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ORIGINAL

Decision 93728 NOV 13 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the Matter of Revision of the Accounting for Station Connections and related Ratemaking Effects and the Economic Consequences of Customer-owned Premise Wiring.	OII 84 (Filed December 2, 1980)
In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to increase certain intrastate rates and charges applicable to telephone services furnished within the State of California reflecting and passing through to customers increased costs resulting from the Federal Communications Commission decision in Docket No. 79-105.	Application 60510 (Filed May 4, 1981; amended June 5, 1981)
In the Matter of the Application of CONTINENTAL TELEPHONE COMPANY OF CALIFORNIA, a corporation, for authority to increase certain telephone rates and charges to offset and pass through to customers increased costs resulting from accounting changes ordered by the California Public Utilities Commission.	Application 60602 (Filed May 29, 1981)
Application of General Telephone Company of California to Increase Certain Intrastate Rates and Charges to Offset Changes in Station Connection Accounting Procedures.	Application 60608 (Filed June 2, 1981)

Application of Roseville Telephone Company to Increase Certain Intrastate Rates and Charges to Offset Changes in Station Connection Accounting Procedures.	Application 60706 (Filed July 3, 1981)
Application of Citizens Utilities Company of California to Increase Certain Intrastate Rates and Charges to Offset Changes in Station Connection Accounting Procedures.	Application 60707 (Filed July 3, 1981)

(Appearances are listed in Appendix A.)

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APPENDIX A - List of Appearances

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OPINION

As the result of the Federal Communications Commission's (FCC) proposed rulemaking in connection with its Docket No. 79-105, this Commission, on December 2, 1980, instituted an investigation (OII 84) into the matter of revision of the accounting for station connections and related ratemaking and the economic consequences of customer-owned premise wiring. On March 31, 1981, the FCC released its decision on the above-listed docket amending the Uniform System of Accounts for Class A and Class B telephone companies (to be effective October 1, 1981) to require the expensing of the inside wiring portion of Account 232 and to require the amortization of the embedded investment for such wiring over a 10-year period starting on that date. The decision further provides for the

optional approval of these accounting changes by the individual state regulatory commission on a "flash-cut" basis or phased-in over a four-year period. The respondent utilities for this Commission investigation were the 25 telephone utilities operating within the State. Of these 25 utilities, the following were required to file a report setting forth their position on the issues included in the investigation: The Pacific Telephone and Telegraph Company (Pacific), General Telephone Company of California (General), Continental Telephone Company of California (Continental), Roseville Telephone Company (Roseville), and Citizens Utilities Company of California (Citizens). Reports were received from these five utilities as well as from CP National Corporation (CPNC).

To offset the increased costs associated with the FCC-prescribed accounting changes, Pacific, on May 4, 1981, filed Application (A.) 60510 for $252 million increased revenues (amended to $280 million on June 5, 1981); Continental, on May 29, 1981, filed A.60602 for $1,820,000 increased revenues; General, on June 2, 1981, filed A.60608 for $72.12 million increased revenues; Roseville, on July 3, 1981, filed A.60706 for $525,000 increased revenues; Citizens, on July 3, 1981, filed A.60707 for $371,000 increased revenues; and 18 small independent telephone companies filed for increases in connection with OII 84 as detailed on the following page. The five applications were combined for hearing with OII 84, and evidentiary hearings on these matters were held in Los Angeles before Administrative Law Judge (ALJ) N. R. Johnson on May 18, 1981, July 14, 15, 16, and 17, 1981, and August 12

and 13, 1981. Phase I of OII 84, together with the above-listed five applications, was submitted upon receipt of concurrent briefs due August 28, 1981. In addition, public witness hearings were held on Pacific's A.60510 in San Francisco before ALJ A. C. Porter on July 9, 1981 and in Los Angeles before ALJ Johnson on July 13, 1981; before ALJ Johnson on General's A.60608 in Los Angeles on July 13, 1981 and August 3, 1981 and on Continental's A.60602 in Victorville on July 27, 1981; and before ALJ B. E. Banks on Roseville's A.60706 and Citizens' A.60707 in Sacramento on August 17, 1981. The Sacramento hearing was also noticed by bill inserts as a public witness hearing date for the 18 small independent telephone companies which had filed for offsetting revenue increases.

The additional revenue requested by the 18 small independent telephone companies was equal to the amount required to offset the increased costs of the FCC-prescribed accounting changes as computed by the Commission staff and accepted by the utilities. The component parts of the requested increases consist of additional revenues to be derived from a $30 premise visit charge as recommended by the Commission staff, increased message toll settlement revenues based on the staff-recommended intrastate toll increases, and surcharges to be applied to the recurring monthly exchange rates. Tabulated below for each of these 18 small independent utilities is the requested increase in dollars and percent of revenue, and the amount of increased revenues to be realized from the proposed increased premise visit charges, intrastate toll rates, and recurring exchange rates.

	Name of Utility	Requested Increase	Percent Revenues	Premises Visit Charge	Message Toll	Recurring Exchange Rates
(1)	Calaveras Telephone Co.	$ 43,000	8.05%	$ 210	$ 31,000	$ 11,790
(2)	Capay Valley Telephone System, Inc.	21,000	10.73	110	15,000	5,890
(3)	Dorris Telephone Co.	37,000	5.20	360	21,000	15,640
(4)	Ducor Telephone Co.	25,000	7.37	150	18,000	6,850
(5)	Evans Telephone Co.	62,000	4.11	3,040	45,000	13,960
(6)	Foresthill Telephone Co.	20,000	3.45	1,020	16,000	2,980
(7)	Happy Valley Telephone Co.	76,000	6.82	1,070	29,000	45,930
(8)	Hornitos Telephone Co.	10,000	4.26	100	8,000	1,900
(9)	Kerman Telephone Co.	60,000	3.32	750	23,000	36,250
(10)	Livingston Telephone Co.	67,000	4.48	2,510	44,000	20,490
(11)	Mariposa County Telephone Co.	171,000	8.63	2,030	116,000	52,970
(12)	Pinnacles Telephone Co.	5,000	5.32	30	4,000	970
(13)	Ponderosa Telephone Co.	240,000	7.77	2,940	176,000	61,060
(14)	Sierra Telephone Co.	270,000	8.01	3,580	192,000	74,420
(15)	Siskiyou Telephone Co.	134,000	4.96	885	98,000	35,115
(16)	Volcano Telephone Co.	191,000	6.51	3,000	140,000	48,000
(17)	CP National Corp.	271,000	5.52	-	196,000	75,000
(18)	Tuolumne Telephone Co.	231,000	10.19	-	106,000	125,000
	Total	$1,934,000	-	$21,785	$1,278,000	$634,215

I. SYNOPSIS OF DECISION

This decision adopts the FCC-prescribed accounting changes for expensing rather than capitalizing the inside wiring portion of Account 232, Station Connections. The embedded cost of the inside wiring portion of Account 232 is to be amortized on a "flash-cut" basis over a 10-year period. The FCC-ordered accounting changes are to be effective October 1, 1981 and the rate changes that compensate or offset the accounting changes are to be implemented as close to that date as practicable.

The additional revenue requirement and method of recovering the additional costs for the utilities are as follows:

1. Pacific is authorized a net intrastate revenue increase of $264.0 million ($353.1 million for total company operations).

		Millions of $
a.	Net message toll	$ 83.7
b.	Exchange revenues - residential multi-element connection charge $3.2 million, Extended Area Service (EAS) - $1.8 million ..	5.0
c.	Surcharge	175.3
		$264.0

2. General is authorized at net intrastate revenue increase of $71.38 million ($88.56 million total company).

		Millions of $
a.	Increased settlement revenue	$23.4
b.	Exchange Revenues - Multi-element connection charges $12.10 million, Extended Area Service (EAS) - $.36 million	12.46
c.	Surcharge	35.52
		$71.38

3. Continental is authorized an increase of $764,000 to be obtained from fully compensated charges for premises visit, premise wiring, and station handling. The increased settlement revenue from the message toll increasesgranted Pacific will be approximately $.825 million, a total of $1.589 million which is approximately $200,000 less than Continental's revenue requirement. We will allow Continental to account for this small deficiency with the balancing account set pursuant to D.93655 dated October 20, 1981.

4. Roseville's presently effective multi-element service connection charge for the premises visit, premise wiring, and station handling is at a $20 level. We authorize Roseville a $30 level consistent with that authorized the smaller independent. Roseville's settlement revenues will be increased approximately $375,000 as a result of the intrastate toll increase granted Pacific.

5. Citizens is authorized an increase of $73,000 resulting from a $30 cost-based multi-element service connection charge covering the premises visit, premise wiring, and station handling elements and $406,000 from an $.85 lines and trunks increase in non-EAS areas and $1.45 lines and trunks increase for EAS areas to offset the loss of the book timing income

tax savings. Citizens' increased settlement revenues resulting from the intrastate message toll granted for Pacific is $936,000.

6. The authorized increase for the 18 smaller independents requesting rate relief is approximately $21,800 to be derived from the cost-based $30 multi-element service connection charge covering the premises visit, premise wiring, and station handling elements. The settlement revenue increase for these 18 utilities resulting from the intrastate to message toll increase granted Pacific is approximately $872,000.

Although rates are raised for California's telephone customers, the utilities will not realize an increase in authorized returns; the revised rates reflect only dollar-for-dollar recovery of inside wiring expense, and amortization of the existing capitalized accruals in their rate base. These rate increases actually allow the telephone utilities opportunity to realize authorized returns in view of the accounting changes prescribed by the FCC. Without increased revenues to offset expensing inside wiring they could not realize the returns found reasonable in prior general rate proceedings.

The decision also establishes as the demarcation point between service connection costs to be expensed or capitalized as the protector for existing installations and a utility-provided demarcation jack located in a weatherproof enclosure accessible from the outside for single-story premises and a utility-provided for multi-story premises for future installations.

The decision provides for the establishment by all telephone utilities of tariff schedules allowing for Customer Provided Residence Interior Wire (CPIW) similar to the one authorized for Pacific by Resolution T-10346 dated December 30, 1980 for prewiring new residences. It also orders the respondent telephone utilities to file tariffs for extensions or modifications for existing residential wiring.

II. GENERAL

Bifurcation of Proceedings

OII 84 generally encompasses two broad categories: (1) the accounting changes relating to expensing and the amortization of the embedded costs of the inside wiring portion of Account 232 rather than capitalizing this portion of the account, and (2) customer ownership of premise wiring (COPW) and deregulation. The FCC accounting changes are to become effective October 1, 1981. To permit telephone utilities to effect accounting and rate changes by or close to this date, the matter was bifurcated, with Phase I covering the accounting and rate changes required. Testimony was provided in Phase I on the issue of permitting customers to prewire new homes and to modify or extend existing residential inside wiring. To provide more choice to customers in the face of cost based tariffs for wiring, we will address that testimony in this decision. The more complex questions of sale of existing wiring, complete deregulation and related matters will be addressed in Phase II. If necessary, in Phase II we will also hold hearings on tariff filings for customer installation ordered in the decision.

Testimony and Exhibits

Testimony and exhibits were presented into evidence at the hearings on this matter by the Commission staff, Pacifica, Continental, General, Roseville, Citizens, and Telephone Answering Services of California (TASC). The Commission staff and the utilities generally agreed that the FCC-prescribed accounting changes should be adopted and that the "flash-cut" method of expensing the embedded cost of inside wiring now included in Account 232 over a 10-year period would be appropriate. As subsequently discussed, various rate proposals encompassing combinations of surcharges, increased connection charges, and increased intrastate toll rates were proposed to recover the additional costs associated with the FCC-prescribed accounting

changes. The Commission staff and the utilities also agreed that customer ownership of inside wiring should be permitted, but that the transition details are more appropriately left to Phase II of the proceeding.

Public Witness Testimony and/or Statements

As discussed in the individual utilities' portions of the decision, the public witness testimony and/or statements encompassed a wide range of subjects varying from the necessity of granting the requested increase to ensure the maintenance of good and adequate service, the present quality of service, lifeline and Zone Usage Measurement (ZUM) rates, offsetting the requested increase by use of the deferred tax reserves, nationalization of the utilities, and not granting any increase until service improves.

Background

To permit a low-cost installation charge to promote the establishment of telephone service for nearly every household (the universal telephone service concept), the utilities sought and obtained regulatory approval to capitalize rather than expense costs associated with station connections. The capitalization rather than the expensing of such costs not only resulted in a lower revenue requirement but permitted the installation charges to be set at less than cost so that telephone service would be affordable for nearly all those who desired such service. As a result of these low, below-cost installation charges, more than 96% of residential households presently have telephone service.

The noncompensatory installation charges not only increased Account 232 plant balances for new customers but because of the ever-increasing cost of labor, these plant balances were increased when a customer moved from one location to another. Such movement from one location to another with no

increase in the number of customers is referred to as "churn". On some utilities this churn is as high as eight inward movements for each new customer.

Churn and the increased number of customers resulted in the balances in Account 232, Station Connections, increasing at a much greater rate than other plant accounts and a substantial acceleration in the financing requirements of the utilities. Under the present accounting procedures the financial burden associated with the increasing plant balances and financing requirements, caused by installations, is placed on the general ratepayer rather than on the relatively small portion of subscribers causing the expense.

To ease these financial burdens and to shift the costs from the general ratepayer to the relatively few subscribers creating the cost burdens, the FCC issued its previously noted decision in Docket No. 79-105.

III. POSITION OF THE COMMISSION STAFF

General

Testimony and exhibits were presented into evidence on behalf of the staff's Revenue Requirements Division (RRD) by Public Utility Financial Examiners IV Kenneth K. Louie, Terry Mowry, and John P. Hughes, by Public Utility Financial Examiner III Gregory P. Johnson, and by Senior Utilities Engineers Arthur A. Mangold and Kevin P. Coughlan; and on behalf of the staff's Communications Division (CD) by Supervising Utilities Engineer Dean J. Evans.

RRD sponsored evidence generally encompassing the accounting and cost recovery for station connection charges, the revenue requirements of expensing station connection costs, and customer ownership of premise wiring from a company-provided demarcation jack forward. CD's evidence addressed the intrastate revenue requirements associated with the FCC-prescribed accounting changes, the implementation period of such accounting changes, rate design for the recovery of the additional revenue required, and some of the pre-wiring and post-wiring aspects of the changes under consideration in OII 84.

Accounting Changes

RRD recommends that:

a. Expense accounting be adopted for all inside station connection installation costs on a flash-cut basis with October 1, 1981 as the implementation date for the accounting changes and a 10-year period for the amortization of the embedded inside wiring portion of Account 232, Station Connections;

b. A uniform cost study procedure and documentation format be developed and employed by Pacific, General, and Continental for determining costs of service for station connection installations and moves and changes; and

c. Memorandum records be maintained to demonstrate that the impacts of these accounting changes are properly reflected in the companies' accounting and financial records and that such records be provided for the accountant's review on a monthly basis.

RRD's recommended demarcation point separating inside wiring costs to be expensed from outside wiring costs to be capitalized is a company-provided demarcation jack located where a telephone might normally be connected within the residence or at a point inside the residence that is as close as practical to the protector. The inside wiring portion of station connection costs thus determined generally serves one customer as contrasted to the outside portion which can serve a succession of customers. Furthermore, it is possible that this inside wiring portion of Account 232 will be deregulated and thus be opened to customer ownership.

The basis for the selection of October 1, 1981 as the implementation date and the 10-year amortization period is to be consistent with FCC requirements.

The flash-cut method of implementing expensing of station connections is recommended in preference to the phase-in method by both RRD and CD because it is less costly in the aggregate, it eliminates any further capitalization of inside station connection costs and frees this capital for other capital expenditures, it may be more acceptable to the Internal Revenue Service (IRS) for income tax changes, and associated administrative costs of this method will be less than for the phase-in method.

According to RRD, its recommended uniform cost study procedure and documentation format to be developed for Pacific, General, and Continental should be formulated by a committee composed of representatives of the major telephone companies and the Commission staff. Among the items to be considered by the committee are:

a. Standard multi-element categories for all carriers.

b. The treatment of disconnect and removal costs.

c. Identification and separation of avoidable costs.

The memorandum records the accountants are recommending for Pacific, General, and Continental are, according to the testimony of the staff witness, necessary to provide the Commission with sufficient data to make informed analyses and decisions because the presently provided reports and accounting records do not provide the detail required to match revenues from competitive services with the costs associated with those revenues. Such matching of expenses and revenues has been only partially accomplished by cost-of-service studies used in the tariff-setting process for terminal equipment. However, RRD's witness testified that such studies are based on assumptions that cannot be verified by the existing accounting system. In support of this position RRD cites the FCC recommendation in Docket No. 78-196, Revision of the Uniform System of Accounts, that the current accounting system for telephone utilities be replaced by an accounting system based on service offerings and notes that no progress in revising the Uniform System of Accounts has been reported over the last year. The staff witness emphasizes that RRD is not recommending a balancing account, but rather that revenues be collected from the cost-causing subscriber segments as determined from recommended utility-provided data that permits positive tracking of revenues and expenses by subscriber segments.

Revenue Requirements

According to the testimony of witness K. K. Louie of the staff's RRD, the amount of additional revenues that will be required to maintain a utility's rate of return should this Commission adopt expensing of station connections will be dependent upon several factors, including the phase-in period of ongoing costs and the amortization periods of embedded and ongoing capitalized station connection charges.

The original revenue requirement computed by RRD for Pacific for test year 1981 of $321,058,000 for the total company operations was revised to $353,132,000. This revised estimate reflects $402.1 million plant additions, $125.8 million plant retirements, a straight-line-remaining-life depreciation rate before expensing of 11.45%, a depreciation reserve for outside wiring of $25.6 million, a depreciation reserve for inside wiring of $101.5 million, and a rate of return of 12.91% as authorized by D.93367 dated August 4, 1981 in Pacific's A.59849 for a general rate increase. The intrastate apportionment of the total company revenue requirement is $264.0 million. The staff-computed additional revenue requirement for General is $88.56 million total company and $71.38 million intrastate, and for Continental $2.381 million total company and $1.820 million intrastate. The intrastate revenue requirement for the independent telephone companies requesting offset relief is set forth as "Requested Increase" in the tabulation on page 5 of this decision. The computed increased revenue requirement for California Oregon Telephone Company is $20,000 and for West Coast Telephone Company is $291,000. These latter two companies have not yet requested revenue offset relief.

Revenue Recovery

RRD recommends that ongoing and embedded station installation costs be recovered by including the amortization of embedded costs in basic rates, applying full cost of service charges to new installations, and crediting new customers for the amount of embedded costs included in basic rates.

RRD presented an analysis of three possible cost-recovery methods for ongoing and embedded station connection installation costs as follows: (a) charge-per-outlet method, (b) credit method, and (c) phase-in to full-cost method. The charge-per-outlet method would assess new station connection customers full cost-of-service charges and each customer's allocable portion of the embedded cost amortization would be based on the number of premise wire outlets installed at his premises prior to October 1, 1981. The credit method would also apply full cost-of-service charges to new station connection customers, but the charge for embedded costs would be based on the number of access lines installed at the customer's premises prior to October 1, 1981. The embedded costs would be included in the basic rates and new customers would receive a credit on their bills for each access line installed after October 1, 1981 equal to the embedded costs per access line included within the basic rates. The phase-in to full-cost method would phase in increases in nonrecurring charges for station connections to full cost over the same period of time in which the embedded costs are amortized. RRD rejected the charge-per-outlet cost recovery method because it was the most difficult to administer and the phase-in to full-cost method because it is difficult to understand and recommends the adoption of the credit method.

RRD also recommends full cost-of-service pricing for station connection activities which, if implemented, would result in large increases in current nonrecurring charges. and warrants, according to RRD, the establishment of a time-payment plan to soften the impact of the increased charges.

Such a payment plan should have varying repayment periods proportional to the amount of the connection charge with a maximum period of one year and interest charges on the unpaid balance tied to an index reflecting the interest rate on commercial paper.

Rate Design

The basic rate design concepts proposed by CD are as follows:

1. State toll operations should bear a portion of the additional revenue requirement because, among other factors, a state toll increase will lessen the rate disparity between interstate and intrastate rates; the recommended increase is but a small percentage of the present rates; and a toll increase is a reasonable method to recognize the increased revenue requirement to Pacific and the independents.
2. The cost of premise wiring, station handling, and premises visits and the method of accounting for them is one of the reasons for the station connection account growth. Since these elements of cost are avoidable by the use of "phone stores", the charges for such services should reflect full costs.

3. The remaining balance of the increased revenue requirement, if any, should be met with a surcharge applied to residence and business access lines and to business trunks for all customers.

CD's witness D. J. Evans originally presented rate design recommendations on May 18, 1981. The revised revenue requirements for Pacific resulting from D.93367, the impact of this decision on the revenues of the independent telephone companies, and the FCC-approved interstate rate increase which became effective July 9, 1981 resulted in revised rate design recommendations which were presented into evidence by witness Evans on August 12, 1981.

The proposed rate design for Pacific is depicted in the following tabulation:

Rate Item	Billing Increase ($ Million)	Net Increase to Pacific ($ Million)
Message Toll	$110.2	$ 82.1
Exchange		
Residence Multi-element	13.5	
Business Multi-element	0.0	
Business Complex	0.0	
Extended Area Service	1.8	
Surcharge	171.5	
Total Exchange	$186.8	$181.9
Total	$297.0	$264.0[a/]

a/ This intrastate revenue requirement results from a total company operations revenue requirement of $353.1 million.

According to the record, the allocation procedures would assign $113 million of the $264.0 million intrastate revenue increase to state message toll operations. Since message toll and related rates (WATS, ORTS, and OCMS) were increased approximately $259 million in D.93367, the CD witness believes it is inappropriate to offset the assigned increase on a dollar-for-dollar basis. Recognizing that inside wiring is used to provide both toll and exchange service, CD recommended an intrastate toll increase to Pacific of $82.1 million net, or $110.2 million, including the effect on the independents. This increase plus the D.93367 increase equates to about a 17% increase over pre-D.93367 rates. The specific increase recommended for intrastate toll, to be applied for distances from 0 to 90 miles, is one cent for the initial minute and one cent for the overtime minute plus an increase in the operator surcharge from $0.75 to $1 and person surcharge from $2 to $2.50. Reflecting such an increase in the EAS increments computed in accordance with the Salinas formula increases Pacific's EAS revenues by approximately $1.8 million and General's EAS revenues by about $500,000.

The $13.5 million residence multi-element exchange revenue increase is to be derived by increasing the element charges to full cost as follows: the central office connection charge from $13 to $16, the station handling charge from $4 to $8, and the premises visit charge from $6.25 to $8. The $171.5 million billing surcharge revenue increase is to be obtained by an equal surcharge on all business and residence recurring monthly rates except directory and message charges.

The CD-recommended intrastate toll increase of $110.2 million for Pacific results in revenues after settlements of approximately $82.1 million for Pacific, $23 million for General, $2.825 million for Continental, and $2.275 million for the remaining 22 independent companies.

To fulfill CD's computed intrastate revenue requirement for General of $71.38 million, CD recommends that the multi-element increases be limited to the cost-based premises visit, premise wiring, and station handling activities only. These specific increases are estimated to increase General's revenues approximately $15.22 million. Deducting from the additional revenue requirement of $71.38 million this $15.22 million and the $23.0 million increased intrastate toll revenues recommended by CD leaves a balance of $33.16 million which the CD witness recommends be derived from a surcharge similar to that proposed for Pacific.

According to the record, the increased intrastate toll revenues to Continental resulting from the CD-recommended intrastate toll increase would be $2.825 million, and the increased revenues from fully compensatory charges for premises visit, premise wiring, and station handling would be $764,000, a total of $3.589 million. This compares to a computed intrastate revenue requirement increase of $1.820 million. Ordering Paragraph 12 of D.93367 requires Continental to reduce its billing surcharge in the amount of $9.0 million per year to offset increased settlements resulting from that decision not to exceed the 11.34% rate of return authorized by D.92804 dated March 17, 1981 on Continental's A.59936 for a general rate increase.

Witness Evans further testified that by letter dated July 13, 1981 to the smaller independents, he provided an estimate of the intrastate revenue requirement for each company, together with a suggested rate design of increases in service connection charges, toll, and exchange rate surcharges to equate to their respective revenue requirements. The total additional intrastate revenue requirement for the 22 independent companies was estimated to be approximately $5.1 million. The increase in settlement revenues for these companies due to rates granted in D.93367 is $9.2 million. In addition, the toll rate increase proposed by CD for Pacific would yield these companies an additional $2.3 million in settlement revenues. Because the settlement effects of D.93367 and the proposed toll increase more than offset the increased expenses relating to expensing station connections, witness Evans recommends that no additional rate relief be granted in this proceeding except for the filing of a multi-element service connection charge similar to Roseville's with the element containing the premises visit, premise wiring, and station handling activities at a $30 charge level. These cost-related elements comprise the avoidable charges. The total additional revenue resulting from the implementation of this $30 charge by the 20 primary independents requesting rate relief is estimated by them to be $21,785.

Pre-wiring

Both the RRD and CD witnesses noted that as a result of a formal complaint (C.10833), the Commission by Resolution T-10346, supra, authorized Pacific to file a new tariff schedule covering customer-provided residence interior wire (CPIW). According to the record, Pacific's tariff filing by Advice Letter 13757 is the first step toward the deregulation of station wiring, and it is recommended that all California telephone companies file a similar tariff to allow the provision of customer-provided wiring on new construction.

Post-wiring

It is the recommendation of the CD witness that post-wiring, other than the utility-provided simple jack conversions and extension cords and less complex post-wiring, should be deferred until Phase II of this proceeding, where technical and safety standards and a format for instructions for simplified post-wiring can be developed.

Cash-flow Effects

RRD's witness Terry R. Mowrey presented testimony discussing the impact of expensing station connections on Pacific's financing requirements and cash flow. He noted that on a pro forma basis, including the effects of D.93367, Pacific will generate approximately 59.4% of its capital requirements internally with the balance being financed through the sale of additional debt and common stock. According to the record, the incremental impact of expensing station connection equipment will be a reduction of net capital expenditures of approximately $39.6 million resulting in a decrease in debt

financing of $29.7 million. The result would be to increase the percent of internally generated funds to 61.5%. According to this witness, the decrease in debt financing would be in short-term rather than in long-term debt and, therefore, would not impact Pacific's long-term financing plans. Furthermore, the improvement in the generation of internal funds would not, in his opinion, provide internal funds of the magnitude representative of a solid "A" telephone utility.

Staff Brief

For the purposes of this proceeding Pacific, General, and Continental accepted CD's revenue requirement computations and proposed rate spread. Consequently, the staff limited its brief to commenting on arguments set forth in a closing statement by Leonard Snaider on behalf of the Cities of Los Angeles, San Diego, and San Francisco (Cities).

The staff agrees with Cities that the California Public Utilities Commission is not legally bound by the FCC's expensing recommendation made in Docket No. 79-105. However, it is noted that the staff has determined and recommended that the expensing of the inside wiring portion of Account 232 should now be adopted by the California telephone companies because the current accounting systems financial and rate inequity problems are considerable. The staff fully supports the proposed accounting changes.

The staff also agrees with Cities that the proposed accounting changes will not affect the cost to Pacific for providing station connection services in the sense that it will not materially affect the capital expensing program for station connections. However, the staff does not agree that the revenue requirements would be similarly unaffected by such accounting changes because changing the accounting for a particular cost from capitalization to expensing will result in immediate increase in revenue requirements for the new costs because they will be immediately and totally recognized as a cost of service instead of being deferred and recognized over a period of time. At the present time, the depreciation rate applied to Account 232 is intended to expense only those items physically retired from service at costs which are duplicated when one customer moves out and another customer moves in. Original cost of installation is never actually depreciated. Consequently, under current accounting the majority of costs currently capitalized in Account 232 will still be in the account 10 years from now, whereas under the expense accounting they would be 100% expensed at that time.

The staff further argues that, in the past, service connection costs were not fully compensatory in order to support the universal service concept. Since the proposed accounting changes increase telephone companies' revenue requirements, the staff believes it is only fair to spread such increases to all classes of customers including those who have benefited from initial access to the network under the universal service concept. The staff also argues that while it is true that under

CD's proposal the cost-causing customer will not pay 100% of the costs which he caused to be incurred at this time, there is ample evidence in the record to support charges at less than full cost. Included in such evidence is the fact that transferring to full cost in one jump would result in excessive increases. The staff also notes that its rate design recommendation is particularly fair because only the discretionary elements of the proposed service connection charges are set at full cost of service allowing the cost-causing customer to use his own efforts to avoid such charges where possible. According to the staff, its recommended rate design continues a reasonable subsidy to customers for charges they cannot avoid.

With respect to Cities' argument that Pacific's rate of return should be lowered to reflect the financial advantages accruing to the company for the removal of station connection charges from its rate base, the staff points to evidence by RRD witness Mowrey indicating that Pacific's reduction in debt financing will reduce only short-term borrowing and will not affect long-term security issues, therefore will not impact Pacific's rate of return requirement.

IV. POSITION OF PACIFIC

A.60510

On May 4, 1981 Pacific filed A.60510 requesting authority to increase its intrastate rates by $252 million a year (increased to $280 million a year by amendment filed June 5, 1981), reflecting and passing through to its customers the additional costs resulting from expensing of station connections and amortizing the embedded investment for the inside wiring portion of Account 232 as required by the FCC decision in Docket No. 79-105. The additional revenue requirement computations reflect the amortization of the inside wiring portion of Account 232, Station Connections, on a flash-cut basis to become effective on October 1, 1981.

Public Witness Hearings

Public witness hearings on this matter were held in San Francisco on July 9, 1981 and in Los Angeles on July 13, 1981. At the San Francisco hearing one public witness testified that, in his opinion, service rendered by Pacific was good and that to maintain such good service this Commission should be generous in the granting of the requested rate relief. He noted that the then current market value per common share of stock was $15 as contrasted with a high of $48.22 per share in the 1960 to 1978 period and that present earnings per share are low. One public witness appeared at the evening session protesting any increase to the lifeline service rates. At the Los Angeles hearing a total of eight of Pacific's subscribers presented testimony and/or statements. The testimony and/or statements were generally in opposition to the granting of the requested rate relief on various bases ranging from lack of need of the increase to the inability of the subscribers to pay such increases.

Pacific's Testimony

Testimony and exhibits were presented on behalf of Pacific by its staff director, rate spread planning-regulatory planning, Gary McBee, and by its assistant vice president-financial assurance, C. I. Hensley.

Witness Hensley's testimony indicated that:

1. Pacific considers the expensing of station connections a highly necessary step and concurs with the Commission staff recommendation that the flash-cut method of implementation be adopted.
2. A relatively small percentage of subscribers appear responsible for the dramatic growth in Account 232 which, at present, is in excess of $1.6 billion, or about $102 per telephone in service.
3. Expensing the inside wiring portion of Account 232 will result in a sizable reduction in capital requirements and will also permit charging connection costs more fully to the cost causers.
4. Pacific estimates that between 1971 and 1980 customer movement accounted on the average for over 75% of its station connection costs.
5. Pacific's additional revenue requirement for this proceeding should be computed using the rate of return authorized in connection with its A.59849 for a general rate increase (12.91% authorized by D.93367).
6. A tracking system to ensure proper accounting of the revenues and expenses associated with expensing station connections is unnecessary.

The testimony of witness McBee indicated that:

1. He was asked to develop a rate design to produce $272.4 million of additional revenue to Pacific, after settlements, on a 1981 test year basis.
2. In designing the rates, he assumed that service connection charges proposed in A.59849, supra, were approved as requested.
3. The additional revenues should come from the mobile minority of the customers who cause most of the costs.
4. The multi-element service connection charge can be divided into unavoidable and avoidable elements.
5. Pacific proposes to charge full cost for the avoidable elements and less than full cost for the unavoidable elements for this proceeding with the intent to raise the unavoidable charges to full cost in the next general rate increase application.
6. The proposed complex service connection charges were developed by combining simple business multi-element charges for the work activities required for a complex installation.
7. Pacific proposes to increase the residence central office connection charge $1, the complex service connection charge $8, the residence flat rate access line charge $1, most business access lines $2, and business flattrunks $3. No increase is proposed for measured and lifeline residence service.

8. The proposed increases in the service connection charges would increase revenues approximately $18 million, the increase in business access lines would produce an additional $46 million, and the increases in residential flat rate service would generate an additional $73 million, a total of $137 million.

9. The remaining $143 million of additional revenue required would, according to Pacific's proposal, be obtained by a 16.4% surcharge for business customers and an 11.1% surcharge for residence customers to be applied to both new and old customers.

10. Evidence indicates that intrastate toll revenues are approximately 2½ times cost, so no increase for this service should result from this proceeding.

11. Pacific plans to expand its tariffs to permit customer-provided inside wire on a post-construction basis late in 1981 or early in 1982.

12. The full costs for unavoidable service connection charges are as follows:

	Business	Residence
Initial Service Order[a/]	$53	$37
Move or Change Order[a/]	40	33
Record Change[a/]	21	11
Central Office Connection Charge	32	30

a/ Only one of these charges would apply on any single order.

14. The full costs of avoidable service connection charges are as follows:

	Business	Residence
Premise Wiring Charge	$21	$16
Station Handling Charge	10	4
Premises Visit	8	6

Pacific's Acceptance of Staff Recommendations

For the purposes of expediting the resolution of this matter, Pacific accepted the RDD's revenue requirement for intrastate revenues of $264 million and its recommended accounting tracking procedures, and CD's recommended rate spread and rate design. Pacific's counsel emphasized that acceptance of these figures and recommendations is for the purpose of this proceeding only and that Pacific would reserve the right to challenge any of the computations, methodology, and recommendations in future rate proceedings. With this understanding, Pacific made a closing statement in lieu of filing a brief, and the staff stated that under these circumstates its brief would not address Pacific's presentations.

Pacific's closing statement was in reply to the position of Cities as presented in a closing statement made in lieu of briefs by Leonard Snaider. The closing statement generally addressed the need for the requested rate relief, the overall benefits to the utility and ratepayers of expensing rather than capitalizing station connections, the reasons for limiting the transition to a full-cost basis to the avoidable cost elements of a multi-element service connection charge, and the lack of effect on Pacific's financing requirements and cost of money if the additional revenue recommended by the Commission staff is granted.

V. POSITION OF CONTINENTAL

A.60602

By this application Continental seeks to increase its rates, effective October 1, 1981, by $1,820,000 to offset increased costs resulting from expensing inside wiring station equipment and amortizing the embedded cost of such previously capitalized station equipment over a 10-year period. Continental proposes to increase its installation and move-and-change charges as tabulated below. Such increases are estimated to produce $764,000 of additional annual revenues. Continental proposes to obtain the balance of the required revenue increase of $1,056,000 by the imposition of a surcharge of approximately 3% to be applied to all local service customer bills.

Installation and Move-and-Change Charges

	Business			Residence		
Description	Present	Proposed	Percent Increase	Present	Proposed	Percent Increase
Customer request charge, per customer order	$15.00	$15.00	-	$10.00	$10.00	-
Line access charge, per line	20.00	20.00	-	15.00	15.00	-
Premises visit charge, per visit	15.00	17.00	13%	10.00	17.00	70%
Wiring and block/jack, per location	10.00	16.25	63	10.00	16.25	63
Station/equipment connection charge (standard telephone equipment)	5.00	13.00	160	5.00	13.00	160

Public Witness Hearings

On July 27, 1981 public hearings were held in Victorville to provide Continental's customers with a convenient opportunity to present statements on the pending rate increase application. A total of nine subscribers presented testimony and/or statements on this matter. One subscriber testified that he agreed with the premise that service connection charges should reflect costs but that the personnel of Continental frequently assessed premises visit charges when there was no premises visit involved, and that, in his opinion, the proposed charges for complex business telephones were far in excess of actual costs and should not be approved.

One subscriber complained of erroneous billings by Continental which were very difficult and time-consuming to rectify. Another subscriber protested a rate increase because of the impact that such an increase would have on low income people. The balance of subscribers made statements focusing on various service problems encountered by them such as inoperative telephones, noise on the line, inability to contact operator because of constant busy signal, and difficulty in reaching repair service.

Similar statements about the quality of service were made at public hearings on Continental's A.59936 for a general rate increase. In D.92804 dated March 17, 1981 on this application, we required Continental to report on a monthly basis all of this Commission's General Order (GO) 133 service indices to allow us to measure any improvement in the service level in the Victor Valley area and to ensure that the steps

taken by Continental to resolve its service problems were effective. Should these monthly service reports indicate little or no improvement in service, we will take further action on this matter at a later date.

Testimony and Exhibits

Testimony and exhibits were introduced into evidence on behalf of Continental by its revenue requirements manager, Richard G. Pfeifer. According to his testimony, the intrastate revenue requirement for 1981, on a flash-cut approach, was estimated by Continental to be $1,818,000. The Commission staff reviewed the calculations and determined the intrastate revenue requirement to be $1,820,000. Because of the similarity of estimates, Continental adopted the Commission staff's computations.

Witness Pfeifer further testified that to lessen the impact on its customers, Continental proposes to increase only the discretionary costs of the installation and move-and-change charges, i.e. premises visits, premise wiring, and connection charges. He noted that Continental is currently 55% modularized and anticipates being 75% modularized by year-end 1981 and that it has a "phone store" or pickup center in each serving area.

Continental's Acceptance of Staff's Recommendations

By letter dated August 26, 1981 Continental advised this Commission that it did not intend to submit a brief on this matter.

In this letter it was indicated that Continental does not object to either RRD's calculation of its revenue requirements nor to CD's proposed rate spread. However, it

is Continental's belief that in view of the fact the Commission staff has reviewed its cost studies in connection with Resolution T-10296 in its "unbundling" tariff filing and in D.92804, RRD's proposed accounting tracking procedures would be of relatively little value. In any event Continental believes quarterly reporting rather than monthly report would be satisfactory.

VI. POSITION OF GENERAL

A.60608

On June 2, 1981 General filed A.60608 seeking authority to increase some of its rates and charges by $72.12 million per year to reflect and pass through cost increases resulting from changes in station connection accounting procedures. The proposed gross increase of $72.12 million was estimated to net General $62.57 million after settlements. However, the testimony of one of General's witnesses indicated the $62.57 million figure should be increased $4.45 million to $67.02 million to reflect the increased revenue requirement of Pacific as set forth in its amended A.60510.

Public Witness Hearings

Public witness hearings on A.60608 were held in Los Angeles on July 13, 1981 and August 3, 1981. A total of 15 subscribers presented testimony and/or statements in opposition to the granting of the application. The bases for the opposition to the increase varied widely from the alleged poor quality of service being rendered by General, the unreasonableness of the ZUM rates presently applicable in the Sunland-Tujunga area, the incompetent and impolite personnel employed by General, high salaries paid executives, and the high level of the proposed service connection charges.

All of the above issues are currently being addressed in connection with General's A.60340 for a general rate increase. Consequently, we will incorporate the above public witness testimony and/or statements into the record of A.60340 by reference for consideration in arriving at our decision in that matter.

General's Presentation

Testimony and exhibits were presented into evidence on behalf of General by its budget director, L. E. Hegge, by its business relations director, G. S. Hascall, by a service facilities analyst in General's service department, Jim King, and by its rates and tariffs manager in the revenue requirements department, L. G. Martinsen. This testimony indicated that:

1. There are three major problems encountered under current accounting procedures:
   a. Current depreciation procedures centering around the zero reserve balance concept do not provide for adequate recovery of capital.
   b. A major portion of service order assignment costs is capitalized even though not directly related to the provision of station connection wiring.
   c. Current procedures do not provide for the matching of revenues and expenses as is necessary to charge the cost causers the full amount of expense.
2. The specific ratepayers generating the station connection costs rather than the general ratepayer should bear such costs.

3. Appropriate accounting changes should be adopted to allow the telephone utilities to begin matching station connection expenses with revenues and to begin recovering the expense-related embedded investment in Account 232.

4. Station wiring costs on the customer side of the protector (83% of the investment in the account) should be expensed, and the balance in Account 232 should continue to be capitalized.

5. General favors the flash-cut implementation of the accounting changes because it is more likely to gain acceptance from the IRS, it would not prolong present inequitable procedures, it would have a smaller total revenue requirement, and it would increase the cash-flow to General to a greater extent than the phase-in method.

6. The embedded inside wiring portion of Account 232 should be amortized over a 10-year period.

7. Before any change in account procedure is effected, the following procedural matters should be resolved:

   a. Establishment of outside wiring depreciation rates.

   b. Required changes to the Uniform System of Accounts.

   c. Reclassification of account balances at time of implementation of account changes.

8. General has withdrawn its request for higher station connection depreciation rates effective in 1982 pending outcome of this matter.

9. The aerial or underground connections, drop and block wiring, and protector should continue to be capitalized and the balance of premises wiring should be expensed.

10. The interface jack for COPW for residential dwellings should be accessible from the outside.

11. The use of an existing jack as an interface point should not be permitted.

12. New customers should not be exempt from the surcharge to recover the embedded costs of inside wiring in Account 232.

13. The net revenue requirement to General for expensing station connections is estimated to be $67,019,000 requiring a gross revenue requirement increase of $77.25 million.

14. General proposes to recover $38.17 million from increased service connection charges and $39.08 million through a billing surcharge to all customers.

15. The proposed rates for service connection charges would cover about 68% of the costs.

16. Over a period of time fully compensatory rates should be instituted.

17. An optional payment plan with a minimum down payment, minimum monthly payment, and a minimum and maximum permissible number of monthly payments should be provided. Interest charges should equal 15% annual rate on the unpaid balance.

General's Acceptance of Staff's Recommendations

At the August 13, 1981 hearing General stated that it would stipulate to the staff's intrastate net revenue requirement estimates for it in the sum of $71.4 million. By letter dated August 24, 1981 General indicated that, after review, it is now willing to accept the rate spread proposed by staff witness Evans and the tracking system proposed by RRD as that system is understood by General in addition to the staff's

revenue requirement estimates. In light of the foregoing, General indicated it would not file a written brief on this matter but does concur with the verbal arguments made by Pacific in support of the proposed accounting changes.

VII. POSITION OF ROSEVILLE

A.60706

Roseville filed A.60706 on July 3, 1981 requesting authority to increase certain rates and charges by $525,000 per year to reflect and pass through cost increases resulting from changes in station connection accounting.

Public Witness Hearing

Public witness hearing on this matter was held in Sacramento on August 14, 1981. One subscriber of Roseville appeared at the hearing and presented testimony. He is a small businessman operating out of Sacramento. He plans to obtain a Roseville listing and objects to the proposed 51% increase in the service connection charges as being unreasonable.

Roseville's Presentation

Testimony and exhibits were presented on behalf of Roseville by its controller, Mark B. Shull, and by its operations manager, A. A. Johnson. The testimony and exhibits indicated that:

1. The effect of expensing station equipment, without offsetting rate relief, would be to decrease the rate of return from 9.5% to 8.1% for total company operations and from 9.2% to 7.8% for intrastate operations.

2. The total intrastate additional revenue requirement to offset the cost of expensing station connections is $1,767,000. Roseville estimates that $1,242,000 of this will be obtained through toll settlements, leaving $525,000 to be obtained through an increase in local service revenue. The $525,000 local service revenue increases consist of $73,000 from increased service connection charges, $142,000 from a 14.5% surcharge on business service, and $310,000 from a 10% surcharge on residential telephones.

VIII. POSITION OF CITIZENS

A.60707

Citizens filed A.60707 on July 3, 1981 seeking authority to increase certain local service rates in the sum of $371,000 to pass through cost increases resulting from changes in station connection accounting procedures.

Public Witness Hearing

The public witness hearing on this application was held in Sacramento on August 14, 1981. No Citizens' subscribers appeared to make statements or present testimony.

Citizens' Presentation

Testimony and exhibits were presented on behalf of Citizens by its assistant vice president, secretary, and assistant treasurer, Charles B. Bromagem, and by its assistant vice president and assistant treasurer, Robert L. O'Brien. The testimony and exhibits indicated that:

1. The additional revenue requirement necessary to maintain a 9.77% rate of return after expensing station connections is $1,801,000 for total company operations and $1,446,000 for the intrastate operations.

2. Citizens plans to obtain $135,900 additional revenues through increased service connection charges, $235,100 through an increase in basic local service rates, and the balance of $1,075,000 of the additional revenue requirement through increased toll and EAS settlements from Pacific.

3. An incremental revenue increase of $1,109,000 is required in addition to the basic intrastate revenue increase requirement of $1,446,000 to offset the loss of the current tax deduction for telephone installation costs because income taxes, presently deferred as a benefit of book timing differences, become payable.

Application to Reopen Proceeding

On August 31, 1981 Citizens filed an application to reopen the proceedings to permit it to present additional evidence. According to Citizens, the additional evidence is necessary to refute CD's recommendation that all independent telephone companies including Citizens be limited to their share of a $110.2 million toll increase recommended for Pacific as such a recommendation represents a radical departure from CD's original proposal, was presented in such a manner that adequate opportunity to respond thoroughly to the recommendation was not available, was based on absolutely no evidence on some important points and scant evidence on others, and was apparently based on an unsupported assumption that if Citizens was to receive its requested additional revenue of $1,446,000 plus the increased settlement revenue as a result of D.93367, it would earn an excessive rate of return.

Subsequent to the filing of the application to reopen the proceeding, representatives of Citizens met with the Commission staff in an effort to resolve their differences. It was agreed that the toll and EAS settlement revenue computations made in accordance with the regulatory formula and used by the staff in its presentation would exceed the actual recovery due to Citizens' unique method of handling station connection charges for income tax purposes. As set forth in the testimony of Citizens' witness O'Brien, it has historically treated station connection costs, capitalized as per its books, as an expense in the years of expenditure on its tax return and in the tax computations used for ratemaking purposes, but has used book investment and book depreciation for all purposes in its settlement computations. With the inside wiring portion of Account 232 being expensed rather than capitalized, Citizens will lose the benefits at this book-timing difference with the result that the related deferred income taxes become immediately payable. Consequently, an increase in exchange revenues of $406,000 is required to place Citizens on the same basis as the balance of the independent telephone companies.

The above information was transmitted by letter dated September 8, 1981 to ALJ Johnson with the notation that Citizens would agree to withdraw its request to reopen the hearings if the letter could be made a part of the record. The staff, by letter dated September 18, 1981, indicated it had no objection to having the above letter made a part of the record. We will therefore accept the letter, including four pages of computations attached, as late-filed Exhibit A in A.60707

A review of this exhibit confirms that an increase in Citizens' exchange revenues of $406,000 is required to place it in the same relative earning position as the other independents. Such an increase would be in addition to the increases recommended by staff witness Evans. We are persuaded that such an increase is justified and the order that follows will so provide.

IX. POSITION OF 16 SMALL TELEPHONE COMPANIES

Representation

Alvin H. Pelavin and William R. Haerle, of the firm of Pelavin, Norberg, Harlick and Beck, filed an appearance for the following 16 telephone companies: 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, Kerman Telephone Company, Livingston Telephone Company, Mariposa County Telephone Company, Pinnacles Telephone Company, Sierra Telephone Company, Siskiyou Telephone Company, The Ponderosa Telephone Company, and Volcano Telephone Company (16 small cos).

The position of the 16 small cos was set forth in a concurrent brief filed by the above attorneys.

As previously stated, each of these 16 small independents made individual filings in July 1981 requesting specific rates within the scope of and in compliance with OII 84. These respective filings requested specific offsetting revenue increases to make up for lost earnings which will be caused by the added expense of the proposed changes in accounting methods and procedures.

The position of the 16 small cos is that this Commission should authorize for these companies rates designed to offset, on a dollar-for-dollar basis, the expensing of station connections as proposed in this proceeding and summarized on page 5 of this decision. Sixteen small cos argue that there is no evidence in this record to justify a decrease in the intrastate revenue requirements as originally computed by CD and set forth both in a letter dated July 13, 1981 to the 16 small cos and in CD's original proposal in this record. As previously stated, CD revised its original estimate to reflect increased settlement revenues resulting from D.93367 and recommended that 16 small cos' further revenue increases be limited to their proportionate share of the recommended $110.2 million intrastate toll increase for Pacific plus the increases resulting from the implementation of the $30 cost-based multi-element connection charge. According to the 16 small cos, CD's revised recommendations radically depart from the revenue offset concept included in CD's original proposal and the revenue increase requests of the 16 small cos.

The 16 small cos further allege that the staff's revised position regarding the reduced revenue requirement for the smaller independents totally disregards the specific language of the Commission in D.93367 wherein it ordered a message toll increase which it did not find to contribute to excess earnings for the smaller independents and that the staff's revised rate design makes an inherent determination that the amount of reduction from the original estimates represents excess earnings granted to each respective smaller independent in D.93367. Under these circumstances, according to the 16 small cos, that portion of the staff's revised rate design, which reduces the original intrastate revenue requirement for the smaller independents, is inappropriate and should not be adopted in this proceeding.

X. POSITION OF TASC

Testimony

Testimony and exhibits were presented on behalf of TASC and on his own behalf by Scott W. Flournoy, owner of a telephone answering service (TAS). This testimony indicated that:

1. In connection with both A.60608 in this proceeding and A.60340 for a general rate increase, General is attempting to increase the installation charge for secretarial lines (SLS) from the present level of $18 to a level of $40, an increase of 122%.

2. The station connection costs studies that have been provided TASC in response to the discovery request in A.60340 do not separately analyze the costs of SLS installations, but deal exclusively with "surrogate" station-connection functions which General claims, but has nowhere shown, are representative of the costs associated with an SL installation.

3. The SL installation functions differ from the surrogate station connection functions in that they typically involve nothing more than the running of a jumper within the telephone company central office connecting its customer's telephone lines and a typically dedicated SL line which runs between the TAS and the central office.

4. The paperwork associated with such installations should be minimal since the records of both the customer's line and the SL line have already been prepared.

5. TASC believes that A.60340 rate case is the proper proceeding in which to address the issue and that General's efforts to gain approval of its proposed multi-element charge in this proceeding are improper and burdensome upon interested parties with limited budgets such as TASC.
6. The FCC's order in Docket No. 79-105 simply does not deal with the sorts of increases in SL service connection costs which General is requesting in its A-41 tariff in connection with A.60608.
7. TASC would recommend that this Commission limit its additional order in this proceeding to the implementation of the changes in accounting procedures described in FCC Docket No. 79-105 and that to the extent that such implementations require the application of an across-the-board billing surcharge to recoup embedded costs associated with customer premise wiring, TASC would recommend that such a surcharge not apply to the SL installations.
8. TASC recommends that the current SL installation charges of $18 be kept in effect and that the service connection charge be transferred from General's A-41 multi-element tariff to the A-24 schedule where it should be separately stated.

Brief

In its brief TASC states that General is using the proposed increase in the SL charge to $40 as a threat to the continued health and viability of the TAS industry. TASC further states its belief that the proposed $40 charge would have a dramatic repressive impact upon TAS's ability to attract the new business accounts which it must regularly secure to remain viable. In view of General's apparent intention to

enter into the field of central office answering with service offerings that are competitive with TAS, TASC believes General's attempt to effect the 122% increase in the SL installations charge is wholly improper.

TASC further argues that General's attempt to increase all of the elements of its multi-element tariff in the manner it has proposed in both A.60340 and this proceeding is wholly beyond the intended scope of the proceeding which is to implement the rate revisions occasioned by the accounting rules formulated by the FCC Docket No. 79-105 order. According to TASC, the FCC order in that proceeding contemplates no change in accounting for "service order" and "central office activity" costs of the service associated with the installation of an SL, as such an installation involves no customer premises labor or materials the accounting for which is the subject of the FCC Docket No. 79-105 order. TASC notes that the Commission staff recommends that the increases in General's multi-element tariffs be limited to the cost-based premises visit, premise wiring, and station handling activities only, and fully supports this position.

XI. POSITION OF CITIES

Leonard Snaider, appearing on behalf of the City of San Francisco, made a closing statement on this matter in lieu of filing of brief on behalf of Cities.

Snaider argued as follows:

1. This Commission should recognize that the FCC action on any matter is not binding in any way on this Commission as indicated by the California Supreme Court which stated as follows:

   "The commission appears correct in its further view that it is not bound by the depreciation rates or methods set by the Federal Communications Commission; and that 'What we are dealing with here is a determination of a fair and reasonable depreciation allowance for intrastate rate-making purposes in California. That determination lies with this Commission.'" Pacific Telephone and Telegraph Company v California PUC (1965) 62 C 2d 634 at 666.

2. It is generally agreed that the objectives of the FCC order are to place the burden of station connection installations on the causative customer and to stop the growth in Account 232, Station Connections. Snaider further argues that in response to the goal of placing a small amount of customers in a position where they must pay for the expenses which they caused, we have instead a proposal by Pacific and in essence by the Commission staff of a $300 million rate increase which is not falling on the people that caused the increased costs but rather is falling on the general body of ratepayers.

3. The Commission is already attempting to charge full costs to the cost causers by the implementation of cost-based rates regardless of the accounting. Consequently, if the goal is to pass costs on to the cost-causing ratepayer, there is no necessity to make the proposed accounting changes.

4. The present existing books of accounts, as indicated by RRD's witness, simply do not permit rates to be set even to the cost-causing customer segment let alone the individual cost-causing customers. Therefore, the goal of transferring station connection costs from the general ratepayer to the cost-causing customers cannot be met at this time.

5. There are no additional costs that result from the accounting changes and, therefore, nothing to pass on in the form of increased rates.

6. If the Commission wishes to accept the accounting change, it can do so at this point in time, but there is absolutely no need or no justification for making a ratemaking change.

7. The whole area can be reviewed in the next individual utility rate cases at which time there will be good evidence of what is actually in the station connection charges.

8. The only cost change resulting from the proposed recommendations is the decrease in income taxes. Consequently, no rate relief should flow at this time.

XII. POSITION OF DUNCAN

E. Duncan, who made a closing statement in lieu of submitting a brief, argued as follows:

1. The telephone utilities should be able to use customer account numbers to define those people who are immobile or stationary as a basis for not assessing charges to new customers for the embedded costs in Account 232.
2. The accounting system of the telephone utilities should be revised to provide better estimates of future operations.
3. Cost estimates of $67 for a name change appears excessively high.

XIII. DISCUSSION

Bifurcation of Proceedings

At the prehearing conference held on March 27, 1981, OII 84 was bifurcated into two broad categories with Phase I covering the accounting and rate changes required to reflect the expensing of the inside wiring portion of Account 232, together with the amortization of the related embedded costs over a 10-year period, and Phase II covering COPW and deregulation.

During Phase I of this proceeding evidence was taken on accounting changes, revenue requirements, and rate design associated with the FCC-ordered changes in Docket No. 79-105. In addition, the subject of customer-provided residence wiring and the less complex portions of the post-wiring issue was addressed in this portion of the proceeding. The more technical aspects of the post-wiring issue and the matter of deregulation of terminal equipment will be addressed in Phase II of this matter. This decision includes the setting of a date for a prehearing conference on Phase II of the matter. At the prehearing conference on Phase II of this matter, the remaining issues will be clearly defined and scheduling of hearing dates and the exchange of testimony and exhibits will be accomplished.

Uniform Cost Study Procedure

RRD's recommendation that a uniform cost study procedure and documentation format be developed for and employed by Pacific, General, and Continental for determining station connection costs of service for installations and moves and changes is unopposed by the involved utilities. Pacific favors such a uniform procedure but notes that the costs vary as a function of labor costs, outside plant facilities, and service order processing methods and, therefore, a uniform procedure could very easily result in divergent cost components being developed for each utility. The resulting cost component differences are insufficient reason to flaw the acceptability of RRD's recommendation.

According to the record, the determination of full cost of service pricing for station connection installations and full cost of service pricing for station connection moves and changes is necessary to be able to devise full cost tariffs and to ensure that regulated telephone companies do not subsidize the inside wiring market through monopoly services. RRD recommends that a committee be established, composed of representatives of the major telephone companies and of the Commission staff, to accomplish the development of the standard cost study procedure and to establish a format to be employed in future station connection costs studies.

We are persuaded that such a uniform procedure for determining costs of service for service connection installations and moves and changes would be in the overall public interest and the order that follows will provide for the formulation of such a method.

Memorandum Records

RRD's recommendation that memorandum records be maintained by Pacific, General, and Continental to provide the Commission with sufficient data to make informed analyses and decisions and to provide data which track both costs and revenues of service connections by appropriate cost-causing segments has been accepted for purposes of this proceeding by both Pacific and General. As previously detailed, it is Continental's position that inasmuch as the Commission staff has reviewed its cost studies in connection with its "unbundling" tariff filing and in D.92804, such tracking procedures would be of relatively little value and that in any case quarterly rather than monthly reporting is all that is necessary.

One of the considerations that led to the staff's recommendation for supplemental memorandum records is that currently used cost-of-service studies contain assumptions and allocations which cannot be verified by the accounting records as presently kept. The RRD witness noted that this inability to verify the allocations and assumptions led the FCC to recommend in FCC Docket No. 78-196 revision of the Uniform System of Accounts to reflect an accounting system based on service offerings.

One of the basic concepts accepted by the parties to this proceeding is that the costs of station connections should be borne by the cost-causers by the eventual imposition of full cost service connection charges. It is axiomatic that such full cost service connection charges cannot be established if the utility cannot ascertain what the costs are. According to the record, this cannot be accomplished with current accounting

records and it would appear that RRD's proposed tracking memorandum accounting records are the least costly and most expeditious means of obtaining the required data. Furthermore, such records will permit verification of the reasonableness of the computed unavoidable costs which allegedly range as high as $85 for business service and $67 for residence service for a simple name and number change.

Under these circumstances, the adoption of RRD's recommendation relating to memorandum accounting records appears to be both reasonable and necessary. The order that follows will provide for the implementation of this recommendation.

Demarcation Point

It is generally agreed among the parties that the proper demarcation point for the separation of inside wiring and outside wiring for simple business and residence service is the protector, with the protector being included in the outside wiring portion of Account 232.

The demarcation point was discussed on the record by RRD's witnesses Johnson and Hughes and by General's witness King.

Witness Hughes defined the demarcation point as a company-provided demarcation jack located where a telephone might normally be connected within the residence or a point inside the residence that is as close as practical to the protector.

Witness King testified that the demarcation point should be the protector for simple business and residence circuits and the point where the house cable is terminated and on the same floor as the customer requesting service for business and residence service in multistory structures. He further testified that he believes that the interface or demarcation jack for residential dwellings should be accessible from the outside on the ground floor in a customer-provided weatherproof enclosure at a location designated by the utility as close to the protector as possible and, therefore, does not support the location recommended by the staff. According to his testimony, if the utility were to utilize an existing jack or a new jack location inside the dwelling, there would be no clear interface point which could cause misunderstandings between the subscribers and the utility. Furthermore, with the interface jack located within the residence, the premise interior wiring would be partially customer-owned and partially utility-owned, an unsatisfactory condition.

Witness King's recommendation appears reasonable and well-supported and will be adopted. The order that follows will provide for the protector to be used as the demarcation point for simple business and residential circuits where feasible. Where a protector is unavailable or cannot reasonably be used as the demarcation point, then the order will provide for the use of a demarcation jack located in a customer-provided weatherproof enclosure on the ground floor and accessible from the outside for simple residential and business circuits and at the point where the house cable is terminated on the same floor as the customer requesting service for business and residence service in multistory structures.

Implementation

It is generally agreed among the parties to this proceeding that expensing station connections should be implemented on a flash-cut basis on October 1, 1981 or not later than January 1, 1982 with the embedded costs of inside wiring presently included in Account 232 to be amortized over a 10-year period.

Among the reasons advocated in support of the flash-cut method in preference to the phase-in method are: it eliminates any further capitalization of inside station connection charge and frees capital for other capital expenditures, it has a lesser total revenue requirement, it would probably allow utilities faster cost recovery in terms of separations if inside wiring costs continue in separations computations, IRS would be more likely to approve the flash-cut method than the phase-in method for income tax purposes, and the cost of administration would be less for the flash-cut method than for the phase-in method. These reasons are persuasive and the flash-cut method will be adopted for the purpose of this proceeding.

All parties agree that October 1, 1981 should be the implementation date for the accounting and rate changes forthcoming from this proceeding because October 1, 1981 is the date announced by the FCC as the latest date by which station connection expense accounting must be adopted at the federal level. Absent the FCC implementation date announcement, the Commission staff would have given strong consideration to recommending a January 1, 1982 date because of the administrative advantages of adopting such a major change at the beginning of the calendar year. However, to be consistent with the FCC order, we will order the accounting changes relating to the expensing of station connections to become

effective October 1, 1981. The rate increases to provide the funds required to meet the increased revenue requirements associated with such accounting changes will be made effective as soon as practicable. To assist in early implementation of the rate changes, the effective date of this order will be five days from the date of signature.

The generally accepted 10-year period for the amortization of the inside wiring portion of the embedded costs in Account 232 reflects the FCC decision that such costs be amortized over a 10-year period on a straight-line basis. Furthermore, it is believed likely that such a period will be accepted by the IRS for the computation of income taxes. To be consistent with the FCC decision and thereby minimize the costs of the accounting changes, we will adopt such a 10-year amortization period.

Expense Accounting

The utilities and Commission staff recommend the adoption of the FCC-ordered accounting procedure of expensing rather than capitalizing the inside wiring portion of Account 232. The reasons of record supporting such a procedure include the following:

1. Continuation of the capitalization of station connections would continue in effect a revenue/ expense mismatch which violates basic accounting principles.
2. The traditional practice of capitalizing station connection costs has produced a financial burden upon telephone utilities at a time when they are already experiencing difficulty obtaining sufficient capital. The expensing of station connections as prescribed by the FCC will help to alleviate that burden.

3. Capitalization of station connection costs creates a drain on utility capital which could be better employed for other utility plant items.
4. A relatively small percentage of subscribers appear responsible for the dramatic growth in station connection costs. Yet under present procedures all ratepayers must shoulder the additional charges in higher rates.
5. Current depreciation procedures centering around the zero reserve balance concept do not provide for adequate recovery of capital.
6. A major portion of service order assignment costs are capitalized even though such costs are not directly related to the provision of station connection wiring.
7. Current procedures do not provide for the matching of revenue and expenses which would be required if the customers causing such costs were to bear the full cost through cost-derived service connection charges.

These reasons are persuasive. In addition, it is advantageous to the Commission staff, to the utilities, and to the ratepayers for this Commission to adopt, where practicable, FCC-ordered accounting procedures. It is true, as argued by Cities, that this Commission is not in any manner bound by FCC actions and orders. This does not mean, however, that we are not free to adopt as our own FCC-prescribed procedures when it is to our advantage to do so.

Time Payment Plan

The RRD witness recommends that a time payment plan be adopted for station connection charges in order to soften the impact of full cost-of-service pricing for station connection activities. However, the order that follows provides for a full cost pricing only for the optional cost portions of the multi-element service connection charge. Under these circumstances, the recommended time payment plan is unnecessary and will not be adopted.

Customer-owned Premise Wiring

As detailed in the record by witnesses from both RRD and CD, there is a continuing modularization of residential telephones. Such modularization permits subscribers to move telephones from one location to another room and/or residence without having the utility perform this service. As ratemaking trends toward full cost connection charges with the resulting substantial increase in such charges, the subscriber should be afforded an opportunity to effect savings in the costs associated with such moves by the elimination of premises visit and wiring charges as well as station handling charges.

Pre-wiring is presently permitted under Pacific's tariffs and RRD and CD recommend that similar tariffs be effected on a statewide basis. Such a tariff would permit pre-wiring by other vendors which could provide the subscriber with greater flexibility and such a practice could stimulate innovations and greater efficiencies.

Residential subscribers are now permitted to install their own telephone sets but not their own premise wiring. However, ever-increasing numbers of subscribers are installing unauthorized telephone wiring on their premises. Thousands of prepackaged modular telephone extension cords are being sold each month to subscribers who use the cords to wire their residences in an unauthorized manner.

RRD's witness Hughes testified that residential subscribers should be permitted the option of installing premise wiring past the demarcation jack because of possible savings in installation, such a procedure would be a logical extension of the present practice for Pacific to permit residence pre-wiring by the customer, and such a practice would permit the subscriber greater flexibility in the placement of telephones in his house. Such arguments are persuasive. We therefore will order the respondent utilities to file tariffs within 90 days to permit residential customers to modify or extend their existing wiring.

Depreciation

According to the testimony of RRD witness Coughlan, the source of depreciation reserve for Account 232 was memorandum records maintained by Pacific. The balance as of January 1, 1981 was $127,097,503 which was allocated on the basis of that portion of Account 232 to be capitalized (20.14%) and that portion to be expensed (79.86%). A whole life depreciation rate of 5% was used for the capitalized portion. RRD recommends that whole life depreciation be used for 1981 only and remaining life depreciation be used for subsequent years. This recommendation is well-taken

and will be adopted. The depreciation rate prior to expensing will be 11.45% as used by RRD for the years 1980 and 1981 for Pacific's A.59849.

Revenue Requirements

As previously stated, the intrastate revenue requirement increase associated with the expensing station connections was computed by Pacific to be $272.4 million, by General to be $67.019 million, by Continental to be $1.820 million, and by the Commission staff to be $353.132 million for total company and $264.0 million for intrastate operations for Pacific, $88.56 million for total company and $71.38 million for intrastate for General, and $2.381 million for total company and $1.82 million for intrastate for Continental. The increased revenue requirements are due to the increased expense as a result of expensing instead of capitalizing the costs of inside wiring. These increased expenses are offset by decreases in depreciation, income taxes, property taxes, and reduced revenue requirement associated with the decreased rate base. Overall, the revenue requirement is increased as discussed in detail in Chapter 1, Section II of RRD Exhibit 1. For the purposes of this proceeding, Pacific, General, and Continental have accepted the staff's computations of the intrastate revenue requirement. Consequently, we will adopt those figures. The combined intrastate revenue requirement increase necessary to offset additional costs for expensing station connections for the remaining 22 companies is approximately $5.1 million.

The staff-recommended method for Pacific, General, and Continental to obtain the staff-computed additional required revenues is detailed in the staff position portion of this decision and may be summarized as follows:

	Pacific	General (\$ Million)	Continental
Net Message Toll	\$ 83.7	\$23.4	\$ .825
Exchange			
Residence Multi-element	3.2	7.01 1/	.764
Business Multi-element	0	5.09 1/	0
Business Complex	0	0	0
Extended Area Service	1.8	.36	0
Surcharge	175.3	35.52	0
Total Exchange	180.3	47.98	.764
Total Revenue after Settlements	\$264.0	\$71.38	\$1.589

The increase in settlement revenues to the remaining 22 telephone utilities due to rates granted in D.93367 is \$9.2 million and exceeds the revenue requirement of these 22 utilities by approximately \$4.1 million. The previously discussed staff-recommended proposed toll increase of \$110.2 million for Pacific will yield these 22 companies approximately \$2.275 million of additional revenues. Consequently, the combined effect of the total increases granted by D.93367 and the staff-proposed toll increase in this proceeding is a total of \$11.476 million which exceeds the additional intrastate revenue requirements of these 22 utilities of \$5.089 million by approximately \$6.386 million. CD's witness recommends that no further increase be granted these 22 smaller independent companies, except for authorization of a multi-element service connection tariff with the element containing the premises visit, premise wiring, and station handling activities at a \$30 charge

1/ Increases are for premise visit, premises station handling, and premises wiring, thereby avoiding the increase in charges objected to by TASC.

level. The staff witness testified that this element is the subscriber avoidable costs and while not as high as proposed for Pacific, it is cost-related. He noted that should the Commission adopt his recommended rate increase level, the 22 smaller independent utilities are in no way precluded from seeking additional rate relief by way of a showing before this Commission in the form of a formal rate application or advice letter filing under GO 96-A, whichever is acceptable.

CD's proposal to limit the revenue increases to the 21 California telephone utilities other than Pacific, General, Continental, and Citizens to their proportionate share of the increased settlement revenues resulting from the recommended $110.2 million toll increase plus increases resulting from the implementation of the multi-element connection charge of $30 to cover the premises visit, premise wiring, and station handling appears reasonable and will be adopted.

Sixteen small cos allege that the increased revenue requirement associated with expensing station connections should be offset on a dollar-for-dollar basis as set forth in the individual increase requests and the original CD presentation. According to 16 small cos, CD's revised presentation is contrary to the specific language of D.93367 which ordered a message toll increase which it did not find to contribute to excess earnings for the smaller independents. In this respect, it is noted that Findings 113 and 114 state as follows:

> "113. The rates authorized Pacific in this proceeding will increase the revenues for all other telephone companies operating in California." (Mimeo. page 222.)

"114. Except for General and Continental, the staff should be directed to monitor the earnings of the independents so that revenue increases resulting from this decision do not produce excessive earnings for the independents." (Mimeo. page 223.)

While it is true we did not find the authorized toll increase contributed to excess earnings for the smaller independents, it is obvious we were and are concerned about that probability. Obviously further increases would further enhance the possibility of creating excessive earnings. Under these circumstances, CD's revenue increase recommendations appear to be fully supported.

Cities' argument that this Commission is not bound by any action of the FCC is unquestionably true. This does not mean, however, that we are not free to adopt as our own any FCC-prescribed procedures. Cities' additional arguments that:

a. Placing the burden of amortizing the embedded cost of the inside wiring portion of Account 232 on the general ratepayer rather than on the relatively few causing such costs is not being accomplished,

b. There are no new expenses arising from the accounting changes,

c. The Commission is free to implement the accounting changes without the granting of rate increases, and

d. Pacific's rate of return should be lowered to reflect the financial advantages accruing to the company for the removal of station connection charges from its rate base,

are overwhelmingly contradicted by the record in this matter.

The major portion of the increased revenue requirement for the various utilities resulting from the proposed accounting changes relates to the amortization of the inside wiring portion of the embedded costs in Account 232. These capitalized costs were incurred by all of the ratepayers at the time of installation of telephones. While it is true that the rapid increase in these capitalized costs is created by a relatively small portion of the ratepayers, all the ratepayers contributed to the capitalized costs and, therefore, all the ratepayers should bear a portion of the increased revenue requirement caused by such amortization of embedded costs. Furthermore, the future reduction of rate base resulting from the amortization of those Account 232 embedded costs will redound to the benefit of the general body of ratepayers.

While it is true that there are no new expenses for the equipment arising from the accounting changes, the cost to the utility for effecting such accounting changes increases by the amount of money required to amortize the embedded cost of a portion of Account 232 as required by the FCC order. Failure to offset these additional expenses will diminish the utilities' net earnings.

As detailed in the portion of this decision setting forth the staff position on this matter, witness Mowrey testified that the increased generation of internal funds resulting from expensing station connections would not provide Pacific internal funds of the magnitude representative of a solid "A" telephone utility nor would the decrease in short-term debt financing impact its long-term financing plans. Under these circumstances, there would be no impact on a determination of a reasonable rate of return.

Rate Design

RRD and CD presented conceptually different rate proposals by which the utilities might recoup the additional revenue required by the inception of the accounting changes relating to the expensing of station connections.

RRD recommends that ongoing and embedded station installation costs be recovered by including the amortization of embedded costs in basic rates, applying full cost-of-service charges to new installations, and crediting new customers for the amount of embedded costs included in basic rates. The embedded costs would be included in the base rates and new customers would receive a credit on their bills for each access line installed after October 1, 1981 equal to the embedded costs per access line included within the basic rates. The recommendation to credit new customers was generally opposed by the other parties to the proceeding on the primary basis that "new" customers who had had service at another address and thereby contributed to the growth of Account 232 would receive an unjustifiable credit. Furthermore, administration of the application of such a credit would be costly and difficult. Such arguments are persuasive and the recommended "new" customer credit will not be approved.

The application of full cost-of-service charges to new installations is a reasonable goal for future rates. To implement such full-cost charges in one step at this time would result in a very substantial connection charge increase. In addition, as set forth in the record, adequate accounting data are unavailable for deriving accurate full-cost tariffs

for all the elements of a multi-element service connection charge. Consequently, we will limit the increases in service connection charges at this time to the cost-avoidable elements of the multi-element service connection charge as recommended by CD, Pacific, Continental, and TASC. It is intended to raise the unavoidable charges to full cost in a stepped progression upon receipt of adequate and accurate cost data. As subsequently discussed, the balance of the additional revenue requirement created by the accounting changes adopted will be derived from increased toll charges and, where required, from the application of a surcharge on monthly recurring charges.

CD's rate design proposal, accepted for purposes of this proceeding by Pacific, General, and Continental, consists of three primary elements:

1. An increase in intrastate toll rates.
2. An increase in multi-element connection charges.
3. A surcharge applicable to all recurring monthly rates, businesses and residential alike, except directory and message charges.

CD's proposed toll increase is designed to yield Pacific $110.2 million gross and $83.7 million net. The proposed increase is applicable for distances of 0-90 miles and consists of one cent initial charge increase and one cent overtime increase plus an operator surcharge increase from $.75 to $1 and a personal surcharge increase from $2 to $2.50. Increasing the EAS rates a proportional amount in accordance with the Salinas formula would increase Pacific's EAS revenues $1.8 million and General's EAS revenues by about $350,000.

The difference between $110.2 million gross and $83.7 million net to Pacific would be distributed among the independents in accordance with the settlement procedure with approximately $23.4 million going to General, $0.825 million going to Continental, and $2.275 million going to the remaining 22 independent telephone utilities.

CD recommends that where appropriate the multi-element connection charges be increased to a full-cost basis for the avoidable cost elements consisting of premises visit, premise wiring, and station handling. No increase is proposed for the unavoidable elements.

As a result of D.93367 Pacific's premise wiring elements were increased to cost-based levels. We will authorize Pacific to increase the premises visit and station handling elements applicable to residence services to the same levels as presently applicable for business services. These increases are estimated to result in an increase of $3.2 million. We will not authorize the CD recommended increases in the central office connection charge elements since these elements are not avoidable. For General, the cost-based increases would be applicable to premises visit, premises work telephone, and premise interior wiring for business and residential connection charges. The estimated revenue effect for these increases is $12.10 million. For the balance of the independent companies, the staff witness recommends that all companies be encouraged to file service connection multi-element tariffs similar to Roseville's with authorization from this order for an element containing the premises visit, premise wiring, and station handling activities at a $30 charge level. Such charges are avoidable by the use of "phone stores" and although not as high as proposed for Pacific and General, are, according to CD's witness, cost-related. The increased revenue to be derived from the imposition of such a multi-element connection charge and the increases in the charges for the premises visit, premise wiring, and station handling elements authorized herein for Continental and the involved independents is estimated to be $786,000.

The third element of CD's recommended rate increases is a surcharge to be applied to all recurring monthly rates, business and residence alike, except directory and message charges. Such a surcharge, however, would be applicable only for Pacific and General as these are the only utilities for which the additional revenue requirements exceeds to total of the increased settlement revenues to be derived from D.93367 and CD's proposed toll increase and the increased multi-element service connection charges.

CD's recommended rate spread proposal, as modified for the additional revenues required for Citizens, appears reasonable and will be adopted.

XIII. FINDINGS AND CONCLUSIONS

Findings of Fact

1. This investigation encompasses two broad categories: (1) the accounting and rate changes required to reflect the expensing of the inside wiring portion of Account 232, together with the amortization of the related embedded cost over a 10-year period, and (2) customer ownership of premise wiring and deregulation.

2. Simple extensions and modifications of existing residences and prewiring new residences can be addressed in this decision. The remainder of COPW and deregulation issues should be addressed in Phase II.

3. A prehearing conference on Phase II of this matter should be set for an early date.

4. On March 31, 1981 the FCC released its decision on Docket No. 79-105 amending the Uniform System of Accounts for Class A and Class B telephone companies (to be effective October 1, 1981) to require the expensing of the inside wiring

portion of Account 232 and to require the amortization of the embedded investment for this portion of Account 232 over a 10-year period starting on that date.

5. The FCC decision further authorized the individual state regulatory commissions to approve similar changes in accounting on a "flash-cut" basis or on a phased-in basis over a 4-year period.

6. A uniform cost study procedure and documentation format for determining cost of service for connections, installations, moves, and changes would be in the overall public interest.

7. Such a uniform cost study procedure is necessary to be able to devise full-cost tariffs and to ensure that regulated telephone companies do not subsidize the inside wiring market through monopoly services.

8. Currently used cost-of-service studies contain assumptions and allocations which cannot be verified by accounting records as presently kept.

9. Supplemental memorandum accounting records are necessary to provide the Commission with sufficient data to make informed analyses and decisions and to provide data which track both cost and revenues by appropriate cost-causing segments of subscribers.

10. Such supplemental accounting records would permit verification of the reasonableness of the charges for each of the elements of a multi-element service connection tariff.

11. The demarcation point for the separation of inside wiring and outside wiring should be the protector for simple business and residence service, with the protector being included in the outside wiring portion of the account and the point where the house cable is terminated and on the same floor as the customer requesting services for business and residence service in multistory structures.

12. Where a protector is unavailable or cannot be easily be used as the demarcation point, then the demarcation point should be a demarcation jack located in a customer-provided, weatherproof enclosure on the ground floor and accessible from the outside.

13. The flash-cut method is preferable to the phased-in method of implementing the amortization of the inside wiring portion of the embedded cost in Account 232 because: it eliminates any further capitalization of inside station connection charges and frees the capital for other capital expenditures, it has a lesser total revenue requirement, it would probably allow a utility faster cost recovery in terms of separations if inside wiring costs continue in the separation computations, IRS would be more likely to approve the flash-cut method than the phased-in method for income tax purposes, and the cost of administration would be less.

14. October 1, 1981 is the date announced by the FCC as the latest date that station connection accounting procedures must be adopted at the federal level and is an appropriate date for the implementation of such accounting changes by this Commission.

15. A 10-year period for the amortization of the inside wiring portion of the embedded cost of Account 232 is reasonable.

16. Continuation of the capitalization of station equipment in Account 232 creates and perpetuates a revenue/ expense mismatch.

17. The present practice of capitalizing station connection cost has produced a financial burden upon telephone utilities at a time when they are already experiencing difficulty in obtaining sufficient capital. The expensing of station connections will help to alleviate that burden.

18. Capitalization of station connection cost creates a drain on utility capital which could be better employed by the utility on plant items.

19. A relatively small percentage of subscribers appear responsible for the dramatic growth in the station connection charges. Yet under present procedures all ratepayers must shoulder the additional charges and higher rates.

20. A major portion of service order assignment costs is capitalized even though such costs are not directly related to the provision of a station connection wiring.

21. A time payment plan to soften the impact of full cost-of-service pricing for station connection activities is not necessary at this time because the order that follows provides for full-cost pricing only for the optional cost elements of the multi-element service connection charge.

22. The additional annual revenue requirement necessary to offset the increased cost caused by the future expensing and the 10-year amortization of the inside wiring portion of Account 232 is $353.132 million for total company and $264.0 million for intrastate operations for Pacific, $88.56 million for total company and $71.38 million for interstate operations for General, and $2.381 million for total company and $1.82 million for intrastate operations for Continental. The revenue requirements will decrease in future years as a result of these accounting changes as detailed in RRD Staff Exhibit 1, as modified, in Table 1-A (Pacific) and Table 2-A (General).

23. The combined intrastate annual revenue requirement increase necessary to offset additional cost for expensing station connections for the remaining 22 telephone utilities in California is approximately $5.1 million.

24. The annual increase in settlement revenues to these 22 telephone utilities due to rates granted in D.93367 is $9.2 million and the increase in settlement revenues that would result if the staff-recommended $110.2 million increase for Pacific is approved is $2.275 million, a total of $11.475 million.

25. The increased annual settlement revenues to these 22 utilities resulting from D.93367 and the staff-proposed increase for Pacific totaling $11.475 million exceeds the revenue increase required to offset the expensing and 10-year amortization of the inside wiring portion of Account 232 by approximately $6.386 million.

26. The 22 small independent utilities should be authorized a multi-element service connection element containing the premises visit, premise wiring, and station handling activities at a $30 charge level. These elements are cost-avoidable and the $30 charge level is cost-related.

27. For Pacific and General the increased revenues required to offset the cost of expensing station connections should be obtained through a combination of increased message toll rates, increased multi-element service connection charges with premises visit, premise wiring, and station handling charges at full cost and the imposition of billing surcharges on all recurring monthly rates, business and residential alike, except directory and message charges.

28. Increasing Pacific's message toll rates $110.2 million will net Pacific $83.7 million and increase settlement revenues for General by $23.4 million, for Continental by $.825 million, and for the remaining 22 independent telephone companies by $2.275 million.

29. Citizens calculated its revenue requirement in accordance with its regulatory formula causing an assumption of a recovery from settlement (toll plus EAS) of $1,075,000 whereas the actual recovery was $530,000 due to its settlement procedure reflecting the loss of depreciation expense tax savings resulting from a timing difference in the recording of expense between books and tax accounting. To place Citizens in the same position as the balance of the independents an additional $406,000 in exchange revenues should be authorized.

30. Even though this Commission is not bound by any action of the FCC, it is free to adopt any FCC-prescribed procedures it desires.

31. The increased generation of internal funds resulting from the expensing of station connections would not provide Pacific internal funds of the magnitude representative of a solid "A" telephone utility.

32. The decrease in short-term debt financing resulting from expensing of station connections would have no impact on Pacific's long-term financing plans; consequently, the implementation of expensing station connections will have no impact on a determination of a reasonable rate of return.

33. Multi-element service connection charges should be increased to a full-cost basis for the avoidable elements consisting of premises visits, premise wiring, and station handling.

34. California utilities should file a new tariff schedule covering customer-provided residential interior wiring provisions similar to the tariff authorized for Pacific by Resolution T-10346 dated December 30, 1980.

35. Because there is an immediate need for the rate relief authorization, this decision should be made effective 5 days from today.

Conclusions of Law

1. A uniform cost-study procedure and documentation procedure should be developed for Pacific, General, and Continental.

2. Supplemental memorandum accounting records providing detailed data to permit this Commission to make informed analyses and to track costs and revenues by appropriate cost-causing segments should be implemented and maintained by Pacific, General, and Continental.

3. The demarcation point for the separation of inside wiring and outside wiring should be established as the protector for simple business and residential circuits if available and a demarcation jack in a customer-provided weatherproof enclosure accessible from the outside if the protector is unavailable. For multi-story premises, the demarcation point should be established at the point where the house cable is terminated and on the same floor as the customer requesting service.

4. The FCC-ordered accounting procedure of expensing rather than capitalizing the inside wiring portion of Account 232 should be adopted by this Commission.

5. It would be advantageous to implement the expensing of station connection costs on October 1, 1981 consistent with FCC-ordered changes.

6. The flash-cut method of implementing the amortization of the embedded costs of the inside wiring portion of Account 232 should be adopted.

7. Pacific's A.60510 should be granted to the extent set forth in the order that follows.

8. Continental's A.60602 should be granted to the extent set forth in the order that follows.

9. General's A.60608 should be granted to the extent set forth in the order that follows.

10. Roseville's A.60706 should be granted to the extent set forth in the order that follows.

11. Citizens' A.60707 should be granted to the extent set forth in the order that follows.

12. The remaining independent utilities which requested rate relief to offset the additional revenue requirement caused by expensing station connections should be authorized to file a multi-element service connection tariff similar to Roseville's with the element containing the premises visit, the premise wiring, and station handling activities at a $30 charge level.

13. California utilities should file a new tariff schedule covering customer-provided residential interior wiring similar to the one authorized for Pacific by Resolution T-10346 dated December 30, 1980.

14. California utilities should jointly file a tariff to permit extensions and modifications to existing customer premises wiring at the earliest possible date.

15. The rates authorized in Appendix B and C are just and reasonable.

16. Pacific and General should be ordered to report on the reduced revenue requirements due to expensing station connections and to file reduced billing surcharge adjustment factors to be effective for the year 1983.

ORDER

IT IS ORDERED that:

1. A prehearing conference is scheduled for December 10, 1981 at 1:00 p.m. in the Commission Courtroom, State Building, 350 McAllister Street, San Francisco, California, for the purpose of defining the Phase II issues of this proceeding and to schedule the exchange of exhibits and further hearings.

2. Representatives from the Commission staff and representatives of The Pacific Telephone and Telegraph Company (Pacific), General Telephone Company of California (General), and Continental Telephone Company of California (Continental) shall form a committee to develop a uniform cost-study procedure and documentation format for determining full cost-of-service pricing for station connection installations and full cost-of-service pricing for station connection moves and changes and present the proposed procedures to the Commission within 180 days of the effective date of this order.

3. Representatives from the Commission staff and representatives of Pacific, General, and Continental shall form a committee to develop supplementary memorandum accounting records to track both costs and revenues of service connections by appropriate cost-causing segments of telephone subscribers and submit such a procedure to the Commission within 90 days of the effective date of this order for implementation within 150 days of the effective date of this order. The submittal shall be a compliance filing in this proceeding, with a copy served on all parties.

4. Respondent utilities shall revise their accounting practices to reflect expensing rather than capitalizing the inside wiring portions of Account 232. The outside wiring portion of Account 232 will continue to be capitalized. The demarcation point separating inside wiring from outside wiring shall be as set forth in Conclusion 3.

5. The embedded cost of the inside wiring portion of Account 232 shall be amortized over a 10-year period and shall be implemented on a flash-cut basis commencing October 1, 1981.

6. The outside wiring portion of Account 232 shall be depreciated, effective January 1, 1982, on a 20-year remaining life basis.

7. Respondent utilities shall file within 30 days of the effective date of this order and in accordance with the provisions of General Order Series 96-A a tariff schedule covering customer-provided residential interior wiring similar to the one authorized for Pacific by Resolution T-10346 dated December 30, 1980.

8. Five days after the effective date of this order, Pacific, General, Continental, Roseville Telephone Company (Roseville), and Citizens Utilities Company of California are authorized to file the revised rate schedules attached to this order as Appendix B and concurrently to cancel and withdraw the presently effective schedules. Such filing shall comply with General Order Series 96. The effective date of the revised rate schedules shall be not less than 5 days after filing. Revised rate schedules shall apply only to service rendered on and after the effective date.

9. Five days after the effective date of this order, the 18 smaller independent telephone utilities listed on page 5 of this decision are authorized to file a multi-element service connection tariff similar to Roseville's with the element containing the premises visit, premise wiring, and station handling activities as a $30 charge level as set forth in Appendix C to this decision and concurrently to cancel the presently effective schedules. Such filing shall comply with General Order Series 96-A. The effective date of the revised rate schedule shall be not less than 5 days after filing. Revised rate schedules shall apply only to service rendered on and after the effective date.

10. Respondent telephone utilities shall jointly develop practical industry standards and specifications for customer-provided additions and modifications to existing residential interior wiring systems. Within 90 days of the effective date of this order, and in accordance with the provisions of General Order No. 96-A, the respondent telephone utilities shall file tariff schedules which include these standards and specifications for customer-provided additions and modifications to existing residential interior wiring systems, with the tariff schedules effective 30 days after filing.

11. On December 1, 1982, respondents Pacific and General shall file reports to the Commission showing the estimated reductions in revenue requirements for 1982 and 1983 due to expensing station connections as authorized herein and file reduced billing surcharge adjustment factors to be effective January 1, 1983 for the entire year 1983.

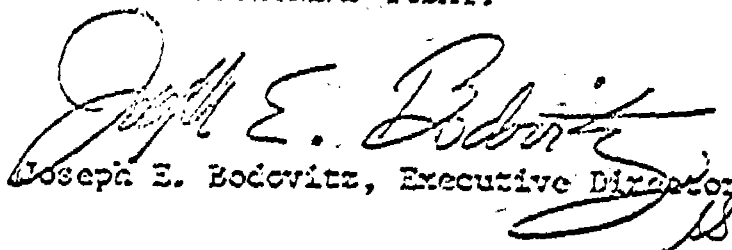
12. OII 84 remains open for consideration of other issues; the applications consolidated with OII 84 are closed.

This order becomes effective 5 days from today.

Dated November 13, 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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



Joseph E. Bodovitz, Executive Director

APPENDIX A
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List of Appearances

Applicants and Respondents: William F. Anderson and Duane G. Henry, Attorneys at Law, for The Pacific Telephone and Telegraph Company in A.60510 and OII 84; A. M. Hart, H. R. Snyder, Jr., Kenneth K. Okel, Richard E. Potter, by Kenneth K. Okel and Richard E. Potter, Attorneys at Law, for General Telephone Company of California in A.60608 and OII 84; Orrick, Herrington & Sutcliffe, by Robert J. Gloistein, Attorney at Law, and Richard Pfeifer, for Continental Telephone Company of California in A.60602 and OII 84; and Cooper, White and Cooper, by E. Garth Black, Attorney at Law, for Citizens Utilities Company of California in A.60707 and OII 84 and Roseville Telephone Company in A.60706 and OII 84, and C. B. Bromagem, for Citizens Utilities Company of California in A.60707.

Respondents: Richard R. Wolf, for C. P. National Corporation; and Pelavin, Norberg, Harlick and Beck, by Alvin H. Pelavin and William R. Haerle, 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, Kerman Telephone Company, Livingston Telephone Company, Mariposa County Telephone Company, Pinnacles Telephone Company, Sierra Telephone Company, Siskiyou Telephone Company, The Ponderosa Telephone Company, and Volcano Telephone Company.

Protestants: Herman Mulman and Edward B. Novikoff, for Seniors for Political Action; Sylvia Fliss, for herself; and Edward Duncan, for himself.

APPENDIX A
Page 2

Interested Parties: Colin Chambers, for himself; Ira Reiner, City Attorney, by Ed Perez, Deputy City Attorney, for the City of Los Angeles; George Agnost, City Attorney, and Leonard Snaider, Deputy City Attorney, by Ed Perez, for the City of San Francisco; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, for the City of San Diego; William Knecht, Attorney at Law, by Sharon M. Camping, for California Interconnect Association; Robert A. Ringman, for California Independent Telephone Association; Ruth Benson, Attorney at Law, for Communications Workers of America, District Eleven; A. John Terrell and Carl Dewey, by Alan E. Donnell, for The Regents of the University of California; Scott W. Flournoy, for Telephone Answering Services of California, Inc.; George Y. Tice, Director, by James M. Nelson III, for Los Angeles County; Marvin J. Kaitz, for CAUSE WEST; and Charles Schweizer, for The Telephone Booth.

Commission Staff: Robert Cagen, Attorney at Law, Tom Lew, and Dean J. Evans, by David M. Shantz.

(END OF APPENDIX A)

RATES AND CHARGES

The rates and charges of The Pacific Telephone and Telegraph Company are changed as set forth below.

Schedule Cal. P.U.C. No. 28-T, Multi-Element Service Charges

The following revisions are authorized:

Element for new and additional service, move and changes and in place connections	Charge Residence
Premises Visit Charge	$7.75
Station Handling Work Per telephone or other terminal equipment	8.00

Schedule Cal. P.U.C. No. 53-T, Message Toll Telephone Service

The following revisions are authorized:

	Initial Period Station (Sent Paid)		Each Additional Minute
RATE MILEAGE	DIAL Ø 1-Minute DAY RATE	COIN * 3-Minute ALL DAYS/HOURS	ALL CLASSES OF SERVICE Day Rate
0- 8	$0.15	$0.25	$0.07
9- 12	.15	.25	.07
13- 16	.17	.35	.09
17- 20	.21	.45	.13
21- 25	.24	.55	.15
26- 30	.27	.65	.18
31- 40	.30	.80	.21
41- 50	.34	.95	.25
51- 70	.38	1.05	.29
71- 90	.42	1.20	.33
91-110	.44	1.30	.34
111-130	.47	1.40	.36
131-150	.50	1.50	.38
151-170	.53	1.60	.40
171-195	.56	1.75	.42
196-220	.58	1.85	.43
221-245	.60	2.00	.44
Over 245	.62	2.15	.45

Ø In addition to the Dial Station Rate, obtained above, the following surcharges are applicable per message for Dial Credit Card Station, Operator Station and Person Service:

Credit Card	$0.40
Station	$1.00
Person	$2.50

*In addition to the Coin Station Rate, obtained above, a $2.50 surcharge is applicable per message for Coin Person Service, i.e., calls paid for by coin deposit.

RATES AND CHARGES

The Pacific Telephone and Telegraph Company - Continued

Schedule Cal. P.U.C. No. 128-T, Wide Area Telephone Service

The following revisions are authorized:

	Monthly Rates			
	Option 1		Option 2	
Per Access Line:	First 10 Hours	Each Addl. Hour	First 100 Hours	Each Addl. Hour
Outward Service				
CAL.-N Service Area	216.00	16.50	823.00	8.15
CAL.-S Service Area	216.00	16.50	823.00	8.15
CAL. Statewide Service Area	273.00	21.75	1029.00	10.25
Inward Service (800 Service)				
CAL.-N Service Area	273.00	21.50	925.00	10.25
CAL.-S Service Area	273.00	21.50	925.00	10.25
CAL. Statewide Service Area	350.00	28.75	1234.00	13.50

Schedule Cal. P.U.C. No. 131-T, Optional Residence Telephone Service

The following revisions are authorized:

Option I - Community Calling Plan

Service Area Rate Group	Service Offerings Rate Mileage	Charge per Community: Each Exchange or District Area	Allowance per Community	Message Rate	
				1 Minute-Day	Each addl. Minute Day
1	9-12	$3.75	$7.55	$.075*	$.035**
2	13-16	4.25	9.85	.085***	.045****
3	17-20	5.25	14.45	.105	.065
4	21-25	6.00	16.75	.120	.075
5	26-30	6.75	20.20	.135	.090
6	31-40	7.50	23.65	.150	.105

Service Area Rate Group	Charges for Additional Allowance per Community		Additional Allowances	
	Double	Triple@	Double	Triple
1	$ 7.50	$11.25	$15.10	$22.65
2	8.50	12.75	19.70	29.55
3	10.50	15.75	28.90	43.35
4	12.00	18.00	33.50	50.25
5	13.50	20.25	40.40	60.60
6	15.00	22.50	47.30	70.05

@Maximum allowable
*$.06 on ZUM routes
**$.03 on ZUM routes
***$.08 on ZUM routes
****$.05 on ZUM routes

RATES AND CHARGES

The Pacific Telephone and Telegraph Company-Continued

Optional Residence Telephone Service - Continued

Option 2 - Circle Calling Plan

Monthly Charge	Usage Allowance
$4.75	$3.00

Service Area Rate Group	Message Rate	
	Minute-Day	Each Additional Minute-Day
1	$ .075*	$ .035**
2	.085***	.045****
3	.105	.065
4	.120	.075
5	.135	.090
6	.150	.105

* $.06 on ZUM routes ***$.08 on ZUM routes
** $.03 on ZUM routes ****$.05 on ZUM routes

Schedule Cal. P.U.C. No. 149-T, Optional Calling Measured Service

The following revisous are authorized

Service Area Rate Group	Service Offerings Rate Mileage	Rate Per Service: Each Exchange or District Area Selected — Monthly Time Allowance*			Overtime Rate Per Minute Over Allowance *
		One Hour	Two Hours	Three Hours	
I	9-12 ø	$2.25	$4.50	$6.75	$ .07
II	13-16	2.55	5.10	7.65	.09
III	17-20	3.15	6.30	9.45	.13
IV	21-25	3.60	7.20	10.80	.15
V	26-30	4.05	8.10	12.15	.18
VI	31-40	4.50	9.00	13.50	.21

* Applies between 8:00 a.m. and 8:00 p.m. Monday through Friday only. Calling between 8:00 p.m. and 8:00 a.m. daily and all day Saturday and Sunday is unlimited.

ø Also includes any routes in 0-8 mile rate mileage band.

RATES AND CHARGES

The Pacific Telephone and Telegraph Company - Continued

Extended Area Service Rate Increments

Authority is granted to revise the Salinas Formula method of computing Extended Area Service (EAS) increments. Revisions to existing EAS increments are authorized pursuant to the application of the revised Salinas Formula as set forth below with no up dating of main station ratios.

An increment is added to the basic rate of exchanges outside of metropolitan areas when extended service is established between exchanges or district areas that are over 8 miles apart, using V-H toll rate mileage.

Determine the EAS increments as follows:

1. Mileage for each EAS route.
2. Main station development for each route that is over 8 miles.
3. Main station ratio: divide the lesser main station figure by the greater main station figure for each route over 8 miles.
4. Find increment in the following table.

Main Station Ratio Small Exch./Large Exch.			Toll Rate Mileage							
			9-12		13-16		17-20		21-25	
Over	Up To	Exch.	Bus.	Res.	Bus.	Res.	Bus.	Res.	Bus.	Res.
0	0.15	Small	$2.75	$0.95	$4.00	$1.35	$6.35	$2.10	$9.50	$3.15
		Large	.40	-	.60	-	.70	-	.90	-
.15	.50	Small	1.95	.65	2.75	.95	4.30	1.45	6.35	2.15
		Large	.95	.30	1.30	.40	2.15	0.70	3.15	1.00
.50	.80	Small	1.65	.55	2.60	.90	3.85	1.30	5.75	1.95
		Large	1.15	.40	1.45	.45	2.60	90	3.75	1.25
.80	1.00	Small	1.50	.45	2.10	.70	3.35	1.10	4.85	1.60
		Large	1.40	.45	1.95	.65	3.10	1.05	4.65	1.60

Exceptions:

1. Formula does not apply to existing Coin Semi-Public (CSP) service. Existing EAS increments opplicable to CSP services may be increased by 17.15% rounded to the nearest $0.05. For any new EAS routes estalished after the effective date of this order the EAS increment for CSP service will be 1/2 the business increment.
2. In Flat Rate Exchanges the PBX TK rate equals 1-1/2 times the individual line rate rounded to the next lower 25¢ multiple. In exchanges where Measured Service is offered the Business Increment is added to the existing Measured TK Rate.
3. Residence suburban increment maximum is $2.00
4. Residence 2-party shall not be more than $1.50 above suburban.
5. Residence 1-party shall not be more than $3.00 above 2-party.

If more than one route is involved, the individual increments are added together to determine the applicable increment.

RATES AND CHARGES

The Pacific Telephone and Telegraph Company-Continued

Schedule Cal. P.U.C. No. 36-T, Rule No. 33, Billing Surcharges

The following revisions are authorized:

RATES	Monthly Percentage
Adjustment Factor	8.09%

SPECIAL CONDITIONS

1. The Monthly Percentage applies to all monthly recurring rates for service or equipment provided under all of the utility's tariff schedules except the following

   4-T - (Partial)
   Rates 1.a.
   1.b.
   1.c.
   6-T - All
   11-T - All
   13-T - (Partial)
   Rates (3)
   17-T - All
   34-T - (Partial)
   General Rates C. and D.
   53-T - All
   128-T - All
   131-T - All
   149-T - All
   157-T - (Partial)
   Rates C.1.

2. The billing adjustment amount on each bill shall be designated "Per P.U.C. Decision No. 93728 ."

3. The Monthly Percentage factor applies to each customer's bill for the total recurring rates except those items excluded under Special Condition 1, above, exclusive of federal and local excise taxes.

RATES AND CHARGES

The rates and charges of General Telephone Company of California are changed as set forth below.

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

The following revisions are authorized:

	Monthly Percentage
Adjustment Factor	7.87%

SPECIAL CONDITION

1. The percentage rate applies to all monthly recurring and measured rate service charges for service or equipment provided under tariff Schedules A-1 through A-40. The percentage rate does not apply to the deaf equipment acquisition fund billing surcharge as shown in Schedule Cal. P.U.C. No. A-5a.

2. The billing adjustment amount on each reduction shall be designated "Per P.U.C. Decision No. 93728 ."

3. The percentage rate applies to each customer's bill for the services and equipment listed in Special Condition 1, above, exclusive of federal and local excise taxes.

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

The following revisions are authorized:

All exchange services (except Centrex and Inward Dialing Services)

	Nonrecurring Charge	
	Business	Residence
PREMISES VISIT		
Each visit	$30.00	25.00
PREMISES WORK		
Telephone, each	8.00	7.00
PREMISES INTERIOR WIRING		
Each connecting point, including standard modular jack or P.M. connector	22.00	20.00

RATES AND CHARGES

General Telephone Company of California - Continued

Extended Area Service Rate Increments

Authority is granted to revise the Salinas Formula method of computing Extended Area Service (EAS) increments. Revisions to existing EAS increments are authorized pursuant to the application of the revised Salinas Formula as set forth below with no updating of main station ratios.

An increment is added to the basic rate of exchanges outside of metropolitan areas when extended service is established between exchanges or district areas that are over 8 miles apart, using V-H toll rate mileage.

Determine the EAS increments as follows:

1. Mileage for each EAS route.
2. Main station development for each route that is over 8 miles.
3. Main station ratio: divide the lesser main station figure by the greater main station figure for each route over 8 miles.
4. Find increment in the following table.

Main Station Ratio Small Exch./Large Exch.			Toll Rate Mileage							
			9-12		13-16		17-20		21-25	
Over	Up To	Exch.	Bus.	Res.	Bus.	Res.	Bus.	Res.	Bus.	Res.
0	0.15	Small	$2.75	$.95	$4.00	$1.35	$6.35	$2.10	$9.50	$3.15
		Large	.40	-	.60	-	.70	-	.90	-
.15	.50	Small	1.95	.65	2.75	.95	4.30	1.45	6.35	2.15
		Large	.95	.30	1.30	.40	2.15	.70	3.15	1.00
.50	.80	Small	1.65	.55	2.60	.90	3.85	1.30	5.75	1.95
		Large	1.15	.40	1.45	.45	2.60	.90	3.75	1.25
.80	1.00	Small	1.50	.45	2.10	.70	3.35	1.10	4.85	1.60
		Large	1.40	.45	1.95	.65	3.10	1.05	4.65	1.60

Exceptions:

1. SPCB rate equals 1/2 business rate increment plus SPCB basic rate rounded to next higher $.25 multiple.
2. PBX TK rate equals 1-1/2 times the individual line rate rounded to the next lower $.25 multiple.
3. Residence suburban increment maximum is $2.00.
4. Residence 2-party shall not be more than $1.50 above suburban.
5. Residence 1-party shall not be more than $3.00 above 2-party.

If more than one route is involved, the individual increments are added together to determine the applicable increment.

APPENDIX B
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RATES AND CHARGES

General Telephone Company of California - Continued

Extended Area Service Rate Increments - Continued

The following revisions are based on the revisions to the Salinas Formula set forth on APPENDIX B SHEET 7 OF 9 of this order and are authorized:

Exchange	EAS RATE INCREMENTS PRESENT BUS.	PRESENT RES.	AUTHORIZED BUS.	AUTHORIZED RES.
Carpinteria	$2.35	$0.80	$2.75	$0.95
Desert Center	1.65	.55	1.95	.65
Desert Hot Springs	1.65	.55	1.95	.65
Eagle Mt.	.80	.25	.95	.30
Fowler	2.35	.80	2.75	.95
Homestead Valley	1.65	.55	1.95	.65
Indio	1.30	.40	1.50	.45
Kenwood	2.35	.80	2.75	.95
Laguna Beach	1.65	.55	1.95	.65
Lake Hughes	5.40	1.80	6.35	2.10
Lancaster	1.00	.35	1.15	.40
Los Alamos	5.40	1.80	6.35	2.10
Meadowview	2.35	.80	2.75	.95
Morongo Valley	1.65	.55	1.95	.65
Novato	1.65	.55	1.95	.65
Palm Desert	3.40	1.15	4.00	1.35
Palm Springs	2.05	.65	2.40	.75
Santa Barbara	.35	-	.40	-
Santa Maria	.60	-	.70	-
Thousand Oaks	.35	-	.40	-
Yucca Valley	1.60	.50	1.90	.60

RATES AND CHARGES

The rates and charges of Continental Telephone Company of California, Roseville Telephone Company and Citizens Utilities Company of California are changed as set forth below.

Continental

Schedule No. A-30, Service Connection and Move and Change Charges

The following revisions are authorized:

CHARGES	Charge	
	Business	Residence
Premises visit charge, per visit.	$17.00	$17.00
Wiring and block/jack, per location	16.25	16.25
Station/equipment connection charge	13.00	13.00

Roseville

Schedule No. A-35, Multi-Element Service Charges

The following revisions are authorized:

CHARGES	Charge Business and Residence
Elements for new and additional service, move and changes and in place connections:	
Premises visit charge	$30.00

Citizens

Schedule No. A-1, Flat Rate Exchange Service; Schedule No. A-2, Suburban Exchange Service; and Schedule No. A-10, Semi-Public Telephone Service

The following revisions are authorized for all business and residence exchange access line services:

For all exchanges except the Keddie, Ferndale, Millville, McCloud and Elk Grove exchanges each business and residence exchange access line monthly rate may be increased by $.85 per month.

For the Keddie, Ferndale, Millville, McCloud and Elk Grove exchanges each business and residence exchange access line monthly rate may be increased by $1.45 per month.

Schedule No. A-8, Foreign Exchange Service; and Schedule No. B-3, Toll Station Service

All monthly rates for exchange access lines excluding farmer line foreign exchange services may be increased by $.85 per month.

Schedule No. A-18, Service Connection and Move and Change Charges

Elements for new and additional service, moves and changes and in place connections.

	Charge	
	Residence	Business
Premises Visit Charge	$10.00	$10.00
Premises Interior Wiring Work, per connecting point	20.00	20.00

(END OF APPENDIX B)

APPENDIX C

CHARGES

The charges of the listed utilities are changed as set forth below.

I. Five days after the effective date of this order Calaveras Telephone Company, Dorris Telephone Company, Ducor Telephone Company, Evans Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, Livingston Telephone Company, Pinnacles Telephone Company, Siskiyou Telephone Company, and Volcano Telephone Company are authorized to file the following revision in service connection charges:

	Nonrecurring Charge Business and Residence
Elements for new and additional service, move and changes and in place connections:	
Premises Visit Charge	$30.00

The effective date of the revised service connection charges shall be not less than 5 days after filing.

II. Five days after the effective date of this order Capay Valley Telephone System Inc., Foresthill Telephone Company, Happy Valley Telephone Company and Ponderosa Telephone Company are authorized to file the following revision in service connection charges:

	Nonrecurring Charge Business and Residence
Elements for new and additional service, move and changes and in place connections:	
Premises Visit charge	$30.00

The effective date of the revised service connection charges shall be coincident with the effective date of presently filed but not yet effective multi-element service connection charges or not less than 5 days after filing whichever date is later.

III. California - Oregon Telephone Company, C.P. National Corporation, Mariposa County Telephone Company, Sierra Telephone Company, Tuolumne Telephone Company and West Coast Telephone Company of California which have not yet filed tariffs for multi-element type service connection charges and a modular jack conversion program are authorized to file the following revisions in service connection charges:

	Nonrecurring Charge Business and Residence
Elements for new and additional service, move and changes and in place connections	
Premises Visit Charge	$10.00
Premises Interior Wiring Charge, per termination	20.00

The effective date of the revised service connection charges authorized herein shall be coincident with the effective date of multi-element type service connection charges. Implementation of a multi-element type service connection charge tariff is subject to further Commission authorization by resolution action or formal order of the Commission.

(END OF APPENDIX C)