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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Citizens Utilities Company of California to Increase Certain Intrastate Rates and Charges to Offset Changes in Station Connection Accounting Procedures.

Application 60707
(Filed July 3, 1981)

ORDER MODIFYING DECISION 93728
AND DENYING REHEARING THEREOF

Applications for rehearing or partial rehearing of Decision (D.) 93728 have been filed by The Pacific Telephone and Telegraph Company (Pacific) General Telephone Company of California (General), Continental Telephone Company (Continental) and the City and County of San Francisco together with the City of San Diego (Cities).

In addition to these filings, a document entitled "Application For Rehearing and Reconsideration Of Decision No. 93728" has been filed on behalf of California Retailers Association and Tele-Communications Association (CRA/TCA). By law, applications for rehearing of D. 93728 may be filed only by parties to these combined proceedings or by any stockholder or bondholder or other party pecuniarily interested in the public utilities affected (Public Utilities Code, Section 1731). CRA/TCA does not claim to be any of these. Therefore, we may not accept their filing as an application for rehearing. However we note that some of CRA/TCA's allegations of error also were raised by the Cities in their application.

A response to Pacific's application for partial rehearing has been filed by the Cities; Pacific, in turn, has filed a response to the applications of the Cities and CRA/TCA.

We have carefully considered each and every allegation of error in the various applications for rehearing described above and are of the opinion that no good cause for granting rehearing has been shown. However upon review it appears evident that D. 93728 should be modified to more clearly state the basis for the increased revenue need being met by the adopted rates and charges, to provide findings on all material issues, a new effective date for the changed accounting procedures and a more detailed rationale for the adopted rate spread.

In addition, some typographical errors should be corrected.

Continental points out that, although D. 93728's discussion recognizes that its increased revenue need will not be entirely offset by the increased rates and authorizes Continental to make up this deficiency through its existing balancing account, no findings or order are provided on this question. The modifications ordered below include such findings and order.

Also, Pacific and General have asked that the implementation date for flash-cut accounting be changed from October 1, 1981 to November 28, 1981, the date the offsetting rate increases become effective. As their applications point out, although the FCC's order was to go into effect no later than October 1, 1981, the FCC may grant waivers from that requirement. In addition, as we have already stated in D. 93728, we are not bound by the provisions of the FCC order. Therefore we will exercise our authority and change the effective date of the flash-cut accounting procedure as well as the findings and conclusions relating thereto. The Cities point out that the issue of the reasonableness of Pacific's need for additional revenues based upon the adopted rate base in Decision 93367 is now before the California Supreme Court in S.F. 24361, City and County of San Francisco, et al. v. Public Utilities Comm. The outcome of that proceeding may affect our conclusions as to the level of Pacific's rate increases here. Therefore we shall make Pacific's increase subject to refund pending that review.

No further comments are necessary. Therefore, IT IS ORDERED that,

D. 93728 shall be modified as follows:

1. Finding of Fact No. 14 on page 72 (mimeo) shall read in full as follows:

   "October 1, 1981 was the date originally announced by the FCC as the latest date that station connection accounting procedures must be adopted at the federal level. However, the FCC may grant waivers to allow telephone companies to adopt flash-cut expensing at a later date if we approve such date. Since offsetting rate relief will not be effective until November 28, 1981, that date is appropriate for the implementation of such accounting changes."

2. Conclusion of Law No. 5 of page 76 (mimeo) shall read in full as follows:

   "If possible, expensing of station connection costs should be implemented on the same date as offsetting rate relief becomes effective. That date is November 28, 1981."

3. Ordering Paragraph 5 on page 79, (mimeo) shall read as follows:

   "The accounting changes necessary to amortize over a 10 year period the embedded cost of the inside wiring portion of Account 232 and to expense on a flash-cut basis the on-going cost of the inside wiring portion of said account shall commence on November 28, 1981, the date upon which offsetting rate relief will be effective."

4. The last sentence of paragraph 3 of page 7, mimeo., of the D. 93728 shall read:

   "Commencing on the effective date of the accounting changes adopted herein for the inside wiring portion of Account 232, we will allow Continental to account for this small deficiency, as well as the adjustment to its revenue requirement caused by the depreciation rate change for the outside wiring portion of Account 232 effective January 1, 1982, with the balancing account set pursuant to Decision No. 93655 dated October 20, 1981."

5. The following sentence be added before the last sentence of Finding of Fact No. 22 on page 73:

"The aggregate of the increased toll settlement revenue derived by Continental from the message toll increases granted Pacific and the revenues from local rate increases granted Continental will not equal Continental's total revenue requirement caused by the accounting changes adopted herein, and Continental should be authorized to account for such deficiency with the balancing account set pursuant to Decision No. 93655 dated October 20, 1981."

6. The following be added to the end of Ordering Paragraph No. 8 on page 77:

"Commencing on the effective date of the accounting changes adopted herein for the inside wiring portion of Account 232, Continental shall account for any deficiency in its revenue requirement caused by the accounting changes adopted herein over the revenues accruing to Continental as a result of the message toll increases granted Pacific and the local rate increases granted Continental in the balancing account set pursuant to Decision No. 93655 dated October 20, 1981."

7. On page 61, the second and third sentences of the first full paragraph shall be deleted and the following language shall be inserted in their place:

"The increased revenue requirements are due to (1) the increased expense as a result of expensing instead of capitalizing the ongoing costs of inside wiring and (2) the cost of amortizing over a 10 year period the inside wiring portion of the embedded costs in Account 232. With respect to that latter element and as we have already stated, under current practice the depreciation rate applied to Account 232 is intended to expense only those items physically retired from service at costs which are duplicated when one customer moves out and another customer moves in. Original cost of installation is never actually depreciated. As a result, under that method the majority of costs currently capitalized in Account 232 will still be in that account 10 years from now, whereas under the new expense accounting they will be 100% expensed at that time (Exhibit 1, Sec. I, pp. 3-4 to 3-9).

Although the increased expenses described above will eventually be offset by the decrease in depreciation, income taxes, property taxes and reduced revenue requirement associated with rate base (Exhibit 1, Sec. II, pp. 1-14, 1-16), in the near term there is an increased revenue requirement as discussed in detail in Chapter 1, Section II of RRD's Exhibit 1 and in Exhibit 25."

8. On page 65, the first two paragraphs shall be deleted and the following language inserted in their place:

"As we have already stated, part of the increased revenue requirement for the various utilities resulting from the proposed accounting changes relates to the amortization of the inside wiring portion of the embedded costs in Account 232. Failure to offset these additional expenses now will diminish the utilities' net earnings.

Although it is true that the recent rapid increase in the amount of these capitalized costs was largely created by a relatively small number of the ratepayers, all ratepayers are involved in the capitalized costs by having paid their connection charges as well as the previous rates set by capitalizing some of those costs. We shall explain this in more detail under the discussion of rate spread.

Furthermore, the future long-term reductions in rate base resulting from the amortization of the inside wiring portion of the embedded costs in Account 232 will redound to all ratepayers, not merely a few."

9. On page 69, the second paragraph is deleted and replaced with the following language:

"By this order we shall authorize increases in the avoidable components of the multi-element connection charges to a level where they will equal or exceed their respective costs. To illustrate this we will compare residential station connection charges that will be in effect as a result of this decision and Pacific's actual full cost for the avoidable connection activities.

RESIDENCE*	Full Cost (Ex. No. 18)	Charges to be in effect
Premises Visit Charge	$ 6.00	$ 7.75
Premises Wiring	16.00	16.75
Station Handling	4.00	8.00
Total	26.00	32.50

Furthermore, although the service order and the central office (C.O.) charge are not now priced at full cost, the record indicates that these charges are only partially assigned to Account 232. Based on these facts it is reasonable to conclude that most or all of the station connection expenses will now be borne by the customers causing those costs.

It also follows that we shall have to turn to other revenue sources to meet the rest of the increased revenue requirement. CD's witnesses recommended an assignment to the intrastate toll operations because, under the current separations procedures, a portion of the revenue requirement will be assigned to the intrastate toll operations. That is reasonable, and we shall adopt that approach. The remaining revenue requirement, $175 million, must be spread to the exchange operations in some manner. For this purpose, we adopt CD's recommendation that a uniform percentage or surcharge be spread to all recurring monthly rates, excluding directory and message charges. Our rationale is as follows:

Even in the past, when it was generally agreed that service connection charges (SCC) should be kept low, even below their costs, because the growth of the network benefitted all ratepayers (the "universal service" concept), the fact that some of those costs were capitalized in Account 232, rather than expensed, reduced the estimated test year revenue requirement associated with those costs.

* In the aggregate, our adopted comparable charges for business customers, also exceed the aggregate of the costs thereof. (Exhibit No. 18).

This is turn, resulted in lower rate increases for the general body of ratepayers.

Although the record does not show the extent to which the actual SCC's may have offset or even exceeded the associated revenue requirements, it is clear that the general body of ratepayers, has participated in the capitalization of these costs, both through payment of their own SCC's as well as the rates which resulted from those capitalizations.

Furthermore, the long term finacial benefits of the new accounting procedure, which we have discussed elsewhere, will redound to the general body of ratepayers through lower revenue requirements. It is therefore reasonable to assess part of the immediate increase in revenue requirements to that body.

10. Finding of fact 19 is modified to read in full as follows:

"Although a relatively small percentage of subscribers appear responsible for most of the dramatic growth in Account 232, all the ratepayers have participated to the extent that they have paid service connection charges as well as the rates which were set based upon capitalizing much of the associated costs."

11. On page 8, mimeo., the last line of the second complete paragraph shall read:

"utility provided jack for multi-story premises for future installations."

12. On page 69, mimeo., the sixth line of the first paragraph shall read:

"Which the additional revenue requirements exceeds the total of"

13. The following sentence is added to Ordering Paragraph 8:

"Pacific's rate increase shall be subject to refund pending the outcome of S.F. 24361, City and County of San Francisco v. Public Utilities Comm."

Rehearing of D. 93728 as modified herein is denied.

This order is effective today.

Dated JAN 1 9 1982 at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz, Executive Director