PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Branch
Commission Advisory & Compliance Division

RESOLUTION T-14235
December 19, 1990

RESOLUTION

RESOLUTION T-14235. PACIFIC BELL. ORDER APPLYING THE ADOPTED PRICE CAP MECHANISM IN COMPLIANCE WITH DECISION NOS. 89-10-031 AND 90-09-084 THROUGH ADJUSTMENTS TO SURCHARGES/SURCREDITS TO BE EFFECTIVE JANUARY 1, 1991.

BY ADVICE LETTER 15821, FILED ON OCTOBER 1, 1990, AS SUPPLEMENTED BY ADVICE LETTER 15821A, FILED NOVEMBER 9, 1990.

SUMMARY

This order authorizes Pacific Bell to effect a $114.027 million revenue requirement decrease associated with its 1991 Annual Price Cap Index Filing (Advice Letter 15821/15821A).

The revenue adjustments reflect the 1991 IntraLATA SPF-to-SLU settlement effects and 1991 InterLATA SPF-to-SLU revenue shift (revenue neutral to Pacific Bell), a 1991 price cap index (economy wide Gross National Product-Price Index, GNP-PI, less productivity adjustment) impact decrease of $13.539 million, and a net Z-factor (exogenous factors whose effects are not reflected in the economy wide GNP-PI) adjustment decrease of $100.488 million. These revenue requirement adjustments result in a $114.027 million decrease that will be reflected in a surcharge/surcredit effective January 1, 1991.

Protests to Pacific's Advice Letter No. 15821 were filed by the Commission's Division of Ratepayer Advocates (DRA) and AT&T Communications of California (AT&T).

The revenue requirement changes are summarized in the following table:

1991 Price Cap Revenue Requirement Change, $000

Note - revenue reduction in ()

	Continued	One-time	Total
Price Cap Impact (0.2 %) without Z-Factors	(13,539)	0	(13,539)
Z-Factors:			
A. USOAR Stepdown	(23,122)	0	(23,122)
B. $200/$500 Expense Limit	9,130	4,763	13,893
C. Compensated Absences	4,540	0	4,540
D. Expensing Station Connections	(19,933)	0	(19,933)
E. State Tax Conformity-VPA	4,303	0	4,303
F. Dial Equipment Minutes	14,759	0	14,759
G. Inside Wire Refund	0	(80,904)	(80,904)
H. Public Packet Switching	(5,124)	0	(5,124)
I. Tax Benefits-Bond Retirement	(8,900)	0	(8,900)
Net Z-Factor Adjustments	(24,347)	(76,141)	(100,488)
Total Price Cap Impact with Z-Factors	(37,886)	(76,141)	(114,027)

BACKGROUND

In our Decision No. 89-10-031, we adopted an incentive-based regulatory framework for Pacific Bell (Pacific) and GTE California Incorporated (GTEC).

Recalling from that decision, we note that "the new regulatory framework centers around a price cap indexing mechanism with sharing of excess earnings above a benchmark rate of return level ...". "Following a startup revenue adjustment ..." (D.89-12-048), "prices for the utilities' basic monopoly services and rate caps for flexibly priced services will be indexed annually according to the Gross National Product Price Index (GNP-PI) inflation index reduced by a productivity adjustment of 4.5%."

"The indexing formula also allows for rate adjustments for a limited category of exogenous factors whose effects will not be reflected in the economywide GNP-PI. While all such costs cannot be foreseen completely, we recognize that the following factors may be reflected in rates as exogenous factors", called Z-factors; " changes in federal and state tax laws to the extent that they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission."

In our Decision No. 90-09-084, we granted the requests of Pacific and GTEC to implement the 1991 price cap rate adjustments envisioned by D.89-10-031 through a change to the utilities' billing surcharges/surcredits rather than through changes to tariffed rates. We called for Pacific and GTEC to file Advice Letters, no later than October 1, 1990, to implement these surcharge/surcredit changes to be effective January 1, 1991.

On October 1, 1990, Pacific filed Advice Letter No. 15821, requesting billing surcharge/surcredit changes to be effective January 1, 1991, due to the 1991 price cap index mechanism, certain one-time and continued Z-factor adjustments, 1991 IntraLATA SPF-to-SLU settlement effects, and 1991 InterLATA SPF-to-SLU revenue shifts. On November 9, 1990, Pacific filed a Supplement A to Advice Letter No. 15821, to revise its Carrier Common Line Charge to effect the InterLATA SPF-to-SLU revenue shift.

The 1991 Price Cap Filing revenue requirement adjustments requested by Pacific in its Advice Letter No. 15821/15821A are reflected in column A of Appendix A to this Resolution.

Pacific's filing includes revenue requirement adjustments (reductions in parentheses) for both one-time or 1991 year only, and more than one-year or continued:

1. Price Cap Index, ($13.539 million) - A 1991 Price Cap Index factor of -0.2%.

2. USOAR Stepdown, ($23.122 million) - A continued Z-Factor adjustment to reflect the Uniform System of Accounts (USOA) step down revenue requirement reduction ordered by Decision No. 88-09-030, I.87-02-023.

3. $200 to $500 Expense Limit, $14.007 million - A continued and one-time Z-factor adjustment to reflect the increased costs associated with an accounting change that allows Pacific to place certain items of plant costing between $200 to $500 in expense accounts rather than ratebase (D.90-08-029, A.90-02-050).

4. Compensated Absences, $4.540 million - A continued Z-factor adjustment to include the amortization of the embedded compensated absence impacts of $4.540 million annually through 1997 authorized by Resolution F-627, September 12, 1990.

5. Expensing Station Connections, ($9.347 million) - A continued Z-factor adjustment to reflect one month's refund of annual amortization of station connections ordered by Decisions No. 93728 and 82-01-100.

6. State Tax Conformity-VPA, $4.303 million - A continued Z-factor adjustment to recover additional tax expenses resulting from 1990 approval of AB 274 that conforms the California Corporate Franchise Tax law to federal tax law with respect to the deduction for vacation pay accrual.

7. Dial Equipment Minutes, $14.759 - A continued Z-factor adjustment to reflect a Federal Communications Commission adoption of a separations change in apportioning local switching costs based on dial equipment minutes.

8. Inside Wire Refund, ($79.904 million) - A one-time Z-factor adjustment to reduce revenue requirement by the net amounts, including interest, entered into the memorandum accounts established pursuant to D.86-12-099, plus the net balance for the year 1989 in those accounts, as set forth in Decision 90-06-069.

9. Public Packet Switching, ($5.124 million) - A continued Z-factor adjustment to reduce revenue requirements to reflect costs and expenses associated with Public Packet Switching Services as set forth in Decision No. 90-05-045.

10. AT&T Billing and Collections, $20.100 million - A one-time Z-factor adjustment reflecting a request by Pacific for return of 1990 incremental negative revenue adjustment of $20.100 million required by Resolution T-13037 (flow through of SSA 89-1, a Special Service Arrangement with AT&T communications of California) and a request for a finding by the Commission that Z-factor adjustments for AT&T billing and collections in order to flow through incremental revenue requirement effects are inappropriate under the new regulatory framework adopted in D.89-10-031.

Pacific's total 1991 Price Cap Index and Z-factor revenue requirement adjustments amount to ($73.327 million) and are shown in Appendix A.

The Price Cap Index factor of -0.2% is based on a change in the GNP-PI of 4.3% for Second Quarter 1990 over Second Quarter 1989. When the 4.5% productivity gain offset factor is applied, a price cap index of -0.2% results. Applied to a billing base of $6,769.698 million, this factor results in a revenue requirement decrease of $13.539 million.

SPF-to-SLU Revenue Requirement Shift

Ordering Paragraph 15 of Decision No. 89-10-031 required InterLATA SPF-to-SLU revenue shifts and IntraLATA SPF-to-SLU cost and settlement effects to be included in the Price Cap Filing. The SPF-to-SLU InterLATA transition in allocation of non-traffic-sensitive costs to access services was prescribed by Decision No. 85-06-115, to be accomplished through six annual steps beginning in January 1986 and continuing in January 1988 and each year thereafter until January 1992.

The revenue requirement impact of the SPF-to-SLU transition is revenue neutral to Pacific; the InterLATA SPF-SLU revenue shift for 1991 is

	$000
Exchange	$38,645
Toll	$30,290
Access	($68,935)

The IntraLATA SPF-to-SLU settlement effect is

	$000
Exchange	($7,900)
Toll	$7,900

The change in the CCLC (excluding High Cost Fund increment) is as follows

CCLC	FROM	TO
Premium Access Minute, each	$0.0215	$0.0170
Discounted Access Min., each	$0.0168	$0.0133

PROTESTS

Protests to Pacific's Advice Letter No. 15821 were filed with the Commission's Advisory and Compliance Division in accordance with General Order 96-A by the Commission's Division of Ratepayer Advocates (DRA) on October 22, 1990, and by AT&T Communications of California, Inc. (AT&T) on October 24, 1990. Pacific responded to the protests of DRA and AT&T by letter to the Commission's Executive Director on October 29, 1990.

No protests were received with respect to the Price Cap Index factor of -0.2%, but DRA has protested the applicable Billing Base. We will discuss the Billing Base below.

No protests were received with respect to Pacific's revenue requirement adjustments for:

USOAR Stepdown
Compensated Absences
State Tax Conformity-VPA
Dial Equipment Minutes
Public Packet Switching

DRA has raised protest concerning Pacific's adjustments for:

$200 to $500 Expense Limit
Expensing Station Connections
Inside Wire Refund
AT&T Billing and Collections

In addition, DRA recommends that Pacific include an additional Z-factor adjustment (continued) to reflect the revenue requirement reduction of $8.9 million authorized by D.90-10-039, which ordered Pacific to flow through to ratepayers Bond Redemption Tax Benefits annually for 28 years.

AT&T has protested Pacific's revenue adjustment for Expensing Station Connections.

We will discuss these protests below in the Discussion section, and adopt a final revenue requirement for Pacific.

DISCUSSION

I. Bond Redemption Tax Benefits - DRA protested that the Commission, on October 12, 1990, after Pacific's filing, ordered in D.90-10-039 that Pacific flow through to ratepayers $8.9 million in bond redemption tax benefits annually for 28 years; consequently DRA called for a continued Z-factor adjustment of ($8.900 million) in this filing.

In its response to the DRA protest, Pacific notes that the Bond Redemption Tax Benefits issue, which was pending as part of DRA's Petition for Modification of D.89-12-048 at the time of Pacific's filing, is now resolved by the Commission's Decision No. 90-10-039; and Pacific concurs with DRA that this item should be included as a Z-factor adjustment in the 1991 Price Cap filing.

Hence we will include a ($8.900 million) continued Z-factor adjustment for Bond Redemption Tax Benefits.

II. $200 to $500 Expense Limit - DRA protested that interest was calculated on a full year's basis rather than for the effective period of the accounting change. DRA proposes a $0.116 million one-time adjustment be made to remove the excess interest from the $4.877 million one-time adjustment proposed by Pacific.

Pacific, in its response, agrees with DRA that interest on the revenue requirement authorized by D.90-08-029 is incorrect. However, Pacific says that DRA has used a simple interest calculation to determine the $0.116 million adjustment. If average monthly compound interest is used, the figure results in a $0.078 million adjustment. Pacific argues that DRA has suggested using compound interest calculations in another issue in this filing (Inside Wire Refund) and that the interest methodology used should be consistent.

We agree with Pacific that interest calculations should be consistent in this filing, and we will adopt the compound method; for the $200 to $500 Expense Limit adjustment, the adopted figures are:

Continued -	$9.130 million
One-Time -	$4.763 million
Total -	$13.893 million

III. Expensing Station Connections - Both protestants, DRA and AT&T, propose an additional Z-factor adjustment (revenue decrease) to reflect Pacific's rate base reduction in station connection investment. The amount is in addition to the ($9.347 million) expense reduction made by Pacific for the annual amortization of the embedded investment.

DRA calls for a ($10.001 million) adjustment for the final eleven month amortization period in 1991. AT&T has called for a ($39.100 million) continued adjustment, stating that when the station connection investment is fully amortized, Pacific should no longer be recovering either the amortization expense or any return and tax allowance on that investment.

AT&T notes that the Commission, in Decision No. 93728 ordered that ratepayers should bear a portion of the increased revenue requirement caused by the amortization of the station connections; accordingly, rates were increased in the past (1981) to accommodate this. AT&T further notes that the Commission found that "the future reduction of rate base resulting from the amortization of those Account 232 embedded costs will redound to the benefit of the general body of ratepayers" (7 CPUC 2nd 140 at 179). AT&T notes that Decision No. 93728 required Pacific to reduce rates effective in January 1983 to reflect the rate base reductions for 1982 and 1983 (Ordering Paragraph 11).

AT&T points out that Commission decisions in 1985 and 1986 on attrition methodology reaffirmed the amortization principles; AT&T states that Decision No. 86-12-099 called for separate treatment of "accounts subject to special amortization" in attrition filings. AT&T states that Pacific's 1988 and 1989 attrition filings reflect the rate base reduction with respect to station connections, and that Pacific's allowed return and tax amounts reflect that reduction. AT&T computes rate base changes since September 1989 (the end of Pacific's attrition filing, when AT&T says the Commission, by oversight, failed to require Pacific to make a new regulatory framework start-up adjustment for the rate base decrease due to station connection amortization), and computes a revenue requirement decrease of $29.085 million for 1989-1990 and a revenue requirement decrease of $9.998 for 1991.

DRA considered only the rate base change due to amortization in 1991, and computed a revenue requirement decrease of $10.001 million, very similar to AT&T's for that year.

In its response, Pacific claims that it has computed the effect of the station connection amortization correctly and that it is inappropriate to make any revenue adjustment to account for changes in the station connection rate base.

Pacific states that it was not by oversight that the Commission failed to require any station connection rate base change as part of the start-up revenue adjustment; it notes that Commission recognized in D.89-10-031 that amortization of station connections should be recognized as a Z-factor, but that when Pacific made its start-up revenue adjustment filing after that decision, no party alleged that a revenue adjustment be made for station connection rate base changes. Pacific states that the Commission itself made no change in its start-up revenue adjustment for station connection rate base changes (D.89-12-048). Pacific claims that when the Commission adopted the new incentive-based regulatory framework, it discontinued the ratecase/attrition process and the accompanying detailed review of Pacific's rate base and expenses.

Pacific claims that in none of its 1988 and 1989 attrition year filings referenced by AT&T is there a calculation of a revenue requirement impact due specifically to station connections rate base changes.

Pacific, assuming that should an adjustment for station connections rate base change be appropriate under the new regulatory framework, points out that both AT&T and DRA have incorrectly quantified the revenue requirement effects of station connection rate base changes by failing to include the deferred tax effect, changes in separations factors due to removal of the station connections from Pacific's books after the completion of the amortization, and the effect on the level of settlement payments made by Pacific after the lower cost and rate base results from the completion of the station connection amortization.

We agree with AT&T and DRA that changes in the rate base due to the station connection amortization should result in reduced revenue requirements. We will not investigate further to determine if these rate base reductions were accompanied by reduced rates resulting from the general rate case and attrition filings during the first eight years of the amortization through September 1989. It is our intent that the rate base reductions anticipated in Decision 93728 continue as revenue requirement reductions under the new regulatory framework, and we take this opportunity to complete the amortization and rate base decrease through 1991 and 1992 Z-factor adjustments.

Accordingly, we will require a revenue requirement reduction for rate base decrease due to the station connection amortization since the start of Pacific's new regulatory framework, September 1989. We will apply this adjustment as a Z-factor; hence we will use the methodology for calculating Z-factor adjustments prescribed by the FCC, and cited by GTE California in its response to AT&T's protest of GTE California's station connection expense, namely, on a point-to-point period basis, comparing relevant effects at the time rates become effective to comparable effects a year prior, considering the period January 1, 1990 through January 1, 1991.

Moreover, we will include the effects, proposed by Pacific, for deferred taxes, separations, and settlements.

For the effect of rate base changes on the Z-factor for Expensing Station Connections, we include an additional $10.586 million revenue requirement decrease, for a total reduction of $19.933 million.

We also direct Pacific to consider the rate base decrease due to Expensing Station Connections for the period January 1, 1991, through January 1, 1992, as a Z-factor revenue requirement adjustment in its next Annual Price Cap Filing due October 1, 1991.

IV. Inside Wire Refund - DRA protested Pacific's use of a simple interest calculation to compute interest accrued on the memorandum account per D.90-06-069. DRA believes that interest should be calculated by the average monthly compound interest method, and calls for additional interest of $1.000 million to be refunded to ratepayers on a one-time basis, for a total Inside Wire Refund of $80.904 million.

In its response, Pacific does not object to the use of compound interest method for the Inside Wire Refund, but states that interest should be calculated consistently for this filing; Pacific points out that DRA itself has used the simple interest method for computing interest in DRA's protest of Pacific's $200 to $500 Expense Limit Z-factor adjustment in this filing.

As we have stated above in our resolution of the protest of the $200 to $500 Expense Limit Z-factor adjustment protest, we adopt the compound interest method, and will apply this to the Inside Wire Refund adjustment to achieve consistency in this filing.

We accept DRA's $1.000 million increase in Pacific's Inside Wire Refund for a total refund of $80.904 million as a one-time Z-factor adjustment.

V. AT&T Billing and Collections - DRA has protested Pacific's inclusion of a one-time Z-factor adjustment of a $20.100 million increase for the 1990 incremental revenue requirement effect from Special Service Arrangement (SSA) 89-1, the AT&T Billing and Collections agreement.

Commission Resolution T-13073 (June 21, 1989) which approved SSA 89-1 had required Pacific to refund $21.9 million for the 1989 ratemaking effect and $20.1 million for the 1990 effect of the new billing arrangement. These increments were ordered as one-time refunds, and will end on December 31, 1990. Pacific will increase its rates on January 1, 1991 by $42.0 million with the termination of this refund.

DRA claims that Pacific has complied with Resolution T-13073 and has made the 1990 flow through; however, DRA says that Pacific is now asking for a $20.100 million refund because Pacific believes that the original requirement for the refund expressed in Resolution T-13073 is inappropriate in light of the new regulatory framework adopted in October 1989. DRA says that if the Price Cap Z-factor adjustment of $20.100 million for the AT&T Billing and Collections refund is granted, Pacific will realize $62.1 million in additional revenue on January 1, 1991 with $42.0 million coming from the refund termination.

Pacific responds that it requests the $20.1 million for the 1990 AT&T Billing and Collections refund because under the new regulatory framework the flow through of SSA 89-1's incremental revenue requirement effect pursuant to Resolution T-13073 is inappropriate, and it asks the Commission to discontinue any requirement to flow through future incremental revenue requirement effects for AT&T Billing and Collections.

DRA concurs with Pacific's request for the Commission to discontinue future flow through incremental revenue requirements for any AT&T Billing and Collections agreement.

We agree with DRA that the 1990 flow through of $20.1 million required by Resolution T-13703 in June of 1989 is appropriate and is not altered by our adoption of a new regulatory framework for Pacific in October 1989; hence, the $20.1 million should not be refunded to Pacific as a 1991 Price Cap one-time Z-factor adjustment. We will discontinue future flow through incremental revenue requirements for new AT&T Billing and Collections agreements.

We reject Pacific's $20.100 million one-time Z-factor adjustment for the AT&T Billings and Collection refund.

VI. Billing Base

DRA protested Pacific's exclusion of inside wire maintenance billing impacts from Pacific's Billing Base amount of $6,769.698 million. DRA notes that it had anticipated a supplement to Pacific's Advice Letter No. 15798 to exempt tariffed Simple Inside Wire Repair service from the billing surcharge, prior to Pacific's Price Cap Index Filing on October 1, 1990. Such a supplement was not made by October 1, 1990, and DRA assumes Pacific will apply the surcharge to Inside Wire Maintenance billings.

However, on October 23, 1990, Pacific did file a Supplement B to Advice Letter No. 15798, that exempts Simple Inside Wire Repair service from the billing surcharge.

Since the Billing Base protest appears moot, we accept Pacific's original amount of $6,769.698 million for the Billing Base.

In summary, the adopted revenue requirement adjustments in Pacific's 1991 Price Cap Index Filing are indicated in column D of Appendix A; the total revenue requirement adjustment (Price Cap Index and Z-factor) is a negative $114.027 million.

FINDINGS

1. Pacific filed Advice Letter 15821 on October 1, 1990, with Supplement A of November 9, 1990, to propose a $73.327 million revenue requirement decrease associated with its 1991 Annual Price Cap Index Filing.

2. Advice Letter 15821/15821A is filed in compliance with Decision No. 89-10-031 as modified by Decision No. 90-09-084.

3. Pacific's proposed revenue adjustments reflect the:

   a. 1991 IntraLATA SPF-to-SLU settlement effects (revenue neutral).
   b. 1991 InterLATA SPF-to-SLU revenue shift (revenue neutral).
   c. 1991 Price Cap Index of -0.2%, revenue decrease of $13.539 million.
   d. Z-factor revenue adjustments to reflect exogenous effects not reflected in the Price Cap Index, namely:

      i.) USOAR Stepdown, revenue decrease of $25.122 million.
      ii.) $200 to $500 Expense Limit, revenue increase of $14.007 million.
      iii.) Compensated Absences, revenue increase of $4.450 million.
      iv.) Expensing Station Connections, revenue decrease of $9.847 million.
      v.) State Tax Conformity-VPA, revenue increase of $4.303 million.
      vi.) Dial Equipment Minutes, revenue increase of $14.759 million.
      vii.) Inside Wire Refund, revenue decrease of $79.904 million.
      viii.) Public Packet Switching, revenue decrease of $5.124 million.
      ix.) AT&T Billing & Collections, revenue increase of $20.100 million.

4. The 1991 InterLATA SPF-to-SLU revenue shift is accomplished by a billing surcharge increase for Exchange and Toll Services, and a billing surcharge decrease for Access Services and a Common Carrier Line Charge decrease from $0.0215 to $0.0170 for each Premium Access Minute, and from $0.0168 to $0.0133 for each Discounted Access Minute.

5. Protests were filed by DRA and AT&T, protested Pacific's proposed revenue adjustments due to:

   a. $200 to $500 Expense Limit
   b. Expensing Station Connections
   c. Inside Wire Refund
   d. AT&T Billing and Collections

   In addition, DRA recommended an additional Z-factor adjustment reflecting a revenue requirement decrease of $8.900 million to flow through to ratepayers Bond Redemption Tax Benefits required by Decision No. 90-10-039. DRA also proposed that Pacific's Billing Base should include billing impacts of Inside Wire Maintenance.

6. The revenue requirement adjustments proposed by DRA and AT&T are summarized in Appendix A.

7. Pacific concurs with DRA's recommendation concerning the ($8.900 million) revenue requirement for Bond Redemption Tax Benefits. We adopt this adjustment.

8. Pacific recommends that consistent interest calculations be adopted to compute interest effects in the $200 to $500 Expense Limit adjustment and the Inside Wire Refund. We will compute interest by the compound interest method for each.

9. Pacific concurs with DRA's recommendation to calculate interest for the $200 to $500 Expense Limit adjustment for the effective period of the change rather than for a full year. We will adopt DRA's recommendation to use the effective period, which is less than a full year.

10. DRA and AT&T propose that the rate base decrease due to Expensing Station Connections results in an additional revenue requirement decrease. DRA calls for a ($10.001 million) adjustment to reflect the final eleven month amortization period of 1991. AT&T calls for a ($39.100 million) adjustment to reflect amortization occurring since September 1989, the end of Pacific's attrition mechanism.

11. Pacific claims that it has computed the effects of Expensing Station Connections correctly, and that it is inappropriate to make any revenue adjustment to account for changes in the station connection rate base.

12. We agree with DRA and AT&T that a decrease in the rate base should result in a reduced revenue requirement for Pacific. We will make a final revenue requirement adjustment to reflect the rate base decrease resulting from completion of the station connection amortization. We will use the methodology we endorsed for Z-factor calculation, namely, by comparing relevant effects at the time rates become effective to comparable effects a year prior, considering the period January 1, 1990 to January 1, 1991.

13. Pacific points out that DRA and AT&T failed to consider the deferred tax effect, changes in separations factors, and the effect on the level of settlement payments made by Pacific in their recommended adjustments. We will consider these effects in our calculation of a Z-factor adjustment for rate base decrease due to Expensing Station Connections.

    We compute an additional revenue requirement decrease of $10.586 million for the rate base decrease during the period January 1, 1990, through January 1, 1991. We will require Pacific to consider the rate base decrease due to Expensing Station Connections during the period January 1, 1991, through January 1, 1992, as a Z-factor revenue requirement adjustment in its 1992 Annual Price Cap Filing.

14. DRA protested Pacific's use of a simple interest calculation to compute interest on the memorandum account for the Inside Wire

Refund. Pacific does not object to using a compound interest calculation. As in the case of the $200 to $500 Expense Limit adjustment, we adopt a compound interest calculation.

15. DRA protests Pacific's inclusion of a $20.100 million revenue requirement to recover an amount refunded to ratepayers in 1990 for SSA 89-1 as ordered by Resolution T-13073, June 21, 1989.

16. Pacific states that it seeks the $20.100 million for the 1990 AT&T Billing and Collections refund because under the new regulatory framework adopted after Resolution T-13033, the flow through of the SSA 89-1 incremental revenue requirement is inappropriate. It also asks that the Commission discontinue any requirement to flow through future incremental revenue requirement effects for new SSAs.

17. DRA concurs with Pacific's request to discontinue future flow through incremental revenue requirements for new SSA's; however, DRA believes that the $20.100 million refunded by Pacific to ratepayers in 1990 under an order prior to adoption of the new regulatory framework should not be returned to Pacific.

18. We concur with DRA and Pacific that flow through for future SSAs is inappropriate under the new regulatory framework, but that the $20.100 million already refunded to ratepayers as required by our Resolution T-13073 is appropriate and should not be returned to Pacific.

19. DRA protested the exclusion of Inside Wire Maintenance billings from Pacific's Billing Base, because it assumes Pacific will apply the surcharge to Simple Inside Wire Repair service. Pacific responded that it has exempted Simple Inside Wire repair service from the billing surcharge. We accept Pacific's figure of $6,769.698 million for the Billing Base.

20. Our adopted revenue requirements for Pacific's 1991 Price Cap Index and Z-factor adjustments are indicated in column D of Appendix A, below.

21. The total revenue requirement adopted for Pacific is ($114.027 million).

THEREFORE, IT IS ORDERED that:

1. Pacific Bell shall effect a $114.027 million revenue requirement decrease associated with its 1991 Annual Price Cap Index Filing, including InterLATA SPF-to-SLU revenue shift and IntraLATA SPF-to-SLU settlement effect (Advice Letter 15821/15821A).

2. Pacific Bell shall supplement its Advice Letter 15821 on or before December 26, 1990, to implement a billing surcharge/surcredit reflecting this revenue requirement, applied to a total Billing Base of $6,769.698 million, for

   IntraLATA Exchange and Private Line Services

   IntraLATA Toll Services of

   IntraLATA Access Service

   to become effective on January 1, 1991, subject to review and approval by the Commission Advisory and Compliance Division.

3. We accept Pacific's InterLATA SPF-to-SLU revenue shift of $68.935 million and IntraLATA SPF-to-SLU settlement effect of $7.900 million; Pacific's Common Carrier Line Charge (excluding High Cost Fund increment) of $0.0170 for each Premium Access Minute, and $0.0133 for each Discounted Access Minute is appropriate, and shall become effective on January 1, 1991.

4. Pacific will consider the rate base decrease due to Expensing Station Connections for the period January 1, 1991, through January 1, 1992, as a Z-factor revenue requirement adjustment in it 1992 Annual Price Cap Index Filing.

5. We discontinue any requirement for Pacific to flow-through future incremental revenue effects for new AT&T Billing & Collections agreements.

6. Effective January 1, 1992, Pacific may revise the billing surcharge/surcredit to remove one-time Z-factor adjustments for the $200/$500 Expense Limit and Inside Wire Refund.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1990. The following Commissioners approved it:

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

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

APPENDIX A - RESOLUTION T-14235

December 19, 1990

Pacific Bell Advice Letter 15821
1991 Price Cap Filing, $000

ITEM	A. PACIFIC	B. DRA	C. AT&T	D. ADOPTED
1. Price Cap (.2%) Impact	($13,539)	($13,601)	($13,539)	($13,539)
Z-Factors				
2. USOAR Stepdown	($23,122)	($23,122)	($23,122)	($23,122)
3. $200 to $500 exp lim (permanent)	$9,130	$9,130	$9,130	$9,130
$200 to $500 exp lim (one-time)	$4,877	$4,761	$4,877	$4,763
4. Compensated Absences	$4,540	$4,540	$4,540	$4,540
5. Expensing Station Connections	($9,347)	($19,348)	($48,474)	($19,933)
6. State Tax Conformity-VPA	$4,303	$4,303	$4,303	$4,303
7. Dial Equipment Minutes	$14,759	$14,759	$14,759	$14,759
8. Inside Wire Refund (one-time)	($79,904)	($80,904)	($79,904)	($80,904)
9. Public Packet Switching	($5,124)	($5,124)	($5,124)	($5,124)
10. AT&T Billing & Collection (one-time)	$20,100	$0	$20,100	$0
11. Tax Benefits - Bond Retirement	$0	($8,900)	$0	($8,900)
TOTAL Price Cap and Z-Factor Adj	($73,327)	($113,506)	($112,454)	($114,027)