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Decision 96-02-023 February 7, 1996

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Alternative Regulatory Frameworks for Local Exchange Carriers.	I.87-11-033 (Filed November 25, 1987)
And Related Matters.	Application 85-01-034 Application 87-01-002 I.85-03-078 Case 86-11-028 I.87-02-025 Case 87-07-024

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ORDER DENYING REHEARING AND MODIFYING DECISION 94-09-065

Several parties have filed applications for rehearing of Decision (D.) 94-09-065 which is our interim opinion concluding Phase III, Implementation Rate Design (IRD), of this investigation. The IRD Decision adopts a revenue neutral rate design which expands authorized intraLATA competition in the telephone industry by extending competition to various services; establishes a cost-based pricing rate design which will permit each local exchange carrier (LEC) to have a fair opportunity to recover its authorized revenue requirement based on its own array of services; and clarifies the appropriate standards for imputation of price floors for the LECs' bundled competitive services using monopoly building blocks.

Applications for rehearing were timely filed by Toward Utility Rate Normalization (TURN), GTE California Incorporated (GTEC), California Payphone Association (CPA), MCI Telecommunications Corporation (MCI), Roseville Telephone Company (Roseville), and Calaveras Telephone Company joined by the following small local exchange companies, California-Oregon Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, and Winterhaven Telephone Company (Calaveras et al. or small LECs).

Responses to the rehearing applications were filed by the Division of Ratepayer Advocates (DRA), TURN, CPA, MCI, AT&T Communications of California (AT&T), Pacific Bell (Pacific), California Bankers Clearing House joined by the County of Los Angeles (Ca. Bankers et al.), Sprint Communications Co. (Sprint), CP National joined by Evans Telephone Co., GTE West Coast Inc.,

Kerman Telephone Co., Pinnacles Telephone Co., Siskiyou Telephone Co., Tuolumne Telephone Co., and the Volcano Telephone Co. (CP National et al.)

I. SUMMARY OF ALLEGATIONS OF ERROR

TURN's application focuses on the Decision's authorization of the basic exchange rates for GTEC. It alleges several legal and factual errors including: violation of the Legislature's intent to cap rates at 150% of Pacific's rates, and violations of Public Utility Code Sections 454 (rate increase notice requirement) and 1708 (alteration or rescission of previous Commission decision). In addition, TURN challenges the legality of: the elimination of the carrier common line charge (CCLC); the 150% increase in GTEC's rates for nonpublished listing service; the establishment of separate business and residential toll schedules for Pacific; the elimination of Pacific's flat rate business lines; the rate increase in service installation charges for customers of middle and small sized LECS; and the allocation of all non-traffic sensitive (NTS) costs to basic exchange services.

GTEC's application primarily challenges the validity of the elasticity estimates, the analyses, the findings, conclusions and the application of those estimates in the IRD rate design. In addition, GTEC seeks rehearing of the billing base for surcharges, and the prohibition against local usage contracts.

CPA's application seeks rehearing and/or clarification of D.94-09-065's authorization of customer owned pay telephones (COPTs) to handle non-coin (0+) local and intraLATA calls, the increase in GTEC's monthly charge to COPT providers, and the authorization of Category II pricing for GTEC's call restriction service.

MCI challenges D.94-09-065's methodology for calculation of LECs' price floors for Category II services. Specific concern is raised about the determination that the imputation of contribution is the equivalent to imputation of the tariffed rate

for bundled monopoly building blocks. In addition, MCI focuses on the alleged impropriety of using the LECs' cost studies as an acceptable measure of long run incremental costs.

Roseville's application seeks rehearing of the Decision's elimination of the Citrus Heights Rate Differential. The applications of Calaveras et al. and Roseville seek changes to and/or rehearing of the incremental revenue requirements in D.94-09-065, Appendix B, and of the order which establishes general rate case (GRC) filing deadlines for small and mid-sized LECs and mandates the timely filing of said GRCs as a condition precedent to the LECs' participation in the California High Cost Fund.

This decision resolves the applications for rehearing. We have carefully considered those applications and the responses thereto. Although we do not discuss each of the numerous allegations which applicants assert justify rehearing, all bona fide allegations[1] have been considered. Herein we decide that

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1. A bona fide rehearing allegation is one that comports with the requirements of Rule 86.1 of the Commission's Rules of Practice and Procedure which provides:

> "Applications for rehearing shall set forth specifically the grounds on which applicant considers the order or decision of the Commission to be unlawful or erroneous. Applicants are cautioned that vague assertions as to the record or the law, without citation, may be accorded little attention. The purpose of an application for rehearing is to alert the Commission to an error, so that error may be corrected expeditiously by the Commission."
> (California Code of Regulation, Title 20, Section 86.1, also referred to as Rules of Practice and Procedure (October, 1995), Rule 86.1.)

(Footnote continues on next page)

applicants' allegations of error, whether or not discussed, do not show good cause for rehearing. While we conclude that rehearing is not warranted, we do recognize certain errors or ambiguities in the Decision which require correction or clarifying modification. Therefore, our order today modifies D.94-09-065 consistent with our discussion below.

II. REHEARING ISSUES RESOLVED IN OTHER DECISIONS

We have already issued decisions which dispose of TURN's request for partial stay of D.94-09-065 (see D.95-01-047) and three separate petitions for modification of the Decision filed respectively by Pacific (see D.95-02-050), by Roseville and by a group of small LECs[2] (see D.94-12-024). Because those decisions resolve some issues which are raised in the instant rehearing applications, we shall summarize our previous dispositions of those rehearing issues. We have reviewed those

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(Footnote continued from previous page)

In this decision, we may not consider substantial portions of the instant applications which are mere reargument of positions designed to influence fact finding. "When conflicting evidence is presented from which conflicting inferences can be drawn, the commission's findings are final." (Toward Utility Rate Normalization v. PUC, (1978) 22 Cal.3d 529, 538 quoting City of Los Angeles v. PUC, (1972) 7 Cal.3d 331; also see PT&T Co. v. PUC, (1965) 62 Cal.2d 634 and Section 1757 of the Public Utilities Code.)

2. The following small LECs joined Calaveras Telephone Company in the petition to modify D.94-09-065: California-Oregon Telephone Company, Ducor Telephone Company and Winterhaven Telephone Company.

decisions and do now reaffirm the resolution of the rehearing issues as explained in D.95-01-047, D.95-02-050 and D.94-12-024.

In D.94-12-024, we resolved Roseville's request for restoration of the Citrus Heights rate differential and the small LECs' several requests for modification of Appendix E of D.94-09-065. Appendix E corrections were resolved in petitioners' favor. However, we rejected Roseville's claim that D.94-09-065's removal of the Citrus Heights rate differential was error.

In D.95-01-047, we denied TURN's request for partial stay of D.94-09-065 and ordered that rates authorized in D.94-09-065 would be subject to adjustment pending resolution of the applications for rehearing. In addition, we determined that there was no merit to TURN's allegation that the basic exchange service rates authorized for GTEC in D.94-09-065 violate the notice requirements of Section 454 of the Public Utilities Code[3].

In D.95-02-050, we resolved Pacific's petition seeking modification of D.94-09-065 to clarify that Yellow Page Advertising revenues should not be included in the billing base to which surcharges are subject. GTEC raises the identical issue in its application for rehearing. D.95-02-050 resolves GTEC's rehearing issue by modification of D.94-09-065 to comply with Section 728.2(a) by excluding directory advertising from the billing base of the California High Cost Fund (CHCF), Universal Lifeline Telephone Service (ULTS) and the DEAF Trust surcharges.

For the reasons expressed in D.94-12-024, D.95-01-047, and in D.95-02-050, the above-identified rehearing issues raised by TURN, GTEC, Roseville and Calaveras et al. have been decided.

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3. Unless otherwise specified, all future references to code sections will be references to the Public Utilities Code.

III. GTEC APPLICATION

As explained in D.94-09-065, elasticity of demand is an economic term which describes the degree to which the demand for a product will rise or fall in response to a change in the product's price. In the IRD decision, we note that elasticity is an important component in the development of a revenue-neutral rate design. In its rehearing application, GTEC asserts that errors in D.94-09-065 have produced a confiscatory rate design which is not revenue neutral, but rather, one which will cause the company to suffer a $115.1 million revenue loss. According to GTEC, such errors predominate in the analyses, findings, conclusions, and application of the elasticity estimates in the Decision's rate design.

> "In the area of elasticity, the Decision erred as a matter of law in several areas: (1) adopting unsupported elasticity estimates for toll and switched access; (2) misapplying these estimates; and (3) arbitrarily refusing to acknowledge the effects of price increases or repression for other services in the rate design process." (GTEC Application for Rehearing, page 2.)

As explained more fully in the ensuing pages, GTEC's allegation of confiscatory rate design is unwarranted. With the exception of the claim of factual error in the application of the switched access elasticity estimate, GTEC's charges are misplaced.

A. Elasticity Estimates For Toll and Switched Access

GTEC claims that because there is no evidentiary support for the specific elasticity estimates which were adopted in D.94-09-065 (-0.5 toll elasticity and -0.44 switched access elasticity), the Commission failed to regularly pursue its authority and therefore denied GTEC due process. This allegation

of error is without merit[4]. Contrary to GTEC's suggestion, the Commission is not limited to adopting or rejecting, in its entirety, the specific elasticity proposal(s) of parties. The Commission has the discretion to exercise its expertise in the regulation of utilities to fashion a rate design, or in this case an elasticity estimate, based on the varied testimony in the record from different parties.

> "The Constitution does not bind rate-making bodies to the service of any single formula or combination of formulas. Agencies to whom this legislative power has been delegated are free, within the ambit of their statutory authority, to make the pragmatic adjustments which may be called for by particular circumstances. Once a fair hearing has been given, proper findings made and other statutory requirements satisfied, the courts cannot intervene in the absence of a clear showing that the limits of due process have been overstepped. If the Commission's order, as applied to the facts before it and viewed in its entirety, produces no arbitrary result, our inquiry is at an end." (City of Los Angeles v. Public Utilities Com. (1975) 15 Cal.3d 680, 698, quoting from Federal Power Commission v. Natural Gas Pipeline Co. (1942) 315 U.S. 575, 586 [86 L. Ed. 1037, 1049-1050, 62 S. Ct. 736].

As explained in D.94-09-065 (at pp. 122-123 and 148-155), the Commission derives the elasticity estimates from the

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4. In response to GTEC, DRA and Ca. Bankers et al. assert that there was substantial evidence in the record to support the elasticity estimates selected by the Commission (DRA Response, pp. 4-5; Ca. Bankers et al. Response, pp. 3-4). DRA and Ca. Bankers et al. also note that GTEC's rehearing application is simply reargument of the same, erroneous positions taken in previous GTEC filings. GTEC acknowledges that its application includes substantial reiteration of the company's positions on elasticity issues as presented on the record, in its briefs and in comments on the proposed and rescinded decision (GTEC Application for Rehearing, page 2, fn. 1).

evidence provided by the parties. For example, we use GTEC's demand elasticity factor to calculate usage-based WATS revenues. On the other hand, we reject both Pacific's and GTEC's elasticity estimates for toll demand[5]:

> "We find that the econometric studies performed by Pacific and GTEC have deficiencies that dissuade us from relying solely on them to arrive at our adopted estimates of the elasticity of demand for toll service." (D.94-09-065, page 149).

In D.94-09-065, the Commission adopts -0.5 as the elasticity estimate for toll service. The adopted estimate is the product of our evaluation of the strengths and weaknesses of the studies supporting the parties' various recommendations. It reflects the weight given to the fact that the estimates of several studies clustered around -0.5 (D.94-09-065, page 305, Finding of Fact 113).

B. Application Of The Elasticity Estimates

GTEC correctly points to a factual error in D.94-09-065's application of the switched access elasticity factor "to the change in price from the tariffed switched access rate rather than the actual rate (tariffed rate less an approximately 27 percent surcredit)" (GTEC Application, page 14). GTEC reasons that because customers respond to actual prices, "elasticity estimates must measure customer response by looking at the difference between the new price and the price actually paid by the customer, which includes all surcharges and surcredits" (Ibid.). This rationale is consistent with our discussion of elasticity estimates in D.94-09-065.

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5. Because Pacific's and GTEC's switched access elasticity estimates are driven by their toll elasticity estimates, in D.94-09-065, we also reject the LECs' switched access elasticities.

While supporting GTEC's position regarding application of the elasticity estimate to the actual, not the tariffed, rate in the calculation of switched access stimulation, DRA notes that this is only half of the problem. DRA is critical of GTEC's selective request for the correction of switched access stimulation noting that GTEC does not object to D.94-09-065's calculation of toll stimulation which also is achieved by application of the elasticity estimate to the tariffed, not the actual, rate.

> "However, GTEC ignores the effect of D.94-09-065's use of tariffed rates in calculating GTEC's toll stimulation. Because GTEC's toll rates carry a surcharge of approximately 5%, use of the tariffed rate results in less toll stimulation than if the effective rate, including the surcharge, had been used. The Commission should not condone GTEC's selective application of its proposed method of calculating stimulation. For consistency, the same method should apply to both services even if it results in a net stimulation of revenues in the rate rebalancing." (DRA Response, page 5.)

GTEC's claim of error in the switched access elasticity calculation has merit as does DRA's assertion of a comparable error in the calculation of toll stimulation. If elasticity of demand should be determined based on the actual rate paid by customers, and we believe that it should, then, as DRA indicates, consistency in the application of elasticity estimates to the actual rate should be observed unless there is good reason not to do so. In that regard, we have reviewed the application of elasticity estimates for both GTEC and Pacific in D.94-09-065, Appendix pp. C-1 and D-1, and have discovered that there is an inconsistency in our treatment of the two companies. In the case of Pacific, all elasticity estimates are applied to the actual rates, not the tariff rates. In contrast, elasticity estimates are applied to GTEC's tariff rates.

In D.94-09-065, whenever reasonable, we are consistent in our treatment of Pacific and GTEC. For example, we use the same elasticity estimates for toll, toll-like and toll related services for Pacific and GTEC. The calculated application of those estimates should have been another point of consistency, but erroneously, it was not. Today, we shall correct this error by modifying D.94-09-065, Appendix pp. C-1 and D-1, to derive GTEC's toll and switched access stimulation by application of the elasticity estimates designated in the Decision to the appropriate actual rates. Because there is sufficient evidence in the record to allow us to effect this correction, rehearing of this matter is not necessary.

Directions for implementation of the modification of D.94-09-065's application of GTEC's elasticity estimates are set forth in Appendix A to this decision. They will require revenue reconciliations. In addition, pursuant to our order in D.95-01-047 such revenue reconciliations, including appropriate refunds or backcharges, will be effective as of January 26, 1995[6]. Accordingly, 10 days after the effective date of this order, GTEC will be required to file an adjustment to its A-38

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6. In Ordering Paragraph No. 4 of D.95-01-047, we state:

> "Rates authorized by D.94-09-065 are subject to adjustment, including refunds and backcharges. If in our disposition of the applications for rehearing of D.94-09-065, we determine changes are warranted, we reserve our authority to make those changes and to order corrective measures, including refunds or backcharge adjustments, if needed, designed appropriately to maintain revenue neutrality and to remedy harm, if any, caused by implementation of D.94-09-065 without altering the competitive advantage of any party or otherwise adversely impacting the competitive atmosphere promoted by that Decision."

surcharge/surcredit tariff to increase GTEC's current surcredit. Correcting the application of elasticity estimates to GTEC's rates leads to modification of GTEC's stimulated volumes for its toll and toll-like services. This change is not without impact on Pacific. Modification of GTEC's stimulated volumes for its toll and toll-like services alters the magnitude of intercompany Originating Responsibility Plan (ORP) payments between the two LECs. As a result, Pacific will be required to file an adjustment to its Rule No. 33 tariff to reflect a surcharge.

Finally our decision also reduces stimulated volumes used to estimate GTEC's implementation costs pursuant to Resolution T-15696 effective from January 26, 1995 as provided by D.95-01-047. GTEC will therefore be required to reduce its implementation cost recovery as a result of the changes we adopt in this order and will reflect this change in its A-38 tariff compliance filing (10 days after the effective date of this order).

Pursuant to D.95-01-047, these revenue reconciliations will be effective as of January 26, 1995. Pacific and GTEC will apply these changes to their respective access and toll Rule 33 and A-38 tariff surcharges/surcredits in a manner that allocates the individual service revenue changes resulting from this order to the appropriate toll and access surcredit/surcharge categories. The LECs' compliance advice letter filing should also include Pacific's and GTEC's proposals for adjustment of their respective Rule 33 and A-38 tariff schedules to incorporate a one time adjustment for the period January 26, 1995 through January 31, 1996 and will be subject to CACD's approval. The prospective Rule 33 and A-38 tariff adjustments ordered herein will be made on a monthly basis.

C. Competitive Loss

GTEC alleges that D.94-09-065 is arbitrary and unfair because it fails to compensate the LECs for intraLATA toll revenue loss even though the Decision recognizes the additional

switched access revenue the LECs will gain. GTEC further contends that this inconsistent treatment of revenue impact is "the type of erroneous decisionmaking annulled by the Supreme Court in California Portland Cement Co. v. Public Utilities Commission (1957) 49 Cal. 2d 171, 315 P. 2d 700" (GTEC Application for Rehearing, page 12). GTEC is mistaken. This allegation has no merit. In Portland Cement, the Court found reversible error in the implied inconsistency of a Commission finding that conflicted with an express statutory prohibition. There is no such conflict in the rationale or in the conclusions of D.94-09-065. Moreover, there is no erroneous inconsistency where distinctions in treatment are reasonable and within the authority of the Commission. As explained below, our refusal to compensate LECs for intraLATA toll revenue loss is rationally based and properly within the ambit of our authority.

IntraLATA toll revenue loss, if any occurs, is a competitive loss. We should not protect LECs from a failure to adequately compete. To extend to LECs protection against competitive losses would be to turn our back on ratepayers and to undermine the LEC incentives and the ratepayer safeguards established in the New Regulatory Framework (NRF). We have reviewed D.94-09-065's denial of Pacific's and GTEC's requests for compensation for competitive losses and believe the rationale and the disposition to be sound:

> "Compensating for competitive loss would force the LECs' customers to shelter those percentages of toll revenue from competitive risk even after rates are rebalanced, effectively granting the LECs rate cap returns on those revenues. This would be inconsistent with the ratepayer safeguards and LEC incentives established in NRF. Moreover, Pacific's and GTEC's competitors have no captive markets to provide them with a steady revenue stream if they are inefficient. The effect of Pacific's and GTEC's request would be to increase the rates of all of their ratepayers because of the prospect that some ratepayers might choose another toll carrier. This would shift the

> risk of competition from the LECs to their ratepayers - not a result we expect from NRF. Therefore, Pacific's and GTEC's requests for compensation for competitive losses are denied." (D.94-09-065, pp. 164-5.)

D. Repressive Revenue Loss

GTEC further claims that refusal of the Commission to take into consideration the repressive revenue effect of price increases in certain basic exchange and private line services constitutes arbitrary and unfair decisionmaking. These allegations are without merit.

As noted in D.94-09-065, for the most part elasticities are limited to a finite number of usage sensitive services:

> "We have been cautious in our use and reliance on elasticity estimates and analyses in this proceeding. We have not determined elasticities for all services, but only for toll, toll-like and toll related services, such as switched access." (D.94-09-065, page 112.)

Our decision not to calculate repression for LECs' basic exchange services is driven by our assessment that these services would not face significant customer loss as a result of the rate changes adopted in D.94-09-065. We are not persuaded that price changes such as these would be a significant determinant of customer choice to use or discard a service when the subject matter is a basic exchange service. A customer's choice to discard a basic exchange service could, and more likely than not would, mean that the customer actually had opted to have no telephone service at all.

DRA questions GTEC's claim of error in the Commission's decision to treat basic exchange services as not elastic. DRA notes that GTEC's claim of a $21.5 million loss in basic exchange revenues is fallacious.

> "GTEC also conveniently ignores the issue of cost savings which must be considered in

> conjunction with calculating any repression of volumes. Cost savings represent the avoided costs associated with reduced volumes (footnote omitted). The Commission only permitted recovery of additional costs associated with toll and switched access stimulation. To include repression in GTEC's rate rebalancing exercise, the associated direct embedded costs of the repressed services would have to be offset against the revenues lost as a result of repression." (DRA Response, page 6.)

In view of our finding that basic exchange services will not experience significant repression, we have not scrutinized the components of DRA's avoided costs analysis. However, it appears reasonable to consider avoided costs whenever revenues are adjusted for repression.

In the case of private line service, D.94-09-065 discusses the inadequacy of GTEC's elasticity presentation. GTEC's estimate is described as "qualitatively questionable" (D.94-09-065, page 112). The Decision further explains:

> "GTEC's elasticity estimate for 2-wire and 4-wire private line failed to adequately take into account cross-elasticity between private line and two of its closest substitutes: switched services and digital dedicated access. While GTEC did take into account high capacity service, this is surprising since it does not appear to be a reasonably close substitute for voice grade private line. Cross elasticity is particularly important when analyzing dedicated access because of numerous close substitutes, including both LEC and nonLEC alternatives. GTEC also ignored interLATA special access transport in its special access stimulation, where prices fall considerably." (D.94-09-065, page 112, fn. 24.)

In conclusion, GTEC's elasticity showing in support of the repressive revenue effects of various price increases are unpersuasive. Therefore, they were not adopted in D.94-09-065. In the absence of a substantial affirmative showing, it would be

improper for us to adopt proposed elasticities simply because GTEC asserts that they are the only credible elasticities of record (cf. Investigation Into The Energy Cost Adjustment Clause (1980) 4 Cal.P.U.C.2d 693, 701, (D.92496), burden of proof in an energy cost adjustment clause proceeding; and Southern Counties Gas Co. (1952) 51 Cal.P.U.C. 533, (D.46876), burden of proof in a rate case). As noted in D.94-09-065, caution in this area is warranted. We correctly decided that the application of elasticity estimates should be limited to toll, toll-like and toll related (e.g. switched access) services.

Notwithstanding our rejection of GTEC's allegations of error based on repressive revenue loss, and our practice in this case to avoid repetitive negative findings when the standard of proof is not met, in the interest of clarity, we shall modify D.94-09-065 by adding the following as Finding of Fact 39A:

> 39A. At the rates considered in this decision, basic exchange services will not experience significant customer repression because there is no viable substitute for basic exchange services.

and by adding the following as Conclusions of Law 53A and 119A:

> 53A. It is reasonable to decline to calculate repression for services that will experience insignificant changes in demand.
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> 119A. It is reasonable to subject only toll, toll-like and toll related services (such as switched access) to stimulation.

E. The Billing Base for GTEC's Surcharges and the Contracting Authority for Local Usage

GTEC correctly claims error in D.94-09-065's expansion of the billing base for CHCF, ULTS, and the DEAF Trust surcharges to include directory advertising. As noted supra, in D.95-02-050, we acknowledged the limitation of our jurisdiction imposed

by Section 728.2(a)[7], and therefore, modified D.94-09-065 by excluding directory advertising from the billing base of the CHCF, ULTS and Deaf Trust surcharges. Consequently, GTEC's claim of error in the surcharges' base has been resolved.

GTEC also alleges that D.94-09-065's continued exclusion of local usage from the contracting authority of the LECs is error because such an exclusion is not supported by the record. This allegation is without merit. Limitation of the LECs' contracting authority with respect to local usage was not developed in IRD, a fact referenced in the Decision.

> "However, certain Category I services may not be included in contracts under any circumstances. We affirm our prior decision not to allow contracting for residential subscriber service, business basic exchange lines, ZUM, local usage, and the access line portion of semipublic telephone service." (D.94-09-065, page 228.)

The "previous decision" wherein we established the prohibition against contracts for local usage was the Phase I decision of this docket, 29 Cal.P.U.C.2d 376, (D.88-09-059), Appendix A. Consistent with our discussion in the text, we shall modify D.94-09-065 to add the following as Conclusion of Law 162A:

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7. Section 728.2 (a) provides:

> "Except as provided in subdivision (b), the commission shall have no jurisdiction or control over classified telephone directories or commercial advertising included as part of the corporation's alphabetical telephone directories, including the charges for and the form and content of such advertising, except that the commission shall investigate and consider revenues and expenses with regard to the acceptance and publication of such advertising for purposes of establishing rates for other services offered by telephone corporations."

162A. In D.88-09-059, Appendix A, the Commission prohibited contracts for local usage.

IV. TURN APPLICATION

A. Pacific's Flat Rate Business Service

TURN alleges that our order requiring Pacific to eliminate flat rate business service was arbitrary and without benefit of record. In D.95-01-047, our decision denying TURN's request for stay of the IRD decision, we indicated that the merit of this claim was questionable but that we would further address the issue in this rehearing decision. Today we conclude that TURN's claim is without merit. In the IRD Decision, we comment that the order eliminating Pacific's flat rate service reflects a long-standing Commission policy which is expressed in several decisions addressing Pacific's business service. We have again reviewed those decisions.

In 1924, the Commission first ordered a utility to cancel flat rates for business service and to achieve the transition to a mandatory measured service rate for business subscribers as soon as feasible (Simons Brick Co. v. Southern California Telephone Co. (1924) CRC 721, 772, [D.11420]). In 1929, we ordered Pacific Telephone and Telegraph Company (PT&T), the predecessor of Pacific, to discontinue flat rate business service for its East Bay customers and to replace it with measured service (Re Pacific Telephone and Telegraph Company (1929) 33 C.R.C. 737, 776, 779, 795-796, [D.21766]). In 1984, we made clear our continued commitment to mandatory measured business service for PT&T customers:

> "We remain committed to expanding the availability of measured service, mandatory for business and optional for residence subscribers, throughout PacBell's service area." (Re Pacific Telephone and Telegraph Company (1984) 15 Cal.P.U.C.2d 232, 366 [D.84-06-111], emphasis added.)

The fact that our position regarding measured service for Pacific's business customers has been long term and consistent belies TURN's allegation that D.94-09-065's order eliminating Pacific's flat rate business service is arbitrary.

TURN's further claim of legal error, that there is no record to support our order eliminating flat rate business service, also is without merit. In its proposed rate design, Pacific sought to increase, and thereby to continue at some level, flat rates for business service (Exhibit 565). Pacific's proposal was served on the parties of this proceeding. Consistent with the Commission's long established policy for telephone utilities, in D.94-09-065, we rejected Pacific's proposal to continue flat rates for business service by our order requiring Pacific to terminate its provision of flat rate business service within one year of the effective date of the Decision (D.94-09-065, page 336, Ordering Paragraph 6).

Furthermore, the question of record underlying this order is addressed by our discussion at page 51 of D.94-09-065 wherein we recognize this Commission's commitment to measured business service for Pacific's business customers as reviewed in Re Pacific Telephone and Telegraph Company 15 Cal.P.U.C.2d 232, 364-366 [D.84-06-111]). We appropriately may rely on previous Commission decisions and on the policies which they impart as a basis for, and an explanation of, our present decision. Upon review of D.94-09-065, we conclude that the Decision will be better understood if it is modified to include a Conclusion of Law which reflects the essence of our discussion in the text recognizing the Commission's established policy regarding measured service for Pacific's business customers. Accordingly, we shall modify D.94-09-065 by adding the following as Conclusion of Law Number 30A:

> 30A. This Commission's long term commitment to the elimination of flat rate business service and the provision of measured rates for Pacific's business customers is reviewed and discussed in Re Pacific Telephone and

Telegraph Company 15 CPUC 2d 232, 364-366 (D.84-06-111) and Re Pacific Telephone and Telegraph Company 6 Cal.P.U.C.2d 441, 554, 578 (D.93367).

B. Separation of Pacific's Residential and Business Toll Schedules

TURN also claims that D.94-09-065's authorization of separate residential and business toll schedules for Pacific is legally and factually erroneous. DRA supports this claim. TURN's allegation of legal error apparently is based on the perception that segregated schedules create an opportunity for Pacific to violate the Section 453 (a) and (c) prohibitions against discrimination[8]. TURN anticipates that Pacific will give preferential rate treatment to business customers to the exclusion of residential customers. The prohibitions of Section 453 will continue to apply to the actions of Pacific with respect to all of its customers. The segregation of business and residential toll schedules does not alter this fact. Separate toll schedules for clearly discernible customer classes do not invite Pacific to practice unreasonable discrimination and it is unreasonable discrimination which is prohibited by Section 453

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8. Subsections (a) and (c) of PU §453 provide:

> "(a) No public utility shall, as to rates, charges, service, facilities, or in any other respect, make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage."
>
> . . .
>
> "(c) No public utility shall establish or maintain any unreasonable difference as to rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service."

(See Re Alcoholic Beverage Rates (1940) 43 C.R.C. 25, 34; California Portland Cement Co. v. Southern Pacific Co. (1939) 42 C.R.C. 92, 116-117).

We have reviewed our explanation for authorizing separate toll schedules in D.94-09-065, pp. 135-136, and find our reasoning to be sound. As noted there, we believe that separate schedules are consistent with promotion of the competitive environment envisioned in the NRF. TURN's apprehension that separate toll schedules will create the "opportunity" for an illegal act to occur at some future date is not a valid claim of legal error, and therefore, it does not constitute a basis for rehearing[9]. There is, however, merit to TURN's claim of factual error.

TURN correctly notes that Finding of Fact 107, related to Pacific's toll schedule separation, erroneously incorporates an issue that was not a part of this proceeding.

Finding of Fact 107 provides:

> "To thwart market developments by insisting on identical residential and business toll discount calling plans would overlook the benefits that refined market identification offers to all consumers and would be out of keeping with our overall direction." (D.94-09-065, page 305, Finding of Fact 107, emphasis added.)

This finding is erroneous. The emphasized portion, "discount calling plans", is wrong and should be replaced with the word, "schedules". As made clear by Conclusion of Law 103, we intend to authorize separate business and residential toll schedules. Finding of Fact 107 was to serve as a factual finding undergirding that conclusion. Discount calling plans were not at

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9. We note that since the IRD Decision, Pacific has made no change in its basic business and residential toll schedules.

issue. Accordingly we shall properly reflect our intent by revising Finding of Fact 107 as follows:

> 107. To thwart market developments by insisting on identical residential and business toll schedules would overlook the benefits that refined market identification offers to all consumers and would be out of keeping with our overall direction.

In addition, to eliminate confusing language in the text on this issue, we shall modify the last sentence of the first paragraph of page 136 to replace the terms "calling plans" with the terms, "toll schedules". The corrected sentence will read as follows:

> To thwart market developments by insisting on identical residential and business toll schedules would overlook the benefits that this sort of refined market identification offers to all consumers and would be out of keeping with our overall direction.

C. GTEC's Rate Increase For Nonpublished Listing Service

TURN claims that the monthly rates authorized in D.94-09-065 for GTEC's Directory Nonpublished Listing Service ($1.50) and Directory Nonlisted Listing Service ($1.00) are illegal and should be reduced, at least, to 60 cents and 30 cents respectively, the current rates charged by Pacific for these services. TURN correctly notes that the rates authorized were those requested by GTEC and that the key to the Commission's approval of such rates is D.94-09-065's classification of nonpublished and nonlisting services as Category II discretionary services. However, according to TURN, the classification of these services as discretionary is an irrational and arbitrary decision, adverse to customers' privacy rights. As explained below, TURN's allegations have no merit. The IRD rates authorized for these services are appropriate.

In IRD, GTEC asked for a price increase for its nonpublished service and proposed a rate for its new nonlisting

service; Pacific requested no change in its pricing or offering of its nonpublished or nonlisting services. In both instances we honored the companies' request:

> "Under our pricing principles, we set rates for new Category II services at the company-proposed rates, except as limited by price floors." (D.94-09-065, page 66.)

Although the pricing principles referred to above were developed in D.94-09-065, the categories and the categorization rationale were established in the Phase II decision of this proceeding, 33 Cal.P.U.C.2d 43, 122-128, (D.89-10-031). In classifying nonpublished and nonlisting services as discretionary, we honor the standards established in the Phase II decision. In that decision, we express our intent that the term discretionary refer "to the characteristic of the telecommunications function rather than to whether other similar local exchange carrier services exist" (Id., 125). In considering whether the nonpublished and nonlisting services are basic or discretionary, we find that the characteristic or usual character of these services is discretionary. That some customers, as TURN asserts, deem it important or even, in certain circumstances, necessary to make use of these services does not destroy their primary characteristic as discretionary services. The nonpublished and nonlisting services are customer choice deviations or alternates to the phone number listing component of the basic exchange service. We so found in D.94-09-065 but neglected to include that finding in the Decision's Findings of Fact. We will correct that oversight by modifying D.94-09-065 to add the following as Findings of Fact 36A and 36B:

> 36A. Nonpublished and nonlisting services are customer choice options or alternates to the phone number listing component of the basic exchange service.
>
> 36B. Directory Nonpublished Listing Service and Directory Nonlisted Listing Service are non-basic, discretionary services.

Finally, there also is no merit to TURN's claim that D.94-09-065's classification of nonpublished and nonlisting services as discretionary is adverse to customers' privacy interests. TURN argues:

> "Availing oneself of nonpublished service is one means for a customer to control who obtains her telephone number. Nonpublished service is thus a means by which citizens are able to protect a constitutional right. This is yet another reason why the decision's characterization of nonpublished service as discretionary is completely arbitrary and ill-considered." (TURN Application, page 36.)

Certainly, use of the nonpublished service is a way for customers to control access to their phone numbers but that privacy right option is not eliminated by the classification of this service as discretionary. TURN should not confuse a company's provision of a service with the customer's discretion to use or not to use that service. The discretionary classification of the nonpublished and nonlisting services does not preclude a customer from using those services and therefore, from effectively controlling "who obtains her telephone number."

D. GTEC's Basic Exchange Rate Increases

TURN's allegation that the basic exchange rates authorized for GTEC in D.94-09-065 are illegal is based on several claims of legal error including the following: (1) The Decision violates Section 454 by authorizing rates higher than the proposed rates noticed to customers by GTEC; (2) GTEC's authorized residential rates violate legislative policy because they are more than 50% higher than those of Pacific; and, (3) The Decision violates Section 1708 by eliminating the "transitioned" phase-out of payments from Pacific to GTEC authorized by D.91-07-044. As explained more fully below, these claims of error have no merit as they arise either from TURN's misunderstanding of the

facts or are based on TURN's erroneous interpretation of the applicable laws.

TURN's allegation that D.94-09-065 violates Section 454 by authorizing GTEC to implement rates higher than the proposed rates noticed to customers in billing inserts has been resolved. That issue was disposed of in D.95-01-047 where we explained our holding that there was no merit to TURN's allegation that the basic exchange service rates authorized for GTEC violate the notice requirements of Section 454 (D.95-01-047, pp. 7-8, Ordering Paragraph No. 3, page 9). Section 454 prescribes rate request notice requirements for utilities, not for the Commission.

There also is no merit to TURN's allegation that D.94-09-065 violates legislative policy by authorizing a rate increase for GTEC's residential customers which is more than 50% higher than the comparable rate for Pacific's customers. As acknowledged by TURN, the legislative intent it references is that of Section 739.3,[10] a statute applicable only to small

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10. Section 739.3 (a) provides:

> "The commission shall develop and implement a suitable program to establish a fair and equitable local rate structure aided by transfer payments to small independent telephone corporations serving rural and small metropolitan areas. The purpose of the program shall be to promote the goals of universal telephone service and to reduce any disparity in the rates charged by those companies."

The intent of this legislation is expressed in Section 1 of Stats. 1987, ch. 755 which provides in relevant part:

> "(d) It is therefore the intent of the Legislature, in enacting Section 739.3 of the Public Utilities Code, to require the commission to establish a rate structure for small independent telephone

(Footnote continues on next page)

independent telephone corporations which are defined in subsection b of the law as "...those independent telephone corporations serving rural areas, as determined by the Commission". GTEC is not a small independent telephone corporation serving rural and small metropolitan areas for ratesetting purposes. Accordingly, the Legislature did not intend for Section 739.3 to apply to GTEC.

TURN's Section 1708[11] claim arises from the fact that the IRD decision terminates or "flashcuts" the five year phase-out transition payment, in lieu of settlements, from Pacific to GTEC which was established in our "Interim Opinion Resolving Specific Policy Issues To Facilitate Preparation Of Implementation Rate Design" (1991) 41 Cal.P.U.C.2d 1, 37, (D.91-07-044). Section 1708 expressly provides for Commission authority, "at any time", to "rescind, alter or amend any order or decision made by it". The only restriction on the

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(Footnote continued from previous page)

> companies serving rural and small metropolitan areas which does not impose rates greater than 50 percent more than the average rates paid by residential subscribers in urban areas, as determined by the commission." (Stats, 1987, ch. 755, Sec. 1(d).)

11. Section 1708 provides:

> "The commission may at any time, upon notice to the parties, and with opportunity to be heard as provided in the case of complaints, rescind, alter, or amend any order or decision made by it. Any order rescinding, altering, or amending a prior order or decision shall, when served upon the parties, have the same effect as an original order or decision."

Commission's right to change a prior decision is the requirement that parties be given notice and an opportunity to be heard. In this instance, the notice and hearing requirements of Section 1708 were met before we issued D.94-09-065 rescinding the transition payment plan adopted in D.91-07-044.

On September 11, 1991, Pacific filed a petition for modification of D.91-07-044 seeking total elimination of its transition payments to GTEC. Parties to this proceeding were served with Pacific's petition and therefore received notice of the request to eliminate the transition payment. Pacific's flashcut proposal was addressed during the IRD evidentiary hearings. For example, on July 13, 1992, attorneys for GTEC and for DRA, speaking respectively on behalf of their clients, expressed "on the record" agreement with Pacific's proposed elimination of D.91-07-044's phase-out of the transition payment to GTEC (Tr. 209:28097-28101).

In IRD we effectively granted Pacific's request for termination of the transition payment. Elimination of the Pacific-GTEC transition payment is mentioned briefly in the discussion text of D.94-09-065 and is demonstrated in the Revenue Rebalancing Tables for Pacific and GTEC in Appendices C and D of the Decision. These references should be augmented to make clear the genesis of our rescission of D.91-07-044's plan for a five year phase-out of the transition payment. It is appropriate to modify D.94-09-065 by adding an explanatory subsection to the text along with corresponding findings of fact and conclusions of

law. The additional text discussion shall be inserted at page 37 as Subsection E:

Elimination of Transition Payments From Pacific To GTEC

Prior to 1989, GTEC participated in the settlement pool which collects all of the revenues from toll, private line, and EAS service (priced at uniform rates) and distributes funds to compensate each LEC for its costs and a rate of return on the plant used to provide toll, private line and EAS services. In 1989, GTEC's participation in the settlement pool was discontinued. GTEC now receives an annual payment from Pacific in lieu of settlements. We previously expected that GTEC would eventually recover that revenue (originally from the settlements pool) in its own "bill and keep" rates. D.91-07-044 provides that beginning with Year 1 of post-IRD rates, Pacific's settlement payments to GTEC will be phased out over 5 years. The actual phase down was to be adopted in IRD.

On September 11, 1991, Pacific filed a petition for modification of D.91-07-044 seeking the total elimination of its transition payments to GTEC. Parties to this proceeding were served with Pacific's petition and therefore received notice of the request to eliminate the transition payment. In its petition, Pacific suggests that the transition payments be replaced with reasonable increases in the rates of GTEC's below-cost services and an industry-wide surcharge on all end-user services. Pacific argues that continuing the annual payments to GTEC will handicap its efforts to compete in the toll market. In this proceeding, GTEC, DRA, and AT&T have agreed that Pacific's payments should cease on the effective date of the IRD decision. This would decrease Pacific's post-IRD revenue requirement and increase GTEC's post-IRD revenue requirement by the same amount.

Three years have elapsed since we developed D.91-07-044's phase-out transition plan and since Pacific filed its petition to modify that plan. We find that the burden of subsidizing GTEC's rates to avoid rate shock to GTEC's customers should not continue to be

> borne solely by Pacific's ratepayers. The five-year phase-down adopted in D.91-07-044 will only handicap Pacific in the competitive market. Therefore, Pacific's petition is granted in part and denied in part. Pacific will be relieved of the settlement payments upon the start of IRD. However, we will not adopt Pacific's suggestion that we employ an end-user surcharge to replace GTEC's revenue reduction due to loss of the transition payments. This means that the balance remaining from GTEC's transition payments will be added to GTEC's unrecovered IRD revenue requirement, and will be recovered accordingly from GTEC's rates.

Corresponding to the above text, we shall further modify D.94-09-065 by adding the following Finding of Fact 18A:

> 18A. The burden of subsidizing GTEC's rates to avoid rate shock to GTEC's customers should not continue to be borne solely by Pacific's ratepayers.

We shall also modify D.94-09-065 by adding the following Conclusion of Law 21A:

> 21A. It is reasonable to eliminate Pacific's transition payments to GTEC and to add the balance remaining from the transition payments to GTEC's revenue requirement to be met through rates adopted in this proceeding. Therefore, Pacific's petition to modify D.91-07-044 is granted in part and denied in part.

In addition, we modify D.94-09-065 by adding Ordering Paragraph 3A:

> 3A. Pacific's petition to modify D.91-07-044 by termination of the transition payments to GTEC is granted. As to other requests in said petition to modify D.91-07-044, the petition is denied.

E. Elimination Of The Carrier Common Line Charge

TURN asserts that D.94-09-065's elimination of the CCLC is arbitrary, "(l)acking any rational reason"; is an unexplained departure from past Commission decisions; and constitutes a violation of Sections 1705 and 1757. TURN also claims that D.94-09-065's finding that the CCLC is not a cost based charge is a factual error. Upon review of the Decision, we conclude that modifications which clarify our determination to remove the CCLC would be appropriate. Such modifications will augment the findings in compliance with Section 1705. TURN's remaining allegations of error - arbitrary decisionmaking in violation of Section 1757[12] and an unexplained deviation from past Commission decisions - are without merit and do not constitute a basis for rehearing.

In interpreting Section 1757, the California Supreme Court explained that the statute's provision that findings and

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12. Section 1757 provides:

> "No new or additional evidence may be introduced in the Supreme Court, but the cause shall be heard on the record of the commission as certified to by it. The review shall not be extended further than to determine whether the commission has regularly pursued its authority, including a determination of whether the order or decision under review violates any right of the petitioner under the Constitution of the United States or of this State.
>
> The findings and conclusions of the commission on questions of fact shall be final and shall not be subject to review except as provided in this article. Such questions of fact shall include ultimate facts and the findings and conclusions of the commission on reasonableness and discrimination."

conclusions of the Commission on questions of fact shall be final refers only to the findings and conclusions reached upon consideration of conflicting evidence and undisputed evidence from which conflicting inferences may reasonably be drawn. (Southern Pacific Co. v. Public Utilities Commission (1953) 41 Cal2d 354.) With respect to the question of eliminating CCLC, there was an abundance of evidence on this issue (see for example: Exhibits 582/DRA, 748/GTEC, 749/TURN, 789/AT&T, 762/MCI, and 770/Sprint). Parties presented conflicting positions from which the Commission developed its determination that "CCLC is not a cost-based charge and therefore, it conflicts with the philosophy of this rate design" (D.94-09-65, page 121). In the Decision at pp. 120-121, we discuss the several suggestions for resolution of the rate design problem presented by the CCLC and conclude that elimination of the charge is the proper solution. Decisions based on the evidence are not arbitrary.

TURN's complaint that the Decision improperly fails to explain the elimination of the CCLC as a deviation from past Commission decisions is curious. Throughout the proceedings in this docket and particularly in the decisions issued, it should have been clear that the transition from monopoly to competitive telecommunications service requires new approaches. The Phase II NRF decision provides the guidance for incentive regulation. Contrary to TURN's assertion, in the IRD Decision, there was no need to include extensive discussion of the rationale that gave rise to the creation of the CCLC. We explain the relevant point, the fact that the CCLC is inconsistent with the philosophy of the rate design which the IRD Decision establishes. In the context of NRF, the CCLC is dysfunctional and the Commission properly eliminates it.

As noted above, we shall modify D.94-09-065 to clarify our decision and to augment the findings on this issue. First we will revise the text by deletion of the first paragraph on page 121 and by replacing it with the following three paragraphs. This revision expands the discussion of issues relevant to the

CCLC and eliminates misleading comment in the deleted text. The replacement for paragraph 1 on page 121 shall read:

> We concur with DRA's proposal to eliminate the CCLC as a means to stem bypass of the LEC network. As DRA indicates in Exhibit 582, IECs have developed products for their high volume end users that utilize special access lines to directly connect with the IEC POPs. In so doing, IECs bypass the LECs' switched network.
>
> In Exhibit 582, pp. 6-8 through 6-12, DRA details how the pricing of interstate and intrastate switched access, and specifically CCLC, has motivated the IECs to create bypass opportunities. DRA further states that reduction in the interstate rate for the CCLC has resulted in increased use of the LEC network. DRA proposes eliminating the intrastate CCLC in order to stimulate intrastate switched access minutes on the LEC network. DRA notes that efficient utilization of the LEC network is one of the Commission's NRF policy goals.
>
> We agree with DRA's proposal to eliminate the CCLC. We find that the CCLC is not a cost-based charge and that it conflicts with the philosophy of this rate design.

We shall further modify D.94-09-065 by adding the following as Findings of Fact 96A and 96B:

> 96A. High volume users bypass the LEC network by utilizing special access lines to connect directly to an IEC POP.
>
> 96B. Continuation of the CCLC charge is inconsistent with the philosophy of this rate design.

F. Treatment of Non-Traffic Sensitive Costs

TURN claims that the Decision's endorsement of the assignment of all non-traffic sensitive (NTS) costs to basic exchange services is legal error because it arbitrarily conflicts with past Commission decisions, and "defies a bedrock U.S.

Supreme Court decision to which all commissions are subject" (TURN Application, page 22). In addition, TURN asserts that the Decision incorrectly calculates the adjustment needed to avoid double-recovery of NTS costs and that correction of this error would result in lowering the following residential flat rates: for Pacific - $10.90 instead of $11.25; for GTEC - $15.55 instead of $17.25. Although TURN'S allegations have no merit, the discussion of these issues in TURN's application and in the responses of Pacific, AT&T and DRA persuade us that some additional commentary in the Decision would better clarify our resolution.

TURN's claim that D.94-09-065's position with respect to NTS costs reverses the Commission's previous decisions such as Re Competition in the Provision of Telecommunications Transmission Services (1984) 15 Cal.P.U.C.2d 426 (D.84-06-113) mistakenly ignores the context of the previous decisions and the rate design developed in IRD. Unlike IRD's rate design focus on cost causation, in previous decisions, the Commission's determination regarding the allocation of NTS costs was "not based on any theory of cost causation." (Id. at 455.)

> "This is not to say that cost allocation cannot be a useful regulatory tool. We have allocated NTS costs among local exchange, interstate toll, and (now interLATA and intraLATA) intrastate toll services for many years for purposes of cost recovery. However, the allocation factors have been chosen by the federal and state regulatory agencies largely to achieve the desired distribution of costs, and certainly not based on any theory of cost causation." (15 Cal.P.U.C.2d 426, 455 [D.84-06-113].)

In IRD, we do have a theory of cost causation: "The utility strings the line and purchases switch capacity in response to the end user's subscription to basic telephone service" (D.94-09-065, page 297, Finding of Fact 22). Because we find that by subscribing to basic telephone service the

subscribing end user is the primary cost causer, we conclude that "NTS costs should be assigned to subscribers' basic exchange services" (Id., page 315, Conclusion of Law 22). In summary, we consider the IRD Decision distinguishable from previous Commission decisions that made determinations about the allocation of NTS costs. Of course, we need not opine such a distinction to preserve the legal integrity of the IRD Decision. As noted supra, we are authorized by Section 1708, "at any time", to "rescind, alter or amend any order made" by the Commission as long as the notice and hearing requirements of Section 1708 are met. Although TURN wisely has not asserted that D.94-09-065's determination of NTS cost causation violates Section 1708's notice and hearing requirements, its inability to do so demonstrates the questionable nature of the claim that D.94-09-065 reverses previous Commission decisions and thereby commits legal error.[13]

Finally, the basis for TURN's allegation that the residential basic exchange service rates of Pacific and GTEC were improperly adjusted thereby allowing the LECs double-recovery of NTS costs is unclear. In its response, DRA supports TURN's position. However, DRA's claim is that an incorrect adjustment results in rates that allow LECs "to recover a portion of interstate costs twice - once through the End User Common Line (EUCL) charge assessed by the FCC, and again through a portion of

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13. TURN has an equally questionable basis for its claim that D.94-09-065 violates the United States Supreme Court's decision in Smith v. Illinois Bell Telephone Co., (1930) 282 U.S. 133. In Smith, the Court establishes jurisdictional boundaries for state and federal authorities regulating telephone service and provides instructive standards for the use of the lower court in its determination, upon remand, of whether rates prescribed for the city of Chicago by the Illinois Commerce Commission were confiscatory and in violation of the due process clause of the 14th Amendment. The Smith decision is not relevant to the NTS issue in D.94-09-065.

the new local exchange rates the Commission adopted in D.94-09-065." We note that while interstate costs include costs other than NTS costs, DRA's and TURN's interpretation that in D.94-09-065, we committed to making an adjustment in the basic exchange rates for all NTS costs or all interstate costs reflects a basic misunderstanding of our development of those rates. In D.94-09-065, we said:

> "We concur with the general principle that NTS costs should be assigned to subscribers' basic exchange services. We must, however, make one clarification to avoid double recovery of certain NTS costs." (Emphasis added, D.94-09-065, page 44.)

Perhaps the culprit in TURN's and DRA's confusion is the second sentence in the above quote. Apparently, they were not impressed with the fact that we intended to adjust rates to avoid double recovery only of "certain", not necessarily all, NTS costs. In the discussion following the "certain NTS" statement, the only NTS cost that is identified as a subject for adjustment is the end-user common line (EUCL). Therefore, we believe our intent should have been clear that in the development of basic exchange rates, we adjusted those rates to avoid double recovery of EUCL.

Although we find no merit in TURN's claim of NTS cost related error, we believe that the clarity of our position will be enhanced by modification of the Decision. Accordingly, we shall delete the second full paragraph on page 44 and the first paragraph on page 45 and replace them with the following three paragraphs:

> We concur with the general principle that NTS costs should be assigned to subscribers' basic exchange services, which is consistent with the cost based principles of our adopted rate design. The utilities' argument that they incur the cost of stringing the local loop when a customer subscribes to service, regardless of whether the customer makes any calls is a persuasive one. However, our ability to follow this general principle and

to recover all NTS costs in the basic monthly rate for residential service is subject to a significant constraint: affordability to the customer. If the basic rate for telephone service is not affordable, customers will not subscribe, and we will fall short of our long-standing goal of universal telephone service.

We recognize that there is an inconsistency between the principle of assigning NTS costs to basic exchange services and our goal of achieving universal service. In the interest of promoting universal telephone service, we deviate from the principle that NTS costs for residential customers be assigned exclusively to basic exchange service. Instead, we set the rates for both flat and measured residential service at levels we believe to be affordable, and which do not recover all costs of providing the service. These services remain subsidized services, and that subsidy comes from revenues generated from other services which are priced above cost. Therefore, NTS cost recovery is, in fact, allocated among all those services priced above cost, and is not exclusively obtained in rates paid by residential customers.

There is one additional clarification we need to make to avoid double-recovery of certain NTS costs, specifically, the end-user common line (EUCL) charge which is collected from telephone subscribers pursuant to federal law. The residential subscriber currently pays a EUCL charge of $3.50 per month per access line to the LEC; Pacific's business subscriber paid a corresponding rate of $4.14 in 1989 (the Pacific rate design year) and GTEC's business customer pays $5.82. The EUCL charge reflects the Federal Communications Commission's (FCC) determination of the interstate portion of NTS costs that should be collected from the basic exchange subscriber. The FCC sets the EUCL based on separations data. Our assignment of NTS loop costs to the subscriber will acknowledge the contribution to loop costs from interstate uses of the network, as quantified by the FCC. Because the LECs' cost studies include the costs of interstate access, a failure to account for the EUCL charge in setting rates would

overcompensate the LEC for the costs of providing access services. We will accordingly follow a general principle of pricing monopoly access services at DEC minus the EUCL charge (with an additional 5% reduction for Pacific's services).

G. Installation Charge for Small and Middle Size LECs

TURN alleges that for "almost all" small and middle size (mid-sized) LECs, D.94-09-065 erroneously authorizes large increases in installation charges that range between 54 and 98 percent higher than the original charges. Such increases, claims TURN, are contrary to the Commission's professed concern for universal service, violate state policy as expressed in Section 709 (a) and further, violate Section 739.3's proscription against rates more than 50 percent higher than average urban rates. TURN is mistaken. These allegations have no merit.

In order to mitigate the direct effects of revenue rebalancing arising from the rate design established for Pacific and GTEC, it was necessary for the Commission to authorize measures to restore revenue lost to the small and mid-sized LECs primarily due to IRD's reductions in toll revenues. IRD's promise of revenue neutrality was achieved for the small and mid-sized LECs by authorization of DRA's proposed Revenue Requirement Recovery Mechanism (RRRM). The RRRM included four individual components for recovery of revenue shortfall. The third component was the installation charge increase. It was employed in D.94-09-065 for each company only after the first two components fell short of total revenue recovery. The installation charge component is described in D.94-09-065 at page 250 as follows:

"Increase the LEC's current service connection charges by the California Wage Escalation Factor index from the effective date of the LEC's last general rate proceeding through calendar year 1991 if the rate adjustments in items (a) and (b) above

are not sufficient to recover the needed revenue requirement" (D.94-09-065, page 250.)

The increase in installation charges, pursuant to the RRRM, was itself a mitigation measure that was necessary to fulfill IRD's commitment to revenue neutrality. While it is true that some installation charges were increased significantly, the Commission's continued commitment to universal service, the statewide policy embodied in Section 709 (a), is reflected in the mitigating effect of D.94-09-065's authorization of a statewide service installation charge of $10.00 for Lifeline customers.

Finally, there is no merit to TURN's claim that increased installation charges violate the Legislature's intent in Section 739.3 that rural residence rates for small companies not be any more than 50 percent higher than the average urban rate. In its response, CP et al. notes that the statute and related legislative intent of Section 739.3 address rates in general terms and do not prescribe a rigid structure based on each rate element. We agree. Moreover, non-recurring charges are distinguishable from recurring rates. To the extent that Section 739.3 is intended to apply to non-recurring charges, it would be applicable only in the context of the LEC's entire rate structure which would then be evaluated against the average urban rate.

V. CPA APPLICATION

CPA's application alleges the following errors in D.94-09-065: (1) ambiguity in the authorization for the customer-owned pay telephone (COPT) to handle all types of non-coin (0+) local and intraLATA calls; (2) understatement of the monthly "effective rate" chargeable to COPT providers for GTEC's COPT service; (3) unreasonable allowance of Category II pricing flexibility and a $3.50 monthly rate for GTEC's Call Restriction II service as furnished to COPT providers; and, (4) failure to state separate findings of fact and conclusions of law to support determinations

related to the allegations of error stated above. As explained more fully below, we agree with CPA that the COPT 0+ local and intraLATA call authority must be clarified and that further modification of D.94-09-065 by addition of appropriate findings of fact and legal conclusions is warranted. We now address CPA's remaining allegations of error in D.94-09-065 which we conclude are without merit.

CPA's complaint that GTEC's chargeable rate to COPT providers is unclear apparently is based on the failure of D.94-09-065 to identify existing tariff rates that remain unchanged (for example, see GTEC Tariff No. A-1, Sheet 14.4). There are many existing rates which remain unchanged that are not mentioned in the IRD Decision. This is not erroneous ambiguity. A rate cannot be changed, added or dropped, absent some express authorization by this Commission.

In support of its conclusion that GTEC's rates for COPTs are understated in the Decision, CPA references our comment in D.94-09-065 at page 185: "...so the effective monthly rate increases from $12.60 to $22.72". Contrary to CPA's interpretation, this reference does not describe GTEC's entire rate package chargeable to COPT providers, but rather, it reflects only the rates related to access lines and Call Restriction II, the two services being considered for a rate change in IRD. In other words, before IRD the rates for access lines and Call Restriction II totaled $12.60, whereas after IRD, they totaled $22.72. In the interest of clarity, we note our agreement with CPA that the entire GTEC rate package for COPT providers before and after IRD would be different, an increase from $18.10 to $28.22 per line. However, because D.94-09-065 is not describing the difference in GTEC's total rate package, before and after IRD, but only the comparative increase for rate components at issue, the Decision's statement is accurate.

CPA's allegation of unreasonable Category II pricing for Call Restriction II service for COPT providers has no merit. The

rationale for that decision is correctly expressed at pages 185-186 of D.94-09-065. However, CPA correctly notes that there is no finding of fact or conclusion of law reflecting our reasoning. We shall correct these omissions by modification of D.94-09-065 by adding the following as Finding of Fact No. 139A:

> 139A. GTEC's Call Restriction II is a Category II custom calling feature.

and the following as Conclusion of Law No. 137A:

> 137A. GTEC's Call Restriction II should be priced at the company's proposed rate, in accordance with our Category II pricing philosophy.

A. COPT 0+ Authority

It is CPA's position that by establishing what it describes as a false dichotomy between "Smart" and "Dumb" telephones, D.94-09-065 creates ambiguity in the authorization for COPTs to route 0+ local and intraLATA calls to the carrier or operator services provider (OSP) chosen by the COPT provider. Although CPA's interpretation of D.94-09-065's authorization is incorrect, the rehearing application's description of the Decision's ambiguity is instructive:

> "The Decision's authorization for 'COPTs to handle all types of 0+ local and intraLATA calls to the extent permitted by their equipment' is susceptible to an unreasonably narrow reading, which would unlawfully discriminate against COPT providers, due to a false dichotomy drawn by the Decision between 'smart' and 'dumb' telephones." (CPA Application, page 3.)
>
> "The Decision labels payphones equipped with 'store and forward' functions as 'smart' telephones, and appears to eliminate any restriction on their use to handle any 0+ local or other 0+ intraLATA calls. (Citations to the Decision omitted.) It is unclear, however, to what extent the Decision means for this elimination of restrictions to

> apply to other 'smart' payphones, which do not perform operator service functions internally but instead can handle 0+ calls by routing them to a chosen OSP." (CPA Application, page 5.)

There is merit to CPA's allegation. D.94-09-065's discussion of "Smart" and "Dumb" telephones is an imprecise and misleading discourse on the range of functions of pay telephones. However, the "Smart"/"Dumb" characterizations are not solely responsible for the ambiguity, which does exist, in the Decision's authorization of COPTs to handle 0+ calls. For example, there also appears to be confusion over whether D.94-09-065 actually modifies, or merely anticipates future modification of, the limitation imposed on COPT's 0+ call authority in Re Coin and Coinless Customer-owned Pay Telephone Service, 36 Cal.P.U.C.2d 446, Appendices A and B (D.90-06-018)[14]. As

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14. This confusion is manifest in the unexplained difference between the textual discussion and the ordering paragraph which provides for expansion of the COPT's 0+ call authority. For example, the text of D.94-09-065 states:

> "The pay telephone settlement limited the COPT providers' use of smart telephone technology to provide operator services. In light of advances in technology and competition, this restriction is no longer appropriate. After notice to the parties in the appropriate dockets (I.88-04-029 et al.) and opportunity to be heard, we intend, unless persuaded otherwise, to modify the interim authorization and limitations of D.90-06-018 and authorize COPTs to handle all types of 0+ local and intraLATA calls to the extent permitted by their equipment. (Emphasis added, D.94-09-065, page 183.)

In contrast, Ordering Paragraph No. 28 provides:

(Footnote continues on next page)

explained below, we shall modify D.94-09-065 to refine our discussion of 0+ calling authority. In addition, we shall modify the Decision's finding, conclusion and order to clarify our intent that 0+ calling authority presently is expanded only to "store and forward" (S&F) COPTs with the independent capability of completing 0+ calls without the need for a live operator. Before addressing the modifications, some explanatory background is appropriate.

Investigation (I.) 88-04-029, instituted to address the terms and conditions of COPT service, was closed by 36 Cal.P.U.C.2d 446, (D.90-06-018) which adopted the terms of what is referred to in the IRD Decision as the pay telephone settlement. Relevant to our discussion today is the fact that the pay telephone settlement requires, with limited exceptions, that 0+ calls placed within Pacific's service area be routed to the LEC operator.[15] An express provision of the settlement

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(Footnote continued from previous page)

> "28. D.90-06-018 is modified to allow customer-owned pay telephones (COPT) to handle all types of 0+ local and intraLATA calls to the extent permitted by their equipment." (D.94-09-065, page 340.)

15. For example, exempted from the intraLATA restrictions of the pay telephone settlement adopted in D.90-06-018 were certain S&F units referred to as Grandfathered S&F Units. For example, the settlement provides:

> "1. Grandfathered S&F Units. S&F Units, whether complete telephones or the circuit

(Footnote continues on next page)

notifies parties to the proceeding that the settlement provisions applicable to grandfathered and new S&F Units would be reconsidered by the Commission in the IRD phase of this docket.

> "Termination Date. The foregoing provisions with respect to grandfathered and new S&F Units shall remain in effect until further order of the CPUC in I.87-11-033, or any successor thereto, establishing rules introducing intraLATA competition by COPT operators, operator service providers, or billing and collection providers." (D.90-06-018, Appendix B, page 9.)

In IRD, the evidence shows that the restrictions imposed by the 1990 pay telephone settlement are outdated and unduly restrictive (see, for example, Exhibit 532, the prepared testimony of CPA's witness, Thomas R. Keane). In D.94-09-065, we decided that the restriction imposed by D.90-06-018 no longer applies to S&F COPTs that are capable of independently completing 0+ calls without external assistance (e.g. the assistance of a live operator). D.94-09-065's Ordering Paragraph 28 was intended to effect that result but the wording of the order is ambiguous and should be clarified.

(Footnote continued from previous page)

> boards necessary to modify existing telephones, delivered to COPT operators for use in Pacific's territory by January 31, 1990, or for which orders were received by manufacturers by that date will not be subject to the IntraLATA Restrictions ("Grandfathered S&F Units")." (D.90-06-018, Appendix B, page 1.)

It is important to note that in IRD, the evidence in support of enhanced competition is impressive. It prompts us to consider extending 0+ call authority to all S&F telephones, not just to those independently capable of completing 0+ calls without external assistance. For example, an expanded 0+ call authority, broader than that which we adopt in D.94-09-065, might include S&F COPTs which cannot internally perform operator service functions but which can activate the S&F function to route 0+ calls to the live operator of choice (e.g. the carrier or OSP chosen by the COPT provider). Although we are not yet prepared to extend to COPTs this broader 0+ call authority, the discussion in D.94-09-065 was intended to alert the parties of our plan to do so in a future decision, unless, after hearing, we are persuaded otherwise. However, as written, the discussion is unclear because it fails to adequately distinguish between the possible future expansion of 0+ call authority to all S&F COPTS and the order in D.94-09-065 which actually expands that authority only to S&F COPTS independently capable of handling 0+ calls without external assistance.

To ensure that D.94-09-065 clearly reflects our intent, as explained above, we shall modify the Decision by revising the text at page 183 headnoted as "4. 0+ Local Calls". In this revision, we discard the "Smart/Dumb" characterizations and describe telephone functions, as needed, to illuminate our determination to authorize a limited expansion of 0+ call authority. The revised text shall read as follows:

> 4. 0+ Local Calls
>
> COPT providers can currently choose between the following types of station equipment: (1) telephones which contain sophisticated computers that can perform store and forward (S&F) billing functions and are independently capable of completing 0+ calls without external assistance (e.g. the need for a live operator); (2) telephones with S&F technology which cannot internally perform operator service functions but can handle 0+ calls by routing them to a chosen carrier or operator

> service provider (OSP); and (3) telephones without S&F technology that rely on the LEC's central office equipment and operator services for these functions.
>
> The pay telephone settlement requires, with limited exceptions, that 0+ calls placed within the LEC's service area be routed to the LEC operator. This requirement is an express limitation on COPT providers' use of the internal capability of S&F telephones to provide operator services. In light of advances in technology and competition, this restriction is no longer appropriate. Today, as an interim measure, we partially remove the restriction imposed by the pay telephone settlement and expand 0+ call authority to those S&F COPTs which have the internal capability of completing 0+ calls without the external assistance of a live operator. Because we are impressed with the evidence in favor of expanded competition and of extending to COPTs greater authority than we order today, we alert interested parties to our plan to further expand this authority. After notice to the parties in the appropriate dockets (I.88-04-029 et al.) and the opportunity to be heard, we intend, unless persuaded otherwise, to modify the interim authorization and limitations of D.90-06-018 and to authorize COPTs to handle all types of 0+ local and intraLATA calls to the full extent permitted by their equipment, including, for example, the ability to route 0+ calls to the OSP of choice.

In addition, to further clarify our finding, conclusion and order in D.94-09-065 on this issue, we shall further modify the Decision as follows:

Revise Finding of Fact 138 to state:

> 138. The pay telephone settlement limited the COPT providers' use of store and forward phone technology to provide operator services. In light of advances in technology and competition, this restriction is no longer appropriate.

Revise Conclusion of Law 134 to state:

134. The interim authorization and limitations of D.90-06-018 should be modified to allow and authorize COPTs with store and forward technology and the internal capability of completing 0+ calls without the external assistance of a live operator to handle all types of 0+ local and intraLATA calls.

Add Conclusion of Law 134A to state:

134 A. Modification of D.90-06-018's limitation of the COPT 0+ call authority of store and forward telephones that cannot internally perform operator service functions should not be effected until all parties to the appropriate dockets (I.88-04-029 et al.) are notified and have an opportunity to be heard with respect to the proposed removal of such limitation.

Revise Ordering Paragraph 28 to provide:

28. D.90-06-018 is modified to allow customer-owned pay telephones (COPT) with store and forward technology and the internal capability of completing 0+ calls without the external assistance of a live operator to handle all types of 0+ local and intraLATA calls.

And finally, add Ordering Paragraph 28A to provide:

28A. The assigned Administrative Law Judge shall issue a ruling giving notice to all appearances in this investigation and to all appearances in docket I.88-04-029 of the opportunity to comment or to be heard in evidentiary hearings, if requested, with respect to the Commission's intent to further modify the customer-owned pay telephone restrictions in D.90-06-018 to allow COPTs with store and forward technology to handle all types of 0+ local and intraLATA calls to the extent permitted by their equipment.

B. COPT Providers Are Prohibited From Blocking

In the course of reviewing the COPT 0+ call authority issue, we discovered that COPT providers are omitted erroneously from D.94-09-065's order prohibiting switch blocking. Our position on this issue is expressed at page 27 of D.94-09-065:

> "We will authorize competitors to complete calling card, OPH, and 10XXX directly dialed calls to local, ZUM, and EAS locations without blocking. These services require a customer to make a conscious choice to select an IEC, rather than the LEC, to complete the call. We believe that customers should have the freedom to make this choice, even if the IEC's price is higher than the LEC's." (emphasis added, D.94-09-065, page 27.)

To empower customers with this choice, it is necessary that we prohibit all entities capable of switch blocking from using that ability to interfere with customers' freedom. COPT providers have that capability. The failure to include COPT providers in the blocking prohibition order in D.94-09-065 is corrected herein by the following modification of Ordering Paragraph 2:

> As of January 1, 1995, local exchange carriers (LECs) and customer-owned pay telephone (COPT) providers are prohibited from preventing calling card, operator-handled (OPH), and specially dialed (10XXX) calls carried by an IEC from being completed to local, Zone Usage Measurement (ZUM), and Extended Area Service (EAS) locations.

VI. MCI APPLICATION

MCI seeks rehearing of the methodology employed in D.94-09-065 to calculate LECs' price floors for Category II services. Specifically, MCI targets as error the use of Pacific's studies for calculating long run incremental cost (LRIC) and the imputation of contribution rather than the tariffed rates. By using these allegedly flawed components in the determination of LECs' price floors, MCI claims that D.94-09-065 violates Section

1757's requirement that the Commission regularly pursue its authority, violates Section 453's prohibition against price discrimination and arbitrarily deviates from the NRF requirement established in 33 Cal.P.U.C.2d 43 (D.89-10-031).

These allegations of error are without merit. They are repetitive of the arguments advanced by MCI at hearing, in its briefs and in its comments. By taking refuge in D.94-09-065's comments such as, "Pacific and GTEC (perhaps to a lesser extent) did not submit cost studies on a sufficiently unbundled basis" (D.94-09-065, page 214), MCI erroneously concludes that any use of these studies necessarily incorporates anti-competitive price discrimination, and otherwise, constitutes clear error in the IRD decision. We have reviewed the extensive discussion in Section X beginning at page 204 of D.94-09-065 and find it to be a sound analysis based on the record and a clear explanation of our determination of the issues questioned by MCI. Moreover, we explain that the Commission will apply, as an interim measure, the costs derived from the studies which MCI challenges as erroneous until our rulemaking and investigation in R.93-04-003/I.93-04-002 completes the unbundling methodology necessary to develop costs and prices for bottleneck functions of the LEC network.

> "We had hoped to adopt true cost-based prices and price floors in this proceeding, so that it would be unnecessary to manipulate the basic imputation formula to compensate for a lack of unbundled cost data. Adopting LRIC as the appropriate cost standard to use as we authorize increasing competition is an important step, but we are frustrated in our desire to progress further due to the LECs' failure to perform LRIC studies on an unbundled basis. We will require such studies to be submitted in our OAND proceeding (I.93-04-002, R.93-04-003). In that proceeding, the LECs may propose revised price floors based on unbundled LRICs. For services for which unbundled cost studies are not now available, and only until costs are developed on an unbundled basis, Pacific and GTEC may use the variations of the basic

> price floor formula we have discussed to demonstrate that proposed tariff or contract prices are above the appropriate price floors." (D.94-09-065, page 225.)

We continue to consider the OAND proceeding the proper venue to address issues of long run incremental costing and pricing of unbundled monopoly functions. We conclude that MCI's allegations of error, in the main, are simply disagreements with the Commission's analysis and judgment and are not bona fide grounds for rehearing.

In reviewing the Decision, we conclude that modification of D.94-09-065 by the addition of a finding and of appropriate conclusions is warranted. Accordingly, to better clarify our position, the following will be added to the Decision:

> As Finding of Fact 31A,
>
> 31A. In this proceeding, the LECs' reported costs were not explicitly reviewed and tested.
>
> As Conclusion of Law 12A,
>
> 12A. We should not approve specific direct embedded costs (DEC) and LRICs. It is appropriate that references to DECS or LRICs in this decision be understood to mean the costs as reported by the LECs.
>
> As Conclusion of Law, 12B,
>
> 12B. The Commission's rulemaking and investigation proceeding (R.93-04-003/I.93-04-002) is the appropriate venue to pursue issues of long run incremental costing of monopoly building blocks and unbundling of monopoly utility services.

VII. ROSEVILLE APPLICATION

Roseville claims that the following constitute error in D.94-09-065: (1) The Citrus Heights rate area differential was improperly eliminated without explanation; (2) There is no

evidence in the record to support the incremental revenue requirements set forth in Appendix E and the Decision states no findings of fact or conclusions of law that address the Appendix E rate changes or revenue requirement; and (3) The description and application of the California High Cost Fund (CHCF) is ambiguous and inconsistent. In addition, Roseville requests relief from the requirement of Ordering Paragraph 46 that it file a GRC application by April 1, 1995. The last request is moot. After obtaining an extension pursuant to a Rule 48(b) (formerly Rule 43) request, Roseville's GRC application was timely filed.

A. Citrus Heights Rate Area Differential

In D.94-12-024, we scrutinized Roseville's claim of error with respect to D.94-09-065's removal of the Citrus Heights rate area differential. We concluded that our failure to earlier remove that rate differential was an oversight and that we correctly rectified the error in D.94-09-065. In D.94-12-024, we explained:

> ". . .the Citrus Heights rate differential has existed since 1963. (See D.64897, 60 CPUC 516 (1963).) The apparent basis for this differential was Extended Area Service (EAS) provided to the Citrus Heights area pursuant to D.62949 (December 19, 1961). In D.84-06-111, we ordered the predecessor to Pacific Bell (Pacific) to expand zone usage measurement (ZUM) service in the Sacramento area, which displaced the EAS to Citrus Heights. (15 Cal.P.U.C.2d 232, 369-373.) However, we failed to remove the EAS increment (charge) for Citrus Heights, although we have done so elsewhere in comparable situations. (See D.90-06-016, 36 Cal.P.U.C.2d 415, 438 [Finding of Fact 23].) Thus, the differential persisted after the reason for it disappeared.
>
> In D.94-09-065, we uniformly capped rate increases for small and mid-sized LECs at 150% of the adopted basic exchange rates for Pacific. This ratio is based on our prior decisions and the legislative intent

> expressed with respect to Public Utilities (PU) § 739.3, setting the criteria for the California High Cost Fund (CHCF). Maintaining the Citrus Heights differential would either require rates for the Citrus Heights area to exceed 150% of Pacific's rate or rates for the rest of the Roseville area to be set at less than that. In fact, in D.94-09-065, we consistently capped small and mid-sized LECs' increases at 150% of Pacific's rates, even where that may have led to altering existing differentials among districts within a company.
>
> We are faced with a choice between retaining the Citrus Heights differential and following consistently the practice of capping small and mid-sized LECs' rates at 150% of Pacific's rates. Because the reason for the Citrus Heights differential no longer exists, we will adhere to the principle we consistently applied in D.94-09-065. Roseville's request for modification is denied." (D.94-12-024, page 2.)

Our discussion above explains the validity of D.94-09-065's removal of the Citrus Heights rate differential. Pursuant to Section 1705, appropriate findings of fact and conclusions of law on that issue should be included in the IRD Decision. Accordingly, we shall modify D.94-09-065 by adding the following as Finding of Fact 187A:

> 187A. The apparent reason for Roseville's 1 FR rate differential between customers in the Citrus Heights area and other Roseville customers was the Extended Area Service which was displaced by zone usage measurement service ordered in 15 Cal.P.U.C.2d 232, (D.84-06-111).

And by adding the following as Conclusion of Law 217A:

> 217A. There is no reasonable basis for authorizing the continuation of Roseville's 1 FR rate differential between customers in the Citrus Heights area and other Roseville customers because the reason that rate differential was instituted no longer exists.

B. Incremental Revenue Requirements

There is no merit to Roseville's allegations that there is no evidence in the record to support the incremental revenue requirements set forth in Appendix B and that the Decision violates Section 1705 because it states no findings of fact or conclusions of law that address the Appendix B rate changes or revenue requirement. In D.94-09-065, we noted that IRD is not the appropriate proceeding for the development of a rate design for small and mid-sized LECs. However, it was obvious that rate changes would be necessary to mitigate the revenue requirement shortfall arising from the LECs' concurrence in Pacific's toll, access and private line tariffs. To address the shortfall, DRA proposed the Revenue Requirement Recovery Mechanism (RRRM) which we discussed earlier in connection with the small and mid-sized LECs' installation charge increases (see Section IV of this decision). In D.94-09-065, we adopted the RRRM model in its entirety. The RRRM is the key to Appendix B.

The RRRM is discussed at pages 249 - 250 of the Decision. The following is a summary of how RRRM was used to develop the revenue requirements set forth in Appendix B: first, if the LEC had a memorandum account, it was eliminated; second, the LEC's surcredit amount(s) was eliminated as an offset to the revenue requirement; third, the LEC's flat rate residential service (1FR) was increased by 100 percent up to 150 percent of the adopted 1FR for Pacific Bell ($16.85). Then, all other basic and residential rates were increased by the same percentage as the increase to the 1FR. Fourth, if the above steps did not adequately meet the LEC's revenue requirement, the LEC's service connection charges were increased by the California Wage Escalation Factor Index from the effective date of the LEC's last GRC; finally, if the revenue was still insufficient to cover the shortfall, the CHCF was used to make up any remaining balance.

Contrary to Roseville's allegation, the explanation of the RRRM was adequately discussed in D.94-09-065 as the basis for

Appendix B rate changes. Moreover, the RRRM related findings and conclusions, specifically Findings of Fact 170, through 186 and Conclusions of Law 192 through 194, 198 and 199, render Roseville's allegation of a Section 1705 error curious indeed. In our review of this issue, we identified a statement that could have misled Roseville, and perhaps promoted the company's uncertainty about the genesis of Appendix B rates. We shall modify D.94-09-065 to eliminate ambiguity in Conclusion of Law 192 by deleting the introductory phrase, "With minor qualifications". As revised, Conclusion of Law 192 now provides, without reservation, that:

> 192. It is reasonable to adopt DRA's proposed Revenue Requirement Recovery Mechanism.

C. Participation in the California High Cost Fund

Roseville's complaint that Ordering Paragraph 51 is ambiguous is a rehearing issue which also is raised by the small LECs. Ordering Paragraph 51 provides:

> "The California High Cost Fund (CHCF) is reestablished at 100% funding for 1995, 1996 and 1997. To qualify for funding under the CHCF, S&MS LECs must file a GRC on or before December 31, 1995, or in the case of Roseville, on or before April 1, 1995.
>
> While accrual of CHCF funds will occur for all of 1995, payment from the CHCF shall not be made to any qualifying S&MS LEC until they have filed their GRC. Payments shall be limited to no more than that necessary to allow the LEC to earn its current authorized rate of return." (D.94-09-065, page 343.)

As noted by CP et al., in response to the rehearing applications, this order clearly conditions participation by each small and mid-sized LEC in the CHCF for 1995 on the LEC's timely 1995 filing of its respective GRC. In other words, a LEC's timely filing of a GRC is a condition which must be satisfied

before the LEC can participate in the CHCF. The timely GRC filing requirement, enabling small and mid-sized LECs to participate in the CHCF for 1996 or 1997, is met when the GRC is filed on or before the date designated in D.94-09-065's order or by the date to which that filing deadline is extended by the Commission.

VIII. SMALL LECS' APPLICATION

In their joint application, the small LECs seek correction of certain errors alleged to exist in Appendix E of D.94-09-065. This issue was the subject of a joint petition to modify D.94-09-065. As mentioned supra, that petition, and therefore, the small LECs' Appendix E rate error allegations, were resolved in D.94-12-024.

The small LECs' application also asserts that D.94-09-065's requirements that they submit a general rate case by December 31, 1995 (Ordering Paragraph 45) and that their eligibility for 100% funding from the CHCF (Ordering Paragraph 51) are ambiguous and should be clarified. With respect to whether Ordering Paragraph 45 allows LECs to file a GRC by advice letter, see General Order 96A. Ordering Paragraph 45 does not alter the filing requirements of the General Order. For clarification of Ordering Paragraph 51, see our discussion of this issue in Section VII of this decision.

THEREFORE, for good cause appearing,

IT IS HEREBY ORDERED that:

1. Applications for rehearing of Decision 94-09-065 as modified herein are denied.

2. Appendix pages C-1 and D-1 of Decision 94-09-065 are modified consistent with the provisions for recalculation of GTEC's and Pacific's revenues estimated for toll, toll-like and switched access services contained in Appendix A to this order.

3. Ten days after the effective date of this order, GTEC shall file an advice letter (A.L.) with the Commission Advisory and Compliance Division (CACD) adjusting GTEC's current A-38

surcharge/surcredits, consistent with the directions contained in Appendix A to this order. The A.L. shall include a proposal to refund a one time revenue adjustment for the period January 26, 1995 to January 31, 1996.

4. Ten days after the effective date of this order, Pacific shall file an A.L. with CACD adjusting Pacific's current Rule 33 toll surcredit consistent with Appendix A to this order. The A.L. filing shall include a proposal to recover a one time revenue adjustment for the period January 26, 1995 to January 31, 1996.

5. Decision 94-09-065 is further modified as follows:

a. At page 37, add the following discussion to the text as Subsection E:

> E. Elimination of Transition Payments From Pacific To GTEC
>
> Prior to 1989, GTEC participated in the settlement pool which collects all of the revenues from toll, private line, and EAS service (priced at uniform rates) and distributes funds to compensate each LEC for its costs and a rate of return on the plant used to provide toll, private line and EAS services. In 1989, GTEC's participation in the settlement pool was discontinued. Instead, GTEC receives an annual payment from Pacific in lieu of settlements. We previously expected that GTEC would eventually recover that revenue (originally from the settlements pool) in its own "bill and keep" rates. D.91-07-044 provides that beginning with Year 1 of post-IRD rates, Pacific's settlement payments to GTEC will be phased out over 5 years. The actual phase down was to be adopted in IRD.
>
> On September 11, 1991, Pacific filed a petition for modification of D.91-07-044 seeking the total elimination of its transition payments to GTEC. Parties to this proceeding were served with Pacific's petition and therefore received notice of the request to eliminate the transition payment. In its petition, Pacific suggests that the transition payments be replaced with

> reasonable increases in the rates of GTEC's below-cost services and an industry-wide surcharge on all end-user services. Pacific argues that continuing the annual payments to GTEC will handicap its efforts to compete in the toll market. In this proceeding, GTEC, DRA, and AT&T have agreed that Pacific's payments should cease on the effective date of the IRD decision. This would decrease Pacific's post-IRD revenue requirement and increase GTEC's post-IRD revenue requirement by the same amount.
>
> Three years have elapsed since we developed D.91-07-044's phase-out transition plan and since Pacific filed its petition to modify that plan. We find that the burden of subsidizing GTEC's rates to avoid rate shock to GTEC's customers should not continue to be borne solely by Pacific's ratepayers. The five-year phase-down adopted in D.91-07-044 will only handicap Pacific in the competitive market. Therefore, Pacific's petition is granted in part and denied in part. Pacific will be relieved of the settlement payments upon the start of IRD. However, we will not adopt Pacific's suggestion that we employ an end-user surcharge to replace GTEC's revenue reduction due to loss of the transition payments. This means that the balance remaining from GTEC's transition payments will be added to GTEC's unrecovered IRD revenue requirement, and will be recovered accordingly from GTEC's rates.

b. At page 44, delete the second full paragraph and at page 45, delete the first paragraph and replace them with the following three paragraphs:

> We concur with the general principle that NTS costs should be assigned to subscribers' basic exchange services, which is consistent with the cost based principles of our adopted rate design. The utilities' argument that they incur the cost of stringing the local loop when a customer subscribes to service, regardless of whether the customer makes any calls is a persuasive one. However, our ability to follow this general principle and to recover all NTS costs in the basic monthly rate for residential service is subject to a

significant constraint: affordability to the customer. If the basic rate for telephone service is not affordable, customers will not subscribe, and we will fall short of our long-standing goal of universal telephone service.

We recognize that there is an inconsistency between the principle of assigning NTS costs to basic exchange services and our goal of achieving universal service. In the interests of promoting universal telephone service, we deviate from the principle that NTS costs for residential customers be assigned exclusively to basic exchange service. Instead, we set the rates for both flat and measured residential service at levels we believe to be affordable, and which do not recover all costs of providing the service. These services remain subsidized services, and that subsidy comes from revenues generated from other services which are priced above cost. Therefore, NTS cost recovery is in fact allocated among all those services priced above cost, and not exclusively to the residential customer in rates.

There is one additional clarification we need to make to avoid double-recovery of certain NTS costs, specifically, the end-user common line (EUCL) charge which is collected from telephone subscribers pursuant to federal law. The residential subscriber currently pays a EUCL charge of $3.50 per month per access line to the LEC; Pacific's business subscriber paid a corresponding rate of $4.14 in 1989 (the Pacific rate design year) and GTEC's business customer pays $5.82. The EUCL charge reflects the Federal Communications Commission's (FCC) determination of the interstate portion of NTS costs that should be collected from the basic exchange subscriber. The FCC sets the EUCL based on separations data. Our assignment of NTS loop costs to the subscriber will acknowledge the contribution to loop costs from interstate uses of the network, as quantified by the FCC. Because the LECs' cost studies include the costs of interstate access, a failure to account for the EUCL charge in setting rates would overcompensate the LEC for the costs of providing access services. We will

> accordingly follow a general principle of pricing monopoly access services at DEC minus the EUCL charge (with an additional 5% reduction for Pacific's services).

c. At page 121, delete the first paragraph and replace it with the following:

> We concur with DRA's proposal to eliminate the CCLC as a means to stem bypass of the LEC network. As DRA indicated in Exhibit 582, IECs have developed products for their high volume end users that utilize special access lines to directly connect with the IEC POPs. In so doing, IECs bypass the LECs' switched network.
>
> In Exhibit 582, DRA detailed how the pricing of interstate and intrastate switched access, and specifically CCLC, has motivated the IECs to create bypass opportunities. DRA further states that reduction in the interstate rate for the CCLC has resulted in increased use of the LEC network. DRA proposed eliminating the intrastate CCLC in order to stimulate intrastate switched access minutes on the LEC network. DRA noted that efficient utilization of the LEC network is one of the Commission's NRF policy goals.
>
> Of significant importance to our decision to eliminate the CCLC is our finding that the CCLC is not a cost-based charge, and therefore it conflicts with the philosophy of this rate design. For these reasons, we adopt DRA's proposal to eliminate the CCLC.

d. At page 136, in the last sentence of the first paragraph, replace the terms "calling plans" with the terms, "toll schedules" so that the corrected sentence reads as follows:

> To thwart market developments by insisting on identical residential and business toll schedules would overlook the benefits that this sort of refined market identification offers to all consumers and would be out of keeping with our overall direction.

e. At page 183, subsection 4 entitled "0+ Local Calls" shall be revised as follows:

> 4. 0+ Local Calls
>
> COPT providers can currently choose between the following types of station equipment: (1) telephones which contain sophisticated computers that can perform store and forward (S&F) billing functions and are independently capable of completing 0+ calls without external assistance (e.g. the need for a live operator); (2) telephones with S&F technology which cannot internally perform operator service functions but can handle 0+ calls by routing them to a chosen carrier or operator service provider (OSP); and (3) telephones without S&F technology that rely on the LEC's central office equipment and operator services for these functions.
>
> The pay telephone settlement requires, with limited exceptions, that 0+ calls placed within the LEC's service area be routed to the LEC operator. This requirement is an express limitation on COPT providers' use of the internal capability of S&F telephones to provide operator services. In light of advances in technology and competition, this restriction is no longer appropriate. Today, as an interim measure, we partially remove the restriction imposed by the pay telephone settlement and expand 0+ call authority to those S&F COPTs which have the internal capability of completing 0+ calls without the external assistance of a live operator. Because we are impressed that the evidence in favor of expanded competition weighs in favor of extending to COPTs greater authority than we order today, we alert interested parties to our plan to further expand this authority. After notice to the parties in the appropriate dockets (I.88-04-029 et al.) and the opportunity to be heard, we intend, unless persuaded otherwise, to modify the interim authorization and limitations of D.90-06-018 and to authorize COPTs to handle all types of 0+ local and intraLATA calls to the full extent permitted by their equipment, including, for example, the ability to route 0+ calls to the OSP of choice.

f. At page 297, add the following as Finding of Fact 18A:

18A. The burden of subsidizing GTEC's rates to avoid rate shock to GTEC's customers should not continue to be borne solely by Pacific's ratepayers.

g. At page 298, add the following as Finding of Fact 31A:

31A. In this proceeding, the LECs' reported costs were not explicitly reviewed and tested.

h. At page 299, add the following as Finding of Fact No. 36A:

36A. Nonpublished and nonlisting services are customer choice options or alternates to the phone number listing component of the basic exchange service.

i. At page 299, add the following as Finding of Fact No. 36B:

36B. GTEC's "Directory Nonpublished Listing Service" and its "Directory Nonlisted Listing Service" are non-basic, discretionary services.

j. At page 299, add the following as Finding of Fact No. 39A:

39A. At the rates considered in this decision, basic exchange services will not experience significant customer repression because there is no viable substitute for basic exchange services.

k. At page 304, add the following as Finding of Fact No. 96A :

96A. High volume users bypass the LEC network by utilizing special access lines to connect directly to an IEC POP.

l. At page 304, add the following as Finding of Fact No. 96B :

96B. Continuation of the CCLC charge is inconsistent with the philosophy of this rate design.

m. At page 305, delete finding of fact 107 and replace it with the following:

107. To thwart market developments by insisting on identical residential and business toll schedules would overlook the benefits that refined market identification offers to all consumers and would be out of keeping with our overall direction.

n. At page 308, revise Finding of Fact 138 to read as follows:

138. The pay telephone settlement limited the COPT providers' use of store and forward phone technology to provide operator services. In light of advances in technology and competition, this restriction is no longer appropriate.

o. At page 308, add the following as Finding of Fact No. 139A:

139A. GTEC's Call Restriction II is a Category II custom calling feature.

p. At page 313, add the following as Finding of Fact 187A:

187A. The apparent reason for Roseville's 1 FR rate differential between customers in the Citrus Heights area and other Roseville customers was the Extended Area Service which

was displaced by zone usage measurement service ordered in D.84-06-111.

q. At page 315, add the following as Conclusion of Law 12A:

12A. We should not approve specific direct embedded costs (DEC) and LRICs. It is appropriate that references to DECS or LRICs in this decision be understood to mean the costs as reported by the LECs.

r. At page 315 add the following as Conclusion of Law 12B:

12B. The Commission's rulemaking and investigation proceeding (R.93-04-003/I.93-04-002) is the appropriate venue to pursue issues of long run incremental costing of monopoly building blocks and unbundling of monopoly utility services.

s. At page 315, add the following as Conclusion of Law 21A:

21A. It is reasonable to eliminate Pacific's transition payments to GTEC and to add the balance remaining from the transition payments to GTEC's revenue requirement to be met through rates adopted in this proceeding. Therefore, Pacific's petition to modify D.91-07-044 is granted in part and denied in part.

t. At page 316, add the following as Conclusion of Law 30A:

30A. This Commission's long term commitment to the elimination of flat rate business service and the provision of measured rates for Pacific's business customers is reviewed and discussed in Re Pacific Telephone and Telegraph Company 15 CPUC 2d 232, 364-366 (D.84-06-111) and Re Pacific Telephone and Telegraph Company 6 Cal.P.U.C.2d 441, 554, 578 (D.93367).

u. At page 318, add the following as Conclusion of Law 53A:

53A. It is reasonable to decline to calculate repression for services that will experience insignificant changes in demand.

v. At page 323, add the following as Conclusion of Law 119A:

119A. It is reasonable to subject only toll, toll-like and toll related services (such as switched access) to stimulation.

w. At page 325 revise Conclusion of Law 134 as follows:

134. The interim authorization and limitations of D.90-06-018 should be modified to allow and authorize COPTs with store and forward technology and the internal capability of completing 0+ calls without the external assistance of a live operator to handle all types of 0+ local and intraLATA calls.

x. At page 325, add Conclusion of Law 134A to state:

134 A. Modification of D.90-06-018's limitation of the COPT 0+ call authority of store and forward telephones that cannot internally perform operator service functions should not be effected until all parties to the appropriate dockets (I.88-04-029 et al.) are notified and have an opportunity to be heard with respect to the proposed removal of such limitation.

y. At page 325, add the following as Conclusion of Law 137A:

137A. GTEC's Call Restriction II should be priced at the company's proposed rate, in accordance with our Category II pricing philosophy.

z. At page 327, add the following as Conclusion of Law 162A:

162A. In D.88-09-059, Appendix A, the Commission prohibited contracts for local usage.

aa. At page 331, revise Conclusion of Law 192 as follows:

192. It is reasonable to adopt DRA's proposed Revenue Requirement Recovery Mechanism.

bb. At page 333, add the following as Conclusion of Law 217A:

217A. There is no reasonable basis for authorizing the continuation of Roseville's 1 FR rate differential between customers in the Citrus Heights area and other Roseville customers because the reason that rate differential was instituted no longer exists.

cc. At page 336, Ordering Paragraph 2 is revised as follows:

"As of January 1, 1995, local exchange carriers (LECs) and customer-owned pay telephone (COPT) providers are prohibited from preventing calling card, operator-handled (OPH), and specially dialed (10XXX) calls carried by an IEC from being completed to local, Zone Usage Measurement (ZUM), and Extended Area Service (EAS) locations."

dd. At page 336, add the following as Ordering Paragraph 3A:

3A. Pacific's petition to modify D.91-07-044 by termination of the transition payments to GTEC is granted. As to other requests in said petition to modify D.91-07-044, the petition is denied.

ee. At page 340, revise Ordering Paragraph 28 as follows:

> 28. D.90-06-018 is modified to allow customer-owned pay telephones (COPT)with store and forward technology and the internal capability of completing 0+ calls without the external assistance of a live operator to handle all types of 0+ local and intraLATA calls.

ff. At page 340, add Ordering Paragraph 28A to provide:

> 28A. The assigned Administrative Law Judge shall issue a ruling giving notice to all appearances in this investigation and to all appearances in docket I.88-04-029 of the opportunity to comment or to be heard in evidentiary hearings, if requested, with respect to the Commission's intent to further modify the customer-owned pay telephone (COPT) restrictions in D.90-06-018 to allow COPTs with store and forward technology to handle all types of 0+ local and intraLATA calls to the extent permitted by their equipment.

This order is effective today.

Dated February 7, 1996, at San Francisco, California.

DANIEL WM. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

APPENDIX A

Consistent with the order that D.94-09-065, Appendix pp. C-1 and D-1 be modified to derive GTEC's toll and switched access stimulation by application of the elasticity estimates designated in the D.94-09-065 to the appropriate actual rates, Pacific and GTEC are directed to implement this order as follows:

1. 10 days after the effective date of this order, GTEC shall file an advice letter with CACD adjusting its A-38 tariff surcharge/surcredit that increases GTEC's current surcredit by $7.76 million dollars. Correcting the application of elasticity estimates to GTEC's rates also requires modification of GTEC's simulated volumes for its toll and toll-like services.

2. The order reduces stimulated volumes necessary to estimate implementation costs pursuant to Resolution T-15696 effective from January 26, 1995 as provided by D.95-01-047. GTEC will therefore be required to reduce its implementation cost recovery as a result of the changes we adopt in this order in the amount of $4.82 million and will reflect this change in its A-38 surcharge/surcredit compliance filing (10 days after the effective date of this order).

3. 10 days after the effective date of this order, Pacific shall file an advice letter with CACD which includes an adjustment to its Rule No. 33 surcredit/surcharge to reflect a surcharge in the amount of $1.78 million.

4. Pursuant to D.95-01-047, the above described rate design reconciliations will be effective as of January 26, 1995. Pacific and GTEC will apply these changes to their respective access and toll Rule 33 and A-38 surcharges/surcredits in a manner that allocates the individual service revenue changes resulting from this order to the appropriate toll and access surcredit/surcharge categories.

5. The above described advice letter filing of Pacific and GTEC shall also include the company's proposal for adjustment of their respective Rule 33 and A-38 tariff schedules to incorporate a one time adjustment for the period January 26, 1995 through January 31, 1996 and will be subject to CACD's approval. The Rule 33 and A-38 prospective adjustments ordered herein will be made on a monthly basis.

6. Pacific's and GTEC's above described adjustments will correspond to each company's respective Revenue Rebalancing Summary (Appendix A-1 and A-2) attached.

a. Using the actual rate to estimate all stimulated volumes results in an increase in net ORP payments in the amount of $1.78 million dollars from Pacific Bell to GTEC.

b. As a result of this order, the GTEC rate design for toll and toll-like services will yield a rate design surplus of $23.07 million.

c. As a result of this order, the GTEC rate design for switched access will yield a rate design shortfall of 15.31 million.

d. Using the actual rate to estimate all stimulated volumes results in a $4.82 million reduction in GTEC's recurring implementation costs.

e. The net rate design revenue change resulting from this order will be a $12.58 million surplus for GTEC and a net rate design shortfall of $1.78 million for Pacific.

10 days after the effective date of this order, GTEC will file an Advice Letter (A.L.) with the Commission Advisory and Compliance Division (CACD) that increases GTEC's current A-38 surcredit by $23.07 million and decreases GTEC's A-38 access surcredit by 15.31 million on an annualized basis.

GTEC will also adjust its A-38 tariff to reflect the $4.82 million reduction in implementation costs.

10 days after the effective date of this order, Pacific will file an A.L. with CACD that reduces Pacific's current Rule 33 toll surcredit by $1.78 million.

Pacific's and GTEC's A.L. filings will include proposals to recover or refund one time revenue adjustments for the period January 26, 1995 to January 31, 1996.

Appendix A-1

Revenue Rebalancing Summary
GTE California

		Service Category	Revenue Change
1	A-1	Basic Exchange Services	$283,821,731
2	A-2	CentraNet Service	$7,372,812
3	A-4	Exchange Mileage	$0
4	A-6	Private Branch Exchange Service	$166,887
5	A-9	Inside Wire Maintenance Service	$0
6	A-12	Farmer Line Service	$5
7	A-13	Jt. User Service & Shared System Listing Svc	$0
8	A-17	Interexchange Receiving Service	$85,560
9	A-19	Foreign Exchange Service	$1,007,071
10	A-22	Universal Lifeline Telephone Service	$21,010,756
11	A-24	Telephone Answering Service	$64,688
12	A-30	Personal Signaling Service	$83,730
13	A-31	Line Extension Service	$0
14	A-38	Surcharge/Surcredit	($3,462,820)
15	A-40	Custom Calling Service	$0
16	A-41	Service Connection, Move & Change	$7,452,347
17	B-1	Message Toll Telephone Service	($145,958,744)
18	B-3	Wide Area Telecommunication & 800 Services	$19,945,562
19	B-4	Community & Circle Calling Plan	$18,000,087
20	B-5	Optional Calling Measured Service	($11,308)
21	OCP	Optional Calling Plan	($12,398,607)
22	D&R	Return Check Charge	$236,843
23	C-1	Switch Access Service (excl. CCLC Elimination)	($17,871,039)
24		Special Access Service	($1,836,436)
25	D-1	Telephone Directory Service	$9,399,374
26	D-3	Directory Assistance Service	$8,442,558
27	G-7	Wideband	($4,158)
28	G-8	Digital Data Service (DDS/ADN)	($983,078)
29	G-11	Alarm Service	$95,417
30	G-14	Optinet High Capacity Digital Service	$0
31	H-1	Zone Usage Measurement	$0
32	P-1	IntraLATA Private Line/Special Access Service	$38,833,423
33	V-1	Visit Charge	$43,170
34			
35		SubTotal	$233,535,831
36			
37		PB/GTEC ZUM ORP	$3,728,573
38		Net Toll ORP	($33,511,756)
39		GTEC Settlement Flash-Cut	($123,061,145)
40		CCLC Elimination	($72,925,410)
41			
42		SubTotal	($225,769,738)
43			
44		Implementation Cost Reduction	$4,817,814
45			
		Total IRD Rate Design Correction	$12,583,908

Appendix A-2
Revenue Rebalancing Summary for Pacific Bell

	Service	Incr Billings ($000)
1	Residence Local Exchange	$228,147
2	ULTS	$33,450
3	Business Local Exchange	($4,247)
4	Suburban Mileage	($3,115)
5	Semi-Pub + COPT	$3,240
6	Switched Access (w/o CCL)	($166,975)
8	Bus FEX & FP	($11,301)
9	Res FEX & FP	$18,584
10	Basic Centrex	$0
11	PBX	$5,482
12	Hunting/DID/AIOD	($10)
13	Total Listing Services	$21,742
14	ZUM	($58,327)
15	MTS/WATS/OCP	($748,012)
16	800	$1,570
17	PVL/Sp Acc	$79,231
18	Total Incremental Billings	($600,541)
19	Rule 33 Surcredits	$654,133
20	Toll & Switched Access Stimulation Costs	($109,237)
21	Subtotal	($55,645)
22	PB/GTEC ZUM Access Charges (ORP)	($3,538)
23	PB/Roseville DCP MTS Billings	($1,965)
24	PB/Roseville DCP Access Charges	$2,185
25	Settlements	$21,349
26	Subtotal	($37,615)
27	GTEC Net Transition Payment and Toll ORP	$148,588
28	Roseville Settlement Transition Phase Down	$7,877
29	CONTEL Settlement Transition Phase Down	$38,506
30	Citizens Settlement Transition Phase Down	$29,548
31	CCLC Elimination	($188,773)
32	Total	($1,871)

Note: Numbers may not add due to rounding