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Decision No. 89590 ; OCT 31 1978**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own)
 motion into the effect of the addition)
 of Article XIII A to the Constitution)
 of the State of California on the rates)
 of the California public utilities and)
 transportation companies subject to the)
 ratemaking power of the Commission named)
 in Appendix A attached hereto.)

OII No. 19
 (Filed June 27, 1978)

(See Decision No. 89194 for appearances.)

INTERIM ORDER

By this Commission's order instituting investigation issued June 27, 1978, certain utilities named in Appendix B of the order were encouraged to file by July 28, 1978, an advice letter requesting a rate reduction to reflect reductions in ad valorem tax expenses related to the addition of Article XIII-A to the Constitution of the State of California. Among others, the six respondent telephone utilities named in Appendix B filed such advice letters. These utilities are The Pacific Telephone and Telegraph Company (Pacific), General Telephone Company of California, Continental Telephone Company of California, Citizens Utilities Company of California, CP National Corporation, and Roseville Telephone Company.

The advice letter tariff filings of the above-named telephone utilities were examined by the Commission staff which determined that the tariff filings were generally made on different bases which reflected the manner in which each utility treated the ad valorem tax reduction in its accounting for settlements between connecting utilities.

An evidentiary hearing was held on August 14, 1978, in which a witness for the staff of the Commission presented evidence and was cross-examined, and a witness for Pacific presented evidence and was cross-examined.

The staff's evidence and position with respect to the matter of intercompany settlements as affected by reductions in ad valorem taxes is that all intrastate tax savings be passed through directly to the local exchange service customer of each communication utility that realizes such tax savings. To accomplish this, the staff recommends the freezing of ad valorem taxes for intercompany settlement purposes on the basis of taxes applicable prior to the passage of Article XIII-A of the California Constitution. This recommendation is made by the staff on the grounds of fairness to customers of each affected utility and of simplicity of staff overview of the tax initiative accounts. The staff proposal is supported by General Telephone Company of California.

The evidence and position of Pacific is that actual tax savings of each telephone utility as a result of the passage of Article XIII-A should be passed on to the respective customers of each utility as such savings are reflected on the books of the utility. That is, the tax savings actually booked by Pacific should be passed on to Pacific's customers. This would be accomplished, according to Pacific, if intercompany settlements would continue to be predicated on booked tax expenditures rather than a freezing of existing ad valorem tax expenditures as proposed by the staff of the Commission. Pacific also contends that its method would result in ultimate fairness to its customers by reason of the fact that such customers would receive indirect as well as direct ad valorem tax reductions and that its method would be the most simple.

The evidence uniformly showed that additional memorandum records would be required to be maintained irrespective of which of the two alternate methods is ordered. It is also clear that each of the two methods would result in all of the actual reductions resulting from Proposition 13 being ultimately passed through to customers. The only substantial difference between the two different treatments is that in the staff proposal reductions would go to the customers of the particular utility receiving those tax reductions while the alternative method would allow customers of one utility to benefit partially from savings achieved by another utility through the settlement agreements.

We believe, on balance, that the staff proposal should be approved for the reason that it leads most reasonably to the results sought to be achieved by this proceeding, i.e., the direct and prompt reduction of utility rates to the extent of the ad valorem tax reductions to be received by each utility so as to benefit the ratepayers most directly affected.

Findings

1. Tariff filings to reflect and pass through to customers ad valorem tax reductions flowing from the adoption of Article XIII-A to the California Constitution have been made by Pacific, General Telephone Company of California, Continental Telephone Company of California, Citizens Utilities Company of California, CP National Corporation, and Roseville Telephone Company.
2. Tariff filings made by different utilities have not been made on a consistent basis with respect to the treatment of ad valorem taxes in settlements between utilities for exchange business.
3. It is reasonable that the total intrastate amount of tax savings for each telephone utility be passed on to customers of that utility.

4. The preferable way to assure that customers receive the full intrastate benefits from ad valorem tax savings is to provide that tax effects of Article XIII-A to the California Constitution be excluded from settlements for interchanged traffic between and among telephone utilities during the period such tax savings are passed on to customers as a credit on the monthly bill.

5. In order to ensure that the tax reductions resulting from the passage of Proposition 13 are returned to the ratepayers at the earliest possible time, it is necessary that this order be effective on the date of signature.

Conclusion

The Commission concludes that the full reduction in ad valorem taxes resulting from Article XIII-A to the California Constitution should be passed along to the local exchange customers of the utilities which realize such savings. To accomplish this, the Commission should order that ad valorem taxes for settlement purposes between telephone utilities be computed on the basis of the taxes in effect prior to adoption of Article XIII-A. The six telephone utilities should be directed to refile their tariffs to reflect this basis of settlement; therefore,

IT IS ORDERED that all telephone utility respondents compute ad valorem taxes for purposes of settlement for interchanged traffic between utilities on the basis of taxes in effect prior to the adoption of Article XIII-A of the California Constitution, until December 31, 1980, unless otherwise ordered by this Commission.

IT IS FURTHER ORDERED that The Pacific Telephone and Telegraph Company, General Telephone Company of California, Continental Telephone Company of California, Citizens Utilities Company of California, CP National Corporation, and Roseville Telephone Company shall refile within fourteen days, to the extent necessary, tariffs reflecting tax savings resulting from adoption of Article XIII-A of the California Constitution to provide that the full intrastate savings resulting from such tax savings be passed through to local exchange customers by means of an appropriate credit to the exchange billing.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 3/8th day of OCTOBER, 1978.

Robert Bakrind
President
William Lyons
Veronica L. Spurgeon
Charles R. Hoyle
Clair T. DeBrill
Commissioners