MAIL DATE
9/9/98

Decision 98-09-043 September 3, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GTE California Incorporated (U 1002 C) for review of the operations of the incentive-based regulatory framework adopted in Decision 89-10-031.	Application 92-05-002 (Filed May 1, 1992)
In the Matter of the Application of Pacific Bell (U 1001 C), a corporation, for review of the regulatory framework adopted in Decision 89-10-031.	Application 92-05-004 (Filed May 1, 1992)
And Related Matters.	I.87-11-033 Application 87-05-049 I.85-03-078 Application 85-01-034

ORDER REOPENING PROCEEDINGS AND DENYING REHEARING OF DECISION 94-06-011

I. SUMMARY

This order denies two applications for rehearing of Decision (D.) 94-06-011 ("Decision"), one filed by MCI Telecommunications Corporation ("MCI") and the other by The Utility Reform Network ("TURN"). In D.97-12-022, we closed proceedings A.92-05-002 and A.92-05-004. However, the Commission's records indicated that when the proceedings were closed, these applications for rehearing were pending. We reopen the proceedings in this Order and address the pending applications here.

As we explain below, D.94-06-011 properly concluded that Pacific Bell's ("Pacific") rates should not be adjusted downward in connection with the reduction in the market-based rate of return ("market-based ROR"). The applications' allegations have no merit and do not demonstrate legal error.

II. BACKGROUND

Two applications for rehearing of D.94-06-011 were filed on July 11, 1994, one by MCI and the other by TURN. D.94-06-011 was the first triennial review of the operations of the incentive-based regulatory framework adopted in D.89-10-031[1] (the "Phase II Decision") for Pacific and GTE California Incorporated ("GTEC"). The Decision, among other things, rejected parties' requests for a downward adjustment to Pacific's rates consistent with the reduction in Pacific's market-based ROR. (D.94-06-011, mimeo, p. 56-59; 55 Cal.P.U.C.2d 1, 30-31.)

In the Phase II Decision we adopted an incentive-based new regulatory framework ("NRF") to replace traditional cost-of-service regulation for Pacific and GTEC. The NRF plan, as established in the Phase II Decision, focuses on a price cap indexing mechanism, with ratepayer sharing of excess earnings above a benchmark rate of return level.

In D.94-06-011, we recognized that the cost of long-term debt and customers' expected earnings from investments decreased from the levels we noted in D.89-10-031. (D.94-06-011, mimeo, p. 52; 55 Cal.P.U.C.2d 1, 29.) Consequently, we reduced the market-based ROR from 11.5% (the percentage we had established in 1989) to 10.0% for use in the NRF on a going-forward basis and approved corresponding adjustments to the benchmark ROR 150 basis points above that market-based ROR (at 11.5%), set the floor ROR 325 basis points below the new market-based ROR (at 6.75%), and established the ceiling ROR

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1 Re Alternative Regulatory Frameworks for Local Exchange Carriers [D.89-10-031] (1989) 33 Cal.P.U.C.2d 43.

500 basis points above the market-based ROR (at 15.0%). (D. 94-06-011, mimeo, p. 52-53; 55 Cal.P.U.C.2d 1, 29.)

Furthermore, in D.94-06-011 we declined to grant the request of the Coalition For Ratepayer Equity ("CARE"),[2] Office of Ratepayer Advocates ("ORA"),[3] Department of Defense and all other Federal Executive Agencies ("DOD/FEA"), and City of Los Angeles to adjust Pacific's rates downward in connection with our lowering of Pacific's market-based ROR. (D.94-06-011, mimeo, p. 56-59; 55 Cal.P.U.C.2d 1, 30-31.) We determined that (1) the Phase II Decision did not intend an adjustment to rates after the market-based ROR has been changed (D.94-06-011, mimeo, p. 57-59, 127-28 at FOF 47-50; 55 Cal.P.U.C.2d 1, 30-31, 59); and (2) the price cap index itself automatically adjusts for changes in the cost of capital as it does changes in any particular input price. (D.94-06-011, mimeo, pp. 58-59, 128 at FOF 50; 55 Cal.P.U.C.2d 1, 30-31, 59.)

MCI's and TURN's applications for rehearing both concern the Commission's decision to not adjust Pacific's rates downward to reflect the reduction in the market-based ROR and the decline in the cost of capital. Specifically, MCI argues that the Commission's determination is contrary to the record and violated Public Utilities Code sections 1705, 454, and 728. TURN argues that the Commission's decision (1) was done arbitrarily and without explanation; (2) erroneously and unlawfully rejects the argument by most parties to the proceeding that Pacific's rates should be readjusted to reflect the decline in Pacific's cost of capital; and (3) conflicts with D.92-12-015 (the "PBOPs

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[2] The Coalition For Ratepayer Equity ("CARE"), jointly sponsored several witnesses in this proceeding. The members of CARE are the California Bankers Clearinghouse Association, the County of Los Angeles, Tele-Communications Association/California, CENTEX Telemanagement, Inc., MCI Telecommunications Corporation, Sprint Communications Company, L.P., Toward Utility Rate Normalization, Utility Consumer Action Network, the California/Nevada Community Action Association, and the City of San Diego.

[3] Formerly known as the Division of Ratepayer Advocates ("DRA").

Decision") without explanation in violation of Public Utilities Code sections 1705 and 1757. (TURN Application at 1.)

Both parties allege that the Commission's finding that changes in the cost of capital or in any particular input price are completely reflected in the price cap index is not supported by any evidence in the record and violates section 1757. Therefore, both MCI and TURN request an evidentiary hearing to provide parties the opportunity to determine empirically exactly what capital cost changes are not reflected in the GNPPI calculation and to require Pacific to rebench rates and pass on the difference to the ratepayers. (MCI Application at 12; TURN Application at 7-9.) MCI and TURN support each other's applications for rehearing. (MCI Application at 2; TURN Application at 1-2.)

Pacific, ORA, GTEC, and the California Bankers Clearing House, the County of Los Angeles and the Tele-Communications Association/California (jointly, "BCH/LA/TCA")[4] filed responses to both applications.

We have reviewed each and every allegation raised in both rehearing applications and find the allegations without merit. Thus, the applications shall be denied.

[4] BCH/LA/TCA filed a joint motion for acceptance of a late-filed response to the applications for rehearing and a response to both applications. We hereby accept BCH/LA/TCA's motion for acceptance of a late-filed response.

III. DISCUSSION

The Commission properly concluded that Pacific's rates should not be adjusted downward to reflect the change in the market-based ROR.

A. The Commission did not err in recognizing that the absence of any requirement for future rate adjustments based on a changed market-based ROR in the Phase II Decision supports its determination that rate rebenching is not necessary.

1. Background

MCI contends that the Commission erred in concluding that the lack of a specific order for future rate adjustments in the Phase II Decision supports the determination that rate rebenching is not necessary. (MCI Application at 8.) MCI argues that this rationale for rejecting a rate adjustment is legally deficient and inconsistent with Commission precedent. (MCI Application at 10.) MCI alleges that other Commission decisions issued subsequent to D.89-10-031 demonstrate that important aspects of the NRF mechanism were not set forth in that decision. For example, D.92-09-081 clarifies the Phase II Decision on an issue on which it was silent.[5]

2. Discussion

We find no merit in MCI's argument. In our Decision, we appropriately noted that the Phase II Decision made no mention of a rate adjustment based on a new market-based ROR. The lack of any discussion on this issue is completely consistent with the incentive-based NRF framework established in the Phase II Decision. In the Phase II Decision, we initially used the market-based ROR to determine the NRF start-up revenue requirement. (33

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[5] In D.92-09-081, an interim opinion modifying the Phase II Decision, the Commission determined that while not clear from the language in the Phase II Decision, it was proper to require LEC utilization of any newly-adopted productivity factor, "as soon after the effective date" of an authorizing order "as practicable, rather than wait for the effective date of the next annual price cap filing." (D.92-09-081, mimeo, p. 10; 45 Cal.P.U.C.2d 616, 620.)

Cal.P.U.C.2d 43, 140, 217.) We adjusted rates based on eight months of 1989 actual revenues and expenses, to produce an 11.5% market-based ROR starting January 1, 1990 (Id. at 191-92.) We observed that the market-based ROR forms the basis for adjusting the benchmark, floor, and cap rate of return, if such adjustments are appropriate. (Id. at 164, 182, 184, 217, 230.) For example, the Commission stated in the Phase II Decision that:

> "our aim is to move away from approving a specific capital structure and a specific return on equity. We plan in future update proceedings to focus instead on the overall rate of return which the market requires. Once that is established, the benchmark rate of return to demarcate the commencement of sharing will be tied to this market-based rate of return. The utilities can then decide for themselves their preferred capital structure which would balance risks and provide most benefit to their shareholders." (Id. at 164-165.)

In the Decision, the Commission decided to adjust the market-based ROR and appropriately adjusted the floor, cap and benchmark ROR to reflect the new market-based ROR. We were correct in acknowledging the absence of any requirement for rate adjustments based on a changed market-based ROR. In addition, as discussed below, the Phase II Decision provides that rate adjustments were not to be made due to changes in the normal cost of doing business or general economic conditions, such as changes in the cost of capital, apart from what is reflected in the price cap index.

B. The Commission did not err in its treatment of D.92-12-015 (the "PBOPs Decision").

1. Background

TURN argues that the Decision conflicts with the PBOPs Decision and the Commission failed to provide a "reasoned explanation" for the inconsistency in violation of Public Utilities Code sections 1705 and 1757 (TURN Application at 1, 4, 7-8.) In the PBOPs Decision, the Commission approved

Statement on Financial Account Standards ("SFAS") 106 for ratemaking and accounting purposes, which required that the accounting for post-retirement benefits other than pensions ("PBOPs") costs be changed from a cash basis to an accrual basis. (46 Cal.P.U.C.2d 499, 505-506.) Pacific and GTEC were allowed to recover such costs via Z factor adjustments in their annual NRF price cap filings on a prospective basis subject to specified limitations. TURN argues that the Decision is unlawful because it did not make a rate adjustment for changes in the cost of capital, whereas in the PBOPs Decision, the Commission did make a rate adjustment related to an accounting change.

2. Discussion

TURN's arguments are without merit. In this proceeding, we repeatedly rejected parties' attempts to litigate PBOPs in this instant docket. In our Decision, we provided that:

> "[t]he issue of whether a change in state o[r] federal tax law or the adoption by the Financial Accounting Standards Board of a generally accepted accounting principle is eligible for Z factor treatment has been raised by parties to I.90-07-037. We will resolve the issue in that docket and thus express no view on this subject in the instant proceeding." (D.94-06-011, mimeo, p. 84, n. 81; 55 Cal.P.U.C.2d 1, 41.)
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> . . .
>
> "[w]hile the parties were repeatedly admonished throughout this proceeding to focus on the issue of the Z factor standards and not to attempt to relitigate in this proceeding the PBOPs' cases,[6] too often the subjects were interwoven in the briefs. Notwithstanding this, we will not address the PBOPs issue here." (D.94-06-011, mimeo, p. 71; 55 Cal.P.U.C.2d 1, 36.)

[6] D.91-07-006 and D.92-12-015.

In addition, the ALJ previously rejected TURN's and others' attempts to litigate PBOPs in this instant docket, stating,

> "[t]wo particular issues raised by certain protestants, while operational topics, are lifted from ongoing cases and, therefore, will not be examined during the review. CCBHA/County of L.A. contend that PBOPs should be addressed in the review. It will not be. Deliberations are taking place on this matter in another proceeding." (ALJ Ruling of September 4, 1992, p. 7.)

Public Utilities Code section 1705 requires that a decision shall contain ". . . findings of fact and conclusions of law by the commission on all issues material to the order or decision." Public Utilities Code section 1757 obligates the Commission to "regularly pursue its authority." Public Utilities Code section 1757 provides, in relevant part,

> "[t]he 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." (Pub. Util. Code § 1757).

In the Decision we did not resolve any material issue regarding the PBOPs Decision because those issues were not properly before us. The Commission noted the pendency of the PBOPs proceeding and properly deferred discussion of that issue to the ongoing proceeding.[7] Therefore, the Commission did not err in its disposition of the PBOPs issue.

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[7] On January 11, 1993, TURN filed its Petition for Modification of the PBOPs Decision claiming that PBOPs expenses do not qualify for Z factor treatment. (See Re Investigation of Post Retirement Benefits Other Than Pensions (1993) D.93-03-028, 48 Cal.P.U.C.2d 418.) We note that TURN's Petition for Modification has been addressed in Decision (D.) 97-04-043.

C. The Commission did not err in concluding that the price cap adjusts for changes in the market-based ROR.

1. Background

Both MCI and TURN argue that the Commission erred in concluding that the "price cap index itself automatically adjusts for changes in the cost of capital as it does changes in any particular input price." (MCI Application at 11-12; TURN Application at 5-8, citing to D.94-06-011, mimeo, p. 59; 55 Cal.P.U.C.2d 1, 31.) MCI and TURN contend that no party argued that all of the effects of capital cost changes or input price changes would be automatically reflected in the GDPPI. (MCI Application at 11; TURN Application at 5-8.) TURN argues that this conclusion violates Public Utilities Code sections 1705 and 1757 by making a finding without any support on the record. (TURN Application at 1, 5, 7-8.) MCI and TURN also allege that a finding that all of the changes in the cost of capital would be reflected in the price cap directly conflicts with the record evidence. MCI refers to Dr. Taylor's Reply Testimony which provides that "if the cost of capital were to change, much of the impact on the regulated firm would be captured in the GNP-PI." (Ex. 2, Taylor (for Pacific), p. 24.) TURN also refers to Dr. Taylor's Reply Testimony which provides that:

> "A Z-factor adjustment for changes in the cost of capital would – if done properly – raise or lower the [price cap index] by the difference between the effects of the change in the cost of capital on (i) the regulated firm's costs and (ii) the costs of the average firm in the economy." (Ex. 2, Taylor (for Pacific), p. 24, (emphasis in original).)

Therefore, MCI and TURN contend that at most, only a portion and not all of the change in capital costs would be captured in the GNP-PI. (MCI Application at 11; TURN Application at 6-7.) TURN and MCI also allege that there was much testimony supporting the argument that Pacific disproportionately

benefited from the exogenous reduction in capital costs and the Commission did not address nor discuss this testimony. (TURN Application at 7 citing to Ex. 72, Selwyn (for BCH/LA/TAC), p. 59; Ex. 83, Murray (for CARE), p. 10; Ex. 51, Amato/Chang (for DRA), pp. 3-18 to 3-20.) In addition, TURN argues that this is the same issue decided in the PBOPs Decision in which the Commission allowed Z factor recovery.

Both MCI and TURN request an evidentiary hearing to provide parties the opportunity to determine empirically exactly what capital cost changes are not reflected in the price cap inflation index and to require Pacific to adjust rates and pass on the difference to the ratepayers. (MCI Application at 12; TURN Application at 7-9.) Alternatively, TURN requests that the Commission reverse the rate increases for the NRF utilities that were granted in the PBOPs Decision. (TURN Application at 2.)

2. Discussion

As stated above, Public Utilities Code section 1705 requires that a decision shall contain separately stated findings of fact and conclusions of law by the Commission on all issues material to the decision. Public Utilities Code section 1757 obligates the Commission to "regularly pursue its authority."

TURN and MCI misconstrue our statement "[t]he price cap index itself automatically adjusts for changes in the cost of capital, as it does changes in any particular input price" to mean that any input price change, including changes in the cost of capital, would be fully captured in the price cap index. Based upon this misunderstanding, MCI and TURN argue that the Commission should hold an evidentiary hearing to determine exactly what portion of the change in capital costs was not reflected in the price cap index.

The Commission never concluded that the price cap index captures all of the changes in the cost of capital or in any particular input price. Therefore, we

were not required to make findings regarding that conclusion. The Commission determined in the Decision that adjustments for input prices would be equivalent to a return to traditional cost-of-service regulation and a move toward a company-specific input price index, which the Commission rejected in the Phase II Decision because it would reduce the incentive for efficient operations. (33 Cal.P.U.C.2d 43, 135; D.94-06-011, mimeo, p. 13-14; 55 Cal.P.U.C.2d 1, 15.) As provided in the Phase II Decision and reiterated in the Decision, we declined to treat changes due to the normal cost of doing business or general economic conditions, such as changes in the cost of capital, as qualifying for Z factor treatment. The Commission concluded that changes such as these would be provided for in the price cap index and would receive no other special adjustment beyond their reflection in the price cap index. For example, in the Phase II Decision, the Commission provided that:

> "[w]e agree with GTEC that the range of exogenous factors which could affect utility cost to an extent warranting explicit adjustments to the Z factor cannot be foreseen completely. As a starting point, we accept the following factors: . . . On the other hand, cost changes due to labor strikes or contracts, normal costs of doing business (including cost of complying with existing regulatory requirements), or general economic conditions would be excluded." (33 Cal. P.U.C.2d 43, 137-38.)

We reiterated this conclusion again in our Decision:

> "[T]he normal cost of doing business is specifically excluded as a Z factor cost. One of the key benefits of the NRF to ratepayers is the fact that they are no longer responsible for making NRF utilities whole for each cost increase which exceeds the GDPPI inflation index figure used in the annual price cap filings. Consequently, to the extent that costs at issue are simply normal business costs, the mere fact that they

> are increasing[8] does not make them eligible for Z factor treatment." (D.94-06-011, mimeo, p. 77; 55 Cal.P.U.C.2d 1, 38.)

In the Decision, we observed that the Commission had provided in the Phase II Decision:

> "In this decision we have already estimated, or developed the method for estimating, changes in Pacific's and GTEC's costs in 1990 relative to 1989. First, the price cap indexing mechanism estimates changes in cost due to economywide inflation, expected productivity improvements, and any exogenous factors. Second, we have identified the rate of return likely to be expected by the market in light of increased risks in the new regulatory framework. (*We note that if there were significant differences expected in costs due to changes in interest rates they would be captured, albeit with a short lag, in the price cap mechanism. However, the identified change in required rates of return is attributable to changes in the regulatory framework, which is not captured in the price cap index.*)" (33 Cal.P.U.C.2d 43, 191 (emphasis added).)

. . .

We also provided in the Phase II Decision:

> "As with other operational costs, the price cap indexing framework does not permit rate increases based on higher costs due to changes in the utility's capital structure. On the other hand, utility shareholders can keep cost reductions achieved through a reduced cost of capital up to the sharing threshold. Additional cost reductions leading to earnings above benchmark levels must be shared with ratepayers until the earnings cap is reached." (33 Cal.P.U.C.2d 43, 164.)

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[8] Or decreasing. We have not here changed the symmetrical nature of the Z factor established in D.89-10-031.

Moreover, Dr. Taylor, the expert witness relied upon by both MCI and TURN, observes that the Commission should, in fact, reject changing Pacific's prices in response to a change in the cost of capital or in any particular input price. In the preceding paragraph to which TURN quotes Dr. Taylor's Reply Testimony, Dr. Taylor avers:

> "Capital is an input into the production process, just like labor. There is nothing remarkable about its price – apart from its role as a staple of traditional regulation. Thus knee-jerk attempts to raise or lower Pacific's prices in response to alleged increases or decreases in the cost of capital must be rejected out of hand in the NRF. They are nothing more than vestiges of rate-of-return regulation and have no place in a price regulation plan. For the same reason that price cap regulation does not adjust the price cap index (PCI) for unanticipated changes in the price of labor, attempts to adjust prices for alleged changes in the cost of capital must be resisted." (Ex. 2, Taylor (for Pacific), p. 24.)

In the Decision, we concurred with Dr. Taylor's testimony in Exhibit 1:

> "Adjusting Pacific's rates for changes in a specific input price (e.g., a change in the cost of capital) is no different conceptually than using an annual Z factor adjustment to reflect changes in an individual input factor price. In general, such treatment is inconsistent with the proper working of price cap regulation because it removes the firm's incentive to bargain vigorously in its input markets. The prices for many inputs have undoubtedly changed (in real and relative terms) since price caps began. There is no basis for singling out the cost of capital. Adjustments for any and all such changes would be a return to the old days of service regulation." (Ex. 1, Taylor (for Pacific), p. 36.)

In the Decision, we were not persuaded by the testimony in favor of rate reduction. Accordingly, we acted reasonably, and within our discretion, in

refusing parties' requests to adjust Pacific's rates downward in recognition of the lower market-based rate of return. Instead, we chose to adopt Pacific's recommendation to not adjust rates to reflect the reduction in the market-based ROR. This recommendation is not only supported by the record but by the Phase II Decision. Moreover, we reject TURN's alternative proposal to reverse the rate increases for the NRF utilities as provided in the PBOPs Decision for the reasons stated *supra*, Section 2.

D. The Decision ensures that rates are just and reasonable.

1. Background

MCI argues that the Decision contains no findings or conclusions which resolve the conflict between the Commission's interpretation of the Phase II Decision and its obligation to ensure just and reasonable rates. MCI contends that parties argued that (1) failure to lower Pacific's rates would result in partially competitive rate ceilings that would allow Pacific to earn a rate of return in excess of its cost of capital, even if its productivity does not meet the Commission's productivity factor; (2) adjusting rates downward is necessary to ensure that the NRF reflects competitive market forces; and (3) failure to adjust Pacific's rates would allow Pacific to "utilize these excess revenues to reduce its rates for competitive service offerings, or fund investments in anticipation of competition, without reducing stockholder returns to [] acceptable levels." (MCI Application at 5-6). MCI contends that parties asserted that these rates would be presumptively unjust and unreasonable, in violation of Public Utilities Code section 454. (MCI Application at 6.) MCI also argues that the Decision contains no findings regarding these matters in violation of section 1705 of the Public Utilities Code.

In support of its allegations, MCI cites U.S. Steel Corp. v. Public Utilities Commission.[9]

2. Discussion

Section 454 generally requires that public utility rates be just and reasonable and service be adequate and efficient. The Commission is also required to issue findings with regard to the reasonableness of utility rates.[10] Section 728 also requires the Commission to ensure that utility rates are maintained at a level that is just and reasonable.[11]

We disagree with MCI. In the Phase II Decision, we previously concluded that NRF would lead to just and reasonable rates. (33 Cal.P.U.C.2d 43, 212.) The Commission had rejected arguments in the Phase II proceeding that the NRF mechanism would not produce just and reasonable rates. (Id. at 209-213.) In addition, as set forth in the Phase II Decision, one of the fundamental principles is that NRF generally breaks the link between costs and revenues. (Id. at 212.) Moreover, there is evidence in the record which shows that during the entire period under review, Pacific's rates produced earnings within the range of outcomes the Commission determined to be acceptable. (Ex. 41, Evans (for Pacific), Att. at 6-7.)

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9 *U.S. Steel Corp. v. Public Utilities Commission*, (1981) 29 Cal.3d 603, 608-609, 175 Cal. Rptr. at 172-173. The California Supreme Court in that case holds that in proceedings with major rate impacts, proposed economic alternatives must be considered and adequately discussed.

10 Public Utilities Code section 454 provides: "Except as provided in Section 454.1 and 455, no public utility shall change any rate or so alter any classification, contract, practice, or rule as to result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified." Pub. Util. Code § 454.

11 Public Utilities Code section 728 provides: "Whenever the commission, after a hearing, finds that the rates or classifications, demanded, observed, charged, or collected by any public utility for or in connection with any service, product, or commodity, or the rules, practice, or contracts affecting such rates or classifications are insufficient, unlawful, unjust, unreasonable, discriminatory, or preferential, the commission shall determine and fix, by order, the just, reasonable, or sufficient rates, classifications, rules, practices, or contracts to be thereafter observed and in force." Pub. Util. Code § 728.

The Commission provided adequate and relevant findings supporting its refusal to adjust Pacific's rates. In Findings of Fact 47 through 50, Conclusion of Law 12, and the text of the decision on pages 56-59, the Commission set forth the rationale and facts the Commission relied upon in reaching its decision.

E. The Decision provides adequate findings of fact and conclusions of law.

1. Background

MCI argues that our refusal to adjust Pacific's rates downward lacks findings on material issues. (MCI Application at 1-8.) TURN also argues that the Commission's reasons for denying the rate adjustment do not provide a rational basis that is supported in the record in violation of Public Utilities Code sections 1705 and 1757. (TURN Application at 3-5.)

2. Discussion

Contrary to the allegations set forth by MCI and TURN, the Commission provided adequate and relevant findings supporting its decision to not adjust Pacific's rates downward in connection with the reduction in the market-based ROR. As stated previously, in Findings of Fact 47 through 50, Conclusion of Law 12, and the text of the decision on pages 56-59, the Commission set forth the rationale and facts the Commission relied upon in reaching its decision. Therefore, MCI and TURN are wrong that there are no adequate and relevant findings to support our refusal to adjust Pacific's rates.

IV. CONCLUSION

No further discussion is required of applicants' allegations of error. Accordingly, upon reviewing each and every allegation of error raised by the applicants we conclude that sufficient grounds for rehearing of D.94-06-011 have not been shown.

THEREFORE, IT IS ORDERED that:

1. Application (A.) 92-05-002 and A.92-05-004 are reopened for the purpose of considering the applications for rehearing of Decision 94-06-011 filed by MCI and TURN.

2. Rehearing of Decision 94-06-011 is denied.

3. A.92-05-002 and A.92-05-004 are closed.

This order is effective today.

Dated September 3, 1998, at San Francisco, California.

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