ALJ/emk/bw

Decision 82 06 054 JUN 15 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GENERAL TELEPHONE COMPANY OF CALIFORNIA, a corporation, for authority to increase certain intrastate rates and charges for telephone service.	Application 60340 (Filed March 10, 1981; amended April 6, 1981)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, costs, separations, practices, contracts, service, and facilities of GENERAL TELEPHONE COMPANY OF CALIFORNIA, a California corporation; and of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a California corporation; and of all the telephone corporations listed in Appendix A, attached hereto.	OII 88 (Filed April 7, 1981)

(Appearances are listed in Appendix A.)

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FINAL OPINION IN A.60340

I. SYNOPSIS OF DECISION

This decision authorizes General Telephone Company of California (General) an increase in customer billing of $81.1 million for test year 1982 in addition to the $11.99 million increase granted in Interim Decision (D.) 82-04-028 issued on these matters on April 6, 1982. This additional increase in customer billing will produce a gross revenue increase of $65.2 million. $59.90 million is granted to offset a decrease in intrastate long-distance toll revenue caused by a deterioration in the State and national economy since the original estimates were prepared and $9.18 million to correct erroneous computations set forth in D.82-04-028.

This decision does not modify the return on common equity of 16.5%. The intrastate rate of return of 12.71% is adjusted to 12.78% in recognition of higher debt costs which were inadvertently omitted from D.82-04-028.

This decision also addresses the matter of rate design. As subsequently discussed by individual rate category, we essentially adopted the rate philosophy recommended by the Commission staff with certain exceptions. The adopted rates include the following charges for basic residential and business service:

	Residential	Business
Monthly instrument rental (rotary)	$1.25	$ 1.25
Monthly instrument rental (touchtone)	1.80	1.80
Montly flat rate (rotary)	7.75	17.20
Monthly flat rate (touchtone)	8.40	17.85
One-party measured service	2.80 (30 calls)	7.20 (0 calls)
PBX trunk - measured (0 call allowance)	-	7.20
PBX trunk flat rate	-	25.95

For telephone answering services (TAS), we applied the average of avoidable cost percent increases proposed by the staff and General for frozen PBXs to the TAS 100 switchboard and a 50% increase for the balance of the TAS equipment, together with General's proposed mileage charges limited to a maximum 50% increase.

For entrance channels, we requested General and the County of Los Angeles (County) to negotiate a resolution of differences. If this cannot be successfully accomplished, we will consider the matter further.

For the Los Gatos and Sunland-Tujunga areas, we ordered the relocation of respective rate centers 0.4 mile to include the San Jose West District in the Los Gatos Zone 1 Zone Usage Measurement (ZUM) rate area and to include Glendale in the Sunland-Tujunga Zone 1 ZUM rate area.

We authorize a late-payment charge of 1.5% of the past-due balance to be applied to a customer's previous month's unpaid balance.

II. SUMMARY OF PROCEEDINGS

General seeks authority to effect step rates to increase its intrastate gross revenues approximately $296 million (21.96%)[1/] for the test year 1982 and an additional $90 million (5.43%) attrition allowance for the test year 1983.

To enlarge the scope of these proceedings to cover essentially all aspects of General's public utility operations, this Commission issued Order Instituting Investigation (OII) 88 into the rates, tolls, rules, charges, operations, costs, separations, practices, contracts, service, and facilities of General and Pacific and of all the California telephone utilities that interconnect with General.

After due notice 52 days of hearings were held before Administrative Law Judge (ALJ) N. R. Johnson and/or ALJ John B. Weiss and/or Commissioners Richard D. Gravelle and Priscilla C. Grew during the period April 27, 1981 through October 2, 1981, and the matters were submitted subject to the receipt of concurrent opening briefs due on or before November 2, 1981 and concurrent closing briefs due on or before November 16, 1981. Oral argument was held before the Commission en banc on November 17, 1981. The matter was reopened on December 3, 1981 to permit the receipt of written evidence on the impact of the Economic Recovery Tax Act of 1981 (ERTA) on the operations of General.

1/ From this requested amount of $296 million should be deducted the increases granted to General subsequent to the filing of the application. These are General's D.93255 granting a $12.7 million attrition allowance, General's Resolution T-10451 granting a $5.9 million depreciation expense allowance increase, Pacific's D.93367 providing for increased settlements revenues of $98.7 million and General's Interim D.82-04-028 granting an increase in revenues of $10.4 million. The net request after deductions for those increases is $168.3 million.

On February 26, 1982 General filed a petition to reopen the proceedings to receive additional evidence on test year 1982 intrastate toll revenues. According to the petition, current economic conditions have resulted in a drastic reduction in estimated intrastate toll revenue from the estimates of record in the proceeding of approximately $58.174 million.

The petition to receive additional evidence on this one specific item was granted and one additional day of hearing was held in Los Angeles.

At the hearing, City of Santa Monica (SM) made a motion[2/] that all evidence adduced at the hearing be stricken from the record on the bases that reopening of the proceeding for the purpose of considering changes in General's toll revenue is unconstitutional and violates the due process rights of all interested parties including SM in that inadequate time was granted to prepare testimony or cross-examination and the late filing constitutes a total violation of the regulatory lag plan. SM further alleged that the petition was granted before many interested parties received notice of it and therefore denied them any opportunity to have input on the question of whether the proceeding should be reopened, to what extent a reopening should be limited, or whether other matters should be considered in addition to toll revenue changes, such as changes in related expenses. The motion was granted and all testimony and evidence adduced at the hearing on March 11, 1982 were stricken from the record by an assigned Commissioner's ruling dated March 26, 1982.

2/ For the purposes of the record, SM reduced the motion to writing and filed it on March 15, 1982. On March 24, 1982 a similar motion to strike the above evidence was filed by the Town of Los Gatos (Los Gatos).

Further hearings on the issue of appropriate intrastate toll revenue and related expense levels were scheduled commencing May 11, 1982. One additional day of hearing on this specific item was held on May 11, 1982 and the matter was resubmitted.

On April 6, 1982 Interim D.82-04-028 was issued authorizing an increase in customer billing of $11.99 million to be derived from an increase in the existing billing surcharge for residential and business customers from 7.87% to 10.48%.

In D.82-04-028 we found the quality of General's service to be unsatisfactory and adopted a penalty mechanism giving a credit of $1.40 per month to customers in those exchange areas which do not meet the standards set out in the decision.

We also excluded construction work in progress (CWIP) from rate base, adjusted General's projected operating results to ensure its ratepayers do not unduly contribute to the profits of General's affiliated corporations, and imposed a competitive bidding requirement on General's selection of central office switching equipment (COSE).

On May 5, 1982 General filed an "Application For Rehearing of Decision 82-04-028 and For Expedited Ex Parte Relief, Pending Decision on Rehearing, For Additional Revenues of $9,178,000 Which Result From Correction of Inconsistencies of Calculation in the Decision". That portion of the application for rehearing relating to additional revenues required to correct computation errors is addressed in Section IV of this decision and the balance of the application for rehearing is separately addressed in a forthcoming decision.

III. INTRASTATE TOLL REVENUES

General

As previously stated, on February 26, 1982 General filed a petition to receive additional evidence on test year 1982 intrastate toll revenues. In May 1982, one day of additional hearing was held to receive evidence on the issue of appropriate intrastate toll revenue and related expense levels. Testimony was presented on behalf of General by its business relations director, G. G. Hascall, and on behalf of the Commission staff by supervising utilities engineer, E. T. Marks.

Position of General

According to the testimony of witness Hascall, General expects a severe deterioration in earnings for 1982 compared to the earnings forecast with the application due to a projected reduction in 1982 of $282,179,000 in total California intrastate toll billing. The original estimate was allegedly based on a forecast made by Data Resources, Inc. (DRI) available in March 1981, which projected a growth of 3.9% for 1982 Real Gross National Product (RGNP) over 1980 actual. In contrast, the DRI forecast available in March 1982 indicated a RGNP growth of 0.6%. According to the record, General uses an Econometric Forecasting Model that uses the DRI RGNP forecasts as the predominant explanatory variable for toll billing projections. This model predicts RGNP within the historical series used for the projection within 1% error 95% of the time. Using the later RGNP growth factor of 0.6% resulted in a total California intrastate toll billing for test year 1982 of $3,293,432,000 as compared to the original rate case estimate of $3,575,611,000, a reduction of $282,179,000. General's share of this reduction after allowing for uncollectibles and other independent company settlements is computed to be $63,206,000 based on March 1982 data. According to the record, if April 1982 data were used instead of the March 1982 data the revenue reduction would be $70 million rather than $63.206 million.

This witness further testified that in addition to toll billing changes, changes in settlements with other independent companies, changes in expense and investment levels of both General and Pacific, and changes in the amounts of local and toll traffic handled by each company all impact the level of General's intrastate toll revenue. He stated that the combined effect of these latter factors is a further reduction in toll revenues of $15,592,000, making a total toll revenue reduction of $78,798,000. However, General is limiting its request for added revenue to its share of the decrease in net billing of $63,206,000 to avoid further delay in the final decision.

Position of the Commission Staff

Staff witness Marks testified that she has reviewed her original estimate and the additional recorded data now available and has developed a range within which she believes the 1982 California toll billing will fall. In her opinion, the minimum growth in California toll billings that can be expected during 1982 is reflected by a linear regression analysis which forecasts 9.2% growth in 1982 and the maximum growth during 1982 is reflected by an exponential analysis which forecasts a 14.68% growth. A 9.2% growth would result in $3,294,468,000 in total State toll billings and a 14.68% growth would result in $3,459,867,000 in total 1982 state toll billings. She notes that General's estimate of $3,293,432,000 falls just outside the low end of her projected range. She further testified that, in her judgment, a reasonable estimate of 1982 California toll billings based on the latest recorded data would be $3.38 billion which reflects an approximate 12% growth in 1982. Such an estimate falls approximately midway within her range and generally reflects the average annual growth rate in California toll billings (excluding rate increases) over the past six years.

Incorporating the above revised estimate of 1982 California toll billings in the calculation of adopted toll revenue and by assuming all other adopted levels of investment, reserves, expenses, and separations factors are unchanged, the $737,685,000 adopted test year intrastate toll revenue would be reduced by $41,471,000. In witness Marks' opinion, this calculation would accurately reflect a revised estimate of General's 1982 intrastate toll revenue and results in an expected level of General's 1982 intrastate toll revenues of $698,214,000.

In response to cross-examination questions, witness Marks indicated the recorded annual growth, absent increases in rates, was 11.4% for 1976, 15% for 1977, 15.7% for 1978, 12.4% for 1979, 8.6% for 1980, and 9.2% for 1981, an average of 11.9%.

Discussion

It is obvious from the testimony of witnesses Hascall and Marks that the 1982 test year intrastate toll revenue of $739,685,000 adopted in D.82-04-028 is substantially in excess of revenues that will actually be experienced in that year. It is noted that the staff's linear regression analysis estimate reflecting a 1982 test year growth rate of 9.2% in total intrastate toll revenue differs from General's estimate by only 0.03%. Furthermore, while the average growth rate for the period 1976 through 1981 was 11.9%, the latest recorded data reflects a lesser growth rate with the 1981 recorded growth rate equaling that reflected for test year 1982 by the staff's linear regression analysis projection.

In general, the use of an exponential analysis is appropriate when both variables in a compound equation are expected to increase, i.e. the time per call and the number of calls. However, in the present state of the economy where the emphasis is on the reduction of costs to the lowest possible level, such a dual component increase is not being experienced. Furthermore, we are already half way through the test year and the revenues will be reexamined when the attrition filing is made in the fall. At that time it is anticipated that the conflicting testimony on the economy for the rest of the test year will be resolved.

Under these circumstances, we will adopt the staff's estimate based on a linear regression analysis of $3,294,468,000 in total State toll billings. Incorporating subsequently discussed corrections results in an adopted figure of $679,984,000 for General's 1982 test year intrastate toll revenues.

IV. SUMMARY OF EARNINGS

Table I, on the next page, sets forth the summary of earnings for the estimated test year 1982 as adopted in D.82-04-028 and as modified by our previously discussed revised adopted intrastate toll revenues and by the correction of erroneous computations included in D.82-04-028. With respect to the adopted intrastate toll revenues, it will be noted that the changes in expense levels, investment levels, allocation factors and allocated expenses, and investments, discussed in witness Hascall's testimony, were outside the scope of General's requested rate relief and are therefore not reflected in the adopted summary of earnings included in this decision.

Position of General

General states that the revenue requirement set forth in D.82-04-028 was understated by $9,178,000 due to erroneous calculations. The following tabulation itemizes the component parts of the alleged revenue understatement.

SUMMARY OF ALLEGED ERRONEOUS
COMPUTATIONS ADOPTED IN D.82-04-028

	Amount
A. Intrastate Operating Revenues	
1. Local Revenues - ZUM	$ 103,000
2. Disallowed Expenses	(2,523,000)
3. Fixed Charges	1,385,000
Subtotal	$(1,035,000)
B. Operating Expenses	
1. Taxes on Income	
a. Tax Basis Depreciation Expense	$ 2,208,000
b. Fixed Charges	(429,000)
c. 1968-69 Flow-Through	567,000
d. FIT-ERTA	(1,496,000)
2. IDC Expense Adjustment	3,537,000
Subtotal	$ 4,387,000
C. Rate Base	
1. Allocation of Deferred Tax Liability	$ 1,124,000
2. ERTA Adjustment	2,359,000
Subtotal	$ 3,483,000
D. Rate of Return	$ 2,343,000
Total Revenue Requirement	$ 9,178,000

The bases for the above differences are set forth at pages 8 through 15 in General's application for rehearing. In general, they relate to the use of adopted expense and rate base items in the computation of settlement revenues instead of the settlement agreement expenses and rate base items, inappropriate income tax depreciation rates and fixed charges, duplication of ERTA adjustments, improper IDC adjustment figures, the inappropriate use of deferred taxes as a rate base adjustment for intrastate rate base when the deferred taxes are flowed through to rate base, and our failure to give consideration to the latest financing costs set forth in the record and letters to the Commission subsequent to submission.

Discussion

We have carefully reviewed each and every one of General's computations relating to alleged inconsistencies in our D.82-04-028 **relating to alleged inconsistencies in our D.82-04-028** **adopted summary of earnings and find them to be both correct and reasonable.** The adopted summary of earnings, set out herein, incorporates the base corrections from which the $9,178,000 in errors is derived. There are also included revised revenues consistent with the adopted estimate in total state toll billings.

It should be noted that the representation of $9,178,000 in errors is predicated on the 12.78% rate of return (5.51% weighted cost of debt) and not on the 12.81% rate of return for 1982 noted on page 15 of the petition. Our adjustment in rate of return will only recognize higher debt costs incurred prior to our D.82-04-028. We will adopt a 12.78% rate of return.

All other matters raised by General in its petition for rehearing of D.82-04-028 will be disposed of by our order on rehearing.

TABLE I

SUMMARY OF EARNINGS
AT PRESENT RATES

Estimated Year 1982

Item	D.82-04-028 Total Company	D.82-04-028 Intrastate	Adopted Total Company	Adopted Intrastate
	(Dollars in Thousands)			
Operating Revenues[a/]				
Total Operating Revenues after Uncollectibles	$1,866,341	$1,483,263	$1,806,966	$1,423,734
Operating Expenses				
Maintenance	388,550	306,488	388,550	306,488
Traffic	97,731	82,003	97,731	82,003
Commercial	171,199	148,124	171,199	148,124
General Office and Salary	97,315	80,948	97,315	80,948
Other Operating Expenses	131,300	109,249	131,300	109,249
Subtotal Oper. Expenses	886,095	726,812	886,095	726,812
Depreciation Expense	361,078	283,736	361,078	283,736
Taxes Other Than on Income	75,154	60,524	75,154	60,524
Taxes On Income	179,353	132,125	149,211	101,840
Total Oper. Expenses	1,501,680	1,203,197	1,471,538	1,172,912
IDC	1,084	853	3,437	2,705
CCFT Flow-Through	(778)	0	(778)	0
Automatic Electric	(1,091)	(858)	(1,091)	(858)
Directory Company	(3,881)	(3,361)	(3,881)	(3,361)
GTE - Data Services	(877)	(770)	(877)	(770)
Norm. Book Tax Timing Differences	-	-	-	-
1968-69 Flow-Through	-	-	379	297
Equal Life Group	-	-	-	-
Net Operating Expenses	1,497,126	1,199,844	1,468,727	1,170,925
FIT (ERTA)	989	783	*	*
Net Operating Revenues	369,215	283,419	338,239	252,809
Rate Base before Adjustments	2,898,152	2,282,078	2,899,533	2,287,841
IDC	37,318	29,530	37,318	29,530
CCFT Flow-Through	5,845	0	5,845	0
Automatic Electric	(8,465)	(6,641)	(8,465)	(6,641)
GTE - Data Services	(100)	(79)	(100)	(79)
Norm. Book Tax Timing Differences	-	-	-	-
ELC Depreciation	-	-	-	-
Avg. Deferred Tax (ERTA)	(40,879)	(32,376)	(28,608)	(22,658)
Total Rate Base	2,891,871	2,272,512	2,905,523	2,287,993
Rate of Return	12.77	12.47	11.64	11.05

(Red Figure)

a/ Includes effects of General's D.93255 and Resolution T-10451 and Pacific's D.93367.

* ERTA effect incorporated in income tax amount shown above.

V. RATE DESIGN

General

As previously stated, the additional revenue needed to enable General to earn its authorized 12.71% rate of return is $65.2 million. Based on our adopted rate design and allowing for settlement effects and uncollectibles, it is necessary for General to increase its customer billing $81.1 million to yield the above 1982 test year revenue increase.

Testimony and exhibits on rate design were presented on behalf of General by its revenue director, T. E. Quaintance, and by its vice president-marketing, E. Z. Borghi; on behalf of Communications Division (CD) by utilities engineer D. M. Shantz; on behalf of Telephone Answering Service of California (TASC) by owners of TAS, Scott Flournoy, G. K. Blasiar, T. F. Lemmon, B. A. Hall, and M. Gill, and by a senior public utility rate consultant with Hess and Lim, Incorporated, T. H. Weiss; on behalf of the County of Los Angeles Department of Communications by one of its telephone service analysts, James M. Nelson III; and on behalf of Los Gatos by its vice mayor, B. Ventura.

General's proposed rates have a total billing increase effect of $296.1 million whereas the staff made three alternate rate proposals having billing effects of $47.8 million, $92.1 million, and $143.8 million. Tabulated below are these various rate proposals, together with our adopted increases. The bases for our adoptions are set forth in the ensuing paragraphs.

TABLE II

Item	General's Proposal	CD's Proposals: Primary	CD's Proposals: Alternate I	CD's Proposals: Alternate II	Adopted
Terminal Equipment					
Datatel Service	$ 0.6	$ 0.4	$ 0.4	$ 0.4	$ 0.4
Private Branch Exchange (PBX) Service	6.7	7.7	7.7	7.7	8.0
Supplemental Service including Single Line Instruments	17.9	13.1	13.1	13.1	8.1
Call Receiving Service	0.1	0.1	0.1	0.1	0.1
Telephone Answering Service	0.2e/	1.2	1.2	1.2	0.9
Pushbutton (Key) Telephone Serv.	22.2	10.7	10.7	10.7	10.7
Special Service Arrangements including the E-120 PBX	0.6	0.8	0.8	0.8	0.8
Loudspeaker Paging System Serv.	0.7	0.4	0.4	0.4	0.8
Service Connection Charges	38.2	-	-	-	-
Residence	-	16.2	16.2	16.2	7.4
Business	-	8.3	8.3	8.3	2.6
Residence Modular Conversion Program	-	(7.6)	(7.6)	(7.6)	(3.1)
Optional Residence Telephone Service	-	(0.8)	(0.8)	(0.8)	10.1
Verification/Interrupt	0.7	1.1	1.1	1.1	0
Touch Calling Service	(3.4)	(3.4)	(3.4)	(3.4)	(1.2)
Mobile Telephone Service	0.1	-	0.1	0.1	0.1
Electronic Business System Service (EBSS)	2.1	-	1.1	1.1	1.2
Centrex	1.6	-	0.5	0.5	0.6
Optional Calling Measured Service (OCMS)	0a/	-	0a/	0a/	0a/
Custom Calling Service	1.3	-	1.6	1.6	1.6
Directory Listings	2.4	-	1.0	1.0	1.0
Private Line Services	1.6	-	1.6	1.6	1.6
Visit Charges	0a/	-	0a/	0a/	0a/
Exchange Mileage Services	4.9	-	10.9	10.9	11.8
Foreign Exchange Service	9.8	-	2.1	2.1	2.6
Rate Increments Over Basic Rates	0.2	-	0.1	0.1	0.2
Semipublic Service	2.0	-	1.9	1.9	1.9
Measured Local Service	15.8	-	10.5	10.5	10.5
Farmer Line Service	0a/	-	-	0a/	0a/
Basic Exchange Service	150.6	-	-	51.9	43.1
Billing Surcharge	19.2g/	(0.4)b/	12.5c/	12.3d/	(48.2)
Late Payment Charge	-	-	-	-	8.5f/
Relocation ZUM Rate Centers	-	-	-	-	(1.0)f/
TOTAL	296.1	47.8	92.1	143.8	81.1

(Red Figure)

a/ Annual increase of less than $50,000.

b/ Total negative surcharge of $19.6 million.

c/ Total negative surcharge of $6.7 million.

d/ Total negative surcharge of $6.9 million.

e/ General's proposed increase as filed in A.60340 and later revised to a proposed increase of $1.0 million.

f/ Not included in the proposed rate design in A.60340. Issues added through subsequent testimony and exhibits.

g/ Billing surcharge of $19.2 million was revised by D.93355, D.93728, and D.82-04-028 to the present level of $48.2 million in annual customer billing.

Position of General

According to the record, the single most important objective in General's rate design is to keep the price of basic telephone service as low as possible. This is accomplished by increasing nonbasic services presently priced below cost to full cost. Another of General's objectives in the design of rates is to provide rate structures which promote greater customer understanding and achieve administrative simplicity as indicated by General's proposal for mileage charges, primary telephones, and primary service where it is requesting uniformity of rates for identical services. Other objectives in the rate design sponsored by General are rates for competitive terminal equipment which recover all the cost generated by that part of General's business and maintaining comparable rate levels with Pacific.

General also proposes flexible tariffs for Schedules A-2 (Datatel Service), A-6 (PBX), A-15 (Supplemental Services), A-24 (TAS), and A-34 (Push-button Telephone). These schedules apply mainly to telephone terminal equipment and, according to General, flexible tariffs are essential because of the increased competition within the market place. General's purpose of flexible tariffs is to permit General to compete with other unregulated firms providing the same type of service.

General also proposes that a new customer pay the installation and removal cost on a 100% basis to preclude such cost from becoming a burden on the general ratepayer.

In line with the above-discussed design concepts, General is proposing that network services be fully unbundled from terminal equipment. Such unbundling is being accomplished to establish in the consuming public's mind the concept of a network access line. General is also proposing to reduce the rate differentials between residential and business services and to eliminate rate differences between business lines and PBX trunks. These changes both move in the direction of uniform access line rates with measured usage billing.

At the present time, multielement service connection charges are set below cost. General proposes a tariff structure that will be fully compensatory for work performed on the customer premises, for travel time, and for central office activities. Activities associated with service order processing, directory assistance, and adding customer information to the accounting system will still remain somewhat below full cost. If the proposed changes are approved about 68% of the associated cost will be recovered. General stated it intends to again increase these charges in the next rate application to achieve full cost recovery for businesses and near cost recovery for residential service.

General is also proposing an increase in its rates for optional calling measured service (OCMS) to provide a rate structure identical to one proposed by Pacific in A.59849. According to the record, General is currently reviewing in excess of 30 prospective OCMS routes, the majority of which are located in its eastern area with the remaining ones being in the northern and bay areas. General anticipates the majority of these routes will be implemented after the 1982 test year. General's witness Quaintance also noted that at the present time revenues from intrastate toll were approximately 2.6 times the direct cost creating a condition wherein the intercity services market become very attractive to carriers such as Southern Pacific Communications and MCI. It is this witness' belief that rates should be restructured to bring intrastate toll prices more in line with the cost of providing such service.

Position of Commission Staff

CD's witness Shantz testified that the first priorities in the design of rates are to design rates and charges for competitive items of terminal equipment and service connection charges to be increased to recover more of the cost from the customer causing the cost to the utility and thereby lessening the burden which must be carried generally by the other ratepayers. CD is strongly opposed to increasing rates and charges for existing terminal equipment and services above the cost-based levels. Such increases in excess of cost as proposed by General would, according to CD's witness, place an unfair burden on existing customers and result in stranded investment in inventory and/or early retirement of usable equipment.

This witness further testified that present rates and charges for terminal equipment offered by General have been developed with the nonrecurring charges being based on recovery of 50% of the installation or removal cost. General's proposed nonrecurring charges, designed to recover 100% of the installation and removal cost, will, according to this witness, result in significant repression in inward movement as well as severely impact the existing customer who wishes to add equipment. Because of this latter factor CD's witness proposes that the nonrecurring charges be based on recovery of 75% of the installation and removal cost. Such an approach would be considered as an interim step to attainment of nonrecurring charges established at the full 100% level in future rate proceedings.

This witness further testified that General refused to furnish certain key information in a timely manner which had the effect of foreclosing CD and the Commission from considering any alternatives to its proposed rates and charges for terminal equipment.

With respect to terminal equipment pricing, the staff noted that it is preparing a proposal on the generic issue of direct sale of all single-line customer premise equipment both old and new in OII 81, the further hearings in Pacific's rate case A.59849, and that a staff proposal for direct sale of multiline equipment is expected about March 1982.

In its brief, the staff also noted that both Los Gatos and the customers in the Sunland-Tujunga-Glendale areas protested cutover to ZUM calling in their respective areas. With respect to the Los Gatos issue, it was ascertained that the rate center of the Los Gatos Exchange could be moved in such a manner as to incorporate the San Jose West District Area into ZUM Zone 1. From the public witness hearings held in Los Gatos on October 1, 1981, it would appear that the repositioning of the rate center in Los Gatos as described would be an acceptable solution to the problem. However, with respect to the Sunland-Tujunga-Glendale area, the staff submits that the ZUM plan is intended to be statewide in its effect and the Commission should not make exceptions from its basic plan. According to the staff, to do so would destroy the basic purpose of providing uniformity for each caller throughout the State and to allow access to the network at the lowest possible charge.

Position of TASC

TASC is the trade association of TAS bureaus located in the State of California. As of January 1, 1981 TASC represented 179 TAS bureaus or exchanges with 277 different offices in California serving approximately 103,000 customers and representing approximately 64% of all of the TAS subscribers in the State. Thirty-three of the 152 TAS bureaus are located within General's service territory and account for 175 of the TAS-100 switchboards in service.

TASC notes that General is seeking increases for (1) telephone answering service equipment used and leased by TAS bureaus, (2) the installation of service connection of the secretarial lines by which TAS bureaus serve their customers, (3) mileage charges which General collects from TAS customers for secretarial interoffice "private line" service, and (4) direct inward dialing (DID) numbers of trunk facilities and services provided to TAS bureaus. According to TASC, all of the increases sought by General are extraordinary in their percentage amount and by General's own forecast would have a devastating impact upon the continued existence and viability of the TAS industry.

According to TASC, it has been demonstrated on the record that General's rate increase requests are almost entirely lacking in evidentiary support and that the proposed rate increases come at a time when General is both proposing to limit the offering of TAS-100 switchboards and related equipment to the TAS industry and actively pursuing the offering of its own central office answering service that would be competitive with the TAS industry.

TASC witness Flournoy presented a tabulation summarizing the increases proposed by General which affect the TAS industry. This tabulation indicated that the increases for Schedule A-24 varied from 14% to 643%, for Schedule A-41 varied from 71% to 122%, and for Schedule A-4 varied from 9% to 133%. TASC noted that General has forecasted that the A-24 schedule increases will alone have a 50% repression effect on the TAS industry. According to TASC, the repression impacts of the TAS rate increases sought by General would be even greater than the 50% forecasted by General because of the additional repression impacts that can be expected to flow from the other TAS increases sought in the application.

TASC also notes that the basic impediment to the conversion of TAS bureaus served by General to automated telephone answering service equipment (TAEQ) is a limited availability of "call-forwarding" within General's system. Such call-forwarding is almost essential to the economic purchase and use of automated outside vendors supplied TAEQ. Such call-forwarding is available to only 5.4% of all existing secretarial lines in General's system and completely unavailable to rotary line customers typical of the small business clientele served by TAS bureaus. Under these circumstances, TASC claims it is not surprising that only two TAS bureaus among 156 served by General have purchased equipment from outside vendors.

In its brief, TASC argues that General's TAEQ rate increase requests are based upon studies which overstate cost even more dramatically than the similar GE-100 studies used by Pacific and recently rejected by this Commission in D.93367. According to TASC, General's TAEQ rate proposals are based upon replacement cost studies instead of the more equitable embedded cost-type studies. In this respect, TASC argues that from cross-examination of General's witness Quaintance it is apparent that General has either made no effort to determine the extent to which its use of current or replacement cost overstates its actual investment in TAEQ or has conscientiously attempted to obscure those data.

TASC argues that little weight should be ascribed to General's data as General has not offered into the record any of the underlying records or documents which it used in an attempt to derive embedded investment figures.

TASC further argues that the record in this case amply demonstrates that TAEQ equipment is the type of terminal equipment that should be the subject of avoidable cost-pricing. As noted from the testimony of General's witness Borghi, General's proposed freezing of TAS equipment in September or October or November of this year will make the TAS equipment obsolete with respect to the determination of the applicability of avoidable cost-pricing.

TASC further argues that General's private line service connection charge and monthly rate proposal are without adequate evidentiary support and are calculated to exploit the captive status of TAS bureaus and their customers. To support this position, TASC notes that General has not even attempted to quantify the impact of its proposed increases in the nonrecurring charge for the installation of secretarial lines from $18 to $40 and increasing the recurring interoffice mileage monthly rates from 75¢ to $1.75 per quarter mile will have upon the demand for those services from the TAS industry generally.

TASC further argues that as a matter of law General should not be granted the extraordinary increases it is seeking from its TAS customers because of its failure to prepare cost studies which specifically reflect the cost associated with most of the facilities or service provided to the TAS industry, its failure to use costing methodology appropriate to the facilities and service provided to the industry, and its failure to use direct or avoidable cost studies for the pricing of TAEQ. According to TASC, there are no cost studies in the record upon which this Commission could base a finding of the sort required by Public Utilities Code Section 1705.

Position of County

It is the County's position that the Commission should grant its request that entrance channels should be available on the same basis as any other equivalent private line facility. According to County, it has shown that the existing procedure for establishing a facility that is classified as an entrance channel is an excessively lengthy and time-consuming process requiring a year or more to even obtain a firm price quotation from General.

Position of Los Gatos

It is the position of Los Gatos that the proposed elimination of the San Jose West District Area from the free-calling ZUM-1 area of Los Gatos is unreasonable and would result in excessive and unfair increases to the residents of Los Gatos. Relocation of the rate center of Los Gatos to include the San Jose West District Area into the ZUM-1 calling area would result in reasonable ZUM boundaries.

Discussion

The ensuing paragraphs discuss on an item-by-item basis the specific proposals of General and CD, together with the bases leading to our adopted results.

Terminal Equipment

Terminal equipment items consist of Datatel service, PBX service, supplemental service including single line instruments, call-receiving service, telephone answering service, special service arrangements including the E-120 PBXs, and loudspeaker paging systems.

Datatel Service

General proposes to increase rates and charges for certain Datatel services to yield an estimated $0.6 million increase in customer billing in the 1982 test year as compared to CD's proposed rates to yield an estimated $0.4 million increase. General and CD agree that either of the proposed rates will result in repression. General's rates are based on market pricing and CD's rates are cost-based rates. General's pricing will place an unfair burden on its existing customers. Consequently, we will adopt the staff's proposal for this item.

PBX Service

General proposes to increase the rates and charges for PBX service to yield an estimated increase in customer billing of approximately $6.7 million in the 1982 test year as contrasted to CD's proposed rates which will yield an estimated $7.7 million increase in customer billing and cost savings.

For manual PBX systems, the staff recommended the present rates be increased 25%. General recommended no change for this rate on the basis that there will be few, if any, manual PBXs in service in the test year 1982. We will adopt the staff's proposal for this item to provide a reasonable increase for any manual PBX systems which might be in operation in the test year 1982.

In general, CD adopts General's proposed rates and charges for older technology PBXs, referred to as "frozen PBX services" by General, which are based on an avoidable cost analysis that is defined as those costs which would no longer be incurred if customers discontinue leasing the service. The rates proposed by General and CD are based on these avoidable costs plus a maximization of revenues above avoidable costs. Included in this category are expandable cord-type PBX systems, nonexpandable dial PBX systems, and expandable cordless dial PBX systems. The rates for these PBX systems proposed by General and CD appear reasonable and will be adopted.

General proposes a 50% increase in the monthly rates for such items as access arrangements, connecting arrangements, link arrangements, DID service, and other supplemental PBX service arrangements. CD's proposed rates and charges for such items basically represent a 25% increase over present rates and charges. Our review of the record indicates that for these specific items the increases proposed by General are not excessive and we will therefore adopt General's proposed rates for these items.

A major portion of the increase in customer billing for PBX service results from CD's proposed increases in rates and charges for the GTD-120, Rolm (family), and Focus PBXs. These are the PBXs that are currently actively marketed by General and are referred to as "processor-controlled" PBXs. These processor-controlled PBXs are currently being provided by General under companion (month-to-month) rates and two-tier rates. Both General and CD propose comparison rates for these processor-controlled PBXs equal to the two-tier, five-year tier A plus tier B rate for each rate item. The conceptual intent of the proposed rates is to ensure adequate earnings from customers who do not elect to take two-tier pricing when it is available. Present customers under the companion rates for each of these processor-controlled PBXs have been or will be given the option to convert to the two-tier rates with credits applied to the new two-tier contract based on rates and charges which have been paid by the customer for the processor-controlled PBX service.

According to staff witness Shantz, many of General's proposed companion rates for the processor-controlled PBXs, as shown in General's exhibit, are not based on the actual tariffed two-tier 5-year tier A plus tier B rates. For this reason CD recommends that its proposed rates based on the correct present two-tier rates be adopted. This argument is persuasive and we will adopt the staff-recommended rates for these processor-controlled PBXs.

Supplemental Service

General proposes rates increasing supplemental service including single line instruments by $17.9 million for the test year 1982 as contrasted to CD's proposed rates which will provide an estimated 1982 test year increase of $13.1 million for supplemental services. In general, General's proposed rates reflect market pricing as contrasted to CD's proposed rates which are at cost-based levels where such levels were developed using the standard GE-100 method. Both CD and General estimate that their proposed rates will result in a substantial amount of repression. CD estimates the maintenance cost savings associated with repression resulting from General's proposed rates to be approximately $2.2 million in 1982 test year as contrasted to maintenance cost savings associated with repression from CD's proposed rates of approximately $1.4 million for this period. According to CD, the amount of repression which General estimates will occur if General's proposed rates and charges are adopted will result in a growth in inventory of usable equipment which has been disconnected but cannot be reused because of lack of demand. Such a growth in inventory could result in additional increases in residually priced exchange service. The magnitude of General's proposed nonrecurring charges is not fully supported on this record. Consequently, we will adopt the staff's proposed nonrecurring charges.

General proposes one rate for each type of telephone regardless of the service with which it is used. According to General, such a rate will complete the process of dis-associating line service charges from telephone instrument charges initiated by this Commission in D.92366. While CD admits there is some merit to having one rate for a standard rotary instrument, it notes that General's proposed rate of $1.50 per month would achieve such standardization of rates by increasing the rates for such instrument used as primaries and extensions by single line business and residence customers and decreasing the rates of such instruments used as PBX extensions and Centrex stations. CD believes such a restructuring of rates is inequitable. Furthermore, since both CD and General are proposing rates for the "frozen PBX services" on an avoidable-cost rather than on a full-cost basis, a reduction in the rates for the extensions associated with such "frozen PBX services" would be inconsistent with the goal of achieving maximum contribution from these PBXs.

Under these circumstances, CD proposes a standard rate of $1.25 a month for single line rotary instrument and $1.80 per month for single line touch-calling instrument used as a primary extension of simple business and residence services. CD further proposes to standardize the rates for standard rotary and touch-calling instruments associated with such services as

PBX, Centrex, and electronic business system service (EBSS) at a monthly rate of $2 for rotary instruments and $2.75 for touch-calling instruments. These $2 and $2.75 rates are the present rates applicable to such instruments used as PBX extensions. Such rates appear appropriate and will be adopted. CD also proposes varying rates for nonstandard telephones, which appear reasonable and will be adopted.

General objects to CD's proposal of 15¢ per month differential between standard telephones and compact telephones whether they be desk or wall-mounted. Such differentials are based on differences in cost which General has indicated it was aware of through its cost studies at the time it prepared its rate design. General did not build cost differential into its rate design because the compact telephone has always been considered as a type of standard telephone. In keeping with our adopted policies that competitively offered equipment should be priced at full cost, we will adopt the staff recommendation and permit the 15¢ differential proposed by CD. We will also adopt the staff's proposed monthly charges.

On September 1, 1981 by Resolution T-10451 we authorized General's Advice Letter 4659 which requested a 15¢ increase in the monthly rates for single line telephone sets, excluding PBX stations, to offset certain changes in depreciation rates. As discussed above in this decision we adopt CD's proposed rates for these sets. However, since these rates do not reflect the increases authorized in Resolution T-10451 we will, in this decision, authorize the CD-proposed rates or the rates authorized in Resolution T-10451, whichever are the higher for a particular set. This will eliminate any reduction in rates for these highly competitive telephone sets.

Call-Receiving Service

Both General and CD propose to increase the monthly rates for call-receiving service by 50% to yield an estimated $0.1 million increase in customer billing in the 1982 test year. A review of the present rate items associated with call-receiving service indicates that for rate items with units in service, the present rates have been in effect for at least 10 years.

Push Button Service

General's proposed rates for push-button (key) telephone service are estimated to yield an additional $22.2 million in revenues for the test year 1982 as contrasted to CD's proposed rates designed to yield an additional increase of $10.7 million for that year. As with other types of terminal equipment General's proposed rates generally reflect pricing such equipment so that competitive services will be offered at or above full cost and with these rates designed to maximize contributions from competitive service offerings so that the rate increases required from the basic services would be minimized. CD's proposed rates reflect costs developed using the standard GE-100 method. GE-100-type cost studies were provided by General for key telephone service rate items representing approximately 94% of the total revenue from Schedule A-34 at present rates.

According to the testimony of CD's witness Shantz, the rates and charges proposed by both General and CD will result in repression. CD estimates General's proposed rates would result in approximately $16.6 million repression in customer billing as contrasted to CD's proposed rates which are estimated to result in approximately $5.6 million repression. According to this witness' testimony, the adoption of General's proposed rates will be counterproductive to maximizing the contributions from competitive service offerings as the repression would drastically increase equipment placed in inventory, the cost of which must be borne by residually priced basic services. CD also notes that to increase rates and charges in excess of the cost-based levels places an unreasonable and unfair burden on existing customers.

CD's arguments are persuasive and we will adopt its proposed rates for key telephone service.

Special Services

General proposes to increase the monthly rates for special services including the E-120 PBX to yield an estimated increase in customer billing of approximately $0.6 million in the 1982 test year as contrasted to CD's proposal to yield an additional $0.8 million in the 1982 test year. CD notes that General's witness Borghi testified that he has been provided with a proposed price increase for each special assembly based upon increases in the consumer price index. Consequently, the proposed rates for special service arrangements were based on a price-indexing method whereas the proposed rates for the E-120 PBX are based on the avoidable cost method used for other items such as frozen PBX services. CD adopted General's pricing method but obtained different results as detailed above. General's review of the staffs work papers revealed some errors in the computations and it revised its special service arrangement proposed rates to conform to the staff's proposal. These rates will be adopted.

Loudspeaker Paging Systems

General proposes to increase the monthly rates for loudspeaker system service by 50% as compared to CD which proposes to increase these rates by 25%. These rates have not been increased since 1974. General indicates that a study showed that an increase between 30% and 50% in monthly rates is necessary to obtain a proper level of earnings for this service. CD expressed concern that the proposed 50% increase could cause all the customers to discontinue service and therefore recommended a 25% increase. CD also points out that

General has understated by $0.1 million the increase estimated by General to result from General's proposed rates. Due to the period of time since the last increase, we will adopt General's proposed rates to yield an estimated increase for loudspeaker and paging system services of $0.8 million.

TAS

TAS rates under Schedule A-24 are a component part of the rates included under terminal equipment. However, because of the amount of testimony relating to TAS rate design, we will discuss it as a separate item.

General originally proposed to increase the rates for tariff Schedule A-24, telephone answering service, $0.232 million. However, according to testimony by General's witness Quaintance, the requested increase for Schedule A-24 was raised to $1.005 million to reflect certain errors or omissions that have been discovered as a result of data requests and dialogue between General and the Commission staff in San Francisco.

This witness further testified that in reviewing the items for treatment in this rate case, General attempted to use a revenue window approach similar to that used in the last Pacific case wherein those items that generate approximately 90% to 95% of the total revenue for the schedule are costed and form the basis for the proposed rates. In this instance, according to the testimony, the analyst who made the selection of the items overlooked some of the major revenue generators. General then revised its proposed Schedule A-24 rates upward and introduced the revised proposed rates at the hearing on June 12, 1981. The revised cost sheets reflecting the additional revenue generators were used by the Commission staff in the preparation of its rate design exhibits.

The exhibit containing General's revised proposed Schedule A-24 rates, Exhibit 27-B, was received into evidence on June 16, 1981 subject to a motion to strike by TASC. TASC made such a motion on July 10, 1981 on the basis that the revised rates, which would increase by more than fourfold the increases sought in the original application, was in effect a revised application that was not noticed in accordance with the statutory and regulatory notice requirements.

The Commission staff supported the motion to strike on the grounds that Exhibit 27-B was a substantial update in the form of a correction to the record contrary to the Regulatory Lag Plan and that the witness' testimony was the first notice of a proposed increase in the order of magnitude four to five times different than originally proposed.

In the written ruling denying the motion, ALJ Johnson noted that:

> "It is very evident from the record that ample notice of the magnitude of the rate increase proposed for TASes contained in Exhibit 27-B was not given. Such a lack of proper and adequate notice would fully justify granting TASC's motion to strike Exhibit 27-B. Two separate factors, however, support the following ruling that the motion be denied. First of all, the adverse effect to TASC of the lack of proper notice has been mitigated by the early serving of a copy of Exhibit 27-B on TASC and the provision of ample time (July 24, 1981) for TASC to prepare its prepared testimony and exhibits. Secondly, a review of the proposed exhibit indicates the staff utilized the corrected cost data in its rate exhibit. Consequently, the record will contain essentially the same evidence set forth in Exhibit 27-B." (Mimeo. page 3.)

On July 30, 1981 TASC filed an appeal of the ruling stating its belief that neither of the foregoing circumstances either alleviates or cures the lack of adequate and proper notice. We disagree and hereby deny the appeal that the ruling be reversed. TASC has not provided any competent evidence of its inability to prepare rebuttal to, or examination of, General's TAS rate design evidence. To grant the appeal would not only exalt form over substance but would also give TASC members an unjustified windfall, i.e. exemption from increases borne by all other customers. We decline, under these circumstances, to allow this to happen.

In addition to the increases proposed under General's A-24 tariff schedule, there are other proposed increases affecting TAS bureaus including:

1. Increases in the nonrecurring or installation charges for secretarial lines (SL) under tariff Schedule A-41 (the subsequent service order and central office activity elements of the multielement service connection charge);
2. Increases in the recurring mileage charges under Schedule A-4 for SL loops and interoffice cabling and C/I "talk paths" between concentrators located in General's central offices and the identifiers located at the TAS bureau premises; and

3. Increases in DID under General's tariff Schedule A-6.

General proposes increases for the A-24 tariff schedule ranging from 50% to 643% for the nonrecurring charges and from 50% to 385% for the monthly rate charges with an overall increase for this schedule of 57%. According to General, the proposed rates are based on cost studies and are designed to increase the revenue to a level which will generate sufficient revenues to cover the aggregate terminal equipment cost and make a substantial contribution to the utility's common and corporate costs. The cost sheets used for the A-24 proposed rates are consistent with other cost sheets used to establish rates for other schedules of terminal equipment in this proceeding. Material costs included in this cost study reflect current catalog prices rather than embedded cost of the equipment under consideration. CD's proposed rates and charges are based on the same GE-100-type cost study used by General in the design of its rates. The cost study covered approximately 90% of the recurring revenue associated with Schedule A-24 at present rates and charges. CD's proposed rates and charges for the remaining rate items in Schedule A-24 are either the same as the rates for the same or similar items offered in other schedules or are based on a 50% increase over present levels. The overall increase resulting from the rates prepared by CD is estimated to be $1.2 million or 75%.

According to testimony presented on behalf of TASC, the cost studies used substantially overstate the cost of such terminal equipment because they are based on reproduction cost rather than on the embedded cost of such equipment. Furthermore, TASC notes that General's proposed increases in rates and charges under its A-24 rate schedule are based upon the so-called "RR7227" cost forms similar in format to the GE-100 cost sheets historically used by Pacific to establish rates for terminal equipment and that this Commission in D.93367 has criticized these cost studies as used by Pacific to establish cost for vintage terminal equipment as noted by the following:

> "The record abundantly demonstrates that all of the foregoing user interests proved substantial weaknesses in the cost factors used by Pacific in its GE-100 methodology. The preponderance of evidence became so overwhelming on this point that the ALJ, late in the proceeding, finally had to call a special conference to discuss what could be done at that late point to rerun the GE-100 cost sheets using more realistic cost factors." (Mimeo. pages 162-163.)

TASC witness Weiss testified that, in his opinion, General's cost base is improperly supported and actually suggests that an avoidable cost method should be used to price the TAS boards. We concur.

General argues that the avoidable cost basis is only appropriate when the equipment is clearly obsolete and for which there is no practical substitute service available. According to General, the consensus of TASC witnesses is that other equipment available on the marketplace is far too expensive for their consideration, thus there is no practical substitute for such equipment. Furthermore, the avoidable cost basis is used only when it is determined that by raising prices to a full-cost basis the resulting rates will cause the customers to use a less expensive substitute offering.

General argues that it is poor management to offer a service below cost where there is no probability of losing the customer to a substitute offering. However, the record is quite clear that if the rates proposed by General are effected the repression factor caused by increases of this magnitude will exceed 50%. It is axiomatic that the effect of the loss of customers using such equipment is the same whether the equipment is lost to substitute equipment or lost by the customer going out of business. In our opinion, this factor alone justifies the use of cost avoidance in determining the rates for the A-24 schedule. In addition, the TAS-100 telephone answering service boards are manufacturer-discontinued.

By letter dated August 21, 1981, General notified the TASs in its service territory that it intends to "freeze" the L-55B and TAS-100 cord-type boards to existing customers. Additions to existing bureaus and/or moves of existing bureaus to new addresses will be made in an "as available" basis. However, General has not yet filed an advice letter with this Commission to freeze the service. We will therefore direct General to freeze this service to existing customers and make positions available for additions to existing bureaus and/or moves of existing bureaus to new addresses only on an "as available" basis. According to the record, equipment that is "frozen" is a type of obsolete equipment and should be subject to avoidable-cost pricing. We will therefore include the TAS-100 board and related equipment, except the rates applicable to the termination of a secretarial line on a telephone answering attendant's position or concentrator-identifier arrangement, in the same category as the frozen PBX equipment and increase the rates and charges by the same overall percentage or 33%. The balance of the rate items in Schedule A-24 will be increased by 50% consistent with our treatment of other terminal equipment which has had relatively static rates.

General's rate design witness testified that in their most recent rate case (A.59132) General inadvertently dropped the monthly rate for the termination of a secretarial line on a telephone answering position or concentrator identifier arrangement. We take notice of General's canceled tariff sheets which indicate that the monthly rate for such terminations including the first one-quarter mile of mileage was reduced from $3 to $1.60 effective November 1, 1980 in compliance with D.92366. The $1.60 rate adopted in D.92366 was the standardized rate per quarter mile for mileage services requested by General. By reducing the $3 rate to $1.60 any recovery of the costs for the terminations fell onto the general body of ratepayers. The rate in effect per quarter mile of mileage prior to November 1, 1980 was $1.25 per month leaving $1.75 per month to recover the cost of the termination. We therefore believe it is appropriate to reinstate the $3 monthly rate which existed prior to November 1, 1980 by authorizing a monthly rate for a termination of $1.25 which when added to the $1.75 rate per quarter mile adopted in this decision will equate to the former $3 rate. This $1.25 rate for terminations will be excluded from further increases in this decision except for the changes in the billing surcharge which applies to all recurring rates including the $1.25 rate for terminations.

As subsequently discussed, General proposes increases to its multielement service connection charge (Schedule A-41). Two elements of the multielement service connection charge result in a nonrecurring charge which the TAS bureau client must pay for the secretarial line hookup from his/her telephone to the bureau. These elements are the subsequent order charge which General proposes to increase from the present $9 to $20 for business service and from $5 to $10 for residential service and the central office activity charge which General proposes to increase from $9 per line to $20 per line for business service and $9 per line to $14 per line for residential service. Our adopted nonrecurring subsequent order charge for residential service is $8 and for business service is $14.00, and for central office activity is $11 for residential service and $16.00 for business service, for a total nonrecurring charge for secretarial lines of $19 for residential service and $30.00 for business service.

General proposes to relocate the mileage rates and charges applicable to mileage associated with TAS bureaus to Schedule A-4. General also proposes to increase mileage rates applicable to mileage associated with exchange-type services, optional prefix service, and TAS, and to consolidate all mileage rates applicable to foreign exchange (FEX) service, TAS, and exchange-type services into this one tariff schedule. For services where mileage is provided on a per quarter mile basis, General proposes a monthly rate of $1.75 per quarter mile and for services where mileage is provided on a per mile basis, General proposes a monthly rate of $7 per mile. CD concurs with General's proposal to standardize mileage rates at the $1.75 per quarter mile and $7 per mile levels. However, CD proposes to limit the maximum increase to 25% to lessen the impact on its existing customers. In general, we will adopt General's proposed mileage rates but will limit the increase in mileage rates applicable to exchange type services, optional prefix services, and telephone answering services to a maximum of 50% rounded to the nearest 5¢.

As previously stated, we have adopted the staff recommendation relative to DID numbers and trunk facilities and services provided to TAS bureaus.

Service Connection Charges

General proposes increasing revenues for the multi-element service connection charges by $38.2 million (98% increase) as contrasted to the staff's proposal to increase the multielement connection charges for residential service $16.2 million and for business services $8.3 million. CD also proposes a residential modular conversion program costing $7.6 million a year.

It is General's position that under its proposed rate structure, the charges are fully compensatory for work performed on the customer premises, for travel time, and for central office activity. Activities associated with service order processing, directory assistance, and adding customer information to the accounting system will not be fully cost-covered under General's proposal. However, General has stated that it intends to propose increased charges for these non-compensatory elements in the next rate application to achieve full cost recovery for businesses and near full cost recovery for residence multielement service connection charges.

CD's witness Shantz testified there are four objectives which he considered in determining the charge levels for a multi-element service connection charge as follows:

1. To have the charge elements cost-related.
2. To assess the charges against the cost-causing segment of the customers.
3. To design the level of charges to encourage customer usage of Phone Mart facilities.
4. To have element charges which relate directly to the work activities and are therefore understandable to the customer.

According to this witness' testimony, both General's and CD's proposed revisions for service order activity and central office activity are cost-related and assess the charges against the cost-causing segment of General's customers. It is CD's position, however, that General's proposed initial service order activity charge of $45 (a 165% increase over the present charge of $17) for business service and the proposed $20 charge (186% increase over the present charge of $7) for residential service order charges are not understandable to the customer because such "paper work" charges are not normally encountered by consumers in normal day-to-day purchases of goods and services. Consequently, CD proposes a charge of $25 (47% increase) for business and $11 (57% increase) for residential services as representing the maximum reasonable level of increase over approximately a two-year period which has elapsed since the present charges were last increased.

In addition, CD believes that General's proposed charges for central office activity of $20 per line for business service and $14 per line for residence service, based on recovery of 100% of the cost associated with such activities, are excessive and will cause too severe an impact on customers. For this reason, CD proposes central office activity charges of $16 for business service and $11 for residential service (representing approximately 80% of the cost) with the intent of proposing additional increases for central office activity in future rate proceedings of General to eventually bring such charges to the full cost-based level.

CD's proposed charges are reasonable and will be adopted except for the avoidable cost elements consisting of premises visit, premiseswiring, and premises work-telephone established by D.93728 which will not be revised at this time.

At the present time the only free modular conversions for residence service are associated with items that are replaced on repair visits. Such a conversion program has little or no benefit for those customers who request no new additions to or removal of utility-provided terminal equipment and will therefore never initiate a repair call. In addition, such customers are foreclosed from using customer-provided terminal equipment without incurring additional charges to convert the premises to modular jacks. To correct this problem CD recommends that General be ordered to implement a modular conversion program for existing residence customers with hard-wired utility-provided telephone service. Such a residence modular conversion program is to have a goal of attaining the modular conversion on all simple residence services over a period of 24 months. The cost of this two-year program is estimated to be approximately $7.6 million per year. We will adopt CD's recommendation and allow for the $7.6 million annual expense in the final rate design. After settlements and uncollectibles, the increase in customer billing to offset this $7.6 million annual expense is $3.1 million.

Optional Residence Telephone Service (ORTS)

Ordering Paragraph 11 of D.92366 requires General to revise the present offering of ORTS to a fully measured basis. In response to this ordering paragraph, General has provided CD with a proposed tariff for measured optional residence extended service (MORE). Under such a proposal a customer would be able to purchase for a monthly rate an optional service which provides a 40-mile route-calling circle area. Each call within the designated calling area would be charged on the basis of 50% of the message toll rate applicable to such a call placed Monday through Friday only with calling on weekends and message toll holidays unlimited.

CD takes the position that customers perceive the present ORTS offering to be unfair in that those customers located in exchanges within 40 route miles beyond the areas where ORTS is offered on an "out" basis can be called by a customer using "out" ORTS but must return such a call to the same customer under message toll rates. Because of this problem and the growing consumer concern, CD recommended that the expansion of ORTS be ordered by the Commission for inclusion in the next major rate proceeding of Pacific. This recommendation was adopted in D.93367 and Pacific, General, Continental, and Citizens were ordered to submit as a part of Pacific's next major rate application testimony and exhibits which would address the feasibility of implementing ORTS in all exchanges which presently receive "in" ORTS calls, the revenue requirement in terms of added plant and additional expenses associated with the expansion of ORTS over these additional routes, and the customer billing effects associated with implementing ORTS over the additional routes.

In addition, both Pacific and CD recommended in A.59849 that OCMS be converted to a fully measured offering similar in structure to the present fully measured ORTS of Pacific with the eventual goal of both Pacific and CD for all utilities in California to offer an optional calling plan on a point-to-point basis over those routes where such a plan is warranted. CD takes the position that since General's MORE service proposal will not provide point-to-point optional service and does not address any plans for expansion of MORE service to other areas where ORTS is presently not offered, the adoption of a concept like MORE service would only serve to compound the present problems of customer dissatisfaction and therefore recommends that General's proposal for MORE service not be adopted. In the interest of eliminating flat rate ORTS as authorized in D.92366 and reinstating an ORTS offering which is basically the same for General and Pacific, CD recommends the Commission order General to implement the fully measured ORTS offering with the same rates proposed by CD in Pacific's A.59849 which are based on the message toll and ZUM rates recommended by CD in that application. CD further recommends that General be ordered to implement the proposed fully measured ORTS offering within 180 days of the final order in this application. Such a recommendation has merit and we will adopt the staff's proposal with respect to the establishment of the exchanges and service areas. In order to achieve and sustain uniformity in General's and Pacific's ORTS offerings we will direct General to concur in and adopt Pacific's ORTS rates which we authorized in Appendix B of D.93728.

With respect to OCMS, General proposes to increase its Schedule B-5 to coincide with the rates proposed by Pacific in A.59849. We will adopt for General the OCMS rates set forth for Pacific in Appendix B of D.93728.

Verification/Interrupt

D.92366 authorized General to implement a 25¢ charge for verification of a busy line condition and/or interruption of a conversation in progress at the calling party's request. General filed a tariff with such a charge on May 14, 1981 and it became effective July 1, 1981. General proposes to increase this rate to 75¢ per call. The primary purpose of the charge is to reduce the excessive use of such service for other than emergency calls. According to CD's witness, the record in Pacific's A.59849 for a general rate increase indicates that the existing 25¢ charge for verification and interrupt in the Pacific system has resulted in a reduction of approximately 50% in such requests. Based on this 50% reduction in the frequency of verification/interrupt calls, CD recommends that the present verification/interrupt charge of 25¢ be maintained and no increase be granted. This position appears reasonable and will be adopted. Since General has implemented the charge the adjustment in revenue requirement proposed by CD is not adopted.

Touch Calling Service

In compliance with Ordering Paragraph 11.a. of D.92366, General has provided a plan for the reduction and eventual elimination of the rates applicable to exchange access lines equipped for touch calling. Consistent with its plan General proposes to decrease these rates from $1 per month and 75¢ per month for business and residence lines, respectively, to a common rate of 50¢ per month. CD concurs in General's proposal. We agree that reducing the touch calling line rates is appropriate. However, due to the overall increase in revenue requirement, we believe reducing such rates to a common rate of 50¢ per month at this time is inappropriate. Therefore, we will adopt a common rate of 65¢ per month.

Mobile Telephone Service

In compliance with Ordering Paragraph 4.b. of D.92366, General submitted cost data in the standard GE-100 method for mobile telephone equipment which indicated that the revenue requirement for mobile telephone service exceeds the customer billing for such service at present rates. As a result, both CD and General recommend that the conversation time rate per minute be increased from 25¢ to 45¢. This recommendation is reasonable and will be adopted.

EBSS

General proposes to increase the monthly rates for EBSS to yield an estimated increase in customer billing of approximately $2.1 million in the 1982 test year as contrasted to CD's proposal which will yield an estimated $1.1 million in 1982 test year. CD's proposed rates for the DID/DOD portion of the EBSS rate have been increased by the same percentage as its proposed increase in the business individual line measured service rate. CD proposes to increase all other EBSS rates by 25%. According to CD's witness, this 25% increase is based on the need to prevent the present rate relationship between EBSS and the present PBX service from being distorted to the extent that PBX customers will find it attractive to remove PBX systems and to subscribe to EBSS. This position appears reasonable and will be adopted. The adopted rate for the DID/DOD portion of the EBSS rate has been increased by 10.8% which is the same percentage increase as for the adopted increase in the business individual line measured service rate.

Centrex Service

General proposes to increase the monthly rates for Centrex service to yield an estimated increase in customer billing of approximately $1.6 million as compared to CD's proposed increases of $0.5 million for the 1982 test year. General proposes the same rates for the DID/DOD portion of the station rates as proposed for business individual line measured service and a 10% increase for the remaining rate items. CD proposes the same percentage increases in the rates for the DID/DOD portion of the station rates as it proposed for business individual line measured service. For the remaining rate items, CD proposes a 25% increase which is the same increase recommended by CD for EBSS. CD's proposed Centrex service rates appear reasonable and will be adopted.

The adopted rate for the DID/DOD portion of the Centrex rate has been increased by 10.8% which is the same percentage increase as for the adopted increase in the business individual line measured service rate.

Custom Calling Service

General proposes increases in rates for custom calling service (CCS) which average 26.6% over present rates and will yield an estimated additional $1.3 million in the 1982 test year. It is CD's position that CCS features are discretionary services and as such should bear a portion of the substantial increase in the overall revenue requirement. CD, therefore, proposes to increase the rates for CCS features an average of 33% over present rates to yield an estimated $1.6 million increase in customer billing in the test year 1982. CD's recommendation appears reasonable and will be adopted.

Directory-Nonpublished Listing Service

General proposes to increase the rate for nonpublished listing service from 15¢ to 50¢ per month to yield an estimated additional customer billing of approximately $2.4 million in the 1982 test year. It is CD's position that such service is discretionary and should therefore bear a portion of the substantial increase in the overall revenue requirement. However, CD proposes a 30¢ monthly rate for nonpublished listing service which represents a 100% increase over the present rates. CD's position appears reasonable at this time and will be adopted but we expect to increase the rate for this service substantially in future rate cases so that such discretionary services bear an increasing portion of the revenue requirement.

Intrastate Private Lines Service

Both General and CD propose to increase the rates and charges applicable to intrastate (local) private lines service to the same levels presently in effect for interexchange private lines service to yield an increased customer billing of approximately $1.6 million in the 1982 test year. These recommendations appear reasonable and will be adopted.

Visit Charge

General proposes to increase the visit charge applicable to a visit to a customer's premises resulting from trouble conditions caused in whole or in part by customer-provided facilities from $30 to $45 per hour or portions thereof for exchange service and from $30 to $45 per visit for intrastate private line service and from $30 to $45 per visit for intrastate wide area telephone service which General suggests reflects cost. CD's witness testified that there appears to be little correlation between the costs of such visits and General's proposed charges. CD proposes a charge of $55 for each such visit and states that its proposed charge is based on the recovery of the average cost associated with each visit. CD's position appears reasonable and its proposed visit charge of $55 per visit will be adopted.

Exchange Mileage and FEX

General proposes to consolidate all the mileage rates applicable to FEX service, TAS service, and exchange-type service into one tariff schedule and increase customer billing approximately $4.9 million in the 1982 test year. General also proposes to increase charges applicable to FEX service, excluding mileage, to yield increased customer billing of approximately $9.8 million in the 1982 test year, a total of $14.7 million. CD's proposed revisions in mileage rates are estimated to result in an increase in customer billing in the 1982 test year of $10.9 million and its proposed FEX revisions will yield an estimated increase in customer billing of $2.1 million for a total of $13.0 million. CD concurs with General's proposals to consolidate all the mileage rates applicable to FEX, TAX, and exchange-type services into one tariff schedule.

For services where mileage is provided on a per quarter mile basis with the exception of one party, two party, and trunk line exchange services offered in the suburban area, General proposes a monthly rate of $1.75 per quarter mile and where mileage is provided on a per mile basis General proposes a monthly rate of $7 per mile. CD concurs with General's proposed standardized mileage rates at the $1.75 per quarter mile and $7 per mile levels, but has limited the maximum increase to 25% to lessen the impact on existing customers. Excluded from this 25% maximum increase proposed by CD are the mileage rates applicable to FEX service.

General proposes to change the method of mileage measurement applicable to new contiguous FEX service from the present basis of the mileage from the customer's location to the nearest point on the common exchange boundary to the airline mileage difference between the rate centers of the local and foreign exchanges. According to CD, this change in the method of mileage measurement is the same proposed by General in its last rate increase application which the Commission did not adopt because of the impact on new FEX service customers and the discriminatory rate disparity that would be created between new and existing FEX service customers. CD proposes to increase the mileage rate applicable to contiguous FEX services from the present monthly rate of $1.60 per quarter mile of mileage to a monthly rate of $3.50 per quarter mile of mileage and to retain the present method of mileage measurement.

Such a rate will be applicable to both old and new customers. CD also stated such a rate will not recover the approximate average monthly revenue requirement of $80 for business contiguous FEX service and $69 for residence contiguous FEX service, but that CD will propose additional increases in future rate proceedings.

General's proposed revisions applicable to FEX service, excluding mileage associated with FEX service, are estimated to be approximately $9.8 million in the 1982 test year. General's proposed revisions include withdrawal of residence foreign exchange trunk line service, increases in the monthly rate increments applicable to both residence individual line and suburban foreign exchange service; uniform increases in the monthly rates for primary business service, and increases in the foreign exchange rate for message and measured units (non-ZUM) of local calling to a standard rate of 10¢ for both business trunks and individual line services.

CD's proposed revisions to FEX service will yield an estimated increase in customer billing of $2.1 million in the 1982 test year and include withdrawal of residence foreign exchange trunk line service, uniform 25% increases in the monthly rate increments applicable to residence individual line and residence suburban foreign exchange services as well as the monthly rates applicable to primary business foreign exchange services, increasing the foreign exchange rate for message and measured units of local calling to a standard rate of 7.5¢ per unit for both business trunks and individual line services, and establishing a $100 nonrecurring charge applicable to all new FEX services. CD's recommendations for these rates appear reasonable and will be adopted, with the exception of the FEX message unit rate. For that item we will adopt a rate of 9¢/unit as a means of recovering a larger portion of the cost of FEX service from FEX customers.

Rate Increments Over Basic Rates

Both General and CD recommend revisions to the special rate area (SRA) and rate increments to reflect the mileage rates proposed by each in this application. To maintain consistent rates we will adopt proposed rate increment rates based on our adopted mileage rates for exchange-type services.

Semipublic Service

General proposes to increase the monthly rates for semipublic service from $8.10 to $18.09 and estimates this increase will result in an increase in customer billing of approximately $2 million in the 1982 test year. CD proposes to increase the monthly rate for semipublic service from $8.10 to $17.50 to yield an estimated increase in customer billing of $1.9 million in the 1982 test year. CD's proposed monthly rate is, according to CD's witness, based on recovery of approximately 50% of the difference between the estimated revenue requirement based on General's cost studies associated with semipublic and public local service and the estimated revenue collected for local messages from semipublic and public services. CD's proposal appears reasonable and will be adopted.

Measured Local Service

General proposes to increase the local exchange unit rate applicable to calls made from measured rate service from 4¢ to 7¢ per unit to yield an increase in customer billing of approximately $15.8 million in the 1982 test year. It is General's position that the proposed increase is necessary to have its measured local service customer and Pacific's ZUM customer with similar calling characteristics being charged essentially the same rate for the same service. CD proposes to increase the local exchange unit rate from 4¢ to 6¢ and estimates that this increase will result in an increase in customer billing of $10.5 million in the 1982 test year. The CD-proposed unit rate is developed using the same method as General used in the development of General's proposed unit rate and is designed to reflect the Zone 1, ZUM revisions recommended by CD in A.59849. We will adopt CD's proposed rates.

Farmer Line Service

General proposes to increase the rates for farmer line service, to withdraw this service from areas where there are no customers, and to limit the offering of this service to existing customers. CD also proposes increases in farmer line rates and the withdrawal of this service where there are no customers. CD does not recommend limiting this service to existing customers because farmer line service is an alternative to line extension charges. CD's position is reasonable and will be adopted.

Basic Exchange Service

General proposes to increase the monthly rates for basic exchange service to yield an estimated increase in customer billing of approximately $150.6 million in the 1982 test year as contrasted to the staff's proposed increase of approximately $51.9 million in the 1982 test year.

According to General's witness Quaintance, it is only after prices are set for all other services that pricing is set for basic telephone service to cover any shortfall in the revenue requirement increase. With the exception of the business flat rate trunk line service (1FTK) all of General's proposed increases range from 75.6% to 76.8%. The proposed 1FTK increase is 51.9% and is less than the other increases in order to narrow the present rate difference between business flat rate trunks and lines. CD opposes this proposal on the basis that characteristically the usage of a business PBX line exceeds the usage over business lines and a decrease in the rate for a flat rate business PBX trunk results in passing the cost associated with the usage onto other ratepayers. This position appears reasonable and will be reflected in our adopted rates.

CD's proposed basic exchange rates are designed to encourage the growth in measured service and take into consideration the CD-proposed increase for exchange units in establishing the proposed rates for flat rate business lines and trunks and measured rate business lines and trunks. Tabulated below are the present exchange rates together with those proposed by CD and General and our adopted rates.

	Present	Proposed CD	Proposed General	Adopted
Los Angeles Metropolitan Extended Area Service Exchanges (1)				
Business				
1MB	$ 6.50-0	$ 6.80-0	$11.44	$ 7.20-0
Sub. B	11.00	13.90	19.39	14.60
SPCB	8.10	17.50	18.09	17.50
PBX-MTK	6.50-0	6.80-0	11.44	7.20-0
Residence				
1FR	$ 6.25	$ 8.25	$11.05	$ 7.75
1MR	2.50-30	2.80-30	4.39	2.80-30
Sub. R	5.45	6.90	9.61	6.90
Non-Metropolitan Exchanges (2)				
Business				
1FB	$14.20	$16.80	$25.05	$17.20
Sub. B	11.00	13.90	19.39	14.60
SPCB	8.10	17.50	18.09	17.50
PBX-FTK	21.20	25.40	32.22	25.95
Residence				
1FR	$ 6.25	$ 8.25	$11.05	$ 7.75
2FR	5.45	6.90	9.61	6.90
Sub. R	5.45	6.90	9.61	6.90

(1) Includes: Covina, Downey, Etiwanda, Huntington Beach, Long Beach, Malibu, Monrovia, Ontario, Pomona, Redondo, San Fernando, Santa Monica, Sierra Madre, Sunland-Tujunga, West Los Angeles, Westminster, and Whittier.

(2) All other exchanges.

Our adopted rates are based on an increase of approximately 25% to the one-party residence service as contrasted to a 32% increase proposed by CD and a 76% increase proposed by General. The balance of the adopted basic exchange service rates reflect the increases necessary to recover the increase in revenue requirement after consideration of the rates adopted elsewhere in this decision. In arriving at our adopted rate, careful consideration was given to ability to pay as reflected in the current economic situation.

Billing Surcharge

At the present time a 10.48% billing surcharge is in effect applicable to all of General's Schedules A-1 through A-40. A negative billing surcharge was originally established to adjust for the impact upon General of Proposition 13 by flowing through to our customers the effects of the reduction in property taxes. In D.92366, we continued the billing surcharge to balance our adopted rate spread to achieve the overall revenue requirement. To leave the current surcharge unchanged would mean that the previously discussed adopted increases would be further surcharged by the current 10.48%, resulting in some rates being increased above the cost-based levels. To avoid this, we will incorporate the revenue produced by the surcharge within our rate design and eliminate the surcharge.

ZUM

In 1979 this Commission by D.90642 dated July 31, 1979 on Pacific's A.58223 for a general rate increase ordered the establishment of a new calling plan in the San Francisco-East Bay-San Jose metropolitan area and the Los Angeles metropolitan area. The objective of the plan was to develop a unified measured extended calling plan for business and residence subscribers. Under the ZUM plan the three multimessage units (MMU) and the four MMU routes were converted to zones of local calling applicable to calls of all types of service, except coin service, and zone calling usage is included in the usage allowance for measured rate service on the same basis as local usage. Three calling zones were established for each exchange. Zone 1 includes a subscriber's local exchange, contiguous exchange, and noncontiguous exchanges or district rate areas where the distance is 8 air miles or less between rate centers. In general, Zone 1 includes all previously designated local calling areas, Zone 2 includes interexchange routes between 9 and 12 miles, and Zone 3 includes interexchange routes between 13 and 16 miles.

The ZUM concept is intended ultimately to be a statewide offering of usage measured service where customers of Pacific and General pay approximately the same rate for the same service and calling area. Such ZUM rates are intended to replace extended area service (EAS) calling and will thereby eliminate the EAS increment charge to all customers using the same EAS route. General's subscribers in both Los Gatos and the Sunland-Tujunga-Glendale areas protested the implementation of the Commission-ordered ZUM rates.

EAS was established to the entire contiguous exchange of San Jose in 1962; however, when San Jose was subsequently divided into three district areas (D.A.) the EAS and associated rates were not reevaluated. The community of interest was a major consideration in the establishment of EAS between Los Gatos and San Jose. The ZUM rates would include San Jose-South in the Zone 1 or free-calling area but would exclude both San Jose-West and San Jose-North D.A.s. The residents of Los Gatos are vehemently opposed to the loss of the San Jose-West D.A. from the free-calling area as the elimination of such an exchange from the local calling area would result in the assessment of ZUM charges to Los Gatos callers for calls for such services as the sheriff's department, Santa Clara government offices, offices of every elected official representing Los Gatos on the county, state, and federal levels, county hospital, superior courthouse, and the only public university in the county. In response to a request by CD, General prepared a study showing the effect of revising the rate center of the Los Gatos exchange in a manner that would result in the Los Gatos to San Jose-West route being within the zero to 8-mile range for Zone 1. Cutover to ZUM for this route has been suspended pending completion of the study. It was found that repositioning the Los Gatos rate center 0.4 mile results in the retention of San Jose-West in the ZUM Zone 1 area.

On October 1, 1981 public witness hearings were held in Los Gatos to obtain public comment with respect to the implementation of ZUM. The tenor of the comments and testimony at this hearing indicated that such a repositioning of the rate center would be an acceptable solution to the ZUM problem. This appears reasonable and will not affect the overall ZUM concept. Consequently, the order that follows will provide for the relocation of the Los Gatos rate center 0.4 mile to retain San Jose-West D.A. in the free-calling area for Los Gatos subscribers. The revenue effect of such relocation is included in our adopted summary of earnings.

A similar situation exists with the Sunland-Tujunga calling route to the City of Glendale. CD takes the position that the ZUM plan is intended to be statewide in its effect and that the Commission should not make exceptions from its basic plan. To do so, according to CD, would destroy the basic purpose of providing uniformity for each call throughout the State and allowing access to the network at the lowest possible charge. The staff further argues that if the needs of the protesting parties can be accommodated and still preserve the overall ZUM concept, the Commission should give every consideration to doing so. Field surveys by General and CD staff members have indicated that relocating the Sunland-Tujunga rate center approximately 0.4 mile would permit the retention of Glendale in the Zone 1 free-calling area. This appears a reasonable solution to the problem and will be authorized. The revenue effect of the above-described rate center relocation is also included in our adopted summary of earnings.

Late Payment Charges

General proposes implementation of a late payment charge (LPC) of 1.5% to be applied to a customer's previous month's unpaid balance. General takes the position that this approach is identical to that commonly used by banks and retailers and generally reflects General's cost of short-term borrowing. According to General, the LPC will encourage more customers to pay their bills on time which will reduce the requirement for short-term borrowing and thus reduce General's cost of operations. According to the record, the staff agrees with the concept of the LPC but believes there should be a corresponding increase in the interest rate that General pays on customer deposits. General takes the position that LPC should be considered on its own merits and that it is not related to the receipt of customers' deposits.

At several of the public witness hearings on this matter, a number of subscribers vehemently protested the implementation of such LPC. Part of the opposition to the imposition of such an LPC relates to the fact that exchange rates are paid in advance and General is proposing to collect a late charge for services not yet received. It should be noted, however, that the exchange charges are generally less than one-half of the average telephone bill and under General's normal billing practices the toll and message charges are for calls made as much as two months prior to the billing date. Furthermore, the late charge as proposed by General will not be imposed until at least 29 days after the billing date. Under those circumstances the imposition of the 1.5% late charge on the total bill appears reasonable. We will adopt General's LPC. We are not persuaded that there is a need to increase the interest on customers' deposits as a result of the imposition of the LPC and will, therefore, not adopt the staff's recommendation in that respect.

Entrance Channel Facilities

Testimony was presented on behalf of County by James M. Nelson III, one of County's telephone service analysts. According to his testimony, County's primary concern regarding entrance channels is the long delays involved in ordering entrance channels, the inability to be able to determine price prior to placing an order, and the apparent arbitrary and excessive nature of the prices set. He stated that if a customer seeks an off-premise extension, local private line, or interexchange private line, he can contact General's customer consultant to receive a quotation for the price of the service within minutes or hours at the most. However, according to his testimony, if a customer wishes an entrance channel the order must be placed with marketing and is then sent to engineering for work-up and costing, forwarded to the Commission staff for review, returned to the company for preparation of a tariff revision and the filing of an advice letter. Finally, if the advice letter is approved by Commission resolution, then and only then may a firm price be provided to the customer. Such a process takes at least one year. This witness also testified concerning the prices established for entrance channels. He quoted as an example the installation charge filed for the service for Ventura County totaling $6,670 or $290 per channel, with a monthly recurring charge of $1,697 or $73.78 per channel, and a total basic termination charge of $18,400 or $800 per channel, and contrasted these charges with type 2001 channels which would have been priced at $90 per channel to install, $18 monthly recurring charges, and no basic termination charge.

It is this witness' recommendations that General's tariffs be modified so that entrance channels are provided on the same basis as any other private line facility of equivalent grade and quality. In its brief, General argues that it has no basic objection to the concept of providing all private line service of the same grade and class on the same basis and at the same price. However, General argues that entrance channels and private line services are not the same and notes that by tariff definition one relates to service and the other relates to a facility. Because such differences have cost and rate impacts General recommends there be further studies in relationship of private line services and entrance channels.

In D.93367 we stated:

> "We will expect Pacific and LA County to work out the problems discussed above and if the solution is not satisfactory to LA County it can bring the matter to our attention at the future hearings to be held." (Mimeo. page 206.)

Since both General and County are participants in the further hearings referred to in the above quote, we will extend the scope of the matter of resolution of entrance channels tariffs to also include General.

Expansion of Measured Service

Pacific is currently proceeding with the implementation of measured exchange services on a statewide basis. The present program of expansion of measured exchange services for Pacific has evolved through several major rate proceedings to the present program authorized in D.93367. This present program for Pacific will result in a substantial portion of Pacific's exchanges in the State being equipped to provide measured services by the year 2000. We have encouraged the expansion of measured exchange services as a move toward usage sensitive pricing in which the customer causing the cost to the utility is required to pay a portion of the cost. Since each call requires the central office switching capacity to handle the call, under measured service the customer pays a portion of the cost of this switching capacity through the usage rates in proportion to the length of the call.

Presently General has no plan on file with the Commission to proceed with the expansion of measured exchange services. We believe that the lack of such a plan is a detriment to General's customers and that General should be required to provide as a part of its next major rate application a plan for the expansion of measured exchange services similar to Pacific's plan. We note that General's central offices in the Los Angeles Extended Area (LAEA) are not presently equipped to provide ZUM Zone 1 service on a one-minute basis. The lack of one-minute timing capability results in customers with short holding times of one minute paying the same rate as a customer with a 5-minute holding time. To begin a process which will resolve this problem, we will require General to file as a part of its next major rate application the feasibility, the revenue requirement in terms of added plant and additional expenses, and the customer billing effects associated with the implementation by General of present ZUM Zone 1 service and rates in the LAEA and the Los Gatos exchange. We will require General to provide this information based upon General's present exchange access rates and rate structure in effect in these exchanges at the time General files its next major rate application. For cost-estimating purposes General should assume the full implementation of ZUM Zone 1 in these exchanges within 24 months after the effective date of a Commission order authorizing such revision.

For the areas outside of the LAEA we will require General to file as a part of its next major rate application a program covering the implementation of ZUM Zone 1 service and rates on a statewide basis in all of General's exchanges. General's filing should contain an implementation schedule by exchange, the revenue requirement in terms of added plant and additional expenses and the customer billing effects associated with the implementation of ZUM Zone 1 service in each of General's exchanges. General's analysis should be based on present ZUM Zone 1 rates and exchange rates and General's exchange service rate structure presently in effect at the time of General's filing of its next major rate application.

VI. FINDINGS AND CONCLUSIONS

Findings of Fact

1. For the test year 1982, the total operating revenues for company operations are $1,806,966,000 and for intrastate operations are $1,423,734,000, of which $679,984,000 is the California intrastate toll revenue.

2. For the test year 1982, the adopted summary of earnings at present rates set forth in Table I reasonably indicates the results of General's operations in the future. The changes from the adopted results in D.82-04-028 are as follows:

a. Total operating revenues change from $1,866,341,000 for total company to $1,806,966,000 to reflect decreased intrastate revenues from decreased state toll billings as well as correction of computation errors in the calculating of settlement revenues.

b. Taxes on income were changed from $179,353,000 for total company operations and $132,125,000 to intrastate operations to $149,211,000 for total company operations and $101,840,000 for intrastate operations to reflect the above revenue changes and the correction of D.82-04-028 income tax caused by the utilization of inappropriate tax depreciation expense, fixed charges, 1968-69 flow-through, and duplication of ERTA adjustments.

c. IDC from $1,084,000 for total company operations and $853,000 for intrastate operations to $3,437,000 for total company and $2,705,000 for intrastate operations to reflect the correct depreciation expense for the proper IDC amount.

d. Rate base changes from $2,891,871,000 for total company and $2,272,512,000 for intrastate operations to $2,905,523,000 for total company and $2,287,993,000 for intrastate operations to primarily reflect correction of the intrastate deferred tax reserve and ERTA adjustment.

e. An increase in our adopted 1982 test year rate of return from 12.71% to 12.78% to reflect the increased embedded cost of debt resulting from the previously known bond financing.

3. The revenues, expenses, and rate base items set forth in Findings 1 and 2 result in a rate of return of 11.05% at present rates for California intrastate operations as set forth in Table I of this decision.

4. The increases in rates and charges authorized by this decision are justified, and are just and reasonable for the future.

5. A rate of return of 12.78% applied to our adopted intrastate rate base of $2.288 billion would yield $65.18 million increase in revenues above the rates authorized by D.82-04-028.

6. An attrition allowance as authorized by D.82-04-028 is to be added to the rates authorized to reflect increasing costs in the second year of the rate life outside of General's control.

7. Tariffs for terminal equipment items consisting of Datatel service, PBX service, supplemental service including single line instruments, call-receiving service, telephone answering service, special service arrangements including the E120 PBX and loudspeaking and paging system rates which are cost-based rather than market-priced will avoid placing an unfair burden on existing customers.

8. An increase of 25% for manual PBX systems more nearly reflects costs and is reasonable.

9. Older technology PBXs, referred to as "frozen PBX services" which include expandable cord-type PBX systems, nonexpandable dial PBX systems, expandable cordless dial PBX systems and the E120 PBX, should have rates based on an avoidable cost basis.

10. An increase of 50% in the monthly rates for such items as access arrangements, connecting arrangements, link arrangements, and DID and other supplemental PBX service arrangements is reasonable.

11. General currently actively markets GTD-120, Rolm (family), and Focus PBXs which are generally referred to as "processor-controlled" PBXs.

12. These processor-controlled PBXs are currently being provided by General under companion (month-to-month) rates and two-tier rates.

13. Both General and the Commission staff propose companion rates for these processor-controlled PBXs equal to the two-tier, 5-year tier A plus tier B rate for each rate item to ensure adequate earnings from customers who do not take two-tier pricing when it is available. CD's proposed rates are reasonable and will be adopted.

14. Rates for supplemental service including single line instruments which are cost-based rather than market-priced will prevent a growth in the inventory of usable equipment which has been disconnected but cannot be reused because of lack of demand, with resulting additional increases in residually priced exchange service.

15. General's proposal of one standard rate of $1.50 per month for each type of telephone regardless of the service with which it is used would achieve standardization of rates by increasing the rates for such instruments used as primaries and extensions by single line business and residence customers and decreasing the rates of such instruments used as PBX

extensions EBSS stations and Centrex stations. The decrease would not be consistent with the goal of achieving maximum contribution from these PBXs and General's proposed $1.50 standard rate will not be adopted.

16. CD's proposed standard rate of $1.25 a month for single line rotary instrument and $1.80 per month for single line touch-calling instrument used as a primary or extension of simple business and residence services is reasonable.

17. Standardized rates for standard rotary and touch-calling instruments associated with such services as PBX, Centrex, and EBSS at a monthly rate of $2 for rotary instruments and $2.75 for touch-calling instruments are reasonable.

18. A monthly rate differential of 15¢ between standard telephones and compact telephones as reflected in cost studies is reasonable.

19. The present rates for rate items associated with call-receiving service have been in effect for at least 10 years. Consequently, a 50% increase in such rates is reasonable.

20. Rates for push button (key) telephone service designed to maximize contributions from competitive service, as proposed by General, would result in severe repression and thereby drastically increase equipment placed in inventory the cost of which must be borne by residually priced basic services and thereby justify use of cost-based rates for key telephone services.

21. Resolution T-10561 authorized an increase of 15¢ per month in the rates for single line telephone sets, excluding PBX stations, to offset certain changes in depreciation rates.

22. Because the provision of single line instruments is highly competitive, reductions in the rates for such services are unreasonable. The authorized rates for single line instruments will be the CD-proposed rates or the rates authorized in Resolution T-10451, whichever is the higher for a particular type set.

23. CD's proposed rates for special service arrangements, based on price indexing, are reasonable.

24. The monthly rates for loudspeaker system service have been in effect since 1974; consequently, a 50% increase as proposed by General is reasonable.

25. General proposes increases for Schedule A-24, Telephone Answering Service, ranging from 50% to 643% for the nonrecurring charges and from 50% to 385% for the monthly rate charges with an overall increase for this schedule of 57%.

26. General's proposed increases for Schedule A-24 are based on cost studies and are designed to increase the revenue to a level which will generate sufficient revenues to cover the aggregate terminal equipment cost and make a substantial contribution to General's common and corporate costs.

27. If the Schedule A-24 rates proposed by General are effected, the repression factor caused by increases of this magnitude will exceed 50%.

28. The TAS-100 telephone answering service boards, a major component of TAS equipment, are manufacturer-discontinued and the service should therefore be frozen to existing customers with positions available for additions to existing bureaus and/or moves of existing bureaus to new addresses only on an "as available" basis.

29. The TAS-100 board and related equipment is in the same category as the frozen PBX equipment and will be increased by the same overall percent of 33%. The balance of rate items in Schedule A-24 will be increased by 50% consistent with our treatment of other terminal equipment which has had relatively static rates for long periods of time.

30. Prior to D.92366, the monthly rate for the termination of a secretarial line on a telephone answering position or concentrator-identifier arrangement including the first one-quarter mile of mileage was $3.00 per month per termination. The portion of this rate associated with such terminations was inadvertently omitted in the testimony in A.59132 and was, therefore, dropped from the tariff schedule. A rate for such terminations of $1.25 per month, which when combined with the adopted $1.75 monthly rate for one-quarter mile of mileage equates to the previous $3.00, is reasonable and will be reinstated.

31. The subsequent service order and central office activity elements of the multielement service connection charge are applicable to secretarial lines installed for TAS bureaus.

32. For TAS bureaus, a mileage charge where service is provided on a per quarter mile basis should be $1.75 per quarter mile and where mileage is provided on a per mile basis the mileage charge should be $7 per mile. Any increase resulting from the application of these mileage charges should be limited to a maximum 50% increase computed to the nearest 5¢.

33. The increases set forth in Finding 10 are applicable to DID numbers and trunk facilities and services provided to TAS bureaus.

34. The avoidable cost elements of the multielement service connection charge consisting of premises visit, premises wiring, and premises work-telephone established by D.93728 in OII 84 are reasonable.

35. The service connection charges proposed by CD, with the exception of the premises visit, premises wiring, and premises work-telephone charges established by D.93728 are reasonable.

36. General should institute a modular conversion program in order to attain the modular conversion of all simple residence services over a period of 24 months.

37. General should implement fully measured ORTS service and provide such service at the same rates currently in effect for ORTS offered by Pacific by concurring in Pacific's ORTS rates.

38. OCMS rates should be increased to coincide with the OCMS rates set forth for Pacific in Appendix B of D.93728.

39. The existing verification/interrupt charge of 25¢ for verification of a busy line condition and/or interruption of a conversation in progress at the calling party's request is reasonable.

40. A common monthly rate of 65¢ should be applicable to residence and business lines equipped for touch-calling service.

41. For mobile telephone service, the conversation time rate per minute should be increased from 25¢ to 45¢.

42. For Centrex service and EBSS, the rates for the DID/DOD portion of the station rates should be increased the same percentage as business individual line measured service is increased and the remaining rate items of Centrex and EBSS service should be increased by 25%.

43. The rates for custom calling service should be increased an average of 33% over present rates.

44. The rate for directory-nonpublished listing service should be increased from 15¢ to 30¢ per month.

45. The rates and charges applicable to intrastate private line service should be raised to the same levels presently in effect for interexchange private line service.

46. The visit charge applicable to a visit to a customer's premises resulting from trouble conditions caused in whole or in part by customer-provided facilities should be increased to the level proposed by CD.

47. All mileage rates applicable to FEX, TAS, and exchange-type service should be included in one tariff schedule.

48. The mileage rates for TAS and exchange-type service should be the same and equal to $1.75 per quarter mile where mileage is provided on a per quarter mile basis and $7 per mile when mileage is provided on a mileage basis with any increase being limited to a maximum of 50% computed to the nearest 5¢.

49. General's proposal to revise the method of FEX mileage measurement for new customers from the mileage from the customer's location to the nearest point on the common exchange boundary to the airline mileage difference between the rate centers of the local and foreign exchanges will heavily impact new FEX customers, will create a discriminatory rate disparity between new and existing FEX customers, and should not be adopted.

50. An increase in the mileage rate applicable to contiguous FEX services from the present monthly rate of $1.60 per quarter mile of mileage to a monthly rate of $3.50 per quarter mile of mileage coupled with the retention of the present method of mileage measurement is reasonable.

51. CD's proposed revisions to FEX services including withdrawal of residence foreign exchange trunk line service, uniform 25% increases in the monthly rate increments applicable to residence individual line and residence suburban foreign exchange services as well as the monthly rates applicable to primary business foreign exchange services, and establishing a $100 nonrecurring charge applicable to all new FEX services are reasonable.

52. Increasing the foreign exchange rate for message and measured units of local calling to a standard rate of 9¢ per unit for both business trunks and individual line services is reasonable as a means of recovering a larger portion of the cost to provide FEX services from the customers with FEX services.

53. Special area rates must be increased to reflect the above-adopted mileage rates.

54. The monthly rate for semipublic service should be increased from $8.10 to $17.50.

55. The local exchange rate should be increased from 4¢ to 6¢ per unit.

56. Farmer line rates should be increased to the level proposed by CD. Farmer line service should be withdrawn in areas where there are presently no customers to this service. It is not appropriate to limit farmer line service to existing customers in areas where there are presently customers with farmer line service.

57. Basic exchange service rates should be increased following CD's concepts to encourage growth of measured services, to take into consideration the adopted increases for exchange units, and to establish the proposed rates for flat rate business lines and trunks and measured rate business lines and trunks. The basic exchange service rates adopted in this order are necessary to meet the overall increase in revenue requirement and follow CD's concepts.

58. The retention of the present 10.48% billing surcharge, applicable to General's Schedules A-1 through A-40, would result in some of our adopted rates being increased above the cost-based level. To prevent this, the present positive surcharge should be reduced to zero.

59. The rate center for the Los Gatos exchange should be moved approximately 0.4 mile so that the San Jose-West District area will be included in Los Gatos' ZUM Zone 1 calling area.

60. The rate center for the Sunland-Tujunga area should be moved approximately 0.4 mile so that Glendale will be included in the Sunland-Tujunga's ZUM Zone 1 rate area.

61. A late-payment charge of 1.5% to be applied to a customer's previous month's unpaid balance is reasonable.

62. Negotiations between Pacific and LA County relating to the proper tariff for entrance channels provided for in D.93367 should be extended to include General to provide consistency.

63. Presently General has no plan on file with this Commission to proceed with the expansion of measured exchange services. Consequently, General will be required to provide, as a part of its next major rate application, a plan for the expansion of measured services similar to Pacific's plan.

64. General's central offices in the LAEA are not presently equipped to provide ZUM Zone 1 service on a one-minute basis resulting in customers with a short holding time of one minute paying the same rate as a customer with a 5-minute holding time. To resolve this problem General should be required to file, as a part of its next major rate application, the feasibility, the revenue requirement in terms of added plant and additional expenses, and the customer billing effects associated with the implementation by General of present ZUM Zone 1 service and rates in the LAEA and Los Gatos exchanges.

65. For areas outside the LAEA, General should be required to file, as a part of its next major rate application, a program covering the implementation of ZUM Zone 1 service and rates on a statewide basis in all of General's exchanges.

Conclusions of Law

1. The Commission concludes that the application should be granted to the extent set forth in the order that follows.

2. The rates authorized in Appendices B and C are just and reasonable. Any other rates applied after the rates in Appendices B and C are in effect are unjust and unreasonable.

3. General should implement fully measured ORTS with the same rates and rate structures as shown in Pacific's Schedule Cal. P.U.C. No. 131-T, Section II.

4. General should convert its existing hard-wired utility-provided telephone to modular jacks in a 24-month period.

5. General and Pacific should relocate the rate center of the Los Gatos exchange such that the West District Area of the San Jose exchange is within ZUM Zone 1 for calls originating in the Los Gatos exchange and should relocate the rate center of Sunland-Tujunga exchange such that the Glendale exchange is within ZUM Zone 1 for calls originating in the Sunland-Tunjunga exchange.

6. General should be authorized to implement a LPC.

7. General is now six months into its 1982 test year and since there is immediate need for the additional rate relief authorized, this order should be effective on less than 30 days' notice.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, General Telephone Company of California (General) is authorized to file the revised rate schedules attached to this order as Appendix B and concurrently to cancel the presently effective schedules. Such filing shall comply with General Order 96-A. The effective date of the revised schedules shall be not less than 5 days after the date of filing. Revised schedules shall apply only to service rendered on or after the effective date.

2. This decision modifies the revenue requirements and tariff schedules authorized by Interim Decision 82-04-028. In all other respects Interim Decision 82-04-028 shall remain in full force and effect.

3. General shall revise its tariffs to include the modular conversion provisions for residence services set forth in Exhibit 79, Appendix H, Sheets 6 and 7, and shall implement such revisions coincident with the application of any of the increases in rates and charges authorized in Appendix B of this order.

4. Within 180 days of the effective date of this order General shall implement fully measured ORTS. The rates and rate structure for such a fully measured ORTS offering shall be those of The Pacific Telephone and Telegraph Company (Pacific) as shown in Schedule Cal. P.U.C. No. 131-T, Section II of Pacific which General shall adopt by tariff reference. The exchanges and routes over which General's fully measured ORTS will be offered shall be as set forth in Exhibit 79, Appendix I, Sheets 4 through 45.

5. Within 180 days of the effective date of this order and as set forth in Appendix C of this order, General and Pacific shall relocate the rate center of the Los Gatos exchange such that the West District Area of the San Jose exchange is within ZUM Zone 1 for calls originating in the Los Gatos exchange and shall relocate the rate center of Sunland-Tujunga exchange such that the Glendale exchange is within ZUM Zone 1 for calls originating in the Sunland-Tujunga exchange.

6. General shall include as a part of its next major rate application testimony and exhibits covering the feasibility, the revenue requirement in terms of added plant and additional expenses, and the customer billing effects associated with the implementation by General of the following:

a. ZUM Zone 1 service and rates in General's exchanges in the Los Angeles Extended Area and the Los Gatos exchange within 24 months of the effective date of a Commission order authorizing such revisions.

b. ZUM Zone 1 service and rates in all of General's exchanges not included in a. above by the year 2000.

General shall provide this information based upon General's present exchange access rates, General's present rate structure, and the ZUM Zone 1 rates and rate structure which are in effect in these areas at the time General files its next major rate application.

7. This is a final order in A.60340. OII 88 remains open.

This order becomes effective 5 days from today.

Dated JUN 15 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

Joseph E. Bodovitz, Executive Director

APPENDIX A

LIST OF APPEARANCES

Applicant: A. M. Hart, H. Ralph Snyder, Jr., Dale W. Johnson, and Kathleen S. Blunt, Attorneys at Law, for General Telephone Company of California.

Interested Parties: George W. Tice, Director, Los Angeles County Department of Communications, by James M. Nelson III, for Los Angeles County; Stanley Sackin, for himself; Sarah Shirley, Attorney at Law (Texas), Consumer Affairs Specialist, Office of the City Attorney, for the City of Santa Monica; James S. Hamasaki and Daniel J. McCarthy, Attorneys at Law, for The Pacific Telephone and Telegraph Company; Sylvia Siegel and Mike Florio, Attorney at Law, for TURN, Consumer Federation of California, Gray Panthers, California Legislative Council of Older Americans and Consumer Cooperative; Ira Reiner, City Attorney, by Ed Perez, Deputy City Attorney, for the City of Los Angeles; James C. Dycus, for himself; A. John Terrell, Carl Dewey, and Alan Donnell, for Regents of the University of California; Ruth Benson, Attorney at Law, for Communications Workers of America, District 11; Morrison & Foerster, by James P. Bennett and Elwood R. Sturtevant, Attorneys at Law, and Scott W. Flournoy, for Telephone Answering Services of California, Inc.; and Marvin J. Kaitz, Brian Kiely, and Susan B. Jacoby, for CAUSE West.

Commission Staff: Rufus G. Thayer and Edward W. O'Neill, Attorneys at Law, Harry Strahl, and Robert L. Howard.

APPENDIX B
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RATES AND CHARGES

The rates, charges and conditions of General Telephone Company of California are changed as set forth below.

Schedule Cal. P.U.C. No. A-1, Individual Line, Party Line and Private Branch Exchange Trunk Line Service

The following rates and revisions are authorized:

Class and Grade of Service	Monthly Rates*
Los Angeles Metropolitan Extended Area Service Exchanges (1)	
Business	
1MB	$ 7.20-0
Sub. B	14.60
SPCB	17.50
PBX-MTK	7.20-0
Residence	
1FR	7.75
1MR	2.80-30
Sub. R	6.90
Non-Metropolitan Exchanges (2)	
Business	
1FB	$ 17.20
Sub. B	14.60
SPCB	17.50
PBX-FTK	25.95
Residence	
1FR	7.75
2FR	6.90
Sub. R	6.90

(1) Includes: Covina, Downey, Etiwanda, Huntington Beach, Long Beach, Malibu, Monrovia, Ontario, Pomona, Redondo, San Fernando, Santa Monica, Sierra Madre, Sunland-Tujunga, West Los Angeles, Westminster and Whittier.
(2) All other exchanges.

*Extended area service increments apply in addition to the rates shown.

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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-1, Individual Line, Party Line and Private Branch Exchange Trunk Line Service (cont'd)

Exchange Measured Rate	Rate Per Exchange Unit
Each local exchange unit over the allowance	$ .06

Special Rate Area and Rate Area Rate Increments Over Base Rate Area Rates

Proposed rates and revisions as set forth in Exhibit No. 27 pages 10 and 11 are authorized.

Schedule Cal. P.U.C. No. A-2, Datatel Service

Proposed rates and charges as set forth in Exhibit No. 79 Appendix A Sheet 1 thru 25 are authorized.

Schedule Cal. P.U.C. No. A-3, Electronic Business System Service

The proposed rates as set forth in Exhibit No. 79 Appendix L Sheets 1 and 2 as modified below are authorized:

	Monthly Rate
Working Primary Station Line*	
Direct Inward and Outward Dialing	
First 200 station lines	$1,610.00
Each additional station line	8.05

*Rates applicable to utility-provided telephone sets are in addition to the station line rates shown.

Schedule Cal. P.U.C. No. A-4, Mileage Rates

Proposed rates and charges as set forth in Exhibit No. 27 pages 35, 36 and 38 and Exhibit No. 79 Appendix S Sheet 3 as modified below are authorized:

Exchange-Type Services Within the Exchange Area	Monthly Rate Each 1/4 Mile or Fraction
Residence extension station lines-off premises, same contiguous property, ea, extension station line	$ .75

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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-4, Mileage Rates (cont'd)

Telephone Answering Services	Monthly Rate Each 1/4 Mile or Fraction
Mileage rate between concentrator-Identifier system, jointly provided	$ 1.15
Secretarial Lines:	
Each additional 1/4 mile Serving different central office area	1.15
TAS located in a contiguous exchange of the Utility	
Connected for contiguous FX (Measured rate center to rate center, 1/4 airline mileage)	1.15
Not connected for FX service	1.15
Concentrator-Identifier circuirs	
Ea. 1/4 mile between central offices	1.15

Schedule Cal. P.U.C. No. A-6, Private Branch Exchange Service

Section I, Manual Type PBX System Services

Proposed rates as set forth in Exhibit No. 79 Appendix B Sheet 1 are authorized.

Section II, III, IV, V and VI (Older Technology PBX's)

Proposed rates as set forth in Exhibit No. 27 pages 39 thru 48 are authorized.

Section VII, Inward Dialing Service

Proposed rates as set forth in Exhibit No. 27 page 49 thru 51 except as modified below are authorized:

Section VII - Inward Dialing Service	Monthly Rate
Message or Measured Rate Service (message or exchange unit allowance - 0)	
Direct inward and outward dialing feature	
First 400 lines of switching equipment	$1,072.50

Section IX, X and XII, Access Arrangements, Connecting Arrangements and Link Arrangements

Proposed rates as set forth in Exhibit No. 27 pages 52 thru 54 are authorized.

APPENDIX B
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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-6, Private Branch Exchange Service (cont'd)

Section XIII, Computer Controlled PBX's

Proposed rates and charges as set forth in Exhibit No. 27 pages 55 thru 58, 60 thru 63, 66 thru 68, 72 thru 74 and 76 thru 79 as modified by the proposed rates and charges as set forth in Exhibit No. 79 Appendix B Sheets 12 thru 25 are authorized.

Sections XIV and XV, Supplemental Service Arrangements and Direct Inward Dialing Service

Proposed rates as set forth in Exhibit No. 27 pages 80 and 81 are authorized.

Centrex Service

The proposed rates as set forth in Exhibit No. 79 Appendix M Sheets 1 thru 3 as modified below are authorized:

	Monthly Rate
Flat Rate-DID/DOD*	
First 200 or less station lines	$2,132.90
Each additional station line	4.85
Measured Rate-DID/DOD*	
First 200 or less stations lines	1,188.35
Each additional station line	3.65

*Rates applicable to utility-provided telephone sets are in addition to the station line rates shown.

Schedule Cal. P.U.C. No. A-12, Farmer Line Service

The proposed rates and conditions set forth in Exhibit No. 79 Appendix W Sheet 1 and 2 are authorized.

RATES AND CHARGES

Schedule Cal. P.U.C. No. A-15, Supplemental Services

Proposed rates and charges as set forth in Exhibit No. 79 Appendix C Sheets 1 thru 37 as modified below are authorized:

Special Telephone Services	Monthly Rate
Starlite Telephone Desk	
Rotary Dial	$ 1.90
Dial-In-Handset Telephone	
Desk or wall mounted	
Illuminated	
Rotary Dial	2.40
Nonilluminated	
Rotary Dial	2.25
Touch Call	2.75
Panel Telephone	
Surface mounted	
Rotary Dial	1.90
Decorator Telephone	
Rotary Dial	
Type A	3.40
Type B	3.90
Type C	4.15
Touch Call	
Type B	4.40
Type C	4.65
Externally mounted omni-directional transmitter, on/off switch, volume control and separate speaker, rotary dial	10.15

Touch Calling Service

General shall revise its rates as follows:

Touch Calling	Monthly Rate Per Line Equipped
Each line equipped for touch calling	
Business	$ .65
Residence	.65

RATES AND CHARGES

Schedule Cal. P.U.C. No. A-19, Foreign Exchange Service

Proposed revisions as set forth in Exhibit No. 79 Appendix T Sheets 1 and 2 as modified below are authorized:

	Rate Per Unit of Local Usage
Business message and measured rate (excluding ZUM) foreign exchange service	$ 0.09

Schedule Cal. P.U.C. No. A-23, Call Receiving Service

Increases of 50% in monthly rates for this service are authorized.

Schedule Cal. P.U.C. No. A-24, Telephone Answering Service

Increases of 50% in the monthly rates and nonrecurring charges for all items in this schedule except those items listed below are authorized. For the items listed below the following rates and nonrecurring charges are authorized:

	Nonrecurring Charge	Monthly Rate
Attendant's Position		
Cord type for single or multi-position installation, equipped with 8 cord pairs and standard operator's headset - capacity 80 client line terminations, 15 cord pairs and 14 primary answering lines*	$665.00	$133.00
Arrangement to increase position capacity by 10 client lines	47.00	10.00
Each additional cord pair (limit 7)	33.00	7.30

* On and after the effective date of the tariffs filed under the authorization granted in this order, the offering of cord type attendant's positions is limited to existing customers with such positions available for additions to existing customer services and or moves of existing services when such equipment on hand becomes available for reuse.

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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-24, Telephone Answering Service(cont'd)

Attendant's Positions	Nonrecurring Charge	Monthly Rate
Pushbutton answering position equipped with operator's jack and handset, answering keys, combined line and busy lamp operation, winking line hold feature and common audible signaling		
Additional 6-line key strip, each	$ 60.00	$ 13.95
Supplemental Service Arrangements		
Bridging Arrangement		
First two circuits (on same or different position), maximum 5	67.00	33.25
Additional circuit (limit 3), each	20.00	12.65
Operator's sets for use with answering position		
Headset equipped with amplifier, each	7.00	5.30
Acoustic Coupler	No Change	No Change
Ear plug kit, each additional	No Change	No Change
Buzzer Circuits		
Basic serving arrangement including one pushbutton, one buzzer and 50 feet of wire and battery (or transformer connected to commercial power provided by the customer)	18.00	1.45
Additional buzzer, each	7.00	.65
Additional pushbutton, each	7.00	.65

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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-24, Telephone Answering Service (cont'd)

	Nonrecurring Charge	Monthly Rate
Supplemental Serving Arrangements		
Serving arrangement to provide touch calling on the answering position		
Each answering position arranged	$ 73.00	$ -
Each primary line equipped	-	*
Each auxiliary station equipped for touch calling	-	**
Each auxiliary station changed from rotary dial to touch calling	***	-
Cut-off Arrangement		
To cut-off other services (such as bell or visual signal)	20.00	1.25
Adjustable bell or chime		
As common audible	40.00	6.65
Extension bell	8.00	0.80
Direct access line for communication between pushbutton answering position and other customer locations, and client's service locations		
Termination at client's service location, each	No change	No change

* Refer to Schedule No. A-1
** Refer to Schedule No. A-15
*** Refer to Schedule No. A-41

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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-24, Telephone Answering Service (Cont'd)

	Nonrecurring Charge	Monthly Rate
Supplemental Serving Arrangements		
Combined rotary dial and/or touch calling selective signalling associated with direct access lines		
Common (single) path serving arrangement, each		
Capacity 9 stations	$ 80.00	$ 23.95
Capacity 18 stations	106.00	26.60
Capacity 27 stations	126.00	28.60
Capacity 36 stations	140.00	30.25
Audible signal, each	2.00	.55
Long-line arrangement, each unit required	20.00	2.95
32-address dialer for use with cord-type attendant's position		
Dial pulse, each	44.00	9.30
With multi-frequency tone signaling and arranged to permit continuation of dialing on a second address after the first address is dialed, each	53.00	10.95
Concentrator-identifier system arrangement(s) provided entirely within exchange(s) of the Utility		
Concentrator-identifier system equipped for terminating 100 or less lines, equipped for 4 circuits, each	4,190.00	266.00

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PAGE 10
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-24, Telephone Answering Service (cont'd)

	Nonrecurring Charge	Monthly Rate
Answering Lines		
Each individual line terminating on telephone answering attendant's position or concentrator-identifier arrangement		
Terminated in station jack field	$ -	$ 1.65
Secretarial Lines		
Each individual line terminating on telephone answering attendant's position or concentrator-identifier arrangement	-	1.25
Customer's individual primary lines		
Each line terminating on telephone answering attendant's position	33.00	2.25
Multiple primary lines to additional cord-type attendant's position		
First appearance of a line to be multiplied to other positions with full busy indication	23.00	2.25
Customer's auxiliary station lines		
Each auxiliary (supervisory) handset station	*	**
Connecting arrangements		
Voice arrangements		
6-position miniaturized jack single-line arrangement - for use with bridged C-P equipment, each jack	No change	-
50-position jack for multi-line bridged configuration, each jack	No change	-

* Refer to Schedule No. A-41
**Refer to Schedule Nos. A-15 and A-34

APPENDIX B
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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-34, Pushbutton Telephone System Service

Proposed rates and charges as set forth in Exhibit No. 79 Appendix E Sheets 1 thru 31 are authorized.

Schedule Cal. P.U.C. No. A-38, Billing Adjustment

The following revision is ordered:

	Monthly Percentage
Billing Adjustment Factor	0

Schedule Cal. P.U.C. No. A-40, Custom Calling Service

Proposed rates as set forth in Exhibit No. 79 Appendix O Sheet 1 are are authorized.

Schedule Cal. P.U.C. No. A-41, Service Connection, Move and Change Charges

The proposed charges and revisions as set forth in Exhibit No. 79 Appendix H Sheets 1 thru 5 as modified below are authorized:

	Nonrecurring Charge	
All exchange services (except Centrex and Inward Dialing Service)	Business	Residence
SERVICE ORDER ACTIVITY		
a. Intial Order		
(1) First central office line on order	\$25.00	\$11.00
(2) Each additional central office line on the same order	12.00	12.00
(3) Extension, each	-	-
(4) All other lines, PBX Stations, Tie Lines, etc.	-	-
b. Subsequent Order		
(1) Moves or changes	14.00	8.00
(2) Additions, other than central office lines	14.00	8.00
(3) Record changes	14.00	8.00
(4) Number changes	14.00	8.00
c. Statement Charge	8.00	8.00

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RATES AND CHARGES

Schedule Cal. P.U.C. No. A-41, Service Connection, Move and Change Charges (Cont'd)

	Nonrecurring Charge Business	Nonrecurring Charge Residence
CENTRAL OFFICE ACTIVITY		
a. Each line	$ 16.00	$ 11.00
PREMISES WORK*		
a. Central office line, each	8.00	7.00
b. Move or change, each instrument	7.00	7.00
c. P.M. connector or standard modular jack conversion, each	6.00	5.00
d. Supplemental services (all)	-#	-#

*Applicable to non-pushbutton telephone and ancillary devices.
#Charges incorporated in Schedule Cal. P.U.C. No. A-15.

Service connection, move and change charges are not applicable for changes by individual line flat rate residence service customers who convert to residence individual line measured rate service or to residence party line flat rate service within a period of 90 days after the effective date of this order.

Schedule Cal. P.U.C. No. B-5, Optional Calling Measured Service (OCMS)

General is authorized to concur in and adopt by tariff reference the rates and rate structure for OCMS as shown in Schedule Cal. P.U.C. No. 149-T of The Pacific Telephone and Telegraph Company. The exchanges and routes over which OCMS will be offered by General are as set forth in General's Schedule Cal. P.U.C. No. B-5.

Schedule Cal. P.U.C. No. D-1, Telephone Directory Services

The following revision is authorized:

	Monthly Rate
Nonpublished Listing Service	$ .30

APPENDIX B
PAGE 13
RATES AND CHARGES

Schedule Cal. P.U.C. No. E-1, Special Service Arrangements

Proposed rates as set forth in Exhibit No. 27 pages 172 thru 224 as modified by Exhibit No. 27-B and Sheets 17 thru 21 of Appendix F of Exhibit No. 79.

Schedules Cal. P.U.C. Nos. G-1, G-3, G-4, G-9, G-13 and G-26, Private Line Services

The following revisions are authorized:

Private Line Services and Channels - Rates and Charges for Local Loops for Above Named Schedules

Rates and Charges

Local Loop Monthly Rates

1001		1002, 1003, 1005, 1006, 2002, 3001 3002		1009A, 1009B, 1009C	2001
HDX	FDX	HDX	FDX	HDX	HDX
$6.75	$10.00	$7.50	$11.50	$6.75	$9.00

Nonrecurring Charge for Local Loops

$45.00

Schedule Cal. P.U.C. No. G-13, Loudspeaker Paging System Service

An increase of 50% in the monthly rates for this service is authorized.

Schedule Cal. P.U.C. No. L-1, Mobile Telephone Service

The following revisions are authorized:

	Rate Per Minute Or Fraction Thereof
Mobile Service	
Conversation Time	$ .45
Roamer Mobile Service	
Conversation Time	.45

Schedule Cal. P.U.C. No. V-1, Visit Charges

The proposed charges set forth in Exhibit No. 79, Appendix R, Sheet 1 are authorized.

RATES AND CHARGES

Late Payment Charge

The following provisions are authorized:

A Late Payment Charge of 1.5 percent applies to each customer's bill when the previous months bill has not been paid in full, leaving an unpaid balance carried forward. The 1.5 percent charge is applied to the total unpaid amount carried forward and is included in the total amount due on the current bill.

All customers must be provided written notice of the Late Payment Charge authorized in this order prior to the application of such a Late Payment Charge.

(END OF APPENDIX B)

APPENDIX C
PAGE 1
RATES AND CHARGES

The rates, charges and conditions of General Telephone Company of California are changed as set forth below.

Relocation of Rate Centers

Schedule Cal. P.U.C. No. A-28, Local Service Areas - Extended Service

The following revision is ordered:

Exchange Extended Service	Exchange
Sunland-Tujunga	Glendale

Schedule Cal. P.U.C. No. B-4, Optional Residence Telephone Service

The following revisions in Service Areas are authorized:

Route		Flat Rate ORTS Service Areas	Fully Measured ORTS Service Areas
From	To		
Los Gatos	Fremont-Newark, Oliver D.A.	3	4
Los Gatos	Half Moon Bay	3 1/	6 1/
Los Gatos	Pacifica	3 1/	6 1/
Los Gatos	San Carlos-Belmont	3	5
Sunland-Tujunga	Compton, Compton D.A.	3 2/	4 2/
Sunland-Tujunga	Glendale	- 2/	- 2/
Sunland-Tujunga	Los Angeles, D.A. 6	2	3

1/ Limited to services established or applied for prior to the effective date of the relocation of the toll rate centers as directed in this order.

2/ Exchange included in local calling area.

Schedule Cal. P.U.C. No. H-1, Zone Usage Measurement Service

The following revision is ordered:

Exchange	Zone 2
Sunland-Tujunga	Delete Glendale exchange

APPENDIX C
PAGE 2
RATES AND CHARGES

The rates, charges and conditions of The Pacific Telephone and Telegraph Company are changed as set forth below.

Relocation of Rate Centers

Schedule Cal. P.U.C. No. 6-T, Zone Usage Measurement Service

The following revision is ordered:

Zone Calling Routes

Exchange	Zone 1
Glendale	Sunland-Tujunga

Schedule Cal. P.U.C. No. 90-T, Toll Rate Centers

The following V-H coordinates shall be established for the listed exchanges:

Exchange	Coordinates V	Coordinates H
Los Gatos	8605	8627
Sunland-Tujunga	9171	7896

Schedule Cal. P.U.C. No. 131-T, Optional Residence Telephone Service

The following revisions in Service Area Rate Groups are authorized:

Route From	Route To	Revised Service Area Rate Group
Fremont-Newark, Oliver D.A.	Los Gatos	4
Half Moon Bay	Los Gatos	6 1/
Pacifica	Los Gatos	6 1/
San Carlos-Belmont	Los Gatos	5
Compton, Compton D.A.	Sunland-Tujunga	4
Glendale	Sunland-Tujunga	- 2/
Los Angeles, D.A. 6	Sunland-Tujunga	3

1/ Limited to services established or applied for prior to the effective date of the relocation of the toll rate centers as directed in this order.

2/ Exchange included in local calling area.

(END OF APPENDIX C)

INDEX

FINAL OPINION IN A.60340

I. SYNOPSIS OF DECISION

This decision authorizes General Telephone Company of California (General) an increase in customer billing of $81.1 million for test year 1982 in addition to the $11.99 million increase granted in Interim Decision (D.) 82-04-028 issued on these matters on April 6, 1982. This additional increase in customer billing will produce a gross revenue increase of $65.2 million and is necessary to offset a decrease in intrastate long-distance toll revenue of $59.56 million caused by a deterioration in the State and national economy since the original estimates were prepared and $9.18 million to correct erroneous computations set forth in D.82-04-028.

This decision does not modify the return on common equity of 16.5%. The intrastate rate of return of 12.71% is adjusted to 12.78% in recognition of higher debt costs.

This decision also addresses the matter of rate design. As subsequently discussed by individual rate category, we essentially adopted the rate philosophy recommended by the Commission staff with certain exceptions. The adopted rates include the following charges for basic residential and business service:

	Residential	Business
Monthly instrument rental (rotary)	$1.25	$ 1.25
Monthly instrument rental (touchtone)	1.80	1.80
Montly flat rate (rotary)	7.75	17.20
Monthly flat rate (touchtone)	8.40	17.85
One-party measured service	2.80 (30 calls)	7.20 (0 calls)
PBX trunk - measured (0 call allowance)	-	7.20
PBX trunk flat rate	-	25.95

Our adopted service connection charges reflect those authorized by D.93728 dated November 13, 1981 in OII 84, our investigation into the matter of revision of the accounting for station connections for optional charges and those authorized by D.93367 dated August 4, 1981 on The Pacific Telephone and Telegraph Company's (Pacific) Application (A.) 59849 for a general rate increase with respect to the nonoptional charges.

For telephone answering services (TAS), we applied the average of avoidable cost percent increases proposed by the staff and General for frozen PBXs to the TAS 100 switchboard and a 50% increase for the balance of the TAS equipment, together with General's proposed mileage charges limited to a maximum 50% increase.

For entrance channels, we requested General and the County of Los Angeles (County) to negotiate a resolution of differences. If this cannot be successfully accomplished, we will consider the matter further.

For the Los Gatos and Sunland-Tujunga areas, we ordered the relocation of respective rate centers 0.4 mile to include the San Jose West District in the Los Gatos Zone 1 Zone Usage Measurement (ZUM) rate area and to include Glendale in the Sunland-Tujunga Zone 1 ZUM rate area.

We authorize a late-payment charge of 1.5% of the past-due balance to be applied to a customer's previous month's unpaid balance.

In general, the use of an exponential analysis is appropriate when both variables in a compound equation are expected to increase, i.e. the time per call and the number of calls. However, in the present state of the economy where the emphasis is on the reduction of costs to the lowest possible level, such a dual component increase is not being experienced. Furthermore, we are already half way through the test year and the revenues will be reexamined when the attrition filing is made in the fall. At that time it is anticipated that the conflicting testimony on the economy for the rest of the test year will be resolved.

Under these circumstances, we will adopt the staff's estimate based on a linear regression analysis of $3,294,468,000 in total State toll billing resulting in an adopted figure of $680,122,000 for General's 1982 test year intrastate toll revenues.

financing costs set forth in the record and letters to the Commission subsequent to submission. We have carefully reviewed each and every one of General's computations relating to alleged inconsistencies in our D.82-04-028 adopted summary of earnings and find them to be both correct and reasonable. The adopted summary of earnings, set out herein, incorporates the base corrections from which the $9,178,000 in errors is derived. There are also included revised revenues consistent with the adopted estimate in intrastate billings.

It should be noted that the representation of $9,178,000 in errors is predicated on the 12.78% rate of return (5.51% weighted cost of debt) and not on the 12.81% rate of return for 1982 noted on page 15 of the petition. Our adjustment in rate of return will only recognize higher debt costs incurred prior to our D.82-04-028. We will adopt a 12.78% rate of return.

All other matters raised by General in its petition for rehearing of D.82-04-028 will be disposed of by our order on rehearing.

TABLE I

SUMMARY OF EARNINGS
AT PRESENT RATES

Estimated Year 1982

Item	D.82-04-028 Total Company	D.82-04-028 Intrastate	Adopted Total Company	Adopted Intrastate
	(Dollars in Thousands)			
Operating Revenues[a/]				
Total Operating Revenues after Uncollectibles	$1,866,341	$1,483,263	$1,806,966	$1,423,734
Operating Expenses				
Maintenance	388,550	306,488	388,550	306,488
Traffic	97,731	82,003	97,731	82,003
Commercial	171,199	148,124	171,199	148,124
General Office and Salary	97,315	80,948	97,315	80,948
Other Operating Expenses	131,300	109,249	131,300	109,249
Subtotal Oper. Expenses	886,095	726,812	886,095	726,812
Depreciation Expense	361,078	283,736	361,078	283,736
Taxes Other Than on Income	75,154	60,524	75,154	60,524
Taxes On Income	179,353	132,125	149,211	101,840
Total Oper. Expenses	1,501,680	1,203,197	1,471,538	1,172,912
IDC	1,084	853	3,437	2,705
CCFT Flow-Through	(778)	0	(778)	0
Automatic Electric	(1,091)	(858)	(1,091)	(858)
Directory Company	(3,881)	(3,361)	(3,881)	(3,361)
GTE - Data Services	(877)	(770)	(877)	(770)
Norm. Book Tax Timing Differences	-	-	-	-
1968-69 Flow-Through	-	-	379	297
Equal Life Group	-	-	-	-
Net Operating Expenses	1,497,126	1,199,844	1,468,727	1,170,925
Net Operating Revenues	369,215	283,419	338,239	252,809
Rate Base before Adjustments	2,898,152	2,282,078	2,899,533	2,287,841
IDC	37,318	29,530	37,318	29,530
CCFT Flow-Through	5,845	0	5,845	0
Automatic Electric	(8,465)	(6,641)	(8,465)	(6,641)
GTE - Data Services	(100)	(79)	(100)	(79)
Norm. Book Tax Timing Differences	-	-	-	-
ELG Depreciation	-	-	-	-
Avg. Deferred Tax (ERTA)	(40,879)	(32,376)	(28,608)	(22,658)
Total Rate Base	2,891,871	2,272,512	2,905,523	2,287,993
Rate of Return	12.77	12.47	11.64	11.05

(Red Figure)

a/ Includes effects of General's D.93253 and Resolution T-10451 and Pacific's D.93367.

V. RATE DESIGN

General

As previously stated, the additional revenue needed to enable General to earn its authorized 12.71% rate of return is $65.2 million. Allowing for settlement effects and uncollectibles, it is necessary for General to increase its customer billing $81.1 million to yield the above 1982 test year revenue increase.

Testimony and exhibits on rate design were presented on behalf of General by its revenue director, T. E. Quaintance, and by its vice president-marketing, E. Z. Borghi; on behalf of Communications Division (CD) by utilities engineer D. M. Shantz; on behalf of Telephone Answering Service of California (TASC) by owners of TAS, Scott Flournoy, G. K. Blasiar, T. F. Lemmon, B. A. Hall, and M. Gill, and by a senior public utility rate consultant with Hess and Lim, Incorporated, T. H. Weiss; on behalf of the County of Los Angeles Department of Communications by one of its telephone service analysts, James M. Nelson III; and on behalf of Los Gatos by its vice mayor, B. Ventura.

General's proposed rates have a total billing increase effect of $296.1 million whereas the staff made three alternate rate proposals having billing effects of $47.8 million, $92.1 million, and $143.8 million. Tabulated below are these various rate proposals, together with our adopted increases. The bases for our adoptions are set forth in the ensuing paragraphs.

TABLE II

Item	General's Proposal	CD's Proposals: Primary	CD's Proposals: Alternate I	CD's Proposals: Alternate II	Adopted
Terminal Equipment					
Datatel Service	$ 0.6	$ 0.4	$ 0.4	$ 0.4	$ 0.4
Private Branch Exchange (PBX) Service	6.7	7.7	7.7	7.7	8.0
Supplemental Service including Single Line Instruments	17.9	13.1	13.1	13.1	8.1
Call Receiving Service	0.1	0.1	0.1	0.1	0.1
Telephone Answering Service	0.2e/	1.2	1.2	1.2	0.9
Pushbutton (Key) Telephone Serv.	22.2	10.7	10.7	10.7	10.7
Special Service Arrangements including the E-120 PBX	0.6	0.8	0.8	0.8	0.8
Loudspeaker Paging System Serv.	0.7	0.4	0.4	0.4	0.8
Service Connection Charges	38.2	-	-	-	-
Residence	-	16.2	16.2	16.2	7.4
Business	-	8.3	8.3	8.3	2.6
Residence Modular Conversion Program	-	(7.6)	(7.6)	(7.6)	(3.1)
Optional Residence Telephone Service	-	(0.8)	(0.8)	(0.8)	10.1
Verification/Interrupt	0.7	1.1	1.1	1.1	0
Touch Calling Service	(3.4)	(3.4)	(3.4)	(3.4)	(1.2)
Mobile Telephone Service	0.1	-	0.1	0.1	0.1
Electronic Business System Service (EBSS)	2.1	-	1.1	1.1	1.2
Centrex	1.6	-	0.5	0.5	0.6
Optional Calling Measured Service (OCMS)	0a/	-	0a/	0a/	0a/
Custom Calling Service	1.3	-	1.6	1.6	1.6
Directory Listings	2.4	-	1.0	1.0	1.0
Private Line Services	1.6	-	1.6	1.6	1.6
Visit Charges	0a/	-	0a/	0a/	0a/
Exchange Mileage Services	4.9	-	10.9	10.9	11.8
Foreign Exchange Service	9.8	-	2.1	2.1	2.5
Rate Increments Over Basic Rates	0.2	-	0.1	0.1	0.2
Semipublic Service	2.0	-	1.9	1.9	1.9
Measured Local Service	15.8	-	10.5	10.5	10.5
Farmer Line Service	0a/	-	-	0a/	0a/
Basic Exchange Service	150.6	-	-	51.9	43.1
Billing Surcharge	19.2g/	(0.4)b/	12.5c/	12.3d/	48.2g/
Late Payment Charge	-	-	-	-	8.5f/
Relocation ZUM Rate Centers	-	-	-	-	(1.0)f/
TOTAL	296.1	47.8	92.1	143.8	81.1

(Red Figure)

a/ Annual increase of less than $50,000.

b/ Total negative surcharge of $19.6 million.

c/ Total negative surcharge of $6.7 million.

d/ Total negative surcharge of $6.9 million.

e/ General's proposed increase as filed in A.60340 and later revised to a proposed increase of $1.0 million.

f/ Not included in the proposed rate design in A.60340. Issues added through subsequent testimony and exhibits.

g/ Billing surcharge of $19.2 million was revised by D.93355, D.93728, and D.82-04-028 to the present level of $48.2 million in annual customer billing.

PBX, Centrex, and electronic business system service (EBSS) at a monthly rate of $2 for rotary instruments and $2.75 for touch-calling instruments. These $2 and $2.75 rates are the present rates applicable to such instruments used as PBX extensions. Such rates appear appropriate and will be adopted. CD also proposes varying rates for nonstandard telephones, which appear reasonable and will be adopted.

General objects to CD's proposal of 15¢ per month differential between standard telephones and compact telephones whether they be desk or wall-mounted. Such differentials are based on differences in cost which General has indicated it was aware of through its cost studies at the time it prepared its rate design. General did not build cost differential into its rate design because the compact telephone has always been considered as a type of standard telephone. In keeping with our adopted policies that competitively offered equipment should be priced at full cost, we will adopt the staff recommendation and permit the 15¢ differential proposed by CD. We will also adopt the staff's proposed monthly charges.

<u>Call-Receiving Service</u>

Both General and CD propose to increase the monthly rates for call-receiving service by 50% to yield an estimated $0.1 million increase in customer billing in the 1982 test year. A review of the present rate items associated with call-receiving service indicates that for rate items with units in service, the present rates have been in effect for at least 10 years.

On September 1, 1981 by Resolution T-10451 we authorized General's Advice Letter 4659 which requested a 16¢ increase in the monthly rates for single line telephone sets, excluding PBX stations, to offset certain changes in depreciation rates. As discussed above in this decision we adopt CD's proposed rates for these sets. However, since these rates do not reflect the increases authorized in Resolution T-10451 we will, in this decision, authorize the CD-proposed rates or the rates authorized in Resolution T-10451, whichever are the higher for a particular set. This will eliminate any reduction in rates for these highly competitive telephone sets.

CD's proposed charges are reasonable and will be adopted except for the avoidable cost elements consisting of premises visit, premises wiring, and premises work-telephone established by D.93728 which will not be revised at this time.

At the present time the only free modular conversions for residence service are associated with items that are replaced on repair visits. Such a conversion program has little or no benefit for those customers who request no new additions to or removal of utility-provided terminal equipment and will therefore never initiate a repair call. In addition, such customers are foreclosed from using customer-provided terminal equipment without incurring additional charges to convert the premises to modular jacks. To correct this problem CD recommends that General be ordered to implement a modular conversion program for existing residence customers with hard-wired utility-provided telephone service. Such a residence modular conversion program is to have a goal of attaining the modular conversion on all simple residence services over a period of 24 months. The cost of this two-year program is estimated to be approximately $7.6 million per year. We will adopt CD's recommendation and allow for the $7.6 million annual revenue requirement in the final rate design. After settlements and uncollectibles, the increase in customer billing to offset this $7.6 million annual expense is $3.1 million.

In addition, both Pacific and CD recommended in A.59849 that OCMS be converted to a fully measured offering similar in structure to the present fully measured ORTS of Pacific with the eventual goal of both Pacific and CD for all utilities in California to offer an optional calling plan on a point-to-point basis over those routes where such a plan is warranted. CD takes the position that since General's MORE service proposal will not provide point-to-point optional service and does not address any plans for expansion of MORE service to other areas where ORTS is presently not offered, the adoption of a concept like MORE service would only serve to compound the present problems of customer dissatisfaction and therefore recommends that General's proposal for MORE service not be adopted. In the interest of eliminating flat rate ORTS as authorized in D.92366 and reinstating an ORTS offering which is basically the same for General and Pacific, CD recommends the Commission order General to implement the fully measured ORTS offering with the same rates proposed by CD in Pacific's A.59849 which are based on the message toll and ZUM rates recommended by CD in that application. CD further recommends that General be ordered to implement the proposed fully measured ORTS offering within 180 days of the final order in this application. Such a recommendation has merit and we will adopt the staff's proposal with respect to the establishment of the exchanges and service areas. In order to achieve and sustain uniformity in General's and Pacific's ORTS offerings we will direct General to concur in and adopt Pacific's ORTS rates which we authorized in Appendix B of D.93728. We also believe that CD's position on moving toward a statewide point-to-point optional calling plan has merit. We will therefore authorize the limiting of the Expanded Area Calling option under ORTS to existing customers since this option is not a point-to-point service.

EBSS

General proposes to increase the monthly rates for EBSS to yield an estimated increase in customer billing of approximately $2.1 million in the 1982 test year as contrasted to CD's proposal which will yield an estimated $1.1 million in 1982 test year. CD's proposed rates for the capitalized DID/DOD portion of the EBSS rate have been increased by the same percentage as its proposed increase in the business individual line measured service rate. CD proposes to increase all other EBSS rates by 25%. According to CD's witness, this 25% increase is based on the need to prevent the present rate relationship between EBSS and the present PBX service from being distorted to the extent that PBX customers will find it attractive to remove PBX systems and to subscribe to EBSS. This position appears reasonable and will be adopted. The adopted rate for the DID/DOD portion of the EBSS rate has been increased by 10.8% which is the same percentage increase as for the adopted increase in the business individual line measured service rate.

Centrex Service

General proposes to increase the monthly rates for Centrex service to yield an estimated increase in customer billing of approximately $1.6 million as compared to CD's proposed increases of $0.5 million for the 1982 test year. General proposes the same rates for the DID/DOD portion of the station rates as proposed for business individual line measured service and a 10% increase for the remaining rate items. CD proposes the same percentage increases in the rates for the DID/DOD portion of the station rates as it proposed for business individual line measured service. For the remaining rate items, CD proposes a 25% increase which is the same increase recommended by CD for EBSS. CD's proposed Centrex service rates appear reasonable and will be adopted.

The adopted rate for the DID/DOD portion of the Centrex rate has been increased by 10.8% which is the same percentage increase as for the adopted increase in the business individual line measured service rate.

For services where mileage is provided on a per quarter mile basis with the exception of one party, two party, and trunk line exchange services offered in the suburban area, General proposes a monthly rate of $1.75 per quarter mile and where mileage is provided on a per mile basis General proposes a monthly rate of $7 per mile. CD concurs with General's proposed standardized mileage rates at the $1.75 per quarter mile and $7 per mile levels, but has limited the maximum increase to 25% to lessen the impact on existing customers. Excluded from this 25% maximum increase proposed by CD are the mileage rates applicable to FEX service.

General proposes to change method of mileage measurement applicable to apply to new contiguous FEX service from the present basis of the mileage from the customer's location to the nearest point on the common exchange boundary to the airline mileage difference between the rate centers of the local and foreign exchanges. According to CD, this change in the method of mileage measurement is the same proposed by General in its last rate increase application which the Commission did not adopt because of the impact on new FEX service customers and the discriminatory rate disparity that would be created between new and existing FEX service customers. CD proposes to increase the mileage rate applicable to contiguous FEX services from the present monthly rate of $1.60 per quarter mile of mileage to a monthly rate of $3.50 per quarter mile of mileage and to retain the present method of mileage measurement.

Our adopted rates are based on an increase of approximately 25% to the one-party residence service as contrasted to a 32% increase proposed by CD and a 76% increase proposed by General. The balance of the adopted basic exchange service rates are proportioned to CD's proposed rates on the same ratio as our adopted one-party residence service rate is to CD's proposed one-party residence service rate. In arriving at our adopted rate, careful consideration was given to ability to pay as reflected in the current economic situation.

Billing Surcharge

At the present time a 10.48% billing surcharge is in effect applicable to all of General's Schedules A-1 through A-40. A negative billing surcharge was originally established to adjust for the impact upon General of Proposition 13 by flowing through to our customers the effects of the reduction in property taxes. In D.92366, we continued the billing surcharge to balance our adopted rate spread to achieve the overall revenue requirement. To leave the current surcharge unchanged would mean that the previously discussed adopted increases would be further surcharged by the current 10.48%, resulting in some rates being increased above the cost-based levels. To avoid this, we will incorporate the revenue produced by the surcharge within our rate design and eliminate the surcharge.

VI. FINDINGS AND CONCLUSIONS

Findings of Fact

1. For the test year 1982, the total operating revenues for company operations are $______________ and for intrastate operations are $____________ of which $______________ is the California intrastate toll revenue.

2. For the test year 1982, the adopted summary of earnings at present rates set forth in Table I reasonably indicates the results of General's operations in the future. The changes from the adopted results in D.82-04-028 are as follows:

a. Total operating revenues change from $1,866,341,000 for total company to $_____________ to reflect decreased intrastate toll revenues of $__________ and decreased intrastate operating revenues of $_____________ to reflect correction of computation errors in the calculating of settlement revenues.

b. Taxes on income were changed from $179,353,000 for total company operations and $132,125,000 to intrastate operations to $_____________ for total company operations and $__________ for intrastate operations to reflect the above revenue changes and the correction of D.82-04-028 income tax of $__________ caused by the utilization of inappropriate tax depreciation expense, fixed charges, 1968-69 flow-through, and duplication of ERTA adjustments.

c. IDC from $1,084,000 for total company operations and $853,000 for intrastate operations to $__________ for total company and $__________ for intrastate operations to reflect the correct depreciation expense for the proper IDC amount.

d. Rate base changes from $2,891,871,000 for total company and $2,272,512,000 for intrastate operations to $__________ for total company and $__________ for intrastate operations to reflect correction of the intrastate deferred tax reserve and ERTA adjustment.

e. An increase in our adopted 1982 test year rate of return from 12.71% to 12.78% to reflect the increased embedded cost of debt resulting from the current outlook for bond financing.

3. The revenues, expenses, and rate base items set forth in Findings 1, 2, and 3 result in a rate of return of 12.78% at present rates for California intrastate operations as set forth in Table I of this decision.

4. The increases in rates and charges authorized by this decision are justified, and are just and reasonable for the future.

5. A rate of return of 12.78% applied to our adopted intrastate rate base of $2.293 billion would yield $__________ million increase in revenues above the rates authorized by D.82-04-028.

6. An attrition allowance as authorized by D.82-04-028 is to be added to the rates authorized to reflect increasing costs in the second year of the rate life outside of General's control.

10. An increase of 50% in the monthly rates for such items as access arrangements, connecting arrangements, link arrangements, and DID and other supplemental PBX service arrangements is reasonable.

11. General currently actively markets GTD-120, Rolm (family), and Focus PBXs which are generally referred to as "processor-controlled" PBXs.

12. These processor-controlled PBXs are currently being provided by General under companion (month-to-month) rates and two-tier rates.

13. Both General and the Commission staff propose comparison rates for these processor-controlled PBXs equal to the two-tier, 5-year tier A plus tier B rate for each rate item to ensure adequate earnings from customers who do not take two-tier pricing when it is available. CD's proposed rates are reasonable and should be adopted.

14. Rates for supplemental service including single line instruments which are cost-based rather than market-priced will prevent a growth in the inventory of usable equipment which has been disconnected but cannot be reused because of lack of demand, with resulting additional increases in residually priced exchange service.

15. General's proposal of one standard rate of $1.50 per month for each type of telephone regardless of the service with which it is used would achieve standardization of rates by increasing the rates for such instruments used as primaries and extensions by single line business and residence customers and decreasing the rates of such instruments used as PBX

extensions EBSS stations and Centrex stations. The decrease would not be consistent with the goal of achieving maximum contribution from these PBXs and General's proposed $1.50 standard rate will not be adopted.

16. CD's proposed standard rate of $1.25 a month for single line rotary instrument and $1.80 per month for single line touch-calling instrument used as a primary or extension of simple business and residence services is reasonable and should be adopted.

17. Standardized rates for standard rotary and touch-calling instruments associated with such services as PBX, Centrex, and EBSS at a monthly rate of $2 for rotary instruments and $2.75 for touch-calling instruments are reasonable and should be adopted.

18. A monthly rate differential of 15¢ between standard telephones and compact telephones as reflected in cost studies is reasonable and should be adopted.

19. The present rates for rate items associated with call-receiving service have been in effect for at least 10 years. Consequently, a 50% increase in such rates is reasonable.

20. Rates for push button (key) telephone service designed to maximize contributions from competitive service, as proposed by General, would result in severe repression and thereby drastically increase equipment placed in inventory the cost of which must be borne by residually priced basic services. Consequently, cost-based rates should be used for key telephones.

21. Resolution T-10561 authorized an increase of 15¢ per month in the rates for single line telephone sets, excluding PBX stations, to offset certain changes in depreciation rates.

22. Because the provision of single line instruments is highly competitive, reductions in the rates for such services are unreasonable. The authorized rates for single line instruments will be the CD-proposed rates or the rates authorized in Resolution T-10451, whichever is the higher for a particular type set.

23. CD's proposed rates for special service arrangements, based on price indexing, are reasonable and should be adopted.

24. The monthly rates for loudspeaker system service have been in effect since 1974; consequently, a 50% increase as proposed by General is reasonable and should be adopted.

25. General proposes increases for Schedule A-24, Telephone Answering Service, ranging from 50% to 643% for the nonrecurring charges and from 50% to 385% for the monthly rate charges with an overall increase for this schedule of 57%.

26. General's proposed increases for Schedule A-24 are based on cost studies and are designed to increase the revenue to a level which will generate sufficient revenues to cover the aggregate terminal equipment cost and make a substantial contribution to General's common and corporate costs.

27. If the Schedule A-24 rates proposed by General are effected, the repression factor caused by increases of this magnitude will exceed 50%.

28. The TAS-100 telephone answering service boards, a major component of TAS equipment, are manufacturer-discontinued and the service should therefore be frozen to existing customers with positions available for additions to existing bureaus and/or moves of existing bureaus to new addresses only on an "as available" basis.

29. The TAS-100 board and related equipment should be placed in the same category as the frozen PBX equipment and increased by the same overall percent of 33%. The balance of rate items in Schedule A-24 should be increased by 50% consistent with our treatment of other terminal equipment which has had relatively static rates for long periods of time.

30. Prior to D.92366, the monthly rate for the termination of a secretarial line on a telephone answering position or concentrator-identifier arrangement including the first one-quarter mile of mileage was $3.00 per month per termination. The portion of this rate associated with such terminations was inadvertently omitted in the testimony in A.59132 and was, therefore, dropped from the tariff schedule. A rate for such terminations of $1.25 per month, which when combined with the adopted $1.75 monthly rate for one-quarter mile of mileage equates to the previous $3.00, is reasonable and should be reinstated.

31. The subsequent service order and central office activity elements of the multielement service connection charge are applicable to secretarial lines installed for TAS bureaus.

32. For TAS bureaus, a mileage charge where service is provided on a per quarter mile basis should be $1.75 per quarter mile and where mileage is provided on a per mile basis the mileage charge should be $7 per mile. Any increase resulting from the application of these mileage charges should be limited to a maximum 50% increase computed to the nearest 5¢.

33. The increases set forth in Finding 10 are applicable to DID numbers and trunk facilities and services provided to TAS bureaus.

34. The avoidable cost elements of the multielement service connection charge consisting of premises visit, premises wiring, and premises work-telephone established by D.93728 in OII 84 are reasonable and should be continued.

35. The service connection charges proposed by CD, with the exception of the premises visit, premises wiring, and premises work-telephone charges established by D.93728 are reasonable and should be adopted in this proceeding.

36. General should institute a modular conversion program having a goal of attaining the modular conversion of all simple residence services over a period of 24 months.

37. General should implement fully measured ORTS service and provide such service at the same rates currently in effect for ORTS offered by Pacific by concurring in Pacific's ORTS rates.

38. OCMS rates should be increased to coincide with the OCMS rates set forth for Pacific in Appendix B of D.93728.

39. The existing verification/interrupt charge of 25¢ for verification of a busy line condition and/or interruption of a conversation in progress at the calling party's request should be maintained.

40. A common monthly rate of 65¢ should be applicable to residence and business lines equipped for touch-calling service.

41. For mobile telephone service, the conversation time rate per minute should be increased from 25¢ to 45¢.

49. General's proposal to revise the method of FEX mileage measurement for new customers from the mileage from the customer's location to the nearest point on the common exchange boundary to the airline mileage difference between the rate centers of the local and foreign exchanges will heavily impact new FEX customers, will create a discriminatory rate disparity between new and existing FEX customers, and should not be adopted.

50. An increase in the mileage rate applicable to contiguous FEX services from the present monthly rate of $1.60 per quarter mile of mileage to a monthly rate of $3.50 per quarter mile of mileage coupled with the retention of the present method of mileage measurement is reasonable.

51. CD's proposed revisions to FEX services including withdrawal of residence foreign exchange trunk line service, uniform 25% increases in the monthly rate increments applicable to residence individual line and residence suburban foreign exchange services as well as the monthly rates applicable to primary business foreign exchange services, and establishing a $100 nonrecurring charge applicable to all new FEX services are reasonable and should be adopted.

52. Increasing the foreign exchange rate for message and measured units of local calling to a standard rate of 9¢ per unit for both business trunks and individual line services is reasonable as a means of recovering a large portion of the cost to provide FEX services from the customers with FEX services.

53. Special area rates should be increased to reflect the above-adopted mileage rates.

54. The monthly rate for semipublic service should be increased from $8.10 to $17.50.

55. The local exchange rate should be increased from 4¢ to 6¢ per unit.

56. Farmer line rates should be increased to the level proposed by CD. Farmer line service should be withdrawn in areas where there are presently no customers to this service. It is not appropriate to limit farmer line service to existing customers in areas where there are presently customers with farmer line service.

57. Basic exchange service rates should be increased following CD's concepts to encourage growth of measured services, to take into consideration the adopted increases for exchange units, and to establish the proposed rates for flat rate business lines and trunks and measured rate business lines and trunks. The basic exchange service rates adopted in this order are necessary to meet the overall increase in revenue requirement and follow CD's concepts.

58. The retention of the present 10.48% billing surcharge, applicable to General's Schedules A-1 through A-40, would result in some of our adopted rates being increased above the cost-based level. To prevent this, the present positive surcharge should be replaced zero.

59. The rate center for the Los Gatos exchange should be moved approximately 0.4 mile so that the San Jose-West District area will be included in Los Gatos' ZUM Zone 1 calling area.

60. The rate center for the Sunland-Tujunga area should be moved approximately 0.4 mile so that Glendale will be included in the Sunland-Tujunga's ZUM Zone 1 rate area.

61. A late-payment charge of 1.5% to be applied to a customer's previous month's unpaid balance is reasonable and should be implemented.

62. Negotiations between Pacific and LA County relating to the proper tariff for entrance channels provided for in D.93367 should be extended to include General.

63. Presently General has no plan on file with this Commission to proceed with the expansion of measured exchange services. Consequently, General should be required to provide, as a part of its next major rate application, a plan for the expansion of measured services similar to Pacific's plan.

64. General's central offices in the LAEA are not presently equipped to provide ZUM Zone 1 service on a one-minute basis resulting in customers with a short holding time of one minute paying the same rate as a customer with a 5-minute holding time. To resolve this problem General should be required to file, as a part of its next major rate application, the feasibility, the revenue requirement in terms of added plant and additional expenses, and the customer billing effects associated with the implementation by General of present ZUM Zone 1 service and rates in the LAEA and Los Gatos exchanges.

65. For areas outside the LAEA, General should be required to file, as a part of its next major rate application, a program covering the implementation of ZUM Zone 1 service and rates on a statewide basis in all of General's exchanges.

Conclusions of Law

1. The Commission concludes that the application should be granted to the extent set forth in the order that follows.

2. The rates authorized in Appendices B and C are just and reasonable. Any other rates applied after the rates in Appendices B and C are in effect are unjust and unreasonable.

3. General should implement fully measured ORTS with the same rates and rate structures as shown in Pacific's Schedule Cal. P.U.C. No. 131-T, Section II.

4. General should convert its existing hard-wired utility-provided telephone to modular jacks in a 24-month period.

5. General and Pacific should relocate the rate center of the Los Gatos exchange such that the West District Area of the San Jose exchange is within ZUM Zone 1 for calls originating in the Los Gatos exchange and should relocate the rate center of Sunland-Tujunga exchange such that the Glendale exchange is within ZUM Zone 1 for calls originating in the Sunland-Tunjunga exchange.

6. General should be authorized to implement an LPC.

7. General is now six months into its 1982 test year and since there is immediate need for the additional rate relief authorized, this order should be effective on less than 30 days' notice.

7. This is a final opinion in A.60340. OII 88 remains open.

This order becomes effective 5 days from today.

Dated JUN 15 1982, at San Francisco, California.

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