PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Accounting & Finance Branch

RESOLUTION F-623
December 9, 1988

# RESOLUTION

PACIFIC BELL: ORDER APPROVING INCREMENTAL SURCHARGE/SURCREDIT TO REFUND 1988 MEMORANDUM ACCOUNT BALANCES FOR TAX REFORM, USOAR AND 1988 ATTRITION AND IMPLEMENT ONGOING INCREMENTAL SURGHARGE/SURCREDIT. ADVICE LETTER 15457, 15457A, & 15457B DATED NOVEMBER 18, 1988.

## SUMMARY

On September 30, 1988 Pacific Bell filed Advice Letter 15457 in compliance with Ordering Paragraph (O.P.) 2 of Decision 88-08-024 and O.P. 1, 2, 5, and 14 of Decision 88-09-030. The advice letter was modified on October 18, 1988 and November 8, 1988. Decision 88-08-024 provides that the revenue requirement changes for Pacific Bell currently being accumulated in memorandum accounts will be placed in rates through either a refund or a surcredit/surcharge mechanism on a bill-and-keep basis using an estimated 1989 billing base. Decision 88-09-030 requires Pacific to update its Uniform System of Accounts (USOA) balancing account with six months of data, to use the Federal Reserve Statistical Release 90-day commercial paper rate to calculate interest on the average monthly USOA revenue requirement balance and to exclude compensated absence impact results from its USOA balancing account.

Pacific Bell's filing develops the surcredit/surcharge changes as a result of the 1988 intrastate revenue requirements for the Tax Reform Act of 1986 (D. 88-01-061), the Uniform System of Accounts Rewrite (USOAR) (D. 87-12-063) and the 1988 Attrition (Resolution No. T-12079). The advice letter as adopted flows the 1988 memorandum account balances to the ratepayers over a four month period beginning January 1, 1989. The revenue requirement associated with the above memorandum accounts is a reduction of $223.0 million for 1988. The ongoing revenue requirement associated with the Tax Reform Act of 1986 (TRA 86), the USOAR and the 1988 attrition is a reduction of $213.8 million for 1989.

## BACKGROUND

Pacific Bell's Advice Letter 15457, modified by 15457A filed October 10, 1988 and 15457B filed November 18, 1988 has been filed in compliance with D.88-08-024 and D.88-09-030 requiring Pacific Bell to propose a method to close out existing memorandum account balances including the USOA balancing account. Pacific Bell proposes a surcharge/surcredit mechanism whereby the 1988 memorandum account balances and accrued interest for the TRA 86 impacts, 1988 attrition, and USOA would be returned to the ratepayer via a four month amortization beginning January 1, 1989; and, the ongoing revenue requirement changes related to the above items would be implemented via an ongoing surcharge/surcredit effective January 1, 1989. There were no protests to this advice letter.

Tax Reform: In compliance with D.88-01-061 Pacific Bell submitted its 1988 impacts of the TRA 86 and SB572 on June 10, 1988. Pacific Bell also included the impacts of the Omnibus Budget Reconciliation Act of 1987 (OBRA 87). The inclusion of these impacts has been authorized by D. 88-10-061. The staff of the Accounting & Finance Branch of the Commission Advisory & Compliance Division (CACD) has reviewed the supporting calculations and after adjustment found them to be in compliance with D.88-01-061 and D.88-10-061. Pacific Bell's 1988 revenue requirement impact for the TRA 86, SB572 and the OBRA 1987 is a reduction of $272.2 million. Interest calculated at the average 90-day commercial paper rate as reported in the Federal Reserve Bulletin for 1988 amounts to $11.6 million. The total revenue requirement for 1988 due to tax reform as filed in this advice letter is $(283.8) million; the ongoing revenue requirement for 1989 is $(272.2) million. The 1989 incremental changes (variations from the 1988 figures) for tax reform are incorporated in Pacific Bell's 1989 Attrition filing (Advice Letter No. 15456).

1988 Attrition: Resolution No. T-12079 directed Pacific Bell to reduce its annual intrastate revenue requirements for attrition year 1988 by $64.911 million and place that amount in a memorandum account with interest accruing at the three-month commercial paper rate from January 1, 1988. Total interest accrued for 1988 is $2.777 million. The total revenue requirement for 1988 due to Pacific Bell's 1988 attrition as filed in this advice letter is $(67.688) million; the ongoing revenue requirement for 1989 is $(64.911) million.

USOAR: By Interim Decisions D.87-12-063 and D.88-03-072 The Federal Communications Commission's Part 32 and Part 36 (Separations Manual) (FCC USOA) with modifications discussed in the two decisions was adopted for all telephone companies under the Commission's jurisdiction. Pacific Bell, GTE California, Incorporated, (GTEC), Contel of California, Incorporated (ConTel), and Citizens Utilities Company of California (Citizens) were authorized to record USOA revenue requirement impacts in a balancing account. D.88-09-030 required each utility to update its USOA balancing account with six months of data and to accrue interest calculated on the average monthly balance using the Federal Reserve Statistical Release 90-day commercial paper rate. As required by D.88-08-024 and D.88-09-030 Pacific Bell filed Advice Letter 15457 with modifications proposing a four month surcharge/surcredit mechanism amortizing the 1988 USOA revenue requirement impacts, calculated using six months of actual data. Pacific Bell also proposes that:

> "in March 1989 and based upon a full year of actual results, the actual 1988 revenue requirement for USOAR be reviewed for variances from that herein.

This adjustment should recognize changes in capital to expense shifts, GAAP amortization, separations, and settlements. The utility should make an adjustment to recognize the variance both retroactively and prospectively. Pacific Bell proposes that the capital to expense shift adjustment for USOAR be capped at plus ten percent (10%) of the annual projected amount filed herein."

The estimated 1988 revenue requirements due to USOAR as filed in this advice letter amounts to $123.243 million plus the accrued interest for 1988 of $5.272 million. Pacific Bell's total 1988 USOAR revenue requirement is $128.515 million. The ongoing revenue requirement effect is $123.243 million. The 1989 incremental changes (variations from the 1988 figures) for USOAR are incorporated in Pacific Bell's 1989 Attrition filing (Advice Letter No. 15456).

DISCUSSION

The calculations and supporting workpapers which develop the revenue requirement impacts for tax reform and the 1988 Attrition have been reviewed by the CACD and have been found to be reasonable. The calculations and supporting workpapers for the 1988 USOAR impacts have been reviewed by the Division of Ratepayer Advocates and have been found to be reasonable.

Decision 88-08-024 states that Pacific Bell shall use an estimated 1989 billing base to implement authorized revenue changes on an ongoing basis. Pacific Bell's estimate 1989 billing base of $7,062,101 thousand as filed in the advice letter has been reviewed and found to be a reasonable base to develop the surcharge/surcredit for the 1988 memorandum account balances and the ongoing revenue requirement changes. Pacific Bell's proposal to amortize the 1988 memorandum account balances via a four month surcharge/surcredit effective January 1, 1989 is reasonable as this method allows for a timely refund to ratepayers yet also allows for mitigation of fluctuations in usage patterns.

The surcredit/surcharge changes implemented in this advice letter will be spread evenly over the three intrastate services: intralata exchange, intralata toll and intrastate access. The surcharge increment for the 1988 memorandum account revenue requirement changes of $(223.0) million is -9.471%, effective January 1989 through April 1989. The surcharge increment for the ongoing revenue requirement impacts for tax reform, the USOAR and the 1988 Attrition of $(213.8) million is -3.028 effective January 1, 1989. Therefore the incremental surcharge for intralata exchange services, intralata toll services and intrastate access services will be -12.499% from January 1, 1989 through April 30, 1989 and then drop to -3.028% beginning May 1, 1989.

Pacific Bell's proposal to update its 1988 USOAR revenue requirement impacts to actual with a cap of 10% as requested in its advice letter has been reviewed. Decision 88-09-030 Ordering Paragraph 2 requires

Pacific Bell, GTEC, ConTel, and Citizens to update its USOA balancing account with six months of data and Ordering Paragraph 14 requires Pacific Bell and GTEC to file advice letters to close out their existing USOA balancing accounts. Decision 88-08-024 allows Pacific Bell to choose which method it will use to close out the 1988 memorandum accounts: direct refund or surcredit/surcharge mechanism. However, neither of these decisions allow for an update of the estimated 1988 USOAR revenue requirement impacts based on six months of data to actual. Recovery of revenue requirement deficiencies on an actual basis resulting from the adoption of the the FCC USOA was not addressed in the Commission's Final Opinion, D.88-09-030, in its investigation into the adoption of the FCC USOA, (I.87-020-023). Pacific Bell's proposal is not in compliance with D.88-09-030 and should not be adopted herein. If the utility wishes to pursue its request, a petition to modify D.88-09-030 would be required.

FINDINGS OF FACTS

1. Pacific Bell's proposed intrastate surcharge/surcredit mechanism to account for the 1988 memorandum account balances (revenue requirement changes resulting from the Tax Reform Act of 1986 (D.88-01-061), the Uniform System of Accounts Rewrite (D.87-12-063, D.88-03-072, and D.88-09-030)and the 1988 Attrition (Resolution No. T.12079)) and the ongoing revenue requirement changes associated with these items is reasonable.

2. Pacific Bell's proposal to amortize the 1988 memorandum account balances including accrued interest over four months beginning January 1, 1989 is reasonable.

3. The revenue requirement reduction resulting form the 1988 memorandum accounts of $223.0 million is reasonable.

4. The ongoing revenue requirement reduction resulting from tax reform, USOAR and 1988 Attrition of $213.8 million is reasonable.

5. Pacific Bell's 1989 estimated billing base of $7,062,101 thousand is reasonable.

6. The incremental intrastate surcharge applied to intralata exchange services, intralata toll services and intrastate access services and effective January 1, 1989 through April 30, 1989 of -12.499 is reasonable.

7. The incremental intrastate surcharge applied to intralata exchange services, intralata toll services and intrastate access services and effective May 1, 1989 of -3.028 is reasonable.

8. Pacific Bell's proposal to update the 1988 revenue requirement impacts for USOAR to actual with a 10% cap from those adopted by this resolution is not in compliance with D.88-09-030 and should not be addressed in this resolution.

IS ORDERED THAT:

(1) The incremental billing surcharge of -12.499 on a bill-and-keep basis shall become effective January 1, 1989 and remain in effect through April 30, 1989.

(2) The incremental billing surcharge of -3.028 on a bill-and-keep basis shall become effective May 1, 1989.

(3) This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 9, 1988. The following Commissioners approved it.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Victor Weisser

Executive Director

Accounting & Finance Branch