

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Branch
Commission Advisory and Compliance Branch

RESOLUTION T-15820
December 20, 1995

R E S O L U T I O N

RESOLUTION T-15820. PACIFIC BELL (U-1001-C). ORDER APPLYING THE ADOPTED PRICE CAP MECHANISM IN COMPLIANCE WITH DECISIONS 89-10-031, AND 94-09-065 THROUGH ADJUSTMENTS TO SURCHARGES/SURCREDITS TO BE EFFECTIVE JANUARY 1, 1996.

BY ADVICE LETTER NO. 17762, FILED OCTOBER 2, 1995, AS SUPPLEMENTED BY ADVICE LETTER NO. 17762A, FILED OCTOBER 11, 1995.

SUMMARY

This Resolution orders Pacific Bell (Pacific) to increase its annual revenue by \$0.384 million effective January 1, 1996, to implement its 1996 annual price cap index filing in Advice Letter (AL) Numbers (No.s) 17762 and 17762A.

The January 1, 1996 revenue increase reflects the net Z-factor adjustments. D.95-12-052 dated December 20, 1995 suspends the remainder of the Price Cap formula for Pacific starting with 1996.

Protests to Pacific's AL No.s 17762 and 17762A were filed by AT&T Communications of California, Inc. (AT&T), the Commission's Division of Ratepayer Advocates (DRA) and MCI Telecommunications Corporation (MCI).

Pacific Bell filed AL No. 17762 on October 2, 1995, requesting a reduction to its 1995 revenue of \$63.493 million to be effective January 1, 1996. Pacific Bell's request translates to a \$52.079 million increase without the Price Cap Index. On October 11, 1995, Pacific Bell filed AL No. 17762A to reflect that the proposed (\$8.115 million) Z-factor adjustment for Contel's transitional payment reduction is ongoing, rather than a one-time adjustment.

The adopted revenue changes are summarized in the following table:

<u>1996 Price Cap Revenue Change</u>	
	\$000
Price Cap Impact without Z-Factors	\$0
Z-factors: ongoing revenue impact	
\$200/\$500 Expense Limit	(2,390)
PBOPs	(0)
USOA Turnaround Adjustment	0
Contel Transitional Payment Reduction	(8,115)
Sub-Total	<u>(10,505)</u>
Z-factors: one-time revenue impact	
Citizens Transitional Payment Reduction	(7,000)
Disaster Recovery	0
Customer Notification	23,603
Gain on Sale of Land	(1,667)
Intervenor Compensation	0
Telesis Spin Refund	(4,047)
Sub-Total	<u>10,889</u>
Net Z-factor adjustment	384
Total Price Cap Impact with Z-factors Effective January 1, 1995	\$384

Note: Revenue reduction in ()

BACKGROUND

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

This new regulatory framework is centered around a price cap indexing mechanism with sharing of excess earning 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 economy wide 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 D.94-06-011, the Commission ordered Pacific to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI) commencing with Pacific's 1995 price cap filing. In addition, the Commission adopted a productivity factor of 5.0% for Pacific for its 1995 price cap filing.

In our D.94-09-065, we authorized Pacific to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism. On October 2, 1995, Pacific filed AL No. 17762 requesting billing surcharge/surcredit changes to be effective January 1, 1996, in order to implement the 1996 price cap index mechanism and certain Z-factor adjustments. On October 11, 1995, Pacific Bell filed AL No. 17762A to reflect that the proposed (\$8.115 million) Z-factor adjustment for Contel's transitional payment reduction is ongoing, rather than one-time.

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

1. Price Cap Index, (\$115.572 million) - A 1996 Price Cap Index factor of -2.1%. This factor is calculated by using a GDP-PI amount of 2.9% with a productivity factor of 5.0%. Pacific states that the 5.0% productivity factor is used for illustrative purposes only.
2. \$200 to \$500 Expense Limit, (\$2.390 million) - A 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 in rate base (D.90-09-029, A.90-02-050.)
3. FASB 106, (\$0 million) - A Z-factor adjustment to reflect ongoing expenditures associated with an accounting change that requires utilities to record Post-Retirement Benefits Other Than Pensions (PBOP), (D.92-12-015).
4. USOA Turnaround Adjustment, (\$0 million) - A Z-factor issue regarding expenditures associated with an accounting change. Pacific has filed A.95-05-018 to eliminate this adjustment.
5. Contel Transitional Payment Reductions, (\$8.115 million) - A Z-factor adjustment to reflect the transitional payment reduction for the year 1996 to Contel.

6. Citizens Settlement Transitional Payment Reductions, (\$7.000 million) - A one-time Z-factor adjustment to reflect Citizens Settlement Transition payment amount for Extended Area Service.
7. Disaster Recovery, \$50.712 million - A Z-factor adjustment to reflect one-time costs associated with the Winter Storms of 1995 (January through March).
8. CPN Customer Notification and Education Plan, \$23.603 million - A Z-factor adjustment to reflect one-time costs associated with providing Customer Notification and Education on the passing of Calling Party's Number (CPN).
9. Gain on Sale of Land, (\$1.667) million - A one-time revenue requirement change to reflect any gain on sale of land sold from 1989 through 1994 in accordance with a settlement approved in D.94-06-011.
10. Intervenor Compensation, \$0.983 million - A one-time revenue requirement change to reflect intervenor compensation Pacific has paid from October 1993 through September 1995 as ordered by the Commission. Under Public Utilities Code Section 1801-1807, Pacific requests to file for dollar for dollar compensation for all compensation paid out.
11. Telesis Spin Refund Interest, (\$4.047) million - A one-time revenue requirement change to reflect a refund authorized in D.93-11-011 and D.94-08-030.

The Price Cap Index factor is changed for Pacific with D.95-12-052. That decision orders the productivity factor to equal GDP-PI.

Pacific's total 1996 Price Cap Index (which it uses for illustrative purposes only), Z-factor revenue adjustments and one-time revenue requirement adjustments request amounts to a \$63.493 million decrease to be effective on January 1, 1996. Removing the effect of the Price Cap Index, Pacific's request would amount to a \$52.079 million increase.

PROTESTS

Protest were filed to Pacific's AL No. 17762 on October 23, 1995, by AT&T and MCI; and on October 24, 1995, by DRA.

Pacific responded to AT&T's and DRA's protests on October 31, 1995.

No protests were received with respect to Pacific's revenue adjustments for the \$200/\$500 Expense Limit, the Gain on Sale of Land and the Telesis Spin Refund.

AT&T, DRA and MCI protest Pacific's adjustment for Disaster Recovery. AT&T and DRA protest Pacific's adjustment for USOA

Turnaround. AT&T also protests Pacific's classification of the Citizens Transitional Payment as a one-time Z-factor instead of an on-going Z-factor. DRA protests Pacific's inclusion of the Customer Notification and Education Plan (CNEP) on the passing of Calling Party Number (CPN) and reimbursement of Intervenor Compensation. In addition, DRA raises several "non-protest" issues in Pacific's filing, most importantly that Pacific Bell must actually use the 5.0% productivity factor and not present it "for illustrative purposes only".

We will discuss the parties' protests in further detail below, and adopt a final revenue adjustment for Pacific.

DISCUSSION

I. Disaster Recovery

Pacific requests a one-time Z-factor adjustment for the Winter storms of 1995 (January through March). Pacific notified the Commission on February 3, 1995, that the costs associated with fighting the storms were being booked in its Catastrophic Event Memorandum Account (CEMA) in conformance with Commission Resolution E-3238. Pacific claims that "the damages were uninsurable at reasonable cost".

AT&T, DRA and MCI protest Pacific's request for Z-factor recovery of these costs because the costs do not meet the criteria established in D.94-06-011 before a cost would be awarded Z-factor status. All the protests cite previous Commission action that supports rejection of this request. The protests cite the First Triennial NRF Review (D.94-06-011), the 1993 Price Cap Resolution (T-15160), and the 1995 Price Cap Resolution (T-15695).

DRA quotes D.94-06-011, "If Z factor treatment for natural disaster costs were assured, a NRF utility would have no need of insurance coverage: the ratepayer would become the insurer of last resort." (P. 75-76). DRA points out that in Resolution T-15160 the Commission denied Pacific's request for cost recovery incurred in response to fires, floods and a civil disturbance. DRA also cites that in Resolution T-15695 the Commission denied Pacific's request for recovery of an insurance deductible in connection with the Northridge earthquake. DRA states in its protest that these previous rulings demonstrate that, historically, the Commission has not allowed costs from disasters to be recovered as a Z-factor.

In addition to the precedents that DRA lists, it protests Pacific's request for Disaster Recovery on the basis that Pacific did not demonstrate that it has met all nine criteria as required by D.94-06-011. One specific criterion that DRA believes Pacific fails to meet is that insurance costs are not beyond management's control. DRA quotes from page 8 of Resolution T-15695, "We agree with DRA that insurance costs are not beyond management control and DRA's premise that ratepayers should not be the insurers of last resort." DRA notes that GTE California does carry insurance on its outside plant facilities.

AT&T and MCI argue that the Commission has rejected past claims for disaster recovery and that the costs are not beyond management's control. AT&T further asserts that Pacific fails to demonstrate three Z-factor criteria: that the costs are not a normal cost of doing business; the costs disproportionately impact Pacific; and that the costs are reasonable. In support of its claim that disaster recovery is a normal cost of business, AT&T quotes page 8 of last year's Price Cap resolution for Pacific (Resolution T-15695):

"We also agree with AT&T and MCI that Pacific's request [for disaster recovery] is a normal cost of business and that it was not disproportionately affected. AT&T asserts that all similarly situated businesses were damaged to the same extent seems highly probable."

AT&T believes that similar to the Northridge earthquake, the Winter Storms proportionally affected all businesses adjacent to Pacific's damaged property. MCI adds that the general framework of NRF was to provide the LECs the freedom and responsibility to manage its operations. MCI suggests that Pacific is now asking the Commission and ratepayers to come to its assistance.

Pacific responds to DRA's and AT&T's protest about the Disaster Recovery costs. Pacific summarizes the protests as having four issues: the expenses were not beyond management's control, the Commission has historically not allowed cost recovery for disasters, the expenses were normal costs of doing business, and the costs did not have a disproportionate impact on local exchange carriers. Pacific's response rebuts these four issues. Pacific's explanation can be summarized by grouping the first two issues and the last two issues.

Pacific argues that prior decisions denying Disaster Recovery costs are not dispositive because the Commission assumed the costs were insurable. Pacific quotes D.94-06-011 which states "the opportunity to purchase disaster insurance to mitigate the resulting cost impact from a natural disaster is well within the control of a NRF utility". Pacific suggests the critical factor underlying the Commission's prior decisions denying disaster recovery assumes that the utility had the opportunity to purchase insurance. Pacific claims that the 1995 Winter Storms disaster was not insurable at reasonable cost. Pacific's response includes two letters from its insurance brokers Johnson & Higgins. A letter dated September 27, 1995, by Johnson & Higgins states that "Repeatedly, we have found no viable market exists for the coverage at acceptable terms and cost." Pacific's rationale is that if insurance is not available, the issue of coverage is beyond management's control.

Pacific addresses the differences between itself and GTEC from an insurance perspective. Pacific includes a letter dated October 30, 1995, from its insurance brokers, Johnson & Higgins. The letter lists several differences between GTEC/GTE and Pacific Bell. Most notably, the letter claims that because GTEC is part of GTE (a nationwide company), the insurance risks are different than with those associated with Pacific which has all of its operations in California.

Pacific adds that granting recoupment for disaster recovery expenses would not make ratepayers the "insurers of last resort". It argues that recovery for natural disaster costs are not "assured" and that it will only recoup costs after Pacific has demonstrated that those costs were exogenous because they were uninsurable at reasonable cost.

Pacific finds flaws with AT&T's assertions that the cost of repairing storm damage is a normal cost and that those costs have not had a disproportionate effect on Pacific. Pacific states that AT&T misses the point when it claims that numerous businesses were generally and severely impacted by the 1995 Winter Storms. Pacific maintains that the issue is not whether other businesses were also affected by the storms but were "damaged to the same extent" as stated in Resolution T-15695. Pacific claims that the storms damaged few, if any, businesses to the same extent as Pacific Bell because of its network of outside plant facilities. Pacific uses this argument to rebut the concepts that the costs incurred with disaster recovery are a normal cost of business and that the LEC is not affected disproportionately.

A threshold question is whether the acquisition of insurance is within management's control. Pacific heads one of its sections in its response to protests "Prior Decisions Denying Recoupment Of Disaster Recovery Costs Are Not Dispositive, Because They Assumed That The Costs Were Insurable." However, throughout the remainder of the response letter and the workpapers, Pacific more carefully adds qualifiers. It frequently qualified the statement by adding the phrase "at reasonable cost". This qualification speaks volumes. The determination that insurance is available or not at a reasonable cost must be made by management. Additionally, what is considered "acceptable" by management may not be considered reasonable by this Commission. We agree with AT&T and DRA that insurance costs are not beyond management control and continue or support of AT&T's and DRA's premise that ratepayers should not be the insurers of last resort. In D.94-06-011, we stated our belief that automatic recovery for disasters would send the wrong incentive with regard to insurance: "If Z factor treatment for natural disaster costs were assured, a NRF utility would have no need of insurance coverage: the ratepayer would become the insurer of last resort." (P. 75-76). We again recognize the precedents of Resolution T-15160 which denied recovery for fires, floods, and a civil disobedience and Resolution T-15695 which denied recovery for an insurance deductible for an earthquake.

We also agree with AT&T that Pacific's request did not demonstrate that the disaster recovery costs are not a normal cost of business and that it was disproportionately affected. Pacific's claim that the storms damaged few, if any, businesses to the same extent as Pacific Bell was not demonstrated and, in fact, seem to be contradicted by its workpapers. Pacific's workpapers note that Governor Wilson declared 38 counties to be disaster areas. We doubt that Governor Wilson would have taken this action had the storms damaged "few, if any, businesses to the same extent as Pacific Bell". For these reasons we deny

Pacific's request for Z-factor recovery for costs associated with the Winter Storms of 1995 (January through March).

II. USOA Turnaround

Pacific did not include any adjustment for the USOA Turnaround in its 1996 Price Cap filing. Pacific believes that it has fulfilled its obligation of future ratepayer benefits as envisioned by the Commission in D.87-12-063. Resolution T-15695 required Pacific to continue the USOA Turnaround adjustment for \$23.123 million until the Commission has specifically ordered its suspension or termination.

Pacific filed A.95-05-018 to permanently eliminate this adjustment. (GTEC has filed a similar application, A.95-02-011.) Hearings have been held on this matter and a decision is expected to be issued in early 1996. A Joint Motion to adopt a stipulation agreement to stay the USOA adjustment for both Pacific and GTEC and to establish an interest-bearing memorandum account was filed by Pacific, GTEC, and DRA. Pacific represents that the only other party in the proceeding, AT&T, does not oppose the Joint Motion.

DRA protests Pacific's treatment of the USOA Turnaround unless one of three Commission actions occurs before January 1, 1996: the Commission modifies T-15695, the Commission issues a decision in A.95-05-018, or the Commission adopts the Joint Motion.

AT&T's protest does not recommend any change to Pacific's removal of the USOA Turnaround adjustment. AT&T recommends that the Commission issue a decision regarding the Joint Motion in the event the Commission does not adopt a final decision for A.95-05-018.

All parties are satisfied if the Joint Motion is adopted by this Commission before January 1, 1996. The Commission adopted the Joint Motion on November 21, 1995, in D.95-11-061. We consider Pacific's removal of the USOA Turnaround adjustment to be appropriate in light of the Commission's adoption of the Joint Motion.

III. Citizens Transitional Payments

Pacific includes a \$7.000 million one-time Z-factor adjustment to reflect the termination of the Extended Area Service arrangement between Citizens and Pacific.

AT&T protests the categorization as a one-time Z-factor adjustment as opposed to an ongoing adjustment. AT&T states that in the absence of a new arrangement, Pacific's expenses have been permanently reduced by \$7.000 million.

Pacific responds by stating the \$7.000 million is to reflect the elimination of this payment for 1995 and that it would be premature to adopt an ongoing reduction of \$7.000 million for

1996 and beyond because this issue is subject to further negotiation.

We will allow this adjustment to remain categorized as a one-time Z-factor amount. However, we expect this issue to be addressed by Pacific in its 1997 Price Cap filing.

IV. Customer Notification and Education Program

Pacific requests a one-time Z-factor adjustment of \$23.603 million to provide a Customer Notification and Education Program (CNEP) in relation to the passing of Calling Party Number (CPN). The Federal Communications Commission (FCC) ordered LECs with Signaling System 7 (SS7) call set up capability to transport the Calling Party's Number (CPN) to interconnecting carriers. The result of passing on the CPN is for possible display on a Caller ID display. Blocking a telephone number from display is accomplished by dialing *67 before dialing the telephone number. Although Pacific does not yet offer Caller ID, the FCC Order affects customers' privacy on an interstate basis. Pacific calculates the total cost of the CNEP at \$32.936 million. It subtracts \$5.000 million from the \$32.936 million on the belief that \$5.000 million is the correct amount to spend on a CNEP. Pacific notes that \$5.000 million is what it used in its application for Caller ID. The result of \$27.936 is multiplied by the intrastate separations factor of 0.844888 which yields \$23.603 million.

AT&T and DRA protest Pacific's CNEP. AT&T takes issue with the intrastate separation factor used. DRA objects to the inclusion of the CNEP in principle.

AT&T states that Pacific should have used a separation factor of 0.797994 which would yield a Z-factor amount of \$22.293 million.

DRA argues that Pacific has not demonstrated that the CNEP satisfies the nine criteria as specified in D.94-06-011, fails at least two of the criteria (the costs are within management's control and may not be reasonable), uses an inappropriate rationale for including CNEP costs as a Z-factor, and should not use the Price Cap mechanism for CNEP cost recovery.

DRA notes that a utility must demonstrate that nine criteria are satisfied before a cost can be recovered through the Z-factor mechanism. Additionally, DRA alleges that Pacific fails two of the criteria. DRA believes that the cost of passing CPN is within management's control. DRA claims that Pacific and the other LECs in the country proposed to offer Caller ID service and defacto proposed the passing of the CPN on an interstate basis. DRA states that management had control over the technology that makes the passing of CPN possible (SS7). DRA reasons that since management had control of both the offering of Caller ID and the installation of the SS7 technology, the cost of the CNEP is not outside the control of management.

DRA also suggests that Pacific has not adequately supported the reasonableness of the cost for the CNEP. DRA cites a table

developed by Pacific which lists activities and cost estimates. DRA states that it is unable to evaluate the reasonableness of the cost estimates due to a lack of details.

DRA claims that Pacific uses an inappropriate rationale for including CNEP costs as a Z-factor. DRA describes a Pacific data response explaining why Pacific requests recovery for CNEP costs. Pacific notes that the FCC ordered Pacific to pass the CPN and to conduct an education program. Pacific also mentions that the Commission Advisory and Compliance Division (CACD) had informed Pacific that it is required to comply with D.92-06-065 as modified by D.92-11-062 thus providing an extensive CNEP even if Pacific does not offer Caller ID. Pacific states that it intends to offer Caller ID, hopefully, at the same time that it passes the CPN on interstate calls. Pacific ends by claiming that the more extensive and costly CNEP was required by the Commission and is not the CNEP proposed by Pacific. DRA rejects the rationale that Pacific uses. DRA states that Pacific's argument that an extensive CNEP is required even if Pacific does not offer Caller ID will likely be moot because Pacific has stated it is planning to offer the service. DRA continues that if Pacific chooses not to offer Caller ID, it can petition the Commission to reconsider the extensive CNEP. DRA states that the Commission did not envision the passing of the CPN for interstate calls without the offering of Caller ID when it ordered the extensive CNEP.

DRA suggests that the proper vehicle for CNEP cost recovery is in the rates and charges of Caller ID as opposed to Z-factor treatment. DRA notes that GTEC has not requested CNEP cost recovery in its 1996 Price Cap filing.

Pacific denies AT&T's claim that the incorrect intrastate separations factor was used. Pacific states that it used the factor for "Customer Services" expenses while AT&T used the factor for "Marketing" expenses. Pacific states that the Commission has explicitly stated that the customer messages are not to be sales messages. Therefore, Pacific says that the "Marketing" factor is inappropriate.

Pacific responds with four points to DRA's protest. First, Pacific claims that CNEP costs are beyond management's control because CACD and Commissioner Henry M. Duque state that an extensive CNEP is required.

Second, Pacific argues that CNEP costs are the result of exogenous events. Pacific lists the events that occurred in regard to CNEP costs. Pacific states that this Commission ordered an extensive CNEP in D.92-06-065 as modified by D.92-11-062, the FCC ordered the passing of CPN and to provide a CNEP, CACD informed Pacific that it must provide an extensive CNEP even if it does not offer Caller ID, and that Commissioner Henry M. Duque confirmed CACD's interpretation. Pacific claims that because these events are caused by this Commission and the FCC they are exogenous events.

Third, Pacific explains that it has provided DRA with the information it requested and that any more information it wants will be provided. Therefore, DRA and the Commission are able to make a determination of reasonableness.

Fourth, Pacific argues against collection of the CNEP costs through the rates and charges for Caller ID. It states that Pacific never proposed that users of Caller ID should pay for the extensive CNEP. Pacific also mentions that it is required to incur the CNEP costs even if it does not offer Caller ID. Pacific points out that the CNEP is intended to educate all customers, not just the users of Caller ID. Pacific asserts that DRA's proposal is not competitively neutral. The CNEP will provide information regardless of a customer's provider of telecommunications services.

We agree with Pacific that it uses the correct separations factor and we dismiss AT&T's protest on this issue.

DRA raises several good points about Pacific's rationale for including CNEP costs as a Z-factor adjustment. Had Pacific offered Caller ID before the FCC order, Pacific would have been required to provide the CNEP and recover those costs through the Caller ID service offering. On the other end of the spectrum, if Pacific never offers Caller ID, the CNEP chain of events would have met the requirements for Z-factor recovery. In making this statement, we disagree with DRA that management had control over these costs. Management does have control over the implementation of the SS7 technology and the offering of Caller ID. However, we make a distinction that management did not have control over the FCC's decision that requires the passing of the CPN and the corresponding CNEP.

Therefore, because we are requiring an extensive CNEP and that the cause of these CNEP costs were beyond management's control, we will approve Pacific's Z-factor request for \$23.603 million for CNEP costs.

V. Intervenor Compensation

Pacific has requested a one-time Z-factor for \$983 thousand in compensation it paid to intervenors. Pacific cites Public Utilities Code Sections 1801 to 1807, that allow a utility to request dollar-for-dollar adjustment to rates to recover costs associated with intervenor compensation.

DRA protests Pacific's request because this issue is being held in abeyance. DRA notes that Commission action is pending and that cost recovery is contingent upon the decision on Toward Utility Rate Normalization's (TURN) application for rehearing of D.94-09-022. DRA does not object to the amount but states that it would be premature for the Commission to allow recovery at this time.

Pacific did not respond to this issue.

We agree with DRA that until the Commission acts on TURN's application for rehearing, it is premature to make any Z-factor adjustment. D.94-12-025 denies DRA's petition but holds in abeyance Pacific's request in AL No 17116 to recover intervenor compensation. The decision also makes the rates of Pacific subject to refund pending the Commission review of TURN's application for rehearing of D.94-09-022, for the limited purpose of reviewing whether Pacific's revenues already reflect the costs of intervenor compensation. In accordance with D.94-12-025, we hold in abeyance Pacific's request for recovery of intervenor compensation.

VI. Productivity Factor

Pacific submitted its 1996 Price Cap filing using a 5.0% productivity factor, repeatedly labeling the 5.0% as "illustrative". Pacific claims that the 5.0% productivity factor was ordered only through 1995. Pacific states its belief that a decision on the productivity factor to be used in 1996 will be issued in I.95-05-047 before the end of the year.

DRA protests Pacific's use of 5.0% as illustrative. DRA believes that the productivity factor should be consistent with the decision issued in Phase I of I.95-05-047 but that if a decision is not rendered by December 31, 1995, then Pacific should use a 5.0% productivity factor for 1996. DRA states that its recommendation is consistent with D.92-09-081 in which the Commission continued the use of the 4.5% productivity factor until the productivity factor issue was resolved in the 1992 NRF Review.

Pacific responds to DRA's protest. First, Pacific reiterates its belief that a decision will be issued in I.95-05-047 and therefore this issue will likely be moot. Second, if no decision is reached in I.95-05-047, then use of a 5.0% productivity factor would be arbitrary and capricious because there is no decision that specifies a productivity factor for 1996. Third, Pacific claims that DRA incorrectly alleges that continuation of a 5.0% productivity factor is consistent with D.92-09-081. Pacific states that the situations are different. Specifically, it states that the 1992 NRF Review had not even begun, while in the present case, briefs have already been submitted. Pacific recommends that if a final decision is not reached in I.95-05-047 by December 31, 1995, that no productivity factor be effective from January 1, 1996, until the time the the Commission issues its final decision.

A decision (D.95-12-052) out of I.95-05-047 was issued on December 20, 1995. The decision orders the productivity factor to equal GDP-PI. The Commission has resolved this issue; there will be no Price Cap Index adjustment for Pacific for 1996.

VII. Other Adjustments

No protests were received on the \$200 to \$500 Expense Limit change, the Gain on Sale of Land, and the Telesis Spin Refund. These requests have been reviewed and we find them to be reasonable.

VIII. Price Floors

No protests or comments were received on Pacific's revisions to their Price Floors. The revisions to the floor were reviewed and we find them to be reasonable.

FINDINGS

1. Pacific's AL No. 17762 filed October 2, 1995 and supplemented by AL No. 17762A, filed October 11, 1995, shows the effects of a 5.0% productivity factor for illustrative purposes. If a 5.0% productivity factor is used, Pacific would be proposing to reduce its annual revenue by \$63.493 million effective January 1, 1996 to implement its 1996 annual price cap index filing. Removing the effects of the Price Cap Index, Pacific's proposal is to increase its annual revenue by \$52.079 million.

2. Pacific's proposed revenue adjustments reflect:

- a. 1995 Price Cap Index of -2.1% for illustrative purposes only (revenue decrease of \$115.572 million).
- b. Z-factor revenue adjustments to reflect exogenous effects not reflected in the GDP-PI:
 - o \$200 to \$500 Expense Limit, an on-going revenue decrease of \$2.39 million.
 - o FASB 106, no revenue change.
 - o USOA Turnaround Adjustment, no revenue change
 - o Contel Transitional Payment Reduction, an on-going revenue decrease of \$(8.115) million
 - o Citizens Transitional Payment Reduction, a one-time revenue decrease of \$(7.000) million
 - o Disaster Recovery, a one-time revenue increase of \$50.712 million.
 - o CPN Customer Notice and Education Plan, a one-time revenue increase of \$23.603 million.
- c. One-time revenue adjustments to reflect Commission authorized revenue requirement impacts:
 - o Gain on Sale of Land, a one-time revenue decrease of \$(1.667) million

- o Intervenor Compensation, a one-time revenue increase of \$0.983 million
 - o Telesis Spin Refund, a one-time revenue decrease of \$(4.047) million
3. Pacific's request for disaster recovery related to the Winter Storms of 1995 is denied.
 4. Pacific's request to stay the USOA Turnaround adjustment for 1996 and to establish an interest-bearing memorandum account has been adopted by this Commission on November 21, 1995, in D.95-11-061.
 5. Pacific's categorization of the Citizens Transitional Payment as a one time Z-factor is reasonable.
 6. Pacific's request for a Z-factor adjustment of \$23.603 million to provide a Customer Notification and Education Plan on the passing of Calling Party Number is granted.
 7. Pacific's request to recover intervenor compensation continues to be held in abeyance in accordance with D.94-12-025.
 8. Pacific shall use a productivity factor equal to GDP-PI as ordered in D.95-12-052.
 9. Pacific's request for revenue adjustments for the \$200 to \$500 expense limit, the Gain on Sale of Land, and the Telesis Spin Refund are reasonable.
 10. AT&T's, DRA's and MCI's and TURN's protests are denied except to the extent set forth herein.
 11. A total price cap mechanism revenue increase of \$0.384 million effective January 1, 1996 is justified. The adopted revenue adjustments are summarized in Appendix A to this Resolution.

THEREFORE, IT IS ORDERED that:

1. Pacific Bell shall increase its annual revenue by \$0.384 million effective January 1, 1996, as a result of of its 1996 annual price cap index filing in Advice Letters (AL) Numbers 17762 and 17762A.
2. Pacific Bell shall make a supplemental compliance filing to AL No. 17762 on or before December 29, 1995 with the Commission Advisory and Compliance Division. The filing should implement billing surcharges/surcredits reflecting the revenue decrease in Ordering Paragraph 1, applied to a total billing base of \$5,503,446,000 for intraLATA exchange and private line services, intraLATA toll services, and intraLATA access service. This filing will become effective on January 1, 1996, subject to

December 20, 1995

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 20, 1995. The following Commissioners approved it:


WESLEY M. FRANKLIN
Executive Director

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

Appendix A
Resolution T-15820

PACIFIC BELL
1996 PRICE CAP FILING
(\$ IN THOUSANDS)

<u>Permanent Factors</u>	<u>Pacific Proposed Revenue Impacts</u>	<u>DRA Proposed Revenue Impacts</u>	<u>Adopted Revenue Impacts</u>
Indexing Mechanism	(\$115,572)	(\$115,572)	(\$115,572)
\$200-\$500 Expense Limit	(\$2,390)	(\$2,390)	(\$2,390)
FASB 106 - PBOPs	\$0	\$0	\$0
USOAR Turnaround	\$0	(\$23,122)	\$0
Contel Transitional Payment	(\$8,115)	(\$8,115)	(\$8,115)
Subtotal	(\$126,077)	(\$149,199)	(\$126,077)
<u>One-time Z-factors/adjustments</u>			
Citizens Transitional Payment	(\$7,000)	(\$7,000)	(\$7,000)
Disaster Recovery	\$50,712	\$0	\$0
Cust. Notification/Education Plan	\$23,603	\$0	\$23,603
Gain on Sale of Land	(\$1,667)	(\$1,667)	(\$1,667)
Intervenor Compensation	\$983	\$0	\$0
Telesis Spin Refund Interest	(\$4,047)	(\$4,047)	(\$4,047)
Subtotal of one-time adjustments	\$62,584	(\$12,714)	\$10,889
Total	(\$63,493)	(\$161,913)	(\$115,188)

Appendix B
Resolution T-15820

Pacific Bell
1996 Price Cap Filing
(SURCHARGE/SURCREDIT ADJUSTMENT BY %)

	Pacific	DRA	ADOPTED
Effective 1/1/96:			
Price Cap Adjustment	-2.100%*	-2.100%	-2.100%
On-going Z-factor adjustments	-0.191%	-0.611%	-0.191%
One-time Z-factor adjustments	1.223%	-0.127%	0.302%
One-time other adjustments	-0.086%	-0.104%	-0.104%
Total net adjustment	-1.154%	-2.942%	-2.093%

* Pacific states that its use of a 2.1% productivity factor is for illustrative purposes only.