

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Branch  
Commission Advisory and Compliance Division  
RESOLUTION T-15161  
December 16, 1992

R E S O L U T I O N

RESOLUTION T-15161. GTE CALIFORNIA, INCORPORATED (U-1002-C). ORDER APPLYING THE ADOPTED PRICE CAP MECHANISM IN COMPLIANCE WITH DECISIONS 89-10-031 AND 92-09-081 THROUGH ADJUSTMENTS TO SURCHARGES/SURCREDITS TO BE EFFECTIVE JANUARY 1, 1993.

BY ADVICE LETTER NO. 5423, FILED OCTOBER 1, 1992.

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SUMMARY

This Resolution orders GTE California, Incorporated (GTEC) to increase its annual revenue requirement by \$10.967 million as a result of its 1993 annual price cap index filing in Advice Letter (AL) No. 5423.

This decrease reflects GTEC's 1993 price cap index decrease of \$25.742 million, and a net Z-factor adjustment increase of \$36.718 million. These adjustments will be reflected effective January 1, 1993.

Protests to GTEC's AL No. 5423 were filed by the Commission's Division of Ratepayer Advocates (DRA), AT&T Communications of California, Inc. (AT&T), California Bankers Clearing House Association and the County of Los Angeles (CBCHA/County), MCI Telecommunications Corporation (MCI), and Toward Utility Rate Normalization (TURN).

The adopted revenue requirement changes are summarized in the following table:

1993 Price Cap Revenue Requirement Change, \$000

Price Cap Impact (1.4%) without Z-factors	(25,742)
Z-factors: ongoing revenue requirement impact	
USOA Turnaround	(11,527)
Dial Equipment Minutes Transition	3,880
G.O. 133-B Business Office Answer Meas.	0
Interstate High Cost Fund	(1,125)
PBOP Base	42,000
Sub-Total	<u>33,228</u>
Z-factors: one-time revenue requirement impact	
Inside Wire Demarcation	3,490
G.O. 133-B	0
PBOP 1991 Pre-funding	0
PBOP 1992 Pre-funding	0
Sub-Total	<u>3,490</u>
Net Z-factor adjustment	36,718
Total Price Cap Impact with Z-factors	10,976

Note - revenue reduction in ( )

BACKGROUND

In our Decision (D.) 89-10-031, we adopted an incentive-based regulatory framework for GTEC and Pacific Bell (Pacific). In that decision, we stated:

This new regulatory framework is centered 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 D.92-09-081, we granted the requests of Pacific and GTEC to implement the 1993 price cap rate adjustments through the billing surcharge/surcredit mechanism, and called for Pacific and GTEC to file advice letters no later than October 1, 1992, for Commission consideration and approval to apply adjustments to their surcharges/surcredits to be effective January 1, 1993.

On October 1, 1992, GTEC filed AL No. 5423 requesting billing surcharge/surcredit changes to be effective January 1, 1993, due to the 1993 price cap index mechanism and certain Z-factor adjustments. The 1993 price cap filing revenue requirement adjustments requested by GTEC in its AL No. 5423 are reflected in Column A of Appendix A to this Resolution.

GTEC's filing consists of proposed revenue requirement adjustments (reductions in parentheses) for:

1. Price Cap Index, (\$25.742 million) - A 1993 Price Cap Index factor of -1.4%.
2. USOA Turnaround, (\$11.527 million) - A Z-factor adjustment to reflect the Uniform System of Accounts (USOA) step down revenue requirement reduction ordered by D.87-12-063, I.87-02-023.
3. Dial Equipment Minutes (DEM) Transition, \$3.880 million - A Z-factor adjustment to reflect a Federal Communications Commission (FCC) adoption of a separations change in apportioning local switching costs based on dial equipment minutes.
4. G.O. 133-B, \$0.516 million - A Z-factor reflecting an on-going revenue requirement associated with labor costs to comply with G.O. 133-B business office answer standards.
5. Interstate High Cost Fund, (\$1.125 million) - A Z-factor adjustment to account for reduced recovery from the Interstate High Cost Fund. This adjustment is applicable to the local exchange billing base surcharge only.
6. PBOPs Base, \$49.773 million - A Z-factor to reflect incremental (20-year horizon) costs GTEC anticipates due to Commission adoption of Statement of Financial Accounting Standards No. 106 (SFAS 106), Employers

Accounting for Post Retirement Benefits Other than Pensions.

7. Inside Wire Demarcation, \$3.490 million - A Z-factor adjustment to reflect one-time cost recovery associated with implementation of D.92-01-023 Inside Wire Demarcation settlement.
8. G.O. 133-B, \$0.009 million - A Z-factor adjustment to reflect \$9,000 in one-time equipment costs to comply with G.O. 133-B business office answer standards.
9. PBOP 1991 Pre-funding, \$16.007 million - A Z-factor adjustment to reflect one-time 1991 adjustment for adoption of FSAS 106.
10. PBOP 1992 Pre-funding, \$15.372 million - A Z-factor adjustment to reflect one-time 1992 adjustment for adoption of SFAS 106.

GTEC also identified in its AL No. 5423 a potential Z-factor for the Computer Link required in our Phase II monitoring decision but deferred this adjustment until its next price cap filing.

The Price Cap Index factor is based on a change in the GNP-PI of 3.1% for the second quarter 1992 over the second quarter 1991, which, together with the 4.5% productivity gain factor, results in a net Price Cap Index of -1.4%. Applied to a billing base of \$1,838,687,000, this factor results in a revenue requirement decrease of \$25.742 million.

GTEC's total proposed 1993 Price Cap Index and Z-factor revenue requirement adjustments amount to a \$50.653 million increase.

**PROTESTS**

Protests were filed to GTEC's AL No. 5423 by CBCHA/County on October 20, 1992, by DRA, AT&T, and MCI on October 21, 1992, and by TURN on October 22, 1992.

GTEC responded to the protests of CBCHA/County, DRA, AT&T, MCI, and TURN on October 28, 1992.

No protests were received with respect to GTEC's revenue requirement adjustments for Price Cap Index, DEM Transition, Interstate High Cost Fund, and Inside Wire Demarcation.

CBCHA/County, DRA, AT&T, and MCI protested GTEC's adjustments for PBOPs. DRA, AT&T, and TURN protested GTEC's adjustment for G.O. 133-B. TURN also protested GTEC's adjustment for the USOA Turnaround.

We will discuss the protests in further detail below, and adopt a final revenue requirement adjustment for GTEC.

## DISCUSSION

### I. G.O. 133-B - Service Measurement Standards

GTEC's G.O. 133-B revenue requirement consists of two Z-factor adjustments, a one-time adjustment of \$9 thousand and an on-going requirement of \$516 thousand, both requested by GTEC to ensure it meets the business office response standards of 75% and 80% of calls being answered within 20 seconds, as set by G.O. 133-B, adopted in D.92-05-056. GTEC says it will meet a standard of 70% business office calls being answered within 20 seconds at its own expense.

Pursuant to requests from Interexchange Carriers for rehearing of D.92-05-056, an automatic stay was implemented. On July 26, 1992, we issued an indefinite stay of D.92-05-056, and on August 14, 1992, we limited rehearing to the application of G.O. 133 to Interexchange Carriers.

DRA, AT&T, and TURN protested the G.O. 133-B revenue requirement adjustment of GTEC. DRA states that GTEC is barred from recovering its past G.O. 133-B expenditures because D.92-05-056 is stayed and GTEC had not requested authority to track its costs of compliance at the time G.O. 133-A was being revised.

TURN objects to GTEC--a NRF utility, responsible to react to incentives and competition according to its own dictates--asking ratepayers to pay the costs of implementing increased service-level standards. TURN argues that this would permit the company to get full ratepayer funding for a service improvement that, to meet competitive demands, GTEC would have to make anyway.

AT&T states that GTEC's request to recover G.O. 133-B costs should be deferred until the Commission reaches a final decision on the implementation of G.O. 133-B.

GTEC responds that the only issue is when will GTEC be held accountable for meeting the new standards. It says that it expects the new standards to be a requirement in 1993. It acknowledges that while there has been a stay of D.92-05-056 for clarification on the timing of implementation, it does not expect that the delay should prohibit it from progressing toward the new standards. GTEC says that it has not requested treatment for costs already incurred, only for incremental costs on a going-forward basis.

We disagree with TURN and consider that G.O. 133 compliance costs are a legitimate Z-factor. We do not consider it necessary for GTEC to have requested prior authority to track G.O. 133-B compliance costs in order to be eligible to recover such costs. To require our new regulatory framework utilities to request authorization to establish a memorandum account for each possible exogenous event as it occurs would be burdensome, clearly contrary to our goal of low cost, efficient regulation, and, by denying the company the opportunity to recover costs it incurred in good faith, not in the spirit of the new framework.

Our recent Decision No. 92-12-007, December 3, 1992, on the application for rehearing has reset the 75% level compliance date to October 4, 1993, and the 80% level to July 5, 1994. Since GTEC's 1993 G.O. 133-B Z-factor costs have not been adjusted to reflect the new schedule for 75% and 80% compliance, we will defer GTEC's G.O. 133-B Z-factor cost recovery until its 1994 Price Cap filing, October 1, 1993.

GTEC should include in its 1994 Price Cap filing its recorded costs incurred after December 3, 1992, the effective date of D.92-12-007, and costs necessary to attain the 75% standard by October 4, 1993 and the 80% standard by July 5, 1994.

## II. Post Retirement Benefits Other Than Pensions (PBOPs)

GTEC requests that it be allowed to recover a total of \$81.152 million as Z-factor adjustments for the Commission's anticipated adoption of FSAS 106, Employers Accounting for Post Retirement Benefits Other than Pensions. This \$81.152 million is consistent with GTEC's Phase II testimony in I.90-07-037. GTEC acknowledges that the accrual funding amount "may need to be updated to conform with the Commission's final PBOP decision

DRA protests that it is improper to prejudge the final decision in the Phase II proceeding, and recommends that the revenue requirement amount proposed by GTEC be disallowed pending the rendering of a final Phase II Decision. AT&T, CBCHA/County, and MCI agree that GTEC's Z-factor request is premature.

GTEC responds that it anticipates a final PBOPs decision from the Commission before January 1, 1993, and states that the Commission will be able to incorporate in its final price cap resolution a modified PBOPs Z-factor based upon that final Phase II PBOPs decision.

Our Decision No. 92-12-015, December 3, 1992, in I.90-07-037, ordered that GTEC not be authorized to recover its pre-funded PBOPs costs through the Z-factor adjustment. Furthermore, D.92-12-015 authorized GTEC to recover the increase in PBOPs costs under FSAS 106 to the extent of its tax-deductible contributions to PBOPs trusts, with certain limitations, and required GTEC to make a compliance filing setting forth the revenue requirement impact of this decision. On December 8, 1992, GTEC wrote the Telecommunications Branch of CACD requesting a PBOPs revenue requirement of \$42 million. We accept this PBOPs funding requirement, filed in accordance with D.92-12-015, as a Z-factor for 1993. Z-factor treatment of PBOPs' costs shall be tried up in each subsequent years' Z-factor filings in accordance with Ordering Paragraph No. 8 of that decision.

## III. USOA Turnaround

TURN protests the statement by GTEC in its calculation of the USOA Turnaround that the USOA stepdown will conclude after six

years. TURN states that the USOA Turnaround should continue after 1994. TURN doesn't state when it should discontinue, if at all.

GTEC responds that it has calculated the USOA Turnaround as it has done in past price cap filings.

We make no conclusion at this time on the propriety or impropriety of GTEC's statement that the stepdown concludes in 1994. Noting that no party has argued that the stepdown for 1993 is inappropriate, we will accept GTEC's calculation for its 1993 Z-factor treatment.

### FINDINGS

1. GTEC's AL No. 5423 filed October 1, 1992, proposes a \$50.653 million revenue requirement increase associated with its 1993 annual price cap index filing.
2. AL No. 5423 is filed in compliance with D.89-10-031 as modified by D.92-09-081.
3. GTEC's proposed revenue adjustments reflect:
  - a. 1993 Price Cap Index of -1.4% (revenue requirement decrease of \$25.742 million).
  - b. Z-factor revenue requirement adjustments to reflect exogenous effects not reflected in the GNP-PI:
    - i.) USOA Turnaround, a revenue requirement decrease of \$11.527 million.
    - ii.) DEM Transition, a revenue requirement increase of \$3.880 million.
    - iii.) G.O 133-B, a revenue requirement increase of \$0.516 million, on-going, and a one-time \$0.009 million revenue requirement increase.
    - iv.) Interstate High Cost Fund, a revenue requirement decrease of \$1.125 million.
    - v.) Inside Wire Demarcation, a revenue requirement increase of \$3.490 million.
    - vi.) PBOPs, a revenue requirement increase of \$49.773 million, on-going, and a one-time increase of \$31.379 million. GTEC revised these amounts to a total of \$42 million pursuant to D.92-12-015.

In addition, GTEC identified a potential Z-factor for its Computer Link, which is deferred until its next price cap filing.

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4. CBCHA/County, DRA, AT&T, MCI, and TURN protested GTEC's proposed revenue adjustment due to PBOPs. DRA, AT&T, and TURN protested GTEC's proposed revenue adjustment for G.O. 133-B. TURN also protested GTEC's USOA Turnaround.
5. The revenue requirement adjustments proposed by DRA are summarized in Appendix A to this Resolution.
6. Due to D.92-12-007, GTEC's request to recover G.O. 133-B compliance costs for 75% and 80% business office answer time compliance should be deferred until its 1994 Price Cap filing, October 1, 1993. GTEC should include recorded costs incurred after December 3, 1992, the effective date of D.92-12-007, to attain the 75% standard by October 4, 1993 and the 80% standard by July 5, 1994.
7. GTEC's request for \$42 million in PBOPs costs filed pursuant to D.92-12-015 is accepted.
8. Consideration of the Computer Link adjustment should be deferred.
9. We will accept GTEC's USOA Turnaround calculation.
10. A total price cap mechanism revenue requirement increase of \$10.976 million is justified. The adopted revenue requirement adjustments are summarized in Appendix A to this Resolution.



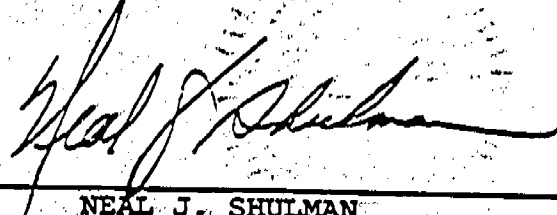
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THEREFORE, IT IS ORDERED that:

1. GTE California, Incorporated, shall implement a \$10.976 million revenue requirement increase associated with its 1993 annual price cap index filing (Advice Letter No. 5423).
2. GTE California, Incorporated, shall supplement its AL No. 5423 on or before December 28, 1992, to implement billing surcharges/surcredits reflecting the revenue requirement decrease in Ordering Paragraph 1, applied to a total billing base of \$1,838,687,000 for intralATA exchange and private line services, intralATA toll services, and intralATA access service, to become effective on January 1, 1993, subject to review and approval by the Commission Advisory and Compliance Division.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 16, 1992. The following Commissioners approved it:



NEAL J. SHULMAN  
Executive Director

DANIEL Wm. FESSLER  
President  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

APPENDIX A - RESOLUTION T-15161

December 16, 1992

GTE California, Inc. Advice Letter 5423  
1993 Price Cap Filing, \$000.

ITEM	A. GTEC	B. DRA	C. ADOPTED
1. Price Cap (1.4%) Impact	(\$25,742)	(\$25,742)	(\$25,742)
Z-Factors - ongoing			
2. USOA Turnaround	(\$11,527)	(\$11,527)	(\$11,527)
3. D.E.M. Transition	\$3,880	\$3,880	\$3,880
4. G.O. 133-B	\$516	\$0	\$0
5. Interstate High Cost Fund.	(\$1,125)	(\$1,125)	(\$1,125)
6. PBOP Base	\$49,773	\$0	\$42,000
Z-Factors - one-time			
7. Inside Wire Demarcation	\$3,490	\$3,490	\$3,490
8. G.O. 133-B	\$0	\$0	\$0
9. PBOP 1991 Pre-funding	\$16,007	\$0	\$0
10. PBOP 1992 Pre-funding	\$15,372	\$0	\$0
TOTAL Price Cap and Z-Factor Adj.	\$50,653	(\$31,024)	\$10,976