(9)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Telecommunications Branch

RESOLUTION NO. T-13037
December 19, 1988

R E S O L U T I O N

PACIFIC BELL. ORDER REQUIRING PACIFIC BELL TO REDUCE ITS ANNUAL REVENUE REQUIREMENTS BY APPROXIMATELY $289 M FOR ATTRITION YEAR 1989 AND TO REFLECT THE REDUCTION BY AN INCREMENTAL BILLING SURCREDIT OF 4.093% EFFECTIVE JANUARY 1, 1989.

SUMMARY

As required by Ordering Paragraph 4 of Resolution No. T-12079 dated April 13, 1988, Pacific filed Advice Letter No.15456 on September 30, 1989, Supplement A on November 18, 1988, and Supplement B on December 1, 1988 requesting a revenue requirement reduction of approximately $175.279 million for 1989 attrition year. To implement this, Pacific proposes to reflect the adjustment in the billing surcharge/surcredit effective January 1, 1989.

Based on our review, Pacific's 1989 operational and financial attrition revenue requirement is a reduction of $289.013 million as shown in Appendix A of this resolution. The additional revenue requirement reduction of $113.734 million is the net revenue requirement impacts resulting from: (1) adjustments made to reflect the actual 1989 Social Security Tax Wage Base Increase in Operation Attrition, (2) our companion decision today on Pacific's 1989 Financial Attrition Application A.88-07-019, which adopted a return of equity of 13.00% and rate of return of 11.34% (3) Resolution T-13030 dated November 23, 1988, which authorized Pacific's represcribed depreciation rates effective January 1, 1989, (4) FCC separation changes on Category 4.23 COE and Revenue Accounting expenses, (5) 1989 changes of Uniform System of Accounts Rewrite, (6) 1989 Tax Reform impacts, and (7) other adjustments. Their respective revenue requirement impacts are listed below:

	1989 Attrition Revenue Requirement Adjustment $(000)
Operational Attrition	$2,677
Financial Attrition	(115,184)
Represcription	(3)
Section M - FCC Separations Changes	(126)
USOAR 1989 Changes	772
Tax Reform 1989 Changes	(1,200)
Other Adjustments	(670)
Adjusted Total	($113,734)

These items and their revenue requirement impacts are discussed below.

Dividing the $289.013 million revenue requirement reduction by Pacific's estimated 1989 billing base of $7,062.101 million results in an incremental bill and keep surcredit of 4.093%.

BACKGROUND

This is Pacific's third attrition year filing following its 1986 General Rate Application A.85-01-034. Pacific filed Advice Letter No. 15215 and its Supplement No. 15215A filed on February 24, 1987 requesting 1987 attrition. Resolution T-12007 issued on March 25, 1987 ordered a 1987 Attrition Year revenue requirement reduction of $191.041 million. Then on January 28, 1988, Pacific filed Advice Letter No. 15343 for 1988 attrition. Resolution T-12079 dated April 13, 1988 ordered a revenue requirement reduction of $64.911 million.

Ordering Paragraph 4 of Resolution T-12079 states:

" 4. Pacific shall file an advice letter for 1989 operational attrition by October 1, 1988 using the adopted methodology (D.85-03-042, as modified by D.86-12-099) as implemented in this Resolution."

DISCUSSION

In accordance with Resolution T-12079, Pacific filed Advice Letter No.15456 on September 30, 1988, Supplemental Advice Letter No. 15456A on November 18, 1988, and Supplemental Advice Letter No. 15456B on December 1, 1988 requesting a revenue requirement reduction of $175.279 million. The following is a comparison of Pacific's requested and our adopted revenue requirement reduction for attrition year 1989.

1989 Attrition
Gross Revenue Requirement
$(000)

	PACIFIC	ADOPTED
Operational Attrition	($210,401)	($207,724)
Financial Attrition	(11,642)	(126,826)
Represcription	(10,786)	(10,789)
FCC Separations Changes	22,673	22,547
Deferred Tax Adj'mt.	4,244	4,244
USOAR 1989 Changes	(23,433)	(22,661)
Tax Reform 1989 Changes	(4,439)	(5,639)
Gain on Sale of Land	(1,447)	(1,447)
Advice Letters	59,952	59,282
Total	($175,279)	($289,013)

As the result of our review, Pacific's requested amount is increased by $113.734 million totaling a revenue requirement reduction for attrition year 1989 of $289.013 million.

Operational Attrition

Pacific's 1989 operational attrition revenue requirement reduction of $210.401 million is developed consistent with the attrition methodology adopted in D.86-12-099 and as implemented in Resolution T-12079. Our adjustments made to the Growth in Composite Salaries & Wages factor and Growth in Labor & MR&S Expenses factor result in an additional revenue requirement increase of $2.677 million. These adjustments are made to correct for the higher Social Security Tax Wage Base Increase of $48,000 reflected in Standard Federal Tax Reports, No.54 dated October 26, 1988; Pacific used $47,100. The separation factors and the productivity factor of 2.9% used in this filing are those adopted in Phase II Results of Operations D.87-12-067.

The factors for growth in access lines and growth in revenue per access line for 1989 attrition are determined by using 60 raw data points in the linear regression equation in conformance with Ordering Paragraph 2 of D.88-09-028 dated September 14, 1988, which states:

"2. In their 1989 operational attrition advice letter filings, due October 1, 1988, Pacific Bell and GTE-C shall use 60 "raw" (i.e., actual monthly) data points in the linear regression equation to determine the growth rates in access lines and in revenue per access lines."

Pacific's determination of expenses for Labor and Labor Overheads is consistent with the adopted methodology. The calculation uses the 2.9% productivity factor set forth in Phase II, D.87-12-067. The factor for growth in composite salaries and wages is developed in conformance with Ordering Paragraph 3 of D.88-09-028, which states:

"3. In its 1989 operational attrition advice letter filing, Pacific Bell shall include only specific, quantifiable changes in contractual elements relative to its Team Incentive Plan and Benefits Plan, in accordance with the preceding discussion."

Accordingly, the factor for growth in composite salaries and wages represents only contractual wage increases, team incentive awards and social security taxes. The contractual wage increases and team incentive awards are based on its current contract, which expires in August 1989.

Financial Attrition

On July 15, 1988, Pacific filed its 1989 Financial Attrition Application A.88-07-019. In A.88-07-019, Pacific requested a return of equity of 14% and rate of return on intrastate rate base of 11.96%. The current authorized return on equity is 15% and rate of return is 12.12%. Based on the requested 14% return on equity and 11.96% rate of return, the 1989 financial attrition revenue requirement is a reduction of $11.642 million.

Today's decision on Pacific's 1989 Financial Attrition A.88-07-019 adopts a return on equity of 13% and a rate of return of 11.34%, which are lower than Pacific's requested 14% return on equity and 11.96% rate of return. The effect of adopting a 11.34% rate of return is an additional revenue requirement reduction of $115.184 million, resulting in a total revenue requirement reduction of $126.826 million for 1989 financial attrition.

REPRESCRIPTION

In D.85-08-047, the Commission adopted the use of Equal Life Group (ELG) depreciation methodology for certain categories of telephone plant for Pacific Bell. Using the ELG methodology adopted in D.85-08-047, the ELG impact calculated by Pacific is a revenue requirement increase of $36.723 million for 1989 attrition year.

Commission Decision No. 88-11-055 issued November 23, 1988 eliminated the use of ELG depreciation methodology effective January 1, 1989. In addition, Commission Resolution T-13030 dated November 23, 1988 granted the represcribed depreciation rates for all telephone plant accounts to be effective January 1, 1989.

On December 1, 1988, Pacific filed Advice Letter Supplement No. 15456B to reflect the newly adopted reprecribed depreciation rates and the elimination of ELG depreciation methodology in its 1989 attrition and reduced the requested revenue requirement increase of $36.723 million by $47.509 million. The result is a revenue requirement reduction of $10.786 million. The amount, adjusted for the adopted rate of return of 11.34%, is a $10.789 million revenue requirement reduction.

FCC SEPARATIONS CHANGES

In D.87-12-063, the Commission adopted the Federal Communications Commission's (FCC's) Part 36 Separations Manual. On August 8, 1988 the FCC released Order on Reconsideration in CC Docket Nos. 78-72, 80-286, and 86-297 which amended, effective January 1, 1989, Parts 36 rules for Central Office Equipment (COE) Category 4.23 and reinstated the former Part 67 separations procedures for Other Billing and Collection expenses of Revenue Accounting. The effect of these changes is a revenue requirement increase of $32.693 million ($2.105 million for Category 4.23 COE and $30.588 million for Other Billing and Collection) based on one-month data.

In its advice letter, Pacific requests the $32.693 million under Section M of D.87-12-099, which states:

"We will not close the door to a review in the attrition year of the 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 complex and protracted."

In its Supplemental Advice Letter No. 15456A filed November 18, 1988, Pacific revised the separation impact to $22.673 million. The revised amount reflects six months of data and the FCC's decision released October 21, 1988 to delay the effective date of its Order on Reconsideration from January 1, 1989 to April 1, 1989.

After reviewing Pacific's workpapers, we find the requested amount of $22.673 million does satisfy the requirements under Section M of D.87-12-099 and will be included in the 1989 attrition year revenue requirement. Further, the inclusion of the requested amount does not conflict with the overall policy goal of avoiding controversies since to date, no protest was received. Adjusting for the adopted 11.34% rate of return reduces the separation impact to a revenue requirement increase of $22.547 million.

1989 IMPACTS OF TAX REFORM

Pacific has included in this advice letter the effects of Tax Reform Act of 1986 (TRA86), Senate Bill 572 (S.B. 572), and Omnibus Budget Reconciliation Act of 1987 (BRA 87) in compliance with D.88-01-061, as modified by D.88-10-061 dated October 26, 1988. The effect is a revenue requirement reduction of $4.439 million in its advice letter. Together with the additional revenue requirement reduction of $1.2 million resulted from the use of 11.34% rate of return, the total 1989 revenue requirement impact is a reduction of $5.639 million.

UNIFORM SYSTEM OF ACCOUNT REWRITE

In compliance with Ordering Paragraph 3 of Decision No. 88-09-030 dated September 14, 1988, which states:

"3. Each utility shall file the reduced revenue requirement impacts from the adopted USOA in its annual attrition filing, until its next rate case proceeding."

Pacific has included in the 1989 operational attrition filing the incremental revenue requirement reduction of $23.433 million to reflect the reduced revenue requirement impact in 1989 resulting from the adopted USOA. The incremental revenue requirement reduction is based upon annual projected balance filed in Advice Letter No. 15457 and includes impacts of Capital to Expense shifts, and Separations and Settlements.

As a result of the adopted 11.34% rate of return, Pacific's 1989 USOAR incremental revenue requirement reduction of $23.433 million is adjusted by revenue requirement increase of $0.772 million resulting in a total revenue requirement reduction of $22.661 million for attrition year 1989.

OTHER ADJUSTMENTS

Pacific's 1989 attrition filing includes the revenue requirement of $59.952 million from Advice Letters for new or revised services implemented during 1988 and the Billing and Collection contract with AT&T. This amount is reduced to $59.282 million to reflect an adjustment of negative $0.670 million. This adjustment is made to account for certain advice letters that were filed in 1987 but did not become effective until 1988.

BILLING SURCREDIT

Pacific in this advice letter requests the revenue requirement reduction be implemented by an incremental bill and keep surcredit of 2.482% based on an estimated 1989 billing base of $7,062,101,000. Dividing the adopted revenue requirement reduction of $289.013 million by $7,062,101,000 results in an incremental bill and keep surcredit of 4.093%.

FINDINGS OF FACT

1. Pacific's 1989 operational attrition, Advice Letter No. 15456, is filed in accordance with Resolution T-12079 dated April 13, 1988.

2. Pacific developed its factors for growth in access lines and growth in revenue per access line by using 60 raw data points in conformance with Decision No. 88-09-028.

3. Adjustments made to the Growth in Composite Salaries & Wages factor and Growth in Labor & MR&S Expenses factor to account for the actual 1989 Social Security Tax Wage Base Increase of $48,000 is reasonable. These adjustments result in a revenue requirement increase of 2.677 million.

4. The separation factors and productivity factor of 2.9% used in this Advice Letter are those adopted in Phase II Results of Operations D.87-12-067.

5. The factor for growth in composite salaries and wages is developed in conformance with D.88-09-028.

6. The requested 14% return on equity and 11.96% rate of return are higher than the adopted return on equity of 13% and rate of return of 11.34%.

7. Commission Decision No. 88-11-055 eliminated the use of Equal Life Group (ELG) depreciation methodology for certain categories of telephone plant and Resolution T-13030 granted the represcribed depreciation rates for all telephone plant accounts effective January 1, 1989.

8. Pacific's request to reflect the newly adopted represcribed depreciation rates and the elimination of ELG depreciation methodology in its 1989 attrition and reduce the requested ELG impact of $36.723 million revenue requirement increase by a revenue requirement reduction of $47.509 million is appropriate.

9. Pacific's request to include FCC separation changes in the 1989 attrition filing satisfies the requirements of Section M of D.87-12-099.

10. Commission Decision No. 88-09-030 directs Pacific to file the reduced revenue requirement impacts from the adopted USOA in its annual attrition filing.

11. It is reasonable to include the advice letters that were filed in 1987 but did not become effective until 1988.

12. Pacific's request to reflect the revenue requirement reduction by adjusting the billing surcharge/surcredit effective January 1, 1989 is reasonable.

IT IS ORDERED THAT:

1. The 1989 attrition year intrastate results of operation and revenue requirement reduction of $289.013 million as set forth in Appendix A of this resolution are adopted.

2. The incremental bill and keep surcredit of 4.093% shall become effective January 1, 1989.

3. Within five days of the effective of this resolution, Pacific shall file a supplemental advice letter with revised tariff sheets incorporating the adopted incremental bill and keep surcredit of 4.093% to its current billing surcharge/surcredit to be effective January 1, 1989. Such revised billing surcharge/surcredit shall be applied to bills rendered on and after the effective date of the filed tariff.

4. This Resolution is effective 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

Victor Weisser

EXECUTIVE DIRECTOR

PACIFIC BELL
1989 ATTRITION YEAR
GROSS REVENUE REQUIREMENT
$(000)

	Pacific 1989 Attrition	Adopted 1989 Attrition
1. INTRASTATE REVENUES	7,451,364	7,451,364
2. LABOR AND LABOR OVERHEADS	2,701,329	2,703,943
3. MATERIALS RENTS & SERVICES	1,480,246	1,480,246
4. DEPRECIATION EXPENSE	1,244,428	1,244,428
5. FEDERAL AND STATE INCOME TAXES	492,776	491,723
6. AD VALOREM TAXES	164,993	164,993
7. OTHER TAXES	7,400	7,400
8. BALANCE NET REVENUE	1,360,192	1,358,631
RATE BASE COMPONENTS		
9. TELEPHONE PLANT IN SERVICE	17,657,626	17,657,626
10. PROPERTY HELD FOR FUTURE USE	11,468	11,468
11. WORKING CASH	312,464	312,643
12. MATERIALS AND SUPPLIES	81,053	81,053
13. less: DEPRECIATION RESERVE	5,359,590	5,359,590
14. less: TAX RESERVE	2,506,827	2,506,827
15. NET RATE BASE	10,196,194	10,196,373
REVENUE REQUIREMENT CALULATION		
16. NET RATE BASE	10,196,194	10,196,373
17. times: RATE OF RETURN	0.1212	0.1212
18. RETURN ON RATE BASE	1,235,779	1,235,800
19. less: BALANCE NET REVENUE	1,360,192	1,358,631
20. NET REVENUE REQUIREMENT	(124,414)	(122,831)
21. times: NET TO GROSS MULTIPLIER	1.69114	1.69114
22. GROSS REVENUE REQUIREMENT	(210,401)	(207,724)
ADJUSTMENTS		
23. Represcription	(10,786)	(10,789)
24. FCC Separations Changes	22,673	22,547
25. Deferred Tax Adjustment	4,244	4,244
26. USOAR 1989 Changes	(23,433)	(22,661)
27. Tax Reform 1989 Changes	(4,439)	(5,639)
28. Gain on Sale of Land	(1,447)	(1,447)
29. Advice Letters	59,952	59,282
30. TOTAL ADJUSTMENTS	46,764	45,537
31. Financial Attrition	(11,642)	(126,826)
32. ADJUSTED GROSS REVENUE REQUIREMENT	(175,279)	(289,013)