

regulation. (See D.89-10-031, 33 Cal. P.U.C. 2d 43.) Accordingly, under D.89-10-031, they must show that their pre-funded, tax-deductible PBOPs contributions are entitled to "Z factor" treatment before they can adjust their rates to reflect these PBOPs costs. Their Z factor showing must demonstrate that these costs are "clearly beyond the utility's control" and "are not reflected in the economywide inflation factor". (D.89-10-031, 33 Cal. P.U.C. 2d at 228, Conclusion of Law No. 26, quoted in the Phase I Decision at 27.) The Phase I Decision requires GTEC and PacBell to make their PBOPs Z factor showing in Phase II of this proceeding. Phase II will also consider whether the Commission should adopt Financial Accounting Standards Board (FASB) Statement No. 106, dealing with PBOPs.

In their applications for rehearing, both GTEC and PacBell challenge our decision to defer consideration of rate recovery for their PBOPs costs until Phase II. In its application for rehearing, GTEC argues: "If FASB [Statement No.] 106 is adopted in Phase II, then, based on the holding in D.89-10-031, there can be no serious dispute over the right of GTEC to seek recovery, as a "z" factor, of the additional costs that it will have to recognize as a result of that rule change." (GTEC App./reh. at 10-11, emphasis added.) Even if we assume, only for the sake of this discussion, that adoption of Statement No. 106 by the Commission would be sufficient to justify Z factor treatment, GTEC concedes that this justification must await Phase II, when the Commission will consider whether to adopt Statement No. 106. Thus, GTEC recognizes that unless the Commission in Phase II requires the utilities to adopt Statement No. 106, the PBOPs costs involved undoubtedly will not qualify as costs

"clearly beyond the utility's control" (D.89-10-031).¹ The Commission, well aware of this situation, therefore has required GTEC and PacBell to make their Z factor showings in Phase II -- rather than in a price cap filing prior to Phase II, as GTEC has requested. As for PacBell's suggestion that we adjust its rates now and consider the Z factor issue later, that is simply inconsistent with the structure of the incentive-based regulatory framework we approved in D.89-10-031. (See, e.g., 33 Cal. P.U.C. 2d at 60.) Moreover, PacBell has not shown sufficient reason for departing from the requirements we so recently imposed.

In its application for rehearing, GTEC requests that we modify Ordering Paragraph No. 5 of the Phase I Decision to clearly state that GTEC may track its PBOPs costs in a memorandum account pending a Commission decision on whether those costs may be recovered in a Z factor adjustment. Ordering Paragraph 5 generally authorizes utilities to track the costs of their tax deductible PBOPs plans in interest bearing memorandum accounts, pending an opportunity to request rate recovery in a general rate, attrition, or similar filing. However, it is not entirely clear that the specific language used applies to GTEC and PacBell. It was not our intention to deprive GTEC and PacBell of the opportunity granted other utilities to track their PBOPs costs in an interest bearing memorandum account pending a Commission decision on rate recovery. Accordingly, we will modify Ordering Paragraph No. 5 as GTEC requests.

No other points raised in the applications for rehearing require further discussion here. We have, however, carefully considered all of the issues and arguments raised in the applications for rehearing, and the response, and are of the

1. FASB Statements, such as Statement No. 106, are generally accepted accounting principles applicable for many accounting purposes. However, they do not automatically apply to the accounts used in setting utility rates.

opinion that the decision should be modified in certain limited respects, but that sufficient grounds for granting rehearing have not been shown.

Therefore, good cause appearing,

IT IS ORDERED that D.91-07-006 is modified as follows:

1. The last sentence in the first full paragraph on page 26 is deleted.
2. The second sentence in the third full paragraph on page 26 is modified to read:

However, neither Pacific Bell nor GTEC has shown that its proposal for Z factor recovery accurately meets the formula criteria.

3. The second sentence in the first full paragraph on page 27, and the accompanying citation, are modified to read:

Therefore, we are providing further guidance on the requirements for a complete Z factor showing in a proceeding in which the OII specifically requires testimony on "revenue requirements" and "the justification for such requests" as well as evidence pertaining to "differential ratemaking treatment of PBOPs costs for different industries, such as telephone vs. energy." (OII, p.4, emphasis added.)

4. Finding of Fact No. 41 on page 45 is modified to read:
 41. Pacific Bell and GTEC did not establish that their proposal for reflecting pre-funded contributions in the price cap formula meets the price cap formula criteria established in D.89-10-031.
5. In Ordering Paragraph No. 5 on page 49, the following sentence is inserted after the first sentence.

GTEC and Pacific Bell may likewise track their costs of implementing and using a tax deductible PBOPs plan, net of tax, in an interest bearing memorandum account, pending a Commission decision on rate recovery for those costs.

I.90-07-037 et al. L/mbh

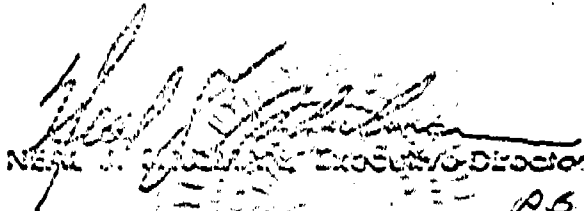
IT IS FURTHER ORDERED that:

6. Rehearing of D.91-07-006 as modified herein is denied.
This order is effective today.
Dated October 11, 1991, at San Francisco, California.

JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

Commissioner Patricia M. Eckert,
being necessarily absent, did not
participate.

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


Name of Special Prosecutor/Director
PB