PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Telecommunications Branch

RESOLUTION NO. T-13036
January 11, 1989

R E S O L U T I O N

RESOLUTION UPDATING MINIMUM STANDARDS FOR TELECOMMUNICATIONS DEVICES FOR THE DEAF PROVIDED UNDER SECTION 2881 OF THE PUBLIC UTILITIES CODE PURSUANT TO RECOMMENDATION OF THE D.E.A.F. TRUST EQUIPMENT STANDARDIZATION ADVISORY COMMITTEE AND DECISIONS D.92603, D.92871, AND D.87-4-027.

SUMMARY

This Resolution provides for updating the minimum Telecommunications Device for the Deaf (TDD) standards as specified by the D.E.A.F. Trust Equipment Standardization Advisory Committee at its August 18, 1988, meeting.

The proposed TDD minimum standards, which will apply to new or upgraded devices purchased by the operating companies for distribution to subscribers pursuant to Section 2881 of the Public Utilities Code, are: 4-row keyboard, 2 K (2048) byte memory with 3 message buffer, Voice Announcer, 300 BAUD ASCII code capability (in addition to previous 110 BAUD ASCII and Baudot 5-unit code capability), field replaceable battery pack (paid for by D.E.A.F. Trust, user installable, if desired), and minimum one-year warranty.

The D.E.A.F. Trust Administrative Committee is ordered to review the proposed minimum standards to determine if they are cost-effective; if the proposed standards are adopted by the Trust Administrative Committee, the Administrative Committee will determine a policy for integration of the new standards with the base of existing TDDs in service and in inventory.

BACKGROUND

Previous Decisions (D.92603, January 21, 1981, and D.92871, April 7, 1981, established minimum requirements for TDDs issued by the operating telephone companies for the deaf and hard-of-hearing telecommunications service programs established under Public Utilities Code Section 2881 and following. (see Appendix A, D.92871, OII 70).

D.92871 emphasized that these were minimum standards; the operating companies were free to purchase and provide TDDs having additional features so long as they are cost competitive. Recognizing that technological advances results in new and improved products on the market, the Commission in D.87-04-027 (I.86-07-031), ordered that an Equipment Standardization Advisory Committee be established with the responsibility for recommending and updating, as new technology develops, a standard equipment list for the disabled programs. The Commission Advisory and Compliance Division (CACD) is represented by a member of the Committee.

Equipment recommendations by the Committee are subject to engineering evaluation by the operating companies and should be considered in terms of cost effectiveness by the Trust Administrative Committee before final adoption.

Previous TDD minimum standards called for a minimum character set satisfied by a 3-row keyboard requiring a shift between figures and letters, and a 110 BAUD ASCII/5-unit BAUDOT code capability. A visual electroluminescent display, hard-copy printout, acoustic coupler, portability, and A.C./battery operation were also specified. Provision of additional batteries and paper were the responsibility of the user.

The new TDD standards would provide for a 4-row keyboard which eliminates the requirement for the user to shift between a figures (numbers) and a letters mode when typing. They also include at least 2048 bytes of user programable message storage arranged in 3 or more buffers, a Voice Announcer to alert hearing parties that a hearing-impaired caller is using a TDD to place the call, 300 BAUD ASCII code capability, a user replaceable battery (paid-for by the D.E.A.F. Trust) and a minimum one-year warranty.

DISCUSSION

The Commission has always intended that new technological developments affecting the equipment provided deaf and disabled telephone subscribers pursuant to the programs under Public Utilities Code Sections 2881 and following be integrated into the program in a timely and cost-effective manner.

As long as an item is useful and serviceable it should continue to be employed in the programs; equipment may be upgraded to meet some or all of the new standards as long as such an upgrade is cost-competitive. Non-serviceable or non-usable equipment should be disposed of by the operating companies in the most efficient manner. Wherever economically feasible, new equipment purchases should implement the latest minimum standards or current state of the art. The operating companies are encouraged to investigate new technological developments and experimental prototypes on a case-by-case trial basis, as appropriate, and report the results of the investigations to the Equipment Standardization Advisory Committee.

The Equipment Standardization Committee should review the minimum standards requirements periodically to determine if revised standards reflecting new technology are appropriate. The D.E.A.F. Trust Administrative Committee will determine when such revised standards are economically feasible for the program and implement them as appropriate.

The minimum standards adopted by the Equipment Standardization Advisory Committee at its August 18, 1988, meeting, and presented by CACD in Appendix A to this Resolution, represent the current TDD technology, and are readily available through competitive bid from more than one vendor. We will recommend these minimum standards for consideration by the Trust Administrative Committee for its approval as new TDD purchases/upgrades by the operating companies as required to meet the needs of the programs.

FINDINGS

1. D.92603 and D.92871 established minimum standards for the TDDs distributed by the local exchange operating companies pursuant to Public Utilities Code Sections 2881 and following.

2. D.87-04-027 established a D.E.A.F. Trust Equipment Standardization Advisory Committee with the responsibility to establish a standard list of equipment to be provided under the programs and to update the list as new technology appears. The D.E.A.F. Trust Administrative Committee has the responsibility to ensure that the standards proposed by the Equipment Standardization Committee are cost-effective before the Administrative Committee approves reimbursement of expenses incurred by the operating companies for TDDs meeting those standards.

3. On August 18, 1988, the Equipment Standardization Advisory Committee recommended that new TDD minimum standards be adopted (see Appendix A prepared by CACD).

4. We find these proposed standards to be reasonable for new or upgraded TDDs to be purchased by the local operating companies for the programs, and we request that the D.E.A.F. Trust Administrative Committee consider these proposed standards for adoption if they are cost-effective.

5. If the D.E.A.F. Trust Administrative Committee determines the proposed TDD minimum standards to be cost-effective, we request that the D.E.A.F. Trust Administrative Committee establish a policy to be followed by the local operating companies for integration of the

proposed TDD minimum stands with the existing TDDs in service and in inventory for the programs. This policy should specify what standards new TDD purchases should meet, and how existing TDDs in service or in inventory should be upgraded (in whole or in part, or not changed at all, if appropriate) to comply with the proposed standards.

IT IS ORDERED THAT

1. The D.E.A.F. Trust Administrative Committee review the proposed TDD minimum standards recommended by the Equipment Standardization Advisory Committee on August 18, 1988 (see Appendix A), to determine if the proposed TDD minimum standards are cost-effective.

2. If the proposed TDD minimum standards are determined to be cost effective and are approved by the D.E.A.F. Trust Administrative Committee, the Administrative Committee will determine a policy for integrating purchases of TDDs meeting the new minimum standards with the needs of the programs provided by the local operating companies. The Administrative Committee will also determine how existing TDDs in service or in inventory should be upgraded (in whole or in part, or not changed at all, if appropriate) to comply with the new minimum standards. The Administrative Committee will inform the local exchange operating companies of its determination on the proposed TDD minimum standards and its requirements for integration of the new TDD minimum standards with the needs of the programs.

3. The Trust Administrative Committee will also inform the Director of the Commission Advisory and Compliance Division of its determination on the proposed TDD minimum standards, and on its requirements for the local operating companies for integration of the proposed standards with the needs of the programs.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 11, 1989. The following Commissioners approved it:

Victor Weisser

Executive Director

G. MITCHELL WILK
President
FREDERICK R. DUDA
JOHN B. OHANIAN
Commissioners

Resolution T-13035
January 11, 1989
Appendix A

Proposed TDD Minimum Standards

D.E.A.F. Trust
Equipment Standardization Advisory Committee
August 18, 1988

4-row keyboard (no figures-letters shift)

2 K (2048) byte memory with 3 message buffers

Voice Announcer

300 BAUD ASCII

Field Replaceable Battery Pack (paid for by D.E.A.F. Trust, user installable, if desired)

Minimum one-year warranty

(59)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION   RESOLUTION NO. T-13036

Telecommunications Branch   December 19, 1988

RESOLUTION

GTE CALIFORNIA. ORDER DIRECTING GTE CALIFORNIA TO REDUCE ITS INTRASTATE REVENUE REQUIREMENT FOR ATTRITION YEAR 1989. THE REDUCTION WILL RESULT IN AN INCREMENTAL INTRASTATE SURCREDIT.

SUMMARY

As directed by Decision 88-06-024[1] and Decision 88-08-061[2] ,GTE California (GTEC) filed Advice Letter No. 5168 on September 30, 1988, requesting a revenue requirement increase of $30,942,000 as shown in Appendix A. This request incorporates GTEC's 1989 operational attrition, its 1989 financial attrition consistent with its Application 88-07-017, and four other revenue requirement adjustments:

1) 1989 technical update of depreciation rates
2) capitalization change for Federal Communications Commission (FCC) Account 608[3]
3) second step of the phase down of the weighted Dial Equipment Minutes (DEM) factor
4) 1989 reduced revenue requirement impact from the adoption of FCC Uniform Systems of Accounts (USOA) Part 32.

GTEC's proposed 1989 operational attrition with the four adjustments is a revenue requirement reduction of $35,259,000.

---

1 D.88-06-024 deals with the Division of Ratepayer Advocates' petition to modify Resolution T-12079, Pacific Bell's 1988 attrition resolution.

2 GTE California's 1988 Rate Case Decision.

3 Category 608 includes company-used tools and equipment in the central office equipment category, furniture and office equipment, other communications equipment, and vehicles and other work equipment.

GTEC's 1989 requested financial attrition is a revenue requirement increase of $66,201,000 based on the capital structure proposed in its 1989 financial attrition application A.88-07-017. Thus the total request in this Advice Letter is a revenue requirement increase for 1989 of $30,942,000.

However, based on our review, the total revenue requirement impact of of GTEC's 1989 operational attrition filing, including financial attrition and five adjustments, is a reduction of $30,798,000. The difference between the adopted and filed revenue requirement is due to 1) corrections and adjustments in the growth in revenue per access line factor, in the composite growth in wages and salaries factor, and the nonlabor escalation factor; 2) deferment of the 1989 technical update of depreciation rates impact and the capitalization change for FCC Account 608 to separate advice filings; 3) today's decision which adopts GTEC's financial attrition with a capital structure different from GTEC's requested capital structure; and 4) the inclusion of the revenue requirement effect of advice letters for new services. The following table summarizes the differences between the GTEC's request and the adopted revenue requirement reduction:

	GTEC	Adopted
1989 Operational Attrition	($29,715,000)	($42,175,000)
DEM Transition	6,632,000	6,632,000
USOA Adjustment for 1989	(11,527,000)	(11,513,000)
Technical Update of Depreciation	(1,227,000)	--
Capitalization Change for FCC A/C 608	578,000	--
Financial Attrition	66,201,000	13,660,000
Advice Letters	--	2,598,000
Total Revenue Requirement	$30,942,000	($30,798,000)

The adopted revenue requirement reduction of $30,798,000 results in an incremental intrastate surcredit of 1.72% based on an estimated 1989 intrastate billing base of $1,786,754,173. GTEC's adopted 1989 operational and financial attrition intrastate results and gross revenue requirement are shown in Appendix A.

BACKGROUND

GTEC was ordered to file a 1989 attrition review by D.88-06-024 (Petition to modify Resolution T-12079) and D.88-08-061. GTEC filed its Advice Letter No. 5168 September 30, 1988, requesting a revenue requirement increase of $30,942,000. The request reflects 1989 operational attrition, 1989 financial attrition and several other adjustments resulting from governmental and regulatory action. The attrition procedures and formulas used by GTEC are set forth in D.85-03-042, D.86-12-099, and D.88-09-028. This is GTEC's third operational attrition filing. It had operational attrition filings for the years 1985 and 1986. The most recent test year for a general rate case proceeding is 1988.

PROTEST

On October 20, 1988, the Division of Ratepayer Advocates (DRA) filed a protest to GTEC's Advice Letter No. 5168. (See Appendix B.) DRA objected to the inclusion of the impacts of GTEC's 1989 technical update of depreciation and the capitalization change for FCC Account 608, and to GTEC's use of the 1989 Consumer Price Index (CPI) forecast for All Urban Consumer from Data Resources, Inc. U.S. Review, September 1988 as an estimate for the 1989 contract increase for hourly and management employees.

GTEC filed its response to DRA's protest on October 24, 1988. (Appendix C) The following summarizes DRA's protests, GTEC's responses, and our resolution of the protested issues.

<u>1989 Technical Update of Depreciation Rates</u>

GTEC included in its 1989 operational attrition revenue requirement the impact of its proposed 1989 technically updated depreciation rates, a reduction of $1,227,000. In its advice letter, GTEC refers to represcription of depreciation rates; however, the adjustment of depreciation rates GTEC requests is in fact technical update of depreciation rate[4].

In its protest, DRA points out that the Commission has not approved GTEC's 1989 technically updated depreciation rates, and that it would be premature to include its impact in the 1989 operational attrition filing. DRA recommends that GTEC file a separate advice letter when the Commission approves GTEC's 1989 technical update of depreciation rates.

---

4 Technical update of depreciation adjusts depreciation rates for categories of plant to reflect changes in average remaining life due to the passage of time.

GTEC, in its response to the protest, states that inclusion of the impact of technical update in operational attrition filing is a practice that has long been accepted by the Commission. GTEC states that it is confident the Commission will approve the proposed 1989 depreciation rates shortly and therefore it is more efficient in terms of the resources of all parties to include the depreciation technical update impact in A.L. 5168.

The attrition formula allows for technical update of depreciation rates. (D.86-12-099, Finding of Fact 21) If GTEC's technical update of depreciation rates had been adopted prior to this Resolution, it would be appropriate to include the technical update revenue requirement effects. However, GTEC's proposed depreciation rates for 1989 are still under review by Commission staff. Therefore, we agree with DRA that it is premature to consider the inclusion of their revenue requirement impact in this resolution. In recognition of GTEC's request for inclusion of technical update of depreciation rates, we will direct GTEC to file an advice letter to reflect the revenue requirement impact when the 1989 technical update of depreciation rates is approved by the Commission.

<u>Capitalization Change for FCC Account 608</u>.

FCC Docket No. 87-135, released July 22, 1988, resulted in changes to FCC Account 608, effective January 1, 1989. This change requires certain items of plant costing up to $500 to be expensed instead of capitalized. The previous limit was $200. GTEC included in its advice letter filing an estimated revenue requirement increase of $578,000 for this capitalization change in FCC Account 608.

DRA protests the inclusion of this change because the Commission has never formally adopted this expense limit change for its jurisdictional purposes. DRA also protests because 1) it would be inconsistent with other California telephone utilities which follow the $200 expense limit; 2) Pacific Bell did not include this item in its attrition filing; and 3) the FCC is still considering petitions on this matter.

In its response, GTEC believes the Commission should adopt the new $500 limit via its 1989 attrition filing given the relatively small revenue requirement impact and the potential benefits of uniformity in accounting treatment of this item in both intrastate and interstate jurisdictions.

This revenue requirement adjustment item relates to a Part 32 USOA change subsequent to the Commission adoption of various USOA revisions by the FCC. Ordering Paragraph 11 of Decision 87-12-063 states "The Commission's advice letter procedure shall be used to address subsequent Part 32 changes." Therefore, a request for authorization to implement subsequent USOA changes is a compliance matter and an advice letter is the appropriate filing to request Commission approval. GTEC urges the Commission to adopt the FCC change in capitalization for Account 608 because the revenue requirement amount is rather small for GTEC. However, we have no assurance that other telephone companies will likewise receive only a small impact. Furthermore the attrition procedure states that adjustments made as a result of governmental activity must be of sufficient magnitude to warrant inclusion.[5] Most importantly, while we do not support DRA's position that GTEC's filing should be consistent with Pacific Bell's attrition filing, we believe that a policy change, such as this, that may have an effect on other utilities should be handled through a separate filing. This will allow the Commission and other interested parties in the USOA proceedings more time to review the appropriateness and the impacts of the change.

Labor and Labor Overheads

GTEC used the 1989 Consumer Price Index (CPI) forecast for All Urban Consumers of 5% (Data Resources Inc. U.S. Review published in September 1988) as an estimate for its management and hourly employees' contract increase for 1989 to develop the growth in composite salaries and wages factor. The current labor contract expires in March 1989 and negotiations are presently under way.

DRA protests the use of the CPI forecast in this instance. DRA believes that lacking a specific estimate or labor contract for 1989, GTEC should use the contract increase figures adopted in

---

5 Section M of D.86-12-099 discusses inclusion of "impacts of governmental or regulatory actions which have a definitely quantifiable effect on the attrition year revenue requirement. Such effects must be of sufficient magnitude on the utility's operations to merit their inclusion in the attrition year revenue requirement. Furthermore, their existence must be certain, their attrition year impact noncontroversial, and their effects readily and easily quantifiable. In addition, recognition of such effects in the attrition year must not conflict with the overall policy goal of avoiding controversies that will make our attrition review unduly comnplex or protracted.

its 1988 general rate application (A.87-01-002). This approach, DRA points out, would be consistent with Pacific Bell which based its 1989 forecast on its 1988 contract increase. In D.88-08-061, the Commission adopted a 2.0% 1988 contract increase for hourly employees and 4.2% for management.

Responding to DRA's protest, GTEC states that it hopes the Commission would not reject GTEC's methodology simply because it is different from the one submitted by Pacific Bell. It believes that each proposal should be considered independently and evaluated in light of that utility's operating conditions. In addition, GTEC states:

1. It's labor contract expires in March 1989,whereas Pacific's expires in August 1989.

2. The wage increases given under GTEC's collective bargaining agreements tend to be highest in the first year of the contract, as in the case of GTEC's contract in 1985 which ends in March 1989. It is inappropriate to use the increases applicable to the last year of a contract to compute the labor costs that will be included in the first year of the succeeding contract.

3. Since mid-1987, inflation and interest rates have increased significantly, which in turn led to upward pressure on wages and salaries. Therefore, it is inappropriate to rely on data in a labor agreement that was negotiated when economic conditions were substantially different to determine GTEC's labor costs for 1989.

4. GTEC is now in negotiations with the Communications Workers of America regarding a new labor agreement. It would be inappropriate to include in an attrition filing specific information regarding what GTEC expects the new wages will be in that agreement since such disclosure could prejudice the negotiations.

5. Given a strong economy in California, the use of a national data from a well respected firm of Data Resources Incorporated provides a conservative base to project increases in GTEC's labor costs for purposes of 1989 operational attrition

As DRA noted in its protest, in Decision 88-08-061 (GTEC's 1988 General Rate A.87-01-002), we adopted a 2.0% contract increase for GTEC's hourly employees and a 4.2% increase for its management employees, which equates to a weighted growth in composite salaries and wages factor of 3.34%. The advantage of using these rates is that they are readily verifiable, they reflect contract agreements, and they are specific to GTEC (unlike a national index).

On the other hand, GTEC recommends the use of DRI's Consumer Price Index of 5% to estimate the increase in wages and salaries. The advantage of this index is that it is not biased toward or against GTEC and is certainly verifiable through national publications. The weighted growth in composite salaries and wages factor with this index is 5.40%. At various times, both the utility and DRA have recommended the use of CPI in estimating future trends. We believe that the 2% hourly wage increase may be too low and 5% may be too high, especially when we consider that the contract will run for three years and contracted rate increases frequently decline over the life of the contract.

For this 1989 GTEC attrition year we will use a 4.7% salary rate increase for both hourly and management employees. This results in a weighted growth in composite salaries and wages factor of 5.14%. The 4.7% index is DRI's November estimate of the 1989 CPI index. This more recent estimate is about the midpoint of the proposed alternatives of DRA and GTEC; the single factor preserves the relative differential between hourly and management compensation during attrition years and it is readily verifiable. We adopt this estimate for GTE this year because the labor contract is not in place and there is adequate protection for ratepayers in the productivity factor of 5% imputed by the attrition formula for GTEC.

The revenue requirement effect of this revision is discussed below in the section on Labor and Labor Overheads. To the extent discussed above, DRA's protest is granted.

DISCUSSION

Operational Attrition

During our review we corrected several mathematical and input errors in GTEC's workpapers. We also adjusted the composite salaries and wages factor and the non-labor escalation factor. The effect of our corrections and changes is an additional revenue requirement reduction of $12,460,000 as discussed below.

Revenue growth

We corrected several input errors, removed or added rate awards which had been incorrectly adjusted, and corrected mathematical errors in the calculation of revenue per access line growth. The resulting growth in revenue per access line factor is 5.06%. The effect of these corrections is an additional revenue requirement reduction of $8,818,000.

Labor and Labor Overheads

As discussed previously, we will use 4.7% wage and salary increases for all employees, management and hourly, instead of GTEC's September 1988 CPI forecast for All Urban Consumers of 5% or DRA's proposed 2% for hourly and 4.2% for management adopted in D.88-08-061. The 4.7% results in a growth in composite salaries and wages factor of 5.14%. This adjustment plus a mathematical correction in the calculation of wage and salary indices result in an additional revenue requirement reduction of $2,281,000.

Non-Labor Escalation Factor

For its estimate of 1989 non-labor escalation factor, GTEC used the 1989 forecast for Domestic Demand published by Data Resources Incorporated (DRI) in September 1988, an index of 4.50%. In D.85-03-042 (GTEC's 1985 Attrition Decision) the Commission adopted DRA's approach to developing non-labor escalation factor and directed that such approach be used in future attrition filings.[6] DRA's approach which gives weights to various indices from DRI produces a 1989 non-labor escalation factor of 4.51%. We will adopt the 4.51% non-labor escalation factor as reasonable and also place GTEC on notice that for future attrition filing DRA's methodology be used to develop non-labor escalation factor. The revenue requirement associated with this change is an increase of $47,000.

Miscellaneous Corrections

---

6 "We will adopt staff's approach for PacBell and will apply it to General as well for these and future attrition filings..." D.85-03-042, page 29.

In calculating the Change in Expenses component in the Attrition Year Federal Income Tax/California Corporate Franchise Tax (FIT/CCFT) GTEC neglected to include the change in Ad Valorem Taxes. We corrected this error and a mathematical error in the end of year Deferred Tax Reserve calculation. The revenue requirement effect of these two changes is a further reduction of $1,408,000.

ADDITIONAL ADJUSTMENTS TO ATTRITION YEAR REVENUE REQUIREMENT

Financial Attrition

GTEC was required to make a financial attrition filing for 1989 by D.87-12-070 (GTEC's interim rate case decision) and D.88-06-024 (DRA's Petition to modify Resolution T-12079). GTEC filed its financial attrition application, A.88-07-017, on July 15, 1988. The revenue requirement increase that GTEC included in this advice letter is based on its proposed capital structure in its application. Today's decision on A.88-07-017 adopts a capital structure, rate of return and return on equity that is different from GTEC's proposed. The proposed and adopted capital structures are shown in the table below:

GTEC Proposed

	% Capital Structure	Cost Factors	Weighted Cost
Long Term Debt	38.2%	9.03%	3.45%
Short term Debt	1.9	8.75	0.17
Preferred Stock	2.7	6.35	0.17
Common Equity	57.2	14.50	8.29
		Proposed Rate of Return	12.08%

ADOPTED

	% Capital Structure	Cost Factors	Weighted Cost
Long Term Debt	40.5%	9.03%	3.66%
Short term Debt	2.0	8.20	0.16
Preferred Stock	2.5	6.34	0.16
Common Equity	55.0	13.00	7.15
		Adopted Rate of Return	11.13%

Using the adopted rate of return of 11.13%, the financial attrition results in a revenue requirement increase of $13,660,000.

USOA Rewrite Impact for 1989

Ordering Paragraph 3 of D.88-09-030 (USOA Rewrite proceedings) requires each telephone utility to file the reduced revenue requirement impacts from the adopted USOA in its annual attrition filing, until its next rate case proceeding. GTEC, in compliance with the above order, included in this advice letter filing the 1989 reduced revenue requirement impact of $11,527,000, which is adjusted to $11,513,000 to reflect the rate of return which we are adopting in the decision on GTEC's 1989 Financial Attrition Application, A.88-07-017..

Phase-down of DEM factor

Ordering Paragraph 8 of D.87-12-063, in which the Commission adopted the FCC's Part 36, Separations Manual, requires that revenue requirement impacts from adoption of Part 36 be addressed in their next general rate proceeding or General Order 96 filing. In compliance to this order, GTEC included in this advice letter filing the revenue requirement impact of the second year of a five-year transition of the weighted DEM [7] allocation factor to unweighted DEM. The effect is a revenue requirement increase of $6,632,000.

Advice Letters

The attrition mechanism (Appendix C, Page 1 of D.86-12-099) states that "test year revenues are adjusted to reflect timing of rate awards and factors such as CPE." GTEC did not include in this filing the impacts of advice letters for new services in its revenue requirement. The inclusion of advice letters for the period from January 1, 1987 through June 30, 1988 is a revenue requirement increase of $2,598,000.

---

7 Dial equipment minutes (DEM) is a factor used in separtions to allocate total local dial switching equipment into interstate and intrastate jurisdictions. It is somewhat analagous to the SLU factor.

BILLING SURCHARGE/SURCREDIT

The incremental billing surcharge is calculated by dividing the adopted attrition revenue requirement reduction of $30,798,000 by the estimated 1989 billing base of $1,786,754,173. Therefore the incremental surcredit is

($30,798,000) / $1,786,754,173 = (1.72%).

FINDINGS OF FACT

1. GTEC filed its 1989 operational attrition Advice Letter No. 5168 September 30, 1988, requesting a revenue requirement increase of $30,942,000.

2. The request reflects 1989 operational attrition, 1989 financial attrition and several other adjustments resulting from governmental and regulatory action.

3. The Division of Ratepayer Advocates (DRA) protested the inclusion of the impacts of GTEC's 1989 depreciation technical update and the capitalization change for FCC Account 608, and to GTEC's use of the 1989 Consumer Price Index (CPI) forecast for All Urban Consumer from Data Resources,Inc. U.S. Review, September 1988 as estimate for the 1989 contract increase for hourly and management employees.

4. GTEC included in its 1989 operational attrition revenue requirement the impact of its proposed 1989 technically updated depreciation rates, a reduction of $1,227,000.

5. The attrition formula allows for inclusion of the revenue requirement effects for technical update of depreciation rates previously approved by the Commission.

6. The Commission has not yet adopted GTEC's 1989 technical update of depreciation rates.

7. It is premature to consider GTEC's estimated revenue requirement impact of the 1989 technically updated depreciation rates.

8. In recognition of GTEC's request for inclusion of the revenue requirement from technical update of depreciation rates, we will direct GTEC to make an advice letter filing when its 1989 technical update of depreciation rates are approved.

9. FCC Docket No. 87-135, released July 22, 1988, resulted in changes in expense items in FCC Account 608, effective January 1, 1989.

10. GTEC included in its advice letter filing an estimated revenue requirement increase of $578,000 for this capitalization change in FCC Account 608.

11. Decision 87-12-063, Ordering Paragraph 11, directs utilities to use Commission advice letter procedures to address subsequent changes to FCC's USOA (Part 32).

12. A policy change such as recovery of revenue requirement due to FCC USOA revisions adopted by this Commission should be handled through a separate filing so that the Commission and interested parties in the USOA proceedings are allowed more time to review the appropriateness and the impacts of the change.

13. GTEC should make a separate filing to request the revenue requirement resulting from the changes in FCC account 608 expense.

14. GTEC used DRI's Consumer Price Index of 5% as an estimate for the 1989 contract wage increase.

15. The current labor contract expires in March 1989 and negotiations are presently under way.

16. Decision 88-08-061 (GTEC's 1988 General Rate Case) adopted a 2.0% contract increase for GTEC's hourly employees and a 4.2% increase for its management employees.

17. For this 1989 GTEC attrition year it is reasonable to use 4.7% for both hourly and management wage and salary increases, because it is readily verifiable; it is about the midpoint of the proposed values of DRA and GTEC; and the single factor preserves the relative differential between hourly and management compensation during attrition years.

18. The attrition formula provides protection to ratepayers by including a productivity improvement factor in the calculation of labor costs.

19. The corrected growth in revenue per access line factor is 5.06%.

20. The appropriate Non-labor Escalation Factor is calculated to be 4.51% using DRA's method which was adopted in D.85-03-042.

21. Section M of D.86-12-099 allows inclusion of impacts of governmental and regulatory actions which have a definitely quantifiable effect on the attrition year revenue requirement.

22. Today's decision on GTEC's financial attrition A. 88-07-017, adopts a rate of return of 11.13%. The impact of this decision is a revenue requirement increase of $13,660,000.

23. The inclusion of the impact of the USOA Rewrite in this filing is in compliance with D.88-09-030. When adjusted for the capital structure adopted in today's financial attrition decision, the impact is an increase in revenue requirement of $11,513,000.

24. It is reasonable to include the impact of the phase-down of the DEM factor in GTEC's operational attrition. The revenue requirement increase is $6,632,000.

25. It is reasonable to include the incremental revenue requirement due to advice letters for new services, effective from January 1, 1987 to June 30, 1988. This is an increase of $2,598,000.

26. The reduction of $30,798,000 shown in column 2 of Appendix A is reasonable for GTEC's 1989 financial and operational attrition revenue requirement and will be adopted.

27. GTEC's estimated 1989 intrastate billing base to be $1,786,754,173 is reasonable. From this the incremental intrastate surcredit for 1989 operational and financial attrition is calculated at 1.72%.

28. DRA's protest is granted to the extent discussed in the above text.

IT IS ORDERED that:

1. Within five working days, GTE file a supplemental advice letter to reflect the adopted operational and financial attrition revenue requirement reduction of $30,798,000 and incremental intrastate surcredit to be effective on January 1, 1989. The surcredit will be applied on a "bill and keep" basis.

2. In recognition of GTE's request to include the revenue requirement effects of technical update of 1989 depreciation, we direct GTEC to file an advice letter with supporting workpapers, requesting the impact of technical update of 1989 depreciation rates on revenue requirement 30 days following Commission approval of updated rates. The advice letter shall propose a bill and keep surcharge/surcredit subject to Commission approval.

3. GTEC may file a separate advice letter requesting revenue requirement changes for the change in capitalization expense in account 608 resulting from the FCC USOA.

4. The effective date of this Resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1988. The following Commissioners approved it:

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

Executive Director

Appendix A

GTE California Incorporated
1989 Operational Attrition
(000)

	1989 Attrition as filed	1989 Attrition Adopted
Revenue	$2,075,551	$2,085,093
less Uncollectibles	19,586	19,700
NET REVENUE	2,055,965	2,065,393
Labor and Labor overheads	480,546	478,104
Material, Rents and Services	527,645	527,696
Depreciation Expense	460,031	460,031
SUBTOTAL EXPENSE	1,468,212	1,465,831
Ad Valorem	55,264	55,264
FIT/CCFT	154,324	158,068
SUBTOTAL TAXES	209,588	213,332
TOTAL OPER. EXPENSE & TAX	1,677,800	1,679,163
NET INCOME	378,166	386,230
Plant in Service	5,658,262	5,658,262
Working Cash	16,111	16,073
Materials and Supplies	18,862	18,862
Depreciation Reserve	1,852,587	1,852,587
Deferred Tax Reserve	(545,694)	(544,824)
RATE BASE	3,294,955	3,295,787
times AUTHORIZED RATE OF RETURN	0.1090	0.1090
TOTAL NET REVENUE REQUIREMENT	359,150	359,241
NET INCOME AT AUTHORIZED RATES	378,165	386,230
INCREMENTAL NET REVENUE	(19,015)	(26,989)
times Net to Gross Multiplier	1.5630	1.5630
INCREMENTAL REVENUE REQUIREMENT	(29,715)	(42,175)
Depreciation Technical Update	(1,227)	-
Capitalization Change:FCC Acct 608	578	-
Financial Attrition 1989	66,201	13,660
USOA Adjustment for 1989	(11,527)	(11,513)
DEM Transition	6,632	6,632
Advice Letters	-	2,598
	==========	==========
ATTRITION YEAR REV. REQUIREMENT	$30,942	($30,798)

(Red Figure)

OCT 21 1988

STATE OF CALIFORNIA
GEORGE DEUKMEJIAN, Governor

PUBLIC UTILITIES COMMISSION
VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

October 20, 1988

The Honorable Victor Weisser
Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, Ca 94102

Dear Mr. Weisser:

Re: Protest of the Division of Ratepayer Advocates to GTE California's Advice Letter No. 5168

Pursuant to General Order 96A (III H) and for the reasons set out below, the Commission's Division of Ratepayer Advocates hereby protests GTE California's Advice Letter No. 5168 filed on September 30, 1988.

BACKGROUND

A. Depreciation Represcription

GTE has included a (negative) $1.227 million revenue requirement reduction for 1989 depreciation represcription. The Commission has not approved GTE 1989 depreciation rates so it is premature to include this amount in this 1989 attrition filing. GTE should file another advice letter when and if the Commission approves GTE 1989 depreciation rates.

B. Labor and Labor Overheads

DRA protests the GTE forecast of growth in composite salaries and wages for 1989. Since GTE labor contract terminates in March 1989, it estimated a 5% contract increase for management from April 1989 to December 1989. The GTE source is 1989 CPI forecast for All Urban Consumer from Data Resources U.S. Review, September 1988.

DRA believes a more appropriate approach would be to use the same contract increase in 1988 for 1989. GTE used 2.0% for hourly and 4.2% for management in 1988. Lacking specific estimate and labor contract for 1989, DRA believes that the Commission should use the 1988 amount for 1989. In addition, this approach would be consistent with Pacific Bell procedure which based its 1989 forecast on its 1988 contract increase. Pac Bell's contract terminates in August 1989.

The resultant revenue requirement reduction of using the 1988 contract increase for 1989 for GTE would be about $11 million.

C. Capitalization Change for FCC Account 608

This item pertains to an FCC accounting change to revise the expensing limit for certain types of plant items from $200 to $500. DRA is opposed to GTEC's inclusion of this item in its operational attrition filing for the following reasons:

1. The CPUC has never formally adopted this expense limit change for its jurisdictional purposes, nor has any utility petitioned the CPUC to adopt the accounting change.

2. If adopted, GTEC's expensing treatment would be inconsistent with the other telephone utilities in the state that would be following a $200 expensing limit.

3. It is inconsistent with Pac Bell operational attrition filing which does not include any provision for the expense limit change.

4. While the FCC issued a ruling on this change in July, the matter is still pending as the FCC has received a number of petitions for reconsideration on its ruling; no imminent decision is expected from the FCC.

From the DRA perspective, the matter is still contentious and thus not appropriate for attrition consideration; essentially the benefit of this accounting change to the ratepayer must be established and if such benefits exist (e.g. productivity savings) they should appropriately be rolled into the estimated financial impact.

Respectfully submitted,

Rufus G. Thayer

Rufus G. Thayer
Staff Counsel

RGT:afm

cc: Service List ALJ Ruling App. 88-05-009 dated July 18, 1988.

GTE

Executive Offices

GTE California Incorporated

One GTE Place
Thousand Oaks, California 91362-3811
805 372-6000 — Datatel 805 372-8282

In Reply Refer To
3300 - 500
R2.1H1

October 24, 1988

OCT 2 1988

Mr. Victor Weisser
Executive Director
Public Utilities Commission
State of California
505 Van Ness Avenue
San Francisco, CA 94102

Re Reply of GTE California Incorporated (U 1002 C) to Protest of Division of Ratepayer Advocates to Advice Letter No. 5168

Dear Mr. Weisser:

GTE California Incorporated ("GTEC"), pursuant to General Order 96-A, subsection III.H., hereby responds to the protest filed by the Division of Ratepayer Advocates ("DRA") to its 1989 operational attrition Advice Letter No. 5168. GTEC submits, for the reasons set forth hereinbelow, that DRA's protest is without merit and should be rejected.

A. Depreciation Represcription

DRA contends that the impacts of GTEC's 1989 depreciation represcription filing should not have been included with the operational attrition advice letter because the Commission has not yet formally approved the new depreciation rates for 1989. Instead, DRA contends that GTEC should file another advice letter when and if the new rates are approved. DRA's position in unreasonable.

It has long been the accepted practice of this Commission to permit GTEC to include the effects of attrition year depreciation represcriptions as part of its operational attrition advice letter filings. DRA has provided no convincing reasons for changing that practice for the 1989 attrition year.

In D. 86-12-099, this Commission reaffirmed GTEC's right to file for depreciation technical updates for the attrition years between general rate cases. In accordance with that Decision, GTEC submitted its proposed new rates to the DRA on June 9, 1988. Neither DRA nor any interested party who was served with the DRA's Notice to Interested Parties, dated July 14, 1988, has specifically objected to the reasonableness of the new rates. The only comments submitted were those filed by API Alarm Systems, dated August 11, 1988. In those comments, API deferred to "the expertise of DRA in determining the depreciation values contained in GTEC's request." It merely asked DRA to look carefully at the proposed changes to one account, Account No. 2220. However, the concerns which generated API's letter were based on a misinterpretation of the cover letter that accompanied GTEC's proposed depreciation rate updates. GTEC responded to the issues raised by API in a letter dated October 5, 1988.

Given the absence of any opposition to the new depreciation rates, GTEC is confident that the Commission will approve the new rates for 1989 this year prior to the effective date of any change in GTEC's billing surcharges to reflect the impact of operational attrition. In light of the Commission's expressed desire to combine the revenue requirement impacts of the many advice letter filings currently outstanding as a result of this Commission's decisions in the many proceedings that have been held over the past year which have had an impact on the revenue requirement of GTEC and other utilities, it makes no sense to bifurcate this issue from Advice Letter No. 5168 and to require GTEC to submit another advice letter. It is much more efficient in terms of the resources of all parties to leave the depreciation technical updates with Advice Letter No. 5168 so that the impact can be properly reflected in the surcharge that becomes effective January 1, 1989. In the unlikely event that the new rates are not approved before the end of the year, there will be ample opportunity to remove the impact of the proposed depreciation rate changes from the new billing surcharges.

B. <u>Labor and Labor Overheads</u>

DRA contends that GTEC should have used the same factor that was adopted by the Commission for purposes of GTEC's 1988 test year rate case to compute the growth of its wages and salaries in 1989. The only reason given for this recommendation is that Pacific Bell based its estimated labor cost increases on the increases contained in its labor agreement for 1988.

First, GTEC hopes that the Commission is not inclined to reject GTEC's methodology simply because it is different from the one submitted by Pacific Bell. What Pacific Bell does or does not do should not DICTATE how the proposals of other utilities are evaluated. Each proposal should be considered independently and evaluated in light of that company's own operating conditions. It would also be unreasonable to impose Pacific Bell's methodology on GTEC for the following specific reasons.

First, GTEC's labor agreement expires on March 4, 1989, whereas Pacific Bell's contract does not expire until August 1989, approximately six months later. Thus, Pacific Bell's current labor agreement will be in effect for almost two-thirds of the attrition year, whereas GTEC's contract will be in effect for only two months. This significant difference alone provides more than a sufficient basis for the use of different estimating procedures by the two companies.

Second, the wage increases given under GTEC's collective bargaining agreements tend to be highest in the first year of the contract. This was the case with respect to GTEC's 1985 contract, which expires on March 4, 1989. It is, therefore, inappropriate to use the increases applicable to the last year of a contract to compute the labor costs that will be included in the first year of the succeeding contract.

In addition, when GTEC negotiated its last labor contract, interest rates and inflation were declining. Therefore, GTEC was able to negotiate a contract with relatively small wage increases. Since mid-year 1987, however, inflation and interest rates have increased significantly. This, in turn, has led to upward pressure on wages and salaries. Therefore, it is inappropriate to rely on data in a labor agreement that was negotiated when economic conditions were substantially different to determine GTEC's labor costs for 1989.

Third, GTEC is now in negotiations with the Communications Workers of America regarding a new labor agreement to replace the one that will expire on March 4, 1989. It would obviously be inappropriate to include in an attrition filing specific information regarding what GTEC expects the new wages will be in that agreement since such disclosure could prejudice the negotiations. As a reasonable alternative, GTEC elected to use the 1989 CPI forecast for All Urban Consumers published in September 1988 by the well respected firm of Data Resources Incorporated. Given California's strong economy, the use of national data provides a conservative base to project increases in GTEC's labor costs for purposes of 1989 operational attrition.

Finally, even if the Commission concludes that DRA's alternative recommendation is reasonable, a position which GTEC believes is untenable, the revenue requirement impact is significantly less than the $11 million asserted by DRA in its protest.

C. Capitalization Change for FCC Account 608

The DRA also opposes GTEC's use of the recently adopted FCC accounting rules which allow utilities to expense certain items of plant costing up to $500 instead of the previous limit of only $200. DRA bases its objection primarily on the fact that the Commission has not specifically approved the accounting change, Pacific Bell did not reflect the change in its filing, and on the basis that the public benefit of the change has yet to be formally determined.

GTEC believes that the implementation of the FCC's new accounting rule for purposes of its 1989 operational attrition filing is fully justified. The intrastate revenue requirement impact of the change is only $455,000. The costs that GTEC is likely to incur in connection with administering the two separate sets of accounting records that would be required if the Commission elects not to concur with the FCC's rule change could well exceed this amount. The DRA's suggestion that hearings should be held to determine whether the change is in the public interest also does not make sense given the relatively minor impact of the accounting rule change.

The FCC adopted the rule change in order to relieve carriers of the burdens of tracking large volumes of items which are of relatively little consequence in relation to total plant in service. The expense limit was increased from $200 to $500 largely to reflect cost increases that have occurred since the $200 limit was originally set in 1981 and to recognize that the $200 limit itself was too low at the time of its adoption. (In re Revision to Amend Part 31 Uniform System of Accounts for Class A and Class B Telephone Companies as it Relates to the Treatment of Certain Individual Items of Furniture and Equipment Costing $500 or Less, CC Docket No. 87-135, released July 22, 1988, FCC 88-220, p. 2.)

This Commission adopted the FCC's prior $200 expense limit when it was established in 1981. GTEC believes it should now adopt the new $500 limit for purposes of GTEC's 1989 attrition filing given the relatively small revenue requirement impact. The benefits of uniformity in accounting treatment on both a state and interstate basis more than offset the slight revenue requirement increase that results from the change.

For all of the reasons set forth above, the DRA's protest of GTEC's 1989 operational attrition Advice Letter No. 5168 should be rejected.

Respectfully submitted,

Kenneth K Okel

KENNETH K. OKEL
Associate General Counsel -
Corporate and Regulatory Matters

KKO:aed/1021A
cc: Service List per ALJ Ruling
A. 88-05-009, Dated July 18, 1988