PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Branch
Commission Advisory & Compliance Division

RESOLUTION T-14236
December 27, 1990

R E S O L U T I O N

RESOLUTION T-14236. GTE CALIFORNIA INCORPORATED. ORDER APPLYING THE ADOPTED PRICE CAP MECHANISM IN COMPLIANCE WITH DECISIONS NO. 89-10-031 AND 90-09-084 THROUGH ADJUSTMENTS TO SURCHARGES/SURCREDITS TO BE EFFECTIVE FEBRUARY 1, 1991.

BY ADVICE LETTER 5281, FILED ON OCTOBER 1, 1990, AS SUPPLEMENTED BY ADVICE LETTER 5281A, FILED NOVEMBER 8, 1990, AND ADVICE LETTER 5281B, FILED DECEMBER 7, 1990, IN CONJUNCTION WITH ADVICE LETTER 5287, FILED NOVEMBER 21, 1990.

SUMMARY

This order authorizes GTE California Incorporated (GTEC) to effect a $6.886 million revenue requirement increase associated with its 1991 Annual Price Cap Index Filing (Advice Letters 5281/5281A/5281B and 5287).

The filing consists of a 1991 price cap index (economy wide Gross National Product - Price Index, GNP-PI, less productivity adjustment) impact of $3.695 million decrease (-0.2% billing surcharge/surcredit change), and a net Z-factor (exogenous factors whose effects are not reflected in the economy wide GNP-PI) adjustment increase of $10.581 million.

As part of the Price Cap Filing, GTEC is authorized a one-time $17.769 million revenue increase resulting from flow-through treatment of the California Corporation Franchise Tax as authorized in D.89-11-053. A one-time refund of $30.635 million associated with inside wire maintenance to the 1990 memorandum account balance authorized in D.89-12-048 is also ordered A one-time refund of $17.053 million, including interest, associated with the deferred implementation of local measured service (LMS) as adopted in Decision No. 90-02-050 is also authorized. A one-time increase of $0.564 million is applied to account for a one-month delay in implementation of GTEC's billing surcharge rate from January 1, 1991, until February 1, 1991.

The revenue adjustments include an $11.209 million decrease in GTEC's Carrier Common Line Charge to reflect the "SPF-to-SLU" phase-in adopted in D.85-06-115. The decrease is offset by an increase in GTEC's local and intraLATA toll bill surcharges.

The $6.886 million revenue increase is to be reflected in a billing surcharge/surcredit effective February 1, 1991.

Protests to GTEC's Advice Letter 5281 were filed by the Commission's Division of Ratepayer Advocates and AT&T Communications of California, Inc.

The revenue requirement changes and surcharge impact are summarize in the following table:

1991 Price Cap Revenue Requirement Change, $000

Note - revenue reduction in ()

	Permanent	One-time	Total
Price Cap Impact (0.200%) without Z-Factors	(3,695)	0	(3,695)
Z-Factors:			
A. 1991 ARF Startup	32,817	0	32,817
B. Bond Premium	(2,443)	0	(2,443)
C. USOAR Turnaround	(11,527)	0	(11,527)
D. Toll Settlements True-Up	0	0	0
E. DEM Transition	7,964	0	7,964
F. Expense Station Connection	(11,183)	0	(11,183)
G. Interstate High Cost Fund	1,448	0	1,448
H. SPF-to-SLU	0	0	0
One-time Z-Factors:			
I. Memo Balance	0	22,860	22,860
J. IWM Refund	0	(30,635)	(30,635)
K. CCFT Adjustment	0	17,769	17,769
L. LMS Refund	0	(17,053)	(17,053)
M. 2/1/91 Delay Impact	0	564	564
Net Z-Factor Adjustments	17,076	(6,495)	10,581
Total Price Cap Impact with Z-Factors	13,380	(6,495)	6,886

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, GTEC filed Advice Letter No. 5281, 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, and 1991 interLATA SPF-to-SLU revenue shifts. On November 8, 1990, GTEC filed a Supplement A to Advice Letter No. 5281 to revise surcharge adjustments attributed to the Direct Assignment of WATS and the correction of an error in the balance of startup revenue memorandum account.

Protests to GTEC's Advice Letter No. 5281 were filed with the Commission's Advisory and Compliance Division (CACD) 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 (AT&T) on October 24, 1990. GTEC responded to the protests of DRA and AT&T by letter to the Chief of the CACD Telecommunications Branch on October 29, 1990.

On November 21, 1990, GTEC filed Advice Letter 5287 to apply a one-time refund of $17.053 million, including interest through December 31, 1990, associated with the deferred implementation of local measured service (LMS) as adopted in Decision No. 90-02-050. Ordering

Paragraph 4 of Decision No. 90-02-050 deferred the LMS implementation date until August 1, 1990; this resulted in greater revenues to GTEC for the period from April 1, 1990, through August 1, 1990, than required to offset the impact of LMS expansion. GTEC proposed to include $17.053 million as a twelve month reduction to the IntraLATA exchange billing surcharge beginning January 1, 1991, and requested the revenue reduction be applied concurrently with its price cap filing.

On December 5, 1990, GTEC wrote the Commission's Executive Director pursuant to Rule 43 of the Commission's Rules of Practice and Procedure to request a delay in implementing the 1991 price cap index rate adjustment from January 1, 1991, until February 1, 1991. GTEC stated that it was unable to comply with Ordering Paragraph 15 of Decision No. 89-10-031 (calling for a January 1, 1991, price cap index rate adjustment) due to GTEC's scheduled commencement on December 12, 1990, of the implementation of the surcharges associated with the ZUM expansion authorized by Decision No. 90-06-016. Once GTEC commences any billing surcharge program change, it must wait one billing cycle, or 30 days, before commencing another billing surcharge program change.

The Commission's Executive Director, on December 14, 1990, granted GTEC's request for an extension of time to allow the Commission to direct that the revenue requirement it authorizes GTEC for the 1991 price cap index rate adjustment which will become effective on January 1, 1991, be collected during 1991 by surcharges commencing on February 1, 1991.

GTEC filed a supplement B to Advice Letter 5281 on December 7, 1990, reflecting an adjustment to its Billing Base (to remove inside wire revenues), incorporating an LMS refund of $17.053 million, and deferred implementation impacts for the delay of the surcharge implementation until February 1, 1991.

The 1991 Price Cap Filing revenue requirement adjustments requested by GTEC in its Advice Letters 5281/5281A/5281B and 5287 are reflected in column A of Appendix A to this Resolution.

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

1. Price Cap Index, ($3.696 million) - a 1991 Price Cap Index factor of -0.2%.

2. 1990 ARF Startup, $32.817 million - a continued Z-factor, authorized by D.89-12-048.

3. Bond Premium, ($2.443 million) - a continued Z-factor for a 23 year flow-through, authorized by D.90-05-083, of tax benefits resulting from its bond refinancing as recognized by D.88-08-061.

4. USOAR Turnaround, ($11.527 million) - a continued Z-factor adjustment to reflect the Uniform System of Accounts (USOA) step down revenue requirement reduction authorized by Decision No. 87-12-063, I.87-02-023.

5. Toll Settlement True-up, $0 - no revenue requirement impact since its 1991 annualized booked settlements matched the 1991 $195.288 million settlement.

6. DEM Transition, $8.076 million - a continued Z-factor to reflect a Federal Communications Commission adoption of a separations change in apportioning local switching costs based on dial equipment minutes.

7. Expensing Station Connections, ($7.293 million) - a continued Z-factor to reflect the change of 1991 over 1990 in the amortization of Station Connections on GTEC's books.

8. Interstate HCF payment deficiency, $1.448 million - a continued Z-factor to account for less recovery from the Interstate High Cost Fund, applicable to local exchange billing base only.

9. SPF-to-SLU, $0 - revenue neutral to GTEC, the interLATA SPF-to-SLU revenue shift effects are discussed below.

10. CCFT/IWM Adjustment, $13.269 million - This is a one-time Z-factor adjustment and reflects in part the recovery of a revenue requirement resulting from adoption of the flow-through treatment (adopted in D.89-11-058) of the CCFT deduction used to calculate ratemaking federal income tax (FIT). GTEC has identified an CCFT revenue requirement of $18.027 million for the years 1987 through 1989. The adjustment also includes an Inside Wire Refund of $27.618 million applied to a startup memorandum account balance as of August 15, 1990 of $22.860 million.

11. PCA Refund, ($0) - GTEC has withdrawn its original revenue requirement for a one-time Z-factor refund of $2.241 million to apply the unrefunded Protective Connecting Arrangement account balance as requested by GTEC in its Petition to Modify D.88-03-069, May 30, 1990.

12. LMS Refund, ($17.053 million) - a one-time Z-factor adjustment by GTEC to apply four month's revenues plus interest through December 31, 1990, as a twelve month reduction to the IntraLATA exchange billing surcharge rate beginning January 1, 1991.

13. 2/1/91 Billing Surcharge Delay, ($1.486 million) - a one-time Z-factor adjustment by GTEC to reflect the one month delay in implementation of its 1991 price cap index filing rate surcharge from January 1, 1991, until February 1, 1991.

GTEC's total proposed 1991 Price Cap Index and Z-factor revenue requirement adjustments amount to $15.084 million.

SPF-to-SLU Revenue Requirement

Ordering Paragraph 15 of Decision No. 89-10-031 required InterLATA SPF-to-SLU revenue shifts to be included in the Price Cap Filing. The SPF-to-SLU 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 GTEC; the InterLATA SPF-to-SLU revenue shift for 1991 is

	$000
Exchange	$5,549
Toll	$5,660
Access	($11,209)

The change in the tariffs of the CCLC (which does not include the High Cost Fund increment) is as follows:

CCLC	FROM	TO
Premium Access Min., each	$0.02492738	$0.02154433
Non-Premium Access Min, each	$0.01947451	$0.01683151

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 $1,847.387 million, this factor results in a revenue requirement decrease of $3.695 million. DRA has protested GTEC's billing base, which we discuss more fully below.

PROTESTS

Protests to GTEC's Advice Letter No. 5281 were filed with the Commission's Advisory and Compliance Division (CACD) 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 (AT&T) on October 24, 1990. GTEC responded to the protests of DRA and AT&T by letter to the Chief of the CACD Telecommunications Branch on October 29, 1990.

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

1990 ARF Startup
Bond Premium
USOAR Turnaround
Toll Settlements True-up
Interstate HCF payment deficiency
SPF-to-SLU

DRA has raised protest concerning Pacific's adjustments for:

DEM Transition
Expensing Station Connections
CCWFT/IWM Adjustment
PCA Refund

DRA has also raised the issue of whether or not Customer Notification should be made by GTEC for the for the rate increase it seeks, and the appropriateness of GTEC's Billing Base.

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

In addition, we recompute GTEC's request of $1.486 million for the 2/1/91 Billing Surcharge Delay adjustment due to differences in the final revenue requirement we adopt.

We will discuss these issues below, and adopt a final revenue requirement for GTEC.

DISCUSSION

I. DEM Transition

DRA protests that GTEC erroneously calculated the DEM Transition revenue requirement by using an incorrect authorized rate of return. DRA has used an authorized rate of return for GTEC of 11.50% (the market based intrastate rate of return authorized by the Commission in D.89-10-031) instead of the 12.00% FCC authorized interstate rate of return used by GTEC in the calculation.

DRA computes a $7.964 million revenue requirement for DEM Transition instead of the $8.076 million computed by GTEC.

In its response, GTEC concurs in the adjustment of $.112 million proposed by DRA, and has submitted revised workpapers recalculating DEM Transition amount of $7.964 million. We will adopt a figure of $7.964 million for DEM Transition revenue requirement.

II. Expensing Station Connections

Both protestants, DRA and AT&T, propose an additional permanent Z-factor adjustment (revenue decrease) to reflect GTEC's rate base reduction in station connection investment. The amount is in addition to the ($7.293 million) expense reduction made by GTEC for the annual amortization of the embedded investment.

DRA calls for an additional ($2.1 million) adjustment for the final nine month amortization period in 1991. AT&T has called for a ($9.574 million) 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 accomodate 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" (7CPUC 2nd 140 at 179). AT&T notes that Decision No. 93728 required GTEC 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; it states that Decision No. 86-12-099 called for separate treatment of "accounts subject to special amortization" in attrition filings.

AT&T computes rate base changes since September 1989 (the end of GTEC's attrition filing, when AT&T says the Commission, by oversight, failed to require GTEC 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 $7.472 million for 1989-1990 and a revenue requirement decrease of $2.102 for 1991.

DRA considered only the rate base change due to amortization in 1991, and computed a revenue requirement decrease of $2.1 million, very similar to AT&T's for that year.

In its response, GTEC states that the revenue requirement decrease due to rate base changes in Expensing Station Connections proposed by DRA and AT&T is unreasonable and based on erroneous interpretation of Z-factor adjustments permitted by D.89-10-031. GTEC says that the protests are based on a Commission decision issued in a cost of service environment and ignore the regulatory policies and procedures adopted in the new regulatory framework.

GTEC says that the Commission has already finished calculating GTEC's startup revenue requirement under the new regulatory framework (D.89-12-048), and the protests would require GTEC to recalculate its startup revenue requirement each plan year to reflect changes in GTEC's investment base associated with the amortization of station connections. GTEC says this totally ignores the regulatory principles adopted in D.89-10-031.

GTEC says that the rate base adjustments made as part of attrition filings reflect depreciation rate changes which are not considered as exogenous events under the new regulatory framework. Furthermore it calls AT&T's adjustment that considers changes to GTEC's rate base going back to September 1989 to constitute unlawful retroactive ratemaking.

GTEC claims that AT&T's Z-factor calculation even violates the procedure adopted by the Commission in D.89-10-031, namely:

"...exogenous costs in its price cap mechanism be determined by comparing relevant costs at the time new rates become effective to any comparable costs a year prior, and that costs be measured at the level of operations during the year prior to the rate update."

Finally, GTEC complains that the adjustments proposed by AT&T ignore the offsetting effect due to GTEC's deferred tax reserve on the rate base.

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 the 1991 Z-factor adjustment.

Accordingly, we will require a revenue requirement reduction for rate base decrease due to the station connection amortization since the start of GTEC's new regulatory framework. 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 GTEC in its response, 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 effect, proposed by GTEC, for deferred taxes on the rate base. Although GTEC did not suggest an effect in rate base decrease due to separations, we have applied a separations adjustment in the manner we did for Pacific Bell in our Resolution T-14235, December 19, 1990. An adjustment for the settlements effect does not apply to GTEC since it does not participate in settlements pooling.

For the effect of rate base changes on the Z-factor for Expensing Station Connections, we include an additional $3.890 million revenue requirement decrease, for a total reduction of $11.183 million. We also direct GTEC 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, 1992.

III. CCFT/IWM Adjustment

The CCFT/IWM Adjustment protest consists of two parts, one dealing with a revenue requirement request by GTEC for flow-through of the CCFT deduction in estimating ratemaking federal income tax (FIT) expense, and the other dealing with an interest applicable for an Inside Wire refund.

A. OCFT Adjustment

DRA has protested GTEC's inclusion of a $18.027 million revenue requirement for the years 1987 through 1989 resulting from the adoption of the flow-through treatment (D.89-11-058) of the OCFT deduction used to calculate ratemaking FIT.

DRA notes that GTEC supports Pacific Bell's Petition to Modify D.89-11-058, and must therefore prefer to use the "prior method" in use before the adoption of the flow-through method. The "prior method" involves application of the current year's OCFT amount as a deduction in calculating FIT. DRA supports Pacific's position, and recommends that the Commission exclude GTEC from the flow-through methodology adopted by D.89-11-058. DRA believes it to be inconsistent for GTEC to want to be excluded from the flow-through methodology adopted by D.89-11-058 while at the same time to request recovery of the revenue requirement resulting from utilization of the flow-through methodology adopted in D.89-11-058. DRA recommends recovery of the $18.027 million OCFT adjustment requested by GTEC not be considered until the Commission has ruled on Pacific Bell's Petition to Modify D.89-11-058.

We note that our order (D.89-11-058, O.P. #2) states that "Commencing with 1987, the utilities may recover the revenue requirement related to the change to flow-through for the OCFT deduction in estimating ratemaking federal income tax expense". GTEC has filed a revenue requirement request for $18.027 million in compliance with that order. This request is consistent with our Decision No. 90-12-034, Ordering Paragraph No. 4, December 6, 1990, in which we prohibit benefits for Pacific Bell and GTEC due to the tax accounting differences only for years after the start of the new regulatory framework.

We accept GTEC's request for the $18.027 million for the OCFT Adjustment in principal, but during review of the calculations by CACD, a discrepancy was discovered. GTEC did not reflect the proper amount of OCFT accruing to a revenue change in 1986. 1986 OCFT is used as a deduction for FIT for the 1987 year for this flow-through adjustment. GTEC resubmitted its workpapers to reflect the correction and the correct revenue requirement adjustment to reflect the OCFT flow-through adjustment is $17.769 million.

B. IWM Interest

DRA protests that GTEC did not report IWM interest for 1990. DRA believes that 1990 interest should be applied to the IWM memorandum account through January 1, 1991, the effective date of the price cap adjustment. DRA cites Commission Decision No. 90-06-069, Ordering Paragraph 2, which requires interest to be considered in revenue requirement adjustments involving memorandum accounts established pursuant to D.86-12-099.

DRA further protests that GTEC used a simple interest calculation method instead of average monthly compound interest method to compute its IWM memorandum account interest for the period prior to 1990. DRA notes that the average monthly compound interest method has been applied by the Commission in past decisions.

DRA calculates a 1990 interest for the IWM refund of $2.361 million, and a $0.656 million for the difference between simple and compound interest calculation for the period prior to 1990. The total IWM adjustment DRA recommends is $3.017 million, for a total IWM refund of $30.635 million instead of the $27.618 proposed by GTEC.

GTEC disagrees with DRA that inclusion of 1990 interest for IWM refund is appropriate, for three reasons:

1) GTEC has not received any interest on the $32.8 million start-up revenue memorandum account authorized for the Commission in D.89-12-048.

2) DRA did not object to GTEC's ommission of 1990 interest in conjunction with the adjustment GTEC applied as an offset to the the account balance reflecting productivity sharing on January 31, 1990.

3) GTEC has not included interest in its CCFT flow-through revenue request of $18.027 million, in compliance with D.89-11-058.

For these reasons, GTEC does not believe it reasonable to include interest for 1990 on the IWM refund; it asks that should the Commission require interest for 1990 to be included in the IWM refund, that the Commission award it interest on additional revenue to which it is entitled under D.89-11-058 and its start-up memorandum account.

We note GTEC's intent to receive interest for the D.89-11-058 flow-through revenue requirement and the D.89-12-048 start-up memorandum account. We note, too, that our Decision D.90-06-069 specifically requires interest to be considered in revenue requirements involving memorandum accounts established pursuant to D.86-12-099. For this reason, we accept DRA's recommendation for inclusion of interest for 1990 on the IWM adjustment. If GTEC wishes interest to be considered on memorandum accounts for the D.89-11-058 flow-through revenue requirement and the D.89-12-048 start-up memorandum account, we suggest GTEC Petition to Modify those Decision as appropriate to recover any interest it seeks for those revenue requirements.

We note further that GTEC is silent on the issue of simple vs. compound interest used in DRA's calculation of the IWM refund adjustment. We accept DRA's recommendation for the use of average monthly compound interest in the calculation, and we adopt DRA's adjustment of $3.017 million for a total IWM refund of $30.635 million.

IV. PCA Refund

DRA protests that it is premature for GTEC to include the unrefunded PCA account balance in the Price Cap Filing since the issue is pending a Commission decision; DRA recommends that the unrefunded amount of $2.241 million reported by GTEC be excluded from the filing.

GTEC responds that it recently became aware that the California Attorney General has requested to intervene in Case No. 85-07-008 and contends that the remaining balance in GTEC's PCA account should escheat to the State of California. GTEC concurs with DRA's recommendation that the refund of the amount in this account should be considered in a separate proceeding and not as part of GTEC's 1991 Price Cap Filing. GTEC removed the PCA revenue requirement in its Advice Letter 5281B.

We note that a protest from Independent Consulting Services, a Division of Independent Communications Services, Inc., was filed October 18, 1990, with the Chief of the Telecommunications Branch of the Commission Advisory and Compliance Division. GTEC reported that it was not served with a copy of the protest as required by the Commission's General Order No. 96-A, and has therefore made no response to this protest. The protest urges that Advice Letter No. 5281 be rejected because GTEC prematurely and unilaterally assessed the "impact of the disbursement of the PCA fund. Since GTEC has requested that the PCA refund be removed from Advice Letter 5281, we do not address the merits of the protest from Independent Consulting Services, Inc.

V. Customer Notification

DRA protests that GTEC did not notify its subscribers per our General Order No. 96-A of the revenue requirement GTEC seeks through its Price Cap Filing Advice Letter 5281.

GTEC responds that the bulk of the Price Cap Filing revenue requirement increase results from its recovery through the advice letter of the $32.817 million start up memorandum account authorized by Commission Decision No. 89-12-048; the Price Cap Index and remaining Z-factors are a net negative revenue requirement. GTEC produced an earlier subscriber bill insert that indicates that subscribers were informed that the Commission had authorized GTEC to increase 1990 revenues by $32 million or 1.8%, but that the increase would be deferred GTEC until some later time.

We do not find that GTEC has violated our General Order 96-A in conjunction with its Advice Letter 5281. We do remind GTEC and Pacific Bell that for future annual Price Cap Advice Letter filings, if they request a net revenue requirement increase, subscriber notice per our General Order 96-A is required.

VI. Billing Base

DRA protested that GTEC used incorrect growth factors in calculating the Local Measured Service (LMS) pro forma adjustment to GTEC's Billing Base of $1,868.149 million. DRA believes that growth factors should represent a two year span rather than a one year span as used by GTEC. As a result, DRA recommends the Local Surcharge Billing Base to be decreased from \$807.494 million to \$806.990 million, and the Toll Surcharge Billing Base to be increased from \$823.554 million to \$823.660 million. Thus the total Billing Base should decrease from \$1,868.149 million to \$1,867.751 million.

GTEC responded that it did not oppose the Billing Base change proposed by DRA. We will accept the adjustment DRA has proposed for different LMS growth factors.

However, we note that GTEC has included Inside Wire Maintenance billing impacts of \$20.364 million in its Billing Base. This is inconsistent with its Advice Letter No. 5267A, filed August 20, 1990, effective November 1, 1990, that exempts Inside Wire Maintenance Services from billing adjustment surcharges (GTEC Schedule Cal. P.U.C. No. 38, 22nd Revised Sheet 2). We therefore reduce GTEC's Billing Base by the additional amount of \$20.364 million.

We adopt a figure of \$1,847.387 million for the Billing Base of GTEC.

VII. 2/1/91 Billing Surcharge Delay

Although no protests were received regarding GTEC's \$1.486 million one-time adjustment for the one month delay in implementing the billing surcharge on February 1, 1991, we note that GTEC did not include the impacts of the CCFT/IWM Adjustment and LMS Refund in its delay adjustment. We have decided to include the \$10.252 million CCFT/IWM Adjustment and the \$17.053 million LMS Refund in the 2/1/91 Billing Surcharge Delay; considering the additional changes we make in GTEC's proposed revenue requirements, we compute a total revenue requirement of \$0.564 million for the 2/1/91 Billing Surcharge Delay.

In summary, the adopted revenue requirement adjustments in GTEC's 1991 Price Cap filing are indicated in column D of Appendix A; the total revenue requirement adjustment (Price Cap Index and Z-factor) is \$6.886 million.

FINDINGS

1. GTEC filed Advice Letter 5281 on October 1, 1990, with Supplement A on November 8, 1990, and Supplement B on December 7, 1990, to propose a \$15.084 million revenue requirement increase associated with its 1991 Annual Price Cap Index Filing.

2. GTEC filed Advice Letter 5287 on November 21, 1990, to apply a one-time refund of \$17.053 million, including interest through December 31, 1990, associated with the deferred implementation of local measured service (LMS) as adopted in Decision No. 90-02-050. GTEC has included the LMS Refund in its Supplement B to Advice Letter 5281.

3. On December 5, 1990, GTEC requested an extension of time, pursuant to Rule 43 of the Commission's Rules of Practice and Procedure,

until February 1, 1991, to implement the 1991 Price Cap Index surcharge adjustment.

4. On December 14, 1990, the Commission's Executive Director granted GTEC's request for an extension of time to permit the Commission to delay GTEC's implementation of the 1991 Price Cap Index surcharge adjustment until February 1, 1991.

5. GTEC's proposed revenue requirements reflect the :

   a. 1991 InterLATA SPF-to-SLU revenue shift (revenue neutral).
   b. 1991 Price Cap Index of -0.2%, revenue decrease of $3.696 million.
   c. Z-factor revenue adjustments to reflect exogenous effects not reflected in the Price Cap Index, namely:

      i.) 1990 ARF Startup, revenue increase of $32.817 million.
      ii.) Bond Premium, revenue decrease of $2.443 million.
      iii.) USOAR Turnaround, revenue decrease of $11.527 million.
      iv.) Toll Settlements True-Up, revenue neutral
      v.) DEM Transition, revenue increase of $8.076 million.
      vi.) Expensing Station Connections, revenue decrease of $7.293 million.
      vii.) Interstate HCF payment deficiency, revenue increase of $1.448 million.
      viii.) SPF-to-SLU, revenue neutral.
      ix.) CCFT/IWM Adjustment, revenue increase of $13.269 million.
      xi. PCA Refund, revenue requirement withdrawn.
      xii.) LMS Refund, revenue decrease of $17.053 million.
      xiii.) 2/1/91 Billing Surcharge Delay, revenue increase of $1.486 million.

   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.

6. Protests were filed by DRA and AT&T; GTEC's proposed revenue requirements for the following received protests:

   a. DEM Transition
   b. Expensing Station Connections
   c. CCFT/IWM Adjustment
   d. PCA Refund

   In addition, DRA also raised the issues of Customer Notification and an appropriate Billing Base. We find that GTEC has provided adequate Customer Notification for its Advice Letter 5281.

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

8. GTEC concurs in DRA's adjustment of $0.112 million for the DEM Transition. We adopt a figure of $7.964 million for the DEM Transition revenue requirement.

9. 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 ($2.100 million) adjustment to reflect the final eleven month amortization period of 1991. AT&T calls for a ($9.574 million) adjustment to reflect amortization occurring since September 1989, the end of GTEC's attrition mechanism.

10. GTEC 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.

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

12. GTEC points out that DRA and AT&T failed to consider the deferred tax effect. We will consider this factor, as well as the effect of separations 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 $3.890 million for the rate base decrease during the period January 1, 1990, through January 1, 1991. We will require GTEC to consider the rate base decrease due to Expensing Station Connections during the period January 1, 1991, to January 1, 1992, as a Z-factor revenue requirement adjustment in its 1991 Annual Price Cap Filing.

13. DRA protested GTEC's OCFT adjustment of $18.027 million for the years 1987 through 1987. We find that GTEC is entitled to benefit from this tax accounting change for those years, but we adopt a final OCFT Adjustment of $17.769 million.

14. DRA protests that GTEC should pay an additional $3.017 million for interest on the IWM refund. GTEC disagrees, and requests that it be granted interest on the 1991 ARF Startup memorandum account and OCFT flow-through revenue requests.

15. We accept DRA's adjustment of $3.017 million for a total IWM refund of $30.635 million. We suggest GTEC Petition to Modify earlier Decisions as appropriate to recover any interest it seeks for other issues.

16. GTEC has withdrawn any revenue requirement for the PCA Refund. DRA's protest is moot.

17. We accept DRA's growth factor adjustment to GTEC's Billing Base estimate; in addition, we delete Inside Wire Maintenance billings from GTEC's Billing Base. We adopt a figure of $1,847.387 million for GTEC's Billing Base.

18. We include the revenue requirements for the CCFT/IWM Adjustment and the LMS Refund as part of GTEC's calculation of the billing surcharge delay until February 1, 1991. After considering our revisions of GTEC's proposed revenue requirements, we compute a $0.564 million revenue requirement for GTEC's 2/1/91 Billing Surcharge Delay.

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

20. The total revenue requirement increase adopted for GTEC is $6.886 million.

THEREFORE, IT IS ORDERED that:

1. GTE California, Incorporated (GTEC) shall effect a $6.886 million revenue requirement increase associated with its 1991 Annual Price Cap Index Filing, including InterLATA SPF-to-SLU revenue shifts (Advice Letters 5281/5281A/5281B and 5287).

2. GTEC shall supplement its Advice Letter 5281 on or before January 15, 1991, to implement a billing surcharge/surcredit reflecting this revenue requirement, applied to a total Billing Base of $1,847.387 million, for

   Local Exchange Services

   Toll Services

   Access Services

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

3. We accept GTEC's InterLATA SPF-to-SLU revenue shift of $11.209 million; GTEC's Common Carrier Line Charge (excluding High Cost Fund increment of $0.02154433 for each Premium Access minute, and $0.01683151 for each Non-Premium Access minute, is appropriate and shall become effective on January 1, 1991.

4. GTEC will consider the rate 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 1992 Annual Price Cap Index Filing.

5. Effective January 1, 1992, GTEC may revise the billing surcharge/surcredit to remove one-time Z-factor adjustments for CCFT/IWM Adjustment, IMS Refund, and the 2/1/91 Billing Surcharge Delay Impact.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 27, 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
Executive Director

APPENDIX A - RESOLUTION T-14236

December 27, 1990

GTEC Advice Letter 5281
1991 Price Cap Filing, $000

ITEM	GTEC	DRA	AT&T	ADOPTED
1. Price Cap Index (.2%)	($3,696)	($3,695)	($3,696)	($3,695)
Z-factors:				
2. 1990 ARF Startup	$32,817	$32,817	$32,817	$32,817
3. Bond Premium	($2,443)	($2,443)	($2,443)	($2,443)
4. USOAR Turnaround	($11,527)	($11,527)	($11,527)	($11,527)
5. Toll Settlements True-Up	$0	$0	$0	$0
6. DEM Transition	$8,076	$7,964	$8,076	$7,964
7. Expensing Station Connections	($7,293)	($9,393)	($16,867)	($11,183)
8. Interstate High Cost Fund	$1,448	$1,448	$1,448	$1,448
9. SPF-to-SLU	$0	$0	$0	$0
10. CCFT/IWM Adjustment				
Memo Balance (8/15/90)	$22,860	$22,860	$22,860	$22,860
IWM Refund	($27,618)	($30,635)	($27,618)	($30,635)
CCFT Adjustment	$18,027	$0	$18,027	$17,769
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Total CCFT/IWM	$13,269	($7,775)	$13,269	$9,994
11. PCA	$0	$0	$0	$0
12. LMS Refund	($17,053)	($17,053)	($17,053)	($17,053)
13. 2/1/91 Surcharge Delay Impact				
1. Total Billing Base Impact	$1,328	$1,144	$531	$1,827
2. Local Billing Base Impact	$158	$158	$158	($1,263)
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Total Delay Impact	$1,486	$1,302	$688	$564
TOTAL Price Cap and Z-factor Adj	$15,084	($8,355)	$4,712	$6,886