

Decision 83 05 053 MAY 18 1983'

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC)
TELEPHONE AND TELEGRAPH COMPANY)
for authorization to transfer)
specified property to American)
Bell, Inc., a subsidiary of the)
American Telephone and Telegraph)
Company.)

Application 82-08-13
(Filed August 4, 1982)

Application of THE PACIFIC)
TELEPHONE AND TELEGRAPH COMPANY)
for authorization to transfer)
specified property associated)
with Picturephone Meeting)
Service to American Bell, Inc., a)
subsidiary of the American)
Telephone and Telegraph Company.)

Application 82-11-10
(Filed November 4, 1982)

(Appearances are listed in Appendix A
to Decision 82-12-067.)

FINAL OPINION

Summary of Decision

This decision authorizes The Pacific Telephone and
Telegraph Company (Pacific) to transfer to American Bell, Inc.
(AmBell) Picturephone Meeting Service equipment. Issues of valuation
for rate base adjustment purposes, and for any other purpose,
concerning Picturephone and also PhoneStores, are deferred in order
to be considered in Pacific's presently pending rate increase appli-
cation (A.83-01-22).

History of this Proceeding

Pacific filed A.82-08-13 on August 4, 1982 to request
authorization to transfer certain PhoneStore properties to AmBell,

because of certain orders of the Federal Communications Commission in a proceeding known as the Second Computer Inquiry. (Docket 20828, 77 FCC 2d 384 (1980), modified 84 FCC 2d 50 (1980) and 88 FCC 2d 512 (1981).) In Decision (D.) 82-12-067 issued December 15, 1982, we approved the transfer (after a hearing) and reserved issues of valuation for ratemaking purposes for a later decision after further hearings.

A.82-11-10 (Picturephone), filed November 4, 1982, was consolidated with A.82-08-13 because of similarity of issues. A hearing on the issues related to the proposed transfer of Picturephone assets to AmBell was held on March 10, 1983 before Administrative Law Judge Meaney. Issues relating to valuation were reserved for later hearings.

On April 11, before commencement of the scheduled hearings on valuation of both PhoneStore and Picturephone properties, the staff filed a "Motion to Discontinue Proceedings and to Consolidate Issues". The motion states, in part:

"It now appears that valuation of the same assets will be considered as part of a larger valuation of assets by the staff in Application No. 83-01-22, NOI-85 the Pacific Telephone and Telegraph Company current rate case.

"Accordingly it appears that continuation of the current proceeding would be duplicative and unnecessary. Therefore the staff respectfully moves that the captioned proceedings be discontinued without prejudice. The staff further moves that the value of the assets which are the subject of the instant proceeding, be consolidated with A.83-01-22 as part of the larger valuation study to be presented by the staff in that case.

"It is further requested that the Commission expressly order that the instant dockets are not to be precedential regarding the transfer of assets."

We agree that we should decide any issue regarding the transfer of Picturephone in this decision and transfer the valuation issues to Pacific's pending rate increase application. The staff has apparently prepared certain exhibit material for that application covering the subject and the assets involved are not large enough to warrant a separate proceeding. No party to this proceeding opposes this course of action.

Facts - Picturephone Transfer

At the March 10 hearing, Pacific's witness Richard S. Normington, district staff manager of the marketing department, testified concerning the transfer of this property.^{1/}

The property consists of two digital public video teleconferencing rooms, including associated cameras, video monitors, transmission terminal equipment, and furniture. One room is located at 120 New Montgomery Street in San Francisco; the other at 1010 Wilshire Boulevard in Los Angeles. Both buildings are leased by Pacific from non-Bell System owners. Both Picturephone rooms have been subleased to AmBell. Normington testified that the adjusted net book value of the assets equals about \$904,000.^{2/} In the application itself, the amount shown was \$1,150,000 and the reduction was caused by AmBell's relocating the rooms in which the

^{1/} During the course of the proceeding, Pacific's counsel discovered, and informed the Commission and the parties, that a transfer of some of the assets had taken place without the knowledge of those engaged in this proceeding. If we were to find this transfer not in the public interest we would have to protect the public interest, but because of the result reached, this is not necessary. In any event, the Picturephone properties were never included in California rate base.

^{2/} Whether this figure should be used for our regulatory purposes should now be decided in Pacific's current general rate proceeding.

equipment can be used in order to comply with certain constraints in Second Computer Inquiry. Pacific thus no longer seeks to transfer the value of leasehold improvements.

The two public conference rooms constitute "embedded" terminal equipment under Second Computer Inquiry; therefore, Pacific could continue to operate them. However, Normington's analysis shows that they are no longer a profitable operation. Picturephone was originally designed as end-to-end service including the transmission tariffs. After divestiture, long-distance carriers (AmBell and competitors) will carry traffic between San Francisco and Los Angeles. The witness's analysis of revenues versus expenses for the terminal equipment and public rooms alone shows an estimated loss of \$22,682 for 1983.

Normington said that with transfer of the properties to AmBell, cost burdens of the public rooms are removed and Pacific experiences revenues by collecting from AmBell monthly charges associated with digital access lines dedicated to the service. (See Exhibits 7 and 8 and cross-examination, March 10 hearing.)

While the staff challenged some of Normington's estimates on cross-examination, it seems clear that no substantial return from the service in its present form is likely, and in any event, even a profitable service would produce so little revenue that there would be no beneficial effect on basic telephone rates.

Discussion

The transfer of the Picturephone property should be authorized, with valuation issues to be considered in Pacific's A.83-01-22. We agree with the staff that this decision sets no general precedent for asset transfer. Compare the discussion in D.82-12-067 in this proceeding (mimeo. pp. 6-7).

Findings of Fact

1. Pacific owns Picturephone Meeting Service equipment at one location in Los Angeles and one location in San Francisco. The equipment is in rooms presently subleased to AmBell.

2. Revenue from Picturephone, assuming profitability, is insufficient to significantly affect rates of basic telephone service.

3. No party to this proceeding opposes the transfer of Picturephone to AmBell subject to issues of valuation of it (and also valuation of the PhoneStore properties) being considered in Pacific's pending A.83-01-22.

Conclusions of Law

1. The application should be granted, subject to the conditions in the order.

2. All issues relating to valuation should be considered in A.83-01-22, and this proceeding should be closed.

FINAL ORDER

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company (Pacific) is authorized to transfer to American Bell, Inc. (AmBell) the property associated with Picturephone Meeting Service set forth in Exhibit 8 in this proceeding.

2. Pacific shall file a copy of each journal entry used to record such transfer on its books, and a list of assets and liabilities actually transferred to AmBell.

3. Pacific shall retain all accounting records pertaining to Picturephone until the Commission authorizes their destruction. Pacific may furnish copies of such records to AmBell, and may allow AmBell access to them.

4. Pacific shall track any expenses connected with the transfer.

5. Valuation of assets transferred shall be determined in A.83-01-22, and this proceeding is closed.

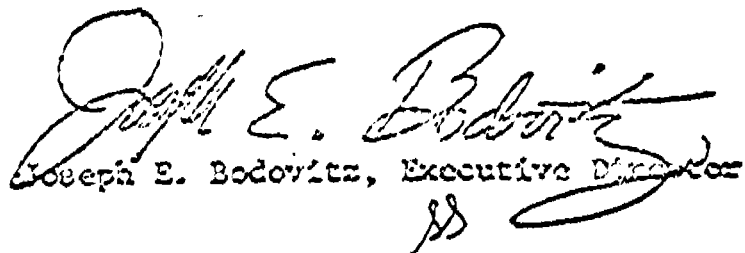
This order becomes effective 30 days from today.

Dated MAY 18 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
PRISCILLA C. CREW
DONALD VIAL
Commissioners

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


Joseph E. Bodovitz, Executive Director