PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Finance Branch

RESOLUTION F-626
November 22, 1989

RESOLUTION

CHANGES IN PART 32, UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES REVISING THE EXPENSE LIMIT FOR CERTAIN ITEMS OF PLANT COSTING $500 OR LESS. GTE CALIFORNIA, INC. AND PACIFIC BELL (Advice Letter Numbers 5192 and 15544 respectively).

SUMMARY

By Decision 87-12-063 the California Public Utilities Commission (Commission) adopted, for telephone companies subject to its jurisdiction, the Federal Communications Commission's (FCC) Part 32, Uniform System of Accounts for Telephone Companies (FCC Part 32 USOA). Paragraph 11 of the decision states that "The Commission's advice letter procedure shall be used to address subsequent Part 32 changes."

On July 22, 1988 the FCC released a Report and Order in Common Carrier Docket No. 87-135, FCC 88-220. This order amended FCC Part 32 USOA effective January 1, 1989, to raise the expense limit to $500 for items currently subject to a $200 expense limit. The revised expense limit applies to items of equipment classifiable to accounts 2112. Motor Vehicles, 2113. Aircraft, 2114. Special Purpose Vehicles, 2115 garage Work equipment, 2116. Other Work equipment, 2122. Furniture, 2123. office Equipment, and 2124. General Purpose Computers costing $500 or less and having a life less than one year. On February 27, 1989 the FCC released a letter to the Responsible Accounting Officers (RAO Letter 6) which added test equipment and tools in the Central Office (COE) Assets Accounts to the list of items for which the revised expense limit would apply.

Both GTE California Incorporated (GTEC) and Pacific Bell (PacBell) filed Advice Letter Numbers 5192 and 15544 respectively requesting that the Commission adopt the FCC Part 32 USOA expense limit change effective January 1, 1989. GTEC is not requesting revenue requirement relief although it states that the impact would be a revenue requirement increase of $455,000 for 1989. PacBell is also not requesting rate relief. It proposes to offset its 1989 through 1995 revenue requirement impacts against the depreciation of the embedded plant accounts that are affected by the $200/500 expense limit change. The revenue requirement effect of the expense limit change as shown in PacBell's advice letter is a $15 million initial increase in 1989 and declines each year to a $5 million decrease in 1995. The net impact is a $21 million revenue requirement increase.

We find that the adoption of the FCC Part 32 USOA expense limit change as addressed in the FCC 88-220 and RAO Letter 6 is reasonable. We adopt this accounting change for intrastate purposes for all telephone corporations subject to the Commission's jurisdiction. We deny PacBell's request to offset its revenue requirement increase against its depreciation expense and note that any rate relief sought by the utilities should be through the rate application process.

BACKGROUND

In February of 1987, the Commission issued an order instituting investigation (I.87-02-023) to determine whether the FCC's Part 32 USOA should be adopted for the regulated telephone companies. Part 32 was the FCC's response to the existing USOA (Parts 31 and 33) which the FCC believed was archaic and incapable of providing for changes in a complex technological and economic environment. In December of 1987, the Commission issued Decision 87-12-063 which adopted the FCC's Part 32 USOA for telephone companies subject to the Commission's jurisdiction. In general the Commission adopted the FCC's Part 32 USOA because of its desire to simplify and coordinate the accounting and reporting requirements imposed on those telephone companies operating under the jurisdiction of both this Commission and the FCC. Decision 87-12-063 directed that subsequent changes to the FCC Part 32 USOA should not be routinely adopted but instead should be addressed through the Commission's advice letter procedure.

GTEC filed Advice Letter No. 5192 on February 8, 1989 and PacBell filed its Advice Letter No. 15544 on April 28, 1989. The Commission's Division of Ratepayer Advocates (DRA) filed comments to GTEC's advice letter on February 28, 1989, stating that it would not oppose the utility's petition to allow authorization of this accounting change for intrastate purposes. However, it opposed any attempt by GTEC to recover the estimated 1989 revenue requirement impacts without first providing a showing that would identify the benefits (cost savings) to the ratepayers resulting from the expense limit change. DRA commented that these benefits should be incorporated into any revenue requirement impact estimates. DRA did not file comments to PacBell's advice letter. No other comments were received.

DISCUSSION

The FCC last revised the expense limit in 1981 from $50 to $200 which the Commission subsequently adopted. According to the FCC, raising the expense limit to $500 will relieve the carriers of the administrative burden of maintaining records on a large volume of relatively low cost items as well as achieve efficiencies by expensing these items in the period they are purchased rather than capitalizing them, carrying them in the rate base, and allowing a rate of return on the investment. The Commission in its comments to the FCC on Docket No. 87-135 stated it did not oppose the proposal to raise the the expense limit to $500.

In order to eliminate administrative costs, achieve potential cost savings and be consistent with the FCC Part 32 USOA, the Commission adopts for accounting purposes only the expense limit increase to $500 for the accounts and items addressed in FCC 88-220 and RAO Letter 6. Both Pacbell and GTEC requested implementation for intrastate purposes effective January 1, 1989. However, because adoption of a FCC Part 32 USOA change effects all telephone companies subject to this Commission's jurisdiction, companies will be allowed to implement the accounting change effective either January 1, 1989 or January 1, 1990. Any revenue requirement increase sought by the telephone companies should be through an application and should include potential cost or productivity savings which might result from implementing this accounting change.

PacBell's advice letter proposes to amortize the revenue requirement effects of the accounting change against the embedded depreciation expense of the accounts affected by the $200/500 expense limit change. We do not believe that it is appropriate to approve the proposed amortization in this filing for the following reasons.

1. The Commission in approving the proposed amortization would be implicitly approving several years of revenue requirement increases which would normally be dealt with in a General Rate Case proceeding or through another separate application.

2. The offset to the depreciation expense more appropriately belongs in a technical update process where such an adjustment may be reviewed in a more detailed and comprehensive manner.

3. Offsetting the revenue requirement increases against depreciation expenses is not consistent with Generally Accepted Accounting Principles: Depreciation expense allows recovery of the cost over the expected life of the plant and spreads those costs to the ratepayers receiving the benefits over the service life. The proposed amortization actually results in deferring the recovery of the depreciation expense on the embedded plant in those accounts affected by the expense limit change.

FINDINGS OF FACT

1. The Commission by Decision 87-12-063 adopted the FCC Part 32 Uniform System of Accounts for telephone companies subject to its jurisdiction.

2. FCC Docket No. 87-135, Report and Order FCC 88-220 amended FCC Part 32, effective January 1, 1989, to raise the expense limit to $500 for certain specific items.

3. GTEC filed Advice Letter Number 5192 on February 8, 1989 requesting adoption of the $200 to 500 expense limit increase.

4. PacBell filed Advice Letter Number 15544 on April 28, 1989 also requesting conformance with the FCC Part 32 USOA as amended by FCC 88-220 and RAO Letter 6.

5. DRA filed comments to Advice Letter No. 5192 on February 28, 1989 which did not oppose the expense limit increase but did request a showing of cost benefits resulting from the accounting change.

6. It is desirable to coordinate the accounting and reporting requirements imposed on those telephone companies operating under the jurisdiction of both this Commission and the FCC.

7. The FCC believes that raising the expense limit to $500 will alleviate the administrative burden of maintaining records on large volumes of relatively low cost items and provide efficiencies or rate base rate of return treatment.

8. The Commission in its comments on FCC Docket No. 87-135 did not oppose raising the expense limit to $500.

9. Any amendments to the FCC Part 32 adopted by this Commission will apply to all telephone companies subject to the Commission's jurisdiction.

10. Approving PacBell's revenue requirement amortization request would give implicit approval to the company's estimated revenue requirement increase.

11. The technical update process is the appropriate place to address depreciation issues.

12. Offsetting revenue requirement increases against depreciation expenses is not consistent with Generally Accepted Accounting Principles.

IT IS ORDERED THAT

1. The amendments ordered in FCC 88-220 and RAO Letter 6 are adopted for accounting purposes for telephone companies subject to the jurisdiction of this Commission.

2. PacBell's request to amortize the revenue requirement effect of this accounting change against depreciation expense is denied.

3. The effective date of the accounting change for intrastate purposes is January 1, 1989; however, telephone companies have the option to implement it no later than January 1, 1990.

4. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 22, 1989. The following Commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

Wesley Franklin
Acting Executive Director

Finance Branch