

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division

RESOLUTION T-15976  
December 20, 1996

R E S O L U T I O N

RESOLUTION T-15976. PACIFIC BELL (U-1001-C). ORDER APPLYING THE ADOPTED PRICE CAP MECHANISM IN COMPLIANCE WITH DECISIONS 89-10-031, 94-09-065 AND 95-12-052 THROUGH ADJUSTMENTS TO SURCHARGES/SURCREDITS TO BE EFFECTIVE January 1, 1997.

BY ADVICE LETTER NO. 18508, FILED OCTOBER 1, 1996, AS SUPPLEMENTED BY ADVICE LETTER NO. 18508A, FILED OCTOBER 22, 1996.

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SUMMARY

This Resolution orders Pacific Bell (Pacific) to decrease its annual revenue by \$65.663 million effective January 1, 1997, to implement its 1997 annual price cap index filing in Advice Letter (AL) Numbers (Nos.) 18508 and 18508A. The adopted revenue requirement adjustments and surcharge decreases are shown in Appendices A and B attached to this Resolution. The revisions to Pacific's price floors to reflect the change in the inflation factor are adopted as filed and are effective January 1, 1997.

The January 1, 1997 revenue decrease reflects net Z-factor and other adjustments. D.95-12-052, dated December 20, 1995, suspended the remainder of the Price Cap formula for Pacific starting with 1996.

A protest to Pacific's AL Nos. 18508 and 18508A was filed by the California Public Utilities Commission's (Commission's) Office of Ratepayer Advocates (ORA) [1].

Pacific Bell filed AL No. 18508 on October 1, 1996, requesting a reduction to its 1997 revenue of \$55.149 million. On October 22, 1996, Pacific Bell filed AL No. 18508A to reflect an additional Gain on Sale of Land adjustment, changing the

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1 The Commission's Office of Ratepayer Advocates was formerly called the Division of Ratepayer Advocates.

requested reduction to its 1997 revenue to \$64.528 million to be effective January 1, 1997.

The adopted revenue changes are summarized in the following table:

1997 Price Cap Revenue Change (in \$000s)

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	( 8,115)
Roseville Transitional Payment	( 2,027)
Citizen's Transitional Payment	( 7,000)
GTEC EAS Agreement Termination	(19,774)
Sub-Total	<u>(39,306)</u>
Z-factors/Other Items: one-time revenue impact	
Citizens Transitional Payment	( 7,000)
Roseville Transitional Payment	2,100
Gain on Sale of Land	(13,461)
Intervenor Compensation	0
Telesis Spin Refund	( 7,996)
Sub-Total	<u>(26,537)</u>
Net Z-factor and other adjustments	(65,663)
Total Price Cap Impact with Z-factors Effective January 1, 1997	<u>\$(65,663)</u>

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.

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.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 December 20, 1995, we issued D.95-12-052 regarding the Second Triennial New Regulatory Framework (NRF) Review. In O.P. 4 of that decision, we suspended the application of the GDP-PI minus productivity factor formula used in price cap regulation of Pacific until further order of this Commission or until a final decision is issued in the next triennial review. The next triennial review is anticipated to be undertaken in 1998.

On October 1, 1996, Pacific filed AL No. 18508 requesting billing surcharge/surcredit changes to be effective January 1, 1997, in order to implement the 1997 price cap index mechanism and certain Z-factor adjustments. On October 22, 1996, Pacific Bell filed AL No. 18508A to reflect that the proposed Z-factor adjustment for Gain on Sale of Land should be changed from negative \$4.082 million to negative \$13.461 million.

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

1. Price Cap Index, \$0 - This factor is calculated by using a GDP-PI factor less a productivity factor. This portion of the formula used in price cap regulation of Pacific was suspended by D.95-12-052.

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.90-08-029, A.90-02-050.)
3. Post Retirement Benefits Other Than Pensions, \$0 - A Z-factor adjustment to reflect expenditures associated with a requirement that utilities record and accrue Post-Retirement Benefits Other Than Pensions (PBOPs) in accordance with Statement of Financial Accounting Standards No. 106, with certain modifications (D.92-12-015).
4. USOA Turnaround Adjustment, \$0 - A Z-factor adjustment regarding expenditures associated with an accounting change. Pacific has filed A.95-05-018 to eliminate this adjustment. Pacific has also jointly filed a Petition to Modify D.95-11-061 to suspend further USOA reductions until the Commission rules on A.95-05-018.
5. Contel Transitional Payment, (\$8.115 million) - An on-going, Z-factor adjustment to reflect the transitional payment reduction to Contel for the year 1997.
6. Roseville Transitional Payment, (\$2.027 million) - An on-going, Z-factor adjustment to reflect the second phasedown of the transitional payment reduction to take effect in the year 1997.
7. Citizens Transitional Payment, (\$7.000 million), - An on-going, Z-factor adjustment to reflect Citizens Settlement Transition payment reduction for Extended Area Service.
8. GTEC Extended Area Service (EAS) Agreement Termination, (\$19.774 million) - An on-going, Z-factor adjustment to reflect termination of Extended Area Service payments to GTEC effective January 1, 1997.
9. Citizens Settlement Transitional Payment, (\$7.000 million) - A one-time, Z-factor adjustment to reflect elimination of a Citizens Settlement Transition payment amount for Extended Area Service.
10. Roseville Transitional Payment, \$2.100 million - A one-time, Z-factor adjustment to reflect an out-of-pooling transition payment correction.
11. Gain on Sale of Land, (\$13.461) million - A one-time revenue requirement change to reflect any gain on sale of land in accordance with a settlement approved in D.94-06-011.

12. Intervenor Compensation, \$1.135 million - A one-time revenue requirement change to reflect intervenor compensation Pacific has paid from October 1993 through September 1996 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, (\$7.996) 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 that the application of the GDP-PI inflation factor minus productivity factor in price cap regulation is suspended.

Pacific's total 1997 Price Cap Index, Z-factor revenue adjustments and one-time revenue requirement adjustments request amounts to a \$64.528 million decrease to be effective on January 1, 1997.

#### PROTESTS

A protest was filed to Pacific's AL No. 18508 on October 24, 1996 by ORA.

Pacific responded to ORA's protest on November 4, 1996.

No protests were received with respect to Pacific's revenue adjustments for the \$200/\$500 Expense Limit, the Contel Transitional Payment, the ongoing and one-time Roseville Transitional Payments, the ongoing and one-time Citizens Transitional Payments, the GTEC RAS Agreement Termination, the Gain on Sale of Land, the Intervenor Compensation, and the Telesis Spin Refund.

ORA protests Pacific's adjustments for PBOPs and for USOA Turnaround. We will discuss the ORA's protest in further detail below, and adopt a final revenue adjustment for Pacific.

#### DISCUSSION

##### I. Post-Retirement Benefits Other Than Pensions (PBOPs)

Pacific submitted its 1997 Price Cap filing with a \$0 adjustment to Pacific's PBOPs revenue requirement.

While ORA does not dispute the dollar amount of the PBOPs adjustment in Pacific's 1997 price cap, it recommends that the Commission place Pacific on official notice that its 1996 and 1997 Z-factor rate recovery for PBOPs exceeds its estimated Commission limits imposed by O.P. Nos. 1 and 8 of D.92-12-015. Therefore, ORA recommends that Pacific's 1996 and 1997 PBOPs ratemaking be re-examined in future Price Cap filings to determine the amount of refunds to ratepayers for over-collections. ORA notes that during 1998 and 1999 year-end

recorded data will be available to confirm the existence of the over-collection of Pacific's 1996 and 1997 PBOPs amounts.

Pacific opposes ORA's protest regarding the PBOPs adjustment and recommends that its protest be denied. Pacific states that ORA is wrong that its estimated Z-factor requirement for PBOPs exceeds Commission limits and, therefore, it does not need to be put on notice by the Commission. Pacific contends that ORA's analysis does not consider the effects of the regulatory asset that was created pursuant to O.P. 4 of D.92-12-015.

Given that ORA recommends no dollar adjustment to Pacific's proposed Z-factor for PBOPs and that certain year-end data is not yet available, we will defer this issue to subsequent filings, as it arises. Although we take note of ORA's concern regarding Pacific's PBOPs ratemaking, we will decline to put Pacific on official notice at this time. As we have stated in Resolution T-15977 regarding GTEC's 1997 Price Cap filing, we encourage ORA to file formally to resolve outstanding issues it has regarding the interpretation of D.92-12-015 and alleged PBOPs over-collections.

## II. USOA Turnaround

Pacific did not include any adjustment for the USOA Turnaround in its 1997 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 and D.89-12-048. 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.) A decision on this matter is pending before this Commission. In D.95-11-061, we adopted the stipulation agreement filed by Pacific, GTEC, and ORA to stay the USOA adjustment for both Pacific and GTEC for 1996 and to establish interest-bearing memorandum accounts. On September 16, 1996, Pacific and GTEC filed a Joint Petition to modify D.95-11-061 requesting that this Commission suspend any further USOA rate reductions until decisions are issued on the pending applications on this matter. ORA opposed the Joint Petition because it took issue with the indefinite suspension of the rate reductions that would flow through to ratepayers as a result of the USOA turnaround adjustment. In D.96-11-006, we concluded that granting Pacific and GTEC's request would not result in an indefinite suspension of the USOA turnaround adjustment. Therefore, we authorized Pacific and GTEC to exclude this adjustment from their 1997 price cap filings pending a final order in this proceeding. We also ordered Pacific and GTEC to include their 1997 USOA turnaround adjustments in their respective interest-bearing, memorandum accounts.

ORA protests Pacific's treatment of the USOA Turnaround in the 1997 Price Cap filing on the same grounds that it protested Pacific and GTEC's Joint Motion. Thus, ORA recommends that an

adjustment of \$(23.112) million for USOA turnaround be included in Pacific's price cap filing. We reaffirm our conclusion in D.96-11-006 that Pacific's request does not result in indefinite suspension. ORA's protest is denied.

### III. Intervenor Compensation

Pacific includes a Z-factor adjustment for \$1.135 million in compensation it paid to intervenors during the period of October 1993 through September 1996. 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.

In D.94-09-022, this Commission ordered Pacific to pay Towards Utility Rate Normalization (TURN) intervenor compensation and also authorized Pacific to recover those costs pursuant to Section Code 1807. On October 3, 1994, Pacific requested recovery of intervenor compensation amounts in its 1995 Price Cap filing. TURN subsequently filed an Application for Rehearing of D.94-09-022 opposing Pacific's recovery of intervenor compensation amounts under Section 1807. ORA filed a Petition for Modification of D.94-09-022, raising similar arguments to those made by TURN.

In D.94-12-025, dated December 7, 1994, ORA's Petition for Modification was denied. That decision also held in abeyance Pacific's requested recovery of intervenor compensation amounts in AL No. 17116 pending review of TURN's application for rehearing for the limited purpose of reviewing whether Pacific's revenues already reflect the costs of intervenor compensation. Resolution T-15695 on AL No. 17116 reiterated that the request to recover intervenor compensation was held in abeyance in accordance with D.94-12-025. Similarly, Resolution T-15820, dated December 20, 1995, continued to hold in abeyance the recovery of intervenor compensation amounts included in Pacific's 1996 Price Cap filing in accordance with D.94-12-025.

On April 10, 1996, we issued D.96-04-063 which denied TURN's application for rehearing. Furthermore, that decision stated that prior to permitting Pacific to recover dollar-for-dollar intervenor compensation awards, we will issue an Order Instituting Investigation (OII) directing Pacific to determine the extent to which its intervenor compensation is included in rates. D.96-04-063 continues to hold AL No. 17116 in abeyance until the OII is terminated.

Although no party opposed Pacific's recovery of intervenor compensation amounts in its 1997 Price Cap filing, we will continue to hold such recovery in abeyance in accordance with the requirements of D.96-04-063.

### IV. Other Price Cap Adjustments

No protests were received with respect to Pacific's 1997 revenue adjustments for the Price Cap Index, the \$200/\$500 Expense Limit, the Contel Transitional Payment, the ongoing and one-time

Roseville Transitional Payments, the ongoing and one-time Citizens Transitional Payments, the GTEC EAS Agreement Termination, the Gain on Sale of Land, and the Telesis Spin Refund. These requests have been reviewed and we find them to be reasonable.

#### V. Price Floors

No protests or comments were received on Pacific's revisions to its price floors. The revisions to the price floors were reviewed and we find them to be reasonable.

#### FINDINGS

1. Pacific's AL No. 18508 filed October 1, 1996 and supplemented by AL No. 18508A, filed October 22, 1996, shows the effects of net Z-factor and other revenue requirement adjustments.

2. The GDP-PI inflation factor minus productivity factor portion of Pacific's 1997 price cap index is suspended as ordered in D.95-12-052.

3. Pacific proposes to reduce its annual revenue by \$64.528 million effective January 1, 1997 to implement its 1997 annual price cap index filing.

4. Pacific's proposed revenue adjustments reflect:

a. 1997 Price Cap Index of 0%.

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 Post Retirement Benefits Other Than Pensions, 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, an on-going revenue decrease of \$(7.000) million
- o Roseville Transitional Payment Reduction, an on-going revenue decrease of \$(2.027) million
- o GTEC Extended Area Service Agreement Termination, an on-going revenue decrease of \$(19.774) million



- o Citizens Transitional Payment Reduction, a one-time revenue decrease of \$(7,000) million
  - o Roseville Transitional Payment Reduction, a one-time revenue increase of \$2.100 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 \$(13.461) million
  - o Intervenor Compensation, a one-time revenue increase of \$1.135 million
  - o Telesis Spin Refund, a one-time revenue decrease of \$(7.996) million
5. Pacific's request to exclude the USOA Turnaround adjustment from its 1997 price cap filing and include its 1997 USOA adjustment in an interest-bearing memorandum account has been adopted by this Commission in D.96-11-006.
6. Pacific's request for revenue adjustments for the Price Cap Index, the \$200/\$500 Expense Limit, the Contel Transitional Payment, the ongoing and one-time Roseville Transitional Payments, the ongoing and one-time Citizens Transitional Payments, the GTEC EAS Agreement Termination, the Gain on Sale of Land, and the Telesis Spin Refund are reasonable.
7. Pacific's request to recover intervenor compensation continues to be held in abeyance in accordance with D.96-04-063.
8. ORA's protest is denied except to the extent set forth herein.
9. A total price cap mechanism revenue decrease of \$(65.663) million effective January 1, 1997 is justified. The adopted revenue adjustments are summarized in Appendix A to this Resolution.
10. Pacific's requested price floor revisions are reasonable.

THEREFORE, IT IS ORDERED that:

1. Pacific Bell shall decrease its annual revenue by \$(65.663) million effective January 1, 1997, as a result of its 1997 annual price cap index filing in Advice Letters (AL) Numbers (Nos.) 18508 and 18508A.
2. Pacific Bell shall make a supplemental compliance filing to AL No. 18508 on or before December 29, 1996 with the Commission's Telecommunications Division. The filing should implement billing surcharges/surcredits reflecting the revenue decrease in Ordering Paragraph 1, applied to a total billing


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base of \$5,702,766,000 for intraLATA exchange and private line services, intraLATA toll services, and intraLATA access service. This filing will become effective on January 1, 1997, subject to review and approval by the Commission's Telecommunications Division.

3. The revisions to Pacific Bell's price floors filed in AL No. 18508 as supplemented are adopted and shall be effective January 1, 1997.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the California Public Utilities Commission at its regular meeting on December 20, 1996. The following Commissioners approved it:

  
WESLEY M. FRANKLIN  
Executive Director

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

Appendix A  
Resolution T-15976

PACIFIC BELL  
1997 PRICE CAP FILING  
(\$ IN THOUSANDS)

<u>Permanent Factors</u>	<u>Pacific Proposed Revenue Impacts</u>	<u>ORA Proposed Revenue Impacts</u>	<u>Adopted Impacts</u>
Indexing Mechanism	\$0	\$0	\$0
\$200/\$500 Expense Limit	(\$2,390)	(\$2,390)	(\$2,390)
PBOPs	\$0	\$0	\$0
USOA Turnaround	\$0	(\$23,122)	\$0
Contel Transitional Payment	(\$8,115)	(\$8,115)	(\$8,115)
Roseville Transitional Payment	(\$2,027)	(\$2,027)	(\$2,027)
Citizens Transitional Payment	(\$7,000)	(\$7,000)	(\$7,000)
GTEC EAS Agreement Termination	(\$19,774)	(\$19,774)	(\$19,774)
Subtotal	(\$39,306)	(\$62,428)	(\$39,306)
<u>One-Time Z-Factors/ Adjustments</u>			
Citizens Transitional Payment	(\$7,000)	(\$7,000)	(\$7,000)
Roseville Transitional Payment	\$2,100	\$2,100	\$2,100
Gain on Sale of Land	(\$13,461)	(\$13,461)	(\$13,461)
Intervenor Compensation	\$1,135	\$1,135	\$0
Telesis Spin Refund	(\$7,996)	(\$7,996)	(\$7,996)
Subtotal	(\$25,222)	(\$25,222)	(\$26,357)
<b>GRAND TOTAL</b>	<b>(\$64,528)</b>	<b>(\$87,650)</b>	<b>(\$65,663)</b>

Appendix B  
Resolución T-15976

PACIFIC BELL  
1997 PRICE CAP FILING  
SURCREDIT/SURCHARGE ADJUSTMENT BY %

	<u>Pacific</u>	<u>ORA</u>	<u>Adopted</u>
Effective 1/1/97:			
On-going Z-factor Adjustments	-0.689%	-1.095%	-0.689%
One Time Z-Factor Adjustments	-0.086%	-0.086%	-0.086%
One Time Other Adjustments	-0.356%	-0.356%	-0.376%
Total Adjustments to Surcharge	-1.131%	-1.537%	-1.151%