

Decision No. 91355 FEB 13 1980**ORIGINAL**

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, 1978m)

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. 90919
AND GRANTING LIMITED REHEARING

The Cities of Los Angeles, San Diego, and San Francisco (Cities) have jointly filed a petition for rehearing of Decision No. 90919. The Commission has reviewed the allegations raised therein, and has concluded that sufficient grounds have been shown for rehearing, limited to resolving issues concerning the revenue impact of our orders delaying the implementation of the ZUM plan by the Pacific Telephone and Telegraph Company (Pacific). This will be further discussed below.

We are also of the opinion that some ambiguity exists concerning the fact that we did not modify the rates authorized in Decision No. 90919 to reflect a rate increase for directory advertising which we granted to Pacific in a separate decision (Decision No. 90842, September 25, 1979). Accordingly, we believe further discussion is necessary in order to clarify this point.

With regard to the first issue above, the Cities allege that our deferral of the ZUM plan for 180 days pursuant to Decisions No.'s 90642 and 90919 has a rather significant revenue impact which, except as a consequence of this delay in ZUM, has no justification. This contention warrants further consideration. We will therefore grant limited rehearing for the purpose of determining whether either the 90-day delay in ZUM imposed by Decision No. 90642 or the additional 90-day delay granted by Decision No. 90919, or both, has resulted or will result in unsupported revenues flowing to Pacific. This will give the Cities an opportunity to more fully develop their arguments, as well as providing Pacific with the opportunity to show that any revenue impact from the ZUM delay is reasonable. We would expect that some of the other parties to this proceeding, including the Commission staff, may also wish to participate.

Secondly, with regard to directory advertising, we recognized in Decision No. 90842 the necessity of taking into account in general rate cases any increased revenues which would be produced as a result of rate increases for directory advertising in order that a fair rate of return could be determined for Pacific. However, based on the record in the directory advertising proceeding, we also found that the increased rates granted by Decision No. 90842 have a deferred revenue impact of approximately two and one half years. The revenue

impact in test year 1979 - the test period for the general rate case - is zero, and the revenue impact in 1980 is \$4-5 million, from an approved rate increase which is expected to produce approximately \$26 million annually once it is completely implemented.

At the time Decision No. 90842 was issued, we had been informed that Pacific intended to file another general rate application in accordance with our Regulatory Lag Plan for test year 1981. Because of the deferred revenue impact of the directory advertising rate increase and because of the imminence of this rate application, we did not order rate reductions in other areas as an offset, but expressed our intention on page 13 of Decision No. 90842 to consider the revenue impacts in this next application. We note that no party filed a petition for rehearing of Decision No. 90842.

Since that decision was issued, Pacific has filed an application for interim rate relief outside the boundaries of the Regulatory Lag Plan, (Application No. 59269, filed November 18, 1979.), of which we hereby take official notice. This application uses 1980 as the test year and takes into account the full revenue impact of Decision No. 90842. We consider this to be a fair and reasonable treatment of the increased directory advertising rates.

The situation with regard to the Centrex rate increase is distinguishable. The Centrex increase also has a deferred revenue impact. We took account of it in our determination of Pacific's revenue requirement because, of a total authorized increase in revenues of \$14.6 million, its revenue impact is \$2.6 million in the test year, and approximately \$10 million in 1980. It was therefore completely proper to include the impact of the Centrex increase in this case, rather than deferring it to Pacific's next application.

We finally note that the Cities have indicated their intent to again seek judicial review of Decisions No.'s 90642 and 90919 should they not receive from us the relief they seek. In order to preserve the status quo and to avoid the administrative burden of several accounting changes, we intend to continue in effect Decision No. 91062 pending the outcome of any further litigation concerning Decision No. 90919.

IT IS THEREFORE ORDERED that the above discussion is incorporated into and supplements Decision No. 90919.

IT IS FURTHER ORDERED that Decision No. 90919 is modified by adding the following findings and conclusions:

Findings of Fact

1. In Decision No. 90842, we found that the revenue impact of the rate increases adopted therein would not be fully realized by Pacific for approximately two and one half years from the effective date of that decision.

2. Also in that decision, we found it reasonable to defer consideration of the revenue impact of Decision No. 90842 to the rate application Pacific intended to file in the very near future under the Commission's Regulatory Lag Plan.

3. Pacific has filed for interim rate relief earlier than expected, outside the bounds of the Regulatory Lag Plan, and has incorporated the full revenue impact of Decision No. 90842 into its Application No. 59269 filed November 18, 1979.

4. The Commission takes official notice of the above application.

Conclusions of Law

1. Deferral of consideration of the revenue impact of Decision No. 90842 to Pacific's recently filed rate application, No. 59269, is reasonable and is equitable to both Pacific and the ratepayers.

IT IS FURTHER ORDERED that limited rehearing is granted for the purpose of determining whether either the 90-day delay in ZUM imposed by Decision No. 90642 or the additional 90-day delay granted by Decision No. 90919, or both, has resulted or will result in unsupported revenues flowing to Pacific.

IT IS FURTHER ORDERED that Decision No. 91062 will remain in effect until further order of the Commission.

The date of this order is the date hereof.

Dated FEB 13 1980, at San Francisco, California.

John E. Bryan
President

Vernon L. Stinson

Richard D. Hood

Clair J. Smith

Commissioners

Commissioner Leonard M. Grimes, Jr.,
being necessarily absent, did not
participate.