

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Branch  
Commission Advisory and Compliance Branch

RESOLUTION T-15821  
December 20, 1995

R E S O L U T I O N

RESOLUTION T-15821. GTE California Incorporated (U-1002-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. 7857, FILED OCTOBER 2, 1995.

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SUMMARY

This Resolution orders GTE California Incorporated (GTEC) to reduce its annual revenue by \$41.688 million effective January 1, 1996, to implement its 1996 annual price cap index filing in Advice Letter (AL) Number (No.) 7857.

The January 1, 1996 revenue decrease reflects GTEC's 1995 price index decrease of \$31.060 million, and a net Z-factor adjustment decrease of \$10.628 million.

A protest to GTEC's AL No. 7857 was filed by the Commission's Division of Ratepayer Advocates (DRA).

GTEC filed AL No. 7857 on October 2, 1995, requesting a reduction to its 1995 revenue of \$41.540 million to be effective January 1, 1996.

The adopted revenue changes are summarized in the following table:

<u>1996 Price Cap Revenue Change</u>		\$000
Price Cap Impact (1.7%) without Z-Factors		\$(31,060)
Z-factors: ongoing revenue impact		
Interstate High Cost Fund		1,643
PBOP Adjustment		(12,271)
	Sub-Total	<u>(10,628)</u>
Z-factors: one-time revenue impact		
Intervenor Compensation		0
	Sub-Total	<u>0</u>
Net Z-factor adjustment		(10,628)
Total Price Cap Impact with Z-factors Effective January 1, 1996		\$(41,688)

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 [since replaced by the GDP-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.

However, the Commission did not authorize Z-factor treatment for all unforeseen or exogenous factors. In D.89-10-031 the Commission also stated that:

normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions would be excluded as Z-factor items.

In D.93-09-038, the Commission ordered GTEC to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI) commencing with GTEC's 1994 price cap filing. In addition, the Commission adopted a productivity factor of 4.6% for GTEC for 1996.

In D.94-09-065, we authorized GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism. On October 2, 1995, GTEC filed AL No. 7857 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.

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

1. Price Cap Index, (\$31.060 million) - A 1996 Price Cap Index factor of -1.7%. This factor is calculated by using a GDP-PI amount of 2.9% with a productivity factor of 4.6%.
2. Interstate High Cost Fund, \$1.643 million - A Z-factor adjustment to reflect reduced recovery from the Interstate High Cost Fund. This adjustment is applicable to the local exchange billing surcharge only.
3. PBOP Adjustment, (\$12.271 million) - A Z-factor adjustment to reflect a reduction of payments in connection with Statement of Financial Accounting Standards No. 106 (SFAS 106), Employers Accounting for Post Retirement Benefits Other than Pensions.
4. Intervenor Compensation, \$0.148 million - A one-time revenue requirement change to reflect intervenor compensation GTEC paid in 1995 (through September). Under Public Utilities Code Section 1801-1807, GTEC requests dollar for dollar compensation for all compensation paid out.

The Price Cap Index factor is based on a change in GDP-PI of 2.9% for the second quarter of 1995 over the second quarter of 1994, which, together with the 4.6% productivity gain factor, results in a net Price Cap Index of -1.7%. Applied to a billing base of \$1,827,069,000 this factor results in a revenue decrease of \$31.060 million.

GTEC's total 1996 Price Cap Index, Z-factor revenue adjustments and one-time revenue requirement adjustment request amounts to a \$41.540 million decrease to be effective on January 1, 1996.

#### PROTESTS

A protest was filed to GTEC's AL No. 7857 on October 24, 1995, by DRA.

GTEC responded to DRA's protest on October 30, 1995.

No protests were received with respect to GTEC's revenue adjustments for the Price Cap Index, Interstate High Cost Fund, and the PBOP Adjustment.

DRA protests GTEC's adjustment for Intervenor Compensation. DRA also protests GTEC's omission of a Z-factor adjustment for USOAR turnaround. DRA submits comments on several issues including GTEC's use of a 4.6% productivity factor and GTEC's classification of the PBOP adjustment as a "reduction".

We will discuss DRA's protest in further detail below and adopt a final revenue adjustment for GTEC.

#### DISCUSSION

##### I. Intervenor Compensation

GTEC requests a one-time Z-factor adjustment of \$148 thousand in compensation it paid to intervenors.

DRA protests GTEC's request for intervenor compensation recovery because this issue is identical to an issue being held in abeyance for Pacific Bell (Pacific). DRA notes that D.94-12-025 is considering the applicability of P.U. Code 1807 to NRF utilities. DRA adds that D.94-06-011 sets criteria that need to be satisfied before an amount is granted Z-factor treatment. DRA points out that although GTEC labels Intervenor Compensation as "other adjustments" there is no relation between costs and rates with the exception of costs that qualify for Z-factor treatment. DRA states that Toward Utility Rate Normalization's (TURN) application for rehearing of D.94-09-022 is still pending Commission action. Therefore, DRA recommends that GTEC not be allowed any recovery for Intervenor Compensation fees.

GTEC cites Public Utilities Code (P.U. Code) Sections 1807, that states that intervenor compensation "shall" be allowed as an expense of a public utility. GTEC states that the \$0.148 million represents the amount that this Commission has ordered GTEC to pay to intervenors in 1995 to date. GTEC claims that by statute it is entitled to recover that amount in rates during 1996. GTEC states that the recovery is not dependent upon the regulatory framework.

We agree with DRA that until the Commission acts upon TURN's application for rehearing, it is premature to make any Z-factor adjustment. D.94-12-025 does not refer to GTEC but does

reference the NRF framework under which GTEC operates. As this issue is still pending, we hold in abeyance GTEC's request for recovery of intervenor compensation.

## II. USOAR Turnaround

GTEC did not include any adjustment for the USOAR Turnaround in its 1996 Price Cap filing. GTEC notes in its Price Cap filing that "A USOAR "z" factor has not been included in this filing as per the Joint Motion filed by GTEC, Pacific Bell and DRA to include the USOAR Step-Down reduction for 1996 in an interest bearing memorandum account pending a final decision in that proceeding."

DRA protests GTEC's treatment of the USOAR Turnaround unless one of three Commission actions occurs before January 1, 1996: the Commission modifies T-15696, the Commission issues a decision in A.95-02-011, or the Commission adopts the Joint Motion.

The 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 GTEC's removal of the USOAR Turnaround adjustment to be appropriate in light of the Commission's adoption of the Joint Motion.

## III. Productivity Factor

GTEC submitted its 1996 Price Cap filing using a 4.6% productivity factor. GTEC cites Ordering Paragraph 6 of D.93-09-038 which lists 4.6% as the productivity factor to be used by GTEC for 1996. Ordering Paragraph 7 of D.93-09-038 states that in the event that the Commission should adopt productivity factors for Pacific Bell in A.92-05-004 which are different from those set forth in Ordering Paragraph 6, GTEC's productivity factors shall be adjusted so that the productivity factors for GTEC and Pacific shall be the same.

DRA issues comments on GTEC's use of 4.6%. DRA states that should the Commission adopt a different productivity factor than 4.6% in I.95-05-047, GTEC should be required to adjust its 1996 Price Cap to reflect the adopted productivity factor.

GTEC responds to DRA's protest by again citing D.93-09-038. GTEC points out that Ordering Paragraph 7 of that decision only required that GTEC's productivity factors be the same as Pacific Bell's productivity factors that were issued out of A.92-05-004. GTEC states that D.94-06-011 in A.92-05-004 adopted productivity factors for Pacific for 1994 and 1995. That decision did not order a productivity factor for Pacific for 1996. GTEC adds that a productivity factor, if any, for Pacific to use in 1996 would be issued from I.95-05-047, not A.92-05-004. GTEC allows that unless the Commission elects to modify D.93-09-038 in its decision in I.95-05-047, GTEC is required to apply the 4.6% productivity factor in 1996.

We agree with GTEC that it should use a 4.6% productivity factor in the 1996 price cap filing. We also recognize that GTEC will have to comply with any decision in I.95-05-047. Although D.93-09-038 does not require that GTEC's productivity factor be the same as Pacific's productivity factor in a proceeding outside of A.92-05-004, GTEC's productivity factor may be changed from 4.6% in a decision arising from I.95-05-047. In such a case, GTEC would need to file an Advice Letter to comply with that decision.

#### IV. PBOP Adjustment

GTEC submitted its 1996 Price Cap filing with a \$12.271 million downward adjustment to GTEC's PBOP revenue requirement.

DRA claims that GTEC should not label this adjustment a "reduction". DRA states that the adjustment should be labeled a refund. DRA cites Ordering Paragraph 3 of D.92-12-015 which prohibits diversion of PBOPs revenue requirements to non-PBOPs uses. DRA calls attention to Ordering Paragraph 6 of D.94-10-037 which has been reaffirmed by D.95-10-018, makes all PBOPs rate recovery from October 12, 1994, forward subject to refund pending the outcome of "further proceedings" to be held pursuant to Ordering Paragraph 3 of D.94-10-037. DRA does not protest GTEC's 1996 Z-factor recovery of PBOPs accruals, but reserves the right to protest or otherwise recommend the disallowance and refund of PBOPs revenue requirements reflected in GTEC's 1994, 1995, and 1996 tariffs.

GTEC alleges that DRA makes two statements that demonstrate a misunderstanding of the nature of GTEC's \$12.271 million PBOP adjustment. First, GTEC states that DRA's contention that the adjustment should be labeled a "refund" is untrue. GTEC cites Ordering Paragraph 3 of D.92-12-015 which says in part that "To the extent that PBOP trust assets cannot or are not used for PBOP obligations, then those assets shall be returned to ratepayers as allowable by law. GTEC contends that the trust obligations to date continue to be wholly dedicated to PBOP obligations. The \$12.271 million amount is not a reflection of the use of PBOP trust assets but rather represents a true-up to the current level of revenue requirement. The revenue requirement each year is calculated as the difference between the PBOP accrual and the pay-as-you-go method. GTEC asserts that this true-up is required under Ordering Paragraph 8 of D.92-12-015.

Second, GTEC disputes DRA's assertion that the adjustment does not affect the on-going level of GTEC's PBOP revenue requirement. GTEC mentions that the proposed PBOP adjustment is a permanent reduction to rates. GTEC states that once the adjustment is made, the amount of PBOP revenue requirement included in GTEC's rates will have declined from approximately \$42 million to \$29.729 million.

GTEC concludes that the Commission should reasonably expect GTEC's PBOP revenue requirement of \$29.729 million to change in future years based on 1996 actuarial data.

We note that both parties have no argument over the PBOP adjustment amount. We will not spend much time here debating the correct label. Without precluding any party's right to protest in the future, we do take note that the PBOP revenue requirement may change based upon updated actuarial data. For the 1996 price cap filing, we find the negative adjustment of \$12.271 million to be proper.

#### V. Other Adjustments

No protests or comments were received on the Interstate High Cost Fund adjustment. This request was reviewed and we find it to be reasonable.

#### VI. Price Floors

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

#### FINDINGS

1. GTEC's AL No. 7857 filed October 2, 1995, proposes to reduce its annual revenue by \$41.540 million effective January 1, 1996 to implement its 1996 annual price cap index filing.
2. GTEC's proposed revenue adjustments reflect:
  - a. 1995 Price Cap Index of -1.7% (revenue decrease of \$31.060 million).
  - b. Z-factor revenue adjustments to reflect exogenous effects not reflected in the GDP-PI:
    - o Interstate High Cost Fund, an on-going revenue increase of \$1.643 million.
    - o PBOP Adjustment, an on-going revenue decrease of \$(12.271) million
    - o Intervenor Funding, a one-time revenue increase of \$0.148 million
3. GTEC's request for recovery on Intervenor Funding is identical to an issue with Pacific Bell that has been placed in abeyance. GTEC's request should also be placed in abeyance.
4. GTEC'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. GTEC's use of a 4.6% productivity factor is appropriate unless a decision in I.95-05-047 is issued that changes GTEC's productivity factor applicable to the 1996 price cap.

6. GTEC's request for a negative PBOP adjustment of \$12.271 million is reasonable.
7. GTEC's request for a revenue adjustment for the Interstate High Cost Fund is reasonable.
8. DRA's protest is denied except to the extent set forth herein.
9. A total price cap mechanism revenue decrease of \$41.688 million effective January 1, 1996 is justified. The adopted revenue adjustments are summarized in Appendix A to this Resolution.

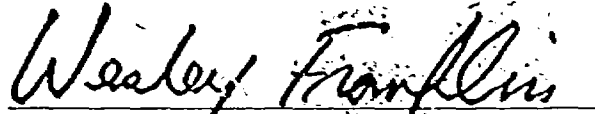
**THEREFORE, IT IS ORDERED that:**

1. GTE California Incorporated shall reduce its annual revenue by \$41.688 million effective January 1, 1996, as a result of its 1996 annual price cap index filing in Advice Letter (AL) Number 7857.
2. GTE California Incorporated shall make a supplemental compliance filing to AL No. 7857 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 \$1,827,069,000 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 review and approval by the Commission Advisory and Compliance Division.
3. The supplemental compliance filing in Ordering Paragraph 2 of this Resolution shall take into consideration any change to the productivity factor ordered by a decision arising from I.95-05-047.



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-15821

GTE CALIFORNIA INC.  
1996 PRICE CAP FILING  
(\$ IN THOUSANDS)

<u>Permanent Factors</u>	<u>GTEC Proposed Revenue Impacts</u>	<u>DRA Proposed Revenue Impacts</u>	<u>Adopted Revenue Impacts</u>
Indexing Mechanism	(\$31,060)	(\$31,060)	(\$31,060)
Interstate High Cost Fund	\$1,643	\$1,643	\$1,643
PBOP Adjustment	(\$12,271)	(\$12,271)	(\$12,271)
USOA Turnaround	\$0	(\$11,527)	\$0
Subtotal	(\$41,688)	(\$53,215)	(\$41,688)
<u>One-Time Z-Factors</u>			
Intervenor Compensation	\$148	\$0	\$0
Total	(\$41,540)	(\$53,215)	(\$41,688)

**Appendix B  
Resolution T-15821**

**GTE California Inc.  
1996 Price Cap Filing  
(SURCHARGE/SURCREDIT BY %)**

**A-38 SURCHARGE/SURCREDIT ADJUSTMENTS**

	<b>GTEC</b>	<b>DRA</b>	<b>ADOPTED</b>
Effective 1/1/96:			
Exchange	-3.15	-3.79	-3.16
Toll	-3.05	-3.69	-3.06
Access	-3.05	-3.69	-3.06

**ADOPTED A-38 SURCHARGE/SURCREDIT**

Effective 1/1/96:		
Exchange		-3.16
Toll		-3.06
Access		-3.06