ORIGINAL

Decision No. 92366 OCT 22 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GENERAL TELEPHONE COMPANY OF CALIFORNIA, a corporation, for authority to increase certain intrastate rates and charges for telephone service.	Application No. 59132 (Filed November 15, 1979)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, costs, separations, practices, contracts, service, and facilities of GENERAL TELEPHONE COMPANY OF CALIFORNIA, a California corporation; and of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a California corporation; and of all the telephone corporations listed in Appendix A, attached hereto.	OII No. 62 (Filed December 18, 1979)

(Appearances are listed in Appendix A.)

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O P I N I O N

General Telephone Company of California (General) seeks authority to increase its rates to yield additional intrastate gross revenues of approximately $119,044,000 (11.9 percent) at the estimated test year 1980 level of sales.

OII 62, an investigation on the Commission's own motion, enlarged the scope of these proceedings to cover essentially all aspects of General's public utility operations and rates and to cover separation procedures, settlement agreements, and the level of toll and other rates affecting The Pacific Telephone and Telegraph Company (Pacific), General, and the other independent telephone companies.

After due notice, 29 days of hearings were held before Administrative Law Judge N. R. Johnson and/or Commissioner Claire T. Dedrick during the period January 3, 1980 through April 23, 1980, and the matters were submitted subject to the receipt of concurrent opening briefs due on or before June 9, 1980 and concurrent closing briefs due on or before June 23, 1980.

Opening and/or closing briefs were received from General, the Commission staff, the cities of Los Angeles (LA) and Santa Monica (SM), and the Communication Workers of America (CWA).

On June 16, 1980 General filed a petition for expedited partial rate relief of $25,200,000. Public hearing on the partial rate relief was held in Los Angeles on July 7, 1980 followed by oral argument on the entire matter before the Commission en banc on July 8, 1980.

Public Witnesses Statements

Public hearings were held at Santa Barbara on January 3, 1980, at Los Angeles on January 8, 1980, at Santa Monica on January 9, 1980, at West Covina on January 10, 1980, at San Bernardino on January 16, 1980, at Palm Springs on January 17, 1980, and at Diamond Bar on February 23, 1980 to provide General's customers with a convenient opportunity to present statements on the rate increase application. Public statements were made by 189 witnesses at these hearings. While these public statements encompassed many subjects ranging from lifeline rates to extended area service to General's phone marts, the overwhelming majority of such statements focused on varying degrees of dissatisfaction with the quality of service rendered by General. The individual service complaints were investigated and a summary of each investigation was included in an exhibit entered into evidence during the hearings. In addition, at the Diamond Bar hearing, a questionnaire providing a check list of the most common service complaints encountered throughout the balance of the service area was distributed. One hundred and thirty-four of these completed questionnaires were submitted in addition to the statements of 38 subscribers. Also, the questionnaire was reproduced in a local paper and in excess of 1,300 were completed and forwarded to the Commission. The details of the service problems and recommended solutions are discussed in a subsequent portion of this decision.

Transcript Corrections

Requests for transcript corrections were presented by General, CWA, and the Commission staff. The proposed corrections were distributed to all parties of record and no protests were filed. Upon review these corrections appear reasonable and will be placed in the formal file as approved.

I. SYNOPSIS OF DECISION

We are granting General ~~a rate~~ increase of $97.5 million, which affords it an opportunity to earn a 10.39 percent return on its telephone plant investment of about $2 billion. This equates to a 13.60 percent return on invested equity. Assuming General provided adequate telephone service, rates would be set to produce a 14.10 percent return on invested equity. General requested a rate increase of $119 million.

We are penalizing General for providing inadequate telephone service. The result is that General is authorized $7.4 million less than if its service were adequate. When General thinks it has met the goals for improved service set by our order, it may come before us and we will closely review whether the penalty should be removed. The earliest this penalty can be removed is December 1, 1981. We are appreciative of the many customers of General who either appeared at our hearings or wrote expressing their experience with General's service. Their input greatly assisted our deliberations. Also, our staff's investigation into General's service and its presentation of constructive proposals to improve service was commendable. The $7.4 million penalty imposed on General over the next year is meant as an incentive to General's management to bring service to the levels we specify. General will be given the opportunity to realize a greater return on its investment when it gives customers fair value for their dollar - in the form of better service.

Most of this rate increase results from increased costs to General, which we have found reasonable. The increased return on equity we authorize is needed so that General can attract capital necessary to its viability as a utility able to provide service, with the goal of maintaining the lowest reasonable rates for telephone users.

We have adjusted General's projected operating results to ensure its ratepayers do not unduly contribute to the profits of General's affiliated corporations: $12 million of telephone plant is disallowed from rate base and $624,000 from operating expense because of its equipment manufacturing affiliate's earnings. Likewise, $2.4 million is disallowed to adjust for earnings of General's affiliated Directory Company, and $1.5 million of expense billed by GTE-Data Services (GTEDS) is disallowed. Numerous other adjustments to General's expense estimates were adopted based upon investigation by our staff and its testimony presented in this proceeding.

Earlier in this proceeding General asked for interim relief subject to refund. We did not act on General's request because we were too close to this final decision, and we wanted to analyze carefully the adequacy of General's service while reviewing General's revenue requirement. More specifics of our decision are summarized below.

The operating revenues estimated by General were $1,235,902,000 as contrasted with the staff's estimate of $1,187,881,000 with most of the difference reflecting expense and rate base differences. Our adopted revenue estimate of $1,214,940,000 reflects our adopted results of operation expense and rate base items.

The staff's estimate of maintenance expense was $262.5 million as compared to General's estimate of $315.9 million. General used a budgeted approach to estimating these expenses, whereas the staff used a normalized productivity approach. Our adopted maintenance expense of $291.3 million generally reflects recorded expenses adjusted to reflect anticipated increases in the number of employees and the cost per employee.

We adopted the staff's estimates of traffic expenses and with the exception of relatively minor adjustments to advertising and commercial operations expenses, we adopted the staff's estimate of commercial expenses.

The primary differences between General's and the staff's estimates of general and other operating expenses are in relief and pensions, general service and licenses, and expense charged to construction-credit. The biggest differences in the component parts of pensions and benefits expense were in service pension costs where we adopted the staff's accrual rate applied to our adopted labor base, in medical and dental insurance where we adopted the staff's participation rate and General's premium percentages except for the elimination of refundable margins, and in sickness benefits where we adopted an estimate based on the staff-derived factors applied to our adopted labor base. The major difference between General's and the staff's estimates of general service and licenses expenses is a recommended disallowance of $5,509,000 recommended by the staff. We accept portions of the staff's recommendations in the amount of $2,238,000 of the recommended $5,509,000 disallowance and adopted General's position for the balance of these expense items. The staff's estimate for expense charged to construction-credit included

an adjustment to include an apportionment of general office salaries in and above the salary grade level of manager to construction for both accounting and ratemaking purposes. Such an allocation was excluded from General's estimate. We adopted the staff's estimate.

General stipulated to the staff's ad valorem taxes comprising the bulk of operating taxes. For payroll taxes, we adopted General's methodology applied to our adopted payroll. We adopted the staff's tax basis depreciation and California Corporation Franchise Tax (CCFT) basis adjustments. We adopted General's estimate of relief and pensions capitalized for computation of income taxes.

We adopted the staff's bases for the amortization of the deferred tax reserve, investment credit, and the use of an incremental tax rate in computing CCFT.

We adopted the staff's estimate for telephone plant in service, property held for future use, weighted average net additions, and materials and supplies.

We adopted the staff's depreciation expense estimate based on later data than used by General in preparing its estimate but adjusted it downward $21,000 to reflect the application of the overall depreciation rate of 6.765 percent to reflect adopted capitalization and expenses.

The staff's working cash estimate for the 1980 test year was a negative $53,802,000 as contrasted to General's estimate of a negative $2,423,000. The biggest portion of the difference is the use by General of zero lag days for federal unamortized investment tax credit (ITC) of $34,260,000 and state deferred taxes of $4,429,000. General has contended that its method would avoid a possible loss of eligibility for ITC by reason of a rate base reduction by including the unamortized ITC

in computation of working cash. We disagree and adopt the staff position that the federal income taxes for working cash purposes should be the same as are allowed for ratemaking purposes with corresponding lag days associated with such taxes. As for the use of zero lag days for deferred state taxes, the record is devoid of support for such a procedure; therefore, we adopt the staff position on this item of working cash.

General proposed that short-term construction work in progress (CWIP) in the amount of $188,054,000 be included in rate base as is permitted by the Federal Communications Commission (FCC) on the bases that such action costs the ratepayer less over the life of the plant, increases cash flow, improves the quality of earnings, increases the amount of internally generated funds, and helps the debt coverage problem. The staff opposed the inclusion of short-term CWIP in rate base on the basis of past Commission decisions, insignificant improvement in cash flow and after-tax interest coverage, and an immediate increase in the revenue requirement of approximately $34 million. We permitted short-term CWIP in rate base in the amount of $152,508,000 as computed by the staff and appropriately adjusted the Interest During Construction (IDC).

We allow short-term noninterest bearing CWIP in rate base because General is well into the 1980 test year and the record on using end of test year results of operations was not developed. Our inclusion of short-term CWIP is not a change in our longstanding policy on CWIP in rate base, but is a reaction to the unique circumstances presented in this proceeding.

As subsequently discussed by individual rate category, we essentially adopted the rate philosophy recommended by the Commission staff. The adopted rates provide that certain cost-based rates, such as those for terminal equipment, be raised to cover their respective costs, provide services for the handicapped, increase service connection charges to more

closely approach cost, provide for the equalization of flat rates in and out of metropolitan rate areas, and impose a new negative surcharge to replace the Proposition 13 negative surcharge (which is not now necessary as we are setting rates based on past Proposition 13 tax savings).

The rates authorized are subject to refund pending further Commission action on refunds and rate reductions stemming from our adopted ratemaking treatment of accelerated depreciation and investment tax credits. (See D.91337 in A.53587 et al.; tax reserve matters.)

The Commission staff recommended that General be placed on notice to modify its labor agreements to permit management to implement a force stability plan. At the hearing on April 15, 1980 CWA made a motion that all oral and documentary evidence relating to the force stability plan be deleted from the record on the basis that such a recommendation was an invasion into the collective bargaining process and prohibited by federal law. The motion was denied and on June 6, 1980 CWA filed an application to certify this matter for interlocutory hearing and ruling during the pendency of the underlying application. We did not adopt the staff's recommendation, rendering moot the question of the violation of federal law. We therefore denied the application to certify the matter for interlocutory hearings.

II - PARTIAL GENERAL RATE INCREASE

On June 16, 1980 General filed a petition asking that this Commission issue an order permitting it to immediately increase its rates annually by at least $25,200,000, subject to refund, pending issuance of the final decision on this matter.

According to the petition, the $25,200,000 figure was derived by reducing the staff's total test year 1980 intrastate recommended increase of $64,900,000 by $20,700,000 intended to represent the effect upon General of its Zone Usage Measurement Plan (ZUM) advice letter filing whereby this Commission permitted General to offset the revenue loss associated with the implementation of ZUM and $19,000,000 which represents the estimated value to General of the rate increase granted Pacific by D.91495 dated April 2, 1980 in Pacific's A.59269 for a general rate increase.

According to the testimony of General's witness, its financial position is currently deteriorating and an immediate grant of the requested partial general rate increase is urgently needed to maintain its financial integrity and ability to raise capital at a reasonable rate.

The rapid deterioration of General's financial position is due to increased bond costs, increased short-term debt interest rates, higher interest rates applicable to customer refunds and potential tax liability accruals, and higher preferred stock costs combining to result in a reduction of General's fixed cost pre-tax coverage from 2.20 to 1.63 times and thereby exposing General to possible down rating of its "A" bond ratings by Moody's and/or Standard & Poor's with a resulting increase in financing charges and decreased market availability.

General is planning a $110 million bond offering in November 1980 and will be holding discussions with the financial community on such an issue in mid-October 1980. Therefore, according to General, the issuance of an immediate partial general rate increase of magnitude applied for is necessary to protect its "A" bond rating at that time.

This Commission's Resolution No. A-4693, adopted July 6, 1977, established a regulatory lag plan for major utility general rate cases which sets out our policy for processing such rate cases within one year of the filing of the application. Resolution No. M-4706 amended that plan.

In accordance with the regulatory lag plan, General's Notice of Intent (NOI) was accepted for filing August 1, 1979. The application was filed November 15, 1979. In accordance with the regulatory lag plan goal, the final decision on this application should issue on or before November 15, 1980.

To avoid the issuance of a partial general increase followed shortly by a full rate increase decision we expedited this matter so that this decision issues before November 15, 1980. Also, given the issue of General's telephone service, we believed it important to consider revenue requirement issues along with close analysis of the service question.

III - GENERAL'S PRESENT OPERATIONS

General is a subsidiary of General Telephone & Electronics Corporation (GTE) whose headquarters are at Stamford, Connecticut. During 1978 General operated 173 central offices in 72 exchanges to provide service to 3,772,130 telephones. General's service area consists of approximately 10,600 square miles and includes 267 communities in portions of the following 19 California counties: Fresno, Imperial, Kern, Los Angeles, Marin, Orange, Riverside, Sacramento, San Bernardino, San Diego, San Joaquin, San Luis Obispo, Santa Barbara, Santa Clara, Solano, Sonoma, Tulare, Ventura, and Yolo.

GTE is the parent company of more than 60 communications, products, research, and service subsidiaries with operations in 41 states and 18 foreign countries. GTE's 16 domestic telephone operating subsidiaries comprise the largest independent (non-Bell) telephone system in the United States and at the end of the year 1978 served 14.3 million telephones in 31 states or about 45 percent of the non-Bell telephones.

GTE owns 100 percent of the common stock and voting control of General Telephone Directory Company (Directory Company), GTE Service Corporation (Service Corporation), and GTE Data Services, Inc. (GTEDS). GTE, through GTE Product Corporation, also owns 100 percent of the common stock of GTE Laboratories, Inc., GTE Automatic Electric Company (AE), and GTE Sylvania, Inc. AE, the manufacturing arm of the General domestic telephone systems, owns 100 percent of the common stock of two subsidiaries, GTE Automatic Electric Laboratories, Inc. and GTE Lenkurt, Inc. On June 13, 1979 Telenet Corporation became a wholly owned subsidiary of GTE.

AE, Lenkurt, Inc., Service Corporation, Directory Company, GTEDS, and, indirectly, the laboratory organization all do business with General. Sylvania, Inc. manufactures a wide range of electronic, lighting, and electrical products of which only insignificant amounts are purchased by General. Other affiliates of GTE do not do business with General.

IV - RATE OF RETURN

General

The United States Supreme Court has broadly defined the revenue requirement of utility companies as being the minimum amount which will enable the company to operate successfully, to maintain its financial integrity, and to compensate its investors for risks assumed (Federal Power Commission et al. v Hope Natural Gas Company (1944) 320 US 591, 605; 88 L ed 333, 346), and will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties (Bluefield Waterworks and Improvement Company v West Virginia Public Service Commission (1923) 262 US 679, 692, 693; 67 L ed at 1176). The determination of the sum specific to satisfy those requirements derives from the application of logic and informed judgment to numerous complex and interrelated factors such as the cost of money, capital structure of the utility in question as compared with other similar utilities, interest coverage ratios, return on common equity, price/earnings ratios, and price-book ratios. The quality of service a utility provides its customers is an important ingredient in determining a reasonable rate of return; the question we must resolve is whether the utility's management is giving its customers a fair return through adequate service.

In California this net revenue requirement is expressed as a percentage return on weighted average depreciated rate base for California jurisdictional operations and is intended to provide sufficient funds to pay interest on the utilities' long-term debt, dividends on its preferred and preference stock, and a predetermined reasonable return on common equity. Complete showings on rate of return were presented by General, the Commission staff, and LA.

Position of General

Testimony on General's cost of capital and its requested rate of return was presented into evidence by its assistant secretary and assistant treasurer, Thomas W. Oglesby.

According to the testimony, Oglesby followed the guidelines set forth in the United States Supreme Court decisions, Hope Natural Gas Company and Bluefield Waterworks and Improvement Company, supra. Based on informed judgment, he adopted a short-term debt interest of 10.5 percent and calculated the embedded costs of long-term debt and preferred stock using actual costs for securities issued prior to October 1979 and estimated costs for securities General plans to issue in 1980. The embedded cost of long-term debt so derived was computed to be 8.05 percent and for preferred and preference stock was computed to be 8.03 percent, both as of year-end 1980. Mr. Oglesby's recommended rate of return range of 10.81 to 11.05 percent was based on a capital structure of 49 percent long-term debt, 4 percent short-term debt, 8 percent preferred/ preference stock, and 39 percent common equity with a range in return on common equity from 14.90 to 15.50 percent. General

believes that the above capital structure is consistent with its long-term objectives of providing for 38 to 40 percent common equity and a total equity of from 46 to 48 percent including preferred/preference stock.

This witness derived the range of return on common equity forming the basis for his recommended range of rate of return by using the investors' expected return (IER) or discounted cash-flow method (DCF) and the long-term historical yield differential between utility stocks and utility bonds method. The reasonableness of results obtained from these two methods was then tested by comparison of the resulting pre-tax interest coverage of General with such coverage of other comparable telephone utilities.

The IER is equal to the sum of the expected growth rate and the average dividend yield. General's witness developed his IER rate from a comparison with 19 electric utilities subject to state regulation outside of California having total capital in the range of $900,000,000 to $3,600,000,000 at December 31, 1977 and having a common equity ratio approximating that of General's for the period 1967 through 1977. For this period the average dividend yield for these 19 electric companies was 9.6 percent and the average growth rate was 4.3 percent producing an IER of 13.9 percent. The witness used growth in tangible book value to convert the IER of 13.9 percent to a required return on book equity of 14.9 percent. He testified that he was aware that this Commission has in the past expressed a belief that electric utilities are more risky than telephone utilities but that the relative risk of telephone companies has increased in recent years with growth

of competition, acceleration of technological changes, and a higher percentage of revenues being derived from toll. He believes that his comparability of risk position is supported by the relatively higher pre-tax interest coverage, after-tax interest coverage, and equity ratios in effect for telephone utilities as compared to similarly rated electric utilities.

The results derived by the use of the risk premium method were based on 40 years' data setting forth the differential between Moody's utility common stocks and newly issued bonds for the period 1937 through 1976. The average yield differential for this 40-year period was 5.35 percent. However, Mr. Oglesby believed that the use of such a figure was inappropriate because of the cyclical character of stock prices and interest rates. The differentials were graphed and it was noted that such differentials peaked in the years 1937, 1946, 1960, 1961, 1966, 1973, and 1976. The witness chose two peak-to-peak periods he believed appropriate. The first was the longest period available from the data studied, 1937 to 1976, and the second was from 1946, the first peak after World War II, to 1973, the last peak prior to the 1974 recession. The average differential for these two periods was 5.29 and 5.87 percent, respectively. The average of these two, or 5.58 percent, was applied to low, average, and high yields of public utility A- and AA-rated bonds for the period October 1978 through March 1979 to give a return on equity ranging from 15.00 to 15.55 percent.

A return on common equity of 14.9 percent, the lowest this witness derived from the use of the above-discussed two methods, produces a pre-tax coverage of 3.8 times which is close to the average for A-rated telephone companies and, in the opinion of this witness, is adequate.

The application of the above-derived range of return on common equity of 14.9 to 15.50 percent to this witness' recommended capital structure of 49 percent long-term debt at a cost of 8.05 percent, 4 percent short-term debt at a cost of 10.5 percent, and 8 percent preferred/preference stock at a cost of 8.03 percent yields a recommended rate of return range of 10.81 with an after-tax times interest average of 2.48 to 11.05 percent with an after-tax times interest coverage of 2.53.

This witness also expressed concern about the possible adverse effect on General's ability to attract capital should it lose its eligibility for accelerated depreciation and investment tax credit and testified that were such eligibility to be lost and all intrastate deferred taxes and tax credits become debt at 6 percent interest, General's pre-tax interest coverage would drop from 2.9 to 2.2 times.

Position of Commission Staff

The staff position on the cost of capital and recommended rate of return was presented into evidence by Financial Examiner IV Terry R. Mowrey. The recommended rate of return is 10.15 percent which equates to a return on common stock equity of 13.25 percent.

Mr. Mowrey notes that according to General's witness Hascall, the requested $119,044,000 increase, if granted, would produce an intrastate rate of return of only 10.37 percent. Such a return is outside of witness Oglesby's recommended range of rate of return of 10.81 to 11.05 percent. Using the capital structure and cost components forming the basis for General's recommended rate of return, the return on common equity associated with a rate of return of 10.37 percent is 13.77 percent. Consequently, witness Mowrey uses a return on common equity of 13.77 percent for comparative purposes rather than the range of 14.90 to 15.50 percent advocated by witness Oglesby.

According to the testimony of witness Mowrey, the difference between the staff's recommended capital structure of 49.17 percent long-term debt, 3.32 percent short-term debt, 8.88 percent preferred stock, and 38.61 percent common equity, and General's recommended capital structure is considered to be minimal. Based on later data, the staff estimated the cost of long-term debt to be 8.13 percent, the cost of short-term debt to be 10.50 percent, and the cost of preferred stock to be 7.66 percent as compared to 8.05 percent, 10.5 percent, and 8.03 percent, respectively. It is obvious that the major difference in the derived recommended rate of return proposed by General and the Commission staff is the appropriate allowable return on common equity.

In arriving at his recommended return on common equity of 13.25 percent, witness Mowrey testified that he was guided by the standards set forth in United States Supreme Court decisions and prior Commission decisions indicating that the return to the equity holders should be commensurate with the returns on other enterprises having similar risks, should be sufficient to enable the utility to attract capital at reasonable rates and maintain its financial integrity, and should balance the interests of both the investors and the consumers. According to the record, Mr. Mowrey believes that his recommended rate of return of 10.15 percent with the return on common equity of 13.25 percent and an after-tax interest coverage of 2.33 times will satisfy these criteria.

The exhibit cumulating in witness Mowrey's recommended rate of return contains 24 comparison tabulations pertaining to interest rates, bond yields, dividend rates, after-tax interest coverage, common stock book value, dividends and earnings, common stock equity ratios, earnings and dividends payout ratios, capital structure, financial and other data relating to growth in net plant investment, revenues, expenses, earnings on common equity, and recent telephone company rate of return decisions. These tabulations, together with consideration of such additional factors as the fact that as a regulated public utility, General has an obligation to provide its service at reasonable rates; that as a member of the GTE family, General has less risks than a nonaffiliated telephone company; that General can draw upon GTE for management expertise and guidance; and that General normalizes federal income taxes for ratemaking purposes thus providing greater internal cash flow than flow-through utilities, were all included in forming the basis for the staff witness' recommended return on equity and rate of return.

The above rate of return recommendations were premised on the assumption that General is providing adequate service. The Commission staff's review of the quality of service presently rendered by General indicated to witness Mowrey that this Commission should provide incentives to improve the quality of service as well as provide penalties for failure to maintain reasonable service standards. He believes that such incentives and penalties would obtain were this Commission not to consider adjusting rates if earnings fall within a certain range either as a result of service improvement or deterioration. Under such a concept, General would be able to retain increased earnings resulting from improved service but would not be able to obtain rate relief for decreased earnings if the quality of service does not meet reasonable standards. The specific range recommended is from rates of return 9.96 to 10.28 percent reflecting returns on common equity from 12.75 to 13.60 percent.

Position of LA

LA's position on recommended rate of return was presented by consulting engineer Manuel Kroman who testified that he had closely analyzed the prepared testimony of General's witness Oglesby and the charts and tables accompanying that testimony. On the basis of that analysis and other studies summarized in his exhibit and testimony, witness Kroman developed a recommended rate of return of 10.10 percent for total company operations and an intrastate rate of return of 9.98 percent. The 10.10 percent rate of return would, according to his exhibit, provide a return on common equity of 13.08 percent and a times interest coverage of 2.38 times.

Witness Kroman notes that General's witness Oglesby based his recommended return on common equity capital on the IER or DCF method applied to 19 selected electric and combination gas and electric utilities and the risk-premium approach applied to data relating to Moody's 24 utilities and tested the results against interest coverage ratios of certain telephone utilities. According to this witness, each of these three methods is subject to various infirmities precluding, in his opinion, their utilization for the determination of an appropriate rate of return.

According to his testimony, the IER or DCF method can demonstrate any desired result by the arbitrary selection of either the time period upon which to base the dividend yield and/or the selection of the group of companies to serve as a basis for determining growth rates and dividend yields. To demonstrate this position the witness utilized the DCF method for the Public Utilities Fortnightly group of "Communication Companies" to indicate a required return on equity of 20.3 percent, to Standard and Poor's 40 utilities to yield 13.2 percent, to Moody's 24 utilities to yield 12.6 percent, to Standard and Poor's 400 industrials to yield 12.5 percent, and to Dow Jones' 30 industrials to yield 12.46 percent. He further notes that the average recorded return on common equity for 1978 for Mr. Oglesby's selected 19 electric utilities was 11.73 percent as compared to his computed IER of 13.9 and 15.1 percent.

With respect to the risk-premium approach used by Mr. Oglesby, this witness testified that the risk-premium method of developing required return on equity is deficient in that: (1) any desired result is obtainable by selection

of a suitable time period; (2) the methodology attempts to determine the differential return from a cross-section of common stocks as compared to debt securities, and then assumes that the proper return on book equity of any utility equates to that differential added to the average yield of public utility bonds; and (3) the approach fails to recognize the investors in telephone common stocks probably have fundamentally different objectives from investors in other types of equities.

He computed 5-, 10-, and 15-year average differentials for periods ending in the years 1973 through 1977 and testified that the widely fluctuating results (ranging from -11.48 to +3.52 percent) cannot produce any meaningful guide to the problem of fixing a reasonable allowance for return on equity.

Witness Kroman notes that whereas General's witness Oglesby relies upon data pertaining to 19 energy utilities in applying his DCF and risk-premium approaches to derive the return on common equity, he turns to "A"-rated telephone utilities to support his pre-tax interest coverage ratio of 3.8 times. He tabulates the pre-tax interest coverage ratio of these 19 energy utilities which averages 3.07 for 1976, 3.29 for 1977, and 3.27 for 1978, well below the 3.8 advocated by witness Oglesby.

With respect to the relative risk of electric and telephone companies, Mr. Kroman points to potential difficulties of nuclear power created by the Three Mile Island incident, the increasing difficulty electric utilities are experiencing in obtaining fuel cost increase offsets, and the relatively high percent of income created by interest during construction as examples of real risks encountered by electric utilities but not by telephone utilities.

Witness Kroman further notes that although witness Oglesby stated that one of the guidelines for deriving a fair rate of return is that the return on equity should be commensurate with returns on equity of other enterprises having similar risks, he does not present such comparative data in his exhibit. Mr. Kroman believes such data is indispensable and, therefore, presented data on return on average common equity and percent equity for 1976, 1977, and 1978 for the 19 electric utilities selected by witness Oglesby, for Moody's 24 utilities, for Dow Jones' 15 utilities, for GTE's 14 major telephone subsidiaries, and for the 23 principal Bell System subsidiaries. From these tabulations he concluded that a comparable earnings approach does not support an allowance on applicant's common equity anywhere near the range of 14.90 to 15.50 percent sought by General.

Accepting General's proposed capital structure as reasonable and applying a long-term debt cost of 8.12 percent, a short-term debt cost of 10.50 percent, a preferred stock cost of 7.95 percent, and a return on common equity of 13.08 percent, this witness derived a recommended rate of return of 10.10 percent. The return on common equity was derived from the application of a times interest ratio of 2.35 to the embedded cost of debt. Mr. Kroman believes that his recommended rate of return is adequate for General to maintain its "A" bond rating. The recommended 10.10 percent rate of return is for General's overall operations. He used the average of General's and the Commission staff's intrastate rate of return and rate base to translate the overall 10.10 percent rate of return to an intrastate rate of return of 9.98 percent which he recommends be adopted by this Commission. He further testified that such

a recommended rate of return was predicated on General's supplying adequate service. He believes that a penalty should be applied for deficient service and suggested approximately 0.2 percentage points as previously applied by this Commission to General.

Discussion

The recommended capital structures, cost factors, and weighted cost return factors presented by General, the Commission staff, and LA are shown in Table I.

It will be noted that the weighted cost for long-term debt, short-term debt, and preferred stock, representing 61 percent of the capital costs of General and LA, total 5.00 percent for both, and that the Commission staff derived a cost of 5.03 percent for 61.37 percent of its computed capital costs. It is axiomatic that the differences between these three estimates are minimal. These capital structure estimates are premised on the issuance in 1980 of $100,000,000 of Series CC, 12 percent bonds, and $80,000,000 of Series DD, 11 percent bonds. Exhibit 98 is a copy of General's prospectus dated April 15, 1980. This prospectus lists $50,000,000 of Series CC bonds at 13-3/4 percent interest and $75,000,000 of Series DD bonds at 14-1/8 percent interest. Reflecting

Table I

Component	Capitalization Ratios	Cost	Weighted Cost
	General's Requested Rate of Return		
Long-Term Debt	49.00%	8.05%	3.94%
Short-Term Debt	4.00	10.5	.42
Preferred Stock	8.00	8.03	.64
Common Equity 1/	39.00	14.90-15.50 1/	5.81-6.05
	100.00%		10.81-11.05%
	Staff's Recommended Rate of Return		
Long-Term Debt	49.17%	8.13%	4.00%
Short-Term Debt	3.32	10.50	.35
Preferred Stock	8.88	7.66	.68
Common Equity	38.63	13.25	5.12
	100.00%		10.15%
	LA's Recommended Rate of Return		
Long-Term Debt	49.6%	8.12%	4.03%
Short-Term Debt	2.4	10.50	.25
Preferred Stock	9.0	7.95	.72
Common Equity	39.0	13.08	5.10
	100.0		10.10% 2/

1/ Testimony by witness Oglesby indicated a recommended rate of return in the range of 10.81 to 11.05 percent with return on equity in the range of 14.90 to 15.50. However, the application of requested $119,044,000 increase to General's estimated 1980 operations results in a rate of return of 10.37 percent. Translating this rate of return to return on equity yields 13.77 percent which staff witness Mowrey used for comparative purposes.

2/ Quantities shown are for General's overall operations. Based on the average of General's and the Commission's rate of return and rate base for General's intrastate operations, witness Kroman translated the 10.10 percent overall recommended rate of return to 9.98 percent for General's intrastate operations.

these issues in the computation of cost factor for long-term debt results in a computed effective interest rate of 8.24 percent as follows:

Component	Par Value	Net Proceeds	Annual Charge	Effective Interest Rate (Percent)
Total Mortgage Bonds	$ 763,925	$ 751,750	$50,044	6.66
Debentures	89,103	88,596	6,441	7.27
Intermediate Term Loans	40,000	39,400	3,838	9.74
Subtotal	893,028	879,746	60,323	6.86
1979 Issues (AA and BB)	200,000	197,420	21,117	10.70
Balance 12-31-79	1,093,028	1,077,166	81,440	7.56
1980 Issues				
Series CC, 13-3/4%	50,000	49,625	6,875	13.85
Series DD, 14-1/8%	75,000	73,969	10,594	14.32
Balance 12-31-80	$1,218,028	$1,200,760	$98,909	8.24

The inclusion of these two bond issues in the computation of the staff's capital ratios results in the following: long-term debt - 48.07 percent, short-term debt - 3.39 percent, preferred stock - 9.08 percent, and common equity - 39.46 percent. We will adopt this capital structure, together with 8.24 percent cost of long-term debt, the staff's estimated cost of short-term debt and preferred stock of 10.50[1/] and 7.66 percent, respectively. We will now address the development of the proper allowable return on common equity.

1/ General's treasurer and assistant secretary C. J. O'Rourke testified at the hearing on the partial general rate increase that the short-term debt interest rate for the first five months of 1980 average 13.7 percent. However, on that date the interest rate was below 9 percent tending to confirm a 10.5 percent interest rate over the entire year.

It has been repeatedly demonstrated both in this record and in other proceedings before this Commission that the results derived from the application of the DCF method to determine an appropriate return on common equity vary considerably depending upon the choice of utilities used in the study. According to the record, the measure of comparability of utilities used in the development of General's presentation was the amount of total capital and the common equity ratios rather than the type of utility. Because of the relatively large size of General among the non-Bell independents and the relatively high equity ratios of the Bell System subsidiaries, the use of such criteria eliminates consideration of communication utilities in the basic data for deriving return on equity by the DCF method. Furthermore, of the 19 electric and combination gas and electric utilities selected by the use of such criteria, only nine appear on the list of Moody's 24 utilities and only two appear on the list of Dow Jones' 15 utilities. As noted by LA, the use of either Moody's 24 utilities or Dow Jones' 15 utilities for the computation of return on equity by the DCF method would yield a return on common equity less than indicated by General's showing. Ironically, the actual recorded return on common equity for the year 1978 was less for witness Oglesby's 19 electric and gas and electric utilities, Moody's 24 utilities, and Dow Jones' 15 utilities than either GTE's or the Bell System's principal telephone subsidiaries.

The second method utilized by witness Oglesby to support his recommended range of return on common equity was the yield differential or risk-premium method. As amply demonstrated on this record, the selection of the utilities for the basic data and the time frame for the computation of the yield differential have a pronounced effect on the results. General's witness based his computations on the stock and bond yields of Moody's 24 utilities for the period 1937 through 1976. The average yield differential for the 40-year period was 5.35 percent as contrasted to the figure included in General's showing of 5.58 percent, which is the average of the Dow Jones industrial average closings for the peak-to-peak period of 1937 to 1976 of 5.29 percent and for the peak-to-peak period of 1946 to 1973 of 5.87 percent. The relationship of high and low closures for the Dow Jones industrial average to the stock and bond yields for Moody's 24 utilities was not explained on the record. It should be noted, however, that for three of the four peak period years, i.e., 1973, 1946, and 1937, the yield differential varied between a negative 10.61 to a negative 26.56 percent casting some doubt on the appropriateness of the periods selected. Also, as noted by LA, the average realized yield differentials for the 5-, 10-, and 15-year averages for the periods ending in 1973 through 1977, ranged between a plus 3.52 percent and a negative 11.48 percent and, therefore, provide no support for the 5.58 percent differential forming the basis for General's recommendations.

Having utilized data from 19 electric and combination gas and electric companies to derive an appropriate return on equity by the DCF method and from Moody's 24 electric and combination gas and electric utilities to compute a return on common equity using the yield differential method, General's witness tested the validity of the results by comparing the pre-tax and after-tax interest coverage resulting from such recommended returns on equity with the interest coverage of "AA"- and "A"-rated electric and telephone companies. Mr. Oglesby testified that the pre-tax interest coverage of 3.8 resulting from a return on common equity of 14.9 percent, the lowest of his recommended range, was very close to the average pre-tax coverage of "A"-rated telephone companies and was, therefore, adequate. The corresponding after-tax coverage for the 10.81 rate of return corresponding to the 14.9 percent return on equity with General's recommended capital structure is 2.48 times and at the upper range of its recommended rate of return is 2.53 times. As testified to by LA's witness, this 2.48 after-tax coverage is higher than the average of 2.33 times experienced in 1978 by the 19 electric and combination gas and electric utilities used in General's study, higher than the median of 2.34 times experienced by Standard and Poor's 17 "A"-rated utilities, higher than the 2.26 times experienced by Standard and Poor's five "A+"-rated utilities, and higher than the 2.24 times experienced by Standard and Poor's five "A-"-rated utilities. It is, however, lower than the after-tax interest coverage of 2.86 times for "AA"-rated telephone utilities and 2.55 times for "A"-rated telephone utilities. According to the testimony of LA's witness, the higher interest coverage for "AA"- and "A"-rated telephone companies compared to

similarly rated electric utilities reflects the relatively small size of the telephone utilities rather than the investors' perception of greater risk as alleged by General.

The staff's witness, Mowrey, testified that a very important consideration of any rate of return recommendation is the interest coverage that a particular level of earnings provides and believes that the after-tax coverage of 2.33 times resulting from his recommended rate of return not only allows General to meet its fixed charge requirements, but also allows for sufficient flexibility to attract capital in the future.

LA's witness testified that after the appropriate capital ratios and cost factors for debt and preferred stock have been decided, the rate of return selection relies on the proper selection of two interrelated factors, an adequate level of interest coverage and a reasonable allowance on common equity. In his opinion, an after-tax interest coverage of 2.35 times is adequate to insure the successful issuance of additional debt while maintaining an "A" rating. Multiplying 2.35 by his weighted cost of debt of 4.28 percent yields a rate of return of 10.06 percent and a return on equity of 12.97 percent. He rounded the rate of return upward to 10.10 percent, producing an interest coverage of 2.36 times and a return on common equity of 13.04 percent which he believes appropriate for the company as a whole. However, according to this witness' testimony, the rate of return approved for General's intrastate operations subject to this Commission's jurisdiction should be modified downward from the total company rate of return to balance the higher returns

it is anticipated that General will experience from its interstate operations. It is axiomatic that this Commission must follow the guidelines set forth in United States Supreme Court decisions for utility company operations subject to our jurisdiction. To adopt an intrastate rate of return different than our determination of a reasonable overall rate of return would violate these principles and is, therefore, unacceptable.

After careful consideration of all of the recorded evidence in this case and the arguments advanced by the various parties to the proceeding, we adopt as reasonable a return on equity of 14.10 percent, assuming General provides adequate telephone service. Weighing heavily in our considerations leading to our adopted return on equity were such germane factors as the times interest coverage currently being realized by "AA"- and "A"-rated telephone utilities other than General and Pacific, the 13-3/4 and 14-1/8 percent interest rates of General's two most recent bond issues, the current yield rate of long-term "A" bonds ranging from 13 to 13-1/2 percent, and the fact that the authorized rates will not become effective until the latter part of the test year 1980.

The 14.10 percent return on equity applied to our previously adopted capital structure and costs, translates to a rate of return of 10.58 percent developed as follows:

Item	Adopted Capital Structure		
	Capital Ratio	Cost Factor	Weighted Costs
Long-term Debt	48.07	8.24	3.96
Short-term Debt	3.39	10.50	.36
Preferred Stock	9.08	7.66	.70
Common Equity	39.46	14.10	5.56
Total	100.00		10.58

This return on capital is amply adequate to attract capital at a reasonable cost and not impair the credit of General. This rate of return would provide an approximate times interest coverage after income taxes of 2.45 times for debt and a combined coverage factor for all interest and preferred dividend coverage of 2.11 times. Relating this 10.58 percent rate of return to our subsequently discussed adopted summary of earnings of General's intrastate operations would result in a gross revenue increase requirement of approximately $104.9 million over existing rates.

But the rate of return of 10.58 percent is premised on General's providing adequate service. As detailed later in this opinion there are serious service deficiencies in General's operation. They have caused a multitude of customer complaints. The public has been unduly inconvenienced, and we expect more of a utility of General's size and resources. To give an incentive for General to take concerted and effective measures to substantially improve its level of service, we are reducing the authorized return on equity 0.5 percent to 13.60 percent (equating to a $7.4 million reduction in revenue requirement). If General shows that the service has been improved to a satisfactory level, we will give consideration to adjusting rates to a level so General can have the opportunity to earn the 14.10 percent return on equity which would be reasonable assuming adequate service.

The penalty for inadequate service may be removed no earlier than December 1, 1981 upon petition for modification of this decision and a convincing showing by General demonstrating improved service. Termination of the penalty shall depend upon a showing on the part of General demonstrating that: (a) the service indices in Appendix D are being met, and (b) reporting units serving at least 90 percent of General's subscribers have dial service indices above the reporting level. If rates are increased by $7.4 million after General's showing, the billing surcharge will be adjusted.

In its briefs and at the oral argument the staff also recommended that if after six months General cannot show an acceptable improvement in service, this Commission should issue an order to show cause why it should not restrict the payment of dividends to GTE. The above provision for penalty on return obviates the necessity of such a show cause order.

V - AFFILIATED INTERESTS

General

As previously stated, GTE is the parent company of more than 60 communication, products, and research and service subsidiaries with operations in 41 states and 18 foreign countries, including the following which transact substantial business with General: Directory Company, Service Corporation, GTEDS, and AE. Since its inception, this Commission has concerned itself with affiliated interests and their impact on the cost of service furnished to the public with the result that certain ratemaking adjustments applicable to the above-listed subsidiary companies have been established through the years. In the aggregate these adjustments included in General's estimates for its overall operations decrease operating expenses by $4,796,000 and rate base by $11,170,000 as contrasted to estimates introduced into evidence by the Commission staff which decrease operating expenses by $4,728,000 and rate base by $12,179,000. For intrastate operations these translate to $4,368,000, $8,994,000, $4,092,000, and $9,812,000, respectively.

AE Adjustment

The Commission staff's position on the return on AE investment was presented by staff financial examiner D. M. Long, while the position on the AE adjustment was presented by utilities engineer H. M. Mirza. AE and its subsidiaries are the developing, manufacturing, supply, and distributing companies for the telephone operating companies controlled by GTE and are the largest non-Bell manufacturers of such equipment in the United States. In our rate decisions on General since 1968 (D.75873, D.79367, D.83779, and D.87505) we have restricted AE's return on equity, applicable to the portion of its investment devoted to serving General, to

12 percent for ratemaking purposes. The 12 percent return on common equity was deemed to approximate the return on common equity of a broad spectrum of American industry.

Both General and the Commission staff developed rate base and expense adjustments for General's purchases from AE based on the principles set forth above. General used 16 percent as the appropriate return on common equity approximating the return on common equity of a broad spectrum of American industry, whereas the staff used its recommended return on equity of 13.25 percent. On an overall basis, General's adjustment to reflect 16 percent return on equity was a decrease in expenses of $657,000 and a decrease in rate base of $11,072,000, and the staff's adjustment was a decrease in operating expenses of $624,000 and in rate base of $12,092,000. Consistent with the 14.10 percent return on equity permitted in the rate of return allowance, we will permit a return on common equity for ratemaking purposes in this matter of 14.10 percent. However, for the years that such an adopted return on equity was not established by prior decisions, the realized return was less than the allowed return with the result that the staff's adjustment of $624,000 for expenses and $12,092,000 for rate base is correct and will be adopted.

Directory Company Adjustment

The Commission staff's position on the Directory Company adjustment was presented into evidence by utilities engineer H. M. Mirza.

With the passage of Senate Bill 301, effective January 1980, this Commission no longer has authority to regulate telephone directory advertising. Because of the competitive nature of the directory business, Directory Company permitted the staff to examine relevant documents without making any duplication, but did not provide such documents as a part of the NOI requirement. Both General's and the staff's adjustments were based on principles incorporated in previous Commission decisions. For test year 1980, the staff used Directory Company's budget data based on 1978 actual data with a 10.25 percent rate of return, and General used budget data based on the actual year 1977 and a 10.3 percent rate of return. On overall operations the staff's adjustment decreased operating expenses $2,501,000 and General's adjustment decreased operating expenses $2,279,000. We will adjust Directory Company's earnings to our adopted 10.58 percent rate of return which, using the staff's later data, results in a decrease in operating expenses of $2,460,000.

GTEDS Adjustment

The Commission staff's position on the GTEDS adjustment was presented into evidence by utilities engineer H. M. Mirza.

GTEDS was formed in the latter part of 1967 principally for the purpose of providing system development and computer facility operations in the General System telephone companies. It was reasoned that these services could be provided at reduced costs by one organization compared to the total expenses that the individual telephone companies would incur if they performed these operations for themselves. On April 1, 1972 GTEDS took over General's computer facilities.

At the present time, GTEDS is performing various functions for the General System telephone companies. These functions include: processing work and microfilm services, the leasing of computer equipment, the local development of programs or systems, and the development of a Business Information System (BIS). Processing work includes customer records and billings, toll computations, and payroll and separations-settlements.

Ratemaking adjustments adopted in recent prior decisions consisted of minor adjustments in the allocation of general and indirect costs among the General System telephone companies and insuring that for ratemaking purposes the rate of return on GTEDS' business with General did not exceed the rate of return allowed for General's utility operations. Both the Commission staff and General developed the GTEDS expense and rate base adjustments based on the principles adopted in previous decisions. The staff adjustment is based on limiting GTEDS' earnings level to 10.25 percent approximating the staff-recommended rate of return while General's adjustment was based on a 10.3 percent rate of return. The staff's 1980 test year adjustment was a reduction in expenses of $1,603,000 and a reduction in rate base of $87,000, and General's adjustment was a reduction in expense of $1,819,000 and a reduction in rate base of $98,000. For ratemaking purposes, we will base our adopted GTEDS expense and rate base adjustment on a 10.58 percent rate of return which translates to a company total decrease to expenses of $1,541,000 and rate base of $84,000.

Future Unregulated Terminal Equipment Affiliates

On April 7, 1980 the Federal Communications Commission (FCC) issued its order, FCC 80-189, Computer Inquiry II, which orders deregulation of all telephone terminal equipment as of March 1, 1982. This FCC order also requires that GTE establish an unregulated terminal equipment subsidiary to take over this unregulated business.

In anticipation of the April 7 order, staff witness Strahl, in Exhibit 52, recommended that General be ordered to present a comprehensive study on the establishment of this unregulated terminal equipment subsidiary and the plans for handling sales of terminal equipment in the future. The staff attorney, at the hearing on May 7, 1980, moved that General be required within six months to submit a plan describing how General intends to establish a separate subsidiary and to handle all matters relating to the sales, installation, repair, and advertising of terminal equipment (RT 2404).

It is apparent that the FCC deregulation order will have a significant impact on General's organization, operation, earnings, and service to the public. With the very short time frame allowed by the FCC order, it is essential that plans be formulated at the earliest possible time to effect these changes in a manner that will be least disruptive to General's operations and have minimum impact on the public. Accordingly, we will order that an appropriate study be submitted by General.

The FCC terminal equipment deregulation order will have a significant effect on General's terminal equipment operation because deregulation will result in a higher level of competition in this area of the business. Consequently, it is anticipated by regulatory authorities and by the telephone industry that there is a need to substantially increase the depreciation accrual rates on terminal equipment due to competition, technological advances, and earlier obsolescense of many of the terminal equipment devices now in service. In relation to the increased terminal equipment depreciation accruals, it is appropriate that the cost burden be placed on users of terminal equipment. Due to the March 1, 1982 deregulation deadline set by the FCC, such depreciation changes can be expected in the very near future. In order that General's terminal equipment operation be made whole with these anticipated increased depreciation charges, it is appropriate that an expeditious rate treatment for this segment of the business be implemented. Accordingly, we are providing that depreciation accrual offset increases in terminal equipment rates may be filed by advice letter subject to Commission resolution action.

Another segment of General's operation that is closely related to the terminal equipment deregulation order by the FCC is in General's provision of the station wiring portion of the station's connection account. While this was not an issue in this proceeding we expect to give it consideration in future rate cases and we will require General to furnish a report on these matters for our future use.

VI - RESULTS OF OPERATION

General

Complete results of operation testimony and exhibits were presented by General and the Commission staff. Substantial differences exist in practically all categories of revenue, expense, and rate base items with the largest of these differences occurring primarily in toll service revenues, maintenance expenses, other operating expenses, depreciation expense, and rate base.

The results of operation data for the utility as a whole was presented into evidence on behalf of General by its vice president-controller, R. L. Giffin, and for the California intrastate operations by its Division of Revenues manager, G. C. Hascall. The staff presentations were made by various subsequently identified staff members. Rebuttal testimony was presented on behalf of General as subsequently discussed.

General's present separations procedure for allocating property costs, expenses, taxes, and reserves to the various intrastate and interstate services follow the procedure set forth in the February 1971 NARUC-SCC Separations Manual incorporated as Part 67 of the SCC rules and regulations. These procedures have been used by both the Commission staff and General in development of intrastate and interstate toll revenues and for development of separated costs for the test year 1980.

According to the record, the separation factors were analyzed by observing the past recorded factors for any significant trends and unexplained changes. After discussion and review, the staff and utility agreed on 1980 level of separation factors. These factors were used to allocate our adopted revenue, expense, and rate base items to General's intrastate operations.

A - REVENUES

General

The staff presentation on operating revenues was introduced into evidence by senior utilities engineer W. M. Franklin.

Revenues are derived from subscribers' telephones and other local services, toll services, and miscellaneous services. An amount for uncollectibles, 1.94 percent of revenues derived by the staff and stipulated to by General, is subtracted from the total revenues to obtain total operating revenues. General's and the Commission staff's 1980 test year operating revenue estimates at present rates are tabulated below, together with the adopted revenues:

Item	General	Staff	Adopted
Local Service Revenue	$ 443,816	$ 440,938	$ 441,881
Interstate Toll Service Rev.	256,186	240,885	250,081
Intrastate Toll Service Rev.	481,514	451,926	469,376
Miscellaneous Revenues	77,638	77,638	77,638
Uncollectibles	(23,252)	(23,501)	(24,036)
Total Operating Revenue	$1,235,902	$1,187,886	$1,214,940

(Red Figure)

<u>Local Service Revenues</u>

Local service revenues consist of monthly charges, message charges, and nonrecurring service connection charges collectively referred to as subscriber station revenue, plus public telephone revenue, service station revenue, local private line revenue, and other local service revenue. The $2,883,000 differences between General's and the staff's estimates reflect differences for message charges and extended area service (EAS). The revenues for both of these categories are derived through settlements with Pacific which provides General its separated cost of providing such services plus a return on its investment in the facilities required to provide such service. The adopted local service revenue estimates, therefore, reflect our subsequently discussed adopted results of operation expense and rate base items.

Toll Service Revenues

Toll revenues consist of interstate and intrastate toll revenues. For interstate toll revenues, General receives its separated cost of providing interstate service plus a return on its investment, known as the settlement ratio, allocated to interstate service. The staff's interstate toll revenue estimate of $240,885,000 is less than General's estimate of $256,186,000 by $15,301,000 and reflects primarily its lower estimates of interstate expenses and taxes.

Intrastate revenues consist of Message Toll, Wide-Area Toll Service (WATS), and Private Line Toll. As with interstate toll, General receives its allocated intrastate toll facility expenses plus a settlement ratio. For purposes of settlements, Pacific estimates the gross billing to be shared by each telephone company. Such billing is referred to as customer billing. The staff's estimate of intrastate toll is $451,926,000 which is $29,588,000 less than General's comparable estimate of $481,514,000. Most of the difference in estimates reflects the staff's lower estimates of intrastate expenses and taxes as well as its lower estimates for customer billing and allocated investment. As with the local service revenues, the adopted toll service revenues reflect the subsequently discussed and adopted expense and rate base items.

Miscellaneous Revenues

Miscellaneous revenues consist of telegraph commissions, directory advertising rent revenues, and other revenues. The staff reviewed General's work papers and found its estimates reasonable. It, therefore, accepted General's estimate of $77,638,000 for miscellaneous revenues.

B - MAINTENANCE EXPENSES

General

The staff presentation of Chapter 8 - Maintenance Expense of the staff Results of Operation report was made by senior utilities engineer C. O. Newman.

Rebuttal testimony was presented on behalf of General by its budget director, L. E. Hegge.

Maintenance expenses consist of the costs of labor and material, together with related administration, overhead, and miscellaneous expenses for the repairs and rearrangement of operating plant. General's network engineering and construction service, switching services, and supply and transportation departments have the primary responsibility for plant maintenance expense. General complies with the FCC Uniform System of Accounts for telephone companies but further subdivides the expense accounts into "R" for repairs and "M" for moves and changes (rearrangements) categories.

The maintenance functions are performed under the general direction of the vice president-marketing and customer service and the vice president-network engineering and construction. The staff estimate of maintenance expense for test year 1980 is $262,464,000 as compared to General's estimate of $313,905,000. The bulk of the $51,441,000 difference (19.60 percent) is due to differences in labor estimates which comprise about 70 percent of the total expense. In general, the staff used employee productivity trends adjusted to normal levels and assumes a normal level of staffing, craft experience, and productivity, for test year 1980, whereas General based its estimates on the average number of employees expected to be employed during that year. The following tabulation compares the 1980 test year estimates prepared by General and the Commission staff, together with the adopted amounts. The bases for the adopted results are discussed in the ensuing paragraphs.

Acct. No.	Account	Staff	Utility	Adopted
		(a)	(b)	(c)
		(Dollars In Thousands)		
	Maintenance Expenses			
602	Repairs	$ 30,055	$ 38,884	$ 35,800
603	Test Desk Work	16,110	23,579	21,000
604	Repairs of Central Office Equip.	94,964	115,862	102,600
605	Repairs of Station Equipment	106,569	122,038	117,160
606	Repairs of Building and Grounds	5,377	5,822	5,377
610	Maintaining Transmission Power	8,494	6,547 a/	8,494
612	Other Maintenance Expense	895	1,173	895
	Total Maintenance Expense	262,464	313,905 315,852 a/	291,326

a/ General stipulated to the staff's estimate of $8,494,000 for maintenance transmission power.

Repairs

Account 602 - Repairs relates to outside plant. The staff accepted General's estimate of labor for moves and changes but adjusted the figures to reflect unpaid time off included in General's estimates. The staff's estimate for repairs is based on a productivity of 1.8 hours per 100 telephones. Recorded productivity ranged from 1.5 in 1976 to 2.0 in 1978. The annual increase in total expense for this account relates closely to the product of the increase in number of employees and the increased cost per employee. Applying this factor to the 1978 recorded amount for this account yields a 1980 test year amount of $35,800,000, which we will adopt as reasonable for the purposes of this proceeding.

Test Desk Work

Account 603 - Test Desk Work covers the costs of operating test and repair service desks while working with trouble repairs. Slightly in excess of 88 percent of the expense included in this account is labor expense in both the staff's and General's estimates. The activity in this category is high due to the increase in the number of complaints resulting from a shortage of trunking and switching gear. Such high activity will probably continue throughout the test year 1980 and possibly beyond. As with the repairs account, we will adopt as reasonable for this account a figure derived from a factor equal to the product of the percent increase in employees and percent increase in cost per employee which computes to $21,000,000 for the test year 1980.

Central Office Equipment

Account 604 - Repairs of Central Office Equipment is divided into the following three subaccounts: central office moves and changes, central office repairs, and frame maintenance. Labor is approximately 80 percent of the total expense for this account and the balance is generally labor-related. Consequently, the differential between the staff's and General's estimates of $20,900,000 (22.01 percent) results from differences in methods used by the staff and General in estimating labor costs.

According to the record switching services, which were established in November 1977 to bring the responsibility of central office maintenance and traffic facilities under one administrative department head, is currently undergoing a complete change including changing from step-by-step (S x S) central offices to new electronic (EAX) central offices, adding switching service operation centers, changing from independent central office operations to remote monitoring systems, and installing electronic gear in S x S central offices. As might be expected, the productivity level temporarily deteriorates during the transition period and, therefore, according to the staff, test year 1980 is an abnormally inefficient year. In preparing its estimates General allowed for such temporary inefficiencies for the test year by basing its expense estimates on budgeted amounts. The staff, on the other hand, applied normalized productivity factors such as hours per year per 100 inward and outward movements and/or hours per 100 telephones.

Here again it appears to us that the reasonable expense to be allowed for this account for ratemaking purposes should be based on the application of the product of increased labor force and increased cost per employee to recorded data. Such a procedure results in an expense for this account of $102,600,000 which we adopt as reasonable.

Station Equipment

General has five subaccounts for Account 605 - Repairs of Station Equipment: moves and changes for large PBX's, repairs for large PBX's, moves and changes for station equipment, repairs for station equipment, and equipment production centers.

The staff adopted General's estimate for the labor charges for moves and changes for large PBX's after adjusting the amount to exclude unpaid time off and $64,000 in overtime. Other adjustments were labor-related. We will adopt the staff's estimate of $574,000 for this portion of the account.

The staff's estimate of labor for repair of the large PBX's was $246,000 less than General's estimate due to anticipated continued productivity improvement as electronic PBX replaces the manual type. The nonlabor portion was adjusted proportional to the labor adjustment. We will adopt the staff's estimate of $4,862,000 for this portion of Account 605.

The staff used General's five-year productivity factor of 1.6 hours per 100 telephones as normal for the equipment service center which resulted in the staff's labor estimate being $911,000 less than General's estimate of $10,248,000. The non-labor differences for this portion of the account reflect the labor differences and the effect of elimination by the staff of overtime included in General's estimate. We will adopt the staff's estimate of $30,824,000 for this portion of the account.

The moves and changes and repairs to the station equipment portion of this account were estimated by the staff to be $70,309,000 and by General to be $81,067,000. As with other previously discussed portions of this account, we will adopt as reasonable a figure derived from the application of increased labor force and cost per employee to yield $80,900,000 for this portion of Account 605.

The total of Account 605 expenses discussed above and adopted as reasonable is $117,160,000.

Buildings and Grounds

The staff's estimate for Account 606 - Repairs of Buildings and Grounds is $5,377,000 for the test year 1980, as compared to General's estimate of $5,822,000. The differences relate to expected improvements in efficiency and productivity due to installation of modern equipment. We will adopt the staff's estimate for this account as reasonable.

Transmission Power

General stipulated to the staff's estimate of $8,494,000 for Account 610 - Maintaining Transmission Power, and we will adopt this figure.

Other Maintenance Expense

Because of the wide fluctuations in Account 612 - Other Maintenance Expense, the staff based its estimate of $895,000 on the average of the last three years' recorded expense. General based its estimate of $1,173,000 on the annualized seven months' recorded 1979 expense. We will adopt the staff's estimate.

C - TRAFFIC EXPENSES

General

The Traffic and Commercial Expense portions of the staff's results of operation report were presented into evidence by utilities engineer M. L. Hodges.

Traffic expenses consist primarily of salaries, wages, and administration costs involved in the handling of telephone calls by switchboard operators and by the central office switching equipment. Traffic expenses are broadly categorized into those components of expenses associated with facilities and with operator services. Included in the former are the costs associated with the design, maintenance, administration, and surveillance of central offices, toll switching, and trunking facilities whereas the expenses associated with operator services include toll, directory assistance, and assistance operator functions.

Traffic Expense Estimates

The traffic expense estimates for test year 1980 as submitted by General and the Commission staff are tabulated below by FCC accounts, together with our adopted amounts.

Acct. No.	Account	Staff	General	Adopted
		(Dollars in Thousands)		
	Traffic Expenses			
621	General Traffic Supervision	$ 5,972	$ 6,281	$ 5,972
622	Service Inspection & Cust. Instr.	1,125	1,239	1,125
624	Operators Wages	62,528	63,762	62,528
627	Operator Employment & Training	2,839	3,430	2,839
*	Traffic Office Expenses	3,673	4,693	3,673
	Total Traffic Expenses	$76,137	$78,385	$76,137

*Includes Accounts 626 and 629-635. General stipulated to staff estimate of $3,673,000.

In general the staff's estimates differ from those of General to reflect later data, accounting procedure changes, operational changes, productivity gains due to modernization of equipment, a declining turnover rate, and/or postponement of anticipated equipment installation. The staff's estimates of traffic expenses appear reasonable and will be adopted.

D - COMMERCIAL EXPENSES

Testimony relating to Account 642 - Advertising, included in Commercial Expenses, was presented on behalf of General by its advertising manager, T. L. Hunter.

Commercial expenses consist primarily of salaries, wages, and administrative costs involved in the handling of customer service order contacts and the collection of revenues; developing and filing tariff schedules and other regulatory matters; the preparation and distribution of telephone directories; intercompany relations and settlements; and marketing and sales functions, including advertising.

The following tabulation sets forth commercial expenses by FCC account number for the test year 1980 as estimated by the Commission staff and by General, together with the adopted amounts.

Acct. No.	Account	Staff	General	Adopted
		(Dollars in Thousands)		
	Commercial Expenses			
640	General Commercial Administration	$ 5,418	$ 5,418	$ 5,418
642	Advertising	2,891	3,931	3,227
643	Sales Expense	10,436	12,261	10,436
644	Connecting Company Relations	972	972	972
645	Local Commercial Operations	65,015	66,123	65,168
648	Public Telephone Commissions	1,939	1,939	1,939
649	Directory Expenses	36,695	37,459	36,695
650	Other Commercial Expenses	9	29	29
	Subtotal before Adjustments	123,375	128,132	123,884
	Retail Sales Adjustment	(338)	(338)*	(338)
	Total Commercial Expenses	$123,037	$127,794	$123,546

(Red Figure)

* Stipulated to by General.

The staff adopted as reasonable General's estimate of $5,418,000 for Account 640 - General Commercial Administration expense, $972,000 for Account 644 - Connecting Company Relations, and $1,939,000 for Account 648 - Public Telephone Commissions. These amounts will be adopted as reasonable for this proceeding.

The staff's estimate of Account 642 - Advertising expense is $1,040,000 less than General's estimate of $3,931,000. This difference consists of a disallowance by the staff engineer of $704,000 national advertising expense and a downward adjustment of $336,000 to Phone Mart expense. According to the staff witness' testimony, the national advertising in question serves to bolster GTE's corporate image rather than to benefit General's ratepayers.

We agree and will disallow the $704,000. With respect to the phone mart adjustment, it is noted that, according to the record, General budgeted $901,000 as the residential portion of its local advertising program for campaigns to sustain the public's image of phone marts. This amount represents an increase of 83 percent over the year 1979 recorded amount. The staff witness believed such an increase was excessive and reduced it by $336,000 to reflect a 15 percent increase over 1979 which he believed reasonable. When consideration is given to the snowballing effect of this type of facility, General's budgeted amount of $901,000 does not appear unreasonable and will be adopted making an Account 642 total of $3,227,000.

The staff's estimate for Account 643 - Marketing and Sales expense is $10,436,000 as contrasted to General's estimate of $12,261,000, a difference of $1,825,000. General's 1979 estimated amount for this account was $10,095,000. The actual level of spending was found by the staff to be considerably below this estimated amount because expanded efforts to gain more customers could not be justified in light of the service problems General was experiencing.

The staff's 1980 test year estimate reflects an increase over the annualized level of actual 1979 expenses of 9.7 percent for inflation and growth. It appears reasonable and will be adopted.

The staff's estimate for Account 645 - Local Commercial Operations is $65,015,000 as compared to General's estimate of $66,123,000, a difference of $1,108,000. This difference is comprised of $803,000 resulting from the use by the staff of a higher productivity factor and a different total station movement and $305,000 in the cost of collecting and processing revenues from coin telephones. General used a productivity factor of 1.50, the lowest experienced by General for this account, as contrasted to the staff's use of 1.42 based on the average for the period 1977 through seven months of 1979. The staff's estimate appears reasonable and will be adopted. General's estimate of collecting and processing revenues from coin telephones reflects a 23 percent increase over 1979 in spite of the fact that revenues were increased by only 3 percent and General is continuing to convert existing telephones to the more cost-effective, single-slot telephones. The staff's estimate is based on the ratio of dollars of expense to dollars of revenue ratio for 1978. It would appear that the use of two-year-old data for computing this expense would be inappropriate as would the use of a 23 percent annual increase in the cost of collections. We will, therefore, adopt a figure halfway between the two estimates for this portion of the expense estimate, resulting in an adopted Account 645 amount of $65,168,000.

The staff's estimate for Account 649 - Directory Expenses is $36,695,000 as contrasted with General's estimate of $37,459,000, a difference of $764,000. General's estimate is based on a contractual rate of 43 percent of estimated revenues whereas the staff's estimate is based on a 41.98 percent rate actually paid over a several years' average. We will adopt the staff's estimate.

The staff's estimate for Account 650 - Other Commercial Expenses is $9,000 as compared to General's estimate of $29,000. The staff's estimate is based on historical average whereas General's is based on 1979 partial year recorded expenses. We will adopt General's estimate.

The staff engineer recommended a $338,000 negative adjustment to Commercial Expenses to reflect time spent by customer representatives in General's Phone Marts on direct sales which provide no benefit to the ratepayer. General stipulated to this adjustment and it will be adopted.

E - GENERAL AND OTHER OPERATING EXPENSES

The staff presentation on General and Other Operating Expenses, excluding Account 672 - Relief and Pensions, was made by utilities engineer H. M. Mirza.

General and Other Operating Expenses consist of two main categories: general office salaries and expenses which include salaries, office supplies, and traveling expenses for general office employees and other operating expenses which include insurance, employees' fringe benefits, pensions, operating rents and general services, and licenses. Tabulated below by FCC accounts are the test year 1980 estimates prepared by the Commission staff and General, together with the adopted results:

Acct. No.	Account	Staff	General	Adopted
		(Dollars in Thousands)		
	General Office Salaries & Expenses			
661	Executive Department	$ 2,272	$ 2,321	$ 2,272
662	Accounting Department	39,737	39,737	39,737
663	Treasury Department	682	682	682
664	Law Department	932	1,042	932
665	Other Gen. Off. Salaries & Exp.	32,120	33,524	32,120
	Subtotal before Adjustments	75,743	77,306	75,743
	Other Operating Expenses			
668	Insurance	$ 1,373	$ 1,373	$ 1,373
669	Accident and Damage	288	288 a/	288
671	Operating Rents	7,757	7,757 a/	7,757
672	Relief and Pensions	77,099	86,564	81,597
674	General Services and Licenses	9,111	14,620 a/	12,382
675	Other Expenses	576	576 a/	576
677	Exp. Charged to Construction - Cr.	(9,843)	(8,015)	(9,843)
	Total Other Operating Exp.	86,361	103,163	94,130
	Total General & Other Operating Expenses	$162,104	$180,469	$169,873

(Red Figure)

a/ General stipulated to the staff estimates.

The staff's estimate for Account 661 - Executive Department reflects a $49,000 downward adjustment from $2,321,000 to $2,272,000 for legislative advocacy expense. This estimate appears reasonable and will be adopted.

General's and the Commission staff's 1980 test year expenses for Account 662 - Accounting Department and Account 663 - Treasury Department are the same. These amounts will be adopted. The staff's estimate for Account 664 - Law Department was estimated by annualizing the first nine months' of 1979 recorded expenses and increasing it by 12.3 percent, the same percentage General increased its 1980 expenses over 1979. For Account 665 - Other General Office Salaries and Expenses the staff estimate reflects the annualization of the first nine months of 1979 recorded expenses which are then projected into 1980. We will adopt these figures in preference to General's estimates because of the utilization of later data.

The staff adopted General's estimates for Account 668 - Insurance and Account 669 - Accident and Damage. In addition, General stipulated to the staff estimate of $7,757,000 for Account 671 - Operating Rents. These amounts will be adopted.

Evidence on Account 672 - Relief and Pensions was presented by research analyst II Christopher Danforth of the Commission staff and rebutted by the director of Insurance and Pension Department of Service Corporation, W. L. Hyland, and by W. N. Sammis, a vice president of the Employee Benefit Plans Department of Johnson & Higgins, an organization of independent insurance brokers, consultants, and actuaries, respectively.

Tabulated below are the 1980 test year estimates of the component parts of Account 672 - Relief and Pensions, as submitted by General and the Commission staff, together with the adopted figures. The bases for the adopted figures are set forth in the text following the tabulation.

Item	Staff	General	Adopted
	(Dollars in Thousands)		
Administrative Costs	$ 1,491	$ 1,491	$ 1,491
Service Pensions	55,279	60,911	57,534
Post Service Pensions	-	-	-
Group Life Insurance	1,766	2,588	1,930
Medical & Dental Insurance	32,939	38,718	36,152
Sickness Benefits	9,861	11,010	10,264
Military Leave	7	6	7
Workman's Compensation	4,505	4,166	4,689
Other Benefits	2,520	2,781	2,623
Total	108,368	121,671	114,690
Capitalized	(31,269)	(35,107)	(33,093)
Net Operating Expense	$ 77,099	$ 86,564	$ 81,597

(Red Figure)

According to the record, General's estimate of $60,911,000 for service pensions was based on the application of the 1979 pension accrual rate developed by the actuary to the estimated 1980 payroll whereas the staff's estimated expense of $55,279,000 ($5,632,000 differential, or 10.2 percent) reflects an accrual rate utilizing recorded employee growth rate through November 1979. Also, according to the record, a portion of the differences in estimates reflects staff adjustments to General's estimated payroll by staff

witnesses Newman, Hodges, and Mirza previously discussed. The annual payroll expense used by witness Danforth for the computation of relief and pension expense component parts was $500,581,610. Consistent with our previously discussed adopted results, we will substitute $521,000,000 as a basis for computing relief and pension items. We will adopt the staff accrual rate based on later data and apply it against the $521 million labor base to derive our adopted service pension expense of $57,534,000.

The staff's estimate for group life insurance expense of $1,766,000 equals the above labor base times a computed participation factor of 95.68 percent and a premium rate of $4.56 per thousand minus an expected refund of 19.15 percent. The refund was based on an average loss ratio of 74.95 percent for the years 1974 through 1977, a conversion and mortality charge of 1.1 percent, and a needed retention of 4.8 percent, a total of 80.85 percent. In rebuttal testimony General utilized a recorded period from 1969 through 1978 to derive a loss ratio of 79.0 percent. To this was added conversion charges of 1.1 percent, a needed retention of 4.8 percent, and a needed margin of 7.5 percent for a total of 92.4 percent needed premium level.

As General's evidence demonstrates, the loss ratio has decreased in recent years, but to allow fully for the risks involved we will adopt as reasonable General's loss ratio of 79.0 percent based upon ten years of experience. However, we are persuaded by the staff that the claimed need for a further margin of 7.5 percent is unwarranted, particularly in view of General's failure to provide data as to the amount of life insurance refunds historically received. For this proceeding we will adopt as reasonable the staff's computed participation rate, a derived premium percentage of 79.0 + 1.1 + 4.8 or 84.9 percent and a premium rate of $4.56 per thousand, and apply these figures to the above $521 million labor base to yield $1,930,000 as our adopted group life insurance figure.

General's estimate for medical and dental insurance expense exceeds the staff's estimate of $32,939,000 by $5,779,000, or 17.5 percent. A major portion of the difference relates to the treatment of margin for fluctuations included in premium rates by all insurance companies. Staff witness Danforth recommended elimination of this margin from the medical insurance premium expense for ratemaking purposes on the basis that historically there have been refunds equal to such margins and it was, therefore, appropriate to remove them from the allowable expenses. Rebuttal testimony presented on behalf of General by witness Sammis indicated that despite the inclusion of normal margins in the advance premium calculations negative balances were experienced in some years necessitating, in his opinion, the retention of an allowance for reasonable margins when computing the medical and dental insurance for ratemaking purposes.

The testimony of witness Sammis clearly explains the reasons why insurance carriers require margins as part of their advance premiums. It provides no basis, however, for ignoring the probability of substantial refunds accruing to the utility due to such margins, which are as witness Sammis testified in excess of the best expert estimates of claims and expenses. We therefore adopt the staff adjustment removing the $1,290,000 margin provided for medical and dental insurance expense in addition to expected losses. For purposes of this proceeding we will adopt General's estimate of $38,718,000 minus $1,290,000 or $37,428,000, adjusted to our adopted labor base or $36,152,000 for this expense.

The staff's estimate of $9,861,000 for sickness benefits is equal to a factor of 1.97 percent applied to the basic $500 million labor figure. The 1.97 percent factor was derived by trending sickness benefits expense as a percent of payroll for the period 1974 through 1978, and multiplying the resultant percent figure by the ratio of the 1978 actual payroll to the 1978 staff adjusted payroll. We will adopt the 1.97 percent ratio applied to the above discussed $521 million payroll figure to yield $10,264,000 as sickness benefits expense.

The staff's estimate for military leave and workers' compensation was based on average percent of payroll for the period 1975-1978 as contrasted to General's use of the July 1979 year-to-date figures. We will adopt the staff's estimate adjusted to our adopted payroll expense to yield $7,000 for military leave and $4,689,000 for workers' compensation.

Other benefits expense primarily consist of an investment plan for management employees. The staff's estimate is based on a percent of management payroll whereas General's estimate is based on a percent of total payroll. Since the expense relates primarily to management payroll, we will adopt the staff's estimate adjusted to our adopted payroll expense or $2,623,000.

The amount capitalized is set forth as 28.85 percent of the total account expense. We will apply this percentage to our adopted $116,106,000, the total of the above discussed adopted figures, to yield a capitalized amount of $33,501,000 and a total Account 672 - Relief and Pensions expense of $82,605,000 for the test year 1980.

The staff's estimate for Account 674 - General Service and Licenses is $9,111,000 as contrasted with General's estimate of $14,620,000, a difference of $5,509,000, or 60.5 percent.

The staff's estimate is based on the 1978 recorded contract billing of $8,853,000 adjusted downward by $1,271,000 to $7,582,000 as recommended by staff financial examiner D. M. Long and further adjusted downward $52,000 by witness Mirza to $7,530,000 to reflect the disbanding of the Organizational Task Force. Based on an annual payroll increase factor of 8 percent and an annual nonpayroll inflation factor of 13.8 percent, General derived a composite inflation factor of 10.78 percent which it rounded down to 10 percent. After review, staff witness Mirza accepted this inflation factor and applied it on a compounded basis to the 1978 adjusted total of $7,530,000 to derive his 1980 test year estimate of $9,111,000.

General's estimate consists of $4,620,000 allocation to General for Western Region expenses which were excluded from the staff estimate and a $10,000,000 allocation to General of Service Corporation headquarters' expenses in Stamford, Connecticut. Some of witness Long's adjustments were contested by rebuttal testimony presented on behalf of General by its vice president-controller, R. L. Giffin, by Service Corporation's vice president-Business/Residence Sector, G. W. Conner, and by Service Corporation's director-Revenues of the Western Region Telephone Operating Group, G. J. Lucken.

Of the $5,509,000 difference between the staff's and General's estimates, $4,620,000 relates to the elimination in the staff's estimate of Western Region expense on the bases that such costs are either a duplicate of Service Corporation headquarters' costs, are of no benefit to General's ratepayers, and/or General has failed to make a positive showing of value received from the regional office.

According to the record, Regional offices were established during 1978 in Indianapolis, Indiana (Northern Region), Irving, Texas (Southern Region), and Los Gatos, California (Western Region), so that the needs of the individual telephone operating companies could be responded to more efficiently through specialized support which enables them to better meet their customers' needs in an economically efficient manner. The Western Region includes General Telephone Company of Alaska, General Telephone Company of the Northwest, Hawaiian Telephone Company, and General. The four major responsibilities of the regional organizations are purported

to be the tactical planning activities to effect strategic plans; major developmental efforts to produce systems, methods, and procedures designed to enhance the effectiveness of telephone company operations; to serve in a consulting capacity to both the Service Corporation headquarters office and the individual telephone companies; and to serve as a focal point for each functional area. Each regional group is headed by a group vice president. Reporting to the group vice president are four regional vice presidents in charge of the Finance; Marketing and Customer Services; Network Planning, Engineering, and Construction; and Personnel Departments. By contrast, according to the testimony of witness Lucken, the responsibility of the Service Corporation headquarters office is to provide strategic direction; to serve as a focal point for conducting studies of costs and other business matters that have system-wide meaningfulness; and to provide for specific nonoperational functions such as insurance and pension administration. Included in the rebuttal testimony of witness Lucken was a 16-page attachment describing the functional responsibilities of the Western Region operating group. A review of this attachment would tend to confirm Service Corporation's stated intention of having the regional office perform those Service Corporation functions most efficiently handled by the regional office while retaining overall direction and nonregional functions in the headquarters office. However, it is equally clear from the record that the impetus for the implementation of the expanded Service Corporation staff and operational functions,

including the establishment of regional offices, is the rapid growth and change in the competitive situations in the telecommunications marketplace. The cost of such expanded operations should not be borne entirely by the ratepayers.

In support of his recommended disallowance of Western Region costs for ratemaking purposes, staff witness Long testified that Western Region is projected as a tactical unit halfway between Stamford's long-term strategic planning and General's operational management. He said that the Western Region's middle-term strategic planning blends with Stamford's long-term strategic planning when dealing with long lead-time technology such as electronic switching equipment. The Western Region is of no benefit to General's operations when dealing with short-term rapid marketplace fluctuations and competitive maneuvering in the telephone industry and is, therefore, of no benefit to General's ratepayers.

Staff witness Long further testified that General should not be allowed a recovery of regional costs in this proceeding because: such costs for 1978 and 1979 consist of start-up, unjustified, and duplicate costs with no immediate benefit to the ratepayer; regional functional responsibilities have not been fully defined nor cost-justified by Service Corporation; costs created by competitive situations in the telecommunications marketplace should not be borne by the ratepayer; and there is duplication of regional costs performed at both headquarters and within General. He also noted that 37 percent of recorded Western Region expenses for the first

nine months of 1979 were employee transfer costs associated with start-up and staffing of the Western Region office and are not annual recurring costs.

After careful consideration of all the factors, we will adopt for ratemaking purposes one-half of the nine months' 1979 Western Region expenses (excluding transfer costs of $1,467,800), annualized and increased by the previously discussed inflation factor of 10 percent, plus one-fifth of the annualized 1979 employee transfer costs previously noted to yield the total adopted amount of $2,260,000 for the Western Region operations. In subsequent proceedings after the Western Region office is fully staffed and its functions fully formalized, the matter will again be reviewed to determine whether a greater or lesser percentage of the Western Region costs should be justifiably assessed against General's ratepayers.

The next largest Service Corporation expense item being disputed in this proceeding is the recorded year 1978 marketing expense of $958,000. Staff witness Long recommends that one-half this amount, or $479,000, be disallowed because it represents development expenses which are incurred for the potential benefit of the shareholders rather than the ratepayers. He stated that the benefit of knowledge as to the marketability of a product or a service accrues to the original manufacturer or vendor of the equipment necessary for the service. The five generic roles this witness believes Service Corporation's Marketing Department plays in the GTE corporate strategy are: preventing volume erosion, upgrading service, lowering system costs, representing the GTE system, and stimulating growth.

In his rebuttal testimony witness Giffin addressed five areas of alleged marketing benefits: residence sales, business sales, market planning, marketing services, and market analysis. He refers to a proposed Phone Mart Operation's Guide as a future benefit to residence sales by reducing waiting time in the Phone Mart, to a sales training school and business sales center which will be a benefit to business sales, and to various studies and training workshops provided for General's personnel to assist in meeting projected demands in support of his position that the marketing services provided for General by Service Corporation are of benefit to General's customers and should be fully funded. In further defense of this position witness Conner presented rebuttal testimony indicating that developmental activities reflected in marketing expense are beneficial to General's ratepayers by keeping abreast of the latest state-of-the-art technology; that only a minor amount of marketing effort is dedicated to product investigation and of this only a small portion can be conceived as a building block for manufacturer's research; and that the disallowances recommended by staff witness Long are of benefit to General's ratepayers by providing for the maintenance of good service, assisting General in prudently managing its business, and/or providing customers an opportunity to evaluate available services and products. He further testified that nonregulated, planned competitive activities have been organized into a separate subsidiary called the Communications Network System Group which operates as a distinct profit center with none of its costs being prorated to the GTE telephone companies.

After review of the facts of this matter, it appears that a portion of the marketing expenses assessed General should not be borne by the ratepayer, but that the 50 percent disallowance recommended by the staff is excessive. We will, therefore, treat as a disallowance one-fourth of the 1978 expense, or $240,000, and appropriately reflect such an amount in the 1980 test year adopted expenses.

Service Corporation retains a separate staff in Washington, D.C., to act as the liaison for the GTE system with the federal government. This office gathers, analyzes, and distributes information to and from most federal offices and agencies which impinge on the telecommunications industry. In past decisions this Commission found that it was impossible to separate the furnishing of information which is a legitimate ratemaking expense from legislative advocacy which is not and therefore disallowed 50 percent of the expenditures as being fair to both the utility and its ratepayers. Consistent with this policy, staff witness Long recommended a disallowance of 50 percent of the Washington office 1978 expense of $207,000, or $103,500. We will adopt this recommendation.

Staff witness Long took issue with an allocation of $55,900 reportedly charged to General representing an allocation of $225,000 International Treasury activities to the Telephone Operations Group on the basis that International Treasury activities are not for the benefit of California operations and General's ratepayers should not be burdened with such an expense. We agree. However, in rebuttal testimony, witness Giffin stated that the allocation of the International Treasury function to Telephone Operations Group was 1.13 percent of the

total treasury expense and not the 37.06 percent overall Treasury Department factor used by witness Long. We will, therefore, disallow the correct figure, $1,706 rounded to $2,000, equal to the product of the total 1978 International Treasury expense, the 1.13 percent factor to telephone companies, and the .2197 California prorate factor.

Staff witness Long's review of Service Corporation Engineering and Network Facilities budgeted expenses indicated to him that $55,000 of General's allocated share of the expense was properly assignable to the product companies and recommends disallowance of this amount from 1978 recorded expenses. We agree and will accept this disallowance.

The Human Resources (HR) Department of Service Corporation deals with organizational planning, executive training and education, benefits, college relations, affirmative action, and an accelerated executive recruiting and training program. HR's activities encompass the telephone operating companies throughout the GTE system. Witness Long recommends disallowance of $78,000 of the 1978 HR recorded expense and $40,000 from the 1978 Personnel Department expense on the basis that changes made for the benefit of the overall corporate good of GTE can mitigate against the best interests of the California ratepayers.

Rebuttal testimony by witnesses Giffin and Conner defended the appropriateness of the above expenses on the bases that the management placement programs provided a much broader base for the selection of the best talent available throughout the GTE system and did not limit the selection to General's present employees as would have been the case were the management placement programs not in effect. General's position is well taken and we will not adopt the staff's recommended disallowances.

The Organizational Task Force was set up by Service Corporation in 1977 to study, develop, and recommend the organizational structure appropriate for the GTE Telephone Operating Group. The Task Force was disbanded in 1978 and staff engineer Mirza disallowed the 1978 recorded expense of $52,000. We will adopt this disallowance.

The final two disallowances of 1978 recorded expenses recommended by the staff witness were $16,000 related to an allocation of costs resulting from the sale of GTE Upstate New York, Inc. and $19,000 allocation of a servicing fee for Quebec Telephone acquired from the Bell System. Neither of these expenses is related to General's operations and, therefore, we will adopt the staff's recommendation with respect to them.

In summary, we will adopt a 1980 test year expense for Account 674 - General Service and Licenses of $12,382,000 computed as follows:

Item	Amount (In Thousands)
1978 License Contract Expense	$ 8,853
Adopted Disallowances	
Treasury	2
Marketing	240
Engineering and Network	55
Washington Office	104
GTE Upstate New York Sale	16
Quebec Servicing Fee	19
Organizational Task Force	52
Total Disallowances	488
Adjusted 1978 License Contract Expense, excluding Western Region	$ 8,365
$8,365 x 1.21 (10 percent compounded)	$10,122
Plus Western Region Expense	2,260
	$12,382

Public utility financial examiner III K. K. Louie recommended that General revive its allocation method used prior to January 1, 1978 to allocate all general office salaries in and above the salary grade level of manager to construction for both accounting and ratemaking purposes. Staff witness Mirza adopted this recommendation for the 1980 test year accounting for the $1,828,000 difference between the staff's and General's Account 677 estimates. In his rebuttal testimony witness Giffin stated that the salaries of general office and area personnel above the salary grade of manager in the Network Engineering and Construction Department are already capitalized in proportion to the work performed, but that general office managers and above in executive, financial, legal, personnel, public affairs, and revenue requirements are only indirectly involved in the construction effort and, therefore, these salaries are fully expensed by General. Given the magnitude of General's current construction program, it is difficult to conceive of any of the managerial personnel not being involved in one way or another. Consequently, we will adopt the staff's recommendation.

F - TAXES

Testimony and exhibits on ad valorem and other state and local tax expenses were presented by utilities engineer M. F. Yee, on payroll taxes by research analyst II S. A. Miller, and on taxes based on income by financial examiner N. C. Fabian.

Rebuttal testimony and exhibits on income taxes were presented on behalf of General by a partner of the tax division of Arthur Anderson & Company, C. O. Livingston.

Tabulated below are the 1980 test year estimates of taxes other than income as presented by General and the Commission staff, together with our adopted figures:

Acct. No.	Account	Staff	General	Adopted
		(Dollars in Thousands)		
	Operating Taxes			
307.1	Ad Valorem Taxes	$32,440	$33,429*	$32,440
307.4	Other State and Local Taxes	170	170	170
	Subtotal	32,610	33,599	32,610
	Payroll Taxes			
307.5	California Unemployment Insurance	2,345	2,349	2,347
307.6	Federal Unemployment Insurance	746	940	848
307.7	Federal Insurance Contribution Act	21,152	22,959	22,256
	Subtotal	24,243	26,248	25,451
	Total Taxes Other Than on Income	$56,853	$59,847	$58,061

* General stipulated to the staff's estimate of $32,440.

General stipulated to the staff's estimated ad valorem taxes of $32,440,000. The staff adopted General's estimate of $170,000 for other state and local taxes consisting primarily of business licenses. These figures will be adopted.

General's estimate of 1980 test year payroll taxes of $26,248,000 is $2,005,000, or 8.3 percent higher than the staff's estimate. As can be seen from the above tabulation, the bulk of this difference, $1,807,000, is in Account 307.7 - Federal Insurance Contribution Act (FICA) tax. The staff used a frequency distribution in calculating the amount of payroll subject to FICA tax whereas General used average wages generated from its budget model. In addition, the staff's payroll tax estimates reflect previously discussed labor force reductions. According to the record, the staff's estimate reflects 26 percent of the company's average employees' earning in excess of the $25,900 FICA base for test year 1980 and 2,530 hourly employees' earnings, an average of $28,000 per year. Such an estimate would exclude approximately $5,313,000 from the FICA tax base which at the current rate of 6.13 percent would equal approximately $325,000. The $28,000 salary level is approximately 60 percent above the estimated 1980 average salary and approximately 25 percent above the latest approved highest hourly salary currently in effect. It appears that relatively few hourly workers, if any, will have sufficient overtime and/or premium time to average $28,000 a year or even exceed the FICA base of $25,900. We will, therefore, eliminate that

portion of the staff adjustment. For the balance of the payroll taxes, we will proportion the payroll taxes to the previously discussed adopted payroll to yield payroll taxes of $25,451,000.

Taxes based on income include California Corporation Franchise Tax (CCFT) and Federal Income Tax (FIT). The following tabulation sets forth the 1980 test year estimates of tax basis adjustments for income tax calculations as presented by General and the Commission staff, together with the adopted results:

Utility Exceeds Staff: Amount	Utility Exceeds Staff: Percent	Item	Staff	General	Adopted
			(Dollars in Thousands)		
		Tax Depreciation			
$ (2,592)	(13.2)	State	$ 19,559	$ 16,967	$ 19,559
(3,041)	(12.2)	Federal	24,832	21,791	24,832
1,200	100.0	CCFT Accrual Amort.	-	1,200	-
1,190	100.0	State Inc. Tax Adj.	-	1,190	-
(13,694)	(43.79)	Relief & Pensions Cap.	31,269	17,575	17,575
971	8.17	Payroll Taxes Cap.	11,888	12,859	11,888
(654)	(8.42)	Sales & Use Tax Cap.	7,767	7,113	7,767
3,064	3.28	Fixed Charges	93,434	96,498	105,119
-	-	Pref. Stock Dividends	77	77	77
(912)	(100.0)	Amort. Def. Tax Reserve	912	-	912
(1,394)	(11.1)	Investment Credit	12,540	11,146	12,540
		Total	$202,278	$186,416	$200,269

(Red Figure)

Normalization Subject to Refund

The full benefit of accelerated depreciation was flowed through for the full development of the CCFT. The staff used the same methodology as General for development of federal income tax on a normalized basis. Under normalization the tax effect (savings) from the additional tax depreciation using accelerated depreciation is calculated and placed in a reserve account which is deducted from rate base for ratemaking purposes. A portion on the resultant tax savings is subject to refund pursuant to D.87838 and D.91337.

In D.91337 we discussed at length our efforts to preserve Pacific's and General's eligibility for accelerated depreciation and the investment tax credit (D.91337 mimeo. p. 40b et seq.). We also expressed our concern of the past actions of Pacific which serve not to preserve the eligibility which it claims is so vital to its financial health, but which undermine that eligibility. Our purpose in permitting full normalization, subject to refund, in D.91337 was to preserve eligibility for Pacific and General while they pursued litigation to a conclusion regarding their tax status under Internal Revenue Code Sections 46(f) and 167(l). We stated our concern that Pacific and General make a good faith effort in seeking to retain eligibility (D.91337 mimeo. p. 40c - 41):

> "The companies should be aware that the Commission could at any time order current rate setting under AA and AAA, even before a final ruling on the eligibility question. Such action could be taken if the Commission found that the companies were not making a good faith effort in seeking to retain eligibility."

We admonish General again to proceed diligently and in good faith to pursue its litigation efforts to retain eligibility. Accordingly, while this decision allows General to collect from its ratepayers an amount which includes these tax savings, these amounts are subject to refund in accordance with our discussion above.

Tax Basis Depreciation Adjustments

Tax basis depreciation adjustments relate to the difference between depreciation expense used for tax purposes and depreciation expense capitalized for book purposes. For the test year 1980, the staff's estimate for this item exceeds General's by $3,041,000 for federal taxes and $2,592,000 for state taxes due to differences in the staff's and General's estimates of test year depreciation. Consistent with our adoption of the staff's depreciation expense as subsequently discussed, we will adopt the staff's tax basis depreciation adjustments.

CCFT Tax Basis Adjustments

In its 1980 test year estimates General included a CCFT accrual amortization amount of $1,200,000 and an income tax adjustment of $1,100,000. On the basis that CCFT is calculated on an income year basis for ratemaking purposes, the staff excluded tax basis adjustments relative to CCFT. We will accept the staff's position on these items.

Relief and Pensions Capitalized

For test year 1980 the staff's estimate for relief and pensions capitalized for income tax computation purposes is $13,694,000 greater than General's estimate of $17,575,000. In making its estimate staff witness Fabian included the entire amount of relief and pensions capitalized $31,269,000 as contrasted with General's inclusion of only the pro rata share of this capitalized item related solely to service pensions.

Witness Fabian testified that the bases for the staff's estimate is Income Tax Ruling 3408, 1940-2 CB178, which provides that the entire amount capitalized may be deducted in the current year, and Revenue Code Section 404, which permits capitalized pension costs as a current deduction for income tax purposes. Income Tax Ruling 3408, issued in 1940, relates specifically to sickness and accident benefit and pension costs. She further testified that D.90642 dated July 31, 1979 on Pacific's A.58223 for a general rate increase ordered the entire amount of pension and benefit costs capitalized to be deducted for income tax calculation purposes.

This position was refuted by rebuttal witness Livingston whose presentation indicated that: General first claimed a deduction for pensions and life insurance premiums capitalized in a refund claim for the year 1948 and such a deduction, together with a correlative reduction in the depreciable tax basis of the associated plant, was permitted by IRS; a published ruling, such as I. T. R. 3408, is limited in applicability to the specific factual situation involved in the request for the ruling and may not have the same result with respect to another ratepayer unless all material facts are identical with those of the reported case; for General to adopt the staff's recommended procedure it would be necessary for General to file a change in accounting method with IRS and that recent actions by the courts and IRS cast great doubt as to whether such a change would be allowed; and Continental Telephone Company (Continental) applied for such an accounting method change and was refused.

The record further shows that Pacific's inclusion of the entire capitalized pension and benefits amount as an income tax deduction as ordered by D.90642, supra, did not reflect a procedural change as Pacific was previously deducting the entire amount.

Because we are dealing with the test year 1980 and it is impossible for General to receive IRS approval to modify its accounting methods to include all capitalized relief and pensions as a deduction for income tax calculations, we will adopt General's estimate for this proceeding. We place General on notice, however, that we expect it to attempt to obtain the requisite approval and, in its next general rate increase application matter, will provide for the inclusion of the entire amount unless General can establish by competent evidence that it sought and diligently pursued authorization for such an accounting change. If refused such authorization we will then examine the ratemaking options available to us.

Payroll and Sales and Use Taxes

General's and the staff's estimates of these two taxes differ by $317,000, or 1.6 percent. The difference is due to differences in estimates by the staff and utility as to the amount of expense capitalized. Consistent with our adopted operating results, we will use $11,888,000 for payroll taxes capitalized and $7,767,000 for sales and use tax capitalized for test year 1980.

Fixed Charges

General's estimate of $96,498,000 in debt expense is based on the inclusion of short-term CWIP in rate base. This amount is 97.387 percent of the total fixed charges. Consistent with our adopted capital structure and cost factors, we will adopt a cost of long-term debt of $98,909,000 (annual charge as of December 31, 1979) plus the annual charge of 1980 issues and a short-term debt cost of $9,030,000, a total of $107,939,000. Applying the above factor of 97.387 percent to this total yields $105,119,000 in fixed charges which we will adopt as being reasonable for the computation of income taxes based on the inclusion of short-term CWIP in rate base.

Amortization Deferred Tax Reserve

The Revenue Act of 1978 provided that the corporate income tax rate commencing with the year 1979 would decrease from 48 percent to 46 percent for taxable income in excess of $100,000.

As a result of this Act, the staff determined that General's deferred tax reserve contained $9,121,000 of prior credits attributable to the older 48 percent rate. The staff testified that because of the reduction in rate, the excess sum in the reserve should be returned to the ratepayer. Accordingly, the staff recommended that the accumulated tax expense dollars be refunded to the ratepayers over a 10-year period in the form of a rate reduction. The deferred tax reserve would likewise be adjusted over the 10-year period. Thus, there would be a ratemaking adjustment of a tax expense reduction each year of $912,100 and a reduction to the deferred tax reserve of $912,100 each year consistent with the treatment accorded Pacific's deferred tax reserve in D.90642, supra.

We adopt this methodology for the amortization of the tax deferral resulting from the change in income tax rates from 48 percent to 46 percent.

Investment Credit

Investment credit realized on plant additions since 1971 is amortized over the life of the plant additions. The staff's estimate of $12,540,000 exceeds General's estimate of $11,146,000 by $1,394,000, or 11.1 percent. The difference reflects the use of full-year convention by the staff and half-year convention by General. On the basis that investment tax credit accrues to General without regard to the time of plant acquisition during the year, we will adopt the staff's estimate.

Incremental California Franchise Tax Rate

The State Franchise Tax Board has taken the position that General's CCF tax liability should be determined with reference to a combined report of the GTE system. Such a report utilizes a three-factor formula which determines the relationship of California wages, revenues, and average net tangible property of all GTE operations in California to the same items for the total GTE system. Consistent with the treatment of other utilities filing CCFT on a combined report basis, the staff computed CCFT using an effective tax rate with the statutory rate as a floor. According to the reocrd, an analysis of the available combined report data indicated that on the average General's tax rate was less than the statutory rate so the staff used the statutory rate. Inasmuch as a revenue increase affects only one of the three factors and was applicable only to intrastate operations, the staff

developed an incremental tax rate for any increase in rates of 1.68 percent which was used in the development of its recommended net-to-gross multiplier of 1.91.

The issue of the use of the incremental California franchise tax rate for ratemaking purposes was discussed fully in D.90642, supra. This matter is also under review in OII 24. Until the resolution of OII 24 we see no reason to depart at this time from the methodology adopted by the Commission in the noted decision. We, therefore, adopt the staff's rate of 1.68 percent to be used in the development of the net-to-gross multiplier of 1.91.

Adjustment for Interest During Construction (IDC)

The staff's estimate of adjustment for IDC is $1,727,000 as compared to General's estimate of $1,092,000, a difference of $635,000, or 36.8 percent. Such a difference results from different treatment of noninterest-bearing CWIP in rate base. Consistent with our subsequently discussed adoption of short-term CWIP in rate base treatment, we will adopt General's estimate of $1,092,000 IDC expense.

CCFT Flow Through

The CCFT flow-through expense item adjustment reflects the different levels of the CCFT expense estimated by the Commission staff and General. The staff's estimate for this item was a negative adjustment of $2,392,000 as compared to General's estimate of a negative adjustment of $2,823,000, a difference of $431,000. Consistent with our adopted results of operation item, we will adopt the staff figure of a negative $2,392,000 as the CCFT flow-through adjustment.

Affiliate Adjustments

As previously discussed, we have adopted an AE adjustment of a negative $624,000, a Directory Company adjustment of a negative $2,460,000, and a GTEDS adjustment of a negative $1,541,000.

Employee Store

General has employee stores that are operated by 11 full-time clerks, two supervisors, and one superintendent for the presumed benefit of its employees in 11 locations. Staff witness Newman adjusted expenses downward by $306,000 because, in his opinion, the stores are of no benefit to the ratepayers and of questionable benefit to General's employees. General argues that the store represents a legitimate fringe benefit to its employees and the expense thereof should not be disallowed. We agree and will not adopt the staff's recommended disallowance.

Payroll Adjustment

The staff made a base payroll adjustment of $4,449,000 resulting in net adjustment to expense of $1,800,000 and to rate base of $600,000 to correct allegedly overly high estimates of payroll by General resulting from an inappropriate estimating methodology. Appropriate payroll adjustments were included in our previously discussed adopted results of operation items. Consequently, no further adjustment is necessary.

G - TELEPHONE PLANT, DEPRECIATION EXPENSE AND RESERVE, AND RATE BASE

General

Exhibits and testimony on Chapter 13, Telephone Plant, and Chapter 15, Rate Base, were presented by senior utilities engineer B. Y. Tan and testimony and evidence on Chapter 14, Depreciation Expense and Reserve, was presented by utilities engineer M. F. Yee. Financial examiner III K. K. Louie presented testimony and evidence on an audit report on the results of examination of General. A number of his recommendations related to capital and rate base adjustments which were reviewed and in most instances adopted by staff witness Tan in the preparation of those portions of the results of operation report for which he was responsible. Witness C. L. Livingston presented rebuttal testimony on subsequently discussed portions of the capital and rate base chapter. Tabulated below is the test year 1980 estimated rate base as prepared by the Commission staff and General, together with the adopted amounts.

Item	Staff	General	Adopted
	(Dollars in Thousands)		
Telephone Plant			
Telephone Plant in Service	$3,309,384	$3,318,570	$3,309,384
Property Held for Future Use	1,150	1,438	1,318
Total Beginning-of-Year Plant	3,310,534	3,320,008	3,310,702
Weighted Average Net Additions	186,698	203,447	186,698
Telephone Plant in Service	3,497,232	3,523,455	3,497,400
Depreciation Reserve	(869,772)	(864,512)	(869,772)
Weighted Avg. Net Tel. Plant	2,627,460	2,658,943	2,627,628
Materials and Supplies	30,850	35,250	32,147
Working Cash Allowance	(53,802)	(2,423)	(43,136)
Normalized Tax Reserve	(287,266)	(288,910)	(287,865)
Adj. Cap. Employee Exp.	(955)	-	(310)
Average Noninterest Bear. CWIP	-	188,054	152,508
Depr. Reserv. Adj. Emp. Expense	372	-	121
Rate Base Before Adjustment	2,316,659	2,590,914	2,481,093
IDC	25,988	16,765	16,765
CCFT Flow Through	17,535	18,134	17,535
Automatic Electric	(12,092)	(11,072)	(12,092)
GTE - Data Services	(87)	(98)	(84)
Payroll Adjustment	(584)	-	-
Total Rate Base	$2,347,419	$2,614,643	2,503,217

(Red Figure)

Telephone Plant In Service

The test year 1980 beginning-of-year telephone plant in service was estimated by the staff to be $3,309,500,000 and by General to be $3,318,600,000, a difference of $9,100,000, or 0.3 percent. The beginning test year 1980 balance was derived from adding to the beginning-of-year 1979 balance construction expenditures and deducting therefrom changes in CWIP and retirements. Both

General and the Commission staff had beginning-of-year 1979 telephone plant service balances of $2,902,400,000 and construction expenditures of $541,000,000. The staff estimated its weighted average CWIP based upon comparison of historical ratios between construction expenditures (without IDC) and weighted average CWIP. The staff's estimate of change in CWIP of $24,700,000 appears reasonable and will be adopted.

The staff's estimated retirements are mainly based on analysis of retirements and gross additions by major budget categories by the use of three- and five-year averages of retirements to growth additions. The staff's estimate of $109,199,000 appears reasonable and will be adopted resulting in our adoption of the beginning-of-year telephone plant service staff estimate of $3,309,384,000 for test year 1980.

Property Held for Future Use

The staff's estimate for this item for the 1980 test year is $1,150,000 as contrasted to General's estimate of $1,438,000. The staff's estimate is based primarily on the records as of February 28, 1979 and reflects the adjustment recommended in the staff financial audit report in the amount of $434,000 consisting of $168,000 for Amado Road Palm Springs property and $266,000 for Gonzales Road Oxnard property. In rebuttal testimony witness Gibson testified that the Amado Road property was paved for a parking lot and placed in service on January 19, 1980. We will accept the staff's accountant recommendation with respect to the Gonzales Road property and adopt for purposes of this proceeding property held for future use in the amount of $1,318,000 equal to the staff's estimate of $1,150,000 plus the above-mentioned $168,000 Amado Road adjustment.

Weighted Average Net Additions

The staff's estimate of weighted average net additions was $186,698,000 as contrasted to General's estimate of $203,447,000, a difference of $16,749,000, or 9.0 percent. The staff calculated the weighted net additions by using a weighting factor of 48.35 percent of total net additions. This factor was derived from the average percentage of weighted average net additions to total net additions over the five-year period from 1974 through 1978. General utilized a 50 percent weighting factor. Consistent with our adoption of the staff's estimates of changes in CWIP and retirements we will adopt the staff's weighted net additions estimate of $186,698,000.

Depreciation Expense

The staff's estimate for 1980 test year depreciation expense was $228,408,000, excluding a $21,000 adjustment reflecting the application of the overall depreciation rate of 6.765 percent to our subsequently discussed capitalized payroll taxes, pensions and benefits, and general expenses adjustment of a negative $310,000, as contrasted to the utility's estimate of $207,925,000, a difference of $20,483,000, or 9.0 percent. The higher staff estimate results from average plant balances previously discussed and higher depreciation rates. The straight-line remaining-life depreciation rates used by the staff for test year 1980 are rates submitted by General for the year 1980 in response to a staff data request whereas General used 1979 depreciation rates applied to the test year 1980. Consistent with our previously discussed adoption of

the staff estimate of plant balances and the use by the staff of later data for the computation of a depreciation expense, we will adopt for purposes of this proceeding the staff's depreciation expense estimate of $228,408,000 adjusted downward to $228,387,000 as above described.

Depreciation Reserve

The staff's 1980 test year weighted average depreciation reserve, less adjustments, is estimated to be $869,772,000 as compared to General's estimate of $864,512,000, a difference of $5,260,000, or 0.60 percent. The following tabulation sets forth the depreciation reserve as estimated by General and the Commission staff. We adopted the staff's estimates for the reasons subsequently discussed.

Item	Staff	General
	(Dollars in Thousands)	
Beginning-of-Year Depreciation Reserve	$ 814,196	$ 824,069
Depreciation Expense	228,408	207,925
Depreciation-Clearing Accounts	6,451	7,036
Retirements	(181,862)	(176,834)
Cost of Removal	(7,332)	(7,196)
Gross Salvage	50,188	49,652
Acquired Through Purchase	300	300
End-of-Year Depreciation Reserve	910,349	904,952
Net Additions to Reserve	96,153	80,883
Weighted Additions to Reserve	55,576	34,148
Weighted Average Depreciation Reserve	$ 869,772	$ 864,512

(Red Figure)

It will be noted that the primary differences in the estimates are in the beginning-of-year depreciation reserve, the depreciation expense, the amount of retirements, and the amount of additions to the reserve and the weighting factor applied to these net additions to obtain weighted net additions.

The staff's beginning-of-year depreciation reserve differential consists of $348,000 higher depreciation expense for central office equipment due to the use of a higher composite depreciation rate, $12,077,000 higher retirement estimate as previously discussed, a $958,000 higher removal cost based on historic five-year data rather than General's budgeting procedure, and $2,814,000 higher gross salvage due to the use of five years of historic data rather than the use of informed judgment as used by General.

The staff's depreciation expense estimate as previously explained is $20,483,000 higher than General's due to the use of 1980 accrual rates for test year 1980 rather than 1979 rates used by General for 1980.

The staff's retirement estimate exceeded General's by $5,028,000 as previously discussed.

The staff's weighted additions to reserve is equal to 57.80 percent of net additions. The 57.80 percent factor was derived from five years' recorded data.

The staff's above listed estimates resulting in a weighted average depreciation reserve of $869,772,000 are consistent with our previously discussed and adopted depreciation expense and reserve figures and will be adopted. As previously discussed, our adopted capitalized general and other, payroll, and pensions and benefits expense was adjusted from a negative $955,000 to a negative $310,000. The weighted average depreciation reserve figure reflecting our $310,000 adjustment is a positive $121,000 adjustment to depreciation reserve.

Materials and Supplies

General's estimate of test year 1980 materials and supplies is $35,250,000. The staff's estimate used $35 million as a base estimate and adjusted this figure downward for materials paid for but not received in the amount of $1,300,000 and accepted the financial examiner's audit report recommended adjustment of $2,853,000 for pre-1979 uninvoiced receipts to yield a net materials and supplies estimate of $30,850,000. General argues that since materials paid for but not received are not included in materials and supplies, a disallowance of this amount is inappropriate. We agree. With respect to the staff's financial examiner's recommendation that $2,853,000 for pre-1979 materials received but not yet invoiced, General argues that the balance should either be included in materials and supplies or deducted from the "credit from suppliers" portion of the working cash study. The "credit from suppliers" reflects the amount of credit extended rather than the use to which it will be put. Consequently, for ratemaking purposes we will adopt a materials and supplies amount of $32,147,000 equal to the staff's initial estimate of $35,000,000 less the $2,853,000 uninvoiced receipts and will not make a similar adjustment to "credit received from suppliers".

Working Cash Allowance

Working cash allowance compensates investors for funds provided by them which are committed to the business for the purpose of maintaining minimum bank balances and for paying operating expenses in advance of receipt of offsetting revenues. The staff computed the working cash allowance to be a negative $53,802,000 as contrasted to General's estimate of a negative $2,423,000, a difference of $51,379,000, or 95.5 percent. One of the components of working cash is the average dollar amount available from collecting revenues from ratepayers in advance of the payment of expenses. One of the principal differences between the staff's and General's computation of the working cash requirement results from the use of zero lag days for the collection of federal income tax by General as compared to the use of 265.21 lag days for this item by the staff. The effect of this difference was an additional working cash requirement of $13,010,000 as computed by General and a reduction in the working cash requirement of $13,593,000 as computed by the staff, a total difference of $26,603,000. The principal reason for this difference was that General reduced federal income taxes payable by the amount of ITC available to it and further reduced the working cash available by the amount of state deferred taxes flowed through to the ratepayers for ratemaking purposes. To emphasize this substantial difference, General presented rebuttal witness C. O. Livingston who recomputed the staff's working cash allowance using the staff's figures except that unamortized investment tax

credit of $34,260,000 and state deferred taxes of $4,429,000 flowed through to the ratepayers for ratemaking purposes were both assigned zero lag days. The following tabulation compares the working cash allowance as originally computed by General, as computed by the staff, and as computed by rebuttal witness Livingston, together with our adopted results. The bases for our adoption of the individual items are set forth in the ensuing paragraphs.

Item	General	Rebuttal	Staff	Adopted
	(Dollars in Thousands)			
Operational Cash Requirements				
Compensating Bank Balances	$ 19,434	$ 11,500	$ 11,500	$ 16,500
Working Funds	269	267	267	268
Miscellaneous Special Deposits	1,343	1,905	1,905	1,624
Miscellaneous Receivables	7,116	8,582	8,582	7,849
Prepayments	8,188	8,506	8,506	8,347
Other Deferred Credits	4,244	1,286	1,286	2,349
Total Gross Requirements	40,594	32,046	32,046	36,937
Deductions				
Avg. Amount Available from Collecting Rev. before Exp.	(13,010)	(12,682)	13,593	13,593
Excise Tax	8	70	70	39
City Users Tax	25	37	37	31
Employees' Withholdings	6,170	5,481	5,481	5,825
Other Deferred Credits	998	772	772	885
Revenue Settlements	12,916	10,895	10,895	11,700
Credit Rec. from Suppliers	35,910	55,000	55,000	48,000
Total Deductions	43,017	59,573	85,848	80,073
Working Cash Allowance	$ (2,423)	$ (27,527)	$ (53,802)	$ (43,136)

(Red Figure)

General derived its 1980 test year compensating bank balance of $19,434,000 by growing the 1977 bank balances estimated to be $13 million by the ratio of test year 1980 revenues plus expenses to 1977 revenues plus expenses. The staff believes such a method unacceptable because using such a procedure to compute the year 1978 compensating bank balances would yield a figure of $14.8 million rather than the actual year 1978 $10.7 million figure. Consequently, the staff used the average of General's 1979 and 1978 computed balances, rounded it upward to $12.0 million, and then reduced it by the $500,000 used by General to justify an additional employee in the Treasury Department.

The staff's method ignores General's growth and General's method ignores variance in 1978 computed amounts. Consequently, we will adopt the average of General's 1977 and 1978 computed balances increased by the ratios of revenues plus expenses to the base years figures to derive $16.5 million as our adopted compensating balance figure.

Because of the relatively minor differentials involved, we will adopt the average of General's and the staff's estimates of working funds, miscellaneous special deposits, miscellaneous receivables, prepayments, excise tax, city users tax, and employees' withholdings.

The differential of $2,958,000 between the staff's and General's estimates of other deferred charges consists of the following staff disallowances: $397,000 employee store inventory, $200,000 decorative phone inventory, $1,655,000 for exclusion of suspended transactions, and $240,000 exclusion for inactive materials in process of fabrication. We will adopt as reasonable

the staff's recommendations with respect to the $240,000 for materials in process of fabrication and $1,655,000 for suspended transactions but not the $307,000 for employee store inventory nor the $200,000 for decorative phone inventory and, thereby, derive an amount for other deferred charges of $2,349,000.

General's position is that in a lead/lag study for the working cash allowance, the unamortized portion of investment tax credit should be separated out of the federal income tax expense for ratemaking and assigned zero lag days. The staff's position is that the total federal income tax allowable for ratemaking should be used for computation in the working cash study. It is General's position, as testified to by rebuttal witness Livingston, that the staff's method for the computation of working cash allowance would result in an indirect reduction in rate base prohibited by Section 46(f)(2) of the Internal Revenue Code under penalty of losing eligibility for investment tax credit.

What are the allowable operating expenses is the key question in this case. In estimating the working cash allowance for ratemaking, only the specific allowable ratemaking expenses should be used in the lead/lag study. To reduce the allowable income taxes by the amount of unamortized ITC (thus deriving taxes as paid) in the lead/lag working cash study is to mix ratemaking taxes with taxes as paid. The expenses and the revenues in this case have to be on the same bases. The allowable taxes are derived from the allowable revenues and expenses and those same taxes should be used for the working cash determination.

The staff's method has been the Commission's practice in the past and was used to determine the adopted working cash allowance in Pacific's general rate case D.90642 (A.58223), supra, and General's last general rate case D.87505 (A.55838), supra. As stated in the staff's Standard Practice U-16 (page 1-4):

> "The regulatory concept, ...defines working capital as an allowance for the amount of money which the utility has furnished from its own funds for the purpose of enabling it to satisfy ordinary requirements for minimum bank balances and to bridge the gap between the time expenses of rendering utility service are paid and the time revenues from the same service are collected." (Emphasis added)

The staff's method we have adopted in the past does not result in the indirect reduction in rate base and is not prohibited by Section 46(f)(2) of the Internal Revenue Code. Pacific also filed its present rate application, No. 59849, on the staff's basis. Consistent with our past decisions, we will adopt the staff's method.

As for the treatment of state deferred taxes, the record is completely devoid of any support for General's position relative to including state deferred taxes in the working cash computations on a zero lag-day basis. Consequently, we will include the $1,384,000 attributed to state deferred taxes as a negative figure and arrive at our adopted figure of $13,593,000 as the average amount available from collecting revenue before expenses.

Based on our adopted revenues of $1,221,037,000, we will adopt a revenue settlement item of working cash of $11,700,000.

Credit received from suppliers represents the average balance of the value of supplies received but not yet paid for by the utility. According to the record, General's 1980 test year estimate of $35,910,000 was derived by application of yearly ratios of growth in operating revenues and expenses between 1977 and 1980 to the 1977 actual figure. The staff's estimate of $55,000,000 was derived by the application of the ratio of the 1978 to 1977 construction budget to build to the 1980 estimate. The construction budget figures so used included many noncash items. General argues that had gross material additions been used instead of the construction budget, the estimate would have been in the $46 million range. Staff engineer Tan testified that the recorded figure for the year 1978 for credit from suppliers was $40,012,000. We will apply our previously discussed annual inflation factor of 10 percent to derive our 1980 test year credit from suppliers' adopted amount of $48 million.

As shown in the preceding tabulation, our adopted working cash allowance is a negative $43,136,000.

Normalized Tax Reserve

The normalized tax reserve represents a deduction of the accumulated difference between income taxes actually paid using accelerated depreciation and the amount that would have been paid using book depreciation. The staff's estimate for this deduction is a negative $287,266,000 as compared to General's estimate of a negative $288,910,000, a difference of $1,644,000, or 0.6 percent. Consistent with our previously discussed adopted tax reserve and expense figures we will adopt for the purposes of this proceeding General's estimate of a negative $288,910,000 decreased by $1,045,000 to reflect staff's depreciation estimate to yield a figure of minus $287,865,000 as our adopted normalized tax reserve.

Construction Work in Progress

In direct testimony witness Giffin stated that short-term CWIP should be included in rate base because the FCC in its Docket No. 19129 (Phase II) (64 FCC 2d 1, 56) released March 1, 1977 has allowed CWIP with a construction period of one year or less (short-term CWIP) to be includable in current rate base. For the test year 1980 General estimates the average noninterest-bearing, short-term CWIP to be $188,054,000. The staff estimates the test year 1980 short-term CWIP to be $152,508,000.

Testimony presented in behalf of General by this witness indicated that:

1. The customer actually pays less over the life of the plant if the short-term CWIP is initially included in rate base rather than have interest during construction (IDC) added to the cost of the facility before its inclusion in rate base.

2. A major portion of the construction funds is earmarked for modernizing facilities, relieving congested network facilities, reestablishing plant margins, and restoring service levels, and is, therefore, used and useful for the current ratepayer.

3. The proposed treatment of short-term CWIP in rate base is consistent with good accounting principles.

4. The Commission utilizes the two-year period set forth by FCC definition for property held for future use and the inclusion of short-term CWIP (of less than one year construction time) in rate base would similarly be consistent with the FCC definition.

5. The inclusion of short-term CWIP in rate base would improve General's cash flow and interest coverage position.

The staff's position to exclude short-term CWIP. from rate base was primarily sponsored by staff financial examiner Louie who presented testimony to the effect that:

1. Analysis of cash flow indicated that the inclusion of short-term CWIP in rate base would represent less than 3 percent of actual construction expenditures and that such additional cash flow would be too little in relation to demand for new capital to have any significant impact on General's external financial needs.

2. The after-tax interest coverage would be improved by only 0.02 times for 1976 and 1977 and 0.04 times for 1978 which would not be enough to have any effect on General's external financing.

3. Using an 8 percent IDC rate with an 8.85 percent authorized rate of return and a 20-year service life for analytical purposes would increase General's first year revenue requirement by $34 million.

4. The FCC change in its uniform system of accounts regarding the inclusion of short-term CWIP in rate base was not intended to be binding upon state commissions.

5. This Commission has a long-standing policy against the inclusion of CWIP in rate base as evidenced by the following: Pacific Gas and Electric Company (1976) 80 CPUC 396 at 426 et seq.; Southern California Edison Company (1976) 81 CPUC 49 at 94 et seq.; and San Diego Gas & Electric Company (1977) 82 CPUC 291 at 297 et seq.

The staff witness further testified that the staff accountants are not rejecting the concept of including short-term CWIP in rate base and that changing future financial conditions may indicate the future appropriateness of inclusion of short-term CWIP in rate base. He therefore recommends that each matter be considered on a case-by-case basis.

It will be noted that two of the three above-referenced decisions were issued prior to the accounting changes authorized or ordered by the FCC and that all three relate to CWIP with construction times in excess of the one-year limit applicable for the short-term CWIP herein under discussion. Under these circumstances the applicability of these decisions to this matter is, to say the least, highly questionable.

In evaluating the justifications of whether short-term CWIP be or not be included in rate base, we recognize that under our Regulatory Lag Plan adopted by our Resolution No. M-4706, General is allowed to file another general rate proceeding no sooner than two years from the last adopted test year--or for rates based on a 1982 test year. This decision will become effective shortly before the end of the 1980 test year. All of the short-term CWIP will be operating plant in 1981. While this plant will result in some increase in revenues generated by growth as well as that resulting from improvement of service, General will also be faced with the possible double-digit inflationary cost increases for labor, materials, and supplies, the summation of which may have an attritional effect on General's earnings. Allowing short-term CWIP in rate base would offer some mitigation for this attrition.

As we reflect on this situation, with General far into the 1980 test period, our inclination is to adopt an end of test period results of operations. However, adoption of an end of year rate base was not developed or addressed on the evidentiary record. Accordingly, in this proceeding we are adopting the inclusion of short-term noninterest-bearing CWIP in rate base because it accomplishes somewhat the same goal: to give ratemaking recognition to a large construction budget when we are far into the test year. Inclusion of any CWIP in rate base for a large utility is a marked departure from our past policy. It is not intended to be precedential. Those who follow our regulation should not take it as a change in our basic policy. Rather, we are reacting here to unique circumstances and to the limitation of our evidentiary record.

Depreciation Reserve Adjustment Employee Expense

As previously discussed, we have adopted a weighted average adjustment to the depreciation reserve for capitalized employee expense of $121,000.

Adjustment for Interest During Construction

The staff's 1980 test year adjustment for IDC is $25,988,000 as compared to General's estimate of $16,765,000, a difference of $9,223,000, or 35.5 percent. The higher staff estimate is caused by the adding back of the interest during construction not charged by General for the years 1979 and 1980. In keeping with our inclusion of short-term CWIP in rate base, we will adopt General's estimate.

CCFT Flow Through

For this item the staff estimates $17,535,000 as compared to General's estimate of $18,134,000, a difference of $599,000, or 3.4 percent. As with the expense adjustment, the difference levels of CCFT flow through are the product of different estimates of CCFT by General and the staff. Consistent with our adopted 1980 test year amounts of CCFT, we will adopt the staff's estimate for CCFT flow through of $17,535,000.

Automatic Electric

The staff's estimate for this adjustment was a negative $12,092,000 as compared with General's estimate of a negative $11,052,000, a difference of $1,020,000, or 8.4 percent. As previously discussed, we will adopt the staff's figure of a negative $12,092,000 for this item.

GTE - Data Services

The staff's estimate for this item is a minus $87,000 as contrasted to General's estimate of a minus $98,000, a difference of $11,000, or 12.3 percent. As previously discussed, we will adopt a negative $84,000 for this item.

Payroll Adjustments

The staff made a payroll adjustment to expense of $1.8 million and $584,000 to rate base to correct what they believe to be an overly high estimate of payroll by the utility. Our adopted results of operation items are based on adjusted payroll costs so no further payroll adjustment is warranted.

H - SUMMARY OF EARNINGS

Table II contains the summary of earnings in 1980 test year as estimated by the Commission staff and General, together with our previously discussed adopted revenue, expense, and rate base items for the company as a whole and our adopted intrastate summary of earnings.

VII - RATE DESIGN

General

As previously stated, the additional revenue needed to enable General to earn its authorized 10.39 percent rate of return is $97.5 million.[2/] Allowing for revenue increases resulting from D.91495 and for settlement effects and uncollectibles, it is necessary for General to increase its customer billing $91.7 million to yield an increase in 1980 test year revenues of $97.5 million.

Direct testimony and exhibits on rate design were presented on behalf of General by its vice president-Revenue Requirements R. L. Ohlson, and rebuttal testimony was presented on behalf of General by its revenue director T. E. Quaintance. General's rate increase proposals totaled $143,691,000 exclusive of the effect of D.91121, dated December 18, 1979 on Pacific's A.58223 and related matters. Including the effect of D.91121, supra, and allowing for the uncollectibles and toll settlement effects, the proposed increases would net General approximately $119,016,000.

2/

Rate of return - present rates	7.91%
Rate of return - (14.10 pct. ROE)	10.58%
Additional rate of return required	2.67%
Net to gross multiplier	1.91%
Adopted intrastate rate base	$2,031.7 million
Gross revenue increase	$103.6 million
Additional revenue requirement due to D.90642, 90919, 91121 (ZUM offset)	$1.3 million
Total revenue req. (14.10 pct.ROE)	$104.9 million
Service penalty ROE (0.5 percent)	$(7.4) million
Additional revenue requirement	$97.5 million

TABLE II

SUMMARY OF EARNINGS AT PRESENT RATES

(Estimated Year 1980)

Item	Staff	General	Adopted Total Company	Adopted Intrastate
	(Dollars in Thousands)			
Operating Revenues				
Total Oper. Rev. after Uncollectibles	$1,187,881	$1,235,902	$1,214,940	$ 973,285
Operating Expenses				
Maintenance	262,464	315,852	291,326	235,683
Traffic	76,137	78,385	76,137	61,671
Commercial	123,037	127,794	123,546	107,979
General Office and Salary	75,743	77,306	75,743	64,541
Other Operating Expenses	86,361	103,163	94,130	76,620
Subtotal Oper. Rev.	623,742	702,500	660,882	546,494
Depreciation Expense	228,343	207,925	228,387	183,623
Taxes Other Than on Income	56,853	58,858	58,061	47,164
Taxes on Income	67,816	67,513	63,044	40,279
Total Oper. Expenses	976,754	1,036,796	1,010,374	817,560
IDC	1,727	1,092	1,092	886
CCFT Flow Through	(2,392)	(2,823)	(2,392)	(1,940)
Automatic Electric	(624)	(657)	(624)	(502)
Directory Company	(2,501)	(2,279)	(2,460)	(2,150)
GTE - Data Services	(1,603)	(1,819)	(1,541)	(1,350)
Employee Store	(150)	-	-	-
Payroll Adjustment	(1,857)	-	-	-
Net Operating Expenses	969,354	1,030,310	1,004,449	812,504
Net Operating Revenues	218,527	205,592	210,491	160,781
Rate Base	2,316,659	2,590,914	2,481,093	2,013,718
IDC	25,988	16,765	16,765	13,596
CCFT Flow Through	(17,535)	18,134	17,535	14,221
Automatic Electric	(12,092)	(11,072)	(12,092)	(9,741)
GTE - Data Services	(87)	(98)	(84)	(69)
Payroll Adjustment	(584)	-	-	-
Total Rate Base	$2,347,419	$2,614,643	$2,503,217	$2,031,725
Rate of Return	9.31%	7.86%	8.41%	7.91%

(Red Figure)

The staff presentation on rate design was made by supervising utilities engineer D. J. Evans and senior utilities engineer D. M. Shantz. The staff's proposed rate changes provide an approximate gross increase for test year 1980 of $72.3 million to net $64.9 million to General after settlements and uncollectibles and exclusive of the effect of D.91121, supra. In the event we should authorize increases for General in excess of the above $72.3 million, the staff recommends that such additional increases be authorized in accordance with the following priorities:

1. Partial or full elimination of negative billing surcharge.
2. Increases in rates and charges for Centrex and EBSS.
3. Increases in mileage charges associated with exchange service, foreign exchange service, optional prefix service, and telephone answering services to the levels requested by General.
4. Additional increases in rates applicable to foreign exchange service.
5. Adoption of General's proposed rates for rotary service.
6. Additional increases in service connection charges.
7. Increase in the proposed primary instrument rate to $1 per month for standard rotary and touch-calling equipped telephone rates.
8. Additional increases in all flat rate exchange services.
9. Additional increases in all measured rate exchange services.

Because of the magnitude of the authorized increase, we gave consideration to each of the above nine increase items in arriving at our final rate selection.

General assigned priority numbers from 1 to 16 to each individual increase increment setting forth its recommended sequence of implementation of such increase increments. The first 10 incremental increases will provide a gross billing increase of $73.5 million, exclusive of the effect of D.91121, supra. Table III sets forth the staff's and General's increases, together with the priority number assigned by General and our adopted tariff increases.

It will be noted that the largest differentials in the revenue effects of the staff's and General's rate proposals relate to push-button (key) service, supplemental service, extension service, service connection charges, Optional Residential Telephone Service (ORTS), mileage charges, foreign exchange service (FEX), measured business line and trunk service, rotary service, basic exchange service, message toll rates, and billing surcharge. Some of these differentials derive from conceptually similar rate designs tailored to different revenue requirements whereas some of the differentials relate to conceptually different rate designs. As previously detailed, we will adopt rates that will provide billing increases of $91.7 million, which after allowances for the effects of settlements, uncollectibles, and the impacts of D.91121 and D.91495, will net General $97.5 million.

TABLE III

RATE PROPOSALS

General Priority	Item	1980 Customer Billings General	Staff	D.91121 Effect	Effect of This Decision	Gross Effect
		(Dollars in Millions)				
	Push-Button (Key) Telephone Service					
8	Increase Monthly Charges	$ 14.094	$ 5.6	$ 9.3	-	$ 9.3
1-F	Increase Nonrecurring Charges	6.965	7.4	-	$ 7.4	7.4
	Subtotal	21.059	13.0	9.3	7.4	16.7
1-D	Private Branch Exchange Service	4.559	6.5	3.6	2.9	6.5
1-E	Supplemental Services	1.662	8.7	3.0	5.7	8.7
7	Extension Service Increase	8.949	2.5	2.6	(0.1)	2.5
	Subtotal Supplemental & Extensions	10.611	11.2	5.6	5.6	11.2
9	Datatel Service	0.190	0.2	-	0.2	0.2
1-I	Special Service Arrangements Incl. E-120 PBX	0.109	0.1	-	0.1	0.1
	Services for Handicapped	-	(2.7)	-	(2.7)	(2.7)
	Multiple Element Service Connection Charges					
1-G	Increase Multiple Element Charges	13.875				
16	Implement Wiring in Place Charge	6.813				
	Subtotal Service Connection Charge	20.688	12.5	2.2	11.3	13.5
1-J	Intraexchange Private Line Service	1.200	0.9	-	0.9	0.9
1-H	Optional Residential Telephone Service	0.100	3.0	-	3.7	3.7
10	Mobile Telephone Service	0.170	0.1	-	0.1	0.1
	Verification/Interrupt	-	0.4	-	0.4	0.4
	Mileage Charges					
4	Intraexchange to Interexchange Level	0.537				
4	Other Mileage to $1.60/Quarter Mile	1.246				
1-C	WCTC Mileage to General Rates	0.016				
5	Uniform TAS Rates	1.099				
	Subtotal Mileage Charges	2.898	0.7	-	1.5	1.5
3	FEX Service	3.381	0.5	-	0.5	0.5
1-A	Extended Area Service	0.702	0.3	-	0.3	0.3
	Measured Business Line and Trunk Service	-	4.1	-	9.2	9.2
13	Rotary Service from $0.50 to $1	1.325				
14	Rotary Service Reserved Number	0.725				
	Subtotal Rotary Service	2.050	1.5	-	2.1	2.1
	Basic Exchange Service					
1-B	Reduce Business Measured Allowance	1.346		-		
	Primary Instrument Rate	-		-		
2	Eliminate LAEA/NonLAEA Differential	3.232		-		
11	Increase Message Unit Charges	7.713		-		
12	Increase Local Service Basic	17.611		-		
	Subtotal Basic Exchange Service	29.902	10.8	-	33.1	33.1
15	Increase Message Toll Rates	18.472	11.0	-	a/	-
	D.91337 Effects		(1.5)	-	(1.5)	(1.5)
	ZUM Los Gatos		(0.1)	-	(0.1)	(0.1)
	Billing Surcharge	27.600	(0.2)	-	16.7	16.7
	Subtotal Billing Increases	143.691 b/	72.3 b/	20.7	91.7	112.4
	Minus Uncollectibles and Settlement Effect	(7.234)	(7.6)	-	(13.5) c/	
	Plus Effect of D.91495	-	-	-	19.3	
	Gross Revenue Effect	$119.016 d/	$44.0 d/		$ 97.5	

(Red Figure)

a/ Included in D.91495 effect.

b/ Excludes D.91121 and D.91495 effects.

c/ Intrastate revenue effect to Pacific Telephone = $7.1 million.

d/ Includes D.91121 offset.

Push-Button (Key) Telephone Service

General proposes to increase its recurring charges approximately $14 million and its nonrecurring charges $6.965 million, a total of approximately $21 million on a test year 1980 annual basis. The staff's proposal would increase the recurring charges approximately $5.6 million and the nonrecurring charges approximately $7.4 million, a total of $13.0 million for test year 1980. Both proposals are exclusive of the effects of D.91121, supra, which raised the recurring charges an estimated $9.3 million and did not impact the nonrecurring charges. At the hearing on the partial general rate increase, General and the staff agreed that the staff's proposal would increase the nonrecurring charges approximately $7.4 million.

General alleges that its proposed rate increases are structured to approach recovery of the full revenue requirement of providing this service and include consolidation of key telephone service as offered by General in the exchanges of Western California Telephone Company (WCTC) with key telephone services offered by General. The staff agrees conceptually with General's proposal for key telephone services at rates and charges which cover the full cost of providing such services and the consolidation of WCTC services with similar services offered by General. The staff, however, disagrees with General's proposed rates and charges to the extent that they exceed the cost of providing such service. General reportedly furnished the staff data that its proposed rates did not exceed the cost of providing such service. The staff would not accept such data on the basis that General used a new cost methodology based on factors inconsistent with such factors upon which other cost-based rates and charges were established.

General's Type A key telephone equipment consists of three basic components which are common equipment, line equipment, and station equipment. The rate proposals of both General and the staff contain rates and charges for the station equipment on a stand-alone basis and provide rates for the common equipment and line equipment on a combined basis. It is the staff's belief that the combined common equipment and line equipment rates and charges should be unbundled and separate rates developed for the common equipment and the line equipment, and that General should include such rates as a part of its rate proposal in its next major rate application. General objects to the staff's proposal on the basis it would be required to invest in a separate key telephone cabinet, power supply, and interrupter for each customer even if that customer only subscribed to two central office lines, leaving the remaining capacity for four additional central office lines in a six-line cabinet idle.

Both the staff and General agree that there is insufficient available data on the magnitude of the use of shared key telephone system common equipment. The staff, therefore, supports General's recommendation that it be ordered to conduct studies designed to obtain the necessary data concerning the types and quantities of key system common and line equipment in service and that the data should be the basis for proposed rate structures in the company's next major rate application. The staff further recommends that General should also be ordered to include in that application a rate structure with separate rates and charges for key system common equipment and key system line equipment. Such a rate structure could be presented as an alternate to General's own recommended rate structure for key telephone service. The order that follows will provide for such a procedure.

As previously noted, the recurring charges resulting from D.91121, supra, provide increased revenues over the rates in effect when the application was filed of $9.3 million. For the purposes of this proceeding, we will adopt the staff's proposed nonrecurring charges to provide a total increase for key telephones of $16.7 million.

Private Branch Exchange Service (PBX)

The proposed revisions of both General and the staff include consolidation of the PBX services offered by General in the WCTC exchanges with its other PBX services, provide cost-based levels of rates established using the GE-100 methodology, and limit the increased monthly rates to a maximum of 50 percent. At the hearing on the partial general increase, General and the staff agreed that the staff's proposed rates will provide an increase of approximately $2.9 million above the rates resulting from D.91121, supra. We will adopt the staff's proposal.

Supplemental Services

General's proposed supplemental services increase for the test year 1980 is approximately $1.6 million as compared to the staff's proposed increase for supplemental services of approximately $8.9 million. Both General's and the Commission staff's proposed revisions include consolidation of supplemental services offered by General in the exchanges of WCTC with supplemental services offered by General throughout the balance of its system and reflect cost-based levels of rates with a maximum 50 percent increase.

According to the staff's testimony, the differentials in test year 1980 billing increases between General's and the staff's proposed revisions for supplemental services results from an increase of $8.3 million in the staff's proposal for premium sets not included in General's proposal, a decrease of $0.4 million proposed by the staff for touch-calling service, and estimating differences of $0.4 million for similar proposed charges. General agreed to the staff's estimate of the rate differential at the partial increase hearing.

Staff witness Shantz notes that the rates for premium sets, such as the dial-in-handset and Starlite telephones, are incremental type rates which he believes inappropriate for these highly competitive types of sets. Consequently, he proposes a stand-alone rate for these phones providing a uniform rate applicable to all utility-provided sets of the same type. The staff also proposes to "unbundle" the rates applicable to touch-calling service by providing for a rate for a touch-calling line and a separate rate for a touch-calling-equipped instrument with the touch-calling instrument rate applicable to all such instruments furnished on individual line business and residence services provided by both General and WCTC.

Included in the staff's proposal for touch-calling service is a monthly rate of $1 for each trunk line (local, FX, tie line, or private line when required and when local dedicated or FX trunk charges are applicable to DID and Centrex services). The application of this $1 monthly rate for touch-calling service will result in an estimated reduction in customer billing of $0.2 million for the 1980 test year and will provide for the applicability of the same monthly rate to touch-calling service furnished on PBX trunks and on business lines.

The staff's proposal for "stand-alone" rates for Starlite and dial-in-handset telephones is reasonable and will be adopted. In addition, as subsequently discussed, we will adopt "stand-alone" rates for standard telephones and provide bifurcated rates setting forth line charges plus company-furnished instrument charges.

Similarly the staff's proposal to unbundle the rates applicable to touch-calling service by providing for a rate for a touch-calling line and a separate rate for a touch-calling-equipped instrument is reasonable and well-supported by the record and will be adopted.

Included in the staff's showing at the request of the assigned Commissioner was a tariff converting the monthly central office touch calling line charge of $0.75 per month for residence and $1.00 per month for business into a single nonrecurring charge of $23.50 for residential individual line service. The proposed revision was offered for the consideration of the Commission on the basis that the continuation of the monthly charge might discourage the installation of such telephones throughout General's system. Touch calling benefits the company, ratepayers, and the community at large by increased efficiency in the utilization of the networks, the more effective use of advanced services such as custom calling, and reduced travel at such a time that such touch-calling equipment services as payroll and bank-by-phone become available. Consequently, discouraging the installation of touch-calling equipment will have a deleterious effect on General's operations and the rate-paying public.

However, both the staff's and General's witnesses testified that a nonrecurring charge of the magnitude proposed would do more to discourage the installation of touch calling than the continuation of present charges.

Due to the increased efficiency of touch calling in the use of electronic switching, we are making provision for General to remove the monthly line charge for touch calling in electronic offices. Our order will provide that General may offset the resulting revenue reduction by an increase in the billing surcharge percentage applicable to all customers.

We will adopt the staff-recommended supplemental service proposals to yield a customer billing increase of approximately $5.7 million beyond the $3 million already provided by D.91121, supra.

Extension Service

General proposes a common monthly rate of $1.25 for extensions and key in lieu of extensions (KIL's) to yield an estimated increase of approximately $8.9 million as compared to the staff's proposal of a common monthly charge of $1 for extension and KIL's to yield an estimated revenue increase of approximately $2.5 million. The staff limited its proposed extension increase because of its overall revenue requirement parameters and lack of adequate cost studies supporting General's proposed rate. In keeping with our subsequently adopted primary instrument rate, we have already adopted the staff's proposed common monthly rate of $1 for extensions and KIL's. is D.91121, and no further increase is now required.

Datatel Service

Both General and the Commission staff propose to increase rates and charges for certain Datatel services to yield increases of approximately $0.2 million in customer billing in 1980 test year. Both proposals include a consolidation of Datatel services offered by General in the exchanges of WCTC with the Datatel services offered by General throughout its system and both proposals generally use the same criteria used in developing the proposed revisions for PBX services. General's and the Commission staff's proposed Datatel schedules are quite similar with slight differences reflecting the staff's use of higher nonrecurring charges and lower recurring monthly rates. We will adopt the staff's proposed rates for purposes of this proceeding.

Special Service Arrangements

Both General and the staff recommend increases in rates and charges for special service arrangements. The proposed increases are based on cost and appear reasonable. These proposed increases will be adopted.

The Stromberg-Carlson E-120 PBX has always been offered under contract rather than as a tariff offering. Both General and the staff recommend that the E-120 PBX be placed in General's Schedule Cal. P.U.C. No. E-1 with proposed rates and charges at full cost levels as determined utilizing the GE-100 methodology. We will adopt these proposed rates.

Service for the Handicapped

D.90642 dated July 31, 1979 in A.58223 of Pacific for a general rate increase found that $12 million was a reasonable amount for Pacific to set aside for services to the handicapped. Accordingly, in this proceeding, the staff has included in its rate design and revenue requirement a proportional $2.7 million negative increase to provide a proportional $2.4 million after uncollectibles and settlements for services to the handicapped.

The application of the money designated for services to the handicapped shall be used in the manner specified in Ordering Paragraphs 15 and 20 in D.90642 of Pacific. In response to cross-examination questions the staff witness stated his belief that should the revenue shortfall-resulting from the implementation of handicapped service exceed the amount set aside, General should be authorized to offset the additional shortfall through an advice letter rate filing. This provision appears reasonable and will be adopted.

Multiple Element Service Connection Charge

General proposes to revise the present structure of service connection charges to yield an estimated increase in customer billing of $20.688 million excluding the effect of D.91121, supra. The $20.688 million consists of $13.875 million resulting from increased multiple element charges and $6.813 million resulting from the implementation of a wiring-in-place charge. The staff proposes to revise the present structure of service connection charges to result in an estimated increase in customer billing of $12.5 million exclusive of the effects of D.91121, supra, for the test year 1980. According to the record the staff believes there are four objectives which should be considered in determining the charge levels and structures of element-type service connections tariffs which are: (1) to have the various elements cost-related, (2) to have charges such that the customer causing the cost for the utility should be charged in relation to such costs, (3) to have the element-type service connection charges designed to encourage customer use of Phonemart-type facilities, and (4) to have elements which relate directly to the work activities and are understandable to the customer.

The following tabulation shows the present charges under General's present tariffs, the charges set forth in Appendix B of D.91121, supra, (ZUM offset), General's proposed charges, the staff's proposed charges, and the charges which would be applicable under the tariffs of Pacific for a new residence service in a dwelling with no prior services provided to the premises and with no equipment or wiring in place and the customer requests that one standard rotary instrument be installed.

Residence Service

Item	Present	D.91121 ZUM Offset	General Proposed	Staff Proposed	Pacific D.91121
Service Order Activity					
Initial Order First Line	$ 6.50	$ 7.00	$ 8.50	$ 7.00	$ 7.00
Central Office Activity	5.00	5.75	8.00	9.00	9.00
Premises Activity	8.00	9.00	-	-	-
Premises Visit	-	-	8.00	7.00	6.00
Premises Work					
Central Office Line, each	-	-	3.00	3.00	-
Telephone, each	-	-	3.00	3.00	5.00
Wiring Charge, Each Addition (Including P.M. Connector)	-	-	10.00	-	-
Phonemart Connector Conversion Each Connector	-	-	-	3.00	2.00
Premises Wiring Each C.O. Line	-	-	-	-	-
Premises Interior Wiring Each Connecting Point	-	-	-	7.00	8.00
Total	$19.50	$21.75	$40.50	$39.00	$37.00

It will be noted that the most significant change in General's proposed service connection charge tariff relates to the charge for premises wiring. At the present time there is no charge for prewiring new residential dwellings even though the average cost of prewiring such units, based on company studies, is approximately $145. Under General's proposed service connection charges the customer who first requests that a prewired connecting point be terminated on a jack would pay a charge of $10. In addition, each customer requesting a new central office line would be charged an additional premises wiring charge of $8.25 which would be applicable when a customer requests new service even if the customer's premises have been fully jacked and the customer wishes to utilize only the existing jacks. It is General's position that the proposed premises wiring charge is intended to help recover the costs of installing premises wiring that are paid for entirely by the general body of ratepayers. Under the staff proposal an interior wiring charge of $7 plus a $3 charge f each connecting point would be paid for by the customer first requests that either existing or newly install be terminated on a telephone jack. There will b for interior wiring for subsequent occupiers unless the latter customer wanted additior terminating on jacks. It is the staff' proposal is more reasonable than th with respect to the customer whc in which case there is no pr charge.

CORRECTION

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General argues that the staff proposal is unreasonable since it is not cost-related and to the extent that such charges remain below costs other ratepayers who did not generate the costs must nonetheless subsidize them. The staff further argues its proposed service connection charge represents a doubling of the existing service connection charges and is the maximum reasonable increase that can be applied at this time. We will adopt the staff proposal, except the premises interior wiring charge for each connecting point will be $12 plus $3 per connecting point rather than the proposed $7 plus $3 per connecting point to defray a larger portion of the increasingly high cost of prewiring the premises.

Intraexchange Private Line Service

General proposes to revise the rates applicable to local or intraexchange private line services to the levels authorized for Pacific for interexchange private line services in D.90642, D.90919, and D.91121. The staff concurs in General's design criteria to offer intraexchange private line service at the same rates applicable to interexchange private line service. According to staff testimony, however, General's proposed rates, unlike the staff's proposed rates, are different than those in effect for Pacific. The staff's proposed rates are estimated to provide an increase in customer billing of $0.9 million for 1980 test year and will be adopted.

Optional Residence Telephone Service (ORTS)

ORTS is an optional service offered by both General and Pacific in the San Francisco bay area and Los Angeles-Orange County area. General proposes to increase the rates applicable to ORTS as offered in WCTC exchanges to bring such

rates up to the rates for ORTS provided under General's tariff with a resulting increase in customer billing of approximately $0.1 million for the 1980 test year. The staff concurs in General's proposal to consolidate the WCTC offering of ORTS with General's ORTS offering at General's rates. According to the staff testimony there are presently five routes over which General presently offers ORTS where the airline route distance exceeds the maximum 40 airline-mile limit for the ORTS route. The staff recommends that ORTS be withdrawn from at least these five routes and the customers affected be notified 60 days prior to such withdrawal. In addition, the staff recommends a 10 percent increase in all the rates for ORTS as provided by General. It is estimated that the 10 percent increase in General's rates applicable to ORTS as well as other staff-recommended revision to ORTS offering will yield an increase in customer billing of $3.0 million for 1980 test year.

According to the record General indicates that by the end of 1980 General will have before this Commission a proposal for fully measured ORTS offering. The conversion of General's present flat rate ORTS offering to fully measured ORTS offering is consistent with conversion of Pacific's ORTS offering to fully measured ORTS offering as ordered in D.90642, supra. Consequently, the staff recommends that General be ordered to develop, in concert with the Commission staff, a restructured fully measured ORTS offering and that such fully measured ORTS offering be implemented within 180 days of the effective date of this decision. The staff further recommends that

the revenue effect of the fully measured ORTS offering be held at or near zero and that the new ORTS offering be filed under the advice letter process requesting approval for such revisions by resolution action of the Commission. The order that follows will provide for the revised ORTS offering recommended by the Commission staff to be presented to the Commission within 180 days of the effective date of this order. We will adopt General's and the staff's proposal to raise the ORTS rates applicable in WCTC exchanges up to the rates for ORTS provided under General's tariffs. In addition, the currently effective ORTS rates, together with the modified WCTC ORTS rates, will then be increased 14.7 percent equal to the percentage increase to the one-party metropolitan residential rate proposed by General. We will not at this time eliminate the five routes as recommended by the staff. However, in order to prevent further growth in ORTS service over these five routes, we will authorize the freezing of such ORTS service over these five routes to existing customers.

Mobile Telephone Service

General's proposed increase in mobile telephone system service is estimated to increase revenues $0.170 million as contrasted to the staff's proposal to increase revenues approximately $0.10 million. Both General and the Commission staff propose elimination of conversation time allowance included in the monthly exchange access rate and the consolidation of the mobile telephone service offering provided in the WCTC exchanges with General's mobile telephone service offering. General further proposes an increase in the rate per minute of conversation time from 25¢ to 45¢ applicable to mobile service customers including roamers.

The staff's proposal includes elimination of the conversation time allowance included in the monthly exchange access rate and consolidation of service offerings but does not include an increase in the rate per minute charge. The staff's proposal will be adopted. The staff notes the rates and charges for mobile telephone service provided by General have not been revised since 1969 and that General has provided no cost data in support of its proposed rates for the mobile telephone service. The staff therefore recommends that General be ordered to provide as a part of its next major rate application cost data in the format of the standard GE-100 methodology for mobile telephone equipment. The suggestion is well-taken and the order that follows will so provide.

Verification/Interrupt

In D.90642, D.90919, and D.91121 this Commission adopted a charge for verification of a busy line condition and/or interruption of a conversation in progress at the calling party's request. The verification/interrupt charge as filed in Pacific's tariffs applies to all local calls and interstate messages where a customer requests such service. Since the present verification/interrupt charge is intended to apply to all intrastate messages and in the interest of uniform statewide rates for common services, the staff proposes that General adopt the same tariff provisions for verification/interrupt as are currently in effect for Pacific for both local and intrastate messages where such customer requests are made. It is estimated that the application of

the proposed verification/interrupt charge will result in an increase to customer billing of $0.4 million in the 1980 test year. The staff suggestion appears well-taken and the order that follows will provide for such verification/interrupt service charges.

Mileage Charges

General proposes increases in mileage charges applicable to mileage associated with exchange-type services, telephone answering services, and intraexchange optional prefix service as well as the consolidation of the mileage charges applicable in the WCTC exchanges with the mileage applicable to similar services provided under General's tariffs. The estimated billing revenue increase associated with General's proposed increased mileage charges for the 1980 test year is estimated to be $0.537 million to bring the intraexchange mileage to the same level as interexchange optional prefix service, $1.246 million to raise other mileage charges to $1.60 per quarter mile, $0.016 million increase to raise WCTC rates up to General's rate level, $1.093 million for mileage increase to $1.60 per one-quarter mile for telephone answering service, and $0.006 million to increase WCTC telephone answering service rates up to the General rate level, a total of $2.898 million. These proposed changes represent increases varying from 20 to 73 percent. The staff concurs in General's proposal to standardize mileage charges associated with the exchange service and telephone answering service but has limited the mileage charge increase to not more than 25 percent with a resultant overall increase for mileage charges of $0.7 million. Although rates for many of these services are substantially below cost, it is essential that the increases authorized not constitute an undue burden on ratepayers, particularly on telephone answering services. Accordingly, we will limit the mileage charge increase to not more than 50 percent and decrease certain of the higher mileage charges in order to approach uniform rates.

Foreign Exchange Service (FEX)

General's proposed increases in FEX are estimated to approximate $3.4 million for test year 1980 as compared to the staff's recommended increase of $0.5 million. Both General's and the staff's proposals encompass consolidation of WCTC rates and charges for FEX services with those for similar services provided by General, increases in basic rates for FEX services, an increase in the rate per exchange unit and/or message unit for calls on intercompany and interstate FEX services, elimination and/or reduction of the message allowances for FEX trunks and lines, and revisions of mileage charges applicable to FEX service. In addition, the staff proposes a common rate for FEX trunks and lines and institution of rates for primary instruments for services for which utility-owned primary instruments are provided. To be consistent with our subsequently adopted measured business line and business trunk line service rates and company-owned instrument rates, we will adopt the staff's proposal with respect to monthly foreign exchange rates with no allowances, and a company-owned instrument rate of $1 a month for utility provided standard instruments. We will also adopt the jointly proposed one cent increase in the local exchange unit rate applicable to local messages from measured exchange services, and the consolidation of rates and charges applicable to FEX service provided in WCTC exchanges with similar rates in General's exchanges. Also with FEX rates we will adopt standardized mileage charges associated with exchange and telephone answering services. The billing effect of the above-discussed rate changes is an increase of $0.5 million for the test year 1980.

At the present time the method of calculating mileage charges associated with contiguous FEX service differs from the method of calculating such charges for noncontiguous FEX services. The mileage charges for contiguous service is based on the mileage from the customer's location to the nearest point on the common exchange boundary whereas the mileage charges for noncontiguous FEX is based on the airline distances between rate centers. General proposes to freeze its present method of measuring FEX mileage from the boundary for its present contiguous FEX customers. Also, General proposes that for all new contiguous FEX customers the mileage measurement would be based on airline distance between rate centers. However, the impact of General's airline measurement proposal would be very heavy on new FEX customers. It would create a discriminatory rate disparity between present and new customers. Accordingly, General's proposal will not be adopted. However, General will be ordered to make a study of FEX mileage treatment and provide a plan for gradual implementation of the airline measurement concept.

Extended Area Service (EAS)

General's proposed EAS revisions are estimated to provide increased billing for the test year 1980 of $0.702 million as contrasted with the staff's proposed increase of $0.3 million. According to the testimony, General proposes to regrade EAS routes to reflect population increases and to increase rates to the same levels as authorized by this Commission's D.90642, supra, thus maintaining statewide uniformity. The staff's proposed EAS changes are allegedly identical to the EAS formula and increments currently in effect for Pacific. The staff also proposes to remove the EAS increments applicable to the Los Gatos exchange coincident with implementation of Zone Usage Measurement (ZUM) plan on the routes from Los Gatos to the North and West District Areas of the San Jose exchange. According to the record, the

only difference between an EAS rate formula approved for Pacific in D.90642, supra, and the formula proposed by General in this proceeding relates to the calculation of the formula for semipublic coin telephone service. The staff witness under cross-examination agreed that General's formula is reasonable and should be adopted. Consequently, we will adopt General's EAS proposal and the staff's proposal to eliminate the EAS increments applicable to Los Gatos upon implementation of ZUM service.

Measured Business Line and Business Trunk Line Service

The staff proposes a common rate of $5 a month with no message allowance applicable for individual line measured business service and private branch exchange measured business trunk line service together with a proposed 1¢ increase in a local exchange unit rate applicable to local messages from measured exchange service. The staff justifies its proposal on the basis, that inasmuch as most modern electronic communication systems can function as PBX's or as multi-line key systems, it is difficult to determine whether such a new electronic communication system should be classified as a PBX for which the PBX trunk rate is applicable or as a key system for which the individual line business rate is applicable. A common rate for a measured business line and a measured business trunk will eliminate this problem. According to the staff testimony, the 1¢ increase in local exchange unit rates will bring General's local exchange unit rate more in line with the Zone 1 day ZUM rates for calls of the same duration applicable to calls for measured exchange service provided by Pacific in the San Francisco East Bay

extended area and in Los Angeles extended area. We are adopting staff's proposed common rate with no message allowance for these services. The level of this rate is discussed below under basic exchange service.

Rotary Service

General proposes to increase the present monthly rate for each line arranged for rotary service from 50¢ to $1, to apply the same dollar monthly rate for each rotary number reserved, and to establish the same rates for rotary service provided in the WCTC exchanges. The staff concurs with General's proposal but due to the constraints of overall revenue requirement recommends the monthly rates for each line arranged for rotary service be 75¢ instead of the $1 proposed by General. It is estimated that General's proposal would increase customer billing $2.050 million and the staff's proposal would increase customer billing $1.5 million. Inasmuch as the authorized increase falls outside the staff's rate design parameters, we will adopt General's proposal.

Basic Exchange Service

General proposes to increase its basic exchange service rates totaling $29.902 million consisting of $1.346 million resulting from a reduction in business measured allowance from 80 to 60 calls per month, $3.232 million resulting from the elimination of the existing LAEA nonLAEA differential, $7.713 million from an increase in the message unit charge from 3¢ to 5¢ per unit and $17.611 million resulting from proposed increases in all basic exchange service rates including increasing the rate for one-party residence flat rate service to $6.25 per month and increases in basic rates for one-party business customers in the Los Angeles Metropolitan exchanges from $7.25 to $8.10. General proposed to reduce the call allowance and to increase the rate for one-party business customers in nonmetropolitan areas from $12.80 to $14.20.

The staff-proposed revisions to basic exchange service include consolidation and standardization of rates for basic exchange service applicable to WCTC exchanges, increasing the rate for one-party flat rate residence service in metropolitan areas to the rate level of $5.65 per month presently applicable to IFR service in the nonmetropolitan areas, revision in rates applicable to measured business line and measured business trunk as previously discussed, increasing the exchange message unit rate by one cent as also previously discussed, withdrawal of two-party flat rate business service in all areas, withdrawal of four-party flat rate residence service in the WCTC exchanges, and withdrawal of the business message rate trunk service offered in the Novato exchange. It is estimated that the increased customer billing resulting from the above changes will be $3.0 million, exclusive of the previously included uniform measured business lines and measured business trunk rate and increase of one cent per unit in the exchange message unit rate.

We will adopt the staff's proposal to consolidate and standardize the rates for basic exchange service applicable to WCTC exchanges, withdrawal of two-party flat rate business service in all areas, withdrawal of four-party flat rate residence service in the WCTC exchanges, withdrawal of the business message rate trunk service offered in the Novato exchange, and the one cent increase in the exchange message unit rate. The reduction in the business measured allowance was included in our previously adopted measured business line and trunk line service rates. We will also adopt General's proposal to eliminate the existing LAEA nonLAEA differential and General's proposed monthly rate increases for suburban business, suburban residence, semi-public coin box, one-party flat rate business, flat rate PBX trunk line, and two-party flat rate residence services.

In addition to the above measures, the Commission staff proposes that General separate the primary instrument from the basic exchange service and institute rates for primary instruments when such primary instruments are provided by General. According to the staff the separation of the primary instrument from basic service is consistent with recent orders of the FCC which provides that customers can utilize customer-owned primary instruments. The staff proposed rate for primary instruments is 50¢ per month for a standard rotary dial instrument.

General has no overall objection to the staff's proposal for unbundling primary service into an instrument charge and a line charge. It does, however, take issue with the staff's proposal of a primary instrument rate equal to approximately 50 percent of the cost of providing such service. It argues that one of the major considerations of both General and the staff in the rate design proposals is that rates for competitive service (terminal equipment) should be cost-based. General notes that under the staff's rate design, premium telephone instruments such as dial-in-handset and Starlite telephones will be priced at one cost whether used as the customer's primary instrument or as an extension. Nonpremium telephones which are used as extensions will likewise be priced at the full cost of providing the instrument. Only where a nonpremium telephone is used as a primary instrument will the 50¢ per month charge apply. Thus, where the customer has a mixture of nonpremium and premium telephone instruments, he will receive the benefits of the staff's primary instrument rate of 50¢ per month only if in his initial request

for service he asks for the instrument to be his primary telephone with the premium instrument as an extension. According to General, the staff admits that its primary instrument proposal is basically an interim rate and that it will propose primary instrument rates based on cost in General's next major rate case. General believes, however, that the adoption of such a rate proposal, even on an interim basis, is unreasonable and will generate a legacy of customer ill will and could cause General excessive and unnecessary expense. General further argues that should this Commission believe a separate primary instrument charge is appropriate, the rate should be set at a cost-based level of approximately $1. We will adopt an "unbundled" rate with a line charge of $6.25 for local basic single-family residence service and a "stand-alone" rate for company-owned instruments equal to $1 per month for a standard instrument whether used as a primary instrument or as an extension. The billing effect of this company-owned instrument charge is $15.1 million for test year 1980. We shall also adopt the staff's concept for measured business customers of a monthly charge with no call allowance but we shall adopt a $6.50 monthly rate in lieu of the staff's $5.00 proposal. This increase of $9.2 million for business is approximately the same percentage increase as for the residential customers. In addition we will adopt General's proposal for the nonmetropolitan one-party business customers.

Unbundling the rates for the primary telephone instruments from the basic monthly rates could influence customers' decisions on whether to continue to rent those instruments from General. We want General's customers to be aware of the choices available. Accordingly, we will order General to notify its customers that the telephone rental charge is separate from the basic charge, and that they can elect to purchase a telephone instead of renting it. We also will order General to develop a new customer bill format which identifies each month the charge

for the telephone instrument rental separate from the basic monthly charge. Finally, we will order a report from General within 90 days on its compliance with these requirements, including submission of the new billing format for our staff's review.

Message Toll Service

General recommends increases in message toll service of approximately $18.5 million in customer billings for the test year 1980. The proposed rates would increase certain short-haul rates, coin rates, surcharges for operator-assisted messages, and certain additional minute rates while at the same time substantially decreasing long-haul rates in all periods. The staff proposes increases in message toll rates to yield approximately $11.0 million increased customer billing for the test year 1980. The staff's proposed revisions are the same as proposed by Pacific and recommended by the staff in A.59269. It is the staff's position that, since message toll service is provided on a statewide basis at

rates and charges shown in Pacific's tariff Schedule No. 53-T, adoption by the Commission of the same toll revisions in A.59269 of Pacific and A.59132 of General will facilitate the consistent administration of message toll service throughout the state. D.91495 dated April 2, 1980 in A.59269 adopted the staff's proposed message toll rates similar to those the staff herein proposed. Consequently, these same rates will be adopted in this proceeding.

Centrex Service and Enhanced Business System Service (EBSS)

General proposes to establish EBSS at rates and charges presently provided on a contract basis to approximately 10,000 EBSS lines. According to the staff testimony by year's end 1980 General will be equipped to serve approximately 35,000 lines of EBSS, more than half the estimated market potential. These forecasts and the number of EBSS lines currently being provided under contract indicate to the staff a substantial demand for the EBSS. Because of this substantial customer demand, the staff recommends that General be authorized to provide EBSS at tariff rates and charges presently included in the contracts with the exception of the service connection charges. The present EBSS contract service connection charges are inconsistent with either General's or the staff's recommended service connection charges for services other than EBSS or Centrex. The staff therefore recommends that the service connection charges authorized by this decision for other than EBSS and Centrex service be applied for EBSS and Centrex service. These recommendations appear reasonable and will be adopted.

The staff further recommends that should this Commission determine that rate relief is indicated in excess of $92.5 million, rates and charges for EBSS and Centrex be increased 10 percent. In support of this recommendation the staff witness testified that EBSS is a highly competitive offering in that it provides services very similar to properly equipped PBX's provided by either General or outside vendors and the proposed rates are not cost-supported. Consequently, he believes General should be ordered to include fully allocated cost studies associated with EBSS. Rebuttal witness T. E. Quaintance presented an exhibit indicating that the EBSS rates are properly priced in relation to competitive offerings. We will adopt General's present contract rates, modified as above discussed, as a tariff offering. We will not increase these rates at this time but will order the staff-suggested study to be in a better position to reevaluate the situation in connection with General's next major rate proceeding.

D.91337 Rates

In compliance with Ordering Paragraph 5 of D.91337 General filed Advice Letter No. 4553 which became effective on February 19, 1980 and provided for minor rate reductions in basic service monthly rates and certain Centrex rates. It is estimated that the application of these rate reductions will result in a decrease in customer billing of $1.5 million in the 1980 test year. According to the staff, the resultant rates reflect reductions from 3¢ on one-party flat rate residence service in metropolitan areas to $90 for the first 200 Centrex stations provided in nonmetropolitan areas and must be considered in the design of rates in this proceeding.

To eliminate possible administrative problems and the need for any revisions in General's or the staff's proposed rates and charges, the staff recommends that the rate reductions reflecting this decision be made through negative billing surcharge. This position appears reasonable and will be adopted.

ZUM for the Los Gatos Exchange

D.90642, D.90919, and D.91121, supra, ordered implementation of the ZUM plan by General and Pacific in the Los Gatos exchange because it is within the SF-EB extended area and is included in the ZUM plan. However, since multi-message unit (MMU) service was not offered from the Los Gatos exchange, full ZUM service for Los Gatos exchange is not ordered in Commission decisions which establish ZUM. The staff therefore proposes that full ZUM zone calling be established for Los Gatos. The necessary facilities to provide such service will, according to the record, be available on or before October 10, 1981 (the date upon which all ZUM route conversions must be implemented per D.90642, D.90919, and D.91121, supra). The staff recommends the Commission order the implementation of ZUM for the additional routes in Los Gatos, Los Altos, Mountain View, and Sunnyvale be completed on or before October 10, 1981. The estimated customer billing effect on the General system of implementing full ZUM zone calling from the Los Gatos exchange is a reduction of $0.1 million in the 1980 test year. The proposed implementation of ZUM for General's Los Gatos exchange will be adopted.

<u>Billing Surcharge</u>

General proposes the elimination of the negative billing surcharge resulting from this Commission's OII 19 and the passage of Proposition 13, the Jarvis-Gann tax initiative, in June 1978. General estimates the revenue effect of eliminating the negative billing surcharge for the test year is $27.6 million before uncollectibles. The staff recommends that the billing surcharge be revised to balance the proposed rate design to achieve the overall revenue requirement. Since our determination of the cost of service and resulting revenue requirement is based on post-Proposition 13 ad valorem taxes, our adopted revenue requirement reflects the lower level of ad valorem taxes as a result of the passage of Proposition 13. Thus, it is not appropriate to continue the negative surcharge as being related to the ad valorem tax savings. However, we will adopt the staff recommendation to use the billing surcharge to balance our adopted rate spread to achieve the overall revenue requirement.

Our adopted billing surcharge will be a billing adjustment applicable to the same basic exchange rates presently surcharged, but since our billing surcharge no longer relates to the ad valorem tax savings, we will consider it a basic exchange rate and therefore subject to uncollectibles and settlements.

Our adopted tariff changes total ~~$91.7~~ #75.0 million of the needed ~~$122.4~~ #91.7 million to achieve the rate of return authorized. Consequently, the difference of $16.7 million will be made by decreasing the existing negative surcharge of 7.28 percent to a negative 2.99 percent.

VIII - QUALITY OF SERVICE

A - GENERAL

The quality of service being provided by General was one of the major issues raised during the proceeding. The record on this issue was developed in two broad categories: (1) testimony and exhibits evolving from public witness statements, and (2) General's basic showing on the quality of service, the staff's report on quality of service, and rebuttal testimony and exhibits presented by General.

Direct and/or rebuttal testimony relating to quality of service was presented on behalf of General by its vice president of service, H. Gasser; by its planning systems director, Joseph E. Haring; by its network engineering director, Robert B. Shirey; and by its general network engineering manager, Raymond E. Schultz. The staff presentation on the quality of service was presented by supervising utilities engineer H. Strahl and utilities engineer T. I. Toczauer.

In its reply brief General argues that public witness statements were made by less than 0.0001 of General's customers and are not representative of the overall quality of service offered to its subscribers by General. In support of this position General notes that it meets all of the General Order No. 133 service standards except dial service and customer trouble reports, both of which are slightly below the General Order No. 133 levels. In addition, General refers to two additional internal measurements used by General not required by General Order No. 133 and to a customer survey, TELCEL, conducted by an independent third party indicating that a substantial majority of General's customers considered General's service to be good or excellent.

Dial service, one of the two General Order No. 133 service standards not met by General, is a measure of the ability of the equipment to complete a customer-dialed call over the local and toll message network without encountering an equipment malfunction and/or all paths busy condition. Sixty-six percent of General's reporting units failed to meet this critical service standard for the first seven months of 1979.

The second standard that General failed to meet was the number of user trouble reports for each 100 stations. As with the dial service standard, this standard is one of the more critical and meaningful standards. Sixty-one percent of General's reporting units failed to meet this standard for the first seven months of 1979. With respect to this service standard, instances have been noted where customers who experienced troubles have stopped reporting such instances because such calls did not result in corrective actions. In those circumstances the lessening number of trouble reports would indicate an improvement in service performance whereas actually there was no such improvement.

In any event, with more than 60 percent of General's reporting units failing to meet these two critical standards, it is obvious that substantial improvements are required. The fact that more than 60 percent of General's reporting units are failing to meet two of the more critical service indices contained in General Order 133, coupled with extensive public witness statements critizing the standard of service provided by General, leaves little doubt that immediate and comprehensive service improvement measures are imperative.

During the course of the hearings numerous suggestions were made for insuring the implementation of adequate service improvement measures by General. These ranged from the staff's previously discussed proposal of no rate adjustments if earnings fall within a certain range either as a result of service improvement or deterioration, to a rate of return penalty to be cancelled if service standards are improved, to placing certain sums in escrow to be given General when its service is improved. We have carefully considered these various methods and believe it best to reduce the return on equity otherwise found reasonable to insure that General does diligently and successfully pursue service improvement measures. This is indeed a penalty. But it is also an incentive to General's management. If it meets the service goals we specify in Appendix D, General may have its rates increased by $7.4 million.

B - PUBLIC WITNESSES STATEMENTS

As previously stated, public statements were made by 189 witnesses at Santa Barbara, Los Angeles, Santa Monica, West Covina, San Bernardino, Palm Springs, and Diamond Bar. The Diamond Bar hearing was the last of the seven days of public witness hearings. It was held in response to a petition signed by over 1,000 subscribers requesting a hearing at this location. The hearing was held on a Saturday and presided over by the assigned Commissioner, Dr. Claire T. Dedrick. To avoid unnecessarily cumulative testimony and efficiently utilize hearing time so as to accommodate the anticipated large turnout, a questionnaire listing the 16 most common problems discussed at the previous six days of public witness hearings was distributed to serve as a focal point for subscriber statements. In addition to the 39 witnesses who made statements supplementing the questionnaire at the hearing, 97 parties completed questionnaires and submitted them to the Commission for its consideration.

Investigations were made of all the service problems described by the 189 public witnesses and included in the 97 questionnaires submitted at Diamond Bar. The results of these investigations were summarized and included in exhibit form as a part of the record to this proceeding.

The questionnaire was reproduced in one of the local papers and the subscribers were encouraged to mail completed copies to the Commission. In excess of 1,300 completed questionnaires were received by the Commission. As a result, General was requested to submit as an exhibit at the hearing the following information for those prefixes with the first

two numbers being 33, 35, 59, 62, 69, 91, and 96: the location of the exchange, the type and age of central office equipment located in the exchange for the recorded years 1975 through 1979 and estimated years 1980 through 1985, the capacity of equipment, the number of lines utilized, and the number of trunks serving the exchange, including whether each trunk line is an individual line or a part of a carrier system.

The 16 most common service problems set forth on the questionnaire are as follows:

Number dialed does not ring.

Telephone out of service.

No dial tone.

Necessary to dial number several times to get response.

Line goes dead after dialing number.

Line reverts to dial tone after dialing several digits.

Get recording that number dialed was disconnected when it was not.

Line goes dead in middle of conversation.

Excessive noise and/or static on line.

Require operator assistance to complete long distance and/or local calls.

Cross-talk (conversations of parties on other lines).

All circuits busy signal (fast busy signal).

Connected to number not dialed.

Cannot reach operator.

Cannot reach repair service.

Public pay phones inoperative.

Of the above service problems, the ones caused by equipment failure are, according to the record, number dialed does not ring, line out of service, no dial tone, line goes dead after dialing number, line reverts to dial tone after dialing several digits, get recording that number dialed was disconnected when it was not, and customer connected to a number not dialed. Equipment failure is a broad category and includes any portion of the switching train from the calling to the called phone. The three most common causes of equipment failure are failure of the instrument itself, outside plant failure of one kind or another, and the failure of one of the several relays for the connectors in the central office of the called number. The corrective actions required to minimize the problems associated with equipment failure are adequate maintenance programs, sufficient number of efficient, well-trained repair personnel, and early replacement of outworn equipment. As clearly demonstrated on the record, General's overall work force experience level is at a very low point due to the radical expansion of the work force and the necessity of utilizing more experienced workers to train the new employees. It is axiomatic that as the new employees gain experience and thereby become more proficient in performing the maintenance work, both the amount of equipment failure and the time required to effect repairs should be reduced. At the future hearings on the amount of rebate, if any, to be ordered for General's failure to adequately improve service, the extent and effectiveness of equipment maintenance programs will be carefully evaluated.

The common service problems caused by network congestion are: require operator assistance to complete long distance and/or local calls and an all circuits busy signal (fast busy signal). The most common cause of network congestion is the lack of interoffice and/or intraoffice trunking facilities. According to the testimony of General's witness Schultz, the experienced increase in the number of stations and calling rates for each station created a heavy demand for interoffice trunk carrier equipment. To meet this heavy demand, General obtained such equipment from all major carrier manufacturers and trained additional personnel for integration into the carrier work force. General anticipates the backlog of carrier installations will be substantially reduced by year-end 1980. This will be another factor considered in our future evaluation of General's service.

The common service problems that can be caused by either equipment failure or network congestion are: the necessity to dial number several times to get a response, cannot reach operator, or cannot reach repair service.

Excessive noise or cross-talk are problems caused by defective carrier operation. Lack of an adequate number of carrier facilities can overtax the existing facilities and thereby cause a substantial increase in the number of breakdowns. Also, heavy usage of existing carrier facilities precludes the periodic removal of carriers from service to perform necessary preventive maintenance.

The one remaining service problem listed on the questionnaire was public pay telephones being inoperative. This is generally a result of vandalism. The effects of such vandalism can be somewhat mitigated by the installation of single-slot telephones. General plans to convert to 100 percent single-slot coin telephones by 1982.

C - STAFF PRESENTATION

The basic staff presentation was made by utilities engineer Toczauer who presented evidence on service standards, service deficiencies, and solutions, and by supervising utilities engineer H. Strahl who presented evidence on overall service considerations.

Service Standard Measurements

The purpose of this Commission's General Order No. 133, rules governing telephone service, is to establish uniform standards of service to be observed in the operation of telephone utilities. The specific telephone service measures included in General Order No. 133 are held primary service orders, held regrade service orders, installation commitments, customer trouble reports, dial tone speed, dial service, toll operator answering time, and directory assistance operator answering time. According to the testimony of staff witness Toczauer, the existing above-listed indices do not reflect every facet of service performance and he therefore recommends additional measurements to more completely monitor service performance and the progress of improvements. He suggested the following new service indicators be utilized in

addition to General Order No. 133: (a) local trunking, intracompany-percentage of final trunk groups meeting design criteria of no more than one lost call in a hundred attempts; (b) end office to toll office trunking, intracompany-meet same design criteria as (a); (c) toll office to end office trunking, intracompany-percentage of ineffective attempts; (d) local trunking, intercompany-same as (a); (e) end office trunking to MMU tandems, intercompany-same as (a); (f) end office trunking to toll office, intercompany-same as (a); (g) director performance-percentage of directors losing no more than five calls per thousand; (h) director conversion to electronics-percent of step offices converted to IBM system "D"; (i) line conversion to electronics-percentage of lines served by electronic central offices; (j) line utilization-ratio of total lines in service to total lines installed; and (k) conversion to single-slot coin telephones-percent converted.

According to the record, the company already has the information available in its files so the additional reporting requirements suggested by the staff would not impose any severe hardship on General. We are persuaded that the staff's suggested additional indices will greatly assist in the complex problem of evaluating service levels. Consequently, the order that follows will require the company to submit quarterly reports on these additional service indices at least until such a time as it is obvious that the level of service provided by General is fully adequate.

Load Growth

Both General and the Commission staff agree that current problems relating to service reflect an unanticipated and unprecedented load growth in the period commencing in 1976 at a time when General's plant margins and operating personnel were at a minimum. The years immediately preceding 1976 were characterized by relatively low growth in primary telephone services in General's service area. During the period 1963 through 1975 the maximum growth was 82,811 primary services gained in 1964 and the minimum was a gain of 58,929 primary services in 1971, with an average annual gain for the period of 66,216. During the period 1971 through 1975 the southern California economy was dominated by the aftermath of the Vietnam period reflecting declining defense expenditures and a depressed market for large airplanes, social and political unrest at the national and local level created uncertainty in business circles, freeway construction was increasingly blocked by environmental and other public concerns, and inflation controls which followed the OPEC energy crisis of 1973 and 1974 created the most serious depression conditions since the 1930's. According to witness Haring, commencing in 1976 the economic factors reversed and southern California began experiencing boom conditions. Almost every economist had trouble forecasting this boom. GTC was more accurate than the State Department of Finance for its 1976 through 1978 forecasts and more accurate than the University of California at Los Angeles' forecast in 1976. The primary services gained were 80,536 for 1976, 103,477 for 1977, 107,042 for 1978, and 110,044 for 1979. The problem of supplying facilities to meet

the demands posed by this unprecedented growth in a number of primary instruments was exacerbated by the increased use per phone and the relatively higher percentage of high use business phones installed as compared to residential phones. To cope with these increased demands General hired thousands of new employees to install, repair, and maintain the equipment additions. The large number of inexperienced and untrained personnel resulting from such a high percentage labor force addition decreased the experience of work units to the point that on-the-job training became impossible. The number of trainees therefore required the reinforcement of the training department with experienced employees to act as instructors. Such use of experienced personnel further reduced the experience levels of work groups with the result that the level of service provided by the already overloaded system was further degraded.

A further reduction in experience levels with the corresponding reduction in productivity was allegedly due to the high level of intracompany transfers of employees during this period. The number of annual transfers occurring since 1975 are, according to the record, almost equal to the number of new employees hired. The majority of these transfers were due to hourly employees exercising their current labor contract right to transfer from one position to another after only one year. Since these transfers are part of the negotiated labor contract and are, therefore, a current employee right management cannot control them to minimize the adverse effects of such transfers on productivity.

To mitigate the decrease in productivity caused by such transfers, the staff made the following recommendation:

> "The staff recommends that General be put on notice by the Commission that its labor agreement be modified to permit management to implement a Force Stability Plan or an equivalent procedure. Should the utility choose not to correct this situation, then appropriate ratemaking adjustments should be adopted notwithstanding any labor contract provisions." (Page 16-13, Exhibit 23.)

The CWA is a collective bargaining representative for nonmanagement employees of General and therefore has a vital interest in this particular staff recommendation.

At the hearing on April 15, 1980, CWA moved that all oral and documentary evidence relating to the above recommendation be stricken from the record on the basis that such a recommendation is preempted by federal law in that it offends the national labor policy by invading the collective bargaining process just as much as though it mandated lower wages or fewer holidays; that the United States Supreme Court has repeatedly held that the principle of voluntary uncoerced agreement is the cornerstone of federal labor law; and that California and this Commission have always recognized the foregoing principle as evidenced by the following:

> "Again, there is great public interest in the relations between labor and management, for wages invariably affect rates, and disputes over them or other matters are bound to affect services. Accordingly, there has been considerable state and federal legislation to diminish economic warfare between labor and management. In the absence of statutory authorization, however, it would hardly be contended that the commission has power to formulate the labor policies of utilities, to fix wages or to arbitrate labor disputes." (Pacific Telephone & Telegraph Co. v Public Utilities Commission (1950) 34 Cal 2d 822 at 829.)

CWA further alleges that employee mobility is a proper subject for collective bargaining and in the case of General, there is a long history of its being a contractual subject and as an issue in grievance and arbitration proceedings. According to CWA, federal preemption in this area was strongly delineated in the Garmon case: "When it is clear or may be fairly assumed that the activities which a state purports to regulate are protected by Section 7 of the National Labor Relation Act, or constitute an unfair labor practice under Section 8, due regard for the federal enactment requires that state jurisdiction must yield." (San Diego Unions v Garmon (1959) 359 US 236, 79 S Ct 773, 3 L ed 2nd 775.)

The presiding ALJ denied the motion to strike the designated testimony on the basis that all quoted law indicating that such an order by this Commission would be contrary to the provisions of the National Labor Relations Act applies only to an act of this Commission and is inapplicable to a recommendation by a staff member.

On June 6, 1980 CWA filed an application to certify this matter for interlocutory hearing and ruling during the pendency of the underlying application. In addition, in its brief CWA notes that to effectively counter the staff's proposal, CWA would be forced to discuss fully in an alien, uninformed, and irrelevant forum what is properly the business only of the company and union. To do so would, in the opinion of CWA, jeopardize the union's position with both General and Pacific. Consequently, the brief, submitted under protest, limits its rebuttal to examining the allegedly obvious flaws in the staff's recommendations. Such deficiencies, according to CWA's arguments,

include unfamiliarity with the provisions of current contracts, and the risk of loss of employment should the transferee fail to pass required tests given at the completion of each phase of the job training. CWA believes staff's use of number of employees per 1,000 telephones as a measurement of productivity is invalid in that no relationship between number of transfers and productivity was proven, and the staff's view of the force stability plan was shaped unilaterally by General and is, therefore, biased and erroneous.

The aforesaid application was purportedly filed on June 6, 1980 because of the possible adverse effect of the Commission's adoption of such a recommendation on its labor negotiations with Pacific commencing in June 1980. In this respect it should be noted that according to the staff witness testimony, the labor agreement in effect for Pacific presently contains such a force stability clause similar to that being recommended by the staff.

We have no desire to place our finger on either end of the delicate balance in labor-management negotiations. Yet we cannot overlook the possibility that, through injudicious concessions at the bargaining table, General may have acceded to a policy that harms ratepayers through inefficient use of utility resources. We have a fundamental responsibility, under Public Utilities Code Sections 701, 728, and 761, to ensure that ratepayers receive adequate service at just and reasonable rates. Accordingly, we hereby put General on notice that, whether or not it seeks to discontinue its present employee

transfer policy in its next contract negotiations with CWA (a matter left to management's discretion), it must improve its productivity and efficiency. Likewise, CWA is put on notice that the Commission will not view as sacrosanct every policy arrived at through collective bargaining when such policy unreasonably affects rates and service to the detriment of ratepayers, who, we note, are not represented at the collective bargaining table and whose protection is this Commission. If CWA can arrive at a means for ensuring that operation of the employee transfer policy will not unreasonably impact General's service and rates, then the Commission will not order its abolition or modification or the institution of a force stability plan. But the Commission will not shy away from examining the deleterious effect on service and rates of inefficient utility management. We reserve the right to order such changes - or disallow such costs - as we find necessary.

In view of our decision not to adopt the staff's proposal, CWA's application to certify this matter will be denied.

Trunking Requirements

There are three basic networks within the Los Angeles metropolitan area which are the local service network, the metropolitan switching system network (MSS), and the toll switching network.

For a central office to be effective it must be connected to the network by trunks to other central offices including tandem switching points and toll centers. Most of

these interoffice trunks utilize carrier facilities that are 24 electronically derived circuits from two cable pairs. The increase in station gain together with the substantially increased use per telephone posed a heavy demand on the local service network for carrier equipment. To provide the necessary trunking for its central offices to meet this increased demand, General increased its personnel on the carrier work forces and procured all available carrier equipment from all major manufacturers. These actions are just now beginning to reduce the unprecedented backlog of carrier installations and present trends indicate possible substantial reduction of the backlog by the end of this year, 1980. It is expected that the carrier acquisition program will continue on its presently accelerated basis till such a time as the backlog on carrier equipment is reduced to zero.

The metropolitan switching system handles seven-digit toll traffic in the 213 numbering plan area. General's portion of the MSS is comprised of approximately 6,650 primary high usage and direct final trunks originating and terminating in General's central offices, approximately 3,600 primary high usage and direct final trunks originating in General's central offices and terminating in Pacific's central offices, and approximately 9,660 trunks originating in General's central offices and terminating on Pacific's MSS tandems. During the latter part of 1978 and during 1979 General's customers were experiencing problems in completing calls over the MSS network as evidenced by General's internal measurement program, dial service observations, and customers' complaints. During July 1979 General gathered traffic data on the MSS network and found that 52 percent of the final trunk groups to the

tandems were overloaded. Pacific and General were able to jointly increase General's tandem trunks by 433 between August and November 1979 by transferring such trunks from over-trunked to overloaded trunk groups. During August 1979 it was ascertained that both Pacific and General would have to increase the size of their respective construction forces in order to clear up the backlog on the overloaded final trunk groups. A joint company engineering group concluded that the only immediate solution to solving the overloaded trunking facility problem was to increase the number of trunks which carried traffic directly between central offices. New engineering efforts to accomplish this increase in the number of inter-central office trunks began in September 1979 and were completed in November 1979 with the result that the direct trunks engineered were increased by approximately 13,000 for 1980 and for 1981. The trunk growth to be achieved in General is estimated to be 1,650 direct trunk additions and 1,310 final trunk additions in 1980 and 2,350 direct trunk additions and 1,910 final trunk additions in 1981. It is presently estimated that the backlog of overdue work will be overcome by the end of 1980 and that service levels throughout General's portion of MSS will be substantially improved assuming that General's projections of growth over the next several years are accurate. It should be noted, however, that the effects of new services such as ZUM, mass announcement system, public announcement system, the effects of gasoline shortage on stimulation of traffic, or a higher than anticipated upturn in the economy could have a detrimental effect on these efforts.

Toll service for General's customers in California is provided by a dedicated toll tandem network. General's central offices home on 11 toll tandems in California, of which three are under the control of General and are located in Long Beach, Santa Monica, and Ontario. The other eight machines, under the control of AT&T and Pacific, are located in San Bernardino, Sherman Oaks, San Jose, Fresno, San Rafael, Santa Rosa, and two in Sacramento. General's Ontario tandem, Pacific's Sherman Oaks tandem, and AT&T's regional tandem in San Bernardino are presently operating at substandard service levels. The Ontario tandem is a Class 3 primary center homing on AT&T's San Bernardino Class 1 regional center and serves approximately 451,000 General customers. This tandem was placed into service in May 1978 and General's Ontario and Pomona central offices were placed onto the tandem at that time. A progressive rehoming program has been under way since then and six of the remaining nine General central offices which still home on San Bernardino were scheduled to rehome on Ontario in June 1980 and three were scheduled to rehome in September 1980. Service levels on the Ontario toll switch deteriorated during 1979 and adequate service is still not being provided. The primary reason for the below-objective performance of this machine and the resultant deleterious effect on customer toll dialing is a trunking shortage, both to and from the central offices that home on this machine. Also the Ontario toll switch homes on San Bernardino as its final route and there are trunk shortages in this route. Toll trunk additions for the congested routes were scheduled for June and September 1980 coincident with the rehoming of the last of the nine central offices from San Bernardino to Ontario.

It is estimated that the service levels at Ontario will substantially improve during the fourth quarter of 1980 and normal service levels should be restored by busy season 1981. Pacific's Sherman Oaks tandem provides both inward and outward seven- and ten-digit toll traffic for 271,000 General customers in the 805 numbered plan area (NPA). Customers as far north as Santa Maria and as far south as Thousand Oaks home on this tandem. The trunking to some of these offices is currently deficient due primarily to delays in establishment of inter-office carrier facilities and a lack of trunk terminations in the toll machine. During 1979 the trunking facilities of six of General's 21 central offices homing on Sherman Oaks were overloaded. In addition, the trunking facilities of 4 of General's 21 trunks from Sherman Oaks to the central offices were overloaded. General has been advised by Pacific that with only a few exceptions sufficient terminations for both inward and outward traffic will be available for the busy season 1980 requirements.

It was anticipated that the installation of the Ontario tandem would relieve the overload at the San Bernardino tandem. However, the overload was much greater than expected with the result that the Ontario tandem was unable to provide the required relief for the San Bernardino tandem. As a result the Ontario switch, which was initially planned to cope with increasing needs for several years, is already scheduled for replacement with a much larger switch.

Reserve Margin

Based on staff investigation of the operating practices of California telephone utilities, witness Strahl recommended that this Commission direct General to build and maintain a reserve margin corresponding to two years anticipated growth for each central office. He further recommends that General be ordered to immediately restore any central office margin that falls below this level.

General's rebuttal witness Shirey testified that the industrywide design criterion used by most utilities was to provide sufficient lines so that at the exhaust date, usually two years after the equipment installation, the line fill would be 95 percent. He further testified that General has adopted such a criterion for its electronic switching devices, but that for its step-by-step equipment, which constitutes approximately 80 percent of General's facilities, a shorter period is used. According to General, such a shorter period is necessary because of the unavailability of sufficient step-by-step central office equipment to provide for a two-year planning period. Such equipment is unavailable because it is not obtained from manufacturers but, rather, is a reuse of step-by-step equipment which has been replaced by electronic equipment. In those instances where planned conversion to electronic switching at an early date is scheduled, an even shorter design period is used. General's postion appears reasonable and we will permit utilization of such a design criterion for purposes of this proceeding. It is evident, however, that growth rates are highly volatile

and difficult to accurately predict. General should give serious consideration to the use of a 92 or 93 percent fill factor rather than the current 95 percent factor.

Switching Equipment Selection

With respect to the selection of switching equipment, staff witness Strahl recommended that General be ordered to:

1. Immediately replace its present practice regarding switching equipment selection with nonbiased competitive bid solicitation and evaluation practices which should include firm price quotes and common specifications and make such bid proposal papers open for public inspection after the award of a particular contract.

2. Install digital switching units exclusively in all new construction engineered for installation after December 31, 1981.

3. Study and report on the economics of early retirement of all remaining step-by-step installations and their replacement with digital switching units.

4. Provide a detailed explanation to the Commission indicating why presently installed and proven switches manufactured by northern Telecom, Stromberg-Carlson, ITT north, TRW/VIDAR, Nippon, L. M. Ericsson, Siemens, Thompson, and CIT-Alcatel were excluded from the planner's consideration in the selection of future switching equipment.

General opposes the solicitation of bids from various manufacturers for specific switching machines because it could lead to a wide variety of various type switching equipment scattered throughout the company in unpatterned groupings.

In the opinion of General, such groupings could lead to increased costs for training maintenance and support personnel and for stocking the spare parts required to service such a wide variety of machinery. In this respect it should be noted that the final judgment in the suit of International Telephone and Telegraph Company against GTE and its subsidiary Hawaiian Telephone Company enjoined the General System from continuing, developing, effecting, or enforcing any form of plan, program, policy, or practice of "in-house" purchasing through which the telecommunications equipment requirements of the General System telephone operating companies are supplied by General System telephone equipment companies on a preferential basis. As a result, the General System issued a statement setting forth its business policy that all purchases of telephone equipment by General System telephone operating companies are to be made on an arm's length, fair, and equal basis from all nonaffiliated manufacturers of telephone equipment and General System telephone equipment companies without affording preferential treatment or consideration to General System telephone equipment companies. The staff contends that compliance with this consent degree is not sufficient by itself to assure the type of service General's customers deserve. According to the staff, the consent decree is rather open-ended and vague and does not provide procedures or operational details that would achieve its intended purpose.

The staff position, however, is not buttressed by substantial investigation and the staff's recommendation with respect to competitive bidding will not be adopted at this time. The staff will, however, carefully review General's equipment selection process for the further hearings on the adequacy of service. In addition, the consent decree provides, as follows:

> "Within ninety (90) days after the close of the first calendar year following entry of this final judgment, and within ninety (90) days after the close of each calendar year thereafter for so long as GTE retains any stock interest in any General System telephone equipment company, unless sooner terminated by order of this Court, each of the principal General System telephone operating companies shall file with the Court, under seal, and furnish to the plaintiff, for purposes of this litigation only, a report sworn to by a responsible officer setting forth the following information with respect to its respective purchases of telephone equipment: (a) the types of equipment, number of units, and dollar volume of the telephone equipment purchased and ordered for delivery during the preceding calendar year (i) from GTE telephone equipment companies, and (ii) from all other manufacturers or vendors; and (b) the types of equipment, number of units, and dollar volume of telephone equipment ordered during the preceding calendar year for delivery in later years (i) from GTE telephone equipment companies and (ii) from all other manufacturers or vendors."

A careful reading of the above quotation shows that the consent decree does not require competitive bidding but merely an evaluation of the various types of equipment considered for possible purchase.

It would, therefore, appear that existence of the above consent decree does not remove the need for competitive bidding for central office equipment. The advantages of such competitive bidding are that General and General's customers will have the opportunity to realize the benefits of the growing competition that exists in the central office equipment supply area at the present time. Accordingly, we will require General to develop a complete plan for converting to a competitive bid basis for acquisition of central office equipment. General will be required to submit this plan to the Commission for Commission approval not later than July 1, 1981. If General does not indicate that it is going to use competitive bidding for future purchases of central office equipment, General should be required to provide its justification for not doing so.

To assist the staff in evaluating General's purchasing practices, we will require General to file copies of its reports filed annually with the court pursuant to the consent decree with the staff.

In support of his recommendation that General be directed to install digital units exclusively in all new construction engineered for installation after December 31, 1981, staff witness Strahl testified that analog installations will present significant problems to business and residential customers desirous of fast, efficient, and compatible switching service for modern data terminals and to new subscribers desirous of expeditious phone service. He further testified that digital units lend themselves to handling rapid growth of new subscribers through the use of remote modules and savings on building space and outside plant; they integrate well into the digital intertoll network, and are compatible with the complete digital network concept. He noted that other telephone companies in and out of California are already embarked upon ambitious conversions to digital switching, but that General has not yet made a major commitment to digital switching. He provided a list of proven digital switching units presently available and recommended that General utilize such switching equipment for its small-to-medium-sized nonmetropolitan exchanges.

General's rebuttal witness Shirey testified that it will make no commitment to a major program of conversion until convinced that the machines are capable and available to meet the service requirements of the metropolitan service area. The criteria for the metropolitan service area adopted by General are: (a) available capacity of 30,000 to 50,000 lines or more; (b) custom-calling features in addition to

basic service features; (c) EBSS/Centrex features as an available option; and (d) remote switching unit capabilities. The three systems that will meet these criteria within a reasonable time frame are Northern Telecom DMS-100/200, the AE GTD-5, and, at a later date, the Nippon NEAX-61. The witness believes that General should be able to select digital systems that meet the listed requirements for an in-service date of 1983. Contingency plans, if such installation projections are not met, include conversion to analog electronic switching or additions of more step-by-step equipment in existing offices.

General agrees that digital switching promises more economical switching systems for the future, but notes that at the present time the electronic analog switches contain required features not presently available for digital switches. Both analog and digital switches presently provide plain old telephone service, custom calling, and emergency 911 service. In addition, analog switches presently provide expanded 911 service and private line network switching that is not presently available on digital switches. Also, analog switches presently provide full Centrex/EBSS service as compared to limited Centrex/EBSS service now available on digital switches. Consequently, General proposes to continue its present conversion plans and install analog switches in metropolitan areas until such a time as full service is available on digital switches. General's witness testified that it is not presently committed to the exclusive purchase of AE GTD-5 switching system as a company standard and will not become so unless such a system fully meets General's requirements at a competitive cost. General will not, however, reject any switch simply because its manufacturer is a GTE affiliate.

General admits that 55 percent of its exchanges have 20,000 lines or less and 40 percent of its exchanges have 10,000 lines or less and, therefore, could be served by presently available digital switches. General has not, however, effected an accelerated program to convert from existing step-by-step equipment to the smaller digital switching units presently available because, according to the testimony of witness Shirey, its requirements for smaller central offices will be best served by remote switching units (RSU) which extend primary switching functions performed by the base unit computer to distant locations at a cheaper cost than other available methods. It is anticipated that RSU for large digital switches will become available in the near future. At that time General will begin engineering and installing such units to service the smaller and medium-sized exchanges.

With a lead time of approximately three years required for digital switching equipment and the relatively late 1980 effective date of this order, it would appear that General would be physically unable to comply with the staff's recommendation with respect to the installation of only digital switching after December 31, 1981, even were we persuaded that such a recommendation should be adopted. When consideration is given to the present state of the art, the lead time required for the installation of large switching units and the disruptive effect of forced changes to present plans, it appears reasonable to permit General to continue the implementation of its present plans. We are placing General on notice, however, in future proceedings, we will review, in detail, the bases for selection of

equipment to be installed as well as the progress General is making in the installation of sufficient quantities of modern equipment. Under these circumstances we will not at this time require General to study and report on the feasibility of the replacement of all step-by-step equipment with digital switches within a 10-year period as recommended by the Commission staff. We will, however, reevaluate this recommendation in connection with General's next major rate matter.

In addition, we will not implement the staff's recommendation that General provide an explanation as to why proven available digital switches were excluded from the planner's consideration when planning future installations. This matter will be generally covered in our review of General's selection of digital switches to be used as a standard for the company.

Service Improvement Programs

The major operator service improvement programs which General has implemented are: (1) expanded direct distance dialing and (2) mechanized cordboard systems. The expanded direct distance dialing program involves implementation of mechanized toll systems (called traffic service position systems or TSPS) to allow the customer to dial nearly all toll calls even though operator assistance may be required on some calls. Improvements realized by the implementation of TSPS systems are improved operator efficiency, more accurate and timely billing, and more advanced overload controls

minimizing congestion and delays during peak periods. TSPS systems were installed in Reedley in October 1973, completed in Long Beach in the third quarter of 1976, completed in the fourth quarter of 1978 in Santa Monica, and completed in the second quarter of 1980 in Ontario.

Mechanized cordboard systems are designed to automatically time and record billing details for toll calls handled on a cordboard. Mechanized cordboard systems were installed in Oxnard during December 1977 and Palm Springs and Indio during the fourth quarter of 1979.

General is currently in the vendor analysis, evaluation and recommendation phases of the selection process for directory assistance systems/computer and centralized automatic call distributor systems which are designed to reduce operator work time and response time to the customer.

General has also implemented a residential and single line business repeated trouble program which reportedly introduces positive methods and procedures to be employed by the craftpersons in dealing with repeat trouble calls. Such a program covers all the aspects of customer contacts, trouble detection, repair, and testing procedures. All identified service-affecting deficiencies are corrected routinely during a repair visit to the customer's premises. Other nonservice-affecting items requiring more than 30 minutes to repair or attention by another department are referred to supervision for follow-up action. According to General, this program was implemented in March 1979 and has resulted in reducing the percentage of repeated to initial complaints from 28 percent to 25.3 percent through July 1979.

Beginning in 1978 General initiated a program to replace two major central office electromechanical components with new electronic controlled systems. The two systems are the IBM system "D" directors which will replace the existing director and translation systems, and the IBM Series 1 and 7 toll recording systems which will replace existing ticketers, tabulators, and perforators.

It is presently contemplated that in 1980 General will initiate a program referred to as centralized automatic routining of trunks which will automatically test the transmission quality that its customers are experiencing in the toll network. When predetermined thresholds of noise and transmission quality are exceeded, this system will automatically notify maintenance forces of the trouble encountered.

Evaluation of Service Improvements

As previously stated, this decision is being issued with a penalty reduction of 0.5 percent in return on equity (amounting to $7.4 million in rates) until General brings the quality of service to an acceptable level. We will review the quality of service rendered by General, with emphasis on improvement in the quality of service since the beginning of test year 1980.

Such review will include the following previously discussed items:

1. Compliance with provisions of General Order No. 133 and evaluation of service standards as evidenced by the quarterly reports of the additional services indices provided by this order.

2. The number and location of direct and final trunk additions installed each month, together with a year's planned future additions.

3. The bases for the selection of the digital switch or switches to be used as a company standard.

4. Three years' planned additions and/or conversions of central offices.

5. Three years' plans detailing the contemplated installations of:

a. Mechanized toll systems (TSPS)
b. Mechanized cordboard systems
c. Directory assistance system/computer
d. Centralized automatic call distributor
e. Call directors
f. Conversion to electronic switching
g. MSS tandems
h. Toll tandems.

IX - FINDINGS AND CONCLUSIONS

Findings of Fact

1. General is in need of additional revenues, but the requested increase of $119,044,000 (11.9 percent) at the estimated test year 1980 level of sales is excessive.

2. A capital structure consisting of 48.07 percent long-term debt at a cost factor of 8.24 percent, 3.39 percent short-term debt at a cost factor of 10.50 percent, 9.08 percent preferred stock at a cost factor of 7.66 percent, and 39.46 percent equity at a cost factor of 14.10 percent is reasonable assuming General provides adequate telephone service.

3. The rate of return computed utilizing the above capital ratios and cost factors is 10.58 percent and should be adopted as reasonable providing service is adequate. Such a rate of return would provide an approximate times interest coverage after income taxes of 2.45 times for debt and a combined coverage factor for all interest and preferred dividend coverage of 2.11 times. This return on capital is sufficient to attract capital at a reasonable cost and maintain the financial integrity of General.

4. A rate of return of 10.58 percent applied to our adopted intrastate rate base of $2,031,725 would yield $104.9 million increased revenues after settlement and uncollectibles effects and the effects of D.91121, D.90642, and D.90919, supra.

5. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for test year 1980 reasonably indicate the results of General's operations in the future. Specific findings are as follows:

a. The total operating revenues for company operations are $1,214,940,000 and for intrastate operations are $973,285,000.

b. Total maintenance expense for the company operation as a whole is $291,326,000 and for General's intrastate operations is $235,683,000.

c. The total traffic expenses for General's company operations are $76,137,000 and intrastate traffic expenses are $61,671,000.

d. Commercial expenses for the company's operations as a whole are $123,546,000 and General's intrastate commercial expenses are $107,979,000.

e. The general and other operating expenses for the company's operation as a whole are $169,873,000 and the general and other operating expenses for intrastate operations are $141,161,000.

f. The property and other taxes for General's operations as a whole are $32,610,000 of which $26,447,000 are for intrastate operations. General's payroll taxes for the company as a whole are $25,451,000 of which $20,717,000 are for intrastate operations. In computing income taxes the fixed charges on debt adopted by this Commission are $105,119,000, the 48 percent tax rate deferred tax reserve accrual will be amortized over a ten-year period as proposed by the staff, investment tax credit on plant additions will be computed on the basis of full-year convention, and an incremental tax rate will be utilized for computing California state income taxes for the authorized increase.

g. As set forth in the Summary of Earnings table the total company depreciated rate base is $2,503,217,000 of which $2,031,725,000 is rate base for General's intrastate operations. The base amount includes $152,508,000 of short-term noninterest-bearing CWIP.

7. General can conduct studies to obtain the necessary data concerning the types and quantities of key system common and line equipment in service and utilize the data for the basis of a proposed rate structure in its next general rate increase application.

7. General can include in its next general rate increase application a rate structure with separate rates and charges for key system common and key system line equipment.

8. The staff's proposed nonrecurring charges for push-button telephone service are reasonable and should be adopted. The presently effective recurring revenue for this service should be unchanged, but the rates should be refiled based on size of set as proposed by General and the staff.

9. The staff's proposed PBX rates are cost based.

10. The adoption of the staff's proposed rates for supplemental services is reasonable.

11. Due to the increased efficiency of touch calling in the use of electronic switching, General should be required to pursue removing the monthly line charge for touch calling in all of its electronic offices, with the revenue reduction offset by an increase in the billing surcharge percentage applicable to all customers.

12. A common monthly rate of $1 for extensions and key in lieu of extensions (KIL'S) as proposed by the Commission staff is reasonable and should be adopted.

13. The adoption of the staff's proposed rates for datatel service is reasonable.

14. General's and the staff's proposal that the Stromberg-Carlson E-120 PBX be placed on a tariff schedule rather than under contract and the proposed increases in rates for special service arrangements are reasonable and should be adopted.

15. General should be authorized to offset shortfalls in excess of $2.4 million for service to the handicapped by advice letter filing.

16. The staff's proposed multiple element service connection charges with the premises interior wiring charge for each connection point of $12 rather than the proposed $7 are reasonable and should be adopted.

17. Revision of General's rates applicable to local or intraexchange private line service to the levels authorized for Pacific for interexchange private line service in D.91121, supra, is reasonable and should be adopted.

18. It is reasonable to raise the ORTS rates applicable in WCTC exchanges up to the rates provided for ORTS under General's present tariffs and to further raise all the ORTS rates 14.7 percent to equal the average percentage increase proposed by General for one-party flat rate residence service in metropolitan areas.

19. The staff's recommendation for General to convert present ORTS to a fully measured ORTS plan and to implement such a fully measured ORTS plan within 180 days of the effective date of this order is reasonable. Such a fully measured ORTS plan should be developed in concert with the Commission staff and should become effective upon approval by the Commission through resolution action. Freezing the present offering of ORTS on routes over 40 airline miles to existing customers is reasonable.

20. The staff's proposed rates for mobile telephone service are reasonable and should be adopted.

21. General should include cost data in the format of the standard GE-100 methodology for mobile telephone equipment in its next general rate increase application.

22. A verification/interrupt service charge similar to the one effected by Pacific in compliance with D.90642, D.90919, and D.91121, supra, is reasonable for General and should be adopted.

23. General's proposal to increase mileage charges applicable to mileage associated with exchange-type services, and intraexchange optional prefix service as well as the consolidation of the mileage charges applicable in WCTC exchanges and similar General charges is reasonable and should be adopted. Increases in telephone answering services mileage charges should be limited to 50 percent.

24. General's and the staff's proposals to consolidate WCTC FEX rates with General's FEX rates increase the basic rates for FEX service, increase the rate per unit exchange and/or message unit for calls on intracompany and interstate FEX services, eliminate and/or reduce message allowance for FEX trunks and lines, and increase mileage charges for FEX service, together with the staff's proposal for a common rate for FEX trunks and lines and the institution of rates for utility-owned primary instruments, are reasonable and should be adopted. General's proposal to apply airline measurement rate centers for future added contiguous FEX services would create unreasonable discrimination. General should be ordered to study the application of airline measurement between rate centers for contiguous FEX customers and providing a reasonable long-term implementation plan designed to minimize rate impacts.

25. General's proposed rate revisions for EAS increments and the staff's proposal to eliminate the present EAS increments applicable in the Los Gatos exchange upon implementation of ZUM service are reasonable and should be adopted.

26. The staff's proposals of no message allowances for measured business lines and trunk lines and a one-cent increase in a local exchange unit rate applicable to local messages from measured exchange services are reasonable and should be adopted. A common rate for measured business lines and business trunk lines of $6.50 per month is reasonable.

27. General's proposal to increase the present monthly rates for each line arranged for rotary service from 50¢ to $1 and to apply such rate for each rotary number reserved and for rotary service provided in WCTC exchanges is reasonable and should be adopted.

28. The staff's proposal to consolidate and standardize the rates for basic exchange service applicable to WCTC exchanges, to withdraw two-party flat rate business service in all areas, to withdraw four-party flat rate residence in the WCTC exchanges, to withdraw the business message rate trunk service offered in the Novato exchange, and to increase the exchange message unit rate one cent, and General's proposal to eliminate the existing LAEA nonLAEA differential and General's proposed monthly rate increases for suburban business, suburban residence, semi-public coin box, one-party flat rate business, flat rate PBX trunk line, and two-party flat rate residence services are reasonable and should be adopted.

29. A local service single-family residence rate of $6.25 per month for the line and "stand-alone" rates for company-owned instruments as set forth in Appendix B are reasonable and should be adopted.

30. The staff's proposal to increase message toll service rates to parallel with those adopted in D.91495, supra, is reasonable and should be adopted.

31. The staff's recommendation that General be authorized to provide EBSS service at tariff rates and charges presently included in contracts with the exception that the service connection charges authorized by this decision for other than EBSS and Centrex service be applied for EBSS and Centrex service is reasonable and should be adopted.

32. General should include a study showing fully allocated costs for EBSS and Centrex service in its next general rate increase application.

33. The staff's recommendation that General and Pacific be ordered to implement ZUM for the Los Gatos exchange is reasonable and should be adopted.

34. The staff's recommendation that the existing billing surcharge be revised to balance the proposed rate design to achieve the overall revenue requirements is reasonable and should be adopted. The difference between the above enumerated adopted tariff changes and the increased revenue requirement of $122.4 million is $16.7 million which should be reflected in the revised surcharge equal to a negative 2.99 percent.

35. The additional service standard indices (set forth in Appendix D) recommended by the Commission staff must be implemented to assist the staff with the evaluation of the standard of service being offered by General.

36. More than 60 percent of General's reporting units fail to meet the standards set forth in General Order No. 133 relating to dial service and number-of-user trouble reports for each 100 stations.

37. General's telephone service is presently inadequate.

38. A penalty reduction of 0.5 percent in the return on common equity from 14.10 to 13.60 is an appropriate way to recognize inadequate service. This penalty translates to a reduction in revenue requirement of $7.4 million.

39. This penalty for poor service may be removed no earlier than December 1, 1981 upon petition for modification of this order and a showing by General to demonstrate improved service. Termination of the penalty should depend upon a showing on the part of General, demonstrating that (a) the indices as described in Appendix D are met, and (b) that reporting units serving at least 90 percent of General's subscribers have dial service indices above the reporting level.

40. General's customers have been and are experiencing difficulty in completing calls over the MSS network due to overloading of trunk groups.

41. The trunk growth in General's service area is estimated to be 1,650 direct trunk additions and 1,310 final trunk additions in 1980 and 2,350 direct trunk additions and 1,910 final trunk additions in 1981.

42. General's Ontario toll tandem, Pacific's Sherman Oaks toll tandem, and AT&T's regional toll tandem in San Bernardino are providing substandard service levels due to overloading. The deterioration of the service level for these machines is due to a trunking shortage both to and from central offices that home on the tandems.

43. General's current practice of providing two-year growth margin for its electronic switching facilities and lesser margins for its step-by-step equipment is not unreasonable.

44. General can and should be required to file quarterly reports which would enable the Commission and its staff to properly evaluate the effectiveness of General's steps taken to improve service. Such reports need to include the following:

a. The reports of data presently required by General Order No. 133.

b. The standard of service being performed as measured by the additional indicators set forth in paragraph 1 of Appendix D to this order, and an explanation for any measure which does not meet the objective for the year-end indices as described in paragraph 2 of Appendix D.

c. The type, make, and capacity of new class 5 or 4/5 switches installed during the period in each exchange. The basis for switch selection evaluation is to be made available to the staff upon request.

d. List of the major service improvements that have been implemented.

45. Because of rapid changes in central office technology and growing competition by suppliers of central office equipment, it is becoming practicable to acquire central office equipment on a competitive bid basis.

46. The staff's recommendation that General replace its present practice regarding switching equipment with nonbiased competitive bid solicitation and evaluation practices is premature.

47. General should be required to file copies of its reports relating to the ITT Consent Decree with this Commission.

48. A revised bill format which shows the monthly telephone instrument rental charge separate from the basic monthly charge would enable the consumer to make an informed decision whether to continue to rent the instrument from General or to purchase one.

49. Because of the April 7, 1980 FCC order in Computer Inquiry II that deregulates terminal equipment as of March 1, 1982 and requires GTE to form a deregulated terminal equipment subsidiary, it is appropriate that General submit a study describing how a separate subsidiary would be formed to handle all matters relating to terminal equipment deregulation.

50. Because of the impact of deregulation of terminal equipment on depreciation accruals, General should be authorized to file depreciation offset rate increases in the future by the advice letter process subject to Commission resolution action.

51. Because of the close relationship of station wiring to the deregulation of terminal equipment, it is necessary that General study and report on possible plans that will lead to eventual deregulation of station wiring including the following:

a. Provide that customers may install their own station wiring;

b. Provide that customers may purchase in-place station wiring;

c. Provide a rate plan for eventual complete write-off of the station wiring account including, if necessary, an unbundled specific monthly charge for wiring; and

d. Provide a plan for eventual deregulation of station wiring.

52. General's use of the $2.4 million designated for the handicapped shall be as specified in Ordering Paragraphs 15 and 20 of D.90642 in A.58223 of Pacific Telephone Company. General should be authorized to offset short-falls in excess of $2.4 million for service to the handicapped by advice letter filing.

53. General's rates can and should be authorized subject to refund on further order of the Commission after completion of litigation with the IRS concerning the AAA and AA methods. It is the Commission's intent, as expressed in D.87838, that eligibility be preserved.

54. If at any time General is not making a good faith effort in seeking to retain its eligibility for accelerated depreciation and the investment tax credit, the Commission shall consider current rate-setting under AAA and AA before a final ruling on the eligibility question.

Conclusions of Law

1. The Commission concludes that the application should be granted to the extent set forth in the order which follows.

2. The rates authorized herein in Appendix B are just and reasonable. Any other rates applied after the rates in Appendix B are in effect are unjust and unreasonable.

3. General should include the following studies in its next general rate increase application:

a. Data concerning types and quantities of key system common and line equipment in service cumulating in a recommended proposed rate structure and a rate structure with separate rates and charges for key system common and key system line equipment.

b. Cost data in the standard GE-100 methodology for mobile telephone equipment.

c. Data on fully allocated costs for EBSS and Centrex service.

4. Our decision not to adopt the staff's recommendation relating to a force stability plan renders moot the question as to whether or not the adoption of such a recommendation is preempted by federal law.

5. General should be required to file quarterly reports to enable the Commission and its staff to properly evaluate the effect of General's steps taken to improve service.

6. General should be required to file copies of its reports relating to the ITT consent decree with this Commission.

7. General's telephone service is inadequate, and it should not have rates set to afford the opportunity to earn the return which would otherwise be reasonable until its service materially improves. The appropriate penalty or reduction is 0.5 percent return on equity ($7.4 million annually). Accordingly, rates should now be authorized based on a 13.60 percent return on equity; and if General sufficiently improves service, we may adjust rates to allow it an opportunity to earn the 14.10 percent return on equity found reasonable, assuming adequate service.

8. Because the rates authorized are based on the test year 1980 and will be effective for only a small portion of that year, the effective date of the order should be the date hereof.

O R D E R

IT IS ORDERED that:

1. Five days after the effective date of this order General Telephone Company of California (General) is authorized to file the revised rate schedules attached to this order as Appendix B and concurrently to cancel the presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be not less than five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date. These rates shall be subject to refund pending further Commission action on the treatment of accelerated depreciation and investment tax credit for ratemaking income tax expense purposes.

2. The Commission may increase General's rates not earlier than December 1, 1981 by $7.4 million if General files a petition for modification of this order and demonstrates that the service indices in Appendix D are being met. General must also demonstrate that reporting units serving 90 percent of its subscribers have dial service indices above the reporting level. The $7.4 million rate increase would be made to the billing surcharge.

3. On or before January 1, 1981 and quarterly thereafter until further order of this Commission, General shall submit a report for the previous three calendar months setting forth the following information:

a. The reports of data presently required by General Order No. 133.

b. The standard of service being performed as measured by the additional indicators set forth in paragraph 1 of Appendix D to this order, and an explanation for any measure which does not meet the objective for the year-end indices as described in paragraph 2 of Appendix D.

c. The type, make, and capacity of new class 5 or 4/5 switches installed during the period in each exchange. The basis for switch selection evaluation is to be made available to the staff upon request.

d. List of the major service improvements that have been implemented.

4. In its next general rate increase application, General shall include the following in addition to the normal Notice of Intent (NOI) requirements:

a. Data concerning types and quantities of key system common and line equipment in service cumulating in a recommended proposed rate structure and a rate structure with separate rates and charges for key system common and key system line equipment.

b. Cost data in the standard GE-100 methodology for mobile telephone equipment.

c. Data of fully allocated costs for EBSS and Centrex service.

4. General shall file with the Commission staff a copy of its annual report, required by the U. S. District Court for the District of Hawaii with respect to the International Telephone and Telegraph Company Consent Decree. Such information is to be used for internal staff purposes only.

5. With the exception of these reports, which are to be filed directly with the staff, General shall file one copy of all other compliance filings directed by this order with the Commission's Docket Office (for insertion in the formal file), and submit two copies directly to the Communications Division.

6. On or before July 1, 1981 General shall submit a complete plan to the Commission for Commission approval for acquiring central office equipment on a competitive bid basis. If General does not indicate that it is going to use competitive bidding for future purchases of central office equipment, General shall provide specific justification for not doing so.

7. On or before June 1, 1981 General shall submit a study describing how a separate subsidiary would be formed to handle all matters relating to terminal equipment deregulation as ordered by the Federal Communications Commission in FCC 80-189, Computer Inquiry II, on April 7, 1980. Included in this plan shall be the changes in General's organization and methods of operation and a broad estimate of the expected impacts on revenue, plant, rates, expenses, and service.

8. General is authorized to file terminal equipment offset rate increases in the future by advice letters pursuant to the provisions of General Order No. 96-A, subject to Commission approval by resolutions. Such rate increases shall be to offset Commission-authorized increases in terminal equipment depreciation accruals only. General shall provide full notice of these filings to all users of the terminal equipment.

9. On or before April 1, 1981 General shall report on possible plans that will lead to eventual deregulation of station wiring including the following:

a. provide that customers may install their own station wiring;

b. provide that customers may purchase in-place station wiring;

c. provide a rate plan for eventual complete write-off of the station wiring account including, if necessary, an unbundled specific monthly charge for wiring; and

d. provide a plan for eventual deregulation of station wiring.

10. Five days after the effective date of this order, General is authorized to file the rates and charges for Enhanced Business System Service as set forth in Exhibit 13, pages 4-2 through 4-17, with the exception that the applicable service connection charges shall be shown in Appendix B of this order. The effective date of the revised schedules shall be not less than five days after the date of filing. This filing shall comply with General Order No. 96-A.

11. General shall revise the present offering of Optional Residence Telephone Service (ORTS) to a fully measured basis. Such a fully measured ORTS offering shall be developed in concert with the Commission staff and shall be filed by advice letter, within one hundred and eighty days after the effective date of this order, to become effective upon authorization by Commission resolution.

11.a. Within ninety days after the effective date of this order, General shall submit a study showing the revenue effect of removing the monthly line charge for touch calling in all of its electronic offices. This study shall include the estimated increase required in the billing surcharge to offset revenue loss from removal of the monthly line charge for touch calling. Within thirty days after review of this study by the Commission staff, General shall submit a tariff filing pursuant to General Order No. 96-A for authorization to revise rates subject to approval by Commission resolution.

12. The Pacific Telephone and Telegraph Company shall implement Zone Usage Measurement Service as set forth in Appendix C of this order in the Los Gatos exchange coincident with the implementation by General of Zone Usage Measurement Service from the Los Gatos exchange on or before October 10, 1981.

13. Within ninety days after the effective date of this order, General shall file a report describing the actions it has taken to notify its customers that the charge for terminal equipment is unbundled from the basic telephone rental charge. In that report General should provide:

a. A copy of its notice to customers regarding unbundled rates.

b. A proposal for a new bill format which breaks out the individual charge for telephone equipment.

14. Within six months after the effective date of this order, General shall report on the cost and revenue effects of implementing a plan for application of airline measurement between rate centers for contiguous FEX customers. This study shall include a review of the cost of inter-exchange circuit facilities used for FEX service and, where applicable, designated FEX central office serving units. The plan shall also include General's proposals for implementing such a measurement plan on a gradual basis over a five-year period.

15. Within sixty days after the effective date of this order, General shall file, and place into effect on not less than five days' notice, tariff revisions to provide services to handicapped persons as follows:

(a) Special reduced rates, for the certified handicapped only, for all tariff items offered which assist the handicapped in the use of the telephone network. Non-recurring charges shall not be imposed, except for charges in accordance with the

tariff schedule of multi-element charges for simple residential and business services.

(b) Tariff revisions authorizing the certification of persons as deaf, speech-impaired, or blind by licensed Audiologists, Speech Pathologists, and Optometrists, respectively, as well as by physicians and government agencies.

16. Within six months after the effective date of this order, General shall prepare and file with this Commission a report setting forth the revenue effects of reduced rates for the handicapped and the cost effects of the special services for the handicapped, as authorized herein, and shall propose adjustments in rates and revisions in services for the handicapped to the extent required to bring the entire cost of handicapped programs to the sum of $2.4 million annually at the 1980 level of business. Upon approval by the Commission, General shall establish the services and file appropriate tariffs to place into effect such rates. General is authorized to offset new shortfalls in excess of $2.4 million for services to the handicapped by an advice letter filing subject to Commission authorization.

The effective date of this order is the date hereof.

Dated OCT 22 1980, at San Francisco, California.

I concur; see attached. Richard D. Gravelle

John E. Bryson, President

Richard D. Gravelle

Claire T. Dedrick

Leonard M. Grimes, Jr.

Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

LIST OF APPEARANCES

Applicant and Respondent: A. M. Hart, H. Ralph Snyder, Jr., Kenneth K. Okel, and Dale Johnson, Attorneys at Law.

Respondents: Dinkelspiel, Pelavin, Steefel & Levitt, by Alvin H. Pelavin and Douglas P. Ley, Attorneys at Law, for Calaveras Telephone Company, Capay Valley Telephone System, Inc., Dorris Telephone Company, Ducor Telephone Company, Evans Telephone Company, Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, Livingston Telephone Company, Mariposa Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and Volcano Telephone Company.

Interested Parties: Chris Rasmussen, Attorney at Law, for The Pacific Telephone and Telegraph Company; Ed Perez, Deputy City Attorney, for Burt Pines, City Attorney, and the City of Los Angeles; William Knecht, Attorney at Law, for California Interconnect Association; Anthony F. Martini, Attorney at Law, for County of Los Angeles; Gold, Herscher, Marks & Pepper, by Lessing Gold and Stephen W. Kramer, Attorneys at Law, for Western Burglar & Fire Alarm Association; Edward L. Blincoe, for Utility Users League; Timothy J. Sargent and Ruth Benson, Attorneys at Law, for Communications Workers of America; Stephen Shane Stark, Assistant City Attorney, for the City of Santa Monica; Manuel Kroman, for the City of Los Angeles; and K. D. Walpert, for Donald R. Howey, Department of Transportation, City of Los Angeles.

Commission Staff: Rufus G. Thayer, Jr. and Thomas F. Grant, Attorneys at Law, and Tibor I. Toczauer, Louis Andrezo, James Pretti, Tom Lew, Dean J. Evans, and Harry Strahl.

APPENDIX B
SHEET 1 of 11
RATES AND CHARGES

The rates, charges, rules and conditions of General Telephone Company of California are changed as set forth in this appendix.

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

The following rates, charges and revisions are authorized:

Class and Grade of Service	Monthly Rates
Los Angeles Metropolitan Extended Area Service Exchanges (1)	
Business	
1MB	$ 6.50-0
Sub. B	11.00**
SPCB	8.10
PBX-MTK	6.50-0
Residence	
1FR	$ 6.25**
1MR	2.50-30**
Sub. R	5.45**
Non Metropolitan Exchanges (2)	
Business	
1FB	14.20**
2FB	- (3)
Sub. B	11.00**
SPCB	8.10
PBX-FTK	21.20
Residence	
1FR	$ 6.25**
2FR	5.45**
Sub. R	5.45**

(1) Includes: Covina, Downey, Etiwanda, Huntington Beach, Long Beach, Malibu, Monrovia, Ontario, Pomona, Redondo, San Fernando, Santa Monica, Sierra Madre, Sunland-Tujunga, West Los Angeles, Westminster and Whittier.
(2) All other exchanges except former Western California Telephone Company exchanges.
(3) Two-party flat rate business service to be withdrawn.

* Extended area service increments apply in addition to the rates shown.
** Rate does not include a utility provided standard rotary dial telephone set. Rates and charges for primary instruments apply as authorized herein.

APPENDIX B
SHEET 2 of 11
RATES AND CHARGES

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

Exchanges of Former Western California Telephone Company

Class and Grade of Service	Monthly Rates (1) Rate Area 1 (2)	Rate Area 2 (2)
Kenwood Exchange		
Business		
1FB	$14.20	$14.95
2FB	-	-
Sub B#	11.00	-
SPCB	8.10	8.85
PBX-FTK	21.20	21.95
Residence		
1FR	6.25	7.00
2FR	5.45	5.95
4FR	-(3)	-(3)
Sub R#	5.45	-
Los Gatos Exchange		
Business		
1FB	14.20	14.95
2FB	-	-
Sub B#	11.00	-
SPCB	8.10	8.85
PBX-TK	21.20	21.95
Residence		
1FR	6.25	7.00
2FR	5.45	5.95
4FR	-(3)	-(3)
Sub R#	5.45	-

- Service not offered
Suburban service offered only within a suburban area.
(1) Extended area service (EAS) increments apply in addition to the rates shown.
(2) Rate does not include a utility provided standard rotary dial telephone set. Rates and charges for primary instruments apply as authorized herein.
(3) Four-party flat rate residence service to be withdrawn.

APPENDIX B
SHEET 3 of 11
RATES AND CHARGES

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

Exchanges of Former Western California Telephone Company

Class and Grade of Service	Monthly Rates (1) Rate Area 1 (2)	Rate Area 2 (2)
Morgan Hills Exchange		
Business		
1FB	$14.20	$14.95
2FB	-	-
Sub B#	11.00	-
SPCB	8.10	8.85
PBX-FTK	21.20	21.95
Residence		
1FR	6.25	7.00
2FR	5.45	5.95
4FR	-(3)	-(3)
Sub R#	5.45	-
Novato Exchange		
Business		
1FB	14.20	14.95
2FB	-	-
SPCB	8.10	8.85
PBX-MTK	-	-
PBX-FTK	21.20	21.95
Residence		
1FR	6.25	7.00
2FR	5.45	5.95
4FR	-(3)	-(3)

- Service not offered
Suburban service offered only within a suburban area.
(1) Extended area service (EAS) increments apply in addition to the rates shown.
(2) Rate does not include a utility provided standard rotary dial telephone set. Rates and charges for primary instruments apply as authorized herein.
(3) Four-party flat rate residence service to be withdrawn.

APPENDIX B
SHEET 4 of 11
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-1, Individual Line, Private Line, and Private Branch Exchange Trunk Line Service (cont'd)

Exchange Measured Rate	Rate Per Exchange Unit
Each local exchange unit over the allowance	$ .04

Primary Instrument Rate

All exchanges of General Telephone Company and former Western California Telephone Company	Monthly Rate #
Utility Provided Primary Instruments:	
Standard Rotary Dial Set,	$ 1.00
Standard Touch Calling equipped set	1.00*
Dial-in Handset Rotary Dial or Touch Calling Equipped set	**
Starlite Rotary Dial or Touch Calling Equipped set	**
Decorator Telephone, Rotary Dial or Touch Calling Equipped, Type A B & C	1.00***
Panel-Mounted Rotary Dial or Touch Calling Equipped set	1.00***

* Plus the $.50 touch calling set rate.

** Monthly rates applicable to dial-in-handset and Starlite sets provided as primary instruments are stand-alone rates authorized herein.

*** Plus applicable touch calling set rate of $.50 and monthly rates presently shown in Schedule Cal. P.U.C. No. A-15 of General Telephone Company.

\# Applicable service connection charges, installation charges and/or nonrecurring charges are in addition to the authorized monthly rates.

APPENDIX B

RATES AND CHARGES

Schedule Cal. P.U.C. Nos. A-1 and A-19, Rotary Service

The following rates are authorized:

All exchanges including former Western California Telephone Company exchanges.

Rotary Service	Monthly Rate
Each individual line or PBX trunk line arranged	$1.00
Each rotary number reserved	1.00

Schedule Cal. P.U.C. No. A-1 Extension Rates

Proposed rates as set forth in Exhibit No. 60 Appendix D Sheet I are authorized.

Schedule Cal. P.U.C. No. A-2, Datatel Service

Proposed rates and charges as set forth in Exhibit No. 60 Appendix E Sheet 1 thru 24 are authorized.

Schedule Cal. P.U.C. No. A-4, Mileage Rates

Proposed rates and revisions as set forth in Exhibit No. 12 Page 38 are authorized.

Schedule Cal. P.U.C. No. A-6, Private Branch Exchange Service

Proposed rates and charges as set forth in Exhibit No. 60 Appendix B Sheets 1 thru 77 except as modified below are authorized:

	Nonrecurring Charge
Section II - Expandable Cord-Type PBX System Installed primary station line capacity	
Each 100 lines of installed station line capacity	$1,650.00

APPENDIX B
SHEET 6 of 11
RATES AND CHARGES

Schedule Cal. P.U.C. No. A-6, Private Branch Exchange Service (cont'd)

	Nonrecurring Charge
Section IV - Expandable Cordless Dial PBX System	
Installed primary station line capacity	
Each 100 lines of installed station line capacity	$1,650.00
Section VII - Inward Dialing Service	
Primary Station Rates	
Working primary stations	
Flat Rate Service	
Intrasystem service	
Each additional station	No change
Message or Measured Rate Service (message or exchange unit allowance - 0)	
Intrasystem service	
Each additional station	No change
Installed primary station line capacity	
Each 100 lines of installed station capacity	$1,650.00

Schedule Cal. P.U.C. A-6, Centrex Service

The following rates are authorized:

	Monthly Rate
Centrex Service	
Stations (primary or extension) Rates apply to restricted, semirestricted and nonrestricted stations	
Working primary stations	
Flat Rate Service	
Direct inward and outward dialing with automatic number identification of outward traffic	
First 200 or less stations	$1,925.00
Each additional station	4.40
Message or Measured Rate Service	
Direct inward and outward dialing with automatic number identification of outward traffic	
First 200 or less stations	1,072.50
Each additional station	3.30

APPENDIX B
SHEET 7 of 11
RATES AND CHARGES

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

Proposed rates, charges and revisions as set forth in Exhibit No. 60 Appendix C Sheets 1 thru 33 except as modified below are authorized:

	Nonrecurring Charges	Monthly Rates
General Telephone Company and Western California Telephone Company		
Special Type Telephone Sets##		
Each Starlite set		
Equipped with Rotary Dial	-	$ 1.75#
Equipped with Touch Calling Dial	-	2.25#
Each Dial-in-handset set desk or wall type		
Illuminated		
Equipped with Rotary Dial	-	2.25#
Nonilluminated dial		
Equipped with Rotary Dial	-	2.10#
Equipped with Touch Calling Dial	-	2.60#
Touch Calling Service		
Each exchange trunk line (local, FX, tie line or private line when required and when local dedicated or FX trunk charges are applicable to DID and Centrex Services)		1.00

Rates are in lieu of the rates for extension telephone sets and primary telephone sets and are in addition to the rates and charges for exchange services of the class, type and grade provided.

Special Conditions applicable to Starlite and Dial-in-Handset telephone sets shall be those presently in effect in the tariffs of General Telephone Company.

APPENDIX B
SHEET 8 of 11
RATES AND CHARGES

Schedules Cal. P.U.C. Nos. A-19 and A-19a, Foreign Exchange Service

The following rates and revisions are authorized:

	Monthly Rates**
All exchanges including former Western California Telephone Company Exchanges	
Service Class	
Residence +	
Individual Line	$ 1.75
Suburban Service	1.50
Business	
Intercompany Service	
Within LAEA + SFEA (PT&T - GTC)	
Trunk	20.00 (0)
Individual Line	20.00 (0)
Outside LAEA + SFEA (PT&T - GTC)	
Trunk	20.00 (0)
Individual Line	20.00 (0)
Any other Independent Company	
Trunk	20.00 (0)
Individual Line	20.00 (0)
Intracompany	
Trunk	20.00 (0)*
Individual Line	20.00 (0)*
Interstate	
Where foreign exchange service is provided in connection with interstate private line service	
Trunk	20.00 (0)*
Individual Line	20.00 (0)*

Mileage Rates

Proposed rates and revisions as set forth in Exhibit No. 12 Page 149 are authorized except the proposed revision of contiguous foreign exchange mileage treatment is not authorized.

+ Plus rate for same grade of flat rate service in foreign exchange
* The rate per exchange unit and/or message rate is revised from 4¢ to 5¢.
** Rates for all individual line business and residence services and all residence suburban line services do not include a utility provided standard rotary dial telephone set. Rates and charges for primary instruments apply as authorized herein.

RATES AND CHARGES

Schedule Cal. P.U.C. No. A-24, Telephone Answering Service

The following rates are authorized:

Mileage Rates	
All exchanges including former Western California Telephone Company exchanges	
Central offices	Monthly Rate
Each ½ mile between TAS and central office	$ .75
Secretarial lines	
1st ½ mile	1.60
Each additional ½ mile	1.60
Mileage rates	
Each ½ mile	.75
Connected for FX	
Each ½ mile	.75
Not connected for FX	
Each ½ mile	.75

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

Proposed nonrecurring charges as set forth in Exhibit No. 60 Appendix A Sheets 1 thru 26 except as modified below are authorized:

	Nonrecurring Charge
Type A Pushbutton Telephone System Line appearance of a central office line, PBX station line or private line at each pushbutton station location, each appearance	$2.75

General is authorized to file within 60 days of the effective date of this order revised recurring rates for pushbutton telephone system telephone sets based on the size and type of telephone set. Such revised rates shall become effective five days after the date of filing and shall result in no change in aggregate annual customer billing for such telephone sets.

Schedule Cal. P.U.C. No. A-38, Billing Reduction

Proposed revisions as set forth in Exhibit No. 60 Appendix R Sheet 1 except as modified below are authorized:

	Monthly Percentage
Reduction Factor	2.99

Schedule Cal. P.U.C. No. A-41, Service Connection, Move and Change Charges

Proposed charges and revisions as set forth in Exhibit No. 60 Appendix C Sheets 1 thru 7 except as modified below are authorized:

	Nonrecurring Charge	
	Business	Residence
Premises Interior Wiring Each Connecting Point	$12.00	$12.00

Regrades of residence service from flat to measured rate service will be at no charge for a period of 90 days after the effective date of the order herein.

APPENDIX B
SHEET 10 OF 11
RATES AND CHARGES

Schedule Cal. P.U.C. No. B-4, Optional Residence Telephone Service

The following rates and revisions are authorized:

General Telephone Company Exchanges

All rates for all ORTS optional plans shall be increased by 14.7%.

The present offering of ORTS over the following routes shall be limited to existing customers and existing plans:

Covina to Redlands
Huntington Beach to Burbank-Burbank District Area
Ontario to Inglewood
Pomona to Van Nuys
Santa Monica-Mar Vista District Area to Fillmore

Western California Telephone Company Exchanges

Exchanges and Options	Monthly Rate*
Los Gatos	
Option 1 (Expanded Calling)	$5.20
Option 2 (Community Calling)	5.65
Option 3 (Measured Time - 1 hour)	3.95
Option 4 (Measured Time - 20 hours)	42.95
Morgan Hill	
Option 1	5.20
Option 2	5.65
Option 3	3.95
Option 4	42.95
Novato	
Option 1	5.20
Option 2	5.65
Option 3	3.95
Option 4	42.95

*Rate increase of 14.7% over General's present rates is included in these authorized rates.

Schedule Cal. P.U.C. No. E-1, Special Service Arrangements

Proposed rates, charges and revisions as set forth in Exhibit No. 12 pages 197 thru 214 and in Exhibit No. 60 Appendix F Sheets 1 thru 6 are authorized. The offering of the E-120 PBX shall be limited to existing customers.

Schedules Cal. P.U.C. Nos. G-1, G-3, G-4, G-9, G-13 and G-26, Private Line Services and Channels

Proposed rates as set forth in Exhibit No. 60 Appendix H Sheet 1 are authorized.

APPENDIX B

RATES AND CHARGES

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

Zone Usage Measurement Service (ZUM) shall be implemented on or before October 10, 1981 over the following additional routes:

Exchange	Zone 2	Zone 3
Los Gatos	Sunnyvale	Los Altos Mountain View

Message Toll Service shall be withdrawn over these additional routes coincident with the implementation of ZUM.

All customers affected by implementation of ZUM over these additional routes shall be provided written notice of the implementation of ZUM. Such written notice shall be provided to each customer within 60 days prior to implementation of ZUM.

Schedule Cal. P.U.C. No. L-1, Mobile Telephone Service

Proposed rates, charges and revisions as set forth in Exhibit No. 60 Appendix J Sheet 1 are authorized:

Extended Area Service Rate Increments

Proposed revised Salinas formula method of computing extended area service increments as set forth in Exhibit No. 12 Pages 10 and 11 except as modified below are authorized:

The extended area rate increments applicable in the Los Gatos exchange for extended calling from the Los Gatos exchange to the San Jose exchange shall be eliminated coincident with the implementation of Zone Usage Measurement Service for calling from the Los Gatos exchange to the North and West District Areas of the San Jose exchange.

Verification/Interrupt

Proposed revisions as set forth in Exhibit No. 60 Appendix K Sheet 1 are authorized.

APPENDIX C
SHEET 1 of 1
RATES AND CHARGES

Schedule Cal. P.U.C. No. 6-T, Zone Usage Measurement Service

Zone Usage Measurement Service (ZUM) shall be implemented on or before October 10, 1981 over the following additional routes:

Exchange	Zone 2	Zone 3
Los Gatos	Sunnyvale	Los Altos Mountain View
Los Altos		Los Gatos
Mountain View		Los Gatos
Sunnyvale	Los Gatos	

Message Toll Service shall be withdrawn over these additional routes coincident with the implementation of ZUM.

All customers affected by implementation of ZUM over these additional routes shall be provided written notice of the implementation of ZUM. Such written notice shall be provided to each customer within 60 days prior to implementation of ZUM.

APPENDIX D

SERVICE LEVEL OBJECTIVES

1. Additional Indicators Required

a) Local Trunking GT to GT. Local trunking, intracompany. It would measure the percentage of final trunk groups' meeting design objectives. Trunk groups are designed to .01 grade of service, which means there will be no more than one lost call in a hundred call attempts.

b) C.O.'s to Toll Trunking within GT. End office (C.O.) to toll office trunking, intracompany. Same measurement as (a).

c) Toll to C.O.'s Trunking within GT. Toll office to end office (C.O.) trunking, intracompany. It would measure the percentage of ineffective attempts.

d) Local Trunking GT to PT. Local trunking, intercompany. Same as (a).

e) C.O.'s to 2-wire Tandems (formerly MMU) GT to PT. End office (C.O.) trunking to 2-wire tandems, intercompany. Same as (b) for intracompany.

f) C.O.'s to Toll GT to PT. End office (C.O.) trunking to toll office, intercompany. Same as (b) for intracompany.

g) Installation Commitments. *

h) Customer Trouble Reports. *

i) Dial Tone Speed. *

j) Dial Service. *

k) Toll Operator Answering Time. *

l) Directory Assistance Operator Answering Time. *

m) Line utilization. This is the ratio of total lines in service to the total lines installed. The importance of this factor is an indication of available capacity for testing, reassignments, referral, etc.

n) Director Performance. It would measure the percentage of directors meeting design requirements. Directors are designed to lose no more than 5 calls in 1,000 or .005 grade of service.

* Per General Order No. 133

o) Line Conversion to Electronics. As a rule, electromechanical equipment can provide a very high quality of service. Still the higher reliability, lower maintenance requirement and greater flexibility of the electronic switch makes the progression to electronic equipment desirable. The installation of electronic equipment results in an increase in quality of service partly because increasing the total volume of equipment available makes it possible to handle greater volumes and partly because the oldest and most vulnerable electromechanical equipment is replaced. The percentage of lines served by electronic C.O.'s should be measured.

p) Director Conversion to Electronics. Electromechanical directors are being replaced in step offices with more versatile and speedy electronic directors (IBM system "D"). The percentage of all step offices converted to system "D" should be measured.

q) Conversion to Single Slot Coin Telephone. A sizable part of subscriber complaints are generated by pay telephone problems. The single slot coin telephone is less vulnerable to abuse and therefore, provides less problems and indirectly less complaints. The percentage of coin telephones converted to single slot should be measured.

2. Service Level Objectives

By Year End	a.	b.	c.	d.	e.	f.	g.	h.
Present	91.8%	80.6%	2.1%	88.6%	48.4%	45.3%	98.2%	7.2%
1980	93%	85%	2.0%	90 %	55 %	55 %	94 %	7.0%
1981	94%	90%	1.9%	92 %	65 %	65 %	94 %	6.8%
1982	95%	92%	1.8%	94 %	75 %	75 %	94 %	6.5%

	i.	j.	k.	l.	m.	n.	o.	p.	q.
Present	99.2%	97.8%	88.6%	82.7%	94.8%	46.6%	13.4%	2.4%	47%
1980	98.1%	97.8%	88.9%	81.9%	94.4%	60 %	20 %	26.5%	65%
1981	98.1%	98 %	88.9%	81.9%	94.1%	70 %	25 %	46.3%	65%
1982	98.1%	98.2%	88.9%	81.9%	93.8%	80 %	32 %	88.4%	100%

Source: Exhibit 52, Pages 5, 6 and 16.

A. 59132, OII-62

D. 92366

RICHARD D. GRAVELLE, Commissioner.

I concur, but must express disagreement with portions of the decision.

At pages 61-66, certain expense items are discussed and adjustments are made. I do not dispute the level of those adjustments, but must point out that they highlight a problem the Commission will be forced to address more carefully as the telecommunication industry moves into a "deregulated" setting. Those expenses and plant additions that are associated with competitive and unregulated activities must be scrutinized so that they do not fall upon the body of ratepayers who are left with the regulated remainder of the business. Furthermore, we should be diligent to examine current construction budgets and proposed plant additions so that today's ratepayer is not saddled with the burden of constructing basic facilities that will ultimately be utilized by competitive service without having a fair share of expense assigned to such competitive service.

Pages 146-152 deal with the subject of Switching Equipment Selection. Staff has recommended competitive bidding for switching equipment and the decision modified that recommendation by requiring General to submit a plan for such competitive bidding. The additional recommendation to mandate the use of digital switches is rejected. I believe this to be a mistake. Without the direct prodding of this Commission, we will continue to see technologically inferior equipment used by General which will ultimately result in greater cost and less efficient service for General's ratepayers. I would accept all the staff recommendations in this area.

RICHARD D. GRAVELLE, Commissioner

San Francisco, California
October 22, 1980