

FEB 21 1992

Decision 92-02-060 February 20, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

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

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

**ORIGINAL**  
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)

ORDER MODIFYING DECISION 91-07-056

GTEC's Request

On December 2, 1991, GTE California Incorporated (GTEC) filed a petition for modification of Decision (D.) 91-07-056, the "Monitoring Decision," to clarify when GTEC may seek recovery of certain non-recurring costs associated with the establishment of a computer link between GTEC and the Commission's offices, and between Pacific Bell and the Commission's offices, through a "Z" factor adjustment. No party has filed a timely protest to the petition for modification.

Background

D.91-07-057 adopted a monitoring program to track the operations of Pacific Bell (Pacific) and GTEC under the new regulatory framework (NRF). As part of the monitoring program, Pacific and GTEC are to establish computer links from each company to the Commission's offices for access by Division of Ratepayer Advocates and Commission Advisory and Compliance Division (CACD). The required computer link was opposed by Pacific and GTEC, but the Commission determined that the arguments against establishment of the links were unpersuasive and further opined that the links were "merely a faster and better means of transporting data to and from CACD by Pacific and GTEC." (D.91-07-056, mimeo., at p. 32.)

The Commission recognized that the information is forwarded by mail or by facsimile today, and therefore, there is a presumption that costs exist today that will be foregone once a computer link is established. However, the Commission recognized that there might be certain initial non-recurring costs associated with setting up the computer-link and at page 33 of the decision (Id.), it stated that Pacific and GTEC may recover the one-time costs of setting up this link through a Z-factor adjustment in the next price cap filing.

### Discussion

Although we are not sympathetic to any delays in the installation of these links, it was not our intention to force a premature filing for recovery of computer link costs in the October 1, 1991 price cap filing. The language on page 33 of the decision (Id.) referred to in GTEC's petition for modification was intended to allow Pacific and GTEC to recover the non-recurring costs of setting up the computer link in the next price cap filing after such expenses are actually incurred.

We fully expect GTEC and Pacific to work with CACD and DRA to implement the computer link as expeditiously as possible, and are not aware of any circumstances that should delay its implementation beyond the October 1992 price cap filing. However, to allow for all unknown contingencies, and to allow for the eventuality that the computer link may require additional or upgraded hardware or software at some future date, Pacific and GTEC should be allowed to file for recovery of non-recurring costs of the computer link in the next price cap filing after the one-time start-up costs are incurred and known. Accordingly, we will modify Ordering Paragraph 7 of D.91-07-056 consistent with GTEC's request.

### Findings of Fact

1. GTEC requests a modification of Ordering Paragraph 7 of D.91-07-056 applicable to it and Pacific Bell, which would allow these utilities to seek timely recovery of non-recurring costs associated with the establishment of a computer link to the Commission's offices in their subsequent individual price cap filings after such costs are incurred and known.

2. No party opposed the modification of D.91-07-056 requested by GTEC.

### Conclusions of Law

1. GTEC and Pacific should be allowed to file for recovery of non-recurring costs of establishing individual computer links from their offices to the Commission's offices in San Francisco in

the next price cap filing after the one-time start up costs are incurred and known. The price cap filing is the proper forum for determining whether the expenditures incurred are reasonable and what proportion of the expenditures shall be recoverable.

2. No other modifications to D.91-07-056 have been requested and none should be made at this time.

3. This modest change to D.91-07-056 should be made effective today to clarify the intent of that order without further delay.

IT IS ORDERED that:

1. Ordering Paragraph 7 of Decision (D.) 91-07-056 is modified as follows:

"7. Pacific and GTEC shall work with CACD and DRA to develop the hardware and software necessary to create a direct computer link with CACD and DRA. Pacific and GTEC may recover their nonrecurring costs of setting up this computer link through a Z factor adjustment in the next price cap filing after the one-time start-up costs are incurred and known. This computer link will be accessed only by CACD and DRA."

2. The ordering paragraphs and other requirements of D.91-07-056, except as expressly modified by this order, continue to apply to Pacific Bell and GTE California Incorporated after the effective date of this order.

3. Appendix A to this order restates the currently applicable ordering paragraphs of D.91-07-056, as modified by this order.

This order is effective today.

Dated February 20, 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President

JOHN B. OHANIAN

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

  
NEAL J. SHULMAN, Executive Director

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COMPLETE ORDERING PARAGRAPHS OF D.91-07-056  
AS REVISED BY D.92-02-060

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

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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.

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- 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.



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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.

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- 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 filings. 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.

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- 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,

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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 in the next price cap filing after the one-time start up costs are incurred and known. 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.

(END OF APPENDIX A)