

Decision 97-06-086 June 25, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC BELL (U 1001 C) for
authorization to sell its ownership interest in Bell
Communications Research, Inc.

Application 97-03-044
(Filed March 26, 1997; amended
May 6, 1997)

OPINION

ORIGINAL

Summary

This decision grants the request of Pacific Bell (Pacific) for authorization to sell its ownership in Bell Communications Research, Inc. (Bellcore).

Pacific's Application

Bellcore is a corporation owned equally by the seven regional Bell Operating companies.¹ It was created in October 1983 as a result of the divestiture of those companies from AT&T Communications of California, Inc. (AT&T). Bellcore conducts telecommunications research and provides its owners with technical support and centralized services relating to exchange telecommunications service. Pacific's application observes that at the time of divestiture the seven operating companies had similar requirements for the types of services Bellcore offers but that, as competition evolves, each of those companies may have differing market strategies and technical requirements. Pacific believes the uniformity of needs which formed the basis of the current Bellcore consortium ownership structure no longer exists.

Consistent with Pacific's view that Bellcore no longer served the needs of its owners, Bellcore's board of directors, comprised of the seven Bell operating companies, decided to explore sale of ownership interests. Subsequently in November 1996, the board decided to sell Bellcore to Science Applications International Corporation (SAIC). With \$2 billion in annual revenues and 22,000 employees, SAIC is the nation's largest employee-owned research and engineering firm, headquartered in La Jolla, California. SAIC agrees to purchase outstanding shares of Bellcore for \$646 million payable in cash. Each of the seven owners will receive an equal share. Pacific's

¹ With the recent merger of SBC and Pacific Telesis, the seven regional Bell operating companies are reduced to six.

application estimates that its share of the net proceeds will be \$49 million with a net gain of \$24 million after taxes.

Pacific's original application proposed that the net gain from the sale of Bellcore to SAIC would be included in the sharable earnings calculation for 1997. The Office of Ratepayer Advocates (ORA) protested this ratemaking treatment as inappropriate. ORA proposed instead that half of the intrastate portion of the net gain should be allocated directly to ratepayers. Pacific subsequently amended its application on May 6, 1997. The amended application deferred to ORA's proposed ratemaking treatment. No other party filed a protest to the application or the amended application.

Discussion

Bellcore has for many years provided the telecommunications industry with research and technical assistance which have promoted the explosive evolution of telecommunications and computer technologies. Indeed, Bellcore's predecessor, Bell Labs, was instrumental in developing the very technologies which motivated the divestiture of AT&T and promoted competition in telecommunications markets. In that context, we view the proposed sale of Bellcore somewhat sentimentally but nevertheless as a wholesome sign that competition in the telecommunications industry is proceeding. We concur with Pacific's observation that Bellcore's services no longer serve the needs of its owners. In fact, the continued cooperative ownership of Bellcore by the Bell operating companies might very soon be considered to be anti-competitive as markets change in ways which are turning the Bell operating companies into competitors.

We are satisfied with the joint proposal of Pacific and ORA to allocate to ratepayers half of the net proceeds of the sale. As they propose, the net proceeds of approximately \$24 million would be adjusted for the intrastate portion of 78%. The ratemaking adjustment would be accomplished by way of Pacific's annual price cap filing, to be submitted in October 1997. We concur with the two parties that the ratemaking treatment herein should not be considered precedential because it is part of an agreement between ORA and Pacific and tailored to the specific circumstances here.

With the conditions proposed by Pacific and ORA, we herein grant Pacific's request for authorization to sell its share of Bellcore.

Findings of Fact

1. Bellcore was created in October 1983 as part of the divestiture of AT&T and has been owned by the seven Bell operating companies who have equal shares in the corporation.

2. Bellcore's board has agreed to sell Bellcore to SAIC because the existing owners of Bellcore are developing divergent marketing and business strategies, obviating the need for a jointly owned research and technical support organization.

3. Pacific's amended application seeks authority to sell its share of Bellcore and to allocate to ratepayers half of the net gain from the sale, adjusted to reflect the intrastate portion of Pacific's operations over which this Commission has jurisdiction.

4. Pacific's sale of its share of Bellcore is in the public interest.

5. The ratemaking treatment of the net gain of the sale of Bellcore proposed by ORA and Pacific is unique to the circumstances herein and not precedential.

Conclusions of Law

1. The application of Pacific for authority to sell its share of Bellcore should be granted with the conditions proposed in its amended application.

2. Pacific's ratepayers should receive half of the intrastate portion of the net gain of the sale proceeds as proposed in Pacific's amended application.

O R D E R

IT IS ORDERED that:

1. The amended application of Pacific Bell (Pacific) for authority to sell its share of Bell Communications Research, Incorporated (Bellcore) is granted.

2. In its annual price cap filing to be submitted October 1997, Pacific shall adjust its rates to reflect a one-time refund of one-half of the intrastate portion of the net gain from the sale of Bellcore. If the sale of Bellcore is not completed in time to be considered in the 1997 price cap filing, Pacific shall reflect the one-time refund of one-half of the intrastate portion of the net gain in its 1998 price cap filing and Pacific shall include interest on the refund amount, computed from the date it receives the proceeds through December 31, 1998. Interest shall be computed using the 90-day commercial paper rate. Pacific shall attach documentation as part of its annual price cap filing which establishes the exact amount of the net proceeds that Pacific received as a result

of the sale, the equity balance at the time of sale, the tax computation used to determine the net gain, the application of the .783797 separations factor and the application of a 50% allocation to intrastate portion of the net gain.

3. This proceeding is closed.

This order is effective today.

Dated June 25, 1997, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners