

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Commission Advisory and Compliance Division RESOLUTION T-15770
Telecommunications Branch December 18, 1995

R E S O L U T I O N

RESOLUTION T-15770. GTE CALIFORNIA, INCORPORATED.
(U-1002-C). REQUEST FOR APPROVAL OF NONSTRUCTURAL
SAFEGUARDS THAT WILL APPLY UPON THE MERGER AND/OR
INTEGRATION OF THE OPERATIONS OF GTE CALIFORNIA,
INCORPORATED AND ITS WHOLLY OWNED SUBSIDIARY GTEL.

BY ADVICE LETTER NO. 7650, FILED ON MAY 24, 1995.

SUMMARY

This Resolution accepts GTE California, Incorporated's (GTEC's) Advice Letter No. 7650 proposing nonstructural safeguards that GTEC will apply upon the merger and/or integration of the operations of GTEC and its wholly owned subsidiary GTEL. GTEL at present is a separate corporate entity that was established to sell unregulated Customer Premise Equipment (CPE).

Accounting safeguards are contained in GTEC's California Cost Accounting Manual (CCAM). GTEC has filed its CCAM in Advice Letter No. 7825, October 10, 1995. The Commission will consider approval of Advice Letter No. 7825 at a future date. GTEC will also implement the same Customer Proprietary Network Information (CPNI) access restrictions for GTEC employees as are employed by the Bell Operating Companies (BOCs). GTEC indicates that all functions of GTEL will be integrated into GTEC by the second quarter of 1996.

BACKGROUND

Commission Decision No. 84-07-108 required GTEC to create a separate corporate entity for the sale of unregulated CPE. GTEC reports that subsequently the Federal Communications Commission (FCC) preempted the states from requiring either the BOCs or independent telephone companies to establish subsidiaries for the sale of CPE (CC Docket No. 86-79, 2 FCC Rcd 143, 161 (paragraph 128), adopted November 25, 1986). In December 1994 GTEC inquired of the Commission's Legal Division if the FCC decision did indeed preempt this Commission from requiring GTEC to maintain a separate corporate subsidiary to provide CPE.

On March 7, 1995, the Commission's Legal Division responded that it "does not disagree with your conclusion that, in light of

this FCC order, GTEC may merge its CPE subsidiary back into GTEC."

GTEC acknowledges that although the FCC clearly preempted the Commission from requiring GTEC to maintain a separate subsidiary for the sale of unregulated CPE, this Commission may still impose nonstructural safeguards with respect to GTEC's CPE activities as long as they are no more stringent than those developed by the FCC for the BOCs. GTEC thus proposed accounting safeguards contained in its Federal Cost Accounting Manual (FCAM) which was approved by the FCC. GTEC's FCAM contains time reporting, common expense, and investment nonstructural safeguards. In addition, GTEC states that it will implement the same nonstructural safeguards applicable to the BOCs which permit multi-line business customers to restrict access to their Customer Proprietary Network Information (CPNI) by BOC employees involved in sales and marketing activities.

GTEC states that once GTEL's CPE business has been reintegrated with GTEC operations, GTEC's CPE activities will be placed in Category III since CPE is fully deregulated and very competitive. It will not file tariffs for CPE, and as a below the line (BLT) activity, GTEC will exclude its CPE revenues from any Commission mandated surcharge or surcredit. GTEC will also exclude all revenues and expenses associated with the provision of CPE from the calculation of its regulated net income.

NOTICE/PROTESTS

Notice of Advice Letter No. 7650 was published in the Commission Daily Calendar of May 30, 1995. A protest was filed by the Division of Ratepayer Advocates on June 16, 1995. GTEC responded to DRA's protest on June 23, 1995. The protest and its resolution is discussed below.

DISCUSSION

DRA's protest requests that the Commission reject GTEC's advice letter as filed because it does not comply with the Commission's guidelines for cost allocations between regulated and nonregulated services. DRA indicates that it does not believe GTEC has developed and maintained a California CAM (CCAM) reflecting this Commission's cost allocation requirements as ordered in Decision No. 91-07-056. DRA requests that GTEC be directed to file an application for the merger or integration in order to allow DRA adequate opportunity to determine exactly what services are to be integrated with GTEC and to examine its CCAM. DRA says that the advice letter procedure does not allow adequate opportunity to make such review.

GTEC responded to DRA's protest and offered to provide further details of its CCAM and merger process. DRA and GTEC agree to separate the merger request and the CCAM filing. GTEC provided further details of the GTEL integration by letter to DRA on September 14, 1995. GTEC indicates that all functions of GTEL

will be integrated into GTEC by the second quarter of 1996. On September 15, 1995, GTEC filed Advice Letter No. 7825, which seeks Commission approval of its CCAM.

On September 21, 1995, DRA withdrew its protest of GTEC Advice Letter No. 7650. DRA indicates that it has reviewed GTEC's September 14, 1995, letter concerning the GTEL integration details and finds it to be reasonable. DRA states it will review GTEC's Advice Letter No. 7825 requesting approval of GTEC'S CCAM to ensure that it complies with the cost allocation and affiliate transaction policies of the Commission as ordered in Decision No. 91-07-056 and file comments as appropriate.

CACD concludes that GTEC's Advice Letter No. 7650 is reasonable and should be made effective immediately with the provision that GTEC should apply the accounting safeguards as approved in its CCAM to the integration of GTEL with GTEC's operations. Approval of GTEC's CCAM will be addressed in the Commission's consideration of GTEC's Advice Letter No. 7825.

FINDINGS

1. GTEC filed Advice Letter No. 7650 proposing nonstructural safeguards for the integration of its separate CPE subsidiary, GTEL, with GTEC's own operations.
2. DRA protested that GTEC's Advice Letter No. 7650 be rejected and that GTEC be directed to file an application with details of the proposed merger and a California Cost Allocation Manual (CCAM).
3. GTEC provided DRA with separate details of the merger by letter dated September 14, 1995.
4. GTEC filed a CCAM by Advice Letter No. 7825.
5. DRA reviewed the details of GTEC's proposed integration of GTEL in GTEC's letter of September 14, 1995, and finds it to be reasonable.
6. DRA withdrew its protest of GTEC's Advice Letter No. 7650.
7. GTEC should follow such accounting safeguards as are later approved by the Commission in its CCAM, not its FCAM, with regard to the integration of GTEL.

THEREFORE, IT IS ORDERED that:

December 18, 1995

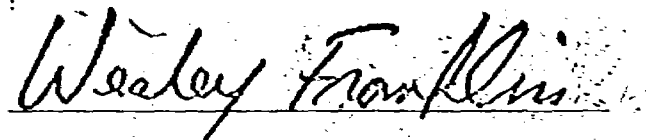
1. GTE California Incorporated's (GTEC's) request for approval of nonstructural safeguards that will apply upon the merger and/or integration of the operations of GTEC and its wholly owned subsidiary GTEL is approved subject to ordering paragraph 2 of this resolution.

2. GTEC shall apply such accounting safeguards as are eventually approved by the Commission in its California Cost Allocation Manual to the merger/integration of GTEL operations with GTEC operations.

3. Advice Letter No. 7650 shall be marked to indicate that it was authorized by Resolution of the Public Utilities Commission of the State of California No. T-15770 and its effective date.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 1995. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners