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ORIGINAL

Decision No. 90919 OCT 10 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to increase certain intrastate rates and charges applicable to telephone services furnished within the State of California.	Application No. 58223 (Filed July 14, 1978)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, costs, separations, inter-company settlements, contracts, service, and facilities of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a California corporation; and of all the telephone corporations listed in Appendix A, attached hereto.	OII No. 21 (Filed July 25, 1978)
Investigation on the Commission's own motion into the effect of the enactment of the Revenue Act of 1978 on the rates of the California public utilities and transportation companies subject to the ratemaking power of the Commission named in Appendices A and B attached hereto.	OII No. 33 (Filed December 12, 1978)

ORDER MODIFYING DECISION NO. 90642

AND GRANTING PARTIAL REHEARING

Synopsis of Opinion

This opinion and order is the result of our further review of the evidence with respect to Application No. 58223 of The Pacific Telephone and Telegraph Company (Pacific) for a rate increase of approximately $470 million. On July 31, 1979, we ordered Pacific's rates reduced by $42.2 million. We have carefully reviewed the contentions of the various parties to these proceedings raised in their respective applications for rehearing, and further analyzed the evidence in light of those contentions; and we conclude that Pacific is entitled to a rate increase of approximately $1.3 million; $26.6 million of this difference results from our correcting a mathematical error in the calculation of Pacific's revenue requirement. Also, we have determined that the evidence available concerning Pacific's cost of long-term debt and preferred stock is inadequate in that it may not be reflective of costs Pacific will incur during the future period for which we are setting rates. Accordingly, these proceedings are reopened and further evidence will be received on the limited and specific issue of Pacific's cost of capital; thereafter, another order will issue which could further increase rates, depending on our analysis of the evidence presented.

The change in our conclusions on Pacific's revenue requirement from a rate decrease of $42.2 million to an increase of $1.3 million means we find Pacific has an additional revenue requirement of $43.5 million from that which we found reasonable in our original decision in these matters, issued July 31, 1979.

Our goal in rate making is to determine a utility's revenue requirement - or rate level - based on a normal year of operation, intended to be reflective of conditions it will operate under during the future period for which rates are set. Accordingly, the modifications we make to our original decision, based on further assessment of the evidence, are made keeping foremost in mind the goal of adopting a reasonable and fair revenue requirement - and underlying rate levels - for Pacific and its customers. Critical to the establishment of a reasonable revenue requirement is to set rates that enable a utility to provide the good utility service Californians have come to expect and which they deserve. This means rate levels that allow Pacific to compete in the marketplace for capital as it issues debt and stock, and obtains needed capital for improving and extending its utility service at a reasonable cost. But, just as important, it means balancing the needs and desires of the utility with those of consumers in the interest of insuring that consumers have the lowest possible telephone rates consistent with the ability for the utility to be able to attract capital, render good utility service, and provide its management with reasonable opportunity to realize a fair return for the investor. Essentially, it is by balancing these interests that we follow the legislative mandate set forth in the Public Utilities Code (Section 451) to set utility rates at a level that "shall be just and reasonable". This balancing test, as applied in this opinion assessing Pacific's request for a $470 million rate increase, has been historically applied by this Commission and is the test by which we will continue to assess rate increase requests by California utilities.

The most significant modification we make that affects Pacific's rate level is the correction of a mathematical error made in calculating the revenue requirement in our original July 31, 1979 decision; correction of that error results in an additional revenue requirement for Pacific in the amount of about $26.6 million.

We find upon reexamination that Pacific will incur an additional estimated expense of $6.5 million for purchased power (electricity); Pacific is subject, as are all other consumers, to escalating electricity costs caused by oil price increases.

Upon further review, discussed at length herein, we find that Pacific has raised valid points with respect to expense levels for operator salary and related costs (e.g., training expense and the impact of productivity gains stemming from technological advances). Accordingly, we have increased these expenses by $23.3 million.

The additional revenue required by Pacific as a result of these expense changes is $16.9 million, after recognition of allocations to interstate operations and intercompany settlements.

The rate modifications authorized to generate Pacific's additional revenue requirement are as follows:

1. An additional increase of $21.2 million to business service push button or key telephones added to the $26.1 million increase previously ordered.
2. Institution of a new charge of 25¢ for each time a customer requests an operator to verify a busy line condition or interrupt a conversation; the charge means those who require this service and contribute to Pacific's costs will bear at least a portion of these special costs. This charge will generate $6.7 million in annual revenue.

Petitions for Rehearing

The Commission has received six petitions for rehearing of Decision No. 90642, from The Pacific Telephone and Telegraph Company (Pacific); Toward Utility Rate Normalization (TURN); the Cities of San Francisco, Los Angeles, and San Diego (Cities); the General Telephone Company (General); the California Interconnect Association (CIA); and the Deaf Counseling, Advocacy, and Referral Center (DCARA). We have considered each and every allegation of error raised in these petitions and have reviewed the extensive evidentiary record already developed. As a result of that consideration and review, we are of the opinion that there is persuasive evidence supporting Pacific's position with respect to several areas in which we made adjustments to its expenses. Accordingly, we will modify those adjustments to more closely reflect that evidence. In addition, there is good reason to believe that dramatic changes in economic conditions affecting Pacific's interest rates may have taken place since the staff's estimates were prepared. That belief warrants granting a limited rehearing for the purpose of receiving additional evidence on Pacific's capital costs.

Those items of Pacific's results of operations which should be modified to reflect the weight of the evidence are discussed below.

Summary of Earnings

Adopted operating revenues, operating expenses and taxes, balance net revenues, rate base, and rate of return are shown for the test year 1979 at present rates in Table II (Modified).

The modifications in the adopted results herein versus the adopted results in Decision No. 90642 result in total operating expenses and taxes increasing from $3,733,076,000 to $3,768,803,000, an increase of $35,727,000. The adopted revenues at present rates are increased from $4,616,078,000 to $4,624,588,000, an increase of $8,510,000. These amounts represent the sum total of the modifications in revenue and expense. Further comparison can be made by inspection of Table II of Decision No. 90642 (mimeo page 41) and Table II (Modified).

TABLE II (Modified)

The Pacific Telephone and Telegraph Company

SUMMARY OF EARNINGS

Year 1979 Estimated

Present Rates

Line No.	Item	Total Company Operations Staff Estimate (A)	Utility Estimate (B)	Adopted (C)	Intrastate Adopted (D)
		(Dollars in Thousands)			
1	Operating Revenues	$4,712,965	$4,705,615	$ 4,670,512	$3,618,039
2	Uncollectibles	46,051	44,170	45,924	35,200
3	Revenues After Uncollectibles	4,666,914	4,661,445	4,624,588	3,582,839
4	Total Operating Revenues	4,666,914	4,661,445	4,624,588	3,582,839
5	Operating Expenses				
6	Maintenance			1,009,630	747,934
7	Traffic			339,194	270,066
8	Commercial			467,009	397,425
9	Revenue Accounting			61,826	53,523
10	Bal. G&O Sal. & Exp.			180,620	140,197
11	Operating Rents			33,875	27,002
12	Gen. Service & Lic.			56,357	43,260
13	Relief & Pensions			420,091	326,075
14	Bal. Other Opr. Exp.			20,632	15,837
15	Subtotal			2,589,234	2,021,319
16	Depreciation Expense			637,062	489,518
17	Prop. & Other Taxes			118,571	91,015
18	Payroll Taxes			93,652	72,693
19	State Income Tax			51,612	39,165
20	Federal Income Tax			287,645	219,135
21	Affiliated Interest Adj.			(8,973)	(6,760)
22	Net Operating Expenses	3,693,734	3,955,282	3,768,803	2,926,085
23	Net Operating Revenues	973,180	706,163	855,785	656,754
24	Rate Base				
25	Account 100.1			12,179,802	9,349,216
26	Account 100.3			6,140	4,875
27	Materials & Supplies			52,850	40,710
28	Working Cash			157,010	120,521
29	Less: Depr. Reserve			2,496,581	1,898,151
30	Less: Def. Tax Reserve			1,049,475	803,688
31	Subtotal			8,849,746	6,813,483
32	Affiliated Interest Adj.			(78,144)	(59,983)
33	Total Rate Base	8,809,456	8,828,656	8,771,602	6,753,500
34	Rate of Return	11.05%	8.00%	9.76%	9.72%

(Red Figure)

The calculation of the gross revenue increase necessary to produce a rate of return on rate base of 9.73 percent adopted herein is set forth below:

Authorized Rate of Return	9.73%
Adopted Rate of Return, Present Rates	9.72%
Increase in Rate of Return Required	0.01%
Adopted Intrastate Rate Base	$6,753,518,000
Net Revenue Increase	$675,000
Net-to-Gross Multiplier	1.894
Gross Revenue Increase	$1,300,000

Rate of Return

The Cities argue that our adopted rate of return and return on equity are unsupported by our language in Decision No. 90642, which instead sets forth the reasons why Pacific should not be granted an increase. We disagree. Decision No. 90642 discusses the relevant evidence at length; it then explains in some detail why we did not believe that Pacific's proposed increases in return on equity and rate of return were justified. However, we were not bound by the staff's estimates, particularly with respect to setting the return on common equity. This determination necessarily involves the exercise of our judgment, in which we are guided by broadly stated judicial guidelines, by our own concepts of fairness, and by common sense.

It was and remains our judgement that the evidence of record in this proceeding fully supports our determination that a return on common equity of 12.25 per cent will protect the interests of the ratepayer while adequately compensating the investor. Our decision to grant rehearing for the purpose of reevaluating Pacific's cost of debt was made, in part, to help ensure that Pacific has the opportunity to earn our adopted return on equity.

Cost of Debt

In Decision No. 90642, the Commission adopted a return on common equity of 12.25 percent which resulted in a rate of return of 9.73 percent. The 12.25 percent return on common equity was applied to the following capital structure proposed by the staff and adopted by the Commission:

	Capital Ratios	Cost Factors	Weighted Costs
Long-Term Debt	50.04%	7.62%	3.81%
Preferred Stock	4.24	7.51	.32
Common Equity	45.72	12.25	5.60
Total	100.00%		9.73%

The Commission recognizes that since the time that the staff's estimate of the cost of debt and preferred stock was issued on September 15, 1978, changes in economic conditions have resulted in interest rates being significantly higher than originally estimated. For example, the Commission notes that recent debt offering of public utilities having the same "A" bond rating as Pacific have been issued at interest rates in excess of 10 percent, which are appreciably higher than the debt costs assumed in the capital structure adopted in Decision No. 90642.

The increase in interest costs over those originally adopted by the Commission adversely affects the ability of Pacific to earn the return on equity found reasonable by the Commission.

It is the opinion of the Commission that the rapid rise in interest rates warrants a further review to determine the effect on Pacific's ability to earn its authorized return on common equity.

Interest Allocated from American

Several of the petitioners have raised the issue of inconsistent treatment of the interest allocated to Pacific from American Telephone and Telegraph Company. The staff had recommended that this interest be treated as an income tax deduction to Pacific for rate-making purposes; therefore, an allocated interest adjustment from AT&T of $34,313,000 was included in the computer run to produce the Commission staff's presentation in Exhibit No. 43-F. However, Decision No. 90642 at page 96 (mimeo) deferred the decision on the issue of imputed interest expense to Order Instituting Investigation No. 24. To properly reflect this deferral, the adjustment should have been removed from the computer run when adapting it to develop Table II at page 41 of the decision. This was not done. Consequently, the adopted rate of return at present rates shown on Table II was higher than it should have been. Correction of this error would have produced a rate of return of 9.86 percent instead of the 10.06 percent shown in Table II of Decision No. 90642.

It is necessary to correct this error in the instant decision. Table II (Modified) herein reflects this correction, as well as the other adjustments discussed.

The Cities raise the issue of the propriety of deferring this issue to OII-24, in view of the Commission's responsibility to consider all relevant evidence when setting rates. The Cities argue that at a minimum the Commission should set rates subject to refund, pending the outcome of OII-24.

We disagree that we have acted improperly in deciding to defer this issue until a generic proceeding has been completed. This case is fully consistent with other recent general rate cases wherein we have declined to change our traditional methods of estimating various taxes to the utility pending the outcome of

OII-24. See Decision No. 89710 (December 12, 1978); Decisions Nos. 89315 and 89316 (S.F. No. 23964, writ denied July 25, 1979); Decision No. 89711 (S.F. No. 24008, writ denied August 15, 1979). This OII will allow all of these issues to be explored and addressed in a statewide investigation; with all relevant respondents present. Our rationale for this position has been well stated in these previous decisions.

License Contract Expense

As recognized in Decision No. 90834, issued September 25, 1979, a reduction in license contract expense in the amount of $61,000 for the test year 1979 is necessary and is incorporated in the adopted results herein.

Separations

TURN contends that despite our lengthy discussion of separations testimony and issues, our position cannot be determined because we have deferred these issues to another decision, in connection with Application No. 55492. That decision has now been issued (Decision No. 90861, issued September 25, 1979). TURN can, of course, exercise its right to seek rehearing of that decision, should it believe that the Commission has committed legal error.

Revenue Estimates for the Test Year

We affirm our conclusions reached in Decision No. 90642 as to operating revenues. However, the amounts must be adjusted because of inter-company settlement effects, to be consistent with the revised expenses adopted herein. Total operating revenues adopted are as follows:

	(Dollars in Thousands)
Local Service	$1,847,847
Miscellaneous	217,472
Intrastate Toll	1,648,701
Interstate Toll	1,050,793
Uncollectibles	46,574
Total Operating Revenue Before Adjustments	4,718,239
Proposition 13 Adjustment	(93,651)
Total Operating Revenues	4,624,588

(Red Figure)

Maintenance and Traffic Expenses

Pacific's petition for rehearing alleges that in several areas of maintenance and traffic expenses, the decision adopts the adjustments recommended by the Commission staff (staff) in an arbitrary manner, without fully considering all of the evidence. Pacific also contends that the findings related to these areas of expenses are inadequate.

Under the law, the Commission must exercise discretion in the area of determining reasonable costs and expenses to be allowed to a utility. Our evaluation must take into account the interests both of ratepayers and of shareholders; this task can in the long run have an equitable result only when sufficient evidence is presented by all parties in our rate proceedings. Our thorough reassessment of the record in response to the petitions for rehearing made it clear to us that in many instances, Pacific's claims of arbitrariness were merely attempts to disguise the inadequacy of their own showing. This also seems to have been the motivation for Pacific's argument that we should reopen the record in this proceeding in order to receive into evidence Pacific's annualized cost data for the first six months of 1979. We emphasize that we have in no way reviewed or relied on Pacific's 1979 data in coming to our present decision. Where revisions to our original decision are fair, reasonable, and supported by the evidence, we have made them, as set forth in this order.

After a thorough review of the record, we conclude that Pacific's arguments lack merit with respect to the Phone Center, main frame, traffic - Accounts 621-35 and 36 ("right to use" expenses), commercial expense adjustment (national yellow pages), and general services and licenses adjustment. However, we agree that some of our findings in these areas do not adequately reflect the evidence which we considered, and we modify the findings accordingly, as set forth below. Moreover, we have decided that in the area of electric power costs and in several of the areas of traffic expenses, Pacific's arguments have merit. We conclude that modifications to the estimates adopted in Decision No. 90642 are justified, as follows.

Electric Power Adjustment

In Decision No. 90642, we accepted the staff's estimate of electric power costs in the test year in the amount of $34,537,000, a difference of $12,063,000 from Pacific's estimate of $46,600,000. Pacific and the staff did not differ as to the estimated energy usage of Pacific but only as to the estimated level of energy rates. The staff's calculations were based on an estimated increase in electric power rates from 1978 to 1979 of 0.32 percent. We are still convinced of the correctness of the staff's development of its power cost estimate, which was prepared in mid-1978. However, we recognize that certain extraordinary events have taken place subsequent to the receipt of evidence on this issue. For example, in May of 1979, the

EX 5

Organization of Petroleum Exporting Countries (OPEC) dramatically increased the price of oil produced and sold by its members by approximately 50 percent. As a result of this and other causes, we authorized two significant electric rate increases (Southern California Edison - Decision No. 89711, $124,000,000, increase effective January 1979; Decision No. 90488, $69,000,000, increase effective July 1979). We also take official notice of Decision No. 90869, signed this day, granting the Pacific Gas and Electric Company a $128 million revenue increase resulting from authorized increases in the ECAC elements of its electric rates (Applications Nos. 58468, 58891). In view of the increases already granted, the possibility of additional significant increases in the near future, and the fact that the telephone rates fixed herein will not become effective until near the end of 1979, we are no longer convinced that our adopted adjustment for the test year is realistic. An increase in the adopted electric power cost to $41,000,000 is reasonable for the purpose of fixing telephone rates for the future.

General Traffic Supervision

Subaccounts 621-11, 21 and 31 - No. Region

The staff reduced Pacific's estimate by $870,000 based on its analysis of increased on-line technology and concomitant reduced personnel requirements. However, Pacific has pointed out that the staff failed to allow for 19 additional personnel which will be required at the new Sacramento and San Jose TSPS offices. We agree with this modification in the staff's recommended adjustment. Thus we find reasonable an adjustment to Pacific's estimate in the amount of $452,000.

Subaccounts 621-15, 16, 35 and 36

The staff concluded that Pacific's estimate was based on projections of nonrecurring events such as course development expenses and therefore recommended amortization of these expenses over a 10-year period, resulting in a recommended adjustment of $240,000. We agree with the staff that these expenses appear to represent nonrecurring events, and that costs associated with them should not be fully recognized in a test year. However, amortization over a 10-year period appears excessive. A three-year amortization period seems more just. Accordingly, we find an adjustment of $80,000 is reasonable.

Subaccounts 621-15 and 16 - No. Region

Consistent with the adjustment in Subaccounts 621-11, 21 and 31 - No. Region, Pacific's estimate is reduced by $40,000.

Subaccounts 621-11 and 31-GA

In addition, our review of the record disclosed one other area of general traffic supervision expense which we believe requires revision, although Pacific did not protest our adopted estimate. Pacific estimated one-year salary increases for the above subaccounts in the range of 10.6 to 15.2 percent, without justifying such a large increase. Pacific did indicate to the staff that 7-8 percent was a reasonable figure. The staff employed, and we adopted, a rate of increase of 5.8 percent. With inflation running at a rate well in excess of 10 percent, we find upon reconsideration that an assumption of a salary increase rate of 8 percent is reasonable. Accordingly, we find that a reduction of $100,000 in Pacific's estimate for this item approximates an 8 percent salary increase.

In total the adopted expense for general traffic supervision is $2,930,000 less than urged by Pacific and $808,000 higher than staff.

Operator Wages

The staff's recommended adjustment for operator wages amounts to $8,627,000 based on its analysis that Pacific needed 735 fewer operators in the test year. The staff's force reduction was related to three areas - (1) the assumed transfer of certain toll service functions in 1979 from Pacific to General, (2) the effect of conversion of 124,000 main stations to dial toll service, and (3) the reduced work load resulting from expansion of automated intercept service.

Concerning the toll function transfer to General, Pacific's witness testified that most of the transfer would not take place until some time in 1980 and that in any case the reduction in expense would be greatly offset by toll settlement reductions. Based on this evidence, we conclude that much of these operator savings will not be realized in the test year and therefore reduce the staff's recommended adjustment by $4,109,000.

As to the second component of the operator wages adjustment, Pacific's witness testified that the 124,000 stations were not converted from manual to dial toll service but from operator to automatic number identification with a force saving of only 18 operators. This has the effect of reducing the staff adjustment by $1,256,000.

Thirdly, Pacific's witness stated that most savings from automated intercept service have been achieved and that intercept call volume is continuing to increase. However, he did state that a progressive reduction in operators for the 714 numbering plan area, from 107 to 23 by the end of 1979, was not included in Pacific's estimate. On reconsideration we find this testimony persuasive, thus reducing the staff's adjustment by $1,092,000.

Based on all of the foregoing, we find that a reasonable adjustment to Pacific's estimate for operator wages is $2,170,000.

Network Administration, Subaccount 624-22

An adjustment in this account must be related to and consistent with our adjustment for operator wages. We find an adjustment in this account of $328,000 to be reasonable and consistent with our treatment of operator wages.

Records Clerical, Subaccount 624-23

The staff's adjustment was based on its conclusion that the number of record clerks per employee projected by Pacific had increased in 1979 over prior years. Pacific's witness testified that this is not correct; the ratio of employees per clerk has gone from 40 in 1975 to 45.4 projected for 1979, a 14 percent improvement. Pacific's witness also testified that central office is relatively unaffected by the new automation changes planned by Pacific. In view of all of this testimony, we adopt Pacific's estimate as reasonable.

Intercept Records, Subaccount 624-24

The staff's adjustment was based on the assumption that the Northern Region could perform this function with the same number of clerks that the Southern Region employs, namely, 32 clerks. However, Pacific's witness testified that the North handles 24,000 orders per month compared to the South's 16,000 orders per month. In addition, it appears that taken as a whole, the Northern system is less efficient than the Southern system. While we find Pacific's revised estimate of 67 clerks for the Northern Region and 32 clerks for the Southern Region to be reasonable, we fully expect Pacific to expend the effort necessary to correct these differences in efficiency. Our adopted figure of $339,000 adjusts Pacific's estimate in accordance with the above discussion.

Wage Overlay

As a result of the adjustments adopted above, it is necessary to adjust Pacific's wage overlay estimate. The appropriate reduction in Pacific's estimate becomes $453,000.

Operator Training, Account 627

The staff reduced Pacific's Northern Region training expense estimate by $300,000 on the basis that the training needs should be no more than they were in 1978. Pacific's witness testified that this view ignores the fact that there were no TSPS conversions in 1978, whereas the Sacramento TSPS conversion will take place in 1979. We recognize that this conversion will require considerable amounts of supplemental training. Therefore, we adopt Pacific's estimate of operator training expense.

Miscellaneous Expense, Account 631

As we stated in Decision No. 90642, the staff's position was based primarily on the fact that Pacific failed to provide any specific justification for the doubling of this expense from 1974 to 1976. Pacific's rebuttal witness did state in generalized terms that the rapid increase from 1974-1976 was due to an overall significant increase in mechanization of traffic operations, and that continued progress in mechanization is helping to keep down the costs of total traffic expenses. While this testimony was not nearly as specific as it should have been, we find on balance that Pacific's estimate of increases, which is less than 9 percent a year from 1976 to 1979, is more reasonable than the staff's, which reduced this expense for 1979 to an amount below that expended in 1976.

Employee Taxes, Pensions and Benefits

Payroll taxes, and pension and employee benefit expenses are directly related to levels of operating expenses. Consistent with the modifications in maintenance and traffic expense adopted herein, we have made the following changes from those adopted in D-90642: payroll taxes are increased $1,106,000, relief and pension expense are increased by $2,622,000 and medical and other benefits expense are increased by $1,572,000.

A. 58223, et al. FG

Summary of Traffic Expense Adjustments

The following tabulation summarizes traffic expense adjustments to Pacific's estimates:

Item/Ac.	Staff	D-90642	Adopted Herein
		x 1000	
Gen'l Traffic Sup.			
621-11,31-G.A.	$ 293	$ 293	$ 100
621-11,21,31-N.Reg.	870	870	452
621-15,16,35,36	240	240	80
621-25,26-N.Reg.	902	902	902
621-35,36	875	875	875
621-15,16-N.Reg.	77	77	40
Transf. to Const.	114	114	114
Network Adm.	367	367	367
Subtotal	3,738	3,738	2,930
Operators' Wages			
Operators	8,627	8,627	2,170
Network Adm.	1,302	1,302	328
Records Clerical	1,060	1,060	-
Intercept Records	778	778	339
Transf. to Const.	58	58	58
Wage Overlay	2,136	2,136	453
Subtotal	13,961	13,961	3,348
Lunchroom	83	83	83
Operator Training	300	300	-
Printing, House Serv.	212	212	212
Miscellaneous	5,949	5,949	-
Serv. Inspection	2,299	-	-
ACTS	11,415	-	-
Subtotal	20,258	6,544	295
Total	37,957	24,243	6,573

Rate Design

The revision of the revenue requirement as discussed above will require revisions to the rate design ordered in Decision No. 90642. After full consideration of the alternatives available on this record we have determined the increase should be fixed in two areas: (1) institution of a charge for request by a calling party for verification of a busy line condition and/or interruption of a conversation in progress; and (2) consistent with the high priority we have placed on setting rates and charges which will achieve full cost for competitive items of terminal equipment, an increase in the rates and charges for key telephone equipment in addition to the increases authorized in Decision No. 90642. The revised rate design adopted herein will also correct certain errors, primarily of mathematical nature, which were made in the development of the rate design and the associated revenue effects adopted in Decision No. 90642.

Verification/Interrupt

Pacific proposes to apply a 50¢ charge for verification of a busy line condition and/or interruption of a conversation in progress at the request of the calling party. The staff concurred with the concept of such a charge but disagreed with the charge level and the applicability of such a charge. Both Pacific and the staff propose that the charge for verification/interrupt be applicable to all local calls and all intrastate messages with the exception that the staff would exempt from the proposed charge such requests for verification/interrupt when such requests originate from a public or semipublic telephone.

We believe, based on the record in this proceeding, that a charge for verification/interrupt requests is necessary in order to place the cost burden associated with Pacific's operators who must handle such requests on the customers causing such costs. A charge for verification and/or interruption requests is also warranted as a means of curbing the apparent excessive use of the present free verification/interrupt service for other than emergency calls.

The staff's proposed charge of 25¢ for each call when verification and/or interruption is requested by the calling party is reasonable. Pacific's proposed charge of 50¢ per call for such requests appears to be excessive now. However, if in the future the large volume of such verification and/or interruption requests is not reduced as both Pacific and the staff predict, we suggest that both Pacific and the staff make other proposals as to how such excessive use of the verification/interrupt service for other than emergency calls can be curbed. We will adopt the staff's proposal, which will increase Pacific's revenues by $6.7 million.

Key Telephone Service

In Decision No. 90642, we adopted rates and charges for key telephone service which will result in an increase in annual revenues of $26.1 million. We will rely on a further increase in key service to contribute a substantial portion of the increased revenue requirement adopted herein.

As we stated in Decision No. 90642 (mimeo p. 136) to adopt full cost-based rates and charges for key telephone service would yield an increase in annual revenues in excess of $93 million. Due to the constraints of the revised overall revenue requirement authorized herein, we cannot authorize full cost-based rates and charges for key telephone service. Again, we are cognizant of the fact that both the present rates and charges and the rates and charges adopted herein do not cover the full costs of providing service.

We are also cognizant of our responsibilities under Northern California Power Agency v. PUC (1971), 5 C.3d 370, to consider possible anticompetitive impacts of our decisions. NCPA allows us to authorize actions having possible anticompetitive effects if we find that an overriding public interest justifies such authorization. We find here, as we have previously (see Decision No. 88232, December 13, 1977), that the public interest is best served by a partial increase in these rates and charges, rather than a one-time increase to a full cost basis. A partial increase lessens the economic burden placed on affected ratepayers by avoiding an immediate and substantial rate increase. However, we hereby place customers on notice that further increases are in order and will be considered in Pacific's next major rate application.

The rates and charges for key telephone service adopted herein follow the same basic principles set forth in Decision No. 90642.

Service Connection Charges

In Decision No. 90642, we indicated the revenue effect of the authorized revisions in service connection charges to be an increase of $7.3 million in the 1979 test year. The $7.3 million revenue effect of the authorized revisions is in error. The correct revenue effect of the revisions in service connection charges authorized in Decision No. 90642 is an increase of $14.5 million in the 1979 test year.

Extensions, Premium Sets, and Inside Wiring

In Decision No. 90642, we indicated the revenue effect of the authorized revisions to be an increase of $21.8 million in the 1979 test year. The $21.8 million revenue effect of the authorized revisions is in error. The correct revenue effect of the revisions in rates and charges authorized in Decision No. 90642 is an increase of $27.4 million in the 1979 test year.

Summary of the Revised Adopted Rates and Charges for Pacific

The following summarizes the revenue effect of the revised adopted rates and charges for Pacific:

	Revenue Effect (Dollars in Millions)
Foreign Exchange Service	$ 1.2
Extended Area Service	2.5
Extensions, Premium Sets and Interior Wiring	27.4
Over-Allowance Lifeline (1MQ)	.3
Mileage	4.7
Key Telephone Service	47.3
Service Connection Charges	14.5
Private Line Service	1.7
Message Toll Service	(.2)
Zone Usage Measurement Plan	(105.0)
SMRT Implementation D-83162	(5.2)
Services for the Handicapped	(12.0)
Verification/Interruption	6.7
Net Settlement Effect of General's Increases in Exchange Rates	2.8
Centrex*	14.6
	1.3

(Decrease)

* The $14.6 million represents the increase in revenue to Pacific resulting from the rates and charges authorized by the Commission in Decision No. 90309.

Rate Offset for General Telephone Company

The settlements between Pacific and General for joint extended area service result in Pacific receiving increased settlement payments whenever the exchange rates of General are raised. The reverse is also true. Thus, the exchange rates of General must be further increased by the amount of Pacific's added settlement in order to keep General whole. The rate design proposed by General is approved herein, but with modifications to track with Pacific's higher level of rates compared with those in Decision No. 90642.

The rates and charges adopted herein will result in the following effects on General:

	1979 Annual Revenue Effect (Dollars in Millions)
ZUM Rates and Billings	$(24.8)
Exchange Rates (Other)	3.9
Private Line	(.4)
Message Toll	.2
Total	(21.1)

(Decrease)

To offset a decrease in revenue of $21.1 million, General's billings must be increased by $24.0 million based upon the following considerations:

	1979 Annual Revenue Effect (Dollars in Millions)
General Billings	$24.0
Uncollectibles	(.1)
Net Settlement Effect of General's Increases in Exchange Rates	(2.8)
Total	21.1

(Decrease)

The following is a summary of the increased rates and charges for General which have been revised to reflect the revisions herein authorized for Pacific:

	1979 Annual Revenue (Dollars in Millions)
Service Connection Charges	$ 4.6
Private Branch Exchange Service	3.1
Key Telephone Service	9.0
Extensions	4.3
Premium Sets	1.4
Touch Calling Sets	1.6
Total	24.0

ZUM Plan

In their petition for rehearing the Cities urged that the ZUM plan should not be adopted at the present time but rather the Commission should reduce rates in some other manner. While the Cities support the concept of the ZUM plan, they apparently feel that inadequate study has been made with respect to implementing it in the Los Angeles and San Francisco East Bay areas. In reaching this conclusion, however, the Cities misinterpreted the thrust of the statement on mimeo page 123 of Decision No. 90642, wherein the ZUM plan is referred to as residually priced. The paragraph of concern sets forth the reasons why ZUM is not being extended to other areas of the state at this time. The statement of residual pricing in no way negates the finding of a $105 million reduction in revenues resulting from the ZUM plan. The $105 million reduction is a differential cost effect with respect to multi-message unit and local service, both of which are residually priced. Our review of the record discloses that the staff witness utilized the $105 million figure to develop a proposed rate design, and that the figure itself was derived from a model which used assumptions as to the impact of ZUM. The limited implementation of ZUM which we are adopting will permit development of data to evaluate the feasibility of the statewide future expansion of ZUM.

On our further review of the record we are concerned that our original schedule of 90 days for implementation of ZUM may be too short. We are particularly concerned with the possibilities of deterioration of service as pointed out in the testimony of General Telephone. As indicated in the record, the reduced rates of the ZUM plan will cause a stimulation of traffic over that existing on MMU routes. If adequate facilities are not available after the introduction of ZUM, circuit blockages and a general deterioration of service could result. Because of our concern for the quality of service, we will extend the cutover period for ZUM to 180 days after the effective date of this order. During this time we will expect Pacific and General to engineer and provide the necessary circuits to handle the anticipated ZUM traffic.

The ZUM plan provides attractive off-peak discounts in order to encourage customers to make calls at other than the business day peak hours when most blockages might be expected to occur. It is particularly important that Pacific's customers be informed of the ZUM plan rates and off-peak savings. We will also require that Pacific and General notify each of their affected customers as to the effects of the ZUM plan within 60 days before the introduction of ZUM.

Services for Handicapped Persons

In its petition for rehearing, DCARA contends that rehearing should be granted on the following bases: (1) special equipment should be provided to disabled persons at the basic exchange rate; (2) certification should be expanded to include the public school system and other agencies serving the disabled; (3) Pacific should base its TDD costs on 20,000 units the first year instead of 2,000 to

5,000 units; (4) input from the disabled community should be required; and (5) Pacific should be required to provide amplifiers and TDD in some phone booths, all equipment should be compatible with hearing aids, TDDs should be listed in directories as TDD numbers, and untimed 1MR service should be provided to the deaf.

Subsequent to issuance of Decision No. 90642 on July 31, 1979, the Legislature passed SB 597, which was signed by the Governor on September 28, 1979 to become Chapter 1142 of the Statutes of 1979. This bill enacted a new section of the Public Utilities Code as follows:

> 2831. The commission shall design and implement a program whereby each telephone corporation shall provide a telecommunications device capable of servicing the needs of the deaf or severely hearing impaired, together with a single party line, at no charge additional to the basic exchange rate, to any subscriber who is certified as deaf or severely hearing impaired by a licensed physician, audiologist, or a qualified state agency. The commission shall phase-in this program, on a geographical basis, over a four-year period ending on January 1, 1984. The commission shall establish a rate recovery mechanism to allow telephone corporations to recover costs as they are incurred under this section.

This legislation, which is limited to service for the deaf, parallels the goal indicated by the Commission on page 151, as follows:

> "We agree that it should be the goal of this Commission to provide supplemental equipment and ancillary services to all handicapped persons on the same basis and at a cost included with the cost of the telephone service selected by these persons."

The legislation, together with the requirements imposed on Pacific for rate revisions, studies and surveys, will obviously require additional hearings by this Commission in the near future. Accordingly, the questions DCARA raises in its petition regarding certification, cost studies, and provision of additional services and equipment will most appropriately be dealt with in those subsequent proceedings. DCARA obviously represents that group of customers most directly affected, and we expect DCARA to be a full participant in those proceedings. It is our intention to approve a program fulfilling the requirements of SB 597 only after full consideration of the views of all parties. Meanwhile we shall direct Pacific to proceed, within the scope of the $12 million we have set aside, to plan for the expansion of the operations of the Handicapped Assistance Points, to proceed toward the institution of the special monthly rates for equipments for the handicapped other than the deaf, and to contract for the study of the communications needs of the handicapped. We shall not at this time allocate any portion of these funds toward toll rate reductions.

Federal Income Taxes - Normalization and Rateable Flow-Through

As Pacific notes in its petition, Decision No. 90642 adopts the normalization method of accounting for rate-making purposes with respect to accelerated depreciation and rateable flow-through with respect to investment tax credit (ITC) pending final disposition of court litigation. The decision further provides at page 99:

> "If the Commission decision relating to the ratemaking treatment of accelerated depreciation and ITC (Decision No. 87838, dated September 13, 1977) withstands judicial review, refunds and further rate reductions will follow."

Pacific, the Cities and TURN all disagree with the Commission's treatment of accelerated depreciation and ITC, but for different reasons. In addition to its petition for rehearing, Pacific on October 4, 1979, filed a supplemental memorandum of points and authorities in support of its petition for rehearing. Responses have not yet been received.

On August 20, 1979, Pacific filed its Motion for Order Approving Refund Plan and Rate Reductions (Motion) required by Decision No. 87838. Responses to Pacific's Motion were received from several parties.

Pacific's filing indicates a total rate reduction, as of June 1, 1979, should be $80,034,000. Included in that amount, as shown in Exhibit C attached to the Motion, is the portion of gross revenue rate reductions attributable to investment tax credit amounting to $41,270,000. On October 5, 1979, Pacific addressed a letter to the Commission indicating the $41,270,000 reduction for ITC should not have been included and the total reduction is thus $38,249,000. We agree that Pacific's calculation in its Motion does not reflect today's decision. The rates authorized herein in effect include the $41,270,000 gross revenue rate reduction included in Pacific's filing. Accordingly, within three days following the effective date of this order Pacific shall file an amendment to its Motion and reduction plan to reflect the correct amount.

In view of the substantial differences among the positions of the parties as to the appropriate procedure for refunds and rate reductions pursuant to Decision No. 87838, the Commission believes brief further consideration of these issues to be in order. For this purpose we will set a prehearing conference and oral argument for October 22, 1979, before Administrative Law Judge Tomita. The parties should be prepared to address both the proper disposition of the refund and rate reduction proposals contained in Pacific's Motion, and whether further hearings are necessary. If hearings are necessary parties should be prepared to proceed immediately. KR The arguments of the parties herein with regard to accelerated depreciation and ITC, including Pacific's supplemental memorandum and any responses thereto, will be considered at that time. In the meantime, the rates authorized by this decision shall continue to be collected subject to refund.

Findings of Fact - Results of Operation

1. The findings of fact on results of operation stated in Decision No. 90642 are affirmed except as modified below. (Abbreviated references are to results of operation findings as numbered in D-90642, e.g., R.O. 7.)

a. R.O. 1 is revised to read as follows: The total California rate base is $8,771,602,000.

b. R.O. 2 is revised to read as follows: The total intrastate rate base is $6,753,500,000.

c. References to Table II in R.O. 6, 17 and 19 are revised to be referenced to Table II (modified).

d. R.O. 7 is modified to read as follows: Given the adopted test year results of operation (set forth on Table II (Modified)) and the return on rate base found reasonable, Pacific's jurisdictional revenue requirement should be increased by approximately $1.3 million annually.

e. R.O. 24 is revised to read as follows: The staff's estimate for electric power cost is correctly developed but we will increase it to $41,000,000 in recognition of recent extraordinary increases in electric rates, manifested in part in several recent decisions of this Commission, and of the fact that the rate changes authorized herein will not take effect before late 1979.

f. R.O. 25 is revised to read as follows: The staff estimated maintenance expense by reason of Phone Center activity to be $11,789,000 less than Pacific's estimate. The staff estimate recognizes reduced labor expenses to Pacific as necessary service visits to customers' premises become less frequent; it also recognizes that Pacific will be able to meet an increased number of commitments.

g. R.O. 26 is revised to read as follows: The staff's estimate of the effect of Pacific's main frame program is $37,832,000, which was not included in Pacific's estimate. We find the staff's estimate to be more reflective of maintenance expenditures by Pacific in the test year. The staff based its estimate on a conservative view of the savings in maintenance hours Pacific should experience as its many technological modernization and efficiency programs are put into operation.

h. R.O. 28 is revised to read as follows: The staff's estimate for general traffic supervision is reasonable if increased by $808,000. This adjusted estimate reflects reasonable salary increases, necessary increases in personnel to staff new TSPS offices, and a more reasonable amortization of nonrecurring training expenses associated with the general traffic supervision subaccounts.

i. R.O. 29 is revised to read as follows: Pacific's estimate for operators' wages and related expenses, reduced by $3,348,000, is reasonable. Pacific's estimate overstates the expense effect of salary increases and insufficiently recognizes known changes in operating procedures that will reduce such expense. However, the staff overestimates the impact on force levels of certain technological changes, and does not sufficiently account for differences in work load volume in different locations.

j. R.O. 31 is revised to read as follows: Pacific's estimate for operator training expenditures is reasonable, because it reflects supplemental training expenses associated with the new TSPS offices scheduled to begin operation in the test year, whereas the staff's estimate did not include these expenses.

k. R.O. 33 is revised to read as follows: Pacific's estimate for miscellaneous traffic expense, which represents a less than 9 percent increase annually from 1976 to 1979, is a realistic reflection of increased data processing and similar charges. It is not reasonable to reduce this estimate to a level below the expenditures incurred in 1976, as the staff proposed.

l. R.O. 54 is revised to read as follows: The staff's adjustment for national yellow pages directory expenses is reasonable. It reflects the fact that Pacific is discontinuing sales of National Yellow Pages at the beginning of test year 1979. Consequently, the staff's adjustment discontinues associated personnel expenses.

m. R.O. 59a is added as follows: Pacific has been working with American on an ongoing basis to develop a schedule for implementing teleprocessing.

n. R.O. 59b is added as follows: Teleprocessing will not be substantially implemented during the test year.

o. R.O. 60a is added as follows: If Pacific commences implementation of teleprocessing as directed above, the staff's proposed expense reduction effect can be fully considered in the next general rate proceeding.

p. R.O. 62 is revised to read as follows: The staff's adjustment increasing Pacific's estimate of law department expences made use of more recent data than did Pacific and hence is more reflective of the increased level of law department activity expected in 1979. We consider the staff's estimate to be reasonable and will adopt it.

q. R.O. 65 is revised to read as follows: The staff's adjustment increasing the rate-making deduction for legislative advocacy expenses beyond the magnitude of adjustment required by previous Commission decisions was not reasonable and will not be adopted.

r. R.O. 73 is revised to read as follows: Based on the evidence of record, if the interest accrual rate applied to Pacific's pension funds was set above 5 percent, it would be based on considerable speculation as to economic conditions and earnings level. The staff-recommended 5.5 percent rate appears to be in conflict with the basic premises utilized by enrolled actuaries.

s. R.O. 74 through 78 are affirmed except that employee taxes, pensions, and employee benefits are revised consistent with the expenses adopted herein.

t. R.O. 83 is revised to read as follows: The staff's proposed adjustment for interest expense allocated from American to Pacific will not be adopted in this proceeding but deferred until completion of Order Instituting Investigation No. 24. Table II of Decision No. 90642, which erroneously included the staff's adjustment, has been corrected consistent with the above (see Table II (Modified)).

u. R.O. 85 is deleted.

v. R.O. 87 is revised to read as follows: In Decision No. 90316, issued May 22, 1979 in Order Instituting Investigation No. 33, it was ordered that Pacific's and independent companies' ratepayers would receive the benefit of the net reduction in the federal corporate tax rate from 48 percent to 46 percent.

Findings of Fact - Rate Design and Other Issues

1. The findings of fact on rate design and other issues stated in Decision No. 90642 are affirmed except as modifed below. (Abbreviated references are to rate design findings as numbered in D-90642, e.g., R.D. 7.)

a. R.D. 5 is revised to read as follows: The rate design which we have adopted in this proceeding for Pacific is set forth in summary form in the rate design section of this decision.

b. R.D. 14 is revised to read as follows: It is practical for Pacific and General to convert the MMU routes to the ZUM plan within 180 days of the effective date of this order, in order to ensure that adequate facilities will be available, except that General will not be required to implement the timing of local calls under Zone 1 of the ZUM plan by reason of its present lack of facilities to do so.

c. R.D. 23 is revised to read as follows: Competitive services offered by Pacific are not now priced to recover full costs of providing the services. The rate design adopted herein provides for significant increases in the rates for such competitive services within the framework of an overall net increase in annual revenues of $1.3 million.

d. R.D. 52 is revised as follows: Because of settlements between General and Pacific, the adopted rates and charges for Pacific will result in reduced revenues of $21.1 million to General in the 1979 test year. It is reasonable to recognize the reduced revenues to General by authorizing the filing of tariffs providing for increases in rates and charges for services provided by General in harmony with the rate design action we take in this proceeding.

e. R.D. 57 is revised as follows: As increases in directory advertising rates will not be consistent with our 180-day implementation period for the ZUM plan, we will anticipate the rate relief to be granted to General to be in the areas of competitive items and service connection charges.

f. R.D. 59 is revised as follows: We will authorize General to file increases in rates and charges as set forth in summary form in the rate design portion of this decision.

g. R.D. 88 is revised to read as follows: Because of the constraints of the overall revenue requirement authorized by this order, we cannot authorize increases in rates and charges for key telephone equipment to the levels recommended by either Pacific or the staff. Key telephone service rates are increased for a revenue effect of $47.3 million. Any anticompetitive effects of pricing this service below cost are outweighed by the overriding public interest in increasing these rates gradually to avoid undue customer disruption.

h. R.D. 128 is revised as follows: It is reasonable to offset the reduced revenues to General of $21.1 million by permitting General to file by advice letter increases in rates and charges for services provided by it, subject to Commission authorization by resolution action. General should provide notice to all its subscribers affected by such proposed changes.

2. The charge for verification and/or interruption of busy calls is consistent with our general policy of pricing the cost for certain services upon the cost causative parties and is warranted as a means of curbing unnecessary and excessive use of the service for other than emergency calls.

3. Mathematical errors in our calculation of the revenue effects of charges for service connections, extensions, premium sets and inside wiring are corrected herein.

4. Pacific's Motion for Order Approving Refund Plan and Rate Reductions filed pursuant to Decision No. 87838 includes $41,270,000 gross revenue reduction, relating to the year-to-year growth in the annual amount of ratable flow-through of investment tax credit, including the year 1979, consistent with the procedure set forth in Finding No. 4 of Decision No. 87838.

5. Hearing should be held with regard to the proper disposition of the refund and rate reduction proposals contained in Pacific's Motion for Order Approving Refund Plan and Rate Reduction.

6. Arguments concerning the issues of accelerated depreciation and investment tax credit raised in the petitions for rehearing should be held in conjunction with the hearing on Pacific's Motion for Order Approving Refund Plan and Rate Reduction.

7. Hearing on the limited issue of Pacific's cost of long-term debt and preferred stock should be held.

8. The capital ratios and return on common equity adopted in Decision No. 90642 are reasonable and are not subject to rehearing.

9. License contract expenses must be reduced by $61,000, consistent with our finding in Decision No. 90834 (September 25, 1979) that the factor utilized in computation of these expenses was in error.

Conclusions of Law

1. Conclusion of Law No. 2 of Decision No. 90642 is revised to read as follows:

> Pacific's gross revenue requirements should be increased by $1.3 million pursuant to OII No. 21 and based upon the test year 1979.

2. Conclusion of Law No. 3 of Decision No. 90642 is revised as follows:

> Rates and charges of Pacific should be modified and changed in accordance with Appendix A attached hereto pursuant to the application and Order Instituting Investigation.

3. Conclusion of Law No. 5 of Decision No. 90642 is revised as follows:

> Pacific's rates and charges authorized herein by Appendix A are just and reasonable. Any other rates applied after the rates in Appendix A are in effect are unjust and unreasonable.

4. Decision No. 90642 is affirmed in all respects except as it is modified herein.

O R D E R

IT IS ORDERED that:

1. The Commission's orders in Decision No. 90642 are affirmed except as modified herein.

2. The Pacific Telephone and Telegraph Company (Pacific) is directed to file with this Commission, within fifteen days after the effective date of this order and in conformity with the provisions of General Order No. 96-A, revised tariff schedules with rates, charges, and conditions modified as set forth in Appendix A. The effective date of the revised tariff sheets shall be five days after the date of filing. The revised tariff schedules shall apply to service rendered on and after the effective date of the revised schedules, and the charges shall be collected subject to refund pending final determination of appeals with respect to the rate-making treatment of accelerated depreciation in Decision No. 87838 in determining a reasonable allowance for federal income tax expense.

3. General Telephone Company of California (General) may file with this Commission, after the effective date of this order and in conformity with the provisions of General Order No. 96-A, advice letters and revised proposed tariff schedules with rates, charges, and conditions modified as set forth in Appendix B, subject to approval of the Commission by resolution action. The effective date of any revised tariff sheets shall be coincident with the implementation of the Zone Usage Measurement Plan or as otherwise authorized by Commission resolution. The revised tariff schedules shall apply to service rendered on and after the effective date of the revised schedule. At or prior to the time of filing said advice letter, General shall notify all affected customers of the proposed rate changes specified therein.

4. Ordering Paragraph 3 of Decision No. 90642 is revised to read as follows:

General and Pacific shall provide written notice of the conversion of all present free local calling routes to Zones 2 or 3 under the Zone Usage Measurement Plan or message toll service to all customers affected by said conversions within ninety days after the effective date of this order and again within ninety days prior to implementation of said conversions as said conversions are ordered herein. General and Pacific shall provide written notice to affected customers of all other ZUM plan changes within sixty days prior to implementation of such changes.

5. Ordering Paragraph 5 of Decision No. 90642 is revised to read as follows:

Pacific is authorized to implement Single Message Rate Timing in the exchanges and on the schedule set forth in Exhibit No. 34 (pages 11 through 33).

6. Ordering Paragraph 9 of Decision No. 90642 is revised to read as follows:

Pacific shall collect, analyze, and report to the Commission on a quarterly basis all pertinent data gained from actual experience with the Zone Usage Measurement Plan in the San Francisco-East Bay and Los Angeles Extended Areas. The format of the quarterly reports shall cover the period from date of implementation of the Zone Usage Measurement Plan to September 30, 1980 and shall be filed on November 30, 1980. Quarterly reports shall be filed for each calendar quarter thereafter within sixty days after the end of the quarter covered by each report.

7. Ordering Paragraph 23 of Decision No. 90642 is revised to read as follows:

> Pacific and the telephone corporations listed in Appendix B of OII-33 shall, within thirty days of the effective date hereof, compute and submit to the Executive Director for his review and approval a computation of the appropriate amount of negative surcharge, consistent with the opinion and order in Decision No. 90316, to be applied to customers' bills in order to pass through any over-collection in revenues for the period from January 1, 1979 to the effective date of rates ordered herein. Upon approval by the Executive Director, Pacific and the telephone corporations listed in Appendix B of OII-33 shall proceed forthwith to apply said negative surcharge to customers' bills.

8. Ordering Paragraph 15 of Decision No. 90642 is revised to add subparagraph 15(c) as follows:

> (c) Pacific shall prepare current cost studies together with rates based thereon for all tariff items intended for use by the handicapped, which have not been repriced within the three years preceding the date of this decision.

9. Ordering Paragraph 19 of Decision No. 90642 is revised to read as follows:

> Pacific shall contract for the conduct of a survey to determine on a current basis the special needs of the handicapped population of California in using the telephone network. Particular attention shall be given to developing a reliable estimate of the number of handicapped and their communications requirements in each particular category of disability. The study shall address at least the topics covered in the study performed for Pacific by Firing & Associates in 1976 and 1977. A report shall be submitted to the Commission presenting the findings no later than nine months from the effective date of this order.

10. Public hearing on the limited issue of Pacific's cost of long-term debt and preferred stock shall be held before Administrative Law Judge Tomita in San Francisco starting on October 31, 1979. A prehearing conference shall be held on this matter at 10:00 a.m. on October 22, 1979 in San Francisco, before Judge Tomita.

11. Except as otherwise indicated herein, rehearing of Decision No. 90642 is denied.

The effective date of this order and of Decision No. 90642 as modified by this order is the date hereof.

Dated OCT 10 1979, at San Francisco, California.

John E. Bryson
President

Commissioners

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
SHEET 1 OF 6
RATES AND CHARGES

The rates, charges, rules and conditions of The Pacific Telephone and Telegraph Company are changed as set forth in Appendix B of Decision No. 90642 as modified herein.

Schedule Cal. P.U.C. No. 4-T - Verification/Interrupt

Proposed revisions as set forth in Exhibit No. 70, Appendix N, Sheet 1 as modified below are authorized.

The calling party shall be notified by the operator of the applicable charge for verification of a busy line condition and/or interruption of a conversation in progress at the time the request for verification/interrupt is made.

Schedule Cal. P.U.C. Nos. 2-T, 4-T, 6-T, 13-T, 28-T, 34-T, 36-T, 112-T, 117-T, and 121-T. Zone Usage Measurement (ZUM) Plan.

The following revisions are authorized:

All customers affected by the ZUM plan shall be provided written notice of the availability of the ZUM plan. Such written notice shall be provided to each customer within 60 days prior to implementation of the ZUM plan.

The Zone Usage Measurement (ZUM) Plan shall be implemented on the following schedule:

a. All present 3 Multi-Message Unit and 4 Multi-Message Unit routes shall be converted to the ZUM plan within 180 days of the effective date of this order.

b. The ZUM plan shall be implemented on all Zone 1 routes within 180 days of the effective date of this order with the exception of routes shown in Appendix B Sheets 2 and 3 of 12 of Decision No. 90642. The ZUM plan shall be implemented on the excepted routes within 24 months of the effective date of this order.

APPENDIX A
SHEET 2 OF 6
RATES AND CHARGES

Schedules Cal. P.U.C. Nos. 22-T, 28-T and 32-T, Key Telephone Service
The following revisions are authorized:

KEY TELEPHONE SYSTEM SERVICE (COM PAK)	Installation Charge	Rate Per Month
STATIONS:		
Non-button, each	$ 20.00	1.30
COM PAK I:		
Capacity of one button internal, each	20.00	1.90
Capacity of one button external, each	20.00	1.80
COM PAK II:		
Capacity of six buttons internal, each	39.00	3.90
Capacity of six buttons, Panel Mounted Module, each	80.00	6.00
Capacity of six buttons external, each	60.00	4.25
COM PAK III:		
Capacity of 10 buttons internal, each	55.00	6.50
Call Director 18-button capacity E/W 12 buttons internal, each	60.00	8.00
Call Director 30-button capacity E/W 12 buttons internal, each	70.00	10.00
Capacity of 12 buttons, Panel Mounted Module, each	120.00	9.00
Capacity of 12 buttons external, each	85.00	7.25
COM PAK IV:		
Capacity of 20 buttons internal, each	75.00	8.25
Call Director 18-button capacity E/W 18 buttons internal, each	70.00	9.25
Call Director 30-button capacity E/W 18-buttons internal, each	75.00	10.50
Capacity of 18 buttons, Panel Mounted Module, each	200.00	11.75
COM PAK V:		
Capacity of 24 buttons internal, each	90.00	10.75
Capacity of 30 buttons internal, each	90.00	11.75
Capacity of 30 buttons, Panel Mounted Module, each	220.00	12.50

APPENDIX A
SHEET 3 OF 6
RATES AND CHARGES

	Installation Charge	Rate Per Month
ADDITIONAL STATION FEATURES:		
Station Busy Indication		
Each Station arranged to give a visual indication of station busy to another station	$19.00	$1.50
LINE FEATURES:		
Line equipment, each line equipped	20.00	3.90
INTERCOMMUNICATING ARRANGEMENTS:		
Single talking path manual intercommunicating arrangement with line busy lamp, a buzzer per station and associated selective push-button signaling:		
Each station termination	12.00	1.80
Single talking path dial selective intercommunicating arrangement with line busy lamp and a buzzer or bell per station code, maximum of 40 station codes:		
First nine station codes	50.00	6.65
Each additional station code	20.00	1.70
Two talking path dial selective intercommunicating arrangement with combined line and busy lamp operation, automatic cutoff on both talking paths, busy tone, camp-on and a buzzer or bell per station code, maximum of 38 station codes:		
First nine codes	180.00	40.00
Additional Features:		
Each pre-set conference with code number	35.00	4.50

APPENDIX A
SHEET 4 OF 6
RATES AND CHARGES

	Installation Charge	Rate Per Month
INTERCOMMUNICATING ARRANGEMENTS: Continued		
Additional Features: - Continued		
Line add-on equipment to enable connection of any two talking path dial selective intercommunicating stations to lines terminated on associated key equipment:		
Each line equipped ----------------	$49.00	$3.75
Each station, having an individual two talking path dial selective intercommunicating station code number, equipped to connect any two talking path dial selective intercommunicating stations to one or more lines ---------------------------	39.00	3.40
Equipment for dial tone, interrupted (rather than single spurt) signaling of the called station and audible ringing to the calling party ---------------------------	39.00	3.00
Terminating Arrangements:		
Termination of a single or two talking path dial selective intercommunicating line on a different customer's key telephone system.		
Each code at each station termination: Single talking path --------------	20.00	1.90

APPENDIX A
SHEET 5 OF 6
RATES AND CHARGES

	Installation Charge	Rate Per Month
SPECIAL TYPE TELEPHONE SETS		
Multiline conferencing telephone set with automatic button restoration and recall feature:		
11-button desk type, each--------	$60.00	$ 7.50
20-button desk type, each--------	75.00	10.75

Schedule Cal. P.U.C. No. 28-T, Section II, Move and Change Charges

KEY TELEPHONE SYSTEM SERVICE (COM PAK)	Charge
Change to different station within the same Com Pak category or to lower Com Pak category (except for Panel Mounted Modules and external buttons) each	$20.00
Change to Panel Mounted Module or external buttons within the same Com Pak category or to a lower Com Pak catagory, each	#

\# Difference between the installation charge applicable to existing station and the installation charge (if higher) applicable to the station installed or $20.00, whichever is greater.

APPENDIX A
SHEET 6 OF 6
RATES AND CHARGES

Schedule Cal. P.U.C. No. 28-T, Service Connection Charges - Move and Change Charges - In Place Connection Charges - Multi-Element Service Charges.

The following revisions are authorized:

3. Premises Visit Charge

The term Premises Visit Charge means the charge that applies to a visit to the customer's premises to perform work requested by the customer other than a disconnect. The Premises Visit Charge also applies to the provision of any new service and/or equipment (other than maintenance replacements) for which a recurring monthly rate is applicable and such new service is provided coincident with or as a result of a maintenance or repair visit to the customer's premises by the utility. When for Utility reasons, more than one visit is necessary to complete the work only one Premises Visit Charge applies.

APPENDIX B
SHEET 1 OF 3
RATES AND CHARGES

Appendix B as herein authorized replaces Appendix C of Decision No. 90642 in total.

The rates, charges, and conditions of General Telephone Company of California for which it may seek an advice letter increase are as follows:

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

The following rates are authorized for all exchanges except for Kenwood, Los Gatos, Morgan Hill and Novato:

	Rate Per Month
Residence Extensions, each	$1.00
Business Extensions, each	$1.00
Key-in-lieu of Extension, each	$1.00

Schedule Cal. P.U.C. No. A-6 - Private Branch Exchange Service and Schedules Cal. P.U.C. No. A-7 and A-26 of former Western California Telephone Company.

All Sections shall be modified to include a 10% surcharge which shall be applicable to all rates and charges shown in such sections with the exception of the rates applicable to PBX stations and extensions for which the following rates are authorized:

	Rate Per Month
Rotary Dial PBX Stations and Extensions, each	$2.00
Touch Calling PBX Stations and Extensions, each	$0.90*

*Plus rate for a Rotary Dial PBX Station.

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

The following rates are authorized:

	Rate Per Month
Dial-in-handset telephone desk or wall type, nonilluminated	$1.25
Touch Calling Service	
Residence Individual Line Service	
Each line equipped	$0.75
Station, each	0.60

APPENDIX B
SHEET 2 OF 3
RATES AND CHARGES

	Rate Per Month
Business Individual Line Service	
Each line equipped	$1.00
Station, each	0.90
Connection of customer-provided facilities	
Each private branch exchange trunk line or individual business line terminated on a connecting arrangement and arranged for touch calling service.	$1.00
Individual residence line terminated on a connecting arrangement and arranged for touch calling service, each	0.75

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

The following rates are authorized:

	Rate Per Month
Pushbutton station location equipped to provide all of the system features and access (pickup) to intercommunicating lines	
Each pushbutton station location	$4.50
Each pushbutton station location arranged for touch calling	5.40
Line appearance of a central office line, PBX station line or private line at each pushbutton station location, each appearance	0.20

APPENDIX B
SHEET 3 OF 3
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-41 - Service Connection, Move and Change Charges and Schedule Cal. P.U.C. No. A-29 of Former Western California Telephone Company.

The following charges are authorized:

All exchange services (except Centrex and Inward Dialing Services)	Nonrecurring Charge Business	Nonrecurring Charge Residence
SERVICE ORDER ACTIVITY		
Initial Order		
First central office line on order	$17.75	$8.00
Each additional central office line on the same order	8.00	8.00
Extension, each	-	-
All other lines, PBX Stations, Tie Lines, etc.	-	-
Subsequent Order		
Move and changes	4.00	4.00
Additions, other than central office lines	4.00	4.00
CENTRAL OFFICE ACTIVITY		
Each line	6.75	6.75
PREMISES ACTIVITY		
Initial	10.50	10.50
Additional		
Central office line, each	10.50	10.50
Extension, each	10.50	-
Move or change, each instrument	10.50	-
Pushbutton instrument, each	10.50	-
Supplemental services (all)	10.50	-

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

Proposed revisions as set forth in Exhibit No. 70-C as modified by Exhibit No. 72-A and as ordered herein are authorized.