Decision 83 12 067 DEC 22 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Application of General Telephone Company of California, a corporation, for authority to increase certain intrastate rates and charges for telephone services.	Application 83-07-02 (Filed July 1, 1983)
And Related Matters	OII 83-08-02 (Filed August 3, 1983) Case 82-10-08 (Filed October 28, 1982)

Richard M. Cahill, Kenneth K. Okel, and Richard E. Potter, Attorneys at Law, for General Telephone Company of California, applicant.
Alvin H. Pelavin and William R. Haerle, Attorneys at Law, on behalf of 17 independent respondent telephone utilities, respondents in OII 83-07-02.
Robin Shapiro and James Bennett, Attorneys at Law, for Telephone Answering Services of California, complainant in C.82-10-08 and interested party in OII 83-08-02.
John B. Quinn, Attorney at Law for GTE Sprint Communications Corporation; Nancy J. Marvel, Deputy City Attorney, for City of Santa Monica; August Sairanen, for State of California, Office of Telecommunications; Ben Rockwell, for California Association of the Physically Handicapped, San Bernardino; Rolling Start; Access California Advisory Committee; and Community Services Department, San Bernardino County,

Disabilities Section; A. John Terrell and Alan E. Donnell, for the Regents of the University of California; William Victor, for himself; Edward J. Perez, Deputy City Attorney, and Manuel Kroman for the City of Los Angeles; Alan Broido, for Sonitrol of Long Beach; John B. Billings, for Consumers Coalition of California, Inc.; R. A. Bromley, Attorney at Law, and E. V. Forshee, for AT&T Communications; and Gold, Herscher, Marks & Pepper, by Lessing E. Gold and Alan Pepper, Attorneys at Law, for Western Burglar & Fire Alarm Association; Sylvia M. Siegel and Jon F. Elliott, Attorney at Law, for TURN; interested parties.

Timothy E. Treacy, Attorney at Law, and Harry Strahl, Kenneth K. Louie, and Brian Chang, for the Commission staff.

INTERIM OPINION GRANTING A PARTIAL RATE INCREASE

I. SUMMARY OF DECISION

Today's interim decision authorizes the General Telephone Company of California (General) to terminate its existing 18.03% billing surcharge, which applies to only some basic services, and replace it with: a 13% surcharge on intra-exchange or intraLATA toll calls, and a 21.3% surcharge on most other basic services. This is a 3.3% increase on many basic rates, which have been subject to the existing 18.03% surcharge, and a 13% increase on toll calls. The basic exchange rates receiving a surcharge for the first time include services such as installation charges, zone usage messages, private line services and other non-toll usage charges. The billing revenue behind the portion of the existing 18.03% surcharge applicable to the $50.7 million 1983 attrition allowance has been combined with the additional 1984 revenue requirement of $150.5 million, resulting in today's new surcharges.

The rate increase of $150.5 million is based on the revenue requirement for 1984 which our staff believes is reasonable, and there is no dispute that General needs this additional revenue to provide it an opportunity to realize a reasonable return. While initially requesting a $346 million increase, General reduced its request to $208 million after reviewing our staff's estimates of 1984 revenues and expenses. In mid-1984 we will issue a final decision addressing contested revenue requirement issues, the adequacy of General's service, and rate design.

Pending final resolution of the many rate design issues before us, we think a new and single surcharge on basic services, and a new surcharge on intraLATA toll calls, is the fairest approach. The increase on basic access line rates, which have been subject, most recently, to an 18.05% surcharge, is 3.3%. This is about the same increase recently authorized for Pacific Telephone. General's measured residential service, often referred to as lifeline, will not be increased; rather, the 18.05% present surcharge will continue to apply.

Our staff believes, from its investigation, that General's service is inadequate in certain areas, so we will make the surcharge subject to full refund for those customers. Those are customers in the Kenwood exchange and those served by the following central offices: Malibu, Zuma, Topanga, Ocean Park, Muscoy, Perris, and Los Alamos. Also, we will make today's rate increase subject to refund to all customers in the event our final decision adopts a 1984 new revenue requirement of less than the $150.5 million used for today's decision.

Today's decision also orders General to submit a proposed plan, complete with tariffs, to sell in-place multi-line terminal equipment (used by business customers) as an option to monthly lease charges.

II. GENERAL'S REVENUE REQUIREMENT

A. Staff's Estimated Results of Operations for Test Year 1984

An increase in net revenues of $77,019,540, is necessary to allow General the opportunity to realize staff's recommended rate of return on rate base of 12.62%. A net-to-gross multiplier of 1.917 is applied to produce a gross incremental intrastate revenue requirement of $147,646,000, which will generate the required additional net revenue after state and federal income taxes. $2.9 million is added to the staff's gross revenue requirement, as discussed later and reflected in the surcharge development shown in Appendix A, resulting in a total 1984 increased revenue requirement of $150,546,000.

Following is the staff's estimated summary of earnings for test year 1984, including an adjustment for management salary expense of $10,067,000, which is discussed in the next section of this decision.

General Telephone Company of California
Staff's Summary of Earnings at Present Rates
Test Year 1984

Line No.	Account	Total Company (A)	Total Intrastate (B)
		($000)	
1	Operating Revenues		
2	Operating Revenues After Unc.	2,084,685	1,657,603
3	FCC Acctng. Chg.	372	263
4	Depr. Mtd. Adj.	1,338	906
5	Total Operating Revenues	2,086,395	1,658,772
6	Operating Expenses		
7	Maintenance	489,809	391,755
8	Traffic	103,488	85,895
9	Commercial	195,676	171,999
10	General Office and Salary	130,891	112,549
11	Other Operating Expenses	194,328	158,463
12	Subtotal Operating Exp.	1,114,192	920,661
13	Depreciation Expense	433,685	354,697
14	Taxes Other Than On Income	91,982	74,870
15	Taxes On Income	118,622	70,276
16	Total Operating Expenses	1,758,481	1,420,504
17	Management Payroll Adj.	-8,142	-6,693
18	68-69 Flow-thru	731	594
19	Automatic Electric Adj.	-1,115	-906
20	Directory Company Adj.	-4,290	-4,243
21	FCC Acctng. Chg.	768	624
22	Depr. Mtd. Adj.	2,252	1,831
23	ENFIA (EXP & ITX)*	0	-5,446
24	Net Operating Expenses	1,748,685	1,406,265
25	Net Operating Revenues	337,710	252,507
26	Rate Base	3,296,940	2,662,543
27	ENFIA (Rate Base)	0	-46,776
28	Automatic Electric Adj.	-4,154	-3,373
29	FCC Acctng. Chg.	-1,100	-887
30	Depr. Mtd. Adj.	-837	-675
31	Total Rate Base	3,290,849	2,610,832
32	Rate of Return	10.26%	9.67%

12.62 ROR Recommended by Staff
-9.67 ROR From Column (B)
Difference 2.95%

Intrastate Rate Base = $2,610,832,000 x (2.95/100) = $77,019,540 (Net Rev. Req.)

$77,019,540 x 1.917 (Net-to-Gross Multiplier) = $147,646,470 (Gross Rev. Req.)

* Exchange Network for Interstate Access

After a prehearing conference on August 12, 1983, hearings before Administrative Law Judge Alderson started on October 3 and are still under way. The witnesses on revenue requirement issues for both General and the staff have essentially completed their direct testimony. Most of the testimony still to be received relates to service and rate design. None of the issues have been briefed by the parties.

We think it is reasonable, as requested by General and recommended by our staff, to grant partial rate relief at the start of test year 1984. General's Notice of Intention (NOI) preceding the filing of this application was deferred at our direction because we lack the staff resources to process both Pacific Telephone and General rate proceedings at the same time. Had General's NOI been accepted when it was originally tendered, and assuming it was complete with all required workpapers, we would have been in a position to issue a final decision at the start of the 1984 test year. Under these circumstances we think it is fair to grant partial rate relief. Partial rate relief is, of course, granted after hearing and is based on the uncontested additional revenue requirement. It is granted only when, because of scheduling and extraordinary conditions, a final decision cannot be issued before the start of the test year when a utility, under our Rate Case Processing Plan, ordinarily expects a decision on its application. In contrast to partial rate relief which is granted today, we also, on occasion, grant interim rate relief, but only when a utility faces a demonstrated financial emergency.

B. Adjustment to Staff's Summary of Earnings

Staff's estimated test year revenue requirement is adjusted for an action taken by us since staff prepared its estimates. A $2.9 million increase in revenue requirement is caused by General's use of 10% rather than an 18% per annum rate applied to late payments, as ordered on October 16, 1983 in D.83-10-088, in C.83-01-07. Under the terms of that decision, General was ordered not to charge interest exceeding the 10% cap imposed by the California Constitution (Article XV), pending determination of the applicability of the usury law to its late payment charge. We will make this determination in our final order.

The $4.3 million revenue requirement penalty recommended by the staff's auditors due to General's alleged noncompliance with prior Commission decisions directing accounting changes is not reflected in today's partial increase. It is, we think, unfair to impose a penalty unless all parties have had an opportunity to brief the issue and we have carefully reviewed the matter. We will address this issue in our final decision, and the rates adopted today are subject to refund should a resolution of this issue in staff's favor reduce General's revenue requirement below $150.5 million.

C. Wage and Salary Expense

Of General's estimated 27,000 total employees for 1984, 21,000 are paid hourly. Almost all these employees are represented by unions. The remaining 6,000 are salaried management employees.

In March 1983, General reached agreement with the unions representing its hourly employees, and a 3-year contract was entered. Following is the average amount of wage increase for hourly employees, when it is payable, and the estimated incremental cost of each increase for 1983 through 1985 (Exhibit 37):

Payable	%Increase	Incremental Cost
March	7.00	$30.7 Million
October	2.25	10.5 Million
Annualized Total:	9.41	41.3 Million
	1984	
March	4.00	$18.8 Million
October	4.00	19.5 Million
Annualized Total:	8.16	38.3 Million
	1985	
March	4.00	$19.3 Million
October	3.00	15.0 Million
Annualized Total:	7.12	34.3 Million

For salaried management employee expense, General developed its test year expense estimates assuming an 11% increase in 1983 and 10.25% for 1984. These employees receive salary increases throughout the year as their individual annual anniversary dates arrive and a performance review is undertaken. The management salary program is announced each June and applied for the coming fiscal year of July through June.

Toward Utility Rate Normalization (TURN) cross-examined General's witness Cecil on the rationale justifying the higher increases for salaried management employees, and General was asked to supply specifics about its wage and salary increases for 1983 through 1985. Exhibit 37 shows that General now actually assumes an 8% increase for management employees for fiscal years 1983-1985. Thus, General's expense due to a salary increase for managerial employees is overstated by 3% for 1983, the estimated base upon which test year 1984 rests, and 2.25% in 1984. Expressed as an annualized total for 1984 it is overstated by $10 million. Staff accepts the wage increases negotiated in March 1983, and in its initial showing accepted the budgeted increases for management employees of 11% in 1983 and 10.25% in 1984. Throughout the various expense categories in both General's and the staff's results of operations these budgeted increases were assumed.

It having been brought to light by TURN that the amount of salary increase assumed for management employees is overstated, we must make a corresponding adjustment to General's revenue requirement. Staff ultimately revised its summary of earnings and assumed the lower, or 8%, level of management employee salary increase for 1983 and 1984. For purposes of the partial rate increase, based on staff's estimated test year results of operations, we will adjust test year operating expense by the aggregate amount of $10,067,000 (of which $1.9 million is capitalized).

We note that the record shows no justification offered by General why average increases of the magnitude of 11% for management employees are reasonable, particularly compared to those for hourly employees. We remind General that it must justify its estimates. They are not reasonable merely by virtue of their association, and it is not the duty of staff or intervenors to show what is reasonable.

We believe General's negotiated wage contract and its planned increases for salaried employees provides for what we can only term as generous increases in 1983 through 1985, noting that in 1982 hourly employees received an average 7% increase and management employees 8%. The current 3-year contract was negotiated when inflation was near a standstill. We think General's total employee force should, given the cost of living wage and salary increases comitted to by General, be highly motivated and correspondingly productive.

D. Impact of Inter-LATA Toll Service Being Assumed by AT&T Communications

After January 1, 1984 General will no longer provide what is now termed intrastate inter-LATA toll service. That service will be provided by American Telephone and Telegraph Communications (AT&TC), and possibly other competing inter-LATA common carriers. We are approaching test year 1984 and General's revenue requirement contribution for overall intrastate toll revenue on what is best termed a business-as-usual make-whole basis, meaning that General should not suffer a loss in revenue in 1984 due to its losing a portion of what has traditionally been intra-state toll revenue.

General offered Exhibit 40, which is a tentative estimate of the amount of net intra-state toll revenue for 1984 that it would realize without having lost inter-LATA toll service, broken down between inter- and intra-LATA sources. It tentatively concludes that of the $772,289,000 estimated 1984 net toll revenue $526,534,000 is attributable to intra-LATA toll and the balance, $245,755,000 to inter-LATA toll. Of the $245,755,000 General estimates that about $42.6 million will be generated from facilities lease payments from AT&TC and the balance, about $203 million, from access charges applied to AT&TC to compensate for the use of General's facilities enabling AT&TC to have access to local subscribers so it can provide inter-LATA toll service.

The issue of how access charges are to be initially designed is the subject of another proceeding in which General and other telephone utilities have been extensively involved, A.83-06-65 and consolidated matters. However, it is possible that General's access charges to inter-LATA carriers, which is the subject of A.83-06-65 et al. and General's pending Advice Letter 4837, could generate more revenue in 1984 than it estimates that it will lose by the loss of inter-LATA toll, thereby reducing General's revenue requirement below $150.5 million. As previously stated, the rates adopted today are subject to refund to allow for this contingency. Resolution T-10779 issued December 7, 1983 requires General to submit testimony in this proceeding setting forth the development of intrastate access service rates and charges which will be addressed in our final decision.

III. RATE DESIGN

A. Current Surcharge

Currently General has an 18.05% surcharge applicable to recurring monthly rates in its Schedule A-38.[1] Of that 18.05%, 10.23% was authorized at the start of 1983 to provide General $50.7 million of post-settlement revenue for part of its 1983 attrition allowance (Resolution T-10647) and 7.82% was authorized on July 10, 1983 to collect another $18.5 million annually, but between July 10 and December 31, 1983. This 7.82% is eliminated automatically by this partial increase, because the net $18.5 million in additional revenue requirement is encompassed in the staff's 1984 results of operation (e.g., loss of toll settlement revenue and the amortization of the capitalized balance in Account 232 relating to inside wiring).

B. Rate Design Proposals

Staff recommends that the partial increase be spread to all customers through a surcharge on all intrastate billings, except coin telephone usage.

General proposes to not fully reduce the present surcharge by 7.82%, which would generate a portion of the partial increase revenue requirement, and to substantially increase basic access line

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1 The existing surcharge applies to all services except the following (Schedule 38-A): Services for the handicapped (telecommunications devices for the deaf); message toll station service; toll station service; wide area telephone service; optional residence telephone service; optional calling measured service; telephone directory services (white pages); private line telephone service; speaker-microphone service; private line teletypewriter service; channels for data transmission; channels for program transmission in connection with loudspeakers, sound reproduction or sound recording; channels for one-way speech network in connection with loudspeakers; wideband services; digital data services; channels for remote metering, supervisory control and miscellaneous signaling purposes; channels for the transmission of closed circuit television signals; telpak channels and services; channels for the remote operation of private mobile radiotelephone systems; mobile telephone service; maritime radiotelephone service; and 50 kilobit switched service.

rates. A surcharge increase for intra-LATA toll and embedded or regulated terminal equipment is opposed by General. Toll revenue could, General contends, be diverted to competing carriers (but primarily resellers), and the imposition of a surcharge on leased terminal equipment could induce customers to buy equipment from other suppliers. Finally, General seems to think a toll surcharge could apply to inter-LATA calls which it will be billing for AT&TC starting in 1984, and fears if it did apply that AT&TC would not use General's billing service.

C. Discussion

We will spread the partial increase with billing surcharges. However, to lessen customer confusion, we conclude it is reasonable to now re-spread the existing surcharge, (which collects a net \$50.7 million annually)[2] concurrently with the new revenue requirement authorized by this decision. Thus, that gross \$52.4 million, added to the gross incremental revenue requirement of \$150.5 million from today's partial increase, means the new surcharges will generate \$202.9 million annually. Our final decision in these proceedings in mid-1984 can, of course, eliminate the surcharges and adjust General's various rates after a full analysis of rate design proposals. The development of the surcharge is shown in Appendix A.

The surcharge should apply to intrastate customer billings, exclusive of federal and local excise taxes, through the 13% surcharge being applied to each customer's total toll calls and the 21.3% applied to other services. It will apply

[2] The portion of the existing surcharge which generates \$50.7 million of post settlement revenue is not automatically eliminated concurrently with a decision in test year 1984 revenue requirement because the staff assumed that increment of surcharge revenue in developing its estimate of 1984 revenues, whereas it did not include the existing 7.82% portion of the surcharge in developing its estimate of local service revenue for 1984. To realize a net \$50.7 million in revenue \$52.4 million must be collected in 1984.

to intra-LATA toll calls but not, of course, to inter-LATA calls General may bill for other carriers. We see no reason to apply the surcharge to recoup General's test year 1984 revenue requirement, on inter-LATA calls provided by AT&TC. To do so would require AT&T's customers to contribute directly to General's revenue requirement. This is unnecessary, particularly in view of General having access charges in place in 1984, which will compensate General and fairly ensure that customers in General's service territory who make inter-LATA toll calls are bearing, through AT&TC, the revenue requirement burden on General. Access charges in General's tariffs that apply to inter-LATA carriers will not be subject to the surcharge, nor will coin phone usage charges paid for by coin at the coin box and yellow page directory advertising charges. The revenues General realizes from the surcharge on toll calls, and other services subject to settlement or revenue sharing with other utilities, will be fully retained by General and not subject to revenue division.

We do not think the 13% temporary interim toll surcharge will meaningfully divert toll revenues from General in the LATAs within which it serves. No other carriers are certificated to provide intra-LATA service, although there may presently be no way to block intra-LATA calls of carriers that now provide interstate service, and which may ultimately provide inter-LATA service. We think it is reasonable to impose the 21.3% surcharge on all terminal equipment. While General thinks terminal equipment can reasonably bear only a 6.5% increase, or a surcharge of about 16.8% (10.23% 1983 surcharge plus 6.5% increase), we think a temporary surcharge of 21.3% will not cause sudden or severe market dislocation; for the past 6 months this equipment has been subject to the 18.05% surcharge.

It is reasonable to respread the existing surcharge, which would otherwise be 10.23%, and combine it with today's increased revenue requirement because: (1) A number of services exempt from the existing surcharge, which was imposed by a resolution, should in fairness bear General's increased revenue requirement (e.g., private line service, mobile service, optional calling measured service, and data transmission channels); and (2) the existing surcharge, concurrent with setting General's 1984 revenue requirement, must be adjusted in any event.

Fairness, to all customers dictates a uniform basic rate surcharge so all, for a temporary period, will bear General's reasonable increased revenue requirement evenly until rate design can be addressed in a final decision.

Finally, there is another consideration that leads us to the surcharges adopted today, which is General's billing capability. On December 14, 1984, at the request of our ALJ, General presented the supervisor in charge of its computerized billing facilities, Ms. Hansen, to testify on surcharge billing feasibility. She testified that given time General's billing computer could be programed, and the data input format changed, to do almost anything. However, given the intense activity now underway to accommodate billing changes for inter-LATA calls, General's billing computer cannot be programed to apply a different surcharge to different exchange services until about February 1, 1984. This means if we were to order a new surcharge on a broader range of exchange services to apply on top of the otherwise applicable present surcharge, General's computer could not accommodate the change starting January 1, 1984. Likewise, General would have equal difficulty if its "lifeline" service was singled out for special surcharge treatment (although we note that it could convert the 18.05% charge into a discrete rate for this service, and eliminate any dual surcharge application problems). General could, however, program its computer by January 1, 1984 to provide for a different surcharge applicable to toll calls than all other services, which is what we are ordering.

D. The Extent to Which Today's Surcharge is Subject to Refund

Staff believes some of General's customers are experiencing inadequate service, and it recommends deferring any final rate increase as recompense for these customers. Our desire to not prejudice staff or the potentially affected customers on this issue, is underscored by our order that the portion of today's surcharge applicable to these customers' basic recurring monthly charges will be subject to full refund. Our final decision will fully address the adequacy of General's service.

The only party contending certain rates are too high at their present level is the Telephone Answering Services of California (TASC), which filed consolidated Case 82-10-08. TASC believes present charges for direct inward dialing (DID) numbers are too high, and evidence on this issue is still being presented. There is no allegation that the quality of General's DID service is inadequate. We will not make the interim temporary surcharge as it applies to DID service subject to refund because it is unfair to all ratepayers to selectively make rates subject to refund for some, when there is no alleged service inadequacy, because of specific rate design issues raised by customers with relatively specialized service. We are without a completely developed evidentiary record or briefs on rate design, and the positions on rate design generally, including DID charges, vary widely. Given these fairness considerations, and that the surcharge is only temporary, we will not order the surcharge on DID service subject to refund.

As mentioned previously, to the extent that there is any reduction in 1984 revenue requirement resulting from General's access charges, this portion of the revenue requirement authorized today will be subject to refund.

Assembly Bill AB 1348, called the Moore Bill, became law on September 28, 1983, and, as a taxation measure, became effective immediately. It, among many other things, orders no change in "lifeline" telephone rates that were in effect in 1983, until, at the latest, July 1, 1984. Although General provides optional measured residential service, offered only in the metropolitan Los Angeles area, it studiously does not call it "lifeline". Nevertheless, its structure parallels Pacific Telephone's optional residential measured service, which has long been termed lifeline, and we believe, no matter what General calls its service, it is lifeline service from the Legislature's perspective. Consistent with the spirit of AB 1348 we will consider General's optional measured residential service lifeline.

AB 1348 clearly directs no increase to the basic lifeline rate, so we will freeze this rate with its existing 18.05% surcharge.

Today's partial increase will be in effect for about half of the test year. However, General believes if our final decision in mid-1984 adopts an increased revenue requirement in excess of that adopted today we can, merely by imposing a revenue requirement difference surcharge, allow General to realize retroactively the increased revenue requirement for the period January to June, 1984. Its rationale seems to be that the use of a surcharge ipso facto means balancing account ratemaking, and retroactive cost recovery applies. It is mistaken. We have never allowed, and legally cannot allow, retroactive revenue requirement recovery in connection with granting partial general rate relief followed by a final higher revenue requirement finding. The misconception General is under stems, we think, from its not understanding the fundamental legal restrictions that apply to general ratemaking vis-a-vis balancing account ratemaking, particularly with respect to the legal prohibition against retroactive ratemaking.

Briefly speaking, retroactive revenue requirement recovery, for costs incurred prior to a decision allowing a rate change, is allowed only in connection with balancing account ratemaking set up to recognize specific extraordinary costs (see SoCal Edison v PUC, 1978, 20 C3d 813). The extraordinary costs suitable for balancing account ratemaking are typically those that are subject to rapid and wide swings (e.g. fuel costs), or costs not amenable for prospective estimating. In contrast general ratemaking, the subject of this proceeding, addresses the entire spectrum of estimated results of operations over a representative future period, called the test year. Retroactive ratemaking in connection with general ratemaking is forbidden; that is, we cannot segregate and quantify a revenue requirement shortfall existing before a decision changing rates for the future and, on an additive basis, incrementally place those past costs into future rates (see PT&T v PUC, 1965, 62 C2d 634).

IV. GENERAL'S SALES OF MULTILINE TERMINAL EQUIPMENT

General's witness Borghi testified that General now sells embedded or regulated multiline service equipment (e.g. Key Systems and PBX) although it has no tariff on file. He said General only does this when it comes to light that the customer having the in-place equipment is inquiring about removal and a price from General because he is thinking of buying equipment from an unregulated supplier. In absence of a tariff rate, the price is determined by negotiation, with General's floor being the equipment's net book value plus the transaction and warranty cost. When a sale is consumated the proceeds are credited above the line. Borghi testified that General is taking steps to develop a tariff.

We want General to develop a proposed tariff for the sale of all embedded or now regulated multiline terminal equipment,[3] closely along the lines of the methodology we recently directed for the Pacific Telephone and Telegraph Company in D.83-09-024 on September 7, 1983, in A.59849 et al. It shall file details of a sales program for embedded multiline equipment and a proposed tariff within 30 days. We are extremely uncomfortable with General's negotiating with inquiring customers, even in the context of bidding, because one of the most important hallmarks of a utility's dealings with the public is that it does so under tariff rates and rules so there is no allegation or tinge of discrimination. General's present practice is not simply cutting its losses on plant that is no longer used and useful, because it engages in negotiations while the equipment is still in place, albeit when the customer is contemplating a change.

Also, we want a tariffed sales program that is fully publicized by General, because we face the dilemma of a utility selling regulated multiline equipment on a negotiated basis and also selling new multiline equipment on an unregulated, below-the-line basis. This creates great potential for a conflict of interest. As an example, General may tend to concentrate on selling unregulated equipment, and be somewhat benign about selling regulated equipment, counting on recouping any losses through ratemaking because embedded equipment may become "stranded" or too obsolete to market in the ongoing march of technological innovation.

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[3] The FCC has proposed in the Notice of Proposed Rulemaking on June 21, 1983 that embedded terminal equipment of non-Bell or independent telephone utilities not be detariffed until as late as the end of 1987. On November 23 the FCC announced a decision, not yet released, to detariff Bell System embedded terminal equipment as of January 1, 1984, but deferring action with respect to independent company equipment. A decision is expected shortly.

We conclude that General's sales of useful multiline terminal equipment to subscribers is a public utility activity, and the terms and prices must accordingly be tariffed. That we have authority to direct a telephone utility to sell terminal equipment, and to set the terms and prices, is now settled (see D.83-09-024, mimeo pages 11-15). Finally, it is in the interest of General's ratepayers that we direct General to have a tariffed sales program for all embedded multiline terminal equipment. The logical first step in this process is to direct General to file a proposed sales program for review and consideration later in these proceedings. While we consider this subject, we will allow General to continue selling embedded multiline equipment, but from this date forward all such sales are subject to downward adjustment of the sales price, depending on the tariffed prices ultimately adopted as reasonable. This will enable General to continue to sell the equipment and, pending approved tariffs, afford reasonable protection to buyers against discriminatory charges.

Findings of Fact

1. General has been selling useful in-place multiline terminal equipment without a tariff.

2. Developing tariffs for the sale of all multiline terminal equipment, and informing customers of its availability for purchase, is a necessary means of mitigating the potential for stranded investment in this equipment which could ultimately be borne by all ratepayers.

3. The existing 18.05% surcharge in General's Schedule 38-A would, concurrent with a partial increase based on test year 1984, be reduced by 7.82%, because the factors which led to the incremental net $18.5 million annual revenue requirement addressed by Resolution T-10712 are fully recognized in the staff's test year results of operations and summary of earnings.

4. General plans to increase management employee salaries by an average of 8% in both 1983 and 1984.

5. The adopted summary of earnings as adjusted for D.83-10-088, shows General has an increased gross revenue requirement of $150,545,000 for test year 1984.

Conclusions of Law

1. General's sale of in-place or useful multiline terminal equipment to its subscribers is a public utility activity subject to this Commission's jurisdiction, including the jurisdiction to direct General to have a sales program that meets the requirements we find reasonable.

2. A surcharge of 13% on General's intra-LATA toll. and 21.3% on basic exchange services, excluding coin telephone usage charges paid for by coin at the coin box and access charges to other carriers and yellow page advertising, is just and reasonable.

3. The basic rate surcharge of 21.3% should be subject to full refund with respect to the basic recurring monthly charge of customers which the staff contends are experiencing inadequate service.

4. General's rate increases authorized today should be subject to refund in the event we ultimately adopt a 1984 revenue requirement of less than $150.5 million or we determine that its access charges to inter-LATA carriers is likely to generate more than originally estimated in Exhibit 40.

5. In order to allow General's partial rate increase to go into effect on January 1, 1984 the following order should be effective today.

INTERIM ORDER

IT IS ORDERED that:

1. Wihin 30 days after today the General Telephone Company of California (General) shall submit, as a compliance filing in these proceedings served on all appearances, an original and 12 copies of a proposed sales program for all its embedded and now regulated multiline terminal equipment; it shall include all terms and prices.

Pending the adoption of tariffs for such sales, General may continue to sell such in-place equipment to subscribers, but the prices paid are subject to downward adjustment to the ultimately tariffed rate.

2. General shall retain all proceeds from the surcharge on intra-LATA toll rates, and any other rates subject to a settlement process, and not pass them on for the settlement pool for revenue division with other utilities.

3. General shall not apply the authorized surcharge to any toll calls which it may bill for on behalf of other carriers.

4. General is authorized to cancel its existing Schedule A-38 and to concurrently file a new schedule, with the rates effective no earlier than January 1, 1984 which:

a. Applies a 13% surcharge on General's intra-LATA toll services;

b. Retains the existing 18.05% surcharge on the monthly rate for measured local residential service (General may convert this into a new discrete rate for this service); and

c. A 21.3% surcharge on all other services, both recurring and nonrecurring charges, except the following: coin telephone calls paid for at the coin box, and yellow page directory advertising.

The revised rates shall apply to service provided on or after the effective date of the revised tariff schedules, and General shall not back-bill any customers in the event it cannot, because of billing limitations, impose the revised rates starting January 1, 1984. The surcharges shall not apply to access charges applicable to other carriers, to inter-LATA services and calls provided by other carriers for which General may render bills, to coin telephone calls paid for by coin at the coin box, or to directory advertising. The 21.3% surcharge is subject to full refund, with respect to basic recurring monthly charges, to customers in the Kenwood exchange, and customers serviced by the following central offices: Malibu, Zuma, Topanga, Ocean Park, Muscoy, Perris, and Los Alamos. The surcharge is subject to refund to all customers to the extent that General's new access charges to inter-LATA carriers generates more revenue than the incremental amount of inter-LATA toll revenue that General will lose starting January 1, 1984, or in the event this Commission ultimately adopts a 1984 test year revenue requirement of less than $150.5 million.

This order is effective today.

Dated DEC 22 1983, at San Francisco, California.

I dissent in part.

PRISCILLA C. GREW
Commissioner

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

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

Joseph E. Bodovitz, Executive Director

Appendix A

Surcharge Development
($000)

Revenue to be Recovered	
Staff's 1984 Revenue Requirement Increase	$147,646
Incremental Increase Due to .83-10-088	2,900
Total Gross Increased Revenue Requirement	$150,546
Billing Revenue (Pre-Settlement) for 1983 Attrition	52,402 *
Total Amount to be Recovered by General	$202,948
Intrastate Billing Base for Surcharge Application	
Total Billing Base for Intrastate Services	$1,482,801
Calls Paid at the Coin Box (Local and All Toll)	-16,019
Inter-LATA Toll(Before Settlement)	-190,329
Yellow Page Director Advertising	-128,600
Residence Local Measured Service (Lifeline)	-1,435
Intra-LATA Toll	-500,196
Adjusted Billing Base	$646,222
Surcharge Calculation	
Revenue Requirement	$202,948
Less	
13% Surcharge applied to Intra-LATA Toll	-65,025
18.05% Lifeline	-259
Adjusted Revenue Requirement	$137,664

$$\frac{\text{Adjusted Revenue Requirement}}{\text{Adjusted Billing Base}} = \frac{\$137,664}{\$646,222} = 21.30\%$$

* While the existing surcharge of 10.23% imposed during 1983 was to generate a net $50.7 million, before settlement effects it generated $57.2 million; for test year 1984 gross billing of 52.4 million is required.

(END OF APPENDIX A)

A.83-07-02
D.83-12-067

PRISCILLA C. GREW, Commissioner, Dissenting in part:

I dissent from the majority on three issues: surcharge design, untariffed sales of multiline equipment, and finding of reasonableness on labor escalation rates.

I do not agree with the surcharge design adopted by the majority because it is not applied evenly between basic monthly rates and toll. I advocated the even approach in the Pacific Telephone case, for reasons cited there in my dissent cosigned with Commissioner Calvo on December 7 (D.83-12-025). The issue of rate design is deferred both in the General and Pacific cases until May, when we will have a full record. At this interim point, I feel equal increases are the most neutral approach, pending our review of the full record.

I do not agree with the majority's decision to allow General to continue untariffed sales of multiline equipment. General's sales of multiline terminal equipment to subscribers is a public utility activity, and their terms and prices must accordingly be tariffed. I felt the company should be directed to cease such untariffed sales until a tariff is filed with the Commission.

On the matter of General's planned increases for employees through 1985, at this time I would have agreed to use these escalation rates for purposes of the interim increase, but I would have made no finding in today's decision of their reasonableness.

Priscilla C. Grew
PRISCILLA C. GREW, Commissioner

December 20, 1983
San Francisco, California

Pending the adoption of tariffs for such sales, General may continue to sell such in-place equipment to subscribers, but the prices paid are subject to downward adjustment to the ultimately tariffed rate.

2. General shall retain all proceeds from the surcharge on intra-LATA toll rates, and any other rates subject to a settlement process, and not pass them on for the settlement pool for revenue division with other utilities.

3. General shall not apply the authorized surcharge to any toll calls which it may bill for on behalf of other carriers.

4. General is authorized to cancel its existing Schedule A-38 and to concurrently file a new schedule, with the rates effective no earlier than January 1, 1984 which:

a) applies a 13% surcharge on General's intra-LATA toll calls;

b) a 21.3% surcharge on all other basic exchange services, both recurring and non-recurring charges, except the following: coin telephone calls paid for at the coin box, measured local residential service, yellow page directory advertising; and

c) retains the existing 18.05% surcharge on measured local residential service (General may convert this into a new discrete rate for this service).

The revised rates shall apply to service provided on or after the effective date of the revised tariff schedules, and General shall not back-bill any customers in the event it cannot, because of billing limitations, impose the revised rates starting January 1, 1984. The surcharges shall not apply to access charges applicable to other carriers, to inter-LATA services and calls provided by other carriers for which General may render bills, to coin telephone calls paid for by coin at the coin box, or to directory advertising. The 21.3% surcharge is subject to full refund, with respect to basic recurring monthly charges, to customers in the Kenwood exchange, and customers serviced between inter- and intra-LATA sources. It tentatively concludes that of the $772,289,000 estimated 1984 net toll revenue $526,534,000 is attributable to intra-LATA toll and the balance, $245,755,000 to inter-LATA toll. Of the $245,755,000 General estimates that about $42.6 million will be generated from facilities lease payments from AT&TC and the balance, about $203 million, from access charges applied to AT&TC to compensate for the use of General's facilities enabling AT&TC to have access to local subscribers so it can provide inter-LATA toll service.

The issue of how access charges are to be initially designed is the subject of another proceeding in which General and other telephone utilities have been extensively involved, A.83-06-65 and consolidated matters. However, it is possible that General's access charges to inter-LATA carriers, which is the subject of A.83-06-65 et al. and General's pending Advice Letter 4837, could generate more revenue in 1984 than it estimates that it will lose by the loss of inter-LATA toll, thereby reducing General's revenue requirement below $150.5 million. As previously stated, the rates adopted today are subject to refund to allow for this contingency.

data transmission channels); and (2) the existing surcharge, concurrent with setting General's 1984 revenue requirement, must be adjusted in any event.

Fairness, to all customers dictates a uniform basic rate surcharge so all, for a temporary period, will bear General's reasonable increased revenue requirement evenly until rate design can be addressed in a final decision.

Finally, there is another consideration that leads us to the surcharges adopted today, which is General's billing capability. On December 14, 1984, at the request of our ALJ, General presented the supervisor in charge of its computerized billing facilities, Ms. Hansen, to testify on surcharge billing feasibility. She testified that given time General's billing computer could be programed, and the data input format changed, to do almost anything. However, given the intense activity now underway to accommodate billing changes for inter-LATA calls, General's billing computer cannot be programed to apply a different surcharge to different exchange services until about February 1, 1984. This means if we were to order a new surcharge on a broader range of exchange services to apply on top of the otherwise applicable present surcharge, General's computer could not accommodate the change starting January 1, 1984. Likewise, General would have equal difficulty if its "lifeline" service was singled out for special surcharge treatment (although we note that it could convert the 18.05% charge into a discrete rate for this service, and eliminate any dual surcharge application problems). General could, however, program its computer by January 1, 1984 to provide for a different surcharge applicable to toll calls than all other services, which is what we are ordering.