FEDERAL COST ALLOCATION MANUAL QUARTERLY DRA
 (F-CAM)

The F-CAM separates total company revenues, costs and investments between regulated and nonregulated activities.

43. GUIDELINES FOR TRANSFERRING AS ISSUED
 ASSETS TO AFFILIATES

These guidelines provide the reporting requirements for transferring an asset to an Affiliate or Subsidiary.

44. TRANSFER PRICING INSTRUCTIONS UPON REQUEST DRA
- STANDARD INSTRUCTIONS (S.I.) 80

Standard instructions for transfer pricing of Pacific Bell services to an affiliate.

45. TARIFFED TELECOMMUNICATIONS QUARTERLY CACD
TRANSMISSION SERVICES REPORT

This report provides the quarterly total of Pacific Bell's tariffed telecommunication services billed to affiliate by affiliates as well as Pacific Bell Directory Advertising to affiliates.

46. PACIFIC TELESIS AFFILIATE AS REVISED CACD
TRANSACTIONS POLICIES,
PROCEDURES AND REPORTING
REQUIREMENTS

This document explains Pacific Telesis' policy on transactions between affiliates and states the guidelines.

47. REQUEST FOR INFORMATION AND UPON REQUEST DRA
SAFEGUARDING PROPRIETARY
INFORMATION - STANDARD INSTRUCTION
(S.I.) 178

Standard instructions on request for information and safeguarding proprietary information.

48. PACIFIC BELL INTELLECTUAL UPON REQUEST DRA
PROPERTY MANUAL
- STANDARD INSTRUCTION
(S.I.) 179

Standard instructions for intellectual property procedures.

49. RECORD RETENTION UPON REQUEST DRA
- STANDARD INSTRUCTION
(S.I.) 9

Standard instructions for record retention.

50. NOTIFICATION OF ASSET TRANSFER 30 DAYS CACD
PRIOR TO
OCCURRENCE

Asset transfers over \$100,000 must be reported 30 days prior to occurrence. If an asset transfer of property or property rights is less than \$100,000, it must be reported annually.

51. INTERCOMPANY PERSONNEL MOVEMENTS QUARTERLY DRA

This report shows the movement of employees between Pacific Bell (including Pacific Bell Directory) and non-Bell affiliates.

52. PACIFIC BELL ORGANIZATION CHART AS ISSUED CACD, DRA

This chart shows the organization structure for third level and above by name.

53. PACIFIC TELESIS ORGANIZATION CHARTS AS ISSUED DRA

This chart provides a listing of Pacific Telesis affiliate and non-affiliate companies.

54. ANNUAL REPORT ON M/WBE PLAN FOR INCREASING M/WBE PROCUREMENT ANNUALLY EXECUTIVE

This is an annual report of our M/WBE program for the prior year and Pacific's plan for increasing M/WBE procurement over the next five years.

55. AVAILABILITY OF 24 HOUR PAY PHONES RESULTING IN THE INTRODUCTION OF COPT SERVICE SEMI-ANNUALLY CACD

This report monitors the availability of pay telephones; shows COPT inward and in-service; Pacific public and semi-public phones replaced by COPT; the number of "outdoor" COPT telephones and the approximate increase in outdoor COPT from the last report.

56. MULTILINGUAL SEMI-ANNUALLY CACD

This report contains a complete narrative of programs made and problems encountered, relating to multilingual service, special statistics relating to the number of customers served by language, geographic area and type of service such as repair, billing, and operator services; a copy of any recommendations made by the Bilingual Consumer Advisory Council or any successor group on multilingual services during the period in question.

57. EMERGENCY SPANISH LANGUAGE ASSISTANCE BUREAU (ESLAB) QUARTERLY EXECUTIVE

This report measures ESLAB service (percentage of calls answered within 60 seconds)

58. NON-ENGLISH SPEAKING PERCENTAGE BY EXCHANGE ANNUALLY EXECUTIVE

This report is a list of serving areas or exchanges in which there is a non-English speaking minority comprising 5% or more of the population as determined by current census data.

59. NUMBER RETENTION SERVICE SEMI-ANNUALLY CACD

This report tracks monthly in-service volumes and recurring and non-recurring revenues and costs.

60. BILL INSERTS FOR (AVAILABLE TELEPHONE SERVICES)	ANNUALLY & AS ISSUED	CACD, DRA, CONSUMER AFFAIRS BRANCH, PUBLIC ADVISOR OFFICE
---	----------------------	---

Copies of inserts for bills detailing specific additions/deletions and rationale for each customer's phone service.

61. BILL INSERTS (STATE-WIDE)	ANNUALLY & AS ISSUED	CACD, DRA, CONSUMER AFFAIRS BRANCH, PUBLIC ADVISOR OFFICE
-------------------------------	----------------------	---

Copies of inserts for bills detailing specific additions/deletions and rationale for each customer's phone service.

62. BILL INSERTS (DIRECTORY LISTINGS)	RESPONSE CARD EVERY 3 YEARS AND NOTICE IN INTERVENING YEARS	CACD, DRA, CONSUMER AFFAIRS BRANCH, PUBLIC ADVISOR OFFICE
---------------------------------------	---	---

Copies of inserts for bills detailing specific additions/deletions and rationale for each customer's phone service regarding directory listings only.

63. CALIFORNIA 900/976	MONTHLY & QUARTERLY	CACD
------------------------	---------------------	------

The 900 monthly report tracks the revenues and the non-recurring revenues, adjustments, calls and minutes by LATA, by category. The 900 quarterly report includes blocking, consumer safeguard tracking and independent company negotiation. The 976 report tracks revenues, calls and adjustments by segment, category and program access lines by area code.

64. CALL BONUS	QUARTERLY	CACD
----------------	-----------	------

This quarterly report contains a study assessing the need for customers to be notified whether or not they benefited from the calling plan.

65. CLEARANCE OF INFRACTIONS	AS REQUESTED	SAFETY DIVISION
------------------------------	--------------	-----------------

This report details specific information regarding an infraction and date of clearance.

66. CUSTOMER NOTIFICATION LETTER	AS ISSUED	CACD, DRA CONSUMER AFFAIRS BRANCH
----------------------------------	-----------	-----------------------------------

All notifications to the customers regarding changes, directory coverage, etc.

67. ENHANCED 911 SERVICE TRACKING QUARTERLY CACD

This report includes revenues, volumes and costs for E-911 network services and CPE.

68. INTERCOM PLUS: TRACKING REPORT ANNUALLY CACD

This tracking report tracks annually the volumes associated with this product for 5 years.

69. MEASURED SERVICE IMPLEMENTATION PROGRAM ANNUALLY CACD

This report provides the Commission an implementation schedule for the measured service.

70. NPA CHANGES 6 MONTHS
PRIOR TO
CHANGE DRA

Notification to the Commission of any basic modifications in the objective numbering plan including any proposed splitting of or additions to numbering plan areas, any increases or decreases in digits to be dialed, any re-numbering of area codes or any large scale changes in central office codes.

71. PBLAN QUARTERLY CACD

This report tracks revenue, volume, expense and investment.

72. AFFILIATE VOUCHER TRANSACTION MONTHLY DRA
DETAIL REPORT

This report details transactions with affiliates by voucher detail.

73. PRIVACY OF TELEPHONE COMMUNICATIONS ANNUALLY EXECUTIVE

This report provides information of instances reported or found in which a device was installed or believed to have been installed for the purpose of overhearing telephone communications.

74. TARIFF REVISIONS -- FCC AS ISSUED CACD

Copies of FCC tariff revisions showing basic toll rate plans.

75. TDD DISBURSEMENT PROGRAM QUARTERLY CACD

This report lists agencies that request TDDs, and agencies that are supplied TDDs and an explanation if the request was denied.

76. LABOR RATES BINDER AS ISSUED CACD

A set of standard labor costs for individuals performing the functions of a specified job description at a specific wage schedule or salary band.

77. ARTICLES OF INCORPORATION AS ISSUED CACD

Whenever the Articles of Incorporation are amended, a copy is filed with the Commission.

**78. BASIC SERVICE ELEMENTS QUARTERLY CACD
(FIRST SIX INITIAL BSEs)**

This report provides service-specific revenue, volume and cost tracking for BSEs associated with Open Network Architecture (ONA).

**79. BELLCORE FINANCIAL REPORT QUARTERLY DRA
(PR #23)**

This report details owner-client project cost by work program.

80. CENTREX INTEGRATED SYSTEMS SEMI-ANNUALLY CACD

This report provides service-specific revenue, volume and cost tracking for Centrex Integrator System.

81. CONTINUING PROPERTY RECORDS WHEN REVISED CACD

A plan of the method to be used in the compilation of a continuing property record with respect to each class of property. The plan includes a list of the property record units, a narrative statement describing in detail the content and method of maintenance of all forms and other records which are designed for use in compiling the continuing property record.

**82. CONTRACTS IN EFFECT/
TERMINATED/WITHDRAWN ANNUALLY CACD**

This report lists all contracts in effect for joint occupancy poles, underground duct space, armed services, Western Union, private mobile services, directory assistance service agreements, miscellaneous common carriers, police and fire alarms, miscellaneous, e.g., E-911.

83. COST FACTORS BINDER ANNUALLY CACD

This binder includes cost factors which account for the direct recurring annual costs incurred by Pacific Bell.

84. VOICE MAIL FINANCIAL TRACKING MONTHLY CACD

This is a financial tracking report which shows service-specific revenue, expense and investment.

**85. DE-TARIFFED PUBLIC PACKET MONTHLY CACD
SWITCHING**

This is a financial tracking report which shows service-specific revenue, expense and investment.

86. TOTAL PUBLIC PACKET SWITCHING MONTHLY CACD

This is a financial tracking report which shows service-specific revenue, expense and investment.

87. CALIFORNIA CALL MANAGEMENT MONTHLY CACD

This is a financial tracking report which shows service-specific revenue, expense and investment.

88. PACIFIC BELL CONNECTION (E-MAIL) MONTHLY CACD

This is a financial tracking report which shows service-specific revenue, expense and investment.

89. FUNCTIONAL ACCOUNTING/FINANCIAL AS ISSUED DRA
CODE MANUALS

The Financial Code Specifications Manual and the FMS Financial Code Hierarchies and SSET manual provide code narratives, code descriptions and relationships for the financial function and expenditure hierarchies.

90. FCC DAILY DIGEST (FCC NOTES, MONTHLY DRA
OPINIONS, ORDERS, RULINGS AND
ALL PLEADINGS

Report card stating compilations of FCC's daily activities.

91. PACIFIC BELL ACCOUNTS MANUAL QUARTERLY CACD

The accounts manual includes general instructions and account narratives of Pacific Bell and Nevada Bell's accounting system, the chart of accounts and reporting requirements as well as related information.

92. SALES AGENCY PROGRAM QUARTERLY CACD

This report shows volumes and total sales generated under the Sales Agency Program; total sales commission paid and specific sales commission levels paid to each authorized sales representative.

93. QUARTERLY REPORT (QR) # 2A QUARTERLY DRA

This report details all the changes in Telephone Plant Accounts.

94. SHORT TERM NOTES MONTHLY CACD

This report lists Pacific Bell's short term debt activity.

95. USOC MANUAL QUARTERLY CACD, DRA

The manual contains the service order codes for Pacific Bell products.

96. USER FEE **QUARTERLY** **CPUC CASHIER**

The User fee is paid quarterly in compliance with Resolution M4727 which authorizes funding of the CPUC from the fees imposed upon each regulated utility, common carrier and related business.

97. UTILITY USERS' TAX **ANNUALLY** **DRA**

The Telephone Utility User's Tax (UUT) is a tax imposed on all persons using intrastate telephone service. This report is a list of cities imposing Utility User Taxes.

**98. OVERHEAD-UNDERGROUND
ELECTRICAL LINE** **ANNUALLY &
AS REQUESTED** **DRA**

This is a statistics and accident report showing overhead and underground line related accidents on an annual basis.

99. LEC AGREEMENTS **AS ISSUED** **CACD**

Agreements between Pacific Bell and the Local Exchange Carriers stipulating the rates and conditions under which one company provides the other a specific service.

100.COMMSTAR TRACKING REPORT **MONTHLY** **CACD**

This report tracks monthly in-service volumes, inward movement, recurring and non-recurring billing. On an annual basis, Pacific will provide actual recurring and non-recurring costs plus a description of extraordinary marketing/advertising costs directly assignable to COMMSTAR or jointly with other products.

101.CUSTOMER SURVEYS **AS INITIATED** **CACD**

Customer surveys refer to telephone surveys conducted by Pacific Bell.

102.DIRECT MAIL/DIRECT RESPONSE **AS ISSUED** **CACD, DRA,
CONSUMER AFFAIRS,
BRANCH**

This is advertising material Pacific provides to its customers.

103.ACCIDENT REPORTS **AS OCCURS** **SAFETY**

This report is issued at the time of a fatal or serious accident of an employee, which occurred while working on Pacific Bell's overhead or underground power or communication systems in California.

104.ACTUARIAL REPORTS **UPON REQUEST** **CACD**

This report shows the current year's funding and expense requirements for the pension plan.

105.BYPASS (ACCESS)

SEMI-ANNUALLY CACD, DRA

This report provides examples of facility and service bypass; estimates revenue losses to Pacific Bell based on the known examples, for the purpose of enabling the Commission to monitor the development of facility and service bypass.

106.DECISION DATA FILE

MONTHLY CACD

This report lists the Commission decisions which have been signed the previous month that have a revenue impact on Pacific Bell

107.DIRECTORY - WHITE PAGES
RESCOPING

ANNUALLY CACD

This is a report to the Commission on Pacific's progress in rescoping white pages coverage in its metropolitan area alphabetic directories.

108.ESTABLISHMENT AND RE-ESTABLISH-
MENT OF CREDIT

FINANCIAL CACD

Every six months the Centralized Credit Check System (CCCS) Committee is required to file a report detailing the effects of the trials ordered in T-12092. Relevant data includes net bad debit and expense savings of not performing the establishment-of-credit procedure. On 7/03/90, the CCCS Industry Committee filed the Final Report on Uniform Tariff Rules for the Establishment of Credit for Residence Service and Deposits in accordance with Resolution T-12092 dated 6/17/88.

109.FORCE MANAGEMENT REPORT

MONTHLY DRA

This report shows total employees, additions to the force and force deductions.

110.KEY OFFICERS TO WHOM CORRESPONDENCE UPON REQUEST
SHOULD BE ADDRESSED CACD

Information was originally requested in a data request from the Commission staff for the period from January 1987 through July 1988. However, responses to this data request continue to be issued monthly.

111.LIST RENTAL SERVICE

ANNUALLY CACD
(JANUARY)

This is an annual financial report tracking the expenses and revenues associated with the List Rental Service. This service has been in effect since 1986.

112.MR #1 - SUMMARY OF REPORTS MONTHLY CACD, DRA

This report is a high level summary of the Company's financial information, i.e., Total Operating Revenues, Total Operating Expenses, Total Operating Taxes, Miscellaneous Income and Deductions, Interest Expense and Net Income (Sheet 1) which reflects Part 32 revenues, regulations and other FCC conventions. Sheet 2 is the Balance Sheet information, i.e., assets, liabilities and stockholders' equity. Sheet 3 contains various averages, percentages, calculations and statistical data.

113.MR #2 - BALANCE SHEET MONTHLY CACD, DRA

This is the company balance sheet which reflects FCC Part 32 rules and regulations and other FCC conventions. Sheet 1 represents total assets; Sheet 2 represents total liabilities and capital. This report balances to MR #1, Sheet 2.

114.MR #3 - INCOME STATEMENT MONTHLY CACD, DRA

It is the company's income statement which reflects FCC Part 32 rules and regulations and other FCC conventions. This report balances to the MR #1, Sheet 1.

115.MR #3 - SUPPLEMENT A MONTHLY CACD, DRA

This report details subaccount level federal, state and local income taxes and other taxes related to income and is intended as a supporting document to the MR #3. This report reflects FCC Part 32 rules and regulations and other FCC conventions.

116.MR #3 - STATE OF CALIFORNIA MONTHLY DRA

This report is exactly the same as the regular MR #3 from lines 1 thru 16.

117.MR #4 - OPERATING REVENUES MONTHLY CACD, DRA

This report details the lowest possible level of all the Operating Revenue Accounts (5xxx accounts) reflecting FCC Part 32 rules and regulations and other FCC conventions.

118.MR #5 - OPERATING EXPENSES MONTHLY CACD, DRA

This report provides plant specific operations expense at account levels which reflect FCC Part 32 rules and regulations and other FCC conventions.

**119.MONTHLY SEPARATIONS SUMMARY MONTHLY CACD
OF INTERSTATE AND INTRASTATE
OPERATIONS (AKA RESULTS OF
OPERATIONS - SEPARATED MS186/7)**

This report shows separated results prior to any ratemaking adjustments.

120. PUBLIC PACKET SWITCHING**UPON REQUEST CACD**

This report provides revenue and cost data for the Public Packet Switching service.

121. RESULTS OF OPERATIONS**MONTHLY****CACD, DRA****INTRASTATE REPORT****(SURVEILLANCE REPORT/074 REPORT)**

This summary report provides detailed information on intrastate revenues, expenses, rate base, and rate of return (ROR) in a manner reflecting Commission ratemaking conventions

122. CAPITAL STRUCTURE AND COSTS**MONTHLY****CACD**

This report is provided monthly along with the Intrastate Results of Operations Report (Surveillance Report). It shows Pacific Bell's equity and debt and the costs associated with these components.

123. RESULTS OF OPERATIONS**ANNUALLY****CACD, DRA****PACIFIC BELL (BOUND)**

This report contains a comprehensive, detailed view of the results of Pacific Bell operations, from both a financial and operational perspective. It provides a comparative operation statistics as well as a summary of major Commission decisions impacting the company.

124. RATES OF RETURN AND CAPITAL**QUARTERLY****CACD****STRUCTURES REPORT**

This is a quarterly report showing Pacific Bell's equity and debt and the costs associated with these components. It is based on two months of actuals and one month of projections.

125. SUMMARY OF DEVIATIONS**UPON REQUEST****CACD**

Deviation of services refers to exceptions to G.O. 96A and tariffs.

126. MONTHLY REPORT AND CLAIM**MONTHLY****ULTS****STATEMENT -- UNIVERSAL****ADMINISTRATIVE****TELEPHONE SERVICE FUND****COMMITTEE**

This report is the financial statement for the Universal Telephone Service Fund. The report includes the number of Universal Telephone Service Fund users.

127. DIRECTORY CLOSING AND**AS ISSUED****CACD****DELIVERY SCHEDULE**

This report lists pertinent information regarding Directory sales campaigns including advertising close dates, directory issue dates, delivery start dates, etc.

(END OF APPENDIX A)

SECTION I.b.
REPORTS RECOMMENDED FOR CONTINUATION
GTEC

REPORT TITLE	FREQUENCY	CURRENT CPUC RECIPIENT
(1) TELEPHONE SERVICE LEVELS	QUARTERLY	CACD, DRA
G.O. 133-A Report on telephone service levels. This report provides uniform standards of service for the installation, maintenance, and quality of telephone service.		
(2) PRIVATE LINE ALARM	QUARTERLY	CACD, DRA
A report on private line alarm service. This report provides uniform standards for the installation, maintenance, and operation of private line alarm services.		
(3) NOTIFICATION OF MAJOR SERVICE INTERRUPTIONS	UPON OCCURRENCE	DRA
Major service interruptions are reported to the Commission as they occur.		
(4) MONTHLY OPERATIONS REPORT 9000	MONTHLY	CACD, DRA
This report provides financial data regarding GTEC in the form of income statement, balance sheet, and analysis of operating expenses and revenues. Also contains the following data:		
Access Line Counts - This data (pg. 14 of the MOR 9000) details the number of residential and business switch access lines, both single-line and multi-line. Other switched access lines are also shown, in addition to special access line counts.		
Growth Levels - This data (found in MOR 9000) details customer growth statistics, and usage per customer growth.		
(5) NOTICE OF TAX AND ACCOUNTING CHANGES	AT LEAST 90 DAYS AFTER CHANGES ARE APPROVED BY FCC.	CACD

This report notifies the Commission of GAAP changes, as they are adopted by the FCC, and their associated revenue impacts.

(6) INTRASTATE RESULTS OF OPERATION MONTHLY CACD, DRA
(103 Report)

This is a monitoring report from cost of service regulation that reports the company's rate of return with ratemaking disallowances.

(7) SEPARATED RESULTS OF OPERATIONS MONTHLY CACD, DRA
(101 Report)

This report shows the separation of the company's books between intrastate and interstate jurisdictions.

(8) REPORT OF MEMBERSHIP DUES, ANNUALLY CACD
CONTRIBUTIONS AND DONATIONS
AND SALARIES OVER \$75,000

This report provides data on membership dues, contributions, donations, and salaries over \$75,000.

(9) CENTRANET QUARTERLY REPORTS QUARTERLY CACD

This report provides actual costs, revenues and volumes associated with the provision of CentraNet service. The report includes non-recurring costs associated with the provision of CentraNet, the intra-system usage costs, right-to-use fees and actual in-service and inward movement for each CentraNet tariff rate item. This reporting requirement will end with the expiration of the provisional tariff at the end of 1990.

(10) UNDERGROUND CONVERSIONS UPON REQUEST SAFETY DIVISION

Information showing costs of conversion of existing aerial facilities are gradually being placed underground either at the initiative of the company, pursuant to the obligations imposed by D.73038, or at the request of individuals or governmental agencies pursuant to the reimbursement rules found in the company's tariffs will be available upon request.

(11) INTEREST DURING CONSTRUCTION QUARTERLY CACD

This report requirement shows the mechanics of using quarterly indices to derive a monthly IDC rate. This rate applied to plant under construction balances generates the amount of interest during construction booked each month.

(12) WEIGHTED AVERAGE COST MONTHLY CACD
OF CAPITAL

This report provides the financial data to calculate the weighted cost of capital for a rolling 12-month period. This information is contained within the MOR 9000 Report.

(13) SAMPLE DECISION DATA FILE MONTHLY CACD

The report lists the decisions or resolutions having a revenue impact on the company along with the dollar impact as a percentage of gross revenues, authorized ROE and ROR and the impact on average residential

bills. Authorized ROR and ROE tracking has been modified by D.89-10-031.

(14) ANALYSIS OF PAYROLL MONTHLY CACD

This report provides GTEC's productive and non-productive payroll hours by month and functional account. Labor hour information will be included in the Economic Efficiency report proposed by DRA and agreed to by GTEC.

(15) FACILITY-RELATED ACCIDENTS AND ANNUALLY SAFETY DIVISION
LINE STATISTICS

This report provides information of facility-related accidents and line statistics.

(16) TELEPHONE TAP DEVICES ANNUALLY CACD
DISCOVERED

This report provides information of instances reported or found in which a device was installed or believed to have been installed for the purpose of overhearing telephone communications.

(17) EMERGEANCY SPANISH LANGUAGE QUARTERLY CACD, EXECUTIVE
ASSISTANCE BUREAU MEASUREMENT

This report details the requirements for bilingual services to be provided to non-English speaking persons by telephone utilities in the State of California.

(18) NON-ENGLISH SPEAKING ANNUALLY EXECUTIVE
PERCENTAGE BY EXCHANGE

This report details the requirements for bilingual services to be provided to non-English speaking persons by telephone utilities in the State of California.

(19) REPORTS OF W/MBE ACTIVITIES ANNUALLY EXECUTIVE

This report provides information on procurement activity with Women and Minority Business Enterprises.

(20) PRACTICE USED TO ASSURE AS REVISED CACD
PRIVACY AND SECRECY

This report provides changes to GTEC's Administrative Practice as it is revised.

(21) CUSTOMER INFORMATION NOTICES ANNUALLY PUBLIC ADVISOR

This notice is a bill insert to customers.

(22) TELEPHONE DIRECTORIES AS ISSUED CACD
(Including Street Address)

Telephone Book Publications

(23) TARIFF CONTRACTS SEMI-ANNUALLY CACD
AND DEVIATIONS

This report is consistent with tariff reporting requirements.

(24) FORM M-ANNUAL REPORT TO FCC ANNUALLY CACD

This report provides financial and statistical data.

(25) ANNUAL REPORT TO SHAREHOLDERS ANNUALLY CACD
AND OTHER FINANCIAL STATEMENTS

This report provides operating and financial information.

(26) RECEIPT & DISBURSEMENT OF MONTHLY CACD, DRA
SALE OF STOCKS, BONDS & OTHER
INDEBTEDNESS

This is a reporting requirement only when such financing activity exists. However, in addition, the MOR 9000 provides a schedule with the outstanding balance of common and preferred stock, notes payable and long term debt.

(END OF APPENDIX B)