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Decision 92-03-080 March 31, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Emergency resolution directing utilities to accept payments from customers tendering money orders issued by Pan American Money Order Company, an entity which the California Department of Corporations has taken over and is seeking to put into receivership.

**ORIGINAL**

Application 91-12-011  
(Filed December 2, 1991)

Order authorizing all utilities to establish catastrophic event memorandum accounts, as defined, to record costs resulting from declared disasters.

Application 91-12-013  
(Filed December 2, 1991)

O P I N I O N

Request

By Application (A.) 91-12-011, GTE California Incorporated (GTEC) petitions the Commission to modify Resolution E-3238, dated July 24, 1991, to clarify that GTEC may seek recovery of costs resulting from declared catastrophic disasters through a "Z" factor adjustment to GTEC's annual price cap filing. The annual price cap filing was established for GTEC and Pacific Bell in the new regulatory framework proceeding, pursuant to Decision (D.) 89-10-031.

By A.91-12-013, GTEC petitions the Commission to modify Resolution E-3241, dated August 22, 1991, to clarify that GTEC may seek recovery of losses associated with its acceptance of invalid money orders from Pan American Money Order Company of Los Angeles, California (Pan American) through a Z factor adjustment to GTEC's annual price cap filing.

Consolidation

On February 13, 1992, the Administrative Law Judge consolidated GTEC's applications, pursuant to Rule 55 of the Commission's Rules of Practice and Procedure.

Resolution E-3238

GTEC's Position

Resolution E-3238 authorized each public utility, except common carriers and toll bridge corporations, to establish a catastrophic event memorandum account. The purpose of the memorandum account is to encourage utilities to react to a declared catastrophic event immediately to repair damage without being denied the opportunity of recovering such costs in rates because of the prohibition of retroactive ratemaking.

GTEC interprets Resolution E-3238 to allow it to recover catastrophic event costs through only a specific formal application for recovery of such costs or through the filing of an advice letter as specified in General Order (GO) 96-A. Because GTEC operates under a new regulatory framework, GTEC asserts that there is no mechanism for it to file a specific formal application or to file an advice letter to recovery of such costs. Therefore, GTEC requests that the resolution be modified to allow it to recover catastrophic event costs through a Z factor adjustment to the price cap mechanism.

GTEC summarizes that under the new regulatory framework procedure the price cap index mechanism adjusts GTEC's prices annually based on changes in the Gross National Product Index (GNPPI) which is offset by a predetermined productivity factor. The index mechanism also allows for rate adjustments through a Z factor to reflect the impact of major exogenous events that are beyond GTEC's control and which are not fully reflected in the economy-wide GNPPI.

GTEC concludes that catastrophic disaster-related costs fall within the category contemplated for adjustments through the Z

factor and requests that Resolution E-3238 be modified to allow GTEC to recover catastrophic event costs as a Z factor adjustment in its annual price cap filings.

Division of Ratepayer Advocate's (DRA) Response

DRA filed responses to GTEC's applications on January 21, 1992. As to GTEC's catastrophic event request, DRA does not oppose GTEC's petition. However, DRA does recommend that the resolution be further clarified to state that the determination of such requested costs as legitimate Z factor adjustments will be considered on a case-by-case basis. DRA further recommends that the recovery of costs through the Z factor adjustment should be made only if GTEC can estimate the costs with reasonable certainty and minimal controversy; otherwise, DRA recommends that a request for recovery of catastrophic event costs be made through a separate application.

Pacific Bell's Response

Pacific Bell filed responses to GTEC's petitions on January 22, 1992. Although Pacific Bell believes that Ordering Paragraph 3 of Resolution E-3238 allows GTEC and Pacific Bell to seek recovery of catastrophic costs which have a major impact on the utility's costs through a Z factor adjustment, Pacific Bell concurs with GTEC that the Resolution should be modified to clarify that both Pacific Bell and GTEC may apply for recovery of costs recorded in the Catastrophic Event Memorandum Account as a Z factor adjustment.

Discussion

Prior to the establishment of the new regulatory framework for GTEC, GTEC would file general rate case applications to recover reasonable costs and to change its rates. However, pursuant to D.89-10-031, GTEC's general rate case application procedure was replaced with an annual price cap filing. GTEC's recovery of costs and change in rates are now based on an index mechanism. As part of that index mechanism, any major exogenous

events beyond GTEC's control found to be reasonable costs and not fully reflected in the economy-wide GNPPI, are recoverable through a Z factor adjustment.

GTEC's request for modification of Resolution E-3238 is based on its misinterpretation of Ordering Paragraph 3. Specifically, Ordering Paragraph 3 of Resolution E-3238 states that the costs recorded in a utility's Catastrophic Event Memorandum Account may be recovered in rates only after a request by the affected utility, a showing of reasonableness, and approval by the Commission. Such a request may be made by a formal application specifically for that purpose, by inclusion with a subsequent general rate case or other rate setting request, or, for utilities eligible to request general rate increases by advice letter as specified in GO 96-A, Section VI, by filing an advice letter request with an appropriate showing. Amounts which the Commission does not find reasonable shall not be included in rates.

As addressed by Pacific Bell in its response to GTEC's petition, the ordering paragraph specifically allows utilities such as GTEC to seek recovery of reasonable catastrophic event costs through "other rate setting request." The "other rate setting request" includes GTEC's annual price cap filing. Therefore, GTEC's request to modify Resolution E-3238 is denied.

Resolution E-3241

GTEC's Position

Resolution E-3241 requires GTEC and other utilities to accept as payment the money orders tendered by customers from a money order company placed into receivership by the California Department of Corporations. The resolution also orders the utilities to submit claims against the money order company in the liquidation proceeding for any losses which they may incur as a result of accepting invalid money orders.

GTEC does not expect that its losses incurred as a result of the liquidation of the money order company will be sufficiently

large to warrant recovery through a Z factor adjustment. However, GTEC is concerned about any precedent the Resolution may set because of our silence in the resolution on the issue of cost recovery.

GTEC submits that it is the individual customers, not the utility, who should bear the risk associated with paying utility bills with negotiable instruments ultimately deemed uncollectible on a large scale. Therefore, GTEC seeks modification of Resolution E-3241 so that losses resulting from the required acceptance of invalid money orders be recoverable through a Z factor adjustment in the event that they prove sufficiently large to warrant such recovery.

DRA's Response

As to losses associated with GTEC's acceptance of invalid money orders, DRA asserts that such costs are normal costs of doing business and are properly reflected as an uncollectible expense. Since normal costs are a condition which the new regulatory framework specifically excludes from the Z factor adjustment, DRA opposes GTEC's requests for recovery of losses associated with its acceptance of invalid money orders. DRA further opposes GTEC's petition for recovery of invalid money order costs through the Z factor because GTEC itself explains that such costs will not be significant enough to warrant recovery through a Z factor.

Pacific Bell's Response

Pacific Bell also concurs with GTEC that sufficiently large costs associated with the invalid money orders fall within the criteria for Z factor treatment and that the utility should not be required to bear the risks incurred by customers paying their utility bill with negotiable instruments ultimately deemed uncollectible.

Discussion

Although GTEC seeks authority to request recovery of major losses incurred as a result of the liquidation of a money order company through a Z factor adjustment, GTEC acknowledges that its losses will not be sufficiently large to warrant such a recovery. Based on GTEC's own admission that it will not incur major losses, we must conclude that GTEC's request for a Z factor adjustment is moot and need not be adopted at this time.

Contrary to GTEC's concern that silence on the recovery of losses associated with the liquidation of a money order company may be precedent on cost recovery, silence does not equate to a denial of cost recovery for reasonable cost.

Summary

In summary, we conclude that both of GTEC's petitions for authority to request recovery of costs through a Z factor adjustment to its annual price cap filing are without merit and were filed without a reasonable basis. In the first instance, GTEC made a careless interpretation of an ordering paragraph, and in the second instance, GTEC acknowledged that its losses would not comply with the definition of a Z factor because it would incur only minor costs.

D.89-10-031 provides specific procedures for GTEC to follow in requesting Z factor adjustments in its annual price cap proceeding. GTEC should follow these procedures. It is inefficient for GTEC to request and for the Commission to consider GTEC's request for preliminary approval to authorize Z factor treatment outside of GTEC's annual price cap filing. If GTEC believes that a major cost component meets the Z factor criteria established by D.89-10-031, then it should seek such a recovery in its annual price cap filing, and not through petitions for modifications of various decisions.

Findings of Fact

1. Resolution E-3238 authorizes public utilities to establish catastrophic event memorandum accounts.
2. Ordering Paragraph 3 of Resolution E-3238 authorizes the utilities to seek recovery of catastrophic event costs through a formal application specifically for that purpose, by inclusion with a subsequent general rate case, other rate setting request, or by a GO 96-A advice letter filing.
3. The new regulatory framework for GTEC and Pacific Bell requires them to file an annual price cap filing.
4. The annual price cap filing meets the definition of "other rate setting request" identified in Ordering Paragraph 3 of Resolution E-3238.
5. Resolution E-3241 requires utilities to accept as payment from their customers money orders issued by a company placed in receivership.
6. Resolution E-3241 is silent on revenue recovery of losses resulting from accepting invalid money orders.
7. The new regulatory framework for GTEC and Pacific Bell provides for the recovery of major exogenous events beyond the utilities' control through a Z factor adjustment in their annual price cap filing.
8. GTEC does not expect that its losses incurred as a result of the liquidation of the money order company will be sufficiently large to warrant recovery through a Z factor adjustment.

Conclusion of Law

GTEC's petitions for modification of Resolutions E-3238 and E-3241 should be denied.

O R D E R

IT IS ORDERED that:

1. GTE California Incorporated's petitions for modification of Resolutions E-3238 and E-3241 are denied.

2. Application (A.) 91-12-011 and A.91-12-013 are closed.

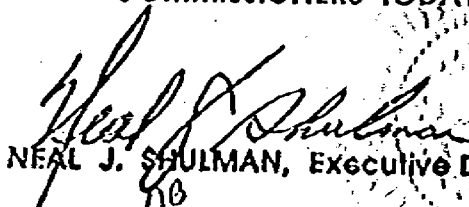
This order becomes effective 30 days from today.

Dated March 31, 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President

JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

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

  
NEAL J. SHULMAN, Executive Director