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# PUC BULLETIN

## A Publication of the Public Utility Commission of Texas

Volume 14, No. 4

December 1988

### TELEPHONE

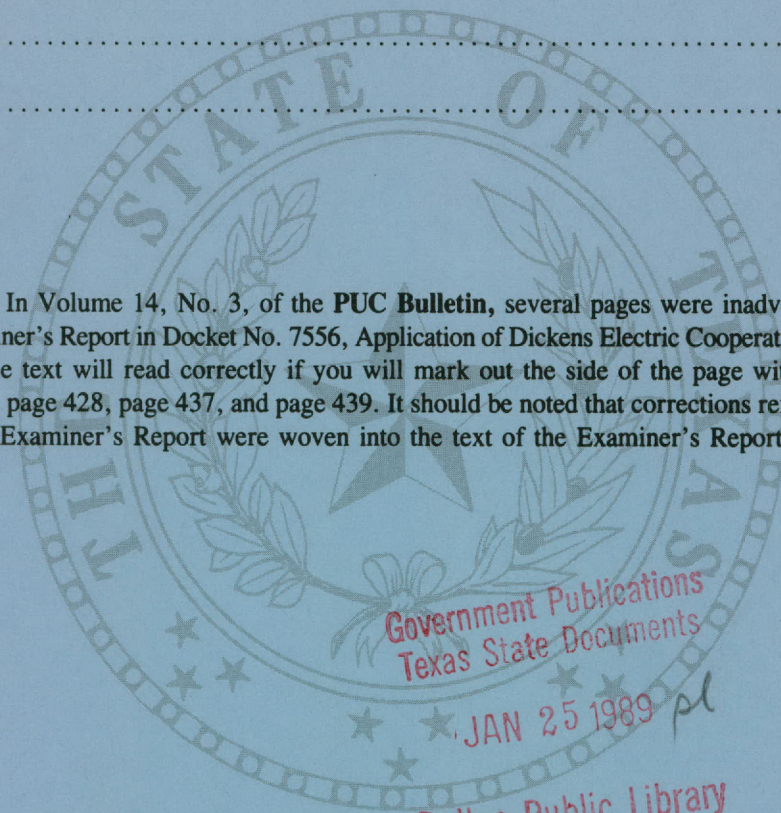
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EDITOR'S NOTE: In Volume 14, No. 3, of the **PUC Bulletin**, several pages were inadvertently added out of sequence to the Examiner's Report in Docket No. 7556, Application of Dickens Electric Cooperative, Inc. for Authority to Change Rates. The text will read correctly if you will mark out the side of the page with the following four numbers: page 425, page 428, page 437, and page 439. It should be noted that corrections referenced on page 476 of the Supplemental Examiner's Report were woven into the text of the Examiner's Report.



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# Public Utility Commission of Texas

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PETITION OF SOUTHWESTERN BELL  
TELEPHONE COMPANY FOR AUTHORITY  
TO CHANGE RATES

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I  
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PUBLIC UTILITY COMMISSION  
OF TEXAS

## ORDER

In open meeting at its offices in Austin, Texas, the Public Utility Commission of Texas has met to consider the merits of the above styled application. The Commission adopts and incorporates the text of Sections I and II of the Examiners' Report in this Order, adopts and incorporates Schedules I-XIII and the revenue summary table attached to this Order, and makes the following Findings of Fact and Conclusions of Law (findings are numbered sequentially throughout the Order and are labelled "FF \_\_\_\_," and conclusions are numbered sequentially and are labelled "CL \_\_\_\_,"):

## I. Procedural History

FF 1. On March 22, 1985, Southwestern Bell Telephone Company (SWB) filed a statement of intent and petition for authority to increase its rates for local and intraLATA long distance service and other services and decrease certain access service rates. The proposed increase would generate additional intrastate revenues of approximately \$323.9 million. All customers and classes of customers would be affected by the proposed changes.

FF 2. SWB also included in the rate petition a request for expeditious handling of SWB's proposal to: (a) reduce certain switched access rates; (b) establish a charge for operator assistance; and (c) establish a late payment penalty for business customers. This request was denied on the last day of the hearing.

FF 3. SWB's proposed rate increase was suspended for 150 days beyond the otherwise effective date of April 29, 1985, pursuant to Section 43(a) of the Public Utility Regulatory Act (PURA), Tex. Rev. Civ. Stat. Ann. art. 1446c (Vernon Supp. 1985). Subsequently, SWB voluntarily extended its effective date for nine days until May 8, 1985. The hearing on the merits lasted 89 days. The 150 day rate suspension was extended 148 days--two days for each additional day of hearing over 15--in accordance with Section 43(d) of the PURA.

FF 4. SWB subsequently extended its effective date by a number of days sufficient to allow for a Commission decision on the issues by June 23, 1986, and acquiesced in such further extension of its effective date as necessary to allow a reasonable time for the Commission to reduce its decisions to a final written order, conditioned upon the Commission's making the rates ultimately set in this proceeding effective March 17, 1986.



FF 5. On May 28, 1985, SWB filed publisher's affidavits confirming newspaper publication of notice and copies of the notice of proposed rate change mailed to its customers.

CL 1. SWB properly gave notice of this rate filing in accordance with Section 43(a) of PURA.

## II. Jurisdiction and Description of Applicant

FF 6. SWB is an investor-owned telephone company providing service within the State of Texas pursuant to Certificate of Convenience and Necessity No. 40079.

FF 7. SWB is a wholly-owned subsidiary of Southwestern Bell Corporation.

FF 8. In addition to providing service in Texas, SWB provides telephone service within the states of Arkansas, Kansas, Missouri and Oklahoma.

CL 2. SWB is a public utility as defined by Section 3(c)(2)(A) of PURA.

CL 3. The Commission has jurisdiction over this case pursuant to Sections 16(a), 18(b), 37 and 43(a) of PURA.

## III. Quality of Service

FF 9. Based upon the testimony in Staff Exhibit 31, SWB's quality of service is adequate.

FF 10. SWB should develop procedures for keeping its customers adequately informed in situations where the company is unable to complete service requests on scheduled due dates.

FF 11. SWB's standard disconnect notice and service suspension notice should be revised so that the words "Cutoff Notice" and "Service Suspension Notice" are displayed more prominently on those notices.

FF 12. The following staff recommendations should be incorporated within each of the proposed SWB tariff sheets designated below for purposes of clarity and to insure that the proposed tariff sheets conform to the Commission's Substantive Rules:

- (a) Dataphone Digital Service Tariff, Section 1, Sheet 16, Part 6.2.1. The phrase "5 days written notice" should read "10 days written notice" as provided in P.U.C. SUBST. R. 23.46(a) and (b).
- (b) General Exchange Tariff, Section 21, Sheet 9, Part 7.1.2(A). This part deals with the discontinuance

of service but does not indicate written notice will be provided the customer as required in P.U.C. SUBST. R. 23.46(a). The last paragraph should be amended to include notice provisions.

- (c) General Exchange Tariff, Section 23, Sheet 5, Part 6.1. The second paragraph of this part should be changed to read: "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (d) General Exchange Tariff, Section 31, Sheet 1, Part 1.1. The phrase "seven days written notice" should read "ten days written notice" as provided in P.U.C. SUBST. R. 23.46(a).
- (e) Private Line Service Tariff, Section 1, Sheet 9, Part 4.2. The phrase "five days written notice" should be changed to "ten days written notice" as provided in P.U.C. SUBST. R. 23.46(a).
- (f) Wide Area Telecommunications Service Tariff, Section 1, Sheet 6, Part 14. The sentence "All charges are due when the bill is rendered" should be changed to read "The due date of the bill shall not be less than 16 days after issuance" in accordance with P.U.C. PROC. R. 23.45(a).

**FF 13.** The following staff recommendations should be incorporated within each of the current SWB tariff sheets designated below, for purposes of clarity and to insure that the tariff sheets conform to the Commission Substantive Rules:

- (a) General Exchange Tariff, Section 23, Sheet 3, Part 4.2. Paragraph 1 of this part needs to be modified to indicate that the deposit may be based on carriage charges of interexchange carriers only in those instances where the Telephone Company's tariff provides for billing for an interexchange carrier in conformance with P.U.C. SUBST. R. 23.43(c)(1).

Paragraph 5 of this part needs to be clarified to differentiate between initial and additional deposits for both customers and applicants. The time frame allowed to pay additional deposits varies depending on when the deposit is requested in the history of the account, as required by P.U.C. SUBST. R. 23.43(c)(1)(A)-(B).

- (b) General Exchange Tariff, Section 31, Sheet 1, Part 1.1. This part needs to be changed to indicate proper disconnect notice time frames. The phrase "seven days written notice" is incorrect. The time frame for delinquent bills is 10 days and the time frame for deposits is 10 days or 15 days depending on the circumstance as stated in P.U.C. SUBST. R. 23.43(c)(1)(A)-(B) and 23.46(a).
- (c) Private Line Service Tariff, Section 1, Sheet 8, Part 4.1.3. Paragraph 1 of this part needs to be changed to differentiate between initial and additional deposits for both customers and applicants in conformance with P.U.C. SUBST. R. 23.43(a)(3)(A), (a)(4)(A), and (c)(1)(A)-(B).



Also, this part should be modified to indicate that a letter of guaranty may be submitted in lieu of a cash deposit as required in P.U.C. SUBST. R. 23.43(a)(3)(C).

- (d) Private Line Service Tariff, Section 1, Sheet 8, Part 4.1.4. The phrase "five days written notice" is incorrect. The time frame for deposits is 10 days or 15 days depending on the circumstances as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).
- (e) Private Line Service Tariff, Section 1, Sheet 9, Part 4.2. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (f) Long Distance Message Telecommunications Service Tariff, Section 1, Sheet 3, Part 11. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (g) Long Distance Message Telecommunications Service Tariff, Section 1, Sheet 4, Part 13. Paragraph 1 of this part needs to be changed to differentiate between initial and additional deposits for both customers and applicants in conformance with P.U.C. SUBST. R. 23.43(a)(3)(A), (a)(4)(A), and (c)(1)(A) and (B).

Paragraph 2 of this part needs to be changed to indicate proper disconnect time frame. The time frame for deposits is 10 days or 15 days depending on the circumstances as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).

This part should be modified to indicate that a letter of guaranty may be submitted in lieu of cash deposit as required in P.U.C. SUBST. R. 23.43(a)(C).

- (h) Wide Area Telecommunications Service Tariff, Section 1, Sheet 4, Part 9.4. This part needs to be changed to indicate proper disconnect time frame. The time frame for deposits is 10 days or 15 days depending on the circumstance as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).
- (i) Wide Area Telecommunications Service Tariff, Section 1, Sheet 6, Part 14. The phrase "All charges are due when the bill is rendered" should be changed to "The due date of the bill shall not be less than 16 days after issuance" in accordance with P.U.C. SUBST. R. 23.46(a).
- (j) Wide Area Telecommunications Service Tariff, Section 1, Sheet 7, Part 17.2. The phrase "at least five days have elapsed following written notification" should be changed to "at least 10 days have elapsed following written notification" in accordance with P.U.C. SUBST. R. 23.46(a).
- (k) Mobile Telephone Service Tariff, Section 1, Sheet 4, Part 2.10. Paragraph 1 of this part needs to be changed to differentiate between initial and additional deposits for both customers and applicants in accordance with P.U.C. SUBST. R. 23.43(a)(3)(A), (a)(4)(A), and (c)(1).

Paragraph 4 of this part needs to be changed to indicate proper disconnect time frame which should be 10 days or 15 days depending on the circumstance as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).

- (l) Mobile Telephone Service Tariff, Section 1, Sheet 7, Part 2.21. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customers" in conformance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (m) Bellboy Personal Signaling Service Tariff, Section 1, Sheet 4, Part 2.9.1. The phrase "the Telephone Company may by written notice to the customer" should be changed to "the Telephone Company may by 10 day written notice to the customer" in conformance with P.U.C. SUBST. R. 23.46(a).
- (n) Bellboy Personal Signaling Service Tariff, Section 1, Sheet 3, Part 2.6. This part needs to be clarified to differentiate between initial and additional deposits for both customers and applicants and to more closely follow P.U.C. SUBST. R. 23.43(a)(4) and (c)(1)(A) and (B).
- (o) Bellboy Personal Signaling Service Tariff, Section 1, Sheet 2, Part 2.5.2. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (p) Dataphone Digital Service Tariff, Section 1, Sheet 5, Part 6.1.2. The first sentence in this part is too vague in that it does not indicate the circumstances under which a deposit may be requested or that a letter of guaranty may be submitted in lieu of cash deposit. Language should be changed to ensure compliance with P.U.C. SUBST. R. 23.43(a).
- (q) Dataphone Digital Service Tariff, Section 1, Sheet 15, Part 6.2.1. The phrase "by 5 days written notice" should be changed to "by 10 days written notice" in accordance with P.U.C. SUBST. R. 23.46(a).

#### IV. Invested Capital

##### A. Plant in Service

FF 14. At test year end, SWB had a total investment in plant in service within the state of \$10,746,865,000.

FF 15. Applying the appropriate intrastate percentage factor of 77.04 percent from the Separations Manual Standard Procedures for Separating Telephone Property Costs, Revenues, Expenses, Taxes and Reserves as revised in the February 15, 1984 Federal Communications Commission (FCC) Decision and Order in Docket No. 80-286 (Separations Manual) results in a total of \$8,279,385,000 for unadjusted intrastate plant in service.



FF 16. The total for unadjusted intrastate plant in service should be increased by \$1,324,000 to reflect the off-book capitalization of interest during construction (IDC) on short-term plant under construction, as ordered by this Commission in Docket No. 5220, Petition of Southwestern Bell Telephone Company, 10 P.U.C. BULL. 255 (May 14, 1984). SWB Exhibit 19 at 14.

FF 17. It is appropriate to grant SWB's request to reduce the total for intrastate plant in service by \$535,000 to remove the capital investment associated with art work in One Bell Plaza. Id.

FF 18. The total for intrastate plant in service should be increased by \$5,658,000 to correct an understatement of account 100.1 at the end of the test year relating to the placement in service of new switching equipment in the Fireside central office in Austin, Texas in December 1984. Id.

FF 19. A pro forma adjustment reflecting the FCC's interim order regarding the separations impact of the lost toll inquiry function is appropriate. For this reason the intervenor Cities' proposal to increase the total for intrastate plant in service by \$6,465,098 to reflect the annualized effect of the impact of that change on separations as of December 1, 1985, is unreasonable.

FF 20. The Cities' proposal to increase the total for intrastate plant in service by \$508,505, reflecting the Cities' proposal to amortize over a period of years Business Information System (BIS) projects, is not reasonable; BIS projects expense should be amortized over a one-year period, meaning that it should be expensed.

FF 21. The Cities' proposal to include \$14,219,833 in the total for intrastate plant in service to reflect the Cities' proposal to defer certain computer systems software charged to expense during the test year is not reasonable; the software should be amortized over a one-year period, meaning that it should be expensed.

FF 22. The total for intrastate plant in service should be reduced by \$11,285,000, reflecting removal of certain expenses associated with Equal Access/Network Reconfiguration (EANR), as recommended in Cities' Exhibit No. 2A, Schedule 8.

FF 23. The total for intrastate plant in service should be decreased by \$626,000 to reflect June 1984 Separations Manual changes. SWB Exhibit 68 at 11. The Cities' approach resulting in a proposal to increase intrastate plant in service by \$13,999,000 is inappropriate.

FF 24. The total for intrastate plant in service should be decreased by \$736,000, to reflect capital portions of the Bellcore adjustments

erroneously identified by SWB as an expense, and to reflect capital portions of Bellcore expenditures treated in Finding of Fact No. 148 of this Order. See, Staff Exhibit No. 32A at 1; FFs and CLs regarding Bellcore in Section VI.B. of this Order.

FF 25. SWB has a total investment in intrastate plant in service used and useful in rendering service to the public of \$8,273,184,000.

CL 4. To the extent that SWB's plant in service total found above includes amounts paid to affiliates, such expenditures are allowable in rate base under PURA Section 41(c)(1) and P.U.C. SUBST. R. 23.21(c)(2)(A)(iii) because they satisfy the criteria imposed by statute and rule as reflected in the findings and conclusions relating to affiliate expenses set out in Section VI.B. of this Order.

B. Accumulated Depreciation

FF 26. At test year end, SWB had on its books a total depreciation reserve within the state of \$1,997,829,000.

FF 27. Applying the appropriate intrastate percentage factor of 76.44 percent from the Separations Manual results in an unadjusted intrastate depreciation reserve amount of \$1,527,140,000.

FF 28. SWB's intrastate depreciation reserve should be reduced by \$4,001,000 to reflect amounts associated with property not properly included in rate base. SWB Exhibit 19, SWB Exhibit 1 at 2.

FF 29. A year-ending adjustment to accumulated depreciation reflecting one-half of the adjustment to booked test year depreciation expense is not appropriate in the absence of pro forma adjustments to other elements of invested capital. For such an adjustment to be appropriate, it would be necessary to adjust other elements of invested capital to reflect expected investments during the period in which the rates are in effect. Otherwise an improper temporal mismatch would result. The Cities' proposal to increase accumulated depreciation by \$15,674,000 is therefore inappropriate.

FF 30. The Cities' proposal to increase accumulated depreciation by \$1,262,000 due to the separations impact of the lost toll inquiry is not appropriate. That adjustment is a component of the Cities' proposal to increase plant in service by \$6,465,098, which proposal has been rejected by the Commission. See Section IV.A. of this Order.

FF 31. It is appropriate to increase accumulated depreciation by \$1,000 to reflect the Cities' downward EANR adjustment adopted by the Commission in Section IV.A. of this Order.



FF 32. The 'Cities' proposal to reduce accumulated depreciation by \$13,297,000 for the June 1984 changes in the Separations Manual is not appropriate, because that adjustment is part of the Cities' approach found inappropriate in Section IV.A. of this Order.

FF 33. SWB has adjusted accumulated depreciation of \$1,523,140,000. Subtracting that amount from the total for intrastate plant in service produces a net figure of \$6,750,044,000 representing SWB's net investment in plant used and useful in providing intrastate telecommunications service in Texas.

C. Telephone Plant Under Construction

FF 34. At test year end, SWB had on its books a total of \$80,145,000 for telephone plant under construction (TPUC) within the state.

FF 35. Applying the appropriate intrastate percentage factor of 80.83 percent from the Separations Manual results in a total unadjusted intrastate TPUC amount of \$64,781,000.

FF 36. SWB reclassified \$2,935,000 of short-term TPUC to long-term TPUC and deleted that amount from its requested rate base, resulting in a total adjusted intrastate TPUC amount of \$61,846,000 sought to be included in rate base and allowed a return.

FF 37. SWB's construction projects in short-term TPUC were efficiently and prudently planned and managed.

FF 38. SWB's short-term construction program represents only 0.9 percent of its net plant and 1.07 percent of its total rate base; any risk associated with that program is not a significant threat to SWB's financial integrity. Staff Exhibit 35 at 33.

FF 39. SWB does not require a cash return on TPUC in order to maintain its financial integrity because it expects to finance virtually all of its construction requirements with internally generated funds. OPC Exhibit No. 215 at 4.

FF 40. Because TPUC will generate additional revenues or reduce expenses when added to plant in service, it is not likely that SWB will experience earnings erosion because of exclusion of TPUC from rate base.

CL 5. The existence of TPUC on a company's books is not by itself sufficient to demonstrate "exceptional circumstances" within the meaning of PURA Section 41(a).

CL 6. The use of the term "financial integrity" in Section 41(a) of PURA does not require inclusion of levels of TPUC sufficient to maintain a company's existing bond rating. The relevant facets of the financial integrity standard are subject to factual inquiry on a case-by-case basis.

CL 7. SWB had the burden of proof to show that inclusion of TPUC in rate base is necessary to maintain its financial integrity under Section 41(a) of PURA. SWB failed to meet its burden under Section 41(a).

FF 41. It is reasonable to allow SWB to accrue IDC on its short-term TPUC on an "off book" basis to allow the utility to recover carrying charges associated with such investment as is not allowed in rate base for ratemaking purposes.

D. Property Held for Future Use

FF 42. At test year end, SWB had on its books a total of \$3,497,000 in property held for future use (PHFU) within the state.

FF 43. Applying the appropriate intrastate percentage factor of 88.38 percent from the Separations Manual results in an unadjusted intrastate total of \$3,091,000.

FF 44. SWB's requested PHFU should be decreased by \$1,954,000 because four of the seven projects included in that request will be transferred to Account 103--Miscellaneous Physical Property, a fifth project is scheduled to be abandoned, and a sixth has been transferred to Account 100.2--Telephone Plant Under Construction. Cities Exhibit 4A, Revised Schedule 2 at 2-3.

FF 45. SWB witness Swenson acknowledged that the Cities' adjustment to PHFU is appropriate. Transcript at 5960-5962.

FF 46. It is appropriate to include in rate base \$1,137,000 for PHFU.

E. Materials and Supplies

FF 47. At test year end, SWB had on its books a total of \$99,431,000 in materials and supplies within the state.

FF 48. Applying the appropriate intrastate percentage factor of 76.01 percent from the Separations Manual yields an unadjusted intrastate total of \$75,578,000.

FF 49. The Office of Public Utility Counsel (OPC) recommended that the total for materials and supplies be reduced by \$2,208,000 because a physical inventory taken in 1984 revealed that on an intrastate basis

actual materials and supplies were \$2.208 million less than the value shown on SWB's books.

FF 50. OPC presented testimony assuming that SWB had charged the cost of the non-existent materials and supplies to operating expenses and recommending that \$2.208 million be removed from SWB's proposed rate base. SWB submitted no rebuttal and asked the OPC witness no questions about this matter. SWB in effect acquiesced in the OPC adjustment.

FF 51. It is appropriate to reduce the materials and supplies amount by \$2,208,000, resulting in a total of \$73,370,000 for materials and supplies to be included in rate base.

F. Unamortized Extraordinary Maintenance

FF 52. SWB proposed an adjustment to its booked invested capital to include \$2,041,000 of unamortized extraordinary maintenance expense. That amount represents the December 31, 1984, unamortized balances associated with unusual storm damage expense initially deferred in Docket No. 3920, Application of Southwestern Bell Telephone Company, 7 P.U.C. BULL. 719 (December 11, 1981).

FF 53. Through the Commission-authorized rate of return, the owners of SWB are compensated for risks taken in serving utility customers.

FF 54. To allow investors to recoup past losses has the potential of compensating investors twice for the same risks. That the Commission has granted an operating expense allowance to SWB based on extraordinary maintenance expenses incurred in the past represents a significant benefit to the investors who would potentially bear such losses. The amortization of such expenses, without allowing a return on the unamortized portion of those expenses, accomplishes a fair and equitable sharing of such costs between investors and ratepayers.

CL 8. The exclusion of unamortized portions of SWB's extraordinary maintenance expense from rate base in this docket is consistent with Commission precedent permitting utilities to recover extraordinary costs over a reasonable period of time, but not to earn a return on the amounts as yet unrecovered through rates. Docket No. 5220.

G. Cash Working Capital

FF 55. Cash working capital represents the amount of money a business needs to carry on its activities from day to day. Where the utility demonstrates the need for cost-bearing, investor-supplied capital for day-to-day functioning, a reasonable allowance should be permitted in rate base.

FF 56. SWB proposed a cash working capital of \$31,503,000. This amount was calculated by computing the Texas intrastate portion of SWB's average daily bank statement balances and advances to employees as of test year end.

FF 57. In a regulatory context, the most accurate means of measuring working capital is a lead-lag study. A lead-lag study measures "lag" time in days between the recognition of revenues and their collection, and "lead" time in days between the recognition of expenses and their payment.

FF 58. If SWB's method of computing cash working capital in this docket were valid, it would result in a positive cash working capital allowance in each of the five states in which it serves. Nevertheless, the Arkansas and Oklahoma regulatory commissions determined that SWB deserves no cash working capital allowance, the Kansas commission established a negative cash working capital allowance, and the Missouri commission developed a positive allowance only after adding prepayments to a negative lag study. Cities Exhibit 33.

FF 59. SWB's cash working capital request should not be granted because the company failed to demonstrate that the cash working capital allowance it claims is supported by cost-bearing, investor-supplied capital.

FF 60. Although certain of the parties attempted through the discovery process to learn information from SWB which would allow performance of a lead-lag study, the detailed information necessary was not provided by SWB.

FF 61. There are several theoretical problems with using a balance sheet approach to the working cash issue. Daily balance sheets are needed for precise measurement of the continuing cash requirements of a company. Normally, however, daily balance sheets are not prepared. In addition, some of the items on a balance sheet relate to items not included in cost of service for ratemaking purposes. Lastly, because balance sheet data are based on an accrual accounting methodology, they may not express cash flow patterns accurately. SWB Exhibit 62 at 4-5.

FF 62. A revenue lag analysis standing alone is not particularly helpful for measuring any cash working capital requirements. OPC Exhibit 228, and Transcript pages 9005, 9062.

CL 9. P.U.C. SUBST. R. 23.21(c)(2)(B), which provides for the calculation of a working capital allowance, mentions a reasonable amount up to 1/12 of total annual operations and maintenance expense, but does not mandate the use of that formula. The rule specifically permits lead-lag studies where appropriate for determining needed working capital.



CL 10. SWB has the burden of demonstrating that its requested cash working capital allowance is supported by cost-bearing, investor-supplied capital. SWB failed to meet that burden.

FF 63. In spite of the shortcomings of the balance sheet approach, the balance sheet analysis done by the Cities is sufficiently reliable to corroborate the lack of a need for a positive working cash allowance for SWB in this case. It is not adequate, however, to justify the large negative working cash allowance proposed by the Cities.

H. Accumulated Deferred Income Taxes

FF 64. At test year end, SWB had on its books a total of \$1,357,718,000 for accumulated deferred income tax (accelerated tax depreciation and other) within the state.

FF 65. Applying the appropriate intrastate percentage factor of 77.26 percent from the Separations Manual results in an unadjusted intrastate total of \$1,048,973,000.

FF 66. The Cities' recommendation to add \$1,095,000 to recognize the separations impact of the lost toll inquiry function is not appropriate because the Commission has not adopted the other adjustments which were part of the Cities' approach to this issue.

FF 67. The sum of \$37,000 should be removed from the intrastate total of "accumulated deferred taxes--accelerated tax depreciation and other" to reflect the Cities' EANR adjustment previously adopted by the Commission in Section IV.A. of this Order.

FF 68. The Cities' recommendation to decrease rate base by \$10,737,000 associated with proposed separations changes should not be adopted because the Commission has not accepted other adjustments which are part of the Cities' approach to the issue.

FF 69. SWB figured a total of \$97,743,000 for "accumulated deferred taxes--capitalized social security taxes, relief and pensions, debt portion of IDC, and sales and use taxes."

CL 11. P.U.C. SUBST. R. 23.21(b)(1)(D) requires normalization, rather than flow through, of tax timing differences.

FF 70. Normalization, rather than flow through, is the appropriate accounting treatment to be accorded to the tax timing differences in this docket. SWB Exhibit 62 at 12-14.

CL 12. The sum of \$1,048,936,000 in "deferred taxes--accelerated tax depreciation and other," and \$97,743,000 in "deferred taxes--capitalized social security taxes, relief and pensions, debt portion of IDC, and sales and use tax," should be subtracted in computing SWB's invested capital. P.U.C. SUBST. R. 23.21(c)(2)(C)(i).

I. Unamortized Pre-job Development Investment Tax Credit

FF 71. SWB proposed that \$3,888,000 be deducted from rate base to account for unamortized pre-job development investment tax credit, an adjustment which was not contested by other parties.

CL 13. SWB's proposal for unamortized pre-job development investment tax credits is in compliance with P.U.C. SUBST. R. 23.21(c)(2)(C)(ii).

FF 72. SWB's rate base should be decreased by \$3,888,000 for unamortized pre-job development investment tax credit.

J. Customer Deposits and Advances

FF 73. At test year end, SWB had a total of \$44,879,000 in customer deposits within the state.

FF 74. Although SWB applied an intrastate separation factor from the Separations Manual to the total state customer deposits, the Separations Manual contains no specific procedures regarding the jurisdictional allocation of customer deposits.

FF 75. The States of Missouri and Oklahoma, which regulate SWB, allocate 100 percent of customer deposits to intrastate rate base.

FF 76. It is appropriate to allocate 100 percent of SWB's Texas customer deposits to Texas intrastate rate base.

CL 14. The amount of customer deposits should be subtracted from rate base because they represent cost-free capital to SWB. P.U.C. SUBST. R. 21(c)(2)(C)(v).

FF 77. Customer advances represent customer-contributed cost-free capital upon which SWB is not required to pay interest, although interest is required on customer deposits.

FF 78. SWB had customer advances of \$141,000, which should be included in the calculation of rate base.

CL 15. Pursuant to P.U.C. SUBST. R. 23.21(c)(2)(C)(v), customer deposits and other sources of cost-free capital should be deducted in the rate base calculation.

K. Contributed Capital

FF 79. OPC's witness Selwyn proposed to reduce rate base by \$27,700,000 to account for uncompensated value of assets transferred to the non-regulated subsidiaries. That adjustment is not appropriate because it is uncertain whether such assets as the cellular license purchased by Southwestern Bell Mobile Systems, Inc. represent customer-contributed capital. In addition, it is uncertain how to establish an appropriate value for such license, and it is doubtful that the license which was transferred to Southwestern Bell Mobile Systems, Inc. was a telephone company asset in the first place.

L. Interest During Construction

FF 80. In December 1984, SWB began computing IDC using SWB's average authorized rate of return on equity, and such computations were made retroactive to January 1984. Before that time, SWB had used its achieved rate of return in that calculation.

CL 16. The Commission's rules do not require SWB to receive Commission approval before implementing the change referred to in the finding of fact immediately above.

FF 81. SWB's change in IDC calculation methodology has no impact on the rate base in this docket.

CL 17. The proper method for a utility to use in calculating its IDC, and the procedure necessary to change that methodology if the company desires, is a decision more appropriately taken up in a rulemaking proceeding than in this contested case.

M. Total Invested Capital

FF 82. SWB has total intrastate invested capital of \$5,628,963,000 comprised of the elements and amounts shown on the schedule titled "Intrastate Invested Capital and Return (000's)" attached to this Order.

FF 83. The \$5,628,963,000 total for invested capital represents the invested capital that is used by and useful to SWB in rendering intrastate telecommunications service to the public in Texas and is based upon the original cost of the property at the time it was dedicated to public use.

CL 18. The total for invested capital set out above is the proper base upon which to allow a return under PURA Section 39(a), and it was calculated in accordance with PURA Sections 41(a) and 41(c)(1).

## V. Return on Invested Capital

### A. Cost of Equity

FF 84. A discounted cash flow (DCF) analysis is the most appropriate and reliable of the methodologies presented by the parties for determination of a fair and reasonable rate of return on SWB's equity capital.

FF 85. For purposes of computing the dividend yield component of the DCF formula, it is reasonable to use a SWB stock price of \$76.00 and a projected annual dividend of \$6.00 as suggested by Cities Witness Copeland, and as reported in the April 26, 1985, edition of Value Line.

FF 86. The stock price and annual dividend data set forth in Finding of Fact No. 85 result in a dividend yield of 7.9 percent.

FF 87. It is inappropriate to apply a flotation cost adjustment to the dividend yield component of the DCF formula, as proposed by SWB Witness Kaufman, because the record reflects that SWB does not contemplate the issuance of public stock during the period rates set in this case will be in effect.

FF 88. For purposes of determining a reasonable return on common equity for SWB, it is more appropriate to focus upon constant growth than upon near term growth to derive the growth component of the DCF calculation.

FF 89. The use of an approximate range of 5.7 percent to 6.2 percent for the growth component of the DCF formula is reasonable and appropriate based upon the evidence of record.

FF 90. Calculation of the DCF formula, utilizing a dividend yield of 7.9 percent and a growth range of 5.7 percent to 6.2 percent, results in a return on common equity for SWB ranging from 13.6 percent to 14.1 percent.

FF 91. In light of Mr. Hunt's testimony (Staff Exhibit No. 35) supporting an expected growth rate of 6.6 percent for the non-Bell telephone companies comprising Mr. Hunt's "Telephone Composite," it is reasonable to set a rate of return on equity which approximates the top end of the range established in Finding of Fact No. 90, thereby recognizing the inherent risk currently existing within the telephone industry as a whole.

FF 92. A return on equity of 14.2 percent for SWB is reasonable and appropriate based upon the evidence of record and the reasoning set forth in Findings of Fact Nos. 84 through 91.

CL 19. 14.2 percent represents a rate of return on equity which approximates the top end of the range established in Finding of Fact



No. 90, and when used with an appropriate capital structure and an appropriate cost of debt, results in a reasonable return on SWB's invested capital, satisfying the requirements of PURA Section 39.

B. Cost of Debt

FF 93. The uncontested cost of SWB's debt is 9.32 percent.

C. Capital Structure

FF 94. SWB's actual capital structure is comprised of 55.4692 percent equity and 44.5308 percent debt.

FF 95. For purposes of determining an overall return on the value of SWB's invested capital, it is appropriate to utilize SWB's actual capital structure rather than to impute a hypothetical capital structure, for the reasons set forth in the prefiled testimony of staff witness Hunt.

D. Overall Weighted Cost of Capital

FF 96. Use of the costs of debt and equity found in Findings of Fact Nos. 92 and 93 and the appropriate capital structure as found in Finding of Fact No. 94, results in an overall return on SWB's invested capital of 12.0269 percent as illustrated below:

|                | <u>Amount</u>           | <u>Percent of Total</u> | <u>Cost</u> | <u>Weighted Cost</u> |
|----------------|-------------------------|-------------------------|-------------|----------------------|
| Long-Term Debt | \$ 5,301,785,000        | 44.5308%                | 9.32%       | 4.1503%              |
| Common Equity  | 6,604,094,000           | 55.4692%                | 14.20%      | 7.8766%              |
| Total          | <u>\$11,905,879,000</u> | <u>100.0000%</u>        |             | <u>12.0269%</u>      |

CL 20. An overall return on SWB's invested capital of 12.0269 percent is reasonably sufficient to assure confidence in the financial soundness of SWB and is adequate, under efficient and economical management, to maintain and support SWB's credit and enable it to raise the money necessary for the proper discharge of its public duties, within the meaning of P.U.C. SUBST. R. 23.21(c)(1)(A).

CL 21. In fixing the overall return on SWB's invested capital, the Commission has taken into consideration the quality of SWB's services, the efficiency of SWB's operations, and the quality of SWB's management, within the meaning of PURA Section 38(b).

VI. Cost of Service

A. Post-Divestiture Expense Levels

FF 97. The Cities proposed a \$60,151,000 reduction in SWB's test year expenses for allegedly excessive post-divestiture expense levels. The

Cities' analysis of that issue was unconvincing. The evidence establishes that SWB is reducing its number of employees to cut back on its expenses and that the expenses in question are recurring costs of providing utility service.

FF 98. The evidence establishes that the Cities' proposed \$60,151,000 reduction in SWB's test-year expense levels to compensate for certain alleged effects of divestiture is unwarranted in its entirety.

CL 22. SWB's post-divestiture expense levels are not unreasonable, unnecessary, or contrary to the public interest within the meaning of PURA Section 41(c)(3)(D) and P.U.C. SUBST. R. 23.21(b)(2)(J) and should therefore be allowed as a component of SWB's cost of service for ratemaking purposes.

**B. Operations and Maintenance**

FF 99. SWB's salary and wage adjustments should be based on a seasonalized but not trended end-of-period wage factor utilizing employee levels through April 1985, resulting in a reduction of \$6,232,000 to the company's request.

FF 100. It is reasonable to include management incentive payments in the amount of \$1,818,625 and lump sum awards in the amount of \$4,712,537 in SWB's cost of service, because such expenses are normal costs of doing business for a large corporation and increase productivity to the benefit of the consumer.

FF 101. It is reasonable to include retainer fees and concessions to SWB's Board of Directors in the amount of \$294,000 in SWB's cost of service, because such expenses are necessary and recognized costs of doing business.

FF 102. It is reasonable to include severance pay in SWB's cost of service as a necessary expense.

FF 103. It is not reasonable to include in SWB's cost of service those expenses relating to bodyguards, chauffeurs and personal use of company automobiles, because such expenses are not reasonable and necessary for the provision of intrastate telephone service.

FF 104. It is reasonable to exclude \$78,742 for chauffeur fees and \$74,952 for expenses relating to the personal use of company automobiles because such expenses are not reasonable or necessary for the provision of intrastate telephone service.

FF 105. It is reasonable to exclude \$231,000 from SWB's cost of service for expenses relating to loaded labor rates and liability insurance for SWB's corporate fleet of aircraft.

FF 106. SWB failed to show how access line growth had a proportional effect on its operating expenses.

FF 107. SWB's proposed non-wage volume adjustment is not measurable.

FF 108. SWB's non-wage volume adjustment in the amount of \$16,007,000 is not appropriate.

FF 109. SWB failed to show that the price indices upon which it relied to calculate the non-wage price adjustment for inflation approximated the price increases experienced by the company.

FF 110. Although inflation is a known event, the level of inflation is not measurable.

FF 111. SWB's non-wage price adjustment for inflation in the amount of \$7,400,000 should not be allowed in the company's cost of service, because such expense has not been demonstrated to be both a known and measurable change to test year expenses.

FF 112. SWB's adjustments in the amount of \$14,169,000 for expenses and \$35,344,000 for revenues in connection with SWB's traditional Yellow Page operations are reasonable.

FF 113. The transfer of SWB's directory advertising functions to its subsidiary was not in the public interest.

FF 114. It is reasonable to require that SWB's rates in all future cases reflect the just and reasonable benefits that would have flowed to the ratepayers had SWB not divested itself of its directory business operations.

FF 115. It is reasonable to require SWB to present, in future rate cases, supportive evidence regarding the Yellow Page operating expenses and revenues which is of sufficient detail to allow a determination of the reasonableness and the necessity of the expenses and revenues imputed into each rate filing, to ensure that ratepayers have not been harmed by divestiture.

FF 116. SWB requested to include, over and above its allowable advertising, contributions, and donation expenses, \$1,331,416 related to Commission-ordered advertising expense.

FF 117. It is reasonable to require SWB in future rate cases to prove affirmatively that all other advertising which is not Commission-ordered has benefitted the ratepayers prior to its inclusion in the company's cost of service.

CL 23. P.U.C. SUBST. R. 23.21(b)(1)(E) limits inclusion of actual expenses for ordinary advertising, contributions and donations to three-tenths of one percent of gross receipts for services to the public.

CL 24. P.U.C. SUBST. R. 23.21(b)(1)(E) does not distinguish between Commission-ordered advertising expense and other advertising expense.

CL 25. It is not reasonable to allow the company to include the Commission-ordered advertising expense in the amount of \$1,331,416.

FF 118. A one-year amortization period of previously capitalized BIS costs is supported by the record. This results in a \$2,842,000 increase to the company's "Other General" test year expense.

FF 119. It is reasonable to increase SWB's booked pole rental expense by \$2,060,000 in order to reflect a more representative level of the company's ongoing expenses for such rentals than that demonstrated in the company's test year. (SWB Exhibit 18B, Accounting Workpaper W.S. A-12-2).

FF 120. SWB included \$13,996,282 for antitrust settlements in intrastate test year operating expense.

FF 121. Fines, penalties, and costs for possibly illegal activities are not ordinary costs of doing business.

FF 122. Fines, penalties and costs for possibly illegal activities are unnecessary expenses.

FF 123. The anti-trust settlement costs associated with alleged illegal activity of American Telephone and Telegraph Company (AT&T) prior to divestiture should be excluded as extraordinary and nonrecurring.

FF 124. Expenses resulting from erroneous management decisions should be born by SWB's shareholders and not its ratepayers.

FF 125. It is reasonable to exclude \$13,996,282 in antitrust settlement costs from SWB's cost of service, because such expense is not a necessary cost incurred in SWB's ordinary course of business of providing utility service in Texas.

CL 26. SWB failed to prove that the expenses associated with anti-trust settlements were reasonable and necessary to the provision of service to its ratepayers as required under Section 40 of PURA.



CL 27. Section 41(c)(3)(D) of PURA and P.U.C. SUBST. R. 23.21(b)(2)(J) prohibit the inclusion of unreasonable, unnecessary expenses or those expenses not in the public interest.

FF 126. It is reasonable to allow SWB to include one-half of its antitrust litigation expense so that it can defend itself in antitrust actions.

FF 127. SWB's accounting treatment of the Litton litigation expense correctly adjusts its cost of service so as to normalize its test year by restoring the Litton litigation credits to operating expense.

FF 128. It is reasonable to allow the company to include \$3,544,000 of Litton litigation expense in its cost of service.

FF 129. An expense decrease of \$20,207,000 resulting from the loss of AT&T Information Service billing is reasonable.

FF 130. An expense increase of \$2,859,000 to reflect the loss of the AT&T-C direct inquiry services is reasonable.

FF 131. It is reasonable to exclude from cost of service \$2,739,000 in expenses associated with terminated office space leases because such expenses are a known and measurable adjustment to the test year as shown on Staff Exhibit No. 33 at 9, Schedule RW-III.

FF 132. It is reasonable to decrease the cost of service by \$2,661,000 to reflect the impact of the revised gross receipts tax on SNFA contracts as a known and measurable adjustment to the test year as shown on SWB Exhibit No. 18a at 1-3 and Exhibit No. 4 at 2.

FF 133. To normalize the test year, it is reasonable to exclude from cost of service \$1,641,000 of nonrecurring CPE and enhanced services expenses as shown on Staff Exhibit No. 33 at 12, Schedule RW-III.

FF 134. It is reasonable to exclude from cost of service \$559,097 of nonrecurring treasury expense as shown by the difference in the credits and debits in SWB Exhibit No. 53.

FF 135. It is reasonable to exclude from cost of service \$312,000 of Telephone Pioneers expense because it does not constitute a necessary expense for the delivery of utility service.

FF 136. It is reasonable to include in cost of service \$803,000 of SWB rate case expenses.

FF 137. It is reasonable to require SWB to submit detailed support of its requested rate case expenses in future rate cases as recommended by OPC.

FF 138. It is reasonable to include in cost of service \$421,000 of the Cities' rate case expenses as shown in Cities Exhibit No. 2 at 100-01.

FF 139. It is reasonable to include in cost of service the computer and software expenses as discussed by SWB Witness Swenson in SWB Exhibit No. 63; it would not be reasonable to reduce those expenses by \$18,324,000, as recommended by the Cities and to amortize them over a useful life of several years, because the amortization period appears to have been arbitrarily chosen.

FF 140. It is reasonable to include in cost of service the public affairs expenses; however, the \$1,667,000 of salary and overhead expenses associated with the Community Relations managers, as identified in Consumers Union Ex. No. 36, should be excluded from cost of service because SWB failed to show what portion of the managers' time is spent on legislative advocacy.

FF 141. It is reasonable to exclude from cost of service \$342,000 of expenses associated with license contracts and BIS payments that terminated with divestiture.

CL 28. P.U.C. SUBST. R. 23.21(b)(1)(A) requires that only reasonable and necessary operations and maintenance expenses incurred in furnishing normal utility service and in maintaining utility plant used and useful to the utility in providing such service to the public may be included in allowable expenses as adjusted for known and measurable changes to historical test year expenses.

CL 29. PURA Section 41(c)(3)(D) and P.U.C. SUBST. R. 23.21(b)(2)(J) require that any expenses found to be unreasonable, unnecessary, or not in the public interest shall not be considered for ratemaking purposes.

CL 30. Section 41(c)(1) of PURA provides the standard which must be met for the inclusion of affiliate expenses and/or capital costs for ratemaking purposes; each item or class of items must be reasonable and necessary, and the price to the utility must be no higher than prices charged to other affiliates or divisions for the same item or class of items.

CL 31. The interpretation of what is required for a utility to meet its burden of proof under Section 41(c)(1) of PURA was addressed by the Austin Court of Appeals in the case of Railroad Commission of Texas v. Rio Grande Valley Gas Company, 683 S.W.2d 783 (Tex. Civ. App.--Austin, 1984, no writ), involving allocated--pursuant to a formula--parent company expenses. Pursuant to the holding in the Rio case, the following showings must be made by the utility:

- a. The utility must demonstrate that the prices it was charged by its affiliate were no higher than the prices charged by the supplying affiliate to its other affiliates.
- b. The utility must demonstrate that disallowable expenses (i.e., legislative advocacy, donations, entertainment, advertising, products marketed by other subsidiaries, etc.) were not included in expenses allocated to the utility.
- c. The utility must prove that each item of allocated expense was reasonable and necessary.
- d. The utility must prove that the allocated amounts reasonably approximate the actual cost of services to it.

FF 142. Bellcore is a centralized services organization established by the seven Regional Bell Operating Companies (RBOCs).

FF 143. SWB is a one-seventh owner of Bellcore, the remaining ownership being held by the other six RBOCs.

FF 144. SWB requested inclusion of \$40.1 million of Bellcore costs--\$9.739 million in rate base and \$30.361 million in operations and maintenance expense.

FF 145. The kind of research provided by Bellcore is a vital part of the telecommunications business; therefore, with the exception of the Bellcore projects described in Findings of Fact Nos. 146 and 147, the Bellcore projects are reasonable and necessary projects.

FF 146. It is proper to exclude those Bellcore expenses detailed on Staff Ex. 36-A for the reasons set forth therein, with the exception of Bellcore Project No. 431801, National Security and Emergency Preparedness, which should be included in telephone plant in service and in cost of service. The staff's adjustment, modified to allow Project No. 431801, produces a decrease of \$2,201,600 to cost of service and a decrease of \$678,500 to plant in service.

FF 147. Project No. 441000 (Government Affairs) and Project No. 480003 (Issues Management) should be excluded from cost of service and plant in service because those projects are in part related to legislative advocacy. The elimination of those two projects produces a decrease of \$190,600 to cost of service and a decrease of \$59,300 to plant in service.

FF 148. SWB reasonably incurred \$28,665,800 of Bellcore costs in its cost of service and \$8,940,200 of Bellcore costs in telephone plant in service as calculated below:

|                  | (000's)<br><u>BELLCORE COST INCLUDED IN</u> |                                       |                                    |
|------------------|---|---------------------------------------|------------------------------------|
|                  | <u>Cost of<br/>Service</u>                  | <u>Telephone<br/>Plant in Service</u> | <u>Total<br/>Bellcore<br/>Cost</u> |
| Texas Intrastate | \$31,058.0                                  | \$9,677.0                             | \$40,735.0                         |
| Commission Adj.  |   |                                       |                                    |
| -Staff Ex. 36-A  | (2,299.8)                                   | (708.0)                               | (3,007.8)                          |
| -Project 431801  | 98.2  | 30.5                                  | 128.7                              |
| -Project 441000  | (177.7)                                     | (55.3)                                | (233.0)                            |
| -Project 480003  | <u>(12.9)</u>                               | <u>(4.0)</u>                          | <u>(16.9)</u>                      |
| Approved Costs   | \$28,665.8                                  | \$8,940.2                             | \$37,606.0                         |

FF 149. The preponderance of the evidence shows that the level of Bellcore costs reflected in Finding of Fact No. 148 is associated with services and/or products which are reasonable and necessary for utility operations.

FF 150. The preponderance of the evidence shows that the price Bellcore charges SWB for core projects is no higher than the price charged the other six RBOCs for the same item or class of items provided; each RBOC is charged one-seventh of the cost.

FF 151. The preponderance of the evidence shows that, proportionately, the prices Bellcore charges SWB for non-core projects are no higher than prices charged the other participating affiliates; the prices are based on size allocation factors.

CL 32. Based on Findings of Fact Numbers 145 through 151, SWB has met the test required by Section 41(c)(1) of PURA regarding Bellcore costs of \$37,606,000.

FF 152. Southwestern Bell Corporation (SBC) is the parent corporation of six major subsidiaries: SWB, Southwestern Bell Corporation Asset Management, Inc. (SBC Asset Management), Southwestern Bell Mobile Systems, Inc. (SWB Mobile), Southwestern Bell Publications, Inc. (SWB Publications), Southwestern Bell Corporation-Washington, Inc. (SBC-Washington) and Southwestern Bell Telecommunications, Inc. (SWB Telecom).

FF 153. With the exception of SWB, the remaining subsidiaries of SBC are new, unregulated, competitive firms.

FF 154. The total amount of SBC expenses for the test-year 1984 was \$54,642,249.

FF 155. Of the \$54,642,249 of test year expense incurred by SBC, \$1,951,525 was retained by SBC, and approximately \$2,000,000 was charged directly to the benefiting subsidiaries--approximately \$11,000 to SWB



Publications, \$54,000 to SWB Telecom and \$1.8 million to SWB. The remaining SBC expenses were placed in a pool to be generally allocated.

FF 156. Of the \$54,109,446 total allocable SBC expenses, \$52,068,807 or 96 percent was allocated to SWB.

FF 157. The Texas intrastate amount of SBC allocated expenses requested in this case is \$24,254,822.

FF 158. Most SBC expenses were allocated by use of ratios based on a composite of revenues, expenses and average net investment. Certain expenses were allocated either on the basis of relative employee levels or on the basis of relative revenues.

FF 159. The allocation methodology utilized to allocate to SWB expenses associated with SBC was not shown either to be a reasonable methodology or shown to be consistently applied. Therefore, all expenses associated with SBC should be excluded from cost of service.

FF 160. Demonstrated problems with the SBC allocation methodology include the following:

- a. The allocation of advertising expense does not produce a reasonable expense that approximates the value to SWB;
- b. Land radio marketing was allocated to SWB under the methodology;
- c. Trips associated with SWB Publishing may have been allocated to SWB;
- d. No internal audit has been performed to verify the integrity of the methodology;
- e. No allocation was made to SBC Asset Management, even though it was organized in August 1984 and became operational in November 1984.

CL 33. For the reasons set out in Findings of Fact Nos. 159 and 160, the allocation of SBC expenses to SWB should be disallowed from cost of service as not meeting the standards required by Section 41(c)(1) of PURA as interpreted by the Rio case (set forth in CL No. 31).

FF 161. SWB attempted to recover \$287,000 of expense associated with the \$851,900 allocated to Texas for a Washington, D.C. office. SWB removed \$488,000 of the \$851,900 to eliminate costs associated with legislative advocacy. SWB applied a 78.94 percent separations factor to the remaining \$364,000 to derive the claimed expense of \$287,000.

FF 162. The Washington office had its origin in a desire to have a Public Affairs-Federal Relations Office in the nation's capital with "responsibility for all members of Congress from outside Southwestern Bell

territory, the executive branches and all agencies except the FCC" as well as a Federal Regulatory Office "with responsibility for all FCC activities."

FF 163. Since all expenses associated with the Washington office flow up to SBC and are allocated back to SWB, the expenses should be disallowed because of the infirmities with the allocation methodology described in Findings of Fact Nos. 159 and 160.

CL 34. All expenses associated with the Washington office should be excluded from cost of service because of failure to meet the requirements of Section 41(c)(1) of PURA as interpreted by the Rio case (CL No. 31) when applied to the facts set forth in Findings of Fact Nos. 159, 160, and 163.

FF 164. SWB proposed that \$24,802,000 be included in cost of service for directory publication activities. Included in that amount is a two percent media administration fee (totalling \$357,000) and \$355,333 in white pages bold listing sales commissions.

FF 165. Of the total amount requested by SWB, only the administration fee and the white pages bold listing sales commissions were contested.

FF 166. P.U.C. SUBST. R. 23.61(b) requires local exchange companies to publish directories containing the names and telephone numbers of their subscribers.

FF 167. Prior to divestiture, Western Electric Company (WECO) was SWB's agent for purchasing the paper for and printing the directories.

FF 168. After divestiture, SWB Media assumed the WECO contracts.

FF 169. SWB Media bills SWB directly for photocomposition, production, printing, shipping distribution and warehousing, and adds a two percent administration fee to that amount.

FF 170. The two percent administration fee is less than the six percent fee charged by WECO prior to divestiture.

FF 171. The two percent administration fee covers internal functions performed by SWB Media, including the following:

- a. Scheduling the manufacturing and distribution process;
- b. Employing quality assurance experts in printing, paper, and distribution processes who visit suppliers' locations to assure maximum production and minimum costs;
- c. Using the Systems and Technology organization in SWB Publications to investigate and evaluate new technology and procedures and to make those advancements available to SWB at no extra charge.

FF 172. The cost of the services enumerated in Finding of Fact No. 171 is not covered in the amounts directly billed by SWB Media to SWB.

FF 173. The two percent administration fee is reasonable in light of the services provided and the previous fee charged by WECO.

CL 35. Based on Findings of Fact Nos. 169 through 173, SWB has met the burden required by Section 41(c)(1) of PURA regarding the two percent SWB Media administration fee. Therefore, the inclusion in cost of service of \$357,000 for that fee should be approved.

FF 174. SWB has contracted with SWB Media for SWB Media to act as its sales agent for white pages bold listings (WBLs).

FF 175. SWB pays the following sales commissions to SWB Media for WBLs:

- a. 20 percent commission on renewal of last directory issue value up to seven percent growth, and
- b. 30 percent commission on sales in excess of 107 percent of last directory issue value.

FF 176. Total commissions paid to SWB Media in 1984 for WBL sales were \$1,066,147, of which \$355,333 was requested in cost of service.

FF 177. The requested inclusion of \$355,333 in WBL sales commissions is reasonable because commissions are standard in the sales business, because the WBL sales commissions are less than the 27 percent industry standard, and because the charges are the same for both affiliates and nonaffiliates.

CL 36. Based on Finding of Fact No. 177, SWB has met the burden required by Section 41(c)(1) of PURA regarding the WBL sales commission. Therefore, \$355,333 for that expense should be included in cost of service.

FF 178. As of December 31, 1984, SWB was providing 31 services to SBC, 18 services to SWB Publications, 7 services to SWB Telecom, and 6 services to SWB Mobile.

FF 179. Incremental cost is the appropriate pricing methodology to apply when pricing services to SBC, SWB Publications, SWB Telecom, and SWB Mobile.

FF 180. Total test year billing to SWB's associated companies was \$11,587,292.

FF 181. SWB's charges for the lease administrator are 62 percent below incremental cost.

FF 182. SWB's charges for the president's chauffeur are 42 percent below incremental cost.

FF 183. SWB's charges for the president's car are 50 percent below incremental cost.

FF 184. It is reasonable, for the purpose of calculating revenue deficiency, to increase pro forma revenues from the services listed in Findings of Fact Nos. 181 through 183 by 40 percent to ensure that ratepayers do not bear the cost of chauffeur services provided to executives of affiliated companies. Therefore, SWB's revenues should be increased by \$9,421.

FF 185. Budgeting and billing service under the Public Relations service category is priced nine percent below incremental cost.

FF 186. Based on Finding of Fact No. 185, SWB's pro forma revenues should be increased, for the purpose of calculating revenue deficiency, by \$15,737 to bring revenues in line with incremental cost.

FF 187. It is not appropriate to increase pro forma revenues related to on-line referrals, for the purpose of calculating revenue deficiency, because that service is priced above incremental cost.

FF 188. It is not appropriate to increase pro forma revenues related to interLATA Communications Services, for the purpose of calculating revenue deficiency, because the price charged for those services is in line with the market price. SWB charges \$.20 per minute and the market price is \$.19 per minute.

FF 189. It is not appropriate to increase pro forma revenues related to Administrative Services, for the purpose of calculating revenue deficiency, because those services are priced above incremental cost.

FF 190. Certain assets were transferred from SWB to its affiliates SWB Mobile, SWB Publications, and SWB Telecom. Those assets include the following:

- a. Miscellaneous Physical Property - Machines
- b. Leasehold Improvements in Leased Building - Office Space
- c. Station Apparatus - Teletype, Telephone and Misc.
- d. PBXs - Electronic and Digital
- e. Furniture and Office Equipment - Furniture and Computers
- f. Vehicles and Other Work Equipment - Motor Vehicles and Store Equipment

FF 191. Additionally, SWB transferred employees to its affiliates.

FF 192. Based on the record in this case, the transfer of the assets listed in Finding of Fact No. 190 was appropriate and the transfer of

employees was reasonable and in accordance with their prior job assignments. This finding shall not estop the production of any additional evidence that may be shown in a subsequent proceeding that has been docketed for the purpose of examining transfers by SWB to its affiliates.

CL 37. Operations and maintenance expense of \$1,563,016,000 are reasonable and in compliance with PURA Section 41(c)(3)(D) and P.U.C. SUBST R. 23.21(b).

C. Uncollectibles

FF 193. The uncollectible rate proposed by SWB is appropriate.

FF 194. Application of SWB's uncollectible rate of .848267 percent to the revenue requirement of \$3,349,374,000 yields an allowable expense of \$28,412,000. The difference between this allowable expense and that in the test year represents a known and measurable change to the test year data.

CL 38. Pursuant to Section 39(a) of the PURA and P.U.C. SUBST. R. 23.21, SWB's uncollectible accounts expense is \$28,412,000.

D. Depreciation

FF 195. SWB requested an allowable expense of \$525,680,000 for depreciation.

FF 196. A downward adjustment of \$3,717,000 to depreciation expense is necessary to account for a known and measurable change in the amortization of inside wiring in Account 608.03 and the depreciation expense associated with central office equipment.

CL 39. Pursuant to Section 39(a) of the PURA and P.U.C. SUBST. R. 23.21, SWB's depreciation expense is \$521,963,000.

CL 40. The rates and methods of depreciation proposed by SWB as modified in this Order are adequate and proper, and comply with PURA Section 27(b).

E. Interest on Customer Deposits

FF 197. SWB requested \$2,112,000 for interest on customer deposits at an interest rate of six percent.

FF 198. SWB's requested allowance for interest on customer deposits should be increased by \$581,000 to reflect the assignment of 100 percent of customer deposits to intrastate service in Section IV.J. of this Order.

CL 41. SWB's cost of service should include a \$2,693,000 expense for interest on customer deposits, an amount which satisfies the requirements of PURA Section 39(a) and P.U.C. SUBST. R. 23.21.

F. Taxes Other Than Federal Income Tax

FF 199. SWB requested \$279,981,000 for taxes other than federal income tax.

FF 200. Of the \$279,981,000 requested for taxes other than federal income tax, SWB requested \$154,614,000 for non-revenue related taxes.

FF 201. Of the \$154,614,000 requested for non-revenue related taxes, SWB requested \$78,007,000 for ad valorem taxes.

FF 202. In calculating ad valorem taxes, SWB rounded the tax rate, producing an error of several hundred thousand dollars in SWB's favor.

FF 203. The appropriate rate to use in calculating ad valorem taxes is .0090632 found on SWB Ex. 65, Mittedorf Ex. 8.

FF 204. It is appropriate to eliminate from the allowance for ad valorem taxes the capitalized ad valorem taxes on intrastate plant under construction.

FF 205. SWB has an investment of \$64,781,000 in intrastate plant under construction, the ad valorem taxes on which should be capitalized and removed from SWB's allowance for ad valorem taxes.

CL 42. SWB's ad valorem tax expense is \$77,567,000.

FF 206. Of the \$154,614,000 requested for non-revenue related taxes, SWB requested \$62,740,000 for payroll taxes.

FF 207. Of the \$62,740,000 requested for payroll taxes, the sum of \$238,000 is actually applicable to 1983 operations.

FF 208. In 1985, SWB booked a payroll tax credit of \$804,438.

FF 209. In order to properly reflect the out-of-period credit of \$804,438 as an offset to the requested allowance for payroll taxes, it is necessary to subtract from \$804,438 the \$238,000 credit, leaving a balance of \$566,438 to be subtracted from the allowance for payroll taxes.

FF 210. The requested expense of \$62,740,000 for payroll taxes should also be reduced by \$699,562 to reflect adjustments to salary and wage levels and a decline in the number of employees.

CL 43. SWB's payroll tax expense, calculated in accord with PURA Section 39(a) and P.U.C. SUBST. R. 23.21, is \$61,474,000.

FF 211. SWB requested \$13,867,000 for capital stock taxes.

FF 212. OPC proposed a downward adjustment of \$325,000 based on the use of actual as opposed to estimated figures for 1985 taxes, an adjustment which was not contested and is reasonable.

CL 44. SWB's allowable expense for capital stock taxes is \$13,542,000, calculated in accord with PURA Section 39(a) and P.U.C. SUBST. R. 23.21.

CL 45. SWB's non-revenue related taxes inclusive of ad valorem taxes, payroll taxes, and capital stock taxes are \$152,583,000.

FF 213. SWB requested \$125,367,000 for revenue related taxes other than federal income tax.

FF 214. Of this \$125,367,000, SWB requested \$69,025,000 for state gross receipts tax and the remainder for local gross receipts taxes and the PUC assessment.

FF 215. The proper composite tax factor to use in calculating revenue related taxes consisting of state gross receipts tax (under H.B. 1949, which went into effect on October 1, 1985), local gross receipts taxes, and the PUC assessment, is 2.525433 percent.

FF 216. Applying the composite tax factor of 2.525433 percent to the revenue requirement of \$3,349,374,000 yields \$84,587,000 for revenue related taxes other than federal income tax.

CL 46. SWB's expense for revenue related taxes other than federal income tax is \$84,587,000.

CL 47. SWB's expense for taxes other than FIT, inclusive of revenue related and non-revenue related taxes, is \$237,170,000.

G. Federal Income Tax

FF 217. SWB requested \$393,171,000 for federal income tax (FIT) expense.

CL 48. The interest synchronization adjustment to FIT is consistent with federal law. Public Service Company of New Mexico v. FERC, 653 F.2d 781 (D.C. Cir. 1981); NEPCO Municipal Rate Committee v. FERC, 68 F.2d 1327 (D.C. Cir. 1981); Union Electric Co. v. FERC, 668 F.2d 389 (8th Cir. 1981).



CL 49. Federal tax law requires regulators to assume the existence of hypothetical investor-supplied capital in ITCs (investment tax credits) for determining required net income, but does not preclude them from imputing tax deductibility to a pro rata portion of the ITCs as recommended by the OPC and the Cities.

FF 218. It is appropriate to use interest synchronization in computing FIT because ITCs provide a source of capital to which no real costs attach.

FF 219. The Cities' proposed to use interest synchronization in computing FIT, as illustrated in Cities Exhibit 1A, Revised Schedule 9 and Cities Exhibit 4A, Revised Schedule 3 at 2.

FF 220. Properly computing FIT using interest synchronization as proposed by the Cities yields \$319,130,000 for FIT expense.

CL 50. SWB's FIT expense is \$319,130,000, calculated in accord with P.U.C. SUBST. R. 23.21(b)(1)(D).

#### H. Return

FF 221. The application of the 12.0269 percent rate of return to SWB's invested capital of \$5,628,963,000 yields a total return of \$676,990,000 for SWB in this case.

CL 51. A rate of return of 12.0269 percent and dollar return of \$676,990,000 on SWB's invested capital is reasonable, given the quality of SWB's service, the efficiency of its operations and the quality of its management, within the meaning of PURA section 39.

#### I. Separations

FF 222. It is reasonable to reduce intrastate expenses by \$1,575,000 to annualize the effect of the June 1, 1984, changes in the Separations Manual.

FF 223. It is reasonable to make the intrastate rate base adjustments proposed by the Cities' witness Dr. Johnson (Cities Exhibit No. 2) because such adjustments ensure proper treatment of the EANR costs. The adjustments are summarized as follows:

- a. a decrease in plant in service of \$11,285,000;
- b. a decrease in telephone plant under construction of \$8,859,000;
- c. a decrease in deferred taxes of \$37,000; and
- d. an increase in accumulated depreciation of \$1,000.

FF 224. It is reasonable to require SWB to file documentation in all future rate cases to show that EANR costs are properly tracked and that they are allocated to interexchange carriers.

J. Revenue Adjustments

FF 225. It is appropriate to use SWB's seasonalization and trending adjustments in calculating WATS revenues.

FF 226. It is appropriate to use SWB's seasonalization adjustment as modified by use of the trading day feature in calculating Message Toll Service revenues, but it is not appropriate to use a trending adjustment for calculating such revenues.

FF 227. It is not reasonable to make an upward adjustment of \$1,632,000 to end-of-period network access revenues, since such an adjustment does not recognize the accounting problem unique to the telephone industry resulting from pooling of industry revenues, and because it is inappropriate to use actual data without knowing the true-up for non-SWB revenues.

FF 228. End-of-period coin telephone revenues shown by SWB should be decreased by \$60,000 to correct a clerical error made in SWB's calculation of those revenues.

FF 229. It is not appropriate to make an upward adjustment to the service connection charge revenues shown in SWB Ex. No. 65, because the rates for such services are set at cost. Any additional revenues would therefore be offset by additional costs.

FF 230. An increase of \$4,489,000 in miscellaneous revenues as imputed rental revenue for half the vacant space in the Bell Plaza complex in Dallas is inappropriate and should not be made.

FF 231. It is not reasonable to recognize \$8,362,000 in additional revenue to reflect the June 1, 1985, price change in the Houston Yellow Page Directory, because such an adjustment fails to consider any additional expenses in the comparable time period.

FF 232. It is not appropriate to include additional access revenues resulting from the conversion of end offices to equal access capability and the application of premium rates instead of the transitional non-premium or discounted rates, because it is not possible to determine from this record the number of conversions from Feature Groups A and B access to Feature Group D access; thus it does not constitute a known and measurable change to actual test year revenues.

K. Adjustments to Revenue Deficiency

FF 233. It is reasonable and appropriate to adjust the calculated revenue deficiency downward by \$2,404,000 to reflect SWB's receipt of an enhanced service and CPE/FSS (Customer Premise Equipment/Fully Separated Subsidiary) expense reimbursement.

FF 234. The jurisdictional impact of applying the FCC's interim separations procedures for the allocation of the toll portion of Account 645 as of June 1, 1986 (established by the June 7, 1985, Interim Order in FCC Docket No. 80-286), is a \$35,020,000 annual Texas revenue shift from the interstate to the intrastate jurisdiction (as set forth in SWB Ex. No. 19A at 2 and SWB Ex. No. 4A at 2-4), which should be recognized in this docket because it is a known and measurable change.

FF 235. A reduction of \$6,285,430 in SWB's revenue deficiency for the start-up expenses associated with affiliate companies is inappropriate, because none of these costs were incurred by SWB in 1984 on behalf of the affiliates and none of these costs were included in SWB's cost of service, as shown on OPC Ex. No. 110.

L. Cost of Service Summary

FF 236. SWB has a total cost of service of \$3,349,374,000 as shown on Schedule I, titled "Intrastate Revenue Requirement and Revenue Deficiency (000's)," attached to this Order.

CL 52. SWB's cost of service of \$3,349,374,000 is comprised of allowable expenses and return on invested capital calculated pursuant to P.U.C. SUBST. R. 23.21(a).

FF 237. SWB has a total revenue deficiency of \$35,424,000 as shown on Schedule I, titled "Intrastate Revenue Requirement and Revenue Deficiency (000's)," attached to this Order.

VII. Shared Facilities Network Agreements

FF 238. While the record in this docket raises questions which merit further consideration, the preponderance of the credible evidence supports the allowance of revenues, expenses and investment associated with network facilities shared by SWB and AT&T-C pursuant to the Shared Network Facilities Agreements (SNFAs).

VIII. SWB's Proposal on Rate Design

FF 239. SWB proposed across-the-board increases to all categories of service with certain exceptions.

FF 240. One of the exceptions that SWB proposed to across-the-board increases was switched access service. SWB proposed reducing the rates for these services and forgoing ICAC revenues.

FF 241. SWB proposed offsetting these reductions with late payment penalty charges for business customers and new charges for local operator assistance.

FF 242. SWB indicated that its reason for proposing across-the-board increases in the rates for most categories of service was to avoid lengthy litigation involving cost study methodologies pending the results of the cost study for telephone companies undertaken by the National Regulatory Research Institute (NRRI).

FF 243. The Commission imposed a moratorium on implementation of local measured service (LMS) offerings in the final Order in Docket No. 6543, Application of United Telephone Company of Texas for a Rate/Tariff Change, \_\_\_\_\_ P.U.C. BULL. \_\_\_\_\_ (June 4, 1986). In order to allow SWB the opportunity to propose measured service rates for PBX and Shared Tenant Service offerings if it so desires, the moratorium should be lifted to the limited extent necessary to allow such proposals by SWB.

#### IX. Cost Studies

FF 244. For purposes of comparison with its proposed rate design, SWB presented cost studies, the substance of which was litigated at length, adding approximately 30 days to the hearing in this case.

FF 245. SWB did not purport to rely on its cost studies, and the studies themselves are not reliable.

FF 246. In respect of those rates for which an across-the-board increase is ordered in this docket, an across-the-board increase is reasonable and appropriate. It incorporates and preserves Commission policies on rate design as these policies were established and developed in Docket Nos. 3920, 4545, 5113, and 5220.

FF 247. Pending the results of the NRRI study, it is appropriate to incorporate and preserve the basic overall rate design methodology reflected in Docket Nos. 3920, 4545, 5113, and 5220.

#### X. Demand Analysis

FF 248. Because price affects how much of a product or service consumers will demand, it is appropriate in designing rates that will recover SWB's revenue requirement to take into account demand stimulation or repression resulting from increases or decreases in prices.

FF 249. SWB demonstrated that, if the price of MTS (intraLATA Message Telecommunications Service) were increased by ten percent, the number of minutes demanded would decrease by about 3.8 percent, for a test year price elasticity of negative .26.

FF 250. SWB also demonstrated that, if the charges for premium switched access were reduced from \$0.1118 per minute to \$0.0976 per minute, it would result in a 4.5 percent stimulation in minutes of use, assuming that AT&T-C flows through the access charge reduction to its toll customers in the form of lower toll rates.

FF 251. The quantity of switched access minutes of use demanded from SWB depends on the price of AT&T-C's interLATA toll services.

FF 252. A negative elasticity of .26 for intraLATA MTS is reasonably accurate.

FF 253. A negative .569 for AT&T-C's direct distance dialed elasticity is reasonably accurate.

FF 254. A negative .9 for AT&T-C's interLATA MTS operator-handled, station-to-station elasticity is reasonably accurate.

FF 255. A negative .681 for AT&T-C's interLATA MTS operator-handled, person-to-person elasticity is reasonably accurate.

FF 256. Demand repression adjustments proposed by SWB for business late payments, local noncoin operator assistance calls, line status verification, and busy interrupt, although worthy of further study, are reasonably accurate for ratemaking purposes.

FF 257. In order to verify the accuracy of SWB's demand analyses, it is reasonable to require SWB to maintain detailed records on its business late payment penalty, local non-coin operator assistance charges, line status verification charges, and busy interrupt charges, and to file them on a quarterly basis with the Commission staff.

#### XI. Bypass

FF 258. As defined by SWB, there are two kinds of bypass: facilities bypass and service bypass.

FF 259. Facilities bypass involves the construction of facilities to bypass SWB and connect one end-user of telecommunications services directly to an interexchange carrier or another end-user.

FF 260. Service bypass involves a customer's changing his or her service from switched access, which carries a usage sensitive charge, to dedicated special access, which does not carry a usage sensitive charge but rather carries a fixed monthly charge.

FF 261. SWB contends that it loses money when a customer changes from switched access to dedicated special access.

FF 262. SWB's proposal for remedying the loss occasioned by the substitution of dedicated special access for switched access is not to raise the cost of dedicated special access but rather to lower the cost of switched access.

FF 263. Not all experts on telecommunications agree that it is appropriate to label as "bypass" the phenomenon of customers' substituting one SWB service for another because of pricing differences.

FF 264. OPC demonstrated that bypassing SWB's facilities is generally more expensive than utilizing them and, in many cases, is not practical. The vast number of locations at which calls may originate or terminate using SWB's existing local exchange facilities makes it extremely desirable to continue using those facilities.

FF 265. With respect to SWB as a local exchange carrier, there is no immediate threat to SWB from facilities bypass.

FF 266. Facilities bypass may eventually pose a threat to SWB as more applications for it develop. It is reasonable to continue to study the problem of facilities bypass in relationship to SWB.

FF 267. SWB's bypass studies present a greatly exaggerated picture of the threat that bypass poses to SWB.

FF 268. It is appropriate to reject SWB's bypass studies but continue to explore the possibilities of rate design in relationship to the problem of bypass as it develops with respect to SWB.

## XII. Switched Access

FF 269. Feature Groups (FG) B, C, and D all provide trunk-side access service, and there is essentially no difference among these feature groups as to the quality of terminating access service.

FF 270. Because there is essentially no difference in the quality of terminating access for FG-B, FG-C, and FG-D, there is no justification for continuation of the rate distinction for terminating access in equal access end offices.

FF 271. SWB's switched access service tariff should be revised to specify the application of local switching premium LS2 rates for FG-B terminating access minutes in end offices that have been converted to equal access, for the reasons stated in the two findings of fact immediately above.

FF 272. A requirement that flat-rated and usage-rated FG-A lines be segregated in different trunk groups would require interexchange carriers to reconfigure their access networks to separate their intrastate and interstate facilities and to utilize two different seven-digit access numbers, one for intrastate calls and one for interstate calls.

FF 273. Network reconfigurations of the kind set forth in the finding of fact above are inefficient for both the interexchange carrier and the local exchange carrier.

FF 274. To avoid the network inefficiencies identified above, SWB's intrastate access tariff should be interpreted to allow for the combination of flat-rated and usage-rated FG-A and FG-B access facilities.

FF 275. SWB's access tariff should be amended by including in Sections 6.2.1(A)(1) and 6.2.2(A)(1) the following language: "Both usage-rated and flat-rated [FG-A or FG-B, as appropriate] lines may be combined in the same trunk group." This language will specifically permit combination of flat-rated and usage-rated FG-A and FG-B access facilities.

FF 276. Absolute parity with interstate rate levels for switched access service is not appropriate because this Commission does not share the FCC's long-term policy goals.

FF 277. Gradual reductions to existing switched access rates are likely to avoid a threat to universal service.

FF 278. The testimony of staff witness Price establishes the reasonableness of reducing SWB's Carrier Common Line (CCL) rate from \$0.0603 to \$0.0543 per minute of use in order to maintain the approximate difference between interstate and intrastate rates which existed prior to the FCC's approval of a new interstate CCL rate on June 1, 1985.

FF 279. A reduction in SWB's CCL rate as set forth in the finding of fact immediately above will reduce SWB's revenues by approximately \$29.714 million.

FF 280. SWB's basic design of the rates for billing and collection services is reasonable, but the current charges for these services exceed an optimal overall level, as Cities' witness Johnson testified.



FF 281. It is appropriate to include a reasonably high mark-up in the billing and collection rates in order to provide a contribution to SWB's common costs, and to provide some support to universal service, as Dr. Johnson stated in testimony.

FF 282. The optimal rate level for billing and collection services is not necessarily the highest level. Because many of these services are optional, if the rates are excessive, the interexchange carrier customers will provide these services themselves, and SWB will lose the entire contribution provided by these services.

FF 283. The rates for billing and collection services should be reduced by approximately \$38.23 million.

FF 284. It is reasonable to require the independent local exchange carriers which concur in SWB's switched access service tariff to review that tariff carefully before filing their statements of concurrence so that they can determine whether they are willing and able to provide all the services described in SWB's switched access service tariff.

FF 285. It is reasonable to require the local exchange carriers concurring in SWB's switched access service tariff to specify in their concurring statements any deviation, discrepancy, or difference between their services and the terms of SWB's switched access service tariff.

### XIII. Special Access

FF 286. Adopting the current interstate special access tariff structure is appropriate because the special access structure presently in effect in Texas has been justifiably criticized as unworkable and unreasonable, and the FCC filings have resulted in an interstate special access tariff structure that is superior to that currently in effect in Texas, as staff witness Price testified.

FF 287. SWB's intrastate special access tariff should mirror the structure contained in the interstate special access tariff which became effective April 1, 1985, but should contain rate levels equal to those which became effective at the interstate level on October 1, 1985.

FF 288. Mirroring the interstate special access rates effective on October 1, 1985, will increase SWB's intrastate special access revenues by approximately \$7.228 million.

FF 289. It is reasonable and appropriate to approve special access rates for SWB in parity with the interstate special access rates effective October 1, 1985, because those interstate rates are based on Texas-specific costs.

#### XIV. IntraLATA Private Line

FF 290. The El Paso service area was transferred from Mountain States Telephone and Telegraph to SWB in 1981, and the intraLATA private line rate structure of Mountain States was maintained in order to allow a period of transition to a new rate structure for this service.

FF 291. SWB's intraLATA private line rates should be increased by double the across-the-board increase determined herein in order to generate revenues in the amount of approximately \$201,236,000.

FF 292. SWB's intraLATA private line rates for the El Paso service area should be restructured and increased to be consistent with such charges for the rest of SWB's service area.

#### XV. Operator Assistance Charges

FF 293. Local operator assistance represents a cost of service for which a charge should be levied. The following services for which a charge should be implemented for customers who request and receive the assistance of an operator are: (1) dialing a local number; (2) completing a local person to person call; (3) billing a local call to a calling card or third number; or (4) placing a local collect call. Charges should also be implemented for operator assistance for verification of an indicated busy condition on a telephone line or the interruption of a conversation on a telephone line.

FF 294. The following charges are reasonable and should be implemented for local operator assistance to generate revenues in the amount of \$56,453,000:

| <u>Operator Assistance Service</u>   | <u>Local Operator Charges</u> |
|--|-------------------------------|
| Calling Card Station-to-Station  | \$0.40                        |
| Operator Handled Station-to-Station (include calling card, third number and collect) | \$1.30                        |
| Operator Handled Person-to-Person  | \$3.15                        |
| Line Status Verification   | \$1.35                        |
| Busy Interrupt   | \$2.20                        |

FF 295. It is not reasonable to levy charges for operator assisted local station to station calls which the customer is unable to complete by direct dialing due to telephone network problems.

FF 296. Manual mobile stations should be exempt from local operator assistance charges.

FF 297. It is reasonable to exempt from payment of local operator assistance charges those customers who require the assistance of an operator for calls due to physical or visual handicaps.

FF 298. It is reasonable to automatically exempt authorized emergency agencies from line verification charges and busy interrupts and not require them to file a request for such status with SWB. Agencies which are not automatically exempt should be allowed to file an application for exempt status with SWB.

#### XVI. Business Late Payment Penalty

CL 53. P.U.C. SUBST. R. 23.45(b) provides:

Penalty on delinquent bills for retail service. A one-time penalty not to exceed 5.0% may be made on delinquent commercial or industrial bills; however, no such penalty shall apply to residential bills under this section. The 5.0% penalty on delinquent commercial and industrial bills may not be applied to any balance to which the penalty was applied in a previous billing.

CL 54. P.U.C. SUBST. R. 23.45(b) forbids application of a late payment penalty to any balance to which the penalty was applied in a previous billing and therefore precludes calculating a late penalty as a percent of the daily unpaid balance.

CL 55. Because a late payment penalty is an incentive for prompt payment, there is no requirement that it be based on cost.

CL 56. The Prompt Payment Act, Tex. Rev. Civ. Stat. Ann. art. 601f (Vernon Supp. 1986) (the Act), provides that from July 1, 1986, to September 1, 1987, state agencies must pay their obligations not later than the 45th calendar day after receiving an invoice and that after September 1, 1987, state agencies must pay invoices within 30 days of receipt, or be subject to a penalty of one percent per month. (Sections 3(A) and (B); Section 5(B).) Section 7 of the Prompt Payment Act exempts certain transactions if "the terms of a contract specify other times and methods of payment." The Legislature considered that state agencies could and would enter into contracts (such as utility tariffs) with terms different from those in the Act and decided--by creating the exemption--that the contract terms would control. It is therefore consistent with the terms of the Act to require that state agencies should be subject to the terms of SWB's tariff specifying a time for payment and a penalty for late payment.

FF 299. SWB has approximately \$50 million in delinquent business bills each month.

FF 300. A late payment penalty would give delinquent business customers an incentive to pay their telephone bills more promptly and would enable SWB to recover the costs incurred because of late payments.

FF 301. At least five other public utilities operating in Texas have business late payment penalties in their current approved tariffs.

FF 302. SWB's proposed business late payment penalty should be adopted, as modified by the findings in this Order, to provide an incentive for prompt payment and to create a new revenue stream.

FF 303. The late payment penalty should be a one-time 2.5 percent charge applied only to undisputed amounts and disputed amounts resolved in SWB's favor.

FF 304. For purposes of applying the penalty, the due date should be extended to the first following business day if it would otherwise fall on a weekend or holiday.

FF 305. State agencies should be subject to the late payment penalty as applied to businesses, except that through August 1987, the penalty should not be applied to amounts owed by a state agency that are paid within 45 days of the billing date.

#### XVII. IntraLATA Foreign Exchange Service Restructure

FF 306. The testimony of SWB witness Fitzwater (SWB Exhibit No. 80) and the testimony of staff witness Price (Staff Exhibit No. 55) establish the reasonableness of SWB's proposed restructuring of IntraLATA Foreign Exchange as modified by the staff's recommendation that the FX usage-sensitive rate be reduced to \$0.021 per minute.

#### XVIII. WATS Restructure

FF 307. It is reasonable to restructure SWB's WATS tariff to offer intraLATA-only WATS and thus remove the link between AT&T-C's and SWB's WATS offerings.

FF 308. It is reasonable to structure SWB's intraLATA WATS rates into the three categories proposed by SWB witness Springfield based on intraLATA usage data.

FF 309. It is reasonable to develop minimum monthly usage charges for SWB's intraLATA WATS service by applying the intraLATA usage percent set forth by SWB witness Springfield to the present minimum monthly usage charges and increasing the resulting rates by the across-the-board residual percentage adopted in this Order, and set out on the "Revenue Summary by Category" table attached hereto.

FF 310. The current imposition of switched access rates on both ends of an interLATA WATS call causes the access charges paid by AT&T-C to exceed associated revenues from the WATS rates inherited by AT&T-C from SWB.

FF 311. The direct testimony of AT&T-C witness Riggert and the testimony on cross-examination of staff witness Price establish the reasonableness of the direct allocation of non-traffic sensitive costs associated with interLATA WATS and 800 service closed end loops, and justify recovery of those costs through a flat charge of \$38.00 per month per interLATA WATS and 800 service access line.

FF 312. SWB should recover the non-traffic-sensitive costs associated with interLATA WATS and 800 service closed end loops through a flat charge of \$38.00 per month per interLATA WATS and 800 service access line, and it should remove those costs from the Carrier Common Line and ICAC portions of its access rates.

FF 313. Removal of the non-traffic-sensitive costs associated with interLATA WATS and 800 service closed end loops from the Carrier Common Line and ICAC portions of SWB's access rates, and imposition instead of a flat charge of \$38.00 per month per interLATA WATS and 800 service access line, would reduce SWB's annual revenues by approximately \$19.4 million.

#### XIX. Network Terminating Wire

FF 314. SWB proposed to institute a time sensitive non-recurring charge for installation of network terminating wire.

FF 315. SWB's proposal to institute a time-sensitive non-recurring charge for network terminating wire should be rejected because of potential unreasonable discrimination between single tenant and multi-tenant buildings, because of potential multiple recoveries of costs, and because of the uncertain revenue impact of the proposal.

#### XX. Multifunction Systems

FF 316. Until sufficient information to justify an amendment can be shown, there should be no change to the language in SWB's tariff governing applicability to multifunction communication system customer premise equipment of the business private branch exchange (PBX) trunk access line rate or the business multi-line hunting (IFH) access line rate.

## XXI. Miscellaneous Other Services

FF 317. Based upon the revenue requirement and rate design guidelines adopted herein, the appropriate residual increase to be applied to the services shown on the revenue summary table attached to this Order is 4.8 percent.

FF 318. A rate increase for the recurring rates and non-recurring charges for all Centrex Service (Intercom) items to increase revenues for that service by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Centrex Service (Intercom) rates that are just and reasonable.

FF 319. It is appropriate to increase rates for Centrex Service (Intercom) items to increase revenues for that service by \$1,147,000.

FF 320. A rate increase for the recurring rates and non-recurring charges for Telephone Answering Service to increase revenues for that service by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Telephone Answering Service rates that are just and reasonable.

FF 321. It is appropriate to increase rates for Telephone Answering Service to increase revenues for that service by \$100,000.

FF 322. A rate increase for the recurring rates and non-recurring charges for Mobile Telephone Service to increase revenues for that service by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Mobile Telephone Service rates that are just and reasonable.

FF 323. It is appropriate to increase rates for Mobile Telephone Service to increase revenues for that service by \$362,000.

FF 324. A rate increase for the recurring rates and non-recurring charges for ESSX-30 Service to increase revenues for that service by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in ESSX-30 Service rates that are just and reasonable.

FF 325. It is appropriate to increase rates for ESSX-30 Service to increase revenues for that service by \$60,000.

FF 326. A rate increase for the recurring rates and non-recurring charges for Direct Inward Dialing Service to increase revenues for that service by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Direct Inward Dialing Service rates that are just and reasonable.

FF 327. It is appropriate to increase rates for Direct Inward Dialing Service to increase revenues for that service by \$694,000.

FF 328. A rate increase for the recurring rates and non-recurring charges for Custom Calling Service to increase revenues for that service by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Custom Calling Service rates that are just and reasonable.

FF 329. It is appropriate to increase rates for Custom Calling Service to increase revenues for that service by \$3,501,000.

FF 330. A rate increase for the recurring rates and non-recurring charges for Automatic Identified Outward Dialing Service to increase revenues for that service by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Automatic Identified Outward Dialing Service rates that are just and reasonable.

FF 331. In a previous SWB rate case, Docket No. 4545, most of the rates for the County of El Paso were rendered identical to the company's statewide rates.

FF 332. In Docket No. 4545, the rates for the County of El Paso for Automatic Identified Outward Dialing Service were not converted to the company's statewide rates due to the lack of supporting data necessary to effectuate such conversion. (SWB Ex. No. 82 at 22).

FF 333. It is appropriate to increase Automatic Identified Outward Dialing Service rates in SWB's service area to increase revenues for that service by \$104,000, and to establish uniform statewide levels for those rates.

FF 334. A rate increase for the recurring rates and non-recurring charges for "Other Services" to increase revenues for those services by the residual percentage of 4.8 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in "Other Services" rates that are just and reasonable.

FF 335. "Other Services" mentioned in the previous finding of fact but not otherwise addressed above, to which the residual percentage increase to revenues applies, are the following:

- Directory Listings
- Dishonored Checks
- Special Assemblies
- Telephone Answering Services
- Connections with Customer Provided Equipment
- Automatic Call Distributors
- Announcement Systems
- Group Alerting and Dispatch
- Joint User Service
- Reverse Toll and Call Screening
- Suspension and Restoral of Service



FF 336. It is appropriate to increase rates for "Other Services" to increase revenues for such services by \$1,683,000.

FF 337. It is appropriate that the company recover its expenses of providing circuits where long distance telephone calls which use SWB's circuits are completed over the network of another carrier.

FF 338. Hotel/Motel Toll Recording Trunks are not connected to the local exchange in the same manner as other channels, because they were originally constructed to provide a direct connection between the switchboard of a hotel or motel and SWB's long distance service switchboard.

FF 339. Hotel/Motel Toll Recording Trunks are similar to private line channels, Type 428: in both, the channels can be used only by the subscribing customer.

FF 340. Based upon SWB's Private Line Incremental Cost Study (Schedule N-15 of the SWB's rate filing package), SWB's cost to provide a Type 428 channel is approximately \$15.00.

FF 341. It is appropriate to set the Hotel/Motel Recording Trunk rate at \$15.00 monthly.

FF 342. A monthly Hotel/Motel Recording Trunk rate of \$15.00 is not unreasonably preferential, prejudicial, or discriminatory, and results in Hotel/Motel Recording Trunk rates that are just and reasonable.

FF 343. It is appropriate to increase rates for Hotel/Motel Recording Trunks to increase revenues for that service by \$1,348,000.

FF 344. The evidence in the record does not justify an increase to SWB's Public Coin rate.

FF 345. It is appropriate not to adjust SWB's Public Coin rate because an increase was not shown to be necessary.

FF 346. The evidence in the record does not justify an increase to SWB's Premise Work rate.

FF 347. It is appropriate not to adjust SWB's Premise Work rate because an increase was not shown to be necessary.

FF 348. The evidence in the record does not justify an increase to SWB's Touchtone Service rate.

FF 349. It is appropriate not to adjust SWB's Touchtone Service rate because an increase was not shown to be necessary.

FF 350. SWB proposed that its Service Connection charges remain at the current level.

FF 351. Residential customers who transfer from or to economy service pay \$15.00 in Service Connection charges for the transfer.

FF 352. An increase to the charge for a transfer to or from the economy service rate would impede the goal of maximizing universal service to customers who could not otherwise afford telephone service.

FF 353. The present reduced transfer rate may act as an incentive to customers to switch to SWB's standard service offering, which is a more profitable company service.

FF 354. The evidence in the record does not justify an increase to SWB's Service Connections charge.

FF 355. It is appropriate not to adjust SWB's Service Connections charge because an increase was not shown to be necessary.

#### XXII. Construction Charges

FF 356. SWB has not increased its construction charges since 1957 and has some of the lowest charges found among larger telecommunications utilities.

FF 357. Unreasonably low construction charges can cause individuals near service area boundaries to tariff shop among telephone companies. That practice may obligate SWB to unnecessarily incur expenses in locating the applicant's property and computing construction charges.

FF 358. Since 1957, the cost of telephone facilities has increased well in excess of 100 percent.

FF 359. Based upon the three preceding findings of fact, the requested increases in construction charges of approximately 100 percent are reasonable, even though no formal cost study was presented to justify the proposal. Construction charges for new service outside a base rate area at the following levels are just and reasonable:

|   |          |
|---|----------|
| Line Extension Charge                       |          |
| (per 1/10 mile, over a 5/10 mile allowance) | \$100.00 |
| Reinforcement Charge                        |          |
| (per 1/10 mile, over a 2 mile allowance)    | \$ 32.00 |

#### XXIII. Long Distance Message Telecommunications Service

FF 360. SWB's test year Long Distance Message Telecommunications Service (MTS) revenues include an amount attributable to the state's gross receipts tax on such services. MTS service includes Dial Station-to-Station (basic MTS) service, as well as Dial Credit Card Station-to-Station, Operator Station-to-Station, and Operator Person-to-Person services.

FF 361. The gross receipts tax on MTS was terminated on September 30, 1985.

FF 362. It is reasonable to decrease SWB's pro forma revenues to be produced by MTS by an amount equal to the test year level of MTS-generated gross receipts taxes.

FF 363. Based upon the findings of fact in Section IX of this Order, MTS rates, as a whole, should then be increased in an amount necessary to increase MTS revenues by the residual 4.8 percent.

FF 364. Based upon the two preceding findings of fact, rates for MTS should increase sufficiently to generate additional revenues of \$12,764,000.

FF 365. Basic MTS rates should be rounded to the nearest penny, with the remaining MTS rates to be rounded to the nearest five cents.

FF 366. Current short-haul basic MTS rates (rate bands 1 through 5) have contribution levels (difference between cost per message and revenue per message) well below those for basic long-haul MTS rates (rate bands 6 through 10).

FF 367. There is no compelling economic justification for such disproportionate contribution levels between basic short-haul and long-haul calls. Increasing basic short-haul MTS rates may increase requests for extended area service (EAS), but avoidance of EAS requests is not a sufficient justification for the current disproportionate contribution levels.

FF 368. It is reasonable to achieve in this docket a more even distribution of contribution levels among the ten basic MTS rate bands, although it would be inappropriate to modify basic MTS rates in such a manner as to equalize contribution levels all at once.

FF 369. Based upon the three preceding findings of fact, General Telephone Company of the Southwest's proposal to put a greater portion of the basic MTS rate increase on the first five rate bands, and a proportionately lower amount on the last five rate bands, is reasonable and worthy of adoption.

#### XXIV. Local Exchange Service

FF 370. No portion of the local service revenue increase awarded in this docket should be recovered through basic local exchange service rates. It is reasonable that rates for basic local exchange services be retained at current levels.

FF 371. The exchanges of Waxahachie, Belton, Midland, and Mission should be reclassified to the next higher local exchange group because those exchanges have outgrown their present local exchange rate groups. The exchanges of Clute-Lake Jackson and Freeport should be reclassified to the next lower exchange rate group due to the significant reductions in size experienced by those exchanges.

FF 372. It is reasonable and appropriate to reduce the monthly directory assistance call allowance per single line basic service from the present five call allowance to a three call allowance.

FF 373. It is reasonable and appropriate to eliminate the home numbering plan area offset for directory assistance charges.

#### XXV. Limitation of Liability Provisions

FF 374. The evidence does not support deletion of all restrictive liability clauses and exculpatory clauses in SWB's tariff at this time.

#### XXVI. Rate Design Summary

CL 57. The rates and rate design guidelines set out in this Order, if properly implemented, will be just and reasonable; will not be unreasonable, prejudicial, or discriminatory; and will be sufficient and equitable if consistently applied to the proper classes of customers. They therefore satisfy the requirements of PURA Section 38.

CL 58. The rates and rate design guidelines set out in this Order, if properly implemented, comply with PURA Section 45, which precludes public utilities from rates or service practices which "make or grant any unreasonable preference or advantage to any corporation or person within any classification, or subject any corporation or person within any classification to any unreasonable prejudice or disadvantage," and prohibits utilities from establishing and maintaining "any unreasonable differences as to rates of service either as between localities or as between classes of service."

CL 59. The paramount intent of the Legislature in enacting the PURA was the continued preservation, maintenance, and encouragement of universal service in Texas.

CL 60. This Commission has broad discretion in the area of rate design, and, in general, as long as rate structures are just, reasonable, and not unreasonably discriminatory, this Commission will have complied with the principles set out in PURA. Texas Alarm and Signal Association v. Public Utility Commission, 603 S.W. 2d 766 (Tex. 1980).

Having made these findings and conclusions, the Commission issues the following orders:

1. SWB's petition to change rates is GRANTED in part and DENIED in part, as reflected by the terms of this Order, including the Findings of Fact and Conclusions of Law set out herein, and the attached schedules and tables.
2. Southwestern Bell SHALL file revised rate schedules in accordance with the rates and guidelines set out in this Order sufficient to generate revenues not greater than those prescribed herein. Southwestern Bell shall also revise its tariff as directed herein and file any other pages of its tariff that are being revised pursuant to this docket. The revised tariff sheets shall be filed in ten (10) copies with the Commission filing clerk and shall comply with the requirements of P.U.C. SUBST. R. 23.24. Southwestern Bell shall serve a copy of its revised tariff sheets on all parties of record at the same time that they are filed with the Commission. The parties shall have eight (8) days from the date of filing to present their written objections, if any, to the revised tariff sheets to the Commission staff for its review and consideration. The Commission staff shall, within fifteen (15) days from the date of filing of the revised tariff sheets, review them for approval or rejection, and file memoranda recommending approval or rejection of the individual sheets filed, explaining the reasons for such recommendations. In the absence of a Commission ruling on them, the tariff sheets shall be deemed to be approved upon the expiration of twenty (20) days after filing; the sheets may be approved or rejected sooner upon notification by the Commissioners. In the event of rejection, Southwestern Bell will be notified by the Commissioners, with a copy of the notice sent to all parties, and the Company shall have fifteen (15) additional days to file additional revised tariff sheets, with the same procedure then to be repeated.
3. SWB extended its effective date in this matter to allow the Commission time to read the record before making a final decision, with the understanding that its revenue needs as finally determined by the Commission would not be materially affected by the lengthy extension of the effective date. It was contemplated that the Commission would make the rates finally set effective as of March 17, 1986. In its June 13 comments on the subject of possible surcharges and refunds, SWB suggested--among other ideas--that the rates designed and ordered by the Commission be applied prospectively only, and that the shortfalls in revenue (as compared to the Commission-determined revenue requirement) be rectified by a delay in implementation of

decreases to rates for certain services. Based upon this principle, the Commission rules that the rates set herein will not be applied retroactively, but that implementation of the rates embodying the Carrier Common Line rate reduction and the dedicated access line charge for the closed end of WATS approved pursuant to this Order be delayed by 49 days, beyond the date of implementation of other rates established pursuant to this Order. This time period includes a delay sufficient to include interest at SWB's cost of short-term debt.

4. The revised and approved rates may be charged only for service rendered after the approved implementation date. Should that date fall within the utility's billing period, the utility is authorized to prorate each customer's bill to reflect that customer's monthly charges at the appropriate new rates.
5. Southwestern Bell is ORDERED to present a lead-lag study in support of the Company's requested cash working capital allowance in its next general rate case.
6. SWB is ORDERED, in future rate cases, to present supportive evidence regarding the Yellow Pages operating expenses and revenues which is of sufficient detail to allow a determination of the reasonableness and the necessity of the expenses and revenues imputed into each rate filing to ensure that ratepayers have not been harmed by divestiture.
7. SWB is ORDERED, in future rate cases, to prove affirmatively that all other advertising which is not Commission-ordered has benefitted the ratepayers prior to its inclusion in the company's cost of service. SWB SHALL, furthermore, institute auditing and accounting procedures sufficient to identify all expenses dealing with advertising, lobbying, charitable contributions, and other activities the costs of which represent expenses nonallowable for ratemaking purposes, and it shall present data regarding such expenses in subsequent rate cases.
8. Southwestern Bell is ORDERED to record, and in future rate cases, to submit detailed information explaining the necessity and reasonableness of requested rate case expenses, including explanation of attorney and consultant fees, as well as associated in-house expenses. In doing so, SWB SHALL utilize the same recording procedure now in effect in Missouri.
9. Southwestern Bell is ORDERED to develop procedures for keeping its customers adequately informed in situations where the Company is unable to complete service requests on scheduled due dates.

10. Southwestern Bell is ORDERED to display prominently the words "termination notice," "cut-off notice," or "suspension notice" on such notices mailed to customers so that they do not merely blend in with the other information on the notice.
11. It is further ORDERED that Docket No. 5969 shall be processed and a full investigation of the issues commenced. Initially, legal issues concerning property rights in the assets of a utility should be briefed and further proceedings should be conducted as necessary depending on the resolution of the legal issues.
12. SWB is ORDERED to record customer deposits and customer advances separately on its books.
13. It is hereby ORDERED that the moratorium on implementation of local measured service offerings imposed in the final Order in Docket No. 6543, Application of United Telephone Company of Texas for a Rate/Tariff Change, \_\_\_\_\_ P.U.C. BULL. \_\_\_\_\_, (June 4, 1986) is lifted for the limited purpose of allowing SWB to propose measured service rates for PBX Service and Shared Tenant Service (STS) offerings if it so desires.
14. All local exchange carriers concurring in SWB's switched access service tariff are hereby ORDERED to review that tariff carefully to determine if they are willing and able to provide all the services described in SWB's tariff. All local exchange carriers' concurring statements SHALL specify any deviation, discrepancy, or difference between their services and the terms of SWB's switched access service tariff.
15. The General Counsel of the Public Utility Commission of Texas is hereby ORDERED to initiate a proceeding to investigate the feasibility of local exchange carriers' implementing flat rate access charges in Texas and the various methodologies for establishing such charges.
16. SWB is ORDERED to maintain detailed records on its business late payment penalty, local non-coin operator assistance charges, line status verification charges, and busy interrupt charges and to file them on a quarterly basis with the Commission staff, so that the validity and accuracy of the demand analyses used by SWB in this docket can be assessed.
17. SWB is ORDERED to present study information in subsequent cases which supports its requested useful life of computer hardware and software, the costs of which SWB seeks to expense and/or amortize.

18. All motions, applications, and requests for entry of specific Findings of Fact and Conclusions of Law and any other requests for relief, general or specific, if not expressly granted herein are DENIED for want of merit.

SIGNED AT AUSTIN, TEXAS on this the 26<sup>th</sup> day of June 1986.

PUBLIC UTILITY COMMISSION OF TEXAS

SIGNED: Dennis L. Thomas  
DENNIS L. THOMAS

SIGNED: Jo Campbell  
JO CAMPBELL

I respectfully dissent from the majority on the following issues and for the following reasons: In making the adjustment to reflect the separations impact of lost toll inquiry, the Cities' proposal to use test year data annualized is reasonable and should have been adopted. This results in an increase of \$6,465,098 to intrastate plant in service. (Cities Ex. 1A).

In prior orders the Commission found that certain Business Information Service projects should be deferred and then amortized. The Company proposes to expense in this case the FACS system, which was not in service during the test year and the PREMIS system, which came into service in June of 1984. These systems represent major long term investments which should be amortized over a period of years. The Cities' recommendation for amortization over a three year period should be adopted. This results in an increase to intrastate plant in service of \$508,505. (Cities Ex. 1, Sch. 4).

The Cities' proposed increase to intrastate plant in service of \$14,219,833 to reflect a reclassification of computer system software costs to a deferred asset account to be amortized over a three year period is reasonable and should have been adopted. (Cities Ex. 1, Sch. 1).

The Cities' proposed increase of \$13,999,000 to reflect Separations Manual changes based on an average monthly actual separations factor annualized is reasonable and should have been adopted. (Cities Ex. 1A, Rev. Sch. 8).

The adjustment proposed by the Office of Public Counsel and the Cities which removes all capitalized Bellcore expenses, resulting in a reduction of \$9,739,000, to intrastate plant in service is reasonable and should be adopted. The record fails to reflect any rationale by SWB to why portions of the Bellcore projects should have been capitalized as opposed to expensed. In addition, SWB failed to meet its burden of proof as required by the PURA and the Rio Grande case with regard to affiliate transactions and its interrelationships with Bellcore.



Consistent with prior Commission decisions, the Cities' adjustment to increase accumulated depreciation by one-half the depreciation expense adjustment, in the amount of \$15,674,000, should be adopted. (Cities Ex. 4 at 7).

The recommendation of Office of Public Counsel, Department of Defense and the Cities should have been adopted with regard to the imputation of a hypothetical capital structure composed of 50 percent debt and 50 percent equity. The company's actual capital structure is far too conservative for this regulated entity and results in Texas ratepayers subsidizing SBC's unregulated competitive operations. The present structure simply insures that the shareholders are protected from the risks of the nonregulated entities that make up a part of Southwestern Bell Corporation. At the same time, the company's ratepayers are denied the cost savings which could be achieved by having a higher ratio of debt to equity.

The Commission is required to allow recovery of reasonable and necessary expenses. In the immediate post-divestiture era the task of determining "reasonable" has become more difficult. In theory, expenses should be decreasing, due to the company's reduced size, but in fact, many expenses have increased. Dr. Johnson, through careful and fair analysis, established reasonable benchmarks which could be used to guide the Commission in determining the proper level of post-divestiture expenses. The Cities' proposed adjustment to post-divestiture expense levels, (as modified by the correction to F Subs. 1411 and 1412) in the amount of \$55,221,000, should have been adopted. (Cities Ex. 2 at 98).

Based on Cities' witness Copeland's testimony a reasonable range for SWB's cost of equity is 13.4 percent to 13.6 percent. The majority has adopted this witness' stock price, and expected dividend yield in their DCF calculation; however, they have adopted a higher growth component than is justified by the record. The maximum rate of return on equity that can be justified under any reasonable projection of growth is 13.8 percent. If the updated stock price, testified to during the hearing, is used a lower yield component results and an even lower return is appropriate. Considering the fact that the company's actual capital structure was adopted and the Cities' reduction to post-divestiture expense levels was rejected, the rate of return on equity adopted by the majority is excessive. In the company's last rate case, during the highly unstable period immediately following divestiture, this Commission approved a return on equity of 14.5 percent. Since that time the company has demonstrated extraordinary strength in the market. At the time this case was filed its market to book ratio was 122 and its stock price continued a steady increase all during the hearing. Clearly the risk to potential investors has been substantially reduced. Return on equity should follow suit. (Cities Ex. 3).

The record does not support a seasonalization adjustment to salary and wages. (Cities Ex. 4A, Sch. 3, 4 of 7).

The record does not support the allowance of management bonuses in the amount of \$1,818,615 or lump sum awards to employees of \$4,712,537. These reflect additional compensation which is not required in order to provide regulated telephone service and they should be disallowed as proposed by the Office of Public Counsel. (OPC Ex. 10A).

The majority disallowed expenses associated with Southwestern Bell Corporation as not meeting the tests required by PURA and the Rio Grande case for affiliate transactions, therefore, it is inconsistent to allow the retainer fees and concessions to the Directors of SBC. Those expenses amount to \$294,000 and should be disallowed as proposed by the Office of Public Counsel.

While the treatment afforded by the majority to the adjustment for Litton anti-trust expenses may technically qualify as a normalization of test year expense, it is neither reasonable nor appropriate. The company booked intrastate expenses of \$3,540,000 during the period 1976-1984. The FCC ordered the company to reverse its prior accounting for these expenses and take them below the line as extraordinary income charges. To adopt the company's proposed adjustment, as the majority has done, in effect holds Texas ratepayers exclusively responsible for the defense of actions that have been recognized as "demonstrably the product of regulatee's violation of federal statute." While it is important to make the test year representative of the future, it is more important, as pointed out by the Office of Public Counsel, to ensure that ratepayers are not held responsible for willful violations of the law. For that reason the company's normalizing adjustment should not be adopted. (OPC Brief at 84).

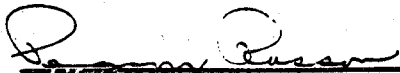
The same requirements of PURA and the Rio Grande case found appropriate by the Commission as to Southwestern Bell Corporation's affiliate expenses are applicable to Bellcore expenses. It is clear from the record in this case that SWB simply failed to meet its burden of proof with regard to Bellcore expenses, just as it did with regard to SBC expenses. Therefore, all expenses relating to Bellcore projects should be disallowed. Even assuming, as the majority did, that some Bellcore expenses should be allowed, it is not appropriate or consistent to include clearly non-recurring expenses for discontinued projects, as shown on Cities Ex. 8, on the basis that they may be replaced by some undefined project at some undefined point in the future.

The two percent Media administration fee and the white pages bold listing commission should be disallowed on the basis that they represent activities that SWB could have provided to itself, and for which there was no cost support in the record. (OPC Ex. 215 at 25-5).

Custom calling should have been exempted from the across the board increase. It provides a far above average contribution over cost at the present time. The services are discretionary and easily discontinued. They should not be priced so far above cost that their contribution will be lost to the company.

It is premature to lift the moratorium in local measured service at this time. That decision, if and when it is shown appropriate in the inquiry into flat rate access charges, should be made at that time.

SIGNED:

  
PEGGY ROBSON

ATTEST:

*for Phillip Holder*  
RHONDA COLBERT RYAN  
SECRETARY OF THE COMMISSION

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Public Utility Commission of Texas

Southwestern Bell Telephone Company - Docket No. 6200

Schedule I  
Final Order

Intrastate Revenue Requirement and Revenue Deficiency (000's)

6/20/86

| Description                             | Total State Amount | Intrastate Factor | Test Year Intrastate Amount | Company Adjustments | Company Intrastate Amount | Commission Adjustment | Commission Intrastate Amount |
|---|--------------------|-------------------|-----------------------------|---------------------|---------------------------|-----------------------|------------------------------|
|   | (a)                | (b)               | (c)=(a)x(b)                 | (d)                 | (e)=(c)+(d)               | (f)                   | (g)=(e)+(f)                  |
| Operations and Maintenance              | 1,978,093          | 0.7986            | 1,579,620                   | 60,125              | 1,639,745                 | (76,729)              | 1,563,016                    |
| Uncollectibles                          | 28,938             | 0.9081            | 26,280                      | 3,559               | 29,839                    | (1,427)               | 28,412                       |
| Depreciation                            | 634,946            | 0.7481            | 474,973                     | 50,707              | 525,680                   | (3,717)               | 521,963                      |
| Other Taxes                             | 291,509            | 0.8638            | 251,801                     | 28,180              | 279,981                   | (42,811)              | 237,170                      |
| Interest on Customer Deposits           |                    |                   | 0                           | 2,112               | 2,112                     | 581                   | 2,693                        |
| Federal Income Taxes                    | 280,605            | 0.7719            | 216,613                     | 176,558             | 393,171                   | (74,041)              | 319,130                      |
| Return                                  | 740,168            | 0.7433            | 550,134                     | 199,213             | 749,347                   | (72,357)              | 676,990                      |
| <b>REVENUE REQUIREMENT</b>              | <b>\$3,954,259</b> |                   | <b>\$3,099,421</b>          | <b>\$520,454</b>    | <b>\$3,619,875</b>        | <b>(\$270,501)</b>    | <b>\$3,349,374</b>           |
| Less:                                   |                    |                   |                             |                     |                           |                       |                              |
| Test Year Revenue                       |                    |                   |                             |                     | (3,099,421)               |                       | (3,099,421)                  |
| End of Period Revenue Adjustments       |                    |                   |                             |                     | (238,878)                 | (6,692)               | (245,570)                    |
| <b>UNADJUSTED REVENUE DEFICIENCY</b>    |                    |                   |                             |                     | <b>281,576</b>            | <b>(277,193)</b>      | <b>4,383</b>                 |
| Plus:                                   |                    |                   |                             |                     |                           |                       |                              |
| Revenue Impact of Separations Change    |                    |                   |                             |                     | 44,744                    | (9,724)               | 35,020                       |
| Expense Impact of Separations Change    |                    |                   |                             |                     | (3,780)                   | 2,205                 | (1,575)                      |
| Enhanced Services and CPE Reimbursement |                    |                   |                             |                     | (2,404)                   |                       | (2,404)                      |
| <b>ADJUSTED REVENUE DEFICIENCY</b>      |                    |                   |                             |                     | <b>320,136</b>            | <b>(284,712)</b>      | <b>35,424</b>                |

Public Utility Commission of Texas

Schedule II  
Final Order

Southwestern Bell Telephone Company - Docket No. 6200

6/20/86

Summary of Intrastate O & M Expenses (000's)

| Description            | Test Year<br>Intrastate<br>Amount | Company<br>Pro Forma<br>Adjustments | Company<br>End of Period<br>Adjustments | Company<br>Intrastate<br>Amount | Commission<br>Adjustment T<br>ProForma Req | Commission<br>Adjustment T<br>EOP Request | Commission<br>Intrastate<br>Amount |
|------------------------|-----------------------------------|-------------------------------------|---|---------------------------------|--|---|------------------------------------|
|                        | (a)                               | (b)                                 | (c)                                     | (d)=(a)+(b)+(c)                 | (e)  | (f)                                       | (g)=(d)+(e)+(f)                    |
| Maintenance            | 644,325                           | 15,440                              | (3,451)                                 | 656,314                         | (3,394)                                    | (10,325)                                  | 642,595                            |
| Traffic                | 138,672                           | 1,971                               | (605)                                   | 140,038                         | (701)                                      | (2,236)                                   | 137,101                            |
| Commercial             | 350,900                           | 20,413                              | 619                                     | 371,932                         | (1,959)                                    | (6,540)                                   | 363,433                            |
| Revenue Accounting     | 30,778                            | 7,182                               | 109                                     | 38,069                          | (248)                                      | (676)                                     | 37,145                             |
| Operating Rents        | 61,057                            | 8,745                               | 1,617                                   | 71,419                          | (2,137)                                    | (1,617)                                   | 67,665                             |
| Relief and Pensions    | 174,030                           | 4,718                               | (3,943)                                 | 174,805                         | (2,027)                                    | (2,024)                                   | 170,754                            |
| Other General          | 179,858                           | 6,687                               | 623                                     | 187,168                         | (39,573)                                   | (3,274)                                   | 144,322                            |
| <b>Total O &amp; M</b> | <b>1,579,620</b>                  | <b>65,156</b>                       | <b>(5,031)</b>                          | <b>1,639,745</b>                | <b>(50,039)</b>                            | <b>(26,690)</b>                           | <b>1,563,016</b>                   |

Public Utility Commission of Texas

Southwestern Bell Telephone Company - Docket No. 6200

Commission P. Form 0 & M Adjustments to SMT Requests (000's)

Schedule III  
Final Order

6/20/86

| Company<br>Pro Forma<br>Des Adjustments | Advertising<br>Expense | Chauffeurs<br>& Personal<br>of Company ca | Leg. Advocacy<br>Us Public Affrs<br>Salaries | Loss of ATT<br>Dir. Inquiry<br>Billings | Miscellaneous<br>Non-recurring<br>Expense | Reversal of<br>SMB Non-Wage<br>Price Adj. | Loss of<br>Dallas Office<br>Leases | Gross Recpts<br>Tax on SNFA<br>Contracts | Disalw. SBC<br>Allocations &<br>SMBT Wshgton | License<br>Contract &<br>BIS Exp. | Remove<br>Bellcore<br>Expense | Adjustment<br>For Cities<br>Rate Case Exp | Litton<br>Antitrust<br>Settlements | Eliminate<br>Additional<br>Airplane Exp | Disallow<br>"Telephone<br>Pioneers" Exp | Commission<br>Pro Forma<br>Adjustments |                 |
|---|------------------------|---|--|---|---|---|------------------------------------|--|--|-----------------------------------|-------------------------------|---|------------------------------------|---|---|--|-----------------|
| (a)                                     | (b)                    | (c)                                       | (d)  | (e)                                     | (f)                                       | (g)                                       | (h)                                | (i)                                      | (j)  | (k)                               | (l)                           | (m)                                       | (n)                                | (o)                                     | (p)                                     | (i)=(a)+...+(p)                        |                 |
| Maint                                   | 15,440                 | 0   | 0  | 0                                       | (1,142)                                   | (2,252)                                   | 0                                  | 0  | 0  | 0                                 | 0                             | 0   | 0                                  | 0                                       | 0                                       | \$12,046                               |                 |
| Traff                                   | 1,971                  | 0   | 0  | 0                                       | (46)                                      | (655)                                     | 0                                  | 0  | 0  | 0                                 | 0                             | 0   | 0                                  | 0                                       | 0                                       | \$1,270                                |                 |
| Conne                                   | 20,413                 | (1,331)                                   | 0  | 0                                       | 2,193                                     | (453)                                     | 0                                  | 0  | (58)   | 0                                 | 0                             | 0   | 0                                  | 0                                       | 0                                       | \$18,454                               |                 |
| Rev. A                                  | 7,182                  | 0   | 0  | 0                                       | 0   | (248)                                     | 0                                  | 0  | 0  | 0                                 | 0                             | 0   | 0                                  | 0                                       | 0                                       | \$6,934                                |                 |
| Op. R                                   | 8,745                  | 0   | 0  | 0                                       | 0   | (726)                                     | (448)                              | (963)                                    | 0  | 0                                 | 0                             | 0   | 0                                  | 0                                       | 0                                       | \$6,608                                |                 |
| Rel.                                    | 4,718                  | 0   | 0  | 0                                       | 666                                       | 0   | 0                                  | 0  | (2,693)                                      | 0                                 | 0                             | 0   | 0                                  | 0                                       | 0                                       | \$2,691                                |                 |
| Other                                   | 6,687                  | 0   | (154)  | (1,433)                                 | 0   | (1,209)                                   | 0                                  | (1,698)                                  | (16,337)                                     | (334)                             | (2,393)                       | 121                                       | (15,600)                           | (231)                                   | (305)                                   | (\$32,886)                             |                 |
| <b>Total</b>                            | <b>\$65,156</b>        | <b>(\$1,331)</b>                          | <b>(\$154)</b>                               | <b>(\$1,433)</b>                        | <b>\$2,859</b>                            | <b>(\$1,641)</b>                          | <b>(\$7,400)</b>                   | <b>(\$448)</b>                           | <b>(\$2,661)</b>                             | <b>(\$19,088)</b>                 | <b>(\$334)</b>                | <b>(\$2,393)</b>                          | <b>\$121</b>                       | <b>(\$15,600)</b>                       | <b>(\$231)</b>                          | <b>(\$305)</b>                         | <b>\$15,117</b> |

Public Utility Commission of Texas

Southwestern Bell Telephone Company - Docket No. 6200

Schedule IV  
Final Order

Summary of Commission End of Pd D & M Adjustments (000's)

6/20/86

| Description  | Maintenance         | Traffic           | Commercial         | Revenue Accounting | Operating Rents   | Relief & Pensions  | Other General     | Total               |
|--|---------------------|-------------------|--------------------|--------------------|-------------------|--------------------|-------------------|---------------------|
| WAGE   | (a)                 | (b)               | (c)                | (d)                | (e)               | (f)                | (g)               | (h)=(a)+...+(g)     |
| Commission ProForma Wage Exp<br>x 12/84 to Avg.T.Y.Employees | 414,229<br>0.98088  | 85,410<br>0.98088 | 178,021<br>0.98088 | 17,040<br>0.98088  | 0<br>0.98088      | 179,414<br>0.98088 | 79,698<br>0.98088 | 953,811<br>0.98088  |
| Commission Wage Exp 12/31/84<br>Less:Comm.ProForma Wage Exp. | 406,308<br>414,229  | 83,777<br>85,410  | 174,617<br>178,021 | 16,714<br>17,040   | 0<br>0            | 175,983<br>179,414 | 78,174<br>79,698  | 935,574<br>953,811  |
| Commissn.Adj.Av.Pd.to 12/84                                  | (7,920)             | (1,633)           | (3,404)            | (326)              | 0                 | (3,431)            | (1,524)           | (18,238)            |
| Commissn. Wage Expense 12/84<br>x 4/85 to 12/84 Employees    | 406,308<br>0.98559  | 83,777<br>0.98559 | 174,617<br>0.98559 | 16,714<br>0.98559  | 0<br>0.98559      | 175,983<br>0.98559 | 78,174<br>0.98559 | 935,574<br>0.98559  |
| Commissn Recommended Wage Ex<br>Less:Commissn Wage Exp.12/84 | 400,452<br>406,308  | 82,569<br>83,777  | 172,101<br>174,617 | 16,473<br>16,714   | 0<br>0            | 173,447<br>175,983 | 77,047<br>78,174  | 922,090<br>935,574  |
| Commissn EOP Adj.12/84 to4/85                                | (5,856)             | (1,207)           | (2,517)            | (241)              | 0                 | (2,536)            | (1,127)           | (13,483)            |
| <b>NON WAGE</b>  |                     |                   |                    |                    |                   |                    |                   |                     |
| Commissn.Pro Forma NonWage E<br>x Avg. to EOP Access Lines   | 242,142<br>1.00000  | 54,532<br>1.00000 | 191,333<br>1.00000 | 20,672<br>1.00000  | 67,665<br>1.00000 | (2,693)<br>1.00000 | 67,299<br>1.00000 | 640,950<br>1.00000  |
| Commissn EOP Non-Wage Expens<br>Less:Commissn P.F. N.W. Exp. | 242,142<br>242,142  | 54,532<br>54,532  | 191,333<br>191,333 | 20,672<br>20,672   | 67,665<br>67,665  | (2,693)<br>(2,693) | 67,299<br>67,299  | 640,950<br>640,950  |
| Commission EOP Non Wage Adj.                                 | 0                   | 0                 | 0                  | 0                  | 0                 | 0                  | 0                 | 0                   |
| <b>Total EOP</b>   |                     |                   |                    |                    |                   |                    |                   |                     |
| Total Commission EOP Adj.<br>Less:SWBT Total EOP Adj.        | (13,776)<br>(3,451) | (2,841)<br>(605)  | (5,921)<br>619     | (567)<br>109       | 0<br>1,617        | (5,967)<br>(3,943) | (2,651)<br>623    | (31,721)<br>(5,031) |
| Commission Adj. to Request                                   | (10,325)            | (2,236)           | (6,540)            | (676)              | (1,617)           | (2,024)            | (3,274)           | (26,690)            |

Public Utility Commission of Texas

Southwestern Bell Telephone Company - Docket No. 6200

Schedule V  
Final Order

6/20/86

Summary of Other Taxes (000's)

| Description                      | Intrastate Amount | Company Pro Forma Adjustments | Company End of Period Adjustments | Company Tax On Revenue Deficiency | Company As Adjusted | ALJ Adj. To Pro Forma Request | Commission Adj. To End of Pd. Request | Commission Adj. Req. for Tax on Rev. Deficiency | Commission Intrastate As Adjusted |
|----------------------------------|-------------------|-------------------------------|-----------------------------------|-----------------------------------|---------------------|-------------------------------|---------------------------------------|---|-----------------------------------|
|                                  | (a)               | (b)                           | (c)                               | (d)                               | (e)=(a)+...+(d)     | (f)                           | (g)                                   | (h)   | (i)=(e)+...+(h)                   |
| Ad Valorem Taxes                 | 69,257            |                               | 8,750                             |                                   | 78,007              | (440)                         | 0                                     |   | 77,567                            |
| Payroll Taxes                    | 61,761            | 2,394                         | (1,415)                           |                                   | 62,740              | 0                             | (1,266)                               |   | 61,474                            |
| State Franchise                  | 12,531            |                               | 1,336                             |                                   | 13,867              | (325)                         | 0                                     |   | 13,542                            |
| Other Taxes                      | 909               |                               | (909)                             |                                   | 0                   | 0                             | 0                                     |   | 0                                 |
| <b>Non-Revenue Related Taxes</b> | <b>\$144,458</b>  | <b>\$2,394</b>                | <b>\$7,762</b>                    |                                   | <b>\$154,614</b>    | <b>(\$765)</b>                | <b>(\$1,266)</b>                      |   | <b>\$152,583</b>                  |
| Texas PUC Assessment             | 4,002             |                               | 308                               | 364                               | 4,674               | 0                             | 9                                     | (358)   | 4,324                             |
| State Gross Receipts             | 59,100            |                               | 4,556                             | 5,369                             | 69,025              | (29,066)                      | (2,176)                               | (5,327)   | 32,456                            |
| Local Gross Receipts             | 44,239            |                               | 3,410                             | 4,019                             | 51,668              | 0                             | 95                                    | (3,957)   | 47,807                            |
| <b>Revenue Related Taxes</b>     | <b>\$107,341</b>  | <b>\$0</b>                    | <b>\$8,274</b>                    | <b>\$9,752</b>                    | <b>\$125,367</b>    | <b>(\$29,066)</b>             | <b>(\$2,072)</b>                      | <b>(\$9,642)</b>                                | <b>\$84,587</b>                   |
| <b>Summary of Other Taxes</b>    |                   |                               |                                   |                                   |                     |                               |                                       |   |                                   |
| Non-Revenue Related Taxes        | 144,458           | 2,394                         | 7,762                             |                                   | 154,614             | (765)                         | (1,266)                               |   | 152,583                           |
| Revenue Related Taxes            | 107,341           | 0                             | 8,274                             | 9,752                             | 125,367             | (29,066)                      | (2,072)                               | (9,642)   | 84,587                            |
| <b>Total Other Taxes</b>         | <b>251,799</b>    | <b>2,394</b>                  | <b>16,036</b>                     | <b>9,752</b>                      | <b>279,981</b>      | <b>(29,831)</b>               | <b>(3,338)</b>                        | <b>(9,642)</b>                                  | <b>237,170</b>                    |



Public Utility Commission of Texas

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Southwestern Bell Telephone Company - Docket No. 6200  
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Federal Income Taxes (000's)  
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Schedule VI  
Final Order

6/20/86

|                                     |                    |
|-------------------------------------|--------------------|
| Return                              | \$676,990          |
| Less:                               |                    |
| Interest Expense                    | 233,619            |
| Graduated Tax                       | 0                  |
| Amortization of ITC                 | 37,084             |
| Belcore Research Credit             | 2,411              |
| Credits From Prior Year's Deferrals | 893                |
| Plus:                               |                    |
| Additional Depreciation             | 19,060             |
| Other Additions                     |                    |
| Taxable Income After Income Taxes   | 422,043            |
| Tax Factor                          | 0.851852           |
| Tax @ 46%                           | 359,518            |
| Less:                               |                    |
| Belcore Research Credit             | 2,411              |
| Credits From Prior Year's Deferrals | 893                |
| Amortization of ITC                 | 37,084             |
| Total Federal Income Taxes          | \$319,130<br>===== |

Public Utility Commission of Texas  
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Southwestern Bell Telephone Company - Docket No. 6200  
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Federal Income Taxes (000's)  
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Schedule VII  
Final Order

6/20/86

|                                     |                           |
|-------------------------------------|---------------------------|
| Revenue Requirement                 | \$3,349,374               |
| Less:                               |                           |
| Operations and Maintenance          | 1,591,428                 |
| Depreciation and Amortization       | 521,963                   |
| Interest on Customer Deposits       | 2,693                     |
| Other Taxes                         | 237,170                   |
| Interest Expense                    | 233,619                   |
| Other Deductions                    |                           |
| Plus:                               |                           |
| Additional Depreciation             | 19,060                    |
| Other Additions                     | 0                         |
| Taxable Income                      | <u>\$781,561</u><br>===== |
| Tax @ 46% of Taxable Income         | 359,518                   |
| Less:                               |                           |
| Bellcore Research Credit            | 2,411                     |
| Credits From Prior Year's Deferrals | 893                       |
| Amortization of ITC                 | 37,084                    |
| Total Federal Income Taxes          | <u>\$319,130</u><br>===== |

Public Utility Commission of Texas

Southwestern Bell Telephone Company - Docket No. 6200

Intrastate Invested Capital and Return (000's)

Schedule VIII  
Final Order

6/20/86

| Description                                    | Test Year<br>Total State<br>Amount | Intrastate<br>Factor | Test Year<br>Intrastate<br>Amount | Company<br>Adjustments | Company<br>Intrastate<br>Amount | Commission<br>Adjustment | Commission<br>Intrastate<br>Amount |
|--|------------------------------------|----------------------|-----------------------------------|------------------------|---------------------------------|--------------------------|------------------------------------|
|  | (a)                                | (b)                  | (c)=(a)x(b)                       | (d)                    | (e)=(c)+(d)                     | (f)                      | (g)=(e)+(f)                        |
| Plant in Service                               | 10,746,865                         | 0.7704               | 8,279,385                         | 6,447                  | 8,285,832                       | (12,648)                 | 8,273,184                          |
| Accumulated Depreciation                       | 1,997,829                          | 0.7644               | 1,527,140                         | (4,001)                | 1,523,139                       | 1                        | 1,523,140                          |
| Net Plant                                      | 8,749,036                          |                      | 6,752,244                         | 10,448                 | 6,762,692                       | (12,649)                 | 6,750,044                          |
| Telephone Plant Under Construction             | 80,145                             | 0.8083               | 64,781                            | (2,935)                | 61,846                          | (61,846)                 | 0                                  |
| Property Held for Future Use                   | 3,497                              | 0.8838               | 3,091                             |                        | 3,091                           | (1,954)                  | 1,137                              |
| Unamortized Extraordinary Maintenance          |                                    |                      | 0                                 | 2,041                  | 2,041                           | (2,041)                  | 0                                  |
| Material and Supplies                          | 99,431                             | 0.7601               | 75,578                            |                        | 75,578                          | (2,208)                  | 73,370                             |
| Cash Working Capital                           |                                    |                      | 0                                 | 31,503                 | 31,503                          | (31,503)                 | 0                                  |
| Less:  |                                    |                      |                                   |                        | 0                               |                          | 0                                  |
| Deferred Taxes - Accel. Tax Depr. and Other    | (1,357,718)                        | 0.7726               | (1,048,973)                       |                        | (1,048,973)                     | 37                       | (1,048,936)                        |
| Deferred Taxes - Cap. Benefits, FICA and IDC   |                                    |                      | 0                                 | (97,743)               | (97,743)                        |                          | (97,743)                           |
| Unamort. Pre-Job Development Investment Credit |                                    |                      | 0                                 | (3,888)                | (3,888)                         |                          | (3,888)                            |
| Customer Advances                              |                                    |                      |                                   |                        |                                 | (141)                    | (141)                              |
| Customer Deposits                              | (44,879)                           | 0.7845               | (35,208)                          |                        | (35,208)                        | (9,671)                  | (44,879)                           |
| <b>Total Invested Capital</b>                  | <b>\$7,529,512</b>                 |                      | <b>\$5,811,513</b>                | <b>(\$60,574)</b>      | <b>\$5,750,939</b>              | <b>(\$121,976)</b>       | <b>\$5,628,963</b>                 |
| Rate of Return                                 |                                    |                      |                                   |                        |                                 |                          | 12.03%                             |
| Return   |                                    |                      |                                   |                        |                                 |                          | 676,990                            |

Schedule IX  
Final Order

6/20/86

Public Utility Commission of Texas  
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Southwestern Bell Telephone Company - Docket No. 6200  
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Capital Structure and Rate of Return (000's)  
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| Description   | Capital    | Percent   | Cost<br>of Capita | Weighted<br>Average Cost |
|---------------|------------|-----------|-------------------|--------------------------|
| Debt          | 5,301,785  | 44.5308%  | 9.3200%           | 4.1503%                  |
| Common Equity | 6,604,094  | 55.4692%  | 14.2000%          | 7.8766%                  |
| Total         | 11,905,879 | 100.0000% |                   | 12.0269%                 |

Public Utility Commission of Texas

Southwestern Bell Telephone Company - Docket No. 6200

Schedule X  
Final Order

Calculation of Commission Pro Forma Wage Expense (000's)

6/20/86

|  | Maintenance    | Traffic       | Commercial     | Revenue Accounting | Operating Rents | Relief & Pensions | Other General | Total          |
|--|----------------|---------------|----------------|--------------------|-----------------|-------------------|---------------|----------------|
| Unadjusted Test Yr Wage Expe   | 401,683        | 82,798        | 172,438        | 13,350             |                 | 174,030           | 78,451        | 922,750        |
| Plus (Minus) Wage Portion of<br>SMB Pro Forma Adjs. to TY:                 |                |               |                |                    |                 |                   |               |                |
| Bell Adj. To Proforma Payroll  | 11,886         | 2,612         | 5,648          | 1,201              |                 | 2,515             | 4,438         | 28,300         |
| Comp. Absence Accrual True-Up  |                |               |                |                    |                 |                   | 1,021         | 1,021          |
| Employe Equip. Transfer True-Up  |                |               |                |                    |                 | 824               |               | 824            |
| Advert. & Related Exp. Dissal  | 0              | 0             | (4,297)        | 0                  | 0               | 0                 | (204)         | (4,501)        |
| Legislative Advocacy   |                |               |                |                    |                 | (175)             | (555)         | (730)          |
| Extraord. Maintenance Adj.   | 660            | 0             | 0              | 0                  | 0               | 0                 | 0             | 660            |
| Loss of ATTIS SSOP Billings  | 0              | 0             | 4,887          | 2,489              | 0               | 2,466             | 897           | 10,738         |
| Loss of ATTC Dir. Inquiry Bills  |                |               | (2,193)        |                    |                 | (666)             | (167)         | (3,026)        |
| Cost Sharing/Conduit Exp. Elim.  |                |               |                |                    |                 | (142)             |               | (142)          |
| Elim. of Divest "Get Ready" Exp.   |                |               |                |                    |                 | (104)             |               | (104)          |
| Elimination of Airplane Expe   | 0              | 0             | 0              | 0                  | 0               | 0                 | (2,108)       | (2,108)        |
| <b>Subtotal</b>  | <b>414,229</b> | <b>85,410</b> | <b>176,482</b> | <b>17,040</b>      | <b>0</b>        | <b>178,748</b>    | <b>81,773</b> | <b>953,681</b> |
| Plus (Minus) Wage Portion of<br>Commission P. Forma Adjs. to SMB Requests: |                |               |                |                    |                 |                   |               |                |
| Advert. & Related Exp. Dissal  | 0              | 0             | (654)          | 0                  | 0               | 0                 | 0             | (654)          |
| Elimination of Airplane Expense  |                |               |                |                    |                 |                   | (201)         | (201)          |
|  |                |               |                |                    |                 |                   |               | 0              |
| Elim. Chauffeur, Personal Auto Use   |                |               |                |                    |                 |                   | (154)         | (154)          |
| Pub. Affrs, Comaty. Rel. Sal.  |                |               |                |                    |                 |                   | (1,433)       | (1,433)        |
| Loss of ATTC Dir. Inqry Bills  |                |               | 2,193          |                    |                 | 666               |               | 2,859          |
| Disallow SMT Wshngtn Of.   |                |               |                |                    |                 |                   | (287)         | (287)          |
|  |                |               |                |                    |                 |                   |               | 0              |
|  |                |               |                |                    |                 |                   |               | 0              |
| <b>TY Wage Expense As Adjusted</b>   | <b>414,229</b> | <b>85,410</b> | <b>178,021</b> | <b>17,040</b>      | <b>0</b>        | <b>179,414</b>    | <b>79,698</b> | <b>953,811</b> |



Public Utility Commission of Texas

Schedule XII  
Final Order

Southwestern Bell Telephone Company - Docket No. 8200

6/20/86

Apportionment of Pro Forma Adjustments to Test Year (000's)

|   | Maintenance | Traffic  | Commercial | Revenue Accounting | Operating Rents | Relief & Pensions | Other General | Total   |
|---|-------------|----------|------------|--------------------|-----------------|-------------------|---------------|---------|
| Wage Apportionment Factors                                | 0.623417    | 0.597077 | 0.491415   | 0.433755           | 0.000000        | 1.000000          | 0.436182      |         |
| Apportionments of SMB Adjustments to Test Year:           |             |          |            |                    |                 |                   |               |         |
| Advert. & Related Exp. Dissallow.                         |             |          |            |                    |                 |                   |               |         |
| Wage  | 0           | 0        | (4,297)    | 0                  | 0               | 0                 | 0             | (4,297) |
| Non-Wage  | 0           | 0        | (4,448)    | 0                  | 0               | 0                 | 0             | (4,448) |
| Total   |             |          | (8,745)    |                    |                 |                   |               | (8,745) |
| Extraord. Maintenance Adj.                                |             |          |            |                    |                 |                   |               |         |
| Wage  | 660         | 0        | 0          | 0                  | 0               | 0                 | 0             | 660     |
| Non-Wage  | 398         | 0        | 0          | 0                  | 0               | 0                 | 0             | 398     |
| Total   | 1,058       |          |            |                    |                 |                   |               | 1,058   |
| Loss of ATTIS SSOP Billings                               |             |          |            |                    |                 |                   |               |         |
| Wage  | 0           | 0        | 4,887      | 2,489              | 0               | 2,466             | 897           | 10,738  |
| Non-Wage  | 0           | 0        | 5,057      | 3,249              | 3               | 0                 | 1,159         | 9,469   |
| Total   |             |          | 9,944      | 5,738              | 3               | 2,466             | 2,056         | 20,207  |
| Elimination of Airplane Expense                           |             |          |            |                    |                 |                   |               |         |
| Wage  | 0           | 0        | 0          | 0                  | 0               | 0                 | (2,108)       | (2,108) |
| Non-Wage  | 0           | 0        | 0          | 0                  | 0               | 0                 | (2,725)       | (2,725) |
| Total   |             |          |            |                    |                 |                   | (4,833)       | (4,833) |
| Apportionments of Commission Adjustments to SMB Requests: |             |          |            |                    |                 |                   |               |         |
| Advert. & Related Exp. Dissallow.                         |             |          |            |                    |                 |                   |               |         |
| Wage  | 0           | 0        | (654)      | 0                  | 0               | 0                 | 0             | (654)   |
| Non-Wage  | 0           | 0        | (677)      | 0                  | 0               | 0                 | 0             | (677)   |
| Total   |             |          | (1,331)    |                    |                 |                   |               | (1,331) |
| Wage  | 0           | 0        | 0          | 0                  | 0               | 0                 | 0             | 0       |
| Non-Wage  | 0           | 0        | 0          | 0                  | 0               | 0                 | 0             | 0       |
| Total   |             |          |            |                    |                 |                   |               | 0       |

Public Utility Commission of Texas

Schedule XIII  
Final Order

Southwestern Bell Telephone Company - Docket No. 6200

6/20/86

Commission End of Period Revenue Adjustments (000's)

| <u>Revenue Category</u> | <u>Company EOP<br/>Adjusted Rev.</u> | <u>Commission Adj.<br/>To SMT Request</u> | <u>Commission EOP<br/>Adjusted Rev.</u> |
|-------------------------|--------------------------------------|---|---|
| Local Service           | 1,716,419                            | (906)                                     | 1,715,513                               |
| Toll Service            | 366,202                              | 7,680                                     | 373,882                                 |
| Network Access          | 725,064                              |   | 725,064                                 |
| Miscellaneous           | 530,614                              | (82)                                      | 530,532                                 |
| Total Revenue           | <u>3,338,299</u>                     | <u>6,692</u>                              | <u>3,344,991</u>                        |



PUBLIC UTILITY COMMISSION OF TEXAS  
SOUTHWESTERN BELL RATE CASE  
DOCKET NO. 6200

REVENUE SUMMARY BY CATEGORY (\$000)  
(Revised)

| REVENUE CATEGORY              | PRESENT<br>ANNUAL<br>REVENUE | COMMISSION<br>AWARDED<br>INCREASE | COMMISSION<br>AWARDED<br>REVENUE |
|-------------------------------|------------------------------|-----------------------------------|----------------------------------|
| SWITCHED ACCESS CHARGES       | \$649,758                    | (\$29,714)                        | \$620,044                        |
| AT&T WATS-CLOSED END          | 0                            | (19,400)                          | (19,400)                         |
| BILLING & COLLECTION          | 67,062                       | (38,230)                          | 28,832                           |
| SPECIAL ACCESS CHARGES        | 75,306                       | 7,228                             | 82,534                           |
| INTRALATA PRIVATE LINE **     | 182,445                      | 18,791                            | 201,236                          |
| LOCAL OPERATOR CHARGES        | 0                            | 56,453                            | 56,453                           |
| BUSINESS LATE PAYMENT PENALTY | 0                            | 8,611                             | 8,611                            |
| INTRALATA FOREIGN EXCHANGE    | 11,909                       | (2,848)                           | 9,061                            |
| WATS *                        | 42,159                       | 2,042                             | 44,201                           |
| MISCELLANEOUS SERVICES:       |                              |                                   |                                  |
| Centrex (exchange access)     | 12,407                       | 0                                 | 12,407                           |
| (intercom) *                  | 23,680                       | 1,147                             | 24,827                           |
| Telephone Answering Svcs *    | 2,062                        | 100                               | 2,162                            |
| Mobile Telephone *            | 7,468                        | 362                               | 7,830                            |
| ESSX-30 *                     | 1,238                        | 60                                | 1,298                            |
| DID Svc *                     | 14,335                       | 694                               | 15,029                           |
| AIOD Svc *                    | 1,182                        | 104                               | 1,286                            |
| Hotel/Motel Svc               | 13                           | 1,348                             | 1,361                            |
| Public Coin Rate              | 108,934                      | 0                                 | 108,934                          |
| Service Connections           | 116,007                      | 0                                 | 116,007                          |
| Premises Work Charges         | 12,440                       | 0                                 | 12,440                           |
| Touch-Tone Calling            | 70,605                       | 0                                 | 70,605                           |
| Custom Calling *              | 72,286                       | 3,501                             | 75,787                           |
| Other Services *              | 34,751                       | 1,683                             | 36,434                           |
| OBRA CONSTRUCTION CHARGES     | 87                           | 88                                | 175                              |
| LONG DISTANCE *               | 269,739                      | 12,764                            | 282,503                          |
| HMPA OFFSET ADJUSTMENT        | 0                            | 989                               | 989                              |
| DIRECTORY ASSISTANCE          | 51,893                       | 8,683                             | 60,576                           |
| LOCAL GROSS RECEIPTS          | 45,420                       | 751                               | 46,171                           |
| MULTI-FUNCTION SYSTEMS        | 0                            | 0                                 | 0                                |
| EXCHANGE REGROUPING           | 0                            | 217                               | 217                              |
| BASIC LOCAL EXCHANGE          | 1,000,167                    | 0                                 | 1,000,167                        |
| TOTAL                         | \$2,873,353                  | \$35,424                          | \$2,908,777                      |

ACROSS-THE-BOARD PERCENTAGE = 4.8%

NOTE: Services with "\*" denote across-the-board treatment.  
Services with "\*\*" denote twice across-the-board increase.

PETITION OF SOUTHWESTERN BELL  
TELEPHONE COMPANY FOR AUTHORITY  
TO CHANGE RATES

§  
§  
§

PUBLIC UTILITY COMMISSION  
OF TEXAS

ORDER RULING ON MOTIONS FOR REHEARING  
AND  
REPLIES THERETO

On June 26, 1986, the Public Utility Commission of Texas entered its Order on the merits of the application styled above. Motions for rehearing were filed by Southwestern Bell Telephone Company (SWB); General Telephone Company of the Southwest (GTSW); Brazoria Telephone Company, Lake Dallas Telephone Company, Fort Bend Telephone Company, Byers/Petrolia Telephone Company, Community Telephone Company, Muenster Telephone Corp., and Valley View Telephone Company (the companies); Texas Statewide Telephone Cooperative, Inc. (TSTCI); Lufkin-Conroe Telephone Exchange, Inc. (LTX); AT&T Communications of the Southwest, Inc. (AT&T); MCI Telecommunications Corp. (MCI); Texas Association of Long Distance Telephone Companies (TEXALTEL); Consumers Union and Texas ACORN (Consumers Union); the Office of Public Utility Counsel (OPC); the Cities; State Purchasing and General Services Commission (SP&GSC); and the general counsel of the Public Utility Commission of Texas. Some parties filed responses to the motions for rehearing. In open meeting at its offices in Austin, Texas, the Commission met on September 10 and September 23, 1986, to consider these motions for rehearing as well as the written replies thereto. After deliberation of the issues raised in the motions for rehearing, the Commission hereby GRANTS rehearing on the following points and orders the following relief:

1. The rates for billing and collection service should be reduced by approximately \$40.3 million instead of the \$38.23 million stated in Finding of Fact No. 283 in the June 26, 1986, Order, pursuant to general counsel's reply to SWB's motion for rehearing on this point. The difference between \$40.3 million and \$38.23 million should be included in that amount of revenue to be recovered through an across-the-board percentage increase for certain services. Finding of Fact 283 should be amended to read as follows:

FF 283. The rates for billing and collection services should be reduced by approximately \$40.3 million.

2. SWB's motion for rehearing with respect to Finding of Fact No. 306 has merit. That finding adopted SWB's proposed restructuring of IntraLATA Foreign Exchange, modified by the staff's recommendation that the FX usage sensitive rate be reduced to \$0.021 per minute. The revenue reduction effected by that finding was understated by \$286,000 in the Revenue Summary

by Category attached to the Order of June 26, 1986. The Revenue Summary by Category attached to this September 24, 1986, Order corrects that error. This \$286,000 should be included in that amount of revenue to be recovered through an across-the-board percentage increase for certain services.

3. Under the standards articulated in Texas Alarm and Signal Association v. Public Utility Commission, 603 S.W.2d 766 (Tex. 1980), the Commission properly exercised its discretion in the matter of rate design for SWB and the method by which SWB would be allowed to recover the revenue deficiency found herein. The Commission considered various methods of achieving the relation back to March 17, 1986, of SWB's revenue deficiency, including a system of surcharges and refunds and the administrative costs to SWB which would necessarily accompany such a system. The Commission finds that it is reasonable under the record in this case and in the public interest to allow SWB to recover the revenue deficiency found herein back to March 17, 1986, through a delay in implementation of the rate reductions for switched access and the closed end of WATS/800 Service. Finding of Fact No. 375 shall be added to the Commission's Order and shall read as follows:

FF 375. It is reasonable under the record in this case and is in the public interest to allow SWB to recover the revenue deficiency found herein back to March 17, 1986, through a 50 day delay in implementation of the rate reductions for switched access and the closed end of WATS/800 Service.

The Commission further adds Conclusion of Law No. 61, which shall read as follows:

CL 61. The Commission considered various methods of achieving the relation back to March 17, 1986, of SWB's revenue deficiency, including a system of surcharges and refunds and the accompanying administrative costs to SWB of such a system. Delaying implementation of rate reductions for switched access and the closed end of WATS/800 service for 50 days in order to achieve the relation back to March 17, 1986, of the revenue deficiency of SWB found herein on June 26, 1986, is reasonable, is in the public interest, and is within the Commission's discretion in the area of rate design under Texas Alarm and Signal Association v. Public Utility Commission, 603 S.W.2d 766 (Tex. 1980).

4. The Commission's expressed intention that SWB not be materially affected by the lengthy extension of the effective date herein resulted in delaying implementation of rate reductions for certain services. As urged by SWB, the 49-day delay allowed in the June 26, 1986, Order was predicated on an order being signed on June 25, 1986, and therefore the delay period is hereby restated as 50 days in order to make SWB whole. Any other delays in implementing rates for SWB as approved herein are not primarily the result of the delay occasioned by the Commissioners' need for additional time to read the record in this matter - that delay having been rectified by permitting the delay in implementing rate reductions for a period of 50 days to make SWB whole for the delay between March 17 and June 26, 1986 - but in large part result from the usual delays inherent in the Commission's tariff filing and approval process and the filing and consideration of motions for rehearing, which occur in every rate case. To the extent that they do not, the Commission addresses the problem herein by commencing the counting of 50 days on September 23, 1986, rather than waiting for the date upon which all of SWB's tariff revisions in this case are approved. This is a reasonable compromise.

5. The Commission considered at length the issues of the flat rate charge for the closed end of WATS/800 service (dedicated access line or DAL) and the WATS prorate credit. The Commission concludes that the flat rate pricing for the closed end of WATS/800 service should remain in place, as determined in the June 26, 1986, Order, and that it is appropriate to continue the WATS prorate credit and to defer its elimination. As pointed out by general counsel and SWB, however, adoption of the flat rate pricing plan without elimination of the WATS prorate credit results in SWB failing to recover the full revenue requirement found in the Commission's Order of June 26, 1986. The quantification of that underrecovery was incorrectly stated in the record reviewed by the Commission and underlying its June 26 Order. Therefore, the Commission reopened the evidentiary record for the limited purpose of admitting Staff Exhibit No. 57, which is the affidavit of Don Price, the staff witness who calculated the revenue effect of implementing a flat rate DAL charge, called Mr. Price to the witness stand and allowed the parties to cross-examine him regarding that calculation. Staff Exhibit No. 57 [a copy of which is attached to this order] demonstrates that the correct revenue effect of the Commission's decision to implement the flat rate charge for the closed end of WATS/800 service and to continue the WATS prorate credit is a reduction of \$26.5 million, and SWB's underrecovery is \$7.1 million. This

revenue effect is correctly stated in the Revenue Summary by Category attached to this September 24 Order; the \$7.1 million shall be included in that amount of revenue to be recovered through an across-the-board percentage increase for certain services. The Commission therefore amends Finding of Fact No. 313, which shall read as follows:

FF 313. Removal of the non-traffic sensitive costs associated with interLATA Wats and 800 service closed end loops from the Carrier Common Line and ICAC portions of SWB's access rates and imposition instead of a flat rate charge of \$38.00 per month per interLATA WATS and 800 service access line would reduce SWB's annual revenues by approximately \$26.5 million. This amount reflects the continuation of the WATS prorate credit.

The Commission further adds Finding of Fact No. 313A, which shall read as follows:

FF 313A. It is appropriate to continue the WATS prorate credit and to defer its elimination.

6. As a result of the changes made in the June 26, 1986, Order by paragraphs 1, 2, and 5 above, the revenue to be recovered through an across-the-board percentage increase has changed as has the amount of the percentage increase, as reflected on the Revenue Summary by Category attached to this September 24, 1986, Order. These changes necessitate changes in other findings of fact, which are hereby amended and shall read as follows:

FF 291. SWB's intraLATA private line rates should be increased by double the across-the-board increase determined herein in order to generate revenues in the amount of approximately \$205,399,000.

FF 317. Based upon the revenue requirement and rate design guidelines adopted herein, the appropriate residual increase to be applied to the services shown on the revenue summary table attached to this Order is 6.0 percent.

FF 318. A rate increase for the recurring rates and non-recurring charges for all Centrex Service (Intercom) items to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Centrex Service (Intercom) rates that are just and reasonable.

FF 319. It is appropriate to increase rates for Centrex Service (Intercom) items to increase revenues for that service by \$1,416,000.

FF 320. A rate increase for the recurring rates and non-recurring charges for Telephone Answering Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Telephone Answering Service rates that are just and reasonable.

FF 321. It is appropriate to increase rates for Telephone Answering Service to increase revenues for that service by \$123,000.

FF 322. A rate increase for the recurring rates and non-recurring charges for Mobile Telephone Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Mobile Telephone Service rates that are just and reasonable.

FF 323. It is appropriate to increase rates for Mobile Telephone Service to increase revenues for that service by \$446,000.

FF 324. A rate increase for the recurring rates and non-recurring charges for ESSX-30 Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in ESSX-30 Service rates that are just and reasonable.

FF 325. It is appropriate to increase rates for ESSX-30 Service to increase revenues for that service by \$74,000.

FF 326. A rate increase for the recurring rates and non-recurring charges for Direct Inward Dialing Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Direct Inward Dialing Service rates that are just and reasonable.

FF 327. It is appropriate to increase rates for Direct Inward Dialing Service to increase revenues for that service by \$857,000.

FF 328. A rate increase for the recurring rates and non-recurring charges for Custom Calling Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Custom Calling Service rates that are just and reasonable.

FF 329. It is appropriate to increase rates for Custom Calling Service to increase revenues for that service by \$4,321,000.

FF 330. A rate increase for the recurring rates and non-recurring charges for Automatic Identified Outward Dialing Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Automatic Identified Outward Dialing Service rates that are just and reasonable.

FF 333. It is appropriate to increase Automatic Identified Outward Dialing Service rates in SWB's service area to increase revenues for that service by \$119,000, and to establish uniform statewide levels for those rates.

FF 334. A rate increase for the recurring rates and non-recurring charges for "Other Services" to increase revenues for those services by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in "Other Services" rates that are just and reasonable.

FF 336. It is appropriate to increase rates for "Other Services" to increase revenues for such services by \$2,077,000.

FF 363. Based upon the findings of fact in Section IX of this Order, MTS rates, as a whole, should then be increased in an amount necessary to increase MTS revenues by the residual 6.0 percent.

FF 364. Based upon the two preceding findings of fact, rates for MTS should increase sufficiently to generate additional revenues of \$15,754,000.

7. In accordance with the general counsel's motion for rehearing and SWB's reply thereto, Finding of Fact No. 99 should be amended to state the correct adjustment to wage expense, which is \$10,685,000. Making this correction does not cause other numbers to be changed. Finding of Fact No. 99 shall read as follows:

FF 99. SWB's salary and wage adjustments should be based on a seasonalized but not trended end-of-period wage factor utilizing employee levels through April 1985, resulting in a reduction of \$10,685,000 to the company's request.

8. Finding of Fact No. 90A is added, which shall read as follows:

FF 90A. Although use of the DCF formula results in a return on common equity for SWB of 14.1 percent, the increasing risk in the telecommunications industry as a whole makes it reasonable to allow SWB a return on equity of 14.2 percent.

9. In accordance with the exception of SP&GSC, Finding of Fact No. 192 is hereby amended to read as follows:

FF 192. Based on the record in this case, the transfer of the assets listed in Finding of Fact No. 190 was appropriate and the transfer of employees was reasonable and in accordance with their job assignments. This finding will not be considered res judicata and shall not estop the production of any additional evidence that may be shown in a subsequent proceeding that has been docketed for the purpose of examining transfers by SWB to its affiliates.

10. Pursuant to MCI's motion for rehearing, the general counsel of the Commission is hereby DIRECTED to file a petition of inquiry into allegations that the Shared Network Facilities Agreements (SNFAs) between Southwestern Bell (SWB) and AT&T Communications (AT&T-C) result in (a) the payment of rates and revenues by AT&T to SWB that are less than what SWB's other customers would pay under applicable tariffs for substantially the same services or service elements; (b) unreasonable discrimination against other customers or unreasonable competitive advantage in favor of AT&T-C; and/or (c) the improper payment by the general body of SWB's ratepayers of a return on SWB rate base which includes

significant amounts for common equipment dedicated solely to the provision of service to AT&T-C. The issues raised by this petition of inquiry shall become additional issues to be addressed in Docket No. 5969, currently pending before the Commission, and parties to Docket No. 6200 shall be allowed a reasonable opportunity to intervene in Docket No. 5969 for purposes of addressing these additional issues.

The Commission further issues the following Order:

11. The motions of OPC, SP&GSC and AT&T for official notice are DENIED.
12. The Petition for Leave to Intervene and Motion for Reconsideration or, Alternatively, for Severance filed by the Houston Cellular Telephone Company, Dallas MetroCel Cellular, and Cellular One of Austin is DENIED as untimely.
13. The request of Greater Harris County 9-1-1 Emergency Network to address the Commission in open meeting on September 10, 1986, is DENIED.
14. The tariff process established in paragraph 2 of the Commission's June 26 Order shall continue as described there, with the following amendments: tariff sheets filed by Southwestern Bell in compliance with this and any subsequent Commission orders shall be reviewed by the parties and the staff, and shall be addressed in written comments and/or objections filed no later than noon on the eighth day after such filing. In the absence of a Commission ruling on them or further Commission order superseding these provisions, such tariff sheets shall be deemed approved upon the expiration of ten days (calculated in accord with P.U.C. PROC. R. 21.4) after their filing. The sheets may be approved, rejected, or modified sooner upon notification by the Commissioners. In the event of rejection, Southwestern Bell will be notified, a copy of the notification will be sent to all parties, and the company shall have fifteen additional days to file revised tariff sheets, with the tariff approval procedure--as previously established and amended in this Order--then to be repeated.
15. In all other respects, the requests for relief contained in the motions for rehearing and replies thereto are hereby DENIED for lack of merit.



The Commission adopts and incorporates the Revenue Summary by Category attached to this Order. Furthermore, this Order hereby incorporates by reference all aspects of the Order of June 26, 1986, including all findings of fact and conclusions of law made by the Commission in that Order, except as expressly amended, deleted or supplemented by this Order. For the purpose of clarity, the findings and conclusions made by the Commission as the basis for its final decision herein are restated (as amended above) below:

#### Restated Findings of Fact and Conclusions of Law

##### I. Procedural History

FF 1. On March 22, 1985, Southwestern Bell Telephone Company (SWB) filed a statement of intent and petition for authority to increase its rates for local and intralATA long distance service and other services and decrease certain access service rates. The proposed increase would generate additional intrastate revenues of approximately \$323.9 million. All customers and classes of customers would be affected by the proposed changes.

FF 2. SWB also included in the rate petition a request for expeditious handling of SWB's proposal to: (a) reduce certain switched access rates; (b) establish a charge for operator assistance; and (c) establish a late payment penalty for business customers. This request was denied on the last day of the hearing.

FF 3. SWB's proposed rate increase was suspended for 150 days beyond the otherwise effective date of April 29, 1985, pursuant to Section 43(a) of the Public Utility Regulatory Act (PURA), Tex. Rev. Civ. Stat. Ann. art. 1446c (Vernon Supp. 1985). Subsequently, SWB voluntarily extended its effective date for nine days until May 8, 1985. The hearing on the merits lasted 89 days. The 150 day rate suspension was extended 148 days--two days for each additional day of hearing over 15--in accordance with Section 43(d) of the PURA.

FF 4. SWB subsequently extended its effective date by a number of days sufficient to allow for a Commission decision on the issues by June 23, 1986, and acquiesced in such further extension of its effective date as necessary to allow a reasonable time for the Commission to reduce its decisions to a final written order, conditioned upon the Commission's making the rates ultimately set in this proceeding effective March 17, 1986.

FF 5. On May 28, 1985, SWB filed publisher's affidavits confirming newspaper publication of notice and copies of the notice of proposed rate change mailed to its customers.

CL 1. SWB properly gave notice of this rate filing in accordance with Section 43(a) of PURA.

## II. Jurisdiction and Description of Applicant

FF 6. SWB is an investor-owned telephone company providing service within the State of Texas pursuant to Certificate of Convenience and Necessity No. 40079.

FF 7. SWB is a wholly-owned subsidiary of Southwestern Bell Corporation.

FF 8. In addition to providing service in Texas, SWB provides telephone service within the states of Arkansas, Kansas, Missouri and Oklahoma.

CL 2. SWB is a public utility as defined by Section 3(c)(2)(A) of PURA.

CL 3. The Commission has jurisdiction over this case pursuant to Sections 16(a), 18(b), 37 and 43(a) of PURA.

## III. Quality of Service

FF 9. Based upon the testimony in Staff Exhibit 31, SWB's quality of service is adequate.

FF 10. SWB should develop procedures for keeping its customers adequately informed in situations where the company is unable to complete service requests on scheduled due dates.

FF 11. SWB's standard disconnect notice and service suspension notice should be revised so that the words "Cutoff Notice" and "Service Suspension Notice" are displayed more prominently on those notices.

FF 12. The following staff recommendations should be incorporated within each of the proposed SWB tariff sheets designated below for purposes of clarity and to insure that the proposed tariff sheets conform to the Commission's Substantive Rules:

- (a) Dataphone Digital Service Tariff, Section 1, Sheet 16, Part 6.2.1. The phrase "5 days written notice" should read "10 days written notice" as provided in P.U.C. SUBST. R. 23.46(a) and (b).
- (b) General Exchange Tariff, Section 21, Sheet 9, Part 7.1.2(A). This part deals with the discontinuance

of service but does not indicate written notice will be provided the customer as required in P.U.C. SUBST. R. 23.46(a). The last paragraph should be amended to include notice provisions.

- (c) General Exchange Tariff, Section 23, Sheet 5, Part 6.1. The second paragraph of this part should be changed to read: "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (d) General Exchange Tariff, Section 31, Sheet 1, Part 1.1. The phrase "seven days written notice" should read "ten days written notice" as provided in P.U.C. SUBST. R. 23.46(a).
- (e) Private Line Service Tariff, Section 1, Sheet 9, Part 4.2. The phrase "five days written notice" should be changed to "ten days written notice" as provided in P.U.C. SUBST. R. 23.46(a).
- (f) Wide Area Telecommunications Service Tariff, Section 1, Sheet 6, Part 14. The sentence "All charges are due when the bill is rendered" should be changed to read "The due date of the bill shall not be less than 16 days after issuance" in accordance with P.U.C. PROC. R. 23.45(a).

FF 13. The following staff recommendations should be incorporated within each of the current SWB tariff sheets designated below, for purposes of clarity and to insure that the tariff sheets conform to the Commission Substantive Rules:

- (a) General Exchange Tariff, Section 23, Sheet 3, Part 4.2. Paragraph 1 of this part needs to be modified to indicate that the deposit may be based on carriage charges of interexchange carriers only in those instances where the Telephone Company's tariff provides for billing for an interexchange carrier in conformance with P.U.C. SUBST. R. 23.43(c)(1).  
  
Paragraph 5 of this part needs to be clarified to differentiate between initial and additional deposits for both customers and applicants. The time frame allowed to pay additional deposits varies depending on when the deposit is requested in the history of the account, as required by P.U.C. SUBST. R. 23.43(c)(1)(A)-(B).
- (b) General Exchange Tariff, Section 31, Sheet 1, Part 1.1. This part needs to be changed to indicate proper disconnect notice time frames. The phrase "seven days written notice" is incorrect. The time frame for delinquent bills is 10 days and the time frame for deposits is 10 days or 15 days depending on the circumstance as stated in P.U.C. SUBST. R. 23.43(c)(1)(A)-(B) and 23.46(a).
- (c) Private Line Service Tariff, Section 1, Sheet 8, Part 4.1.3. Paragraph 1 of this part needs to be changed to differentiate between initial and additional deposits for both customers and applicants in conformance with P.U.C. SUBST. R. 23.43(a)(3)(A), (a)(4)(A), and (c)(1)(A)-(B).

Also, this part should be modified to indicate that a letter of guaranty may be submitted in lieu of a cash deposit as required in P.U.C. SUBST. R. 23.43(a)(3)(C).

- (d) Private Line Service Tariff, Section 1, Sheet 8, Part 4.1.4. The phrase "five days written notice" is incorrect. The time frame for deposits is 10 days or 15 days depending on the circumstances as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).
- (e) Private Line Service Tariff, Section 1, Sheet 9, Part 4.2. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (f) Long Distance Message Telecommunications Service Tariff, Section 1, Sheet 3, Part 11. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (g) Long Distance Message Telecommunications Service Tariff, Section 1, Sheet 4, Part 13. Paragraph 1 of this part needs to be changed to differentiate between initial and additional deposits for both customers and applicants in conformance with P.U.C. SUBST. R. 23.43(a)(3)(A), (a)(4)(A), and (c)(1)(A) and (B).
- Paragraph 2 of this part needs to be changed to indicate proper disconnect time frame. The time frame for deposits is 10 days or 15 days depending on the circumstances as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).
- This part should be modified to indicate that a letter of guaranty may be submitted in lieu of cash deposit as required in P.U.C. SUBST. R. 23.43(a)(C).
- (h) Wide Area Telecommunications Service Tariff, Section 1, Sheet 4, Part 9.4. This part needs to be changed to indicate proper disconnect time frame. The time frame for deposits is 10 days or 15 days depending on the circumstance as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).
- (i) Wide Area Telecommunications Service Tariff, Section 1, Sheet 6, Part 14. The phrase "All charges are due when the bill is rendered" should be changed to "The due date of the bill shall not be less than 16 days after issuance" in accordance with P.U.C. SUBST. R. 23.46(a).
- (j) Wide Area Telecommunications Service Tariff, Section 1, Sheet 7, Part 17.2. The phrase "at least five days have elapsed following written notification" should be changed to "at least 10 days have elapsed following written notification" in accordance with P.U.C. SUBST. R. 23.46(a).
- (k) Mobile Telephone Service Tariff, Section 1, Sheet 4, Part 2.10. Paragraph 1 of this part needs to be changed to differentiate between initial and additional deposits for both customers and applicants in accordance with P.U.C. SUBST. R. 23.43(a)(3)(A), (a)(4)(A), and (c)(1).

Paragraph 4 of this part needs to be changed to indicate proper disconnect time frame which should be 10 days or 15 days depending on the circumstance as stated in P.U.C. SUBST. R. 23.43(c)(1)(A) and (B).

- (l) Mobile Telephone Service Tariff, Section 1, Sheet 7, Part 2.21. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customers" in conformance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (m) Bellboy Personal Signaling Service Tariff, Section 1, Sheet 4, Part 2.9.1. The phrase "the Telephone Company may by written notice to the customer" should be changed to "the Telephone Company may by 10 day written notice to the customer" in conformance with P.U.C. SUBST. R. 23.46(a).
- (n) Bellboy Personal Signaling Service Tariff, Section 1, Sheet 3, Part 2.6. This part needs to be clarified to differentiate between initial and additional deposits for both customers and applicants and to more closely follow P.U.C. SUBST. R. 23.43(a)(4) and (c)(1)(A) and (B).
- (o) Bellboy Personal Signaling Service Tariff, Section 1, Sheet 2, Part 2.5.2. This part should be changed to read "The due date of the bill shall not be less than 16 days after issuance. If the bill is not paid by the due date, the Telephone Company may discontinue service after 10 days written notice to the customer" in accordance with P.U.C. SUBST. R. 23.45(a) and 23.46(a).
- (p) Dataphone Digital Service Tariff, Section 1, Sheet 5, Part 6.1.2. The first sentence in this part is too vague in that it does not indicate the circumstances under which a deposit may be requested or that a letter of guaranty may be submitted in lieu of cash deposit. Language should be changed to ensure compliance with P.U.C. SUBST. R. 23.43(a).
- (q) Dataphone Digital Service Tariff, Section 1, Sheet 15, Part 6.2.1. The phrase "by 5 days written notice" should be changed to "by 10 days written notice" in accordance with P.U.C. SUBST. R. 23.46(a).

#### IV. Invested Capital

##### A. Plant in Service

FF 14. At test year end, SWB had a total investment in plant in service within the state of \$10,746,865,000.

FF 15. Applying the appropriate intrastate percentage factor of 77.04 percent from the Separations Manual Standard Procedures for Separating Telephone Property Costs, Revenues, Expenses, Taxes and Reserves as revised in the February 15, 1984 Federal Communications Commission (FCC) Decision and Order in Docket No. 80-286 (Separations Manual) results in a total of \$8,279,385,000 for unadjusted intrastate plant in service.

FF 16. The total for unadjusted intrastate plant in service should be increased by \$1,324,000 to reflect the off-book capitalization of interest during construction (IDC) on short-term plant under construction, as ordered by this Commission in Docket No. 5220, Petition of Southwestern Bell Telephone Company, 10 P.U.C. BULL. 255 (May 14, 1984). SWB Exhibit 19 at 14.

FF 17. It is appropriate to grant SWB's request to reduce the total for intrastate plant in service by \$535,000 to remove the capital investment associated with art work in One Bell Plaza. Id.

FF 18. The total for intrastate plant in service should be increased by \$5,658,000 to correct an understatement of account 100.1 at the end of the test year relating to the placement in service of new switching equipment in the Fireside central office in Austin, Texas in December 1984. Id.

FF 19. A pro forma adjustment reflecting the FCC's interim order regarding the separations impact of the lost toll inquiry function is appropriate. For this reason the intervenor Cities' proposal to increase the total for intrastate plant in service by \$6,465,098 to reflect the annualized effect of the impact of that change on separations as of December 1, 1985, is unreasonable.

FF 20. The Cities' proposal to increase the total for intrastate plant in service by \$508,505, reflecting the Cities' proposal to amortize over a period of years Business Information System (BIS) projects, is not reasonable; BIS projects expense should be amortized over a one-year period, meaning that it should be expensed.

FF 21. The Cities' proposal to include \$14,219,833 in the total for intrastate plant in service to reflect the Cities' proposal to defer certain computer systems software charged to expense during the test year is not reasonable; the software should be amortized over a one-year period, meaning that it should be expensed.

FF 22. The total for intrastate plant in service should be reduced by \$11,285,000, reflecting removal of certain expenses associated with Equal Access/Network Reconfiguration (EANR), as recommended in Cities' Exhibit No. 2A, Schedule 8.

FF 23. The total for intrastate plant in service should be decreased by \$626,000 to reflect June 1984 Separations Manual changes. SWB Exhibit 68 at 11. The Cities' approach resulting in a proposal to increase intrastate plant in service by \$13,999,000 is inappropriate.

FF 24. The total for intrastate plant in service should be decreased by \$736,000, to reflect capital portions of the Bellcore adjustments

erroneously identified by SWB as an expense, and to reflect capital portions of Bellcore expenditures treated in Finding of Fact No. 148 of this Order. See, Staff Exhibit No. 32A at 1; FFs and CLs regarding Bellcore in Section VI.B. of this Order.

FF 25. SWB has a total investment in intrastate plant in service used and useful in rendering service to the public of \$8,273,184,000.

CL 4. To the extent that SWB's plant in service total found above includes amounts paid to affiliates, such expenditures are allowable in rate base under PURA Section 41(c)(1) and P.U.C. SUBST. R. 23.21(c)(2)(A)(iii) because they satisfy the criteria imposed by statute and rule as reflected in the findings and conclusions relating to affiliate expenses set out in Section VI.B. of this Order.

B. Accumulated Depreciation

FF 26. At test year end, SWB had on its books a total depreciation reserve within the state of \$1,997,829,000.

FF 27. Applying the appropriate intrastate percentage factor of 76.44 percent from the Separations Manual results in an unadjusted intrastate depreciation reserve amount of \$1,527,140,000.

FF 28. SWB's intrastate depreciation reserve should be reduced by \$4,001,000 to reflect amounts associated with property not properly included in rate base. SWB Exhibit 19, SWB Exhibit 1 at 2.

FF 29. A year-ending adjustment to accumulated depreciation reflecting one-half of the adjustment to booked test year depreciation expense is not appropriate in the absence of pro forma adjustments to other elements of invested capital. For such an adjustment to be appropriate, it would be necessary to adjust other elements of invested capital to reflect expected investments during the period in which the rates are in effect. Otherwise an improper temporal mismatch would result. The Cities' proposal to increase accumulated depreciation by \$15,674,000 is therefore inappropriate.

FF 30. The Cities' proposal to increase accumulated depreciation by \$1,262,000 due to the separations impact of the lost toll inquiry is not appropriate. That adjustment is a component of the Cities' proposal to increase plant in service by \$6,465,098, which proposal has been rejected by the Commission. See Section IV.A. of this Order.

FF 31. It is appropriate to increase accumulated depreciation by \$1,000 to reflect the Cities' downward EANR adjustment adopted by the Commission in Section IV.A. of this Order.

FF 32. The Cities' proposal to reduce accumulated depreciation by \$13,297,000 for the June 1984 changes in the Separations Manual is not appropriate, because that adjustment is part of the Cities' approach found inappropriate in Section IV.A. of this Order.

FF 33. SWB has adjusted accumulated depreciation of \$1,523,140,000. Subtracting that amount from the total for intrastate plant in service produces a net figure of \$6,750,044,000 representing SWB's net investment in plant used and useful in providing intrastate telecommunications service in Texas.

C. Telephone Plant Under Construction

FF 34. At test year end, SWB had on its books a total of \$80,145,000 for telephone plant under construction (TPUC) within the state.

FF 35. Applying the appropriate intrastate percentage factor of 80.83 percent from the Separations Manual results in a total unadjusted intrastate TPUC amount of \$64,781,000.

FF 36. SWB reclassified \$2,935,000 of short-term TPUC to long-term TPUC and deleted that amount from its requested rate base, resulting in a total adjusted intrastate TPUC amount of \$61,846,000 sought to be included in rate base and allowed a return.

FF 37. SWB's construction projects in short-term TPUC were efficiently and prudently planned and managed.

FF 38. SWB's short-term construction program represents only 0.9 percent of its net plant and 1.07 percent of its total rate base; any risk associated with that program is not a significant threat to SWB's financial integrity. Staff Exhibit 35 at 33.

FF 39. SWB does not require a cash return on TPUC in order to maintain its financial integrity because it expects to finance virtually all of its construction requirements with internally generated funds. OPC Exhibit No. 215 at 4.

FF 40. Because TPUC will generate additional revenues or reduce expenses when added to plant in service, it is not likely that SWB will experience earnings erosion because of exclusion of TPUC from rate base.

CL 5. The existence of TPUC on a company's books is not by itself sufficient to demonstrate "exceptional circumstances" within the meaning of PURA Section 41(a).



CL 6. The use of the term "financial integrity" in Section 41(a) of PURA does not require inclusion of levels of TPUC sufficient to maintain a company's existing bond rating. The relevant facets of the financial integrity standard are subject to factual inquiry on a case-by-case basis.

CL 7. SWB had the burden of proof to show that inclusion of TPUC in rate base is necessary to maintain its financial integrity under Section 41(a) of PURA. SWB failed to meet its burden under Section 41(a).

FF 41. It is reasonable to allow SWB to accrue IDC on its short-term TPUC on an "off book" basis to allow the utility to recover carrying charges associated with such investment as is not allowed in rate base for ratemaking purposes.

D. Property Held for Future Use

FF 42. At test year end, SWB had on its books a total of \$3,497,000 in property held for future use (PHFU) within the state.

FF 43. Applying the appropriate intrastate percentage factor of 88.38 percent from the Separations Manual results in an unadjusted intrastate total of \$3,091,000.

FF 44. SWB's requested PHFU should be decreased by \$1,954,000 because four of the seven projects included in that request will be transferred to Account 103--Miscellaneous Physical Property, a fifth project is scheduled to be abandoned, and a sixth has been transferred to Account 100.2--Telephone Plant Under Construction. Cities Exhibit 4A, Revised Schedule 2 at 2-3.

FF 45. SWB witness Swenson acknowledged that the Cities' adjustment to PHFU is appropriate. Transcript at 5960-5962.

FF 46. It is appropriate to include in rate base \$1,137,000 for PHFU.

E. Materials and Supplies

FF 47. At test year end, SWB had on its books a total of \$99,431,000 in materials and supplies within the state.

FF 48. Applying the appropriate intrastate percentage factor of 76.01 percent from the Separations Manual yields an unadjusted intrastate total of \$75,578,000.

FF 49. The Office of Public Utility Counsel (OPC) recommended that the total for materials and supplies be reduced by \$2,208,000 because a physical inventory taken in 1984 revealed that on an intrastate basis

actual materials and supplies were \$2.208 million less than the value shown on SWB's books.

FF 50. OPC presented testimony assuming that SWB had charged the cost of the non-existent materials and supplies to operating expenses and recommending that \$2.208 million be removed from SWB's proposed rate base. SWB submitted no rebuttal and asked the OPC witness no questions about this matter. SWB in effect acquiesced in the OPC adjustment.

FF 51. It is appropriate to reduce the materials and supplies amount by \$2,208,000, resulting in a total of \$73,370,000 for materials and supplies to be included in rate base.

F. Unamortized Extraordinary Maintenance

FF 52. SWB proposed an adjustment to its booked invested capital to include \$2,041,000 of unamortized extraordinary maintenance expense. That amount represents the December 31, 1984, unamortized balances associated with unusual storm damage expense initially deferred in Docket No. 3920, Application of Southwestern Bell Telephone Company, 7 P.U.C. BULL. 719 (December 11, 1981).

FF 53. Through the Commission-authorized rate of return, the owners of SWB are compensated for risks taken in serving utility customers.

FF 54. To allow investors to recoup past losses has the potential of compensating investors twice for the same risks. That the Commission has granted an operating expense allowance to SWB based on extraordinary maintenance expenses incurred in the past represents a significant benefit to the investors who would potentially bear such losses. The amortization of such expenses, without allowing a return on the unamortized portion of those expenses, accomplishes a fair and equitable sharing of such costs between investors and ratepayers.

CL 8. The exclusion of unamortized portions of SWB's extraordinary maintenance expense from rate base in this docket is consistent with Commission precedent permitting utilities to recover extraordinary costs over a reasonable period of time, but not to earn a return on the amounts as yet unrecovered through rates. Docket No. 5220.

G. Cash Working Capital

FF 55. Cash working capital represents the amount of money a business needs to carry on its activities from day to day. Where the utility demonstrates the need for cost-bearing, investor-supplied capital for day-to-day functioning, a reasonable allowance should be permitted in rate base.

FF 56. SWB proposed a cash working capital of \$31,503,000. This amount was calculated by computing the Texas intrastate portion of SWB's average daily bank statement balances and advances to employees as of test year end.

FF 57. In a regulatory context, the most accurate means of measuring working capital is a lead-lag study. A lead-lag study measures "lag" time in days between the recognition of revenues and their collection, and "lead" time in days between the recognition of expenses and their payment.

FF 58. If SWB's method of computing cash working capital in this docket were valid, it would result in a positive cash working capital allowance in each of the five states in which it serves. Nevertheless, the Arkansas and Oklahoma regulatory commissions determined that SWB deserves no cash working capital allowance, the Kansas commission established a negative cash working capital allowance, and the Missouri commission developed a positive allowance only after adding prepayments to a negative lag study. Cities Exhibit 33.

FF 59. SWB's cash working capital request should not be granted because the company failed to demonstrate that the cash working capital allowance it claims is supported by cost-bearing, investor-supplied capital.

FF 60. Although certain of the parties attempted through the discovery process to learn information from SWB which would allow performance of a lead-lag study, the detailed information necessary was not provided by SWB.

FF 61. There are several theoretical problems with using a balance sheet approach to the working cash issue. Daily balance sheets are needed for precise measurement of the continuing cash requirements of a company. Normally, however, daily balance sheets are not prepared. In addition, some of the items on a balance sheet relate to items not included in cost of service for ratemaking purposes. Lastly, because balance sheet data are based on an accrual accounting methodology, they may not express cash flow patterns accurately. SWB Exhibit 62 at 4-5.

FF 62. A revenue lag analysis standing alone is not particularly helpful for measuring any cash working capital requirements. OPC Exhibit 228, and Transcript pages 9005, 9062.

CL 9. P.U.C. SUBST. R. 23.21(c)(2)(B), which provides for the calculation of a working capital allowance, mentions a reasonable amount up to 1/12 of total annual operations and maintenance expense, but does not mandate the use of that formula. The rule specifically permits lead-lag studies where appropriate for determining needed working capital.

CL 10. SWB has the burden of demonstrating that its requested cash working capital allowance is supported by cost-bearing, investor-supplied capital. SWB failed to meet that burden.

FF 63. In spite of the shortcomings of the balance sheet approach, the balance sheet analysis done by the Cities is sufficiently reliable to corroborate the lack of a need for a positive working cash allowance for SWB in this case. It is not adequate, however, to justify the large negative working cash allowance proposed by the Cities.

H. Accumulated Deferred Income Taxes

FF 64. At test year end, SWB had on its books a total of \$1,357,718,000 for accumulated deferred income tax (accelerated tax depreciation and other) within the state.

FF 65. Applying the appropriate intrastate percentage factor of 77.26 percent from the Separations Manual results in an unadjusted intrastate total of \$1,048,973,000.

FF 66. The Cities' recommendation to add \$1,095,000 to recognize the separations impact of the lost toll inquiry function is not appropriate because the Commission has not adopted the other adjustments which were part of the Cities' approach to this issue.

FF 67. The sum of \$37,000 should be removed from the intrastate total of "accumulated deferred taxes--accelerated tax depreciation and other" to reflect the Cities' EANR adjustment previously adopted by the Commission in Section IV.A. of this Order.

FF 68. The Cities' recommendation to decrease rate base by \$10,737,000 associated with proposed separations changes should not be adopted because the Commission has not accepted other adjustments which are part of the Cities' approach to the issue.

FF 69. SWB figured a total of \$97,743,000 for "accumulated deferred taxes--capitalized social security taxes, relief and pensions, debt portion of IDC, and sales and use taxes."

CL 11. P.U.C. SUBST. R. 23.21(b)(1)(D) requires normalization, rather than flow through, of tax timing differences.

FF 70. Normalization, rather than flow through, is the appropriate accounting treatment to be accorded to the tax timing differences in this docket. SWB Exhibit 62 at 12-14.

CL 12. The sum of \$1,048,936,000 in "deferred taxes--accelerated tax depreciation and other," and \$97,743,000 in "deferred taxes--capitalized social security taxes, relief and pensions, debt portion of IDC, and sales and use tax," should be subtracted in computing SWB's invested capital. P.U.C. SUBST. R. 23.21(c)(2)(C)(i).

I. Unamortized Pre-job Development Investment Tax Credit

FF 71. SWB proposed that \$3,888,000 be deducted from rate base to account for unamortized pre-job development investment tax credit, an adjustment which was not contested by other parties.

CL 13. SWB's proposal for unamortized pre-job development investment tax credits is in compliance with P.U.C. SUBST. R. 23.21(c)(2)(C)(ii).

FF 72. SWB's rate base should be decreased by \$3,888,000 for unamortized pre-job development investment tax credit.

J. Customer Deposits and Advances

FF 73. At test year end, SWB had a total of \$44,879,000 in customer deposits within the state.

FF 74. Although SWB applied an intrastate separation factor from the Separations Manual to the total state customer deposits, the Separations Manual contains no specific procedures regarding the jurisdictional allocation of customer deposits.

FF 75. The States of Missouri and Oklahoma, which regulate SWB, allocate 100 percent of customer deposits to intrastate rate base.

FF 76. It is appropriate to allocate 100 percent of SWB's Texas customer deposits to Texas intrastate rate base.

CL 14. The amount of customer deposits should be subtracted from rate base because they represent cost-free capital to SWB. P.U.C. SUBST. R. 21(c)(2)(C)(v).

FF 77. Customer advances represent customer-contributed cost-free capital upon which SWB is not required to pay interest, although interest is required on customer deposits.

FF 78. SWB had customer advances of \$141,000, which should be included in the calculation of rate base.

CL 15. Pursuant to P.U.C. SUBST. R. 23.21(c)(2)(C)(v), customer deposits and other sources of cost-free capital should be deducted in the rate base calculation.

K. Contributed Capital

FF 79. OPC's witness Selwyn proposed to reduce rate base by \$27,700,000 to account for uncompensated value of assets transferred to the non-regulated subsidiaries. That adjustment is not appropriate because it is uncertain whether such assets as the cellular license purchased by Southwestern Bell Mobile Systems, Inc. represent customer-contributed capital. In addition, it is uncertain how to establish an appropriate value for such license, and it is doubtful that the license which was transferred to Southwestern Bell Mobile Systems, Inc. was a telephone company asset in the first place.

L. Interest During Construction

FF 80. In December 1984, SWB began computing IDC using SWB's average authorized rate of return on equity, and such computations were made retroactive to January 1984. Before that time, SWB had used its achieved rate of return in that calculation.

CL 16. The Commission's rules do not require SWB to receive Commission approval before implementing the change referred to in the finding of fact immediately above.

FF 81. SWB's change in IDC calculation methodology has no impact on the rate base in this docket.

CL 17. The proper method for a utility to use in calculating its IDC, and the procedure necessary to change that methodology if the company desires, is a decision more appropriately taken up in a rulemaking proceeding than in this contested case.

M. Total Invested Capital

FF 82. SWB has total intrastate invested capital of \$5,628,963,000 comprised of the elements and amounts shown on the schedule titled "Intrastate Invested Capital and Return (000's)" attached to this Order.

FF 83. The \$5,628,963,000 total for invested capital represents the invested capital that is used by and useful to SWB in rendering intrastate telecommunications service to the public in Texas and is based upon the original cost of the property at the time it was dedicated to public use.

CL 18. The total for invested capital set out above is the proper base upon which to allow a return under PURA Section 39(a), and it was calculated in accordance with PURA Sections 41(a) and 41(c)(1).

## V. Return on Invested Capital

### A. Cost of Equity

FF 84. A discounted cash flow (DCF) analysis is the most appropriate and reliable of the methodologies presented by the parties for determination of a fair and reasonable rate of return on SWB's equity capital.

FF 85. For purposes of computing the dividend yield component of the DCF formula, it is reasonable to use a SWB stock price of \$76.00 and a projected annual dividend of \$6.00 as suggested by Cities Witness Copeland, and as reported in the April 26, 1985, edition of Value Line.

FF 86. The stock price and annual dividend data set forth in Finding of Fact No. 85 result in a dividend yield of 7.9 percent.

FF 87. It is inappropriate to apply a flotation cost adjustment to the dividend yield component of the DCF formula, as proposed by SWB Witness Kaufman, because the record reflects that SWB does not contemplate the issuance of public stock during the period rates set in this case will be in effect.

FF 88. For purposes of determining a reasonable return on common equity for SWB, it is more appropriate to focus upon constant growth than upon near term growth to derive the growth component of the DCF calculation.

FF 89. The use of an approximate range of 5.7 percent to 6.2 percent for the growth component of the DCF formula is reasonable and appropriate based upon the evidence of record.

FF 90. Calculation of the DCF formula, utilizing a dividend yield of 7.9 percent and a growth range of 5.7 percent to 6.2 percent, results in a return on common equity for SWB ranging from 13.6 percent to 14.1 percent.

FF 90A. Although use of the DCF formula results in a return on common equity for SWB of 14.1 percent, the increasing risk in the telecommunications industry as a whole makes it reasonable to allow SWB a return on equity of 14.2 percent.

FF 91. In light of Mr. Hunt's testimony (Staff Exhibit No. 35) supporting an expected growth rate of 6.6 percent for the non-Bell telephone companies comprising Mr. Hunt's "Telephone Composite," it is reasonable to set a rate of return on equity which approximates the top end of the range established in Finding of Fact No. 90, thereby recognizing the inherent risk currently existing within the telephone industry as a whole.

FF 92. A return on equity of 14.2 percent for SWB is reasonable and appropriate based upon the evidence of record and the reasoning set forth in Findings of Fact Nos. 84 through 91.

CL 19. 14.2 percent represents a rate of return on equity which approximates the top end of the range established in Finding of Fact No. 90, and when used with an appropriate capital structure and an appropriate cost of debt, results in a reasonable return on SWB's invested capital, satisfying the requirements of PURA Section 39.

B. Cost of Debt

FF 93. The uncontested cost of SWB's debt is 9.32 percent.

C. Capital Structure

FF 94. SWB's actual capital structure is comprised of 55.4692 percent equity and 44.5308 percent debt.

FF 95. For purposes of determining an overall return on the value of SWB's invested capital, it is appropriate to utilize SWB's actual capital structure rather than to impute a hypothetical capital structure, for the reasons set forth in the prefiled testimony of staff witness Hunt.

D. Overall Weighted Cost of Capital

FF 96. Use of the costs of debt and equity found in Findings of Fact Nos. 92 and 93 and the appropriate capital structure as found in Finding of Fact No. 94, results in an overall return on SWB's invested capital of 12.0269 percent as illustrated below:

|                | <u>Amount</u>           | <u>Percent of Total</u> | <u>Cost</u> | <u>Weighted Cost</u> |
|----------------|-------------------------|-------------------------|-------------|----------------------|
| Long-Term Debt | \$ 5,301,785,000        | 44.5308%                | 9.32%       | 4.1503%              |
| Common Equity  | 6,604,094,000           | 55.4692%                | 14.20%      | 7.8766%              |
| Total          | <u>\$11,905,879,000</u> | <u>100.0000%</u>        |             | <u>12.0269%</u>      |

CL 20. An overall return on SWB's invested capital of 12.0269 percent is reasonably sufficient to assure confidence in the financial soundness of SWB and is adequate, under efficient and economical management, to maintain and support SWB's credit and enable it to raise the money necessary for the proper discharge of its public duties, within the meaning of P.U.C. SUBST. R. 23.21(c)(1)(A).

CL 21. In fixing the overall return on SWB's invested capital, the Commission has taken into consideration the quality of SWB's services, the efficiency of SWB's operations, and the quality of SWB's management, within the meaning of PURA Section 38(b).

VI. Cost of Service

A. Post-Divestiture Expense Levels

FF 97. The Cities proposed a \$60,151,000 reduction in SWB's test year expenses for allegedly excessive post-divestiture expense levels. The



Cities' analysis of that issue was unconvincing. The evidence establishes that SWB is reducing its number of employees to cut back on its expenses and that the expenses in question are recurring costs of providing utility service.

FF 98. The evidence establishes that the Cities' proposed \$60,151,000 reduction in SWB's test-year expense levels to compensate for certain alleged effects of divestiture is unwarranted in its entirety.

CL 22. SWB's post-divestiture expense levels are not unreasonable, unnecessary, or contrary to the public interest within the meaning of PURA Section 41(c)(3)(D) and P.U.C. SUBST. R. 23.21(b)(2)(J) and should therefore be allowed as a component of SWB's cost of service for ratemaking purposes.

B. Operations and Maintenance

FF 99. SWB's salary and wage adjustments should be based on a seasonalized but not trended end-of-period wage factor utilizing employee levels through April 1985, resulting in a reduction of \$10,685,000 to the company's request.

FF 100. It is reasonable to include management incentive payments in the amount of \$1,818,625 and lump sum awards in the amount of \$4,712,537 in SWB's cost of service, because such expenses are normal costs of doing business for a large corporation and increase productivity to the benefit of the consumer.

FF 101. It is reasonable to include retainer fees and concessions to SWB's Board of Directors in the amount of \$294,000 in SWB's cost of service, because such expenses are necessary and recognized costs of doing business.

FF 102. It is reasonable to include severance pay in SWB's cost of service as a necessary expense.

FF 103. It is not reasonable to include in SWB's cost of service those expenses relating to bodyguards, chauffeurs and personal use of company automobiles, because such expenses are not reasonable and necessary for the provision of intrastate telephone service.

FF 104. It is reasonable to exclude \$78,742 for chauffeur fees and \$74,952 for expenses relating to the personal use of company automobiles because such expenses are not reasonable or necessary for the provision of intrastate telephone service.

FF 105. It is reasonable to exclude \$231,000 from SWB's cost of service for expenses relating to loaded labor rates and liability insurance for SWB's corporate fleet of aircraft.

FF 106. SWB failed to show how access line growth had a proportional effect on its operating expenses.

FF 107. SWB's proposed non-wage volume adjustment is not measurable.

FF 108. SWB's non-wage volume adjustment in the amount of \$16,007,000 is not appropriate.

FF 109. SWB failed to show that the price indices upon which it relied to calculate the non-wage price adjustment for inflation approximated the price increases experienced by the company.

FF 110. Although inflation is a known event, the level of inflation is not measurable.

FF 111. SWB's non-wage price adjustment for inflation in the amount of \$7,400,000 should not be allowed in the company's cost of service, because such expense has not been demonstrated to be both a known and measurable change to test year expenses.

FF 112. SWB's adjustments in the amount of \$14,169,000 for expenses and \$35,344,000 for revenues in connection with SWB's traditional Yellow Page operations are reasonable.

FF 113. The transfer of SWB's directory advertising functions to its subsidiary was not in the public interest.

FF 114. It is reasonable to require that SWB's rates in all future cases reflect the just and reasonable benefits that would have flowed to the ratepayers had SWB not divested itself of its directory business operations.

FF 115. It is reasonable to require SWB to present, in future rate cases, supportive evidence regarding the Yellow Page operating expenses and revenues which is of sufficient detail to allow a determination of the reasonableness and the necessity of the expenses and revenues imputed into each rate filing, to ensure that ratepayers have not been harmed by divestiture.

FF 116. SWB requested to include, over and above its allowable advertising, contributions, and donation expenses, \$1,331,416 related to Commission-ordered advertising expense.

FF 117. It is reasonable to require SWB in future rate cases to prove affirmatively that all other advertising which is not Commission-ordered has benefitted the ratepayers prior to its inclusion in the company's cost of service.

CL 23. P.U.C. SUBST. R. 23.21(b)(1)(E) limits inclusion of actual expenses for ordinary advertising, contributions and donations to three-tenths of one percent of gross receipts for services to the public.

CL 24. P.U.C. SUBST. R. 23.21(b)(1)(E) does not distinguish between Commission-ordered advertising expense and other advertising expense.

CL 25. It is not reasonable to allow the company to include the Commission-ordered advertising expense in the amount of \$1,331,416.

FF 118. A one-year amortization period of previously capitalized BIS costs is supported by the record. This results in a \$2,842,000 increase to the company's "Other General" test year expense.

FF 119. It is reasonable to increase SWB's booked pole rental expense by \$2,060,000 in order to reflect a more representative level of the company's ongoing expenses for such rentals than that demonstrated in the company's test year. (SWB Exhibit 18B, Accounting Workpaper W.S. A-12-2).

FF 120. SWB included \$13,996,282 for antitrust settlements in intrastate test year operating expense.

FF 121. Fines, penalties, and costs for possibly illegal activities are not ordinary costs of doing business.

FF 122. Fines, penalties and costs for possibly illegal activities are unnecessary expenses.

FF 123. The anti-trust settlement costs associated with alleged illegal activity of American Telephone and Telegraph Company (AT&T) prior to divestiture should be excluded as extraordinary and nonrecurring.

FF 124. Expenses resulting from erroneous management decisions should be born by SWB's shareholders and not its ratepayers.

FF 125. It is reasonable to exclude \$13,996,282 in antitrust settlement costs from SWB's cost of service, because such expense is not a necessary cost incurred in SWB's ordinary course of business of providing utility service in Texas.

CL 26. SWB failed to prove that the expenses associated with anti-trust settlements were reasonable and necessary to the provision of service to its ratepayers as required under Section 40 of PURA.

CL 27. Section 41(c)(3)(D) of PURA and P.U.C. SUBST. R. 23.21(b)(2)(J) prohibit the inclusion of unreasonable, unnecessary expenses or those expenses not in the public interest.

FF 126. It is reasonable to allow SWB to include one-half of its antitrust litigation expense so that it can defend itself in antitrust actions.

FF 127. SWB's accounting treatment of the Litton litigation expense correctly adjusts its cost of service so as to normalize its test year by restoring the Litton litigation credits to operating expense.

FF 128. It is reasonable to allow the company to include \$3,544,000 of Litton litigation expense in its cost of service.

FF 129. An expense decrease of \$20,207,000 resulting from the loss of AT&T Information Service billing is reasonable.

FF 130. An expense increase of \$2,859,000 to reflect the loss of the AT&T-C direct inquiry services is reasonable.

FF 131. It is reasonable to exclude from cost of service \$2,739,000 in expenses associated with terminated office space leases because such expenses are a known and measurable adjustment to the test year as shown on Staff Exhibit No. 33 at 9, Schedule RW-III.

FF 132. It is reasonable to decrease the cost of service by \$2,661,000 to reflect the impact of the revised gross receipts tax on SNFA contracts as a known and measurable adjustment to the test year as shown on SWB Exhibit No. 18a at 1-3 and Exhibit No. 4 at 2.

FF 133. To normalize the test year, it is reasonable to exclude from cost of service \$1,641,000 of nonrecurring CPE and enhanced services expenses as shown on Staff Exhibit No. 33 at 12, Schedule RW-III.

FF 134. It is reasonable to exclude from cost of service \$559,097 of nonrecurring treasury expense as shown by the difference in the credits and debits in SWB Exhibit No. 53.

FF 135. It is reasonable to exclude from cost of service \$312,000 of Telephone Pioneers expense because it does not constitute a necessary expense for the delivery of utility service.

FF 136. It is reasonable to include in cost of service \$803,000 of SWB rate case expenses.

FF 137. It is reasonable to require SWB to submit detailed support of its requested rate case expenses in future rate cases as recommended by OPC.

FF 138. It is reasonable to include in cost of service \$421,000 of the Cities' rate case expenses as shown in Cities Exhibit No. 2 at 100-01.

FF 139. It is reasonable to include in cost of service the computer and software expenses as discussed by SWB Witness Swenson in SWB Exhibit No. 63; it would not be reasonable to reduce those expenses by \$18,324,000, as recommended by the Cities and to amortize them over a useful life of several years, because the amortization period appears to have been arbitrarily chosen.

FF 140. It is reasonable to include in cost of service the public affairs expenses; however, the \$1,667,000 of salary and overhead expenses associated with the Community Relations managers, as identified in Consumers Union Ex. No. 36, should be excluded from cost of service because SWB failed to show what portion of the managers' time is spent on legislative advocacy.

FF 141. It is reasonable to exclude from cost of service \$342,000 of expenses associated with license contracts and BIS payments that terminated with divestiture.

CL 28. P.U.C. SUBST. R. 23.21(b)(1)(A) requires that only reasonable and necessary operations and maintenance expenses incurred in furnishing normal utility service and in maintaining utility plant used and useful to the utility in providing such service to the public may be included in allowable expenses as adjusted for known and measurable changes to historical test year expenses.

CL 29. PURA Section 41(c)(3)(D) and P.U.C. SUBST. R. 23.21(b)(2)(J) require that any expenses found to be unreasonable, unnecessary, or not in the public interest shall not be considered for ratemaking purposes.

CL 30. Section 41(c)(1) of PURA provides the standard which must be met for the inclusion of affiliate expenses and/or capital costs for ratemaking purposes; each item or class of items must be reasonable and necessary, and the price to the utility must be no higher than prices charged to other affiliates or divisions for the same item or class of items.

CL 31. The interpretation of what is required for a utility to meet its burden of proof under Section 41(c)(1) of PURA was addressed by the Austin Court of Appeals in the case of Railroad Commission of Texas v. Rio Grande Valley Gas Company, 683 S.W.2d 783 (Tex. Civ. App.--Austin, 1984, no writ), involving allocated--pursuant to a formula--parent company expenses. Pursuant to the holding in the Rio case, the following showings must be made by the utility:

- a. The utility must demonstrate that the prices it was charged by its affiliate were no higher than the prices charged by the supplying affiliate to its other affiliates.
- b. The utility must demonstrate that disallowable expenses (i.e., legislative advocacy, donations, entertainment, advertising, products marketed by other subsidiaries, etc.) were not included in expenses allocated to the utility.
- c. The utility must prove that each item of allocated expense was reasonable and necessary.
- d. The utility must prove that the allocated amounts reasonably approximate the actual cost of services to it.

FF 142. Bellcore is a centralized services organization established by the seven Regional Bell Operating Companies (RBOCs).

FF 143. SWB is a one-seventh owner of Bellcore, the remaining ownership being held by the other six RBOCs.

FF 144. SWB requested inclusion of \$40.1 million of Bellcore costs--\$9.739 million in rate base and \$30.361 million in operations and maintenance expense.

FF 145. The kind of research provided by Bellcore is a vital part of the telecommunications business; therefore, with the exception of the Bellcore projects described in Findings of Fact Nos. 146 and 147, the Bellcore projects are reasonable and necessary projects.

FF 146. It is proper to exclude those Bellcore expenses detailed on Staff Ex. 36-A for the reasons set forth therein, with the exception of Bellcore Project No. 431801, National Security and Emergency Preparedness, which should be included in telephone plant in service and in cost of service. The staff's adjustment, modified to allow Project No. 431801, produces a decrease of \$2,201,600 to cost of service and a decrease of \$678,500 to plant in service.

FF 147. Project No. 441000 (Government Affairs) and Project No. 480003 (Issues Management) should be excluded from cost of service and plant in service because those projects are in part related to legislative advocacy. The elimination of those two projects produces a decrease of \$190,600 to cost of service and a decrease of \$59,300 to plant in service.

FF 148. SWB reasonably incurred \$28,665,800 of Bellcore costs in its cost of service and \$8,940,200 of Bellcore costs in telephone plant in service as calculated below:

|                  | (000's)                          |                                   |                            |
|------------------|----------------------------------|-----------------------------------|----------------------------|
|                  | <u>BELLCORE COST INCLUDED IN</u> |                                   |                            |
|                  | <u>Cost of Service</u>           | <u>Telephone Plant in Service</u> | <u>Total Bellcore Cost</u> |
| Texas Intrastate | \$31,058.0                       | \$9,677.0                         | \$40,735.0                 |
| Commission Adj.  |                                  |                                   |                            |
| -Staff Ex. 36-A  | (2,299.8)                        | (708.0)                           | (3,007.8)                  |
| -Project 431801  | 98.2                             | 30.5                              | 128.7                      |
| -Project 441000  | (177.7)                          | (55.3)                            | (233.0)                    |
| -Project 480003  | <u>(12.9)</u>                    | <u>(4.0)</u>                      | <u>(16.9)</u>              |
| Approved Costs   | \$28,665.8                       | \$8,940.2                         | \$37,606.0                 |

FF 149. The preponderance of the evidence shows that the level of Bellcore costs reflected in Finding of Fact No. 148 is associated with services and/or products which are reasonable and necessary for utility operations.

FF 150. The preponderance of the evidence shows that the price Bellcore charges SWB for core projects is no higher than the price charged the other six RBOCs for the same item or class of items provided; each RBOC is charged one-seventh of the cost.

FF 151. The preponderance of the evidence shows that, proportionately, the prices Bellcore charges SWB for non-core projects are no higher than prices charged the other participating affiliates; the prices are based on size allocation factors.

CL 32. Based on Findings of Fact Numbers 145 through 151, SWB has met the test required by Section 41(c)(1) of PURA regarding Bellcore costs of \$37,606,000.

FF 152. Southwestern Bell Corporation (SBC) is the parent corporation of six major subsidiaries: SWB, Southwestern Bell Corporation Asset Management, Inc. (SBC Asset Management), Southwestern Bell Mobile Systems, Inc. (SWB Mobile), Southwestern Bell Publications, Inc. (SWB Publications), Southwestern Bell Corporation-Washington, Inc. (SBC-Washington) and Southwestern Bell Telecommunications, Inc. (SWB Telecom).

FF 153. With the exception of SWB, the remaining subsidiaries of SBC are new, unregulated, competitive firms.

FF 154. The total amount of SBC expenses for the test-year 1984 was \$54,642,249.

FF 155. Of the \$54,642,249 of test year expense incurred by SBC, \$1,951,525 was retained by SBC, and approximately \$2,000,000 was charged directly to the benefiting subsidiaries--approximately \$11,000 to SWB

Publications, \$54,000 to SWB Telecom and \$1.8 million to SWB. The remaining SBC expenses were placed in a pool to be generally allocated.

FF 156. Of the \$54,109,446 total allocable SBC expenses, \$52,068,807 or 96 percent was allocated to SWB.

FF 157. The Texas intrastate amount of SBC allocated expenses requested in this case is \$24,254,822.

FF 158. Most SBC expenses were allocated by use of ratios based on a composite of revenues, expenses and average net investment. Certain expenses were allocated either on the basis of relative employee levels or on the basis of relative revenues.

FF 159. The allocation methodology utilized to allocate to SWB expenses associated with SBC was not shown either to be a reasonable methodology or shown to be consistently applied. Therefore, all expenses associated with SBC should be excluded from cost of service.

FF 160. Demonstrated problems with the SBC allocation methodology include the following:

- a. The allocation of advertising expense does not produce a reasonable expense that approximates the value to SWB;
- b. Land radio marketing was allocated to SWB under the methodology;
- c. Trips associated with SWB Publishing may have been allocated to SWB;
- d. No internal audit has been performed to verify the integrity of the methodology;
- e. No allocation was made to SBC Asset Management, even though it was organized in August 1984 and became operational in November 1984.

CL 33. For the reasons set out in Findings of Fact Nos. 159 and 160, the allocation of SBC expenses to SWB should be disallowed from cost of service as not meeting the standards required by Section 41(c)(1) of PURA as interpreted by the Rio case (set forth in CL No. 31).

FF 161. SWB attempted to recover \$287,000 of expense associated with the \$851,900 allocated to Texas for a Washington, D.C. office. SWB removed \$488,000 of the \$851,900 to eliminate costs associated with legislative advocacy. SWB applied a 78.94 percent separations factor to the remaining \$364,000 to derive the claimed expense of \$287,000.

FF 162. The Washington office had its origin in a desire to have a Public Affairs-Federal Relations Office in the nation's capital with "responsibility for all members of Congress from outside Southwestern Bell



territory, the executive branches and all agencies except the FCC" as well as a Federal Regulatory Office "with responsibility for all FCC activities."

FF 163. Since all expenses associated with the Washington office flow up to SBC and are allocated back to SWB, the expenses should be disallowed because of the infirmities with the allocation methodology described in Findings of Fact Nos. 159 and 160.

CL 34. All expenses associated with the Washington office should be excluded from cost of service because of failure to meet the requirements of Section 41(c)(1) of PURA as interpreted by the Rio case (CL No. 31) when applied to the facts set forth in Findings of Fact Nos. 159, 160, and 163.

FF 164. SWB proposed that \$24,802,000 be included in cost of service for directory publication activities. Included in that amount is a two percent media administration fee (totalling \$357,000) and \$355,333 in white pages bold listing sales commissions.

FF 165. Of the total amount requested by SWB, only the administration fee and the white pages bold listing sales commissions were contested.

FF 166. P.U.C. SUBST. R. 23.61(b) requires local exchange companies to publish directories containing the names and telephone numbers of their subscribers.

FF 167. Prior to divestiture, Western Electric Company (WECO) was SWB's agent for purchasing the paper for and printing the directories.

FF 168. After divestiture, SWB Media assumed the WECO contracts.

FF 169. SWB Media bills SWB directly for photocomposition, production, printing, shipping distribution and warehousing, and adds a two percent administration fee to that amount.

FF 170. The two percent administration fee is less than the six percent fee charged by WECO prior to divestiture.

FF 171. The two percent administration fee covers internal functions performed by SWB Media, including the following:

- a. Scheduling the manufacturing and distribution process;
- b. Employing quality assurance experts in printing, paper, and distribution processes who visit suppliers' locations to assure maximum production and minimum costs;
- c. Using the Systems and Technology organization in SWB Publications to investigate and evaluate new technology and procedures and to make those advancements available to SWB at no extra charge.

FF 172. The cost of the services enumerated in Finding of Fact No. 171 is not covered in the amounts directly billed by SWB Media to SWB.

FF 173. The two percent administration fee is reasonable in light of the services provided and the previous fee charged by WECO.

CL 35. Based on Findings of Fact Nos. 169 through 173, SWB has met the burden required by Section 41(c)(1) of PURA regarding the two percent SWB Media administration fee. Therefore, the inclusion in cost of service of \$357,000 for that fee should be approved.

FF 174. SWB has contracted with SWB Media for SWB Media to act as its sales agent for white pages bold listings (WBLs).

FF 175. SWB pays the following sales commissions to SWB Media for WBLs:

- a. 20 percent commission on renewal of last directory issue value up to seven percent growth, and
- b. 30 percent commission on sales in excess of 107 percent of last directory issue value.

FF 176. Total commissions paid to SWB Media in 1984 for WBL sales were \$1,066,147, of which \$355,333 was requested in cost of service.

FF 177. The requested inclusion of \$355,333 in WBL sales commissions is reasonable because commissions are standard in the sales business, because the WBL sales commissions are less than the 27 percent industry standard, and because the charges are the same for both affiliates and nonaffiliates.

CL 36. Based on Finding of Fact No. 177, SWB has met the burden required by Section 41(c)(1) of PURA regarding the WBL sales commission. Therefore, \$355,333 for that expense should be included in cost of service.

FF 178. As of December 31, 1984, SWB was providing 31 services to SBC, 18 services to SWB Publications, 7 services to SWB Telecom, and 6 services to SWB Mobile.

FF 179. Incremental cost is the appropriate pricing methodology to apply when pricing services to SBC, SWB Publications, SWB Telecom, and SWB Mobile.

FF 180. Total test year billing to SWB's associated companies was \$11,587,292.

FF 181. SWB's charges for the lease administrator are 62 percent below incremental cost.

FF 182. SWB's charges for the president's chauffeur are 42 percent below incremental cost.

FF 183. SWB's charges for the president's car are 50 percent below incremental cost.

FF 184. It is reasonable, for the purpose of calculating revenue deficiency, to increase pro forma revenues from the services listed in Findings of Fact Nos. 181 through 183 by 40 percent to ensure that ratepayers do not bear the cost of chauffeur services provided to executives of affiliated companies. Therefore, SWB's revenues should be increased by \$9,421.

FF 185. Budgeting and billing service under the Public Relations service category is priced nine percent below incremental cost.

FF 186. Based on Finding of Fact No. 185, SWB's pro forma revenues should be increased, for the purpose of calculating revenue deficiency, by \$15,737 to bring revenues in line with incremental cost.

FF 187. It is not appropriate to increase pro forma revenues related to on-line referrals, for the purpose of calculating revenue deficiency, because that service is priced above incremental cost.

FF 188. It is not appropriate to increase pro forma revenues related to interLATA Communications Services, for the purpose of calculating revenue deficiency, because the price charged for those services is in line with the market price. SWB charges \$.20 per minute and the market price is \$.19 per minute.

FF 189. It is not appropriate to increase pro forma revenues related to Administrative Services, for the purpose of calculating revenue deficiency, because those services are priced above incremental cost.

FF 190. Certain assets were transferred from SWB to its affiliates SWB Mobile, SWB Publications, and SWB Telecom. Those assets include the following:

- a. Miscellaneous Physical Property - Machines
- b. Leasehold Improvements in Leased Building - Office Space
- c. Station Apparatus - Teletype, Telephone and Misc.
- d. PBXs - Electronic and Digital
- e. Furniture and Office Equipment - Furniture and Computers
- f. Vehicles and Other Work Equipment - Motor Vehicles and Store Equipment

FF 191. Additionally, SWB transferred employees to its affiliates.

FF 192. Based on the record in this case, the transfer of the assets listed in Finding of Fact No. 190 was appropriate and the transfer of

employees was reasonable and in accordance with their prior job assignments. This finding will not be considered res judicata and shall not estop the production of any additional evidence that may be shown in a subsequent proceeding that has been docketed for the purpose of examining transfers by SWB to its affiliates.

CL 37. Operations and maintenance expense of \$1,563,016,000 are reasonable and in compliance with PURA Section 41(c)(3)(D) and P.U.C. SUBST R. 23.21(b).

C. Uncollectibles

FF 193. The uncollectible rate proposed by SWB is appropriate.

FF 194. Application of SWB's uncollectible rate of .848267 percent to the revenue requirement of \$3,349,374,000 yields an allowable expense of \$28,412,000. The difference between this allowable expense and that in the test year represents a known and measurable change to the test year data.

CL 38. Pursuant to Section 39(a) of the PURA and P.U.C. SUBST. R. 23.21, SWB's uncollectible accounts expense is \$28,412,000.

D. Depreciation

FF 195. SWB requested an allowable expense of \$525,680,000 for depreciation.

FF 196. A downward adjustment of \$3,717,000 to depreciation expense is necessary to account for a known and measurable change in the amortization of inside wiring in Account 608.03 and the depreciation expense associated with central office equipment.

CL 39. Pursuant to Section 39(a) of the PURA and P.U.C. SUBST. R. 23.21, SWB's depreciation expense is \$521,963,000.

CL 40. The rates and methods of depreciation proposed by SWB as modified in this Order are adequate and proper, and comply with PURA Section 27(b).

E. Interest on Customer Deposits

FF 197. SWB requested \$2,112,000 for interest on customer deposits at an interest rate of six percent.

FF 198. SWB's requested allowance for interest on customer deposits should be increased by \$581,000 to reflect the assignment of 100 percent of customer deposits to intrastate service in Section IV.J. of this Order.

CL 41. SWB's cost of service should include a \$2,693,000 expense for interest on customer deposits, an amount which satisfies the requirements of PURA Section 39(a) and P.U.C. SUBST. R. 23.21.

F. Taxes Other Than Federal Income Tax

FF 199. SWB requested \$279,981,000 for taxes other than federal income tax.

FF 200. Of the \$279,981,000 requested for taxes other than federal income tax, SWB requested \$154,614,000 for non-revenue related taxes.

FF 201. Of the \$154,614,000 requested for non-revenue related taxes, SWB requested \$78,007,000 for ad valorem taxes.

FF 202. In calculating ad valorem taxes, SWB rounded the tax rate, producing an error of several hundred thousand dollars in SWB's favor.

FF 203. The appropriate rate to use in calculating ad valorem taxes is .0090632 found on SWB Ex. 65, Mittledorf Ex. 8.

FF 204. It is appropriate to eliminate from the allowance for ad valorem taxes the capitalized ad valorem taxes on intrastate plant under construction.

FF 205. SWB has an investment of \$64,781,000 in intrastate plant under construction, the ad valorem taxes on which should be capitalized and removed from SWB's allowance for ad valorem taxes.

CL 42. SWB's ad valorem tax expense is \$77,567,000.

FF 206. Of the \$154,614,000 requested for non-revenue related taxes, SWB requested \$62,740,000 for payroll taxes.

FF 207. Of the \$62,740,000 requested for payroll taxes, the sum of \$238,000 is actually applicable to 1983 operations.

FF 208. In 1985, SWB booked a payroll tax credit of \$804,438.

FF 209. In order to properly reflect the out-of-period credit of \$804,438 as an offset to the requested allowance for payroll taxes, it is necessary to subtract from \$804,438 the \$238,000 credit, leaving a balance of \$566,438 to be subtracted from the allowance for payroll taxes.

FF 210. The requested expense of \$62,740,000 for payroll taxes should also be reduced by \$699,562 to reflect adjustments to salary and wage levels and a decline in the number of employees.

CL 43. SWB's payroll tax expense, calculated in accord with PURA Section 39(a) and P.U.C. SUBST. R. 23.21, is \$61,474,000.

FF 211. SWB requested \$13,867,000 for capital stock taxes.

FF 212. OPC proposed a downward adjustment of \$325,000 based on the use of actual as opposed to estimated figures for 1985 taxes, an adjustment which was not contested and is reasonable.

CL 44. SWB's allowable expense for capital stock taxes is \$13,542,000, calculated in accord with PURA Section 39(a) and P.U.C. SUBST. R. 23.21.

CL 45. SWB's non-revenue related taxes inclusive of ad valorem taxes, payroll taxes, and capital stock taxes are \$152,583,000.

FF 213. SWB requested \$125,367,000 for revenue related taxes other than federal income tax.

FF 214. Of this \$125,367,000, SWB requested \$69,025,000 for state gross receipts tax and the remainder for local gross receipts taxes and the PUC assessment.

FF 215. The proper composite tax factor to use in calculating revenue related taxes consisting of state gross receipts tax (under H.B. 1949, which went into effect on October 1, 1985), local gross receipts taxes, and the PUC assessment, is 2.525433 percent.

FF 216. Applying the composite tax factor of 2.525433 percent to the revenue requirement of \$3,349,374,000 yields \$84,587,000 for revenue related taxes other than federal income tax.

CL 46. SWB's expense for revenue related taxes other than federal income tax is \$84,587,000.

CL 47. SWB's expense for taxes other than FIT, inclusive of revenue related and non-revenue related taxes, is \$237,170,000.

G. Federal Income Tax

FF 217. SWB requested \$393,171,000 for federal income tax (FIT) expense.

CL 48. The interest synchronization adjustment to FIT is consistent with federal law. Public Service Company of New Mexico v. FERC, 653 F.2d 781 (D.C. Cir. 1981); NEPCO Municipal Rate Committee v. FERC, 68 F.2d 1327 (D.C. Cir. 1981); Union Electric Co. v. FERC, 668 F.2d 389 (8th Cir. 1981).

CL 49. Federal tax law requires regulators to assume the existence of hypothetical investor-supplied capital in ITCs (investment tax credits) for determining required net income, but does not preclude them from imputing tax deductibility to a pro rata portion of the ITCs as recommended by the OPC and the Cities.

FF 218. It is appropriate to use interest synchronization in computing FIT because ITCs provide a source of capital to which no real costs attach.

FF 219. The Cities' proposed to use interest synchronization in computing FIT, as illustrated in Cities Exhibit 1A, Revised Schedule 9 and Cities Exhibit 4A, Revised Schedule 3 at 2.

FF 220. Properly computing FIT using interest synchronization as proposed by the Cities yields \$319,130,000 for FIT expense.

CL 50. SWB's FIT expense is \$319,130,000, calculated in accord with P.U.C. SUBST. R. 23.21(b)(1)(D).

#### H. Return

FF 221. The application of the 12.0269 percent rate of return to SWB's invested capital of \$5,628,963,000 yields a total return of \$676,990,000 for SWB in this case.

CL 51. A rate of return of 12.0269 percent and dollar return of \$676,990,000 on SWB's invested capital is reasonable, given the quality of SWB's service, the efficiency of its operations and the quality of its management, within the meaning of PURA section 39.

#### I. Separations

FF 222. It is reasonable to reduce intrastate expenses by \$1,575,000 to annualize the effect of the June 1, 1984, changes in the Separations Manual.

FF 223. It is reasonable to make the intrastate rate base adjustments proposed by the Cities' witness Dr. Johnson (Cities Exhibit No. 2) because such adjustments ensure proper treatment of the EANR costs. The adjustments are summarized as follows:

- a. a decrease in plant in service of \$11,285,000;
- b. a decrease in telephone plant under construction of \$8,859,000;
- c. a decrease in deferred taxes of \$37,000; and
- d. an increase in accumulated depreciation of \$1,000.

FF 224. It is reasonable to require SWB to file documentation in all future rate cases to show that EANR costs are properly tracked and that they are allocated to interexchange carriers.

J. Revenue Adjustments

FF 225. It is appropriate to use SWB's seasonalization and trending adjustments in calculating WATS revenues.

FF 226. It is appropriate to use SWB's seasonalization adjustment as modified by use of the trading day feature in calculating Message Toll Service revenues, but it is not appropriate to use a trending adjustment for calculating such revenues.

FF 227. It is not reasonable to make an upward adjustment of \$1,632,000 to end-of-period network access revenues, since such an adjustment does not recognize the accounting problem unique to the telephone industry resulting from pooling of industry revenues, and because it is inappropriate to use actual data without knowing the true-up for non-SWB revenues.

FF 228. End-of-period coin telephone revenues shown by SWB should be decreased by \$60,000 to correct a clerical error made in SWB's calculation of those revenues.

FF 229. It is not appropriate to make an upward adjustment to the service connection charge revenues shown in SWB Ex. No. 65, because the rates for such services are set at cost. Any additional revenues would therefore be offset by additional costs.

FF 230. An increase of \$4,489,000 in miscellaneous revenues as imputed rental revenue for half the vacant space in the Bell Plaza complex in Dallas is inappropriate and should not be made.

FF 231. It is not reasonable to recognize \$8,362,000 in additional revenue to reflect the June 1, 1985, price change in the Houston Yellow Page Directory, because such an adjustment fails to consider any additional expenses in the comparable time period.

FF 232. It is not appropriate to include additional access revenues resulting from the conversion of end offices to equal access capability and the application of premium rates instead of the transitional non-premium or discounted rates, because it is not possible to determine from this record the number of conversions from Feature Groups A and B access to Feature Group D access; thus it does not constitute a known and measurable change to actual test year revenues.



K. Adjustments to Revenue Deficiency

FF 233. It is reasonable and appropriate to adjust the calculated revenue deficiency downward by \$2,404,000 to reflect SWB's receipt of an enhanced service and CPE/FSS (Customer Premise Equipment/Fully Separated Subsidiary) expense reimbursement.

FF 234. The jurisdictional impact of applying the FCC's interim separations procedures for the allocation of the toll portion of Account 645 as of June 1, 1986 (established by the June 7, 1985, Interim Order in FCC Docket No. 80-286), is a \$35,020,000 annual Texas revenue shift from the interstate to the intrastate jurisdiction (as set forth in SWB Ex. No. 19A at 2 and SWB Ex. No. 4A at 2-4), which should be recognized in this docket because it is a known and measurable change.

FF 235. A reduction of \$6,285,430 in SWB's revenue deficiency for the start-up expenses associated with affiliate companies is inappropriate, because none of these costs were incurred by SWB in 1984 on behalf of the affiliates and none of these costs were included in SWB's cost of service, as shown on OPC Ex. No. 110.

L. Cost of Service Summary

FF 236. SWB has a total cost of service of \$3,349,374,000 as shown on Schedule I, titled "Intrastate Revenue Requirement and Revenue Deficiency (000's)," attached to this Order.

CL 52. SWB's cost of service of \$3,349,374,000 is comprised of allowable expenses and return on invested capital calculated pursuant to P.U.C. SUBST. R. 23.21(a).

FF 237. SWB has a total revenue deficiency of \$35,424,000 as shown on Schedule I, titled "Intrastate Revenue Requirement and Revenue Deficiency (000's)," attached to this Order.

VII. Shared Facilities Network Agreements

FF 238. While the record in this docket raises questions which merit further consideration, the preponderance of the credible evidence supports the allowance of revenues, expenses and investment associated with network facilities shared by SWB and AT&T-C pursuant to the Shared Network Facilities Agreements (SNFAs).

VIII. SWB's Proposal on Rate Design

FF 239. SWB proposed across-the-board increases to all categories of service with certain exceptions.

FF 240. One of the exceptions that SWB proposed to across-the-board increases was switched access service. SWB proposed reducing the rates for these services and forgoing ICAC revenues.

FF 241. SWB proposed offsetting these reductions with late payment penalty charges for business customers and new charges for local operator assistance.

FF 242. SWB indicated that its reason for proposing across-the-board increases in the rates for most categories of service was to avoid lengthy litigation involving cost study methodologies pending the results of the cost study for telephone companies undertaken by the National Regulatory Research Institute (NRRI).

FF 243. The Commission imposed a moratorium on implementation of local measured service (LMS) offerings in the final Order in Docket No. 6543, Application of United Telephone Company of Texas for a Rate/Tariff Change, \_\_\_\_\_ P.U.C. BULL. \_\_\_\_\_ (June 4, 1986). In order to allow SWB the opportunity to propose measured service rates for PBX and Shared Tenant Service offerings if it so desires, the moratorium should be lifted to the limited extent necessary to allow such proposals by SWB.

#### IX. Cost Studies

FF 244. For purposes of comparison with its proposed rate design, SWB presented cost studies, the substance of which was litigated at length, adding approximately 30 days to the hearing in this case.

FF 245. SWB did not purport to rely on its cost studies, and the studies themselves are not reliable.

FF 246. In respect of those rates for which an across-the-board increase is ordered in this docket, an across-the-board increase is reasonable and appropriate. It incorporates and preserves Commission policies on rate design as these policies were established and developed in Docket Nos. 3920, 4545, 5113, and 5220.

FF 247. Pending the results of the NRRI study, it is appropriate to incorporate and preserve the basic overall rate design methodology reflected in Docket Nos. 3920, 4545, 5113, and 5220.

#### X. Demand Analysis

FF 248. Because price affects how much of a product or service consumers will demand, it is appropriate in designing rates that will recover SWB's revenue requirement to take into account demand stimulation or repression resulting from increases or decreases in prices.

FF 249. SWB demonstrated that, if the price of MTS (intraLATA Message Telecommunications Service) were increased by ten percent, the number of minutes demanded would decrease by about 3.8 percent, for a test year price elasticity of negative .26.

FF 250. SWB also demonstrated that, if the charges for premium switched access were reduced from \$0.1118 per minute to \$0.0976 per minute, it would result in a 4.5 percent stimulation in minutes of use, assuming that AT&T-C flows through the access charge reduction to its toll customers in the form of lower toll rates.

FF 251. The quantity of switched access minutes of use demanded from SWB depends on the price of AT&T-C's interLATA toll services.

FF 252. A negative elasticity of .26 for intraLATA MTS is reasonably accurate.

FF 253. A negative .569 for AT&T-C's direct distance dialed elasticity is reasonably accurate.

FF 254. A negative .9 for AT&T-C's interLATA MTS operator-handled, station-to-station elasticity is reasonably accurate.

FF 255. A negative .681 for AT&T-C's interLATA MTS operator-handled, person-to-person elasticity is reasonably accurate.

FF 256. Demand repression adjustments proposed by SWB for business late payments, local noncoin operator assistance calls, line status verification, and busy interrupt, although worthy of further study, are reasonably accurate for ratemaking purposes.

FF 257. In order to verify the accuracy of SWB's demand analyses, it is reasonable to require SWB to maintain detailed records on its business late payment penalty, local non-coin operator assistance charges, line status verification charges, and busy interrupt charges, and to file them on a quarterly basis with the Commission staff.

#### XI. Bypass

FF 258. As defined by SWB, there are two kinds of bypass: facilities bypass and service bypass.

FF 259. Facilities bypass involves the construction of facilities to bypass SWB and connect one end-user of telecommunications services directly to an interexchange carrier or another end-user.

FF 260. Service bypass involves a customer's changing his or her service from switched access, which carries a usage sensitive charge, to dedicated special access, which does not carry a usage sensitive charge but rather carries a fixed monthly charge.

FF 261. SWB contends that it loses money when a customer changes from switched access to dedicated special access.

FF 262. SWB's proposal for remedying the loss occasioned by the substitution of dedicated special access for switched access is not to raise the cost of dedicated special access but rather to lower the cost of switched access.

FF 263. Not all experts on telecommunications agree that it is appropriate to label as "bypass" the phenomenon of customers' substituting one SWB service for another because of pricing differences.

FF 264. OPC demonstrated that bypassing SWB's facilities is generally more expensive than utilizing them and, in many cases, is not practical. The vast number of locations at which calls may originate or terminate using SWB's existing local exchange facilities makes it extremely desirable to continue using those facilities.

FF 265. With respect to SWB as a local exchange carrier, there is no immediate threat to SWB from facilities bypass.

FF 266. Facilities bypass may eventually pose a threat to SWB as more applications for it develop. It is reasonable to continue to study the problem of facilities bypass in relationship to SWB.

FF 267. SWB's bypass studies present a greatly exaggerated picture of the threat that bypass poses to SWB.

FF 268. It is appropriate to reject SWB's bypass studies but continue to explore the possibilities of rate design in relationship to the problem of bypass as it develops with respect to SWB.

## XII. Switched Access

FF 269. Feature Groups (FG) B, C, and D all provide trunk-side access service, and there is essentially no difference among these feature groups as to the quality of terminating access service.

FF 270. Because there is essentially no difference in the quality of terminating access for FG-B, FG-C, and FG-D, there is no justification for continuation of the rate distinction for terminating access in equal access end offices.

FF 271. SWB's switched access service tariff should be revised to specify the application of local switching premium LS2 rates for FG-B terminating access minutes in end offices that have been converted to equal access, for the reasons stated in the two findings of fact immediately above.

FF 272. A requirement that flat-rated and usage-rated FG-A lines be segregated in different trunk groups would require interexchange carriers to reconfigure their access networks to separate their intrastate and interstate facilities and to utilize two different seven-digit access numbers, one for intrastate calls and one for interstate calls.

FF 273. Network reconfigurations of the kind set forth in the finding of fact above are inefficient for both the interexchange carrier and the local exchange carrier.

FF 274. To avoid the network inefficiencies identified above, SWB's intrastate access tariff should be interpreted to allow for the combination of flat-rated and usage-rated FG-A and FG-B access facilities.

FF 275. SWB's access tariff should be amended by including in Sections 6.2.1(A)(1) and 6.2.2(A)(1) the following language: "Both usage-rated and flat-rated [FG-A or FG-B, as appropriate] lines may be combined in the same trunk group." This language will specifically permit combination of flat-rated and usage-rated FG-A and FG-B access facilities.

FF 276. Absolute parity with interstate rate levels for switched access service is not appropriate because this Commission does not share the FCC's long-term policy goals.

FF 277. Gradual reductions to existing switched access rates are likely to avoid a threat to universal service.

FF 278. The testimony of staff witness Price establishes the reasonableness of reducing SWB's Carrier Common Line (CCL) rate from \$0.0603 to \$0.0543 per minute of use in order to maintain the approximate difference between interstate and intrastate rates which existed prior to the FCC's approval of a new interstate CCL rate on June 1, 1985.

FF 279. A reduction in SWB's CCL rate as set forth in the finding of fact immediately above will reduce SWB's revenues by approximately \$29.714 million.

FF 280. SWB's basic design of the rates for billing and collection services is reasonable, but the current charges for these services exceed an optimal overall level, as Cities' witness Johnson testified.

FF 281. It is appropriate to include a reasonably high mark-up in the billing and collection rates in order to provide a contribution to SWB's common costs, and to provide some support to universal service, as Dr. Johnson stated in testimony.

FF 282. The optimal rate level for billing and collection services is not necessarily the highest level. Because many of these services are optional, if the rates are excessive, the interexchange carrier customers will provide these services themselves, and SWB will lose the entire contribution provided by these services.

FF 283. The rates for billing and collection services should be reduced by approximately \$40.3 million.

FF 284. It is reasonable to require the independent local exchange carriers which concur in SWB's switched access service tariff to review that tariff carefully before filing their statements of concurrence so that they can determine whether they are willing and able to provide all the services described in SWB's switched access service tariff.

FF 285. It is reasonable to require the local exchange carriers concurring in SWB's switched access service tariff to specify in their concurring statements any deviation, discrepancy, or difference between their services and the terms of SWB's switched access service tariff.

### XIII. Special Access

FF 286. Adopting the current interstate special access tariff structure is appropriate because the special access structure presently in effect in Texas has been justifiably criticized as unworkable and unreasonable, and the FCC filings have resulted in an interstate special access tariff structure that is superior to that currently in effect in Texas, as staff witness Price testified.

FF 287. SWB's intrastate special access tariff should mirror the structure contained in the interstate special access tariff which became effective April 1, 1985, but should contain rate levels equal to those which became effective at the interstate level on October 1, 1985.

FF 288. Mirroring the interstate special access rates effective on October 1, 1985, will increase SWB's intrastate special access revenues by approximately \$7.228 million.

FF 289. It is reasonable and appropriate to approve special access rates for SWB in parity with the interstate special access rates effective October 1, 1985, because those interstate rates are based on Texas-specific costs.

#### XIV. IntraLATA Private Line

FF 290. The El Paso service area was transferred from Mountain States Telephone and Telegraph to SWB in 1981, and the intraLATA private line rate structure of Mountain States was maintained in order to allow a period of transition to a new rate structure for this service.

FF 291. SWB's intraLATA private line rates should be increased by double the across-the-board increase determined herein in order to generate revenues in the amount of approximately \$205,399,000.

FF 292. SWB's intraLATA private line rates for the El Paso service area should be restructured and increased to be consistent with such charges for the rest of SWB's service area.

#### XV. Operator Assistance Charges

FF 293. Local operator assistance represents a cost of service for which a charge should be levied. The following services for which a charge should be implemented for customers who request and receive the assistance of an operator are: (1) dialing a local number; (2) completing a local person to person call; (3) billing a local call to a calling card or third number; or (4) placing a local collect call. Charges should also be implemented for operator assistance for verification of an indicated busy condition on a telephone line or the interruption of a conversation on a telephone line.

FF 294. The following charges are reasonable and should be implemented for local operator assistance to generate revenues in the amount of \$56,453,000:

| <u>Operator Assistance Service</u>   | <u>Local Operator Charges</u> |
|--|-------------------------------|
| Calling Card Station-to-Station  | \$0.40                        |
| Operator Handled Station-to-Station (include calling card, third number and collect) | \$1.30                        |
| Operator Handled Person-to-Person  | \$3.15                        |
| Line Status Verification   | \$1.35                        |
| Busy Interrupt   | \$2.20                        |

FF 295. It is not reasonable to levy charges for operator assisted local station to station calls which the customer is unable to complete by direct dialing due to telephone network problems.

FF 296. Manual mobile stations should be exempt from local operator assistance charges.

FF 297. It is reasonable to exempt from payment of local operator assistance charges those customers who require the assistance of an operator for calls due to physical or visual handicaps.

FF 298. It is reasonable to automatically exempt authorized emergency agencies from line verification charges and busy interrupts and not require them to file a request for such status with SWB. Agencies which are not automatically exempt should be allowed to file an application for exempt status with SWB.

#### XVI. Business Late Payment Penalty

CL 53. P.U.C. SUBST. R. 23.45(b) provides:

Penalty on delinquent bills for retail service. A one-time penalty not to exceed 5.0% may be made on delinquent commercial or industrial bills; however, no such penalty shall apply to residential bills under this section. The 5.0% penalty on delinquent commercial and industrial bills may not be applied to any balance to which the penalty was applied in a previous billing.

CL 54. P.U.C. SUBST. R. 23.45(b) forbids application of a late payment penalty to any balance to which the penalty was applied in a previous billing and therefore precludes calculating a late penalty as a percent of the daily unpaid balance.

CL 55. Because a late payment penalty is an incentive for prompt payment, there is no requirement that it be based on cost.

CL 56. The Prompt Payment Act, Tex. Rev. Civ. Stat. Ann. art. 601f (Vernon Supp. 1986) (the Act), provides that from July 1, 1986, to September 1, 1987, state agencies must pay their obligations not later than the 45th calendar day after receiving an invoice and that after September 1, 1987, state agencies must pay invoices within 30 days of receipt, or be subject to a penalty of one percent per month. (Sections 3(A) and (B); Section 5(B).) Section 7 of the Prompt Payment Act exempts certain transactions if "the terms of a contract specify other times and methods of payment." The Legislature considered that state agencies could and would enter into contracts (such as utility tariffs) with terms different from those in the Act and decided--by creating the exemption--that the contract terms would control. It is therefore consistent with the terms of the Act to require that state agencies should be subject to the terms of SWB's tariff specifying a time for payment and a penalty for late payment.



FF 299. SWB has approximately \$50 million in delinquent business bills each month.

FF 300. A late payment penalty would give delinquent business customers an incentive to pay their telephone bills more promptly and would enable SWB to recover the costs incurred because of late payments.

FF 301. At least five other public utilities operating in Texas have business late payment penalties in their current approved tariffs.

FF 302. SWB's proposed business late payment penalty should be adopted, as modified by the findings in this Order, to provide an incentive for prompt payment and to create a new revenue stream.

FF 303. The late payment penalty should be a one-time 2.5 percent charge applied only to undisputed amounts and disputed amounts resolved in SWB's favor.

FF 304. For purposes of applying the penalty, the due date should be extended to the first following business day if it would otherwise fall on a weekend or holiday.

FF 305. State agencies should be subject to the late payment penalty as applied to businesses, except that through August 1987, the penalty should not be applied to amounts owed by a state agency that are paid within 45 days of the billing date.

#### XVII. IntraLATA Foreign Exchange Service Restructure

FF 306. The testimony of SWB witness Fitzwater (SWB Exhibit No. 80) and the testimony of staff witness Price (Staff Exhibit No. 55) establish the reasonableness of SWB's proposed restructuring of IntraLATA Foreign Exchange as modified by the staff's recommendation that the FX usage-sensitive rate be reduced to \$0.021 per minute.

#### XVIII. WATS Restructure

FF 307. It is reasonable to restructure SWB's WATS tariff to offer intraLATA-only WATS and thus remove the link between AT&T-C's and SWB's WATS offerings.

FF 308. It is reasonable to structure SWB's intraLATA WATS rates into the three categories proposed by SWB witness Springfield based on intraLATA usage data.

FF 309. It is reasonable to develop minimum monthly usage charges for SWB's intraLATA WATS service by applying the intraLATA usage percent set forth by SWB witness Springfield to the present minimum monthly usage charges and increasing the resulting rates by the across-the-board residual percentage adopted in this September 24, 1986, Order, and set out on the "Revenue Summary by Category" table attached hereto.

FF 310. The current imposition of switched access rates on both ends of an interLATA WATS call causes the access charges paid by AT&T-C to exceed associated revenues from the WATS rates inherited by AT&T-C from SWB.

FF 311. The direct testimony of AT&T-C witness Riggert and the testimony on cross-examination of staff witness Price establish the reasonableness of the direct allocation of non-traffic sensitive costs associated with interLATA WATS and 800 service closed end loops, and justify recovery of those costs through a flat charge of \$38.00 per month per interLATA WATS and 800 service access line.

FF 312. SWB should recover the non-traffic-sensitive costs associated with interLATA WATS and 800 service closed end loops through a flat charge of \$38.00 per month per interLATA WATS and 800 service access line, and it should remove those costs from the Carrier Common Line and ICAC portions of its access rates.

FF 313. Removal of the non-traffic-sensitive costs associated with interLATA WATS and 800 service closed end loops from the Carrier Common Line and ICAC portions of SWB's access rates, and imposition instead of a flat charge of \$38.00 per month per interLATA WATS and 800 service access line, would reduce SWB's annual revenues by approximately \$26.5 million. This amount reflects the continuation of the WATS prorate credit.

FF 313A. It is appropriate to continue the WATS prorate credit and to defer its elimination.

#### XIX. Network Terminating Wire

FF 314. SWB proposed to institute a time sensitive non-recurring charge for installation of network terminating wire.

FF 315. SWB's proposal to institute a time-sensitive non-recurring charge for network terminating wire should be rejected because of potential unreasonable discrimination between single tenant and multi-tenant buildings, because of potential multiple recoveries of costs, and because of the uncertain revenue impact of the proposal.

#### XX. Multifunction Systems

FF 316. Until sufficient information to justify an amendment can be shown, there should be no change to the language in SWB's tariff governing

applicability to multifunction communication system customer premise equipment of the business private branch exchange (PBX) trunk access line rate or the business multi-line hunting (IFH) access line rate.

#### XXI. Miscellaneous Other Services

FF 317. Based upon the revenue requirement and rate design guidelines adopted herein, the appropriate residual increase to be applied to the services shown on the revenue summary table attached to this Order is 6.0 percent.

FF 318. A rate increase for the recurring rates and non-recurring charges for all Centrex Service (Intercom) items to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Centrex Service (Intercom) rates that are just and reasonable.

FF 319. It is appropriate to increase rates for Centrex Service (Intercom) items to increase revenues for that service by \$1,416,000.

FF 320. A rate increase for the recurring rates and non-recurring charges for Telephone Answering Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Telephone Answering Service rates that are just and reasonable.

FF 321. It is appropriate to increase rates for Telephone Answering Service to increase revenues for that service by \$123,000.

FF 322. A rate increase for the recurring rates and non-recurring charges for Mobile Telephone Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Mobile Telephone Service rates that are just and reasonable.

FF 323. It is appropriate to increase rates for Mobile Telephone Service to increase revenues for that service by \$446,000.

FF 324. A rate increase for the recurring rates and non-recurring charges for ESSX-30 Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in ESSX-30 Service rates that are just and reasonable.

FF 325. It is appropriate to increase rates for ESSX-30 Service to increase revenues for that service by \$74,000.

FF 326. A rate increase for the recurring rates and non-recurring charges for Direct Inward Dialing Service to increase revenues for that service by

the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Direct Inward Dialing Service rates that are just and reasonable.

FF 327. It is appropriate to increase rates for Direct Inward Dialing Service to increase revenues for that service by \$857,000.

FF 328. A rate increase for the recurring rates and non-recurring charges for Custom Calling Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Custom Calling Service rates that are just and reasonable.

FF 329. It is appropriate to increase rates for Custom Calling Service to increase revenues for that service by \$4,321,000.

FF 330. A rate increase for the recurring rates and non-recurring charges for Automatic Identified Outward Dialing Service to increase revenues for that service by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in Automatic Identified Outward Dialing Service rates that are just and reasonable.

FF 331. In a previous SWB rate case, Docket No. 4545, most of the rates for the County of El Paso were rendered identical to the company's statewide rates.

FF 332. In Docket No. 4545, the rates for the County of El Paso for Automatic Identified Outward Dialing Service were not converted to the company's statewide rates due to the lack of supporting data necessary to effectuate such conversion. (SWB Ex. No. 82 at 22).

FF 333. It is appropriate to increase Automatic Identified Outward Dialing Service rates in SWB's service area to increase revenues for that service by \$119,000, and to establish uniform statewide levels for those rates.

FF 334. A rate increase for the recurring rates and non-recurring charges for "Other Services" to increase revenues for those services by the residual percentage of 6.0 percent is not unreasonably preferential, prejudicial, or discriminatory, and results in "Other Services" rates that are just and reasonable.

FF 335. "Other Services" mentioned in the previous finding of fact but not otherwise addressed above, to which the residual percentage increase to revenues applies, are the following:

- Directory Listings
- Dishonored Checks
- Special Assemblies
- Telephone Answering Services
- Connections with Customer Provided Equipment
- Automatic Call Distributors
- Announcement Systems

Group Alerting and Dispatch  
Joint User Service  
Reverse Toll and Call Screening  
Suspension and Restoral of Service

FF 336. It is appropriate to increase rates for "Other Services" to increase revenues for such services by \$2,077,000.

FF 337. It is appropriate that the company recover its expenses of providing circuits where long distance telephone calls which use SWB's circuits are completed over the network of another carrier.

FF 338. Hotel/Motel Toll Recording Trunks are not connected to the local exchange in the same manner as other channels, because they were originally constructed to provide a direct connection between the switchboard of a hotel or motel and SWB's long distance service switchboard.

FF 339. Hotel/Motel Toll Recording Trunks are similar to private line channels, Type 428: in both, the channels can be used only by the subscribing customer.

FF 340. Based upon SWB's Private Line Incremental Cost Study (Schedule N-15 of the SWB's rate filing package), SWB's cost to provide a Type 428 channel is approximately \$15.00.

FF 341. It is appropriate to set the Hotel/Motel Recording Trunk rate at \$15.00 monthly.

FF 342. A monthly Hotel/Motel Recording Trunk rate of \$15.00 is not unreasonably preferential, prejudicial, or discriminatory, and results in Hotel/Motel Recording Trunk rates that are just and reasonable.

FF 343. It is appropriate to increase rates for Hotel/Motel Recording Trunks to increase revenues for that service by \$1,348,000.

FF 344. The evidence in the record does not justify an increase to SWB's Public Coin rate.

FF 345. It is appropriate not to adjust SWB's Public Coin rate because an increase was not shown to be necessary.

FF 346. The evidence in the record does not justify an increase to SWB's Premise Work rate.

FF 347. It is appropriate not to adjust SWB's Premise Work rate because an increase was not shown to be necessary.

FF 348. The evidence in the record does not justify an increase to SWB's Touchtone Service rate.

FF 349. It is appropriate not to adjust SWB's Touchtone Service rate because an increase was not shown to be necessary.

FF 350. SWB proposed that its Service Connection charges remain at the current level.

FF 351. Residential customers who transfer from or to economy service pay \$15.00 in Service Connection charges for the transfer.

FF 352. An increase to the charge for a transfer to or from the economy service rate would impede the goal of maximizing universal service to customers who could not otherwise afford telephone service.

FF 353. The present reduced transfer rate may act as an incentive to customers to switch to SWB's standard service offering, which is a more profitable company service.

FF 354. The evidence in the record does not justify an increase to SWB's Service Connections charge.

FF 355. It is appropriate not to adjust SWB's Service Connections charge because an increase was not shown to be necessary.

#### XXII. Construction Charges

FF 356. SWB has not increased its construction charges since 1957 and has some of the lowest charges found among larger telecommunications utilities.

FF 357. Unreasonably low construction charges can cause individuals near service area boundaries to tariff shop among telephone companies. That practice may obligate SWB to unnecessarily incur expenses in locating the applicant's property and computing construction charges.

FF 358. Since 1957, the cost of telephone facilities has increased well in excess of 100 percent.

FF 359. Based upon the three preceding findings of fact, the requested increases in construction charges of approximately 100 percent are reasonable, even though no formal cost study was presented to justify the proposal. Construction charges for new service outside a base rate area at the following levels are just and reasonable:

|   |          |
|---|----------|
| Line Extension Charge                       |          |
| (per 1/10 mile, over a 5/10 mile allowance) | \$100.00 |
| Reinforcement Charge                        |          |
| (per 1/10 mile, over a 2 mile allowance)    | \$ 32.00 |

#### XXIII. Long Distance Message Telecommunications Service

FF 360. SWB's test year Long Distance Message Telecommunications Service (MTS) revenues include an amount attributable to the state's gross receipts tax on such services. MTS service includes Dial Station-to-Station (basic MTS) service, as well as Dial Credit Card Station-to-Station, Operator Station-to-Station, and Operator Person-to-Person services.

FF 361. The gross receipts tax on MTS was terminated on September 30, 1985.

FF 362. It is reasonable to decrease SWB's pro forma revenues to be produced by MTS by an amount equal to the test year level of MTS-generated gross receipts taxes.

FF 363. Based upon the findings of fact in Section IX of this Order, MTS rates, as a whole, should then be increased in an amount necessary to increase MTS revenues by the residual 6.0 percent.

FF 364. Based upon the two preceding findings of fact, rates for MTS should increase sufficiently to generate additional revenues of \$15,754,000.

FF 365. Basic MTS rates should be rounded to the nearest penny, with the remaining MTS rates to be rounded to the nearest five cents.

FF 366. Current short-haul basic MTS rates (rate bands 1 through 5) have contribution levels (difference between cost per message and revenue per message) well below those for basic long-haul MTS rates (rate bands 6 through 10).

FF 367. There is no compelling economic justification for such disproportionate contribution levels between basic short-haul and long-haul calls. Increasing basic short-haul MTS rates may increase requests for extended area service (EAS), but avoidance of EAS requests is not a sufficient justification for the current disproportionate contribution levels.

FF 368. It is reasonable to achieve in this docket a more even distribution of contribution levels among the ten basic MTS rate bands, although it would be inappropriate to modify basic MTS rates in such a manner as to equalize contribution levels all at once.

FF 369. Based upon the three preceding findings of fact, General Telephone Company of the Southwest's proposal to put a greater portion of the basic MTS rate increase on the first five rate bands, and a proportionately lower amount on the last five rate bands, is reasonable and worthy of adoption.

#### XXIV. Local Exchange Service

FF 370. No portion of the local service revenue increase awarded in this docket should be recovered through basic local exchange service rates. It is reasonable that rates for basic local exchange services be retained at current levels.

FF 371. The exchanges of Waxahachie, Belton, Midland, and Mission should be reclassified to the next higher local exchange group because those exchanges have outgrown their present local exchange rate groups. The exchanges of Clute-Lake Jackson and Freeport should be reclassified to the next lower exchange rate group due to the significant reductions in size experienced by those exchanges.

FF 372. It is reasonable and appropriate to reduce the monthly directory assistance call allowance per single line basic service from the present five call allowance to a three call allowance.

FF 373. It is reasonable and appropriate to eliminate the home numbering plan area offset for directory assistance charges.

#### XXV. Limitation of Liability Provisions

FF 374. The evidence does not support deletion of all restrictive liability clauses and exculpatory clauses in SWB's tariff at this time.

#### XXVI. Rate Design Summary

FF 375. It is reasonable under the record in this case and is in the public interest to allow SWB to recover the revenue deficiency found herein back to March 17, 1986, through a 50 day delay in implementation of the rate reductions for switched access and the closed end of WATS/800 Service.

CL 57. The rates and rate design guidelines set out in this Order, if properly implemented, will be just and reasonable; will not be unreasonable, prejudicial, or discriminatory; and will be sufficient and equitable if consistently applied to the proper classes of customers. They therefore satisfy the requirements of PURA Section 38.

CL 58. The rates and rate design guidelines set out in this Order, if properly implemented, comply with PURA Section 45, which precludes public utilities from rates or service practices which "make or grant any unreasonable preference or advantage to any corporation or person within any classification, or subject any corporation or person within any classification to any unreasonable prejudice or disadvantage," and prohibits utilities from establishing and maintaining "any unreasonable differences as to rates of service either as between localities or as between classes of service."

CL 59. The paramount intent of the Legislature in enacting the PURA was the continued preservation, maintenance, and encouragement of universal service in Texas.

CL 60. This Commission has broad discretion in the area of rate design, and, in general, as long as rate structures are just, reasonable, and not unreasonably discriminatory, this Commission will have complied with the principles set out in PURA. Texas Alarm and Signal Association v. Public Utility Commission, 603 S.W. 2d 766 (Tex. 1980).



CL 61. The Commission considered various methods of achieving the relation back to March 17, 1986, of SWB's revenue deficiency, including a system of surcharges and refunds and the accompanying administrative costs to SWB of such a system. Delaying implementation of rate reductions for switched access and the closed end of WATS/800 service for 50 days in order to achieve the relation back to March 17, 1986, of the revenue deficiency of SWB found herein on June 26, 1986, is reasonable, is in the public interest, and is within the Commission's discretion in the area of rate design under Texas Alarm and Signal Association v. Public Utility Commission, 603 S.W.2d 766 (Tex. 1980).

SIGNED AT AUSTIN, TEXAS on this the 24<sup>th</sup> day of September 1986.

PUBLIC UTILITY COMMISSION OF TEXAS

SIGNED:

Dennis L. Thomas  
DENNIS L. THOMAS

SIGNED:

Jo Campbell  
JO CAMPBELL

I would dissent from the Commission's Order today on three points. First, I would urge that general counsel's exception be granted and that the Commission's Order eliminate management bonuses from SWB's revenue requirement. Second, I would grant the motions for rehearing of OPC, the Cities, and Consumers Union on those points which were the basis of my dissent from the Order dated June 26, 1986, in this docket. Finally, I disagree with the use of September 23 as the starting date for counting the 50 days referred to in paragraph 4 of this Order.

SIGNED:

Peggy Ross  
PEGGY ROSSON

ATTEST:

Rhonda Colbert Ryan  
RHONDA COLBERT RYAN  
SECRETARY OF THE COMMISSION

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is

PETITION OF SOUTHWESTERN BELL  
 TELEPHONE COMPANY FOR  
 AUTHORITY TO CHANGE RATES

§  
 § PUBLIC UTILITY COMMISSION  
 §  
 § OF TEXAS  
 §  
 §

AFFIDAVIT OF DON PRICE

STATE OF TEXAS     )  
                           )  
 COUNTY OF TRAVIS    )

I, Don Price, hereby swear or affirm the following:

1. My name is Don Price. I am a Telephone Rate Analyst in the Engineering Division of the Public Utility Commission of Texas.

2. I have reviewed the calculations prepared by me and offered into evidence in this proceeding as AT&TC Exhibit 25, and have discovered an error in those calculations. That error is an understatement of the WATS-800 minutes associated with access charges in the amount of 216,672,624, or 388 percent.

3. I have also discovered an error of logic in those calculations. Since the sum of all access minutes was previously considered in arriving at the effect of the staff's recommended Carrier Common Line reduction, only the 5.43¢ CCL should be considered in calculating the DAL revenue effect. Further, only that portion of the ICAC rate that would be retained by Bell should be utilized. The result of correcting these errors in logic would be a per access minute of use rate of 6.25¢.

4. The combined effect of these errors is an understatement of the revenue effect of instituting a Dedicated Access Line charge of approximately \$7.1 million using the methodology embodied in AT&TC Exhibit 25. Therefore, the correct revenue effect should be (\$26,500,000). Calculation of that revenue effect does not consider any additional revenues resulting from eliminating the WATS prorate.

Don Price

SUBSCRIBED and SWORN to me this 11th day of July, 1986.

Joseph E Kirk

Joseph E Kirk

Notary Public in and for the State of Texas.

My Commission Expires 11-30-88

PUBLIC UTILITY COMMISSION OF TEXAS  
SOUTHWESTERN BELL RATE CASE  
DOCKET NO. 6200

REVENUE SUMMARY BY CATEGORY (\$000)  
(Corrected to Reflect Calculation of Dedicated Access Line Revenue Effect)

| REVENUE CATEGORY               | PRESENT<br>ANNUAL<br>REVENUE | COMMISSION<br>ORDERED<br>INCREASE | COMMISSION<br>ORDERED<br>REVENUE |
|--------------------------------|------------------------------|-----------------------------------|----------------------------------|
| SWITCHED ACCESS CHARGES        | \$649,758                    | (\$29,714)                        | \$620,044                        |
| AT&T WATS-CLOSED END           | 0                            | (26,500)                          | (26,500)                         |
| BILLING & COLLECTION (1)       | 67,062                       | (40,300)                          | 26,762                           |
| SPECIAL ACCESS CHARGES         | 75,306                       | 7,228                             | 82,534                           |
| INTRALATA PRIVATE LINE **      | 182,445                      | 22,954                            | 205,399                          |
| LOCAL OPERATOR CHARGES         | 0                            | 56,453                            | 56,453                           |
| BUSINESS LATE PAYMENT PENALTY  | 0                            | 8,611                             | 8,611                            |
| INTRALATA FOREIGN EXCHANGE (1) | 11,909                       | (3,091)                           | 8,818                            |
| WATS *                         | 42,159                       | 2,520                             | 44,679                           |
| MISCELLANEOUS SERVICES:        |                              |                                   |                                  |
| Centrex (exchange access)      | 12,407                       | 0                                 | 12,407                           |
| (intercom) *                   | 23,680                       | 1,416                             | 25,096                           |
| Telephone Answering Svcs *     | 2,062                        | 123                               | 2,185                            |
| Mobile Telephone *             | 7,468                        | 446                               | 7,914                            |
| ESSX-30 *                      | 1,238                        | 74                                | 1,312                            |
| DID Svc *                      | 14,335                       | 857                               | 15,192                           |
| AIOD Svc *                     | 1,182                        | 119                               | 1,301                            |
| Hotel/Motel Svc                | 13                           | 1,348                             | 1,361                            |
| Public Coin Rate               | 108,934                      | 0                                 | 108,934                          |
| Service Connections            | 116,007                      | 0                                 | 116,007                          |
| Premises Work Charges          | 12,440                       | 0                                 | 12,440                           |
| Touch-Tone Calling             | 70,605                       | 0                                 | 70,605                           |
| Custom Calling *               | 72,286                       | 4,321                             | 76,607                           |
| Other Services *               | 34,751                       | 2,077                             | 36,828                           |
| OBRA CONSTRUCTION CHARGES      | 87                           | 88                                | 175                              |
| LONG DISTANCE *                | 269,739                      | 15,754                            | 285,493                          |
| HNPA OFFSET ADJUSTMENT         | 0                            | 989                               | 989                              |
| DIRECTORY ASSISTANCE           | 51,893                       | 8,683                             | 60,576                           |
| LOCAL GROSS RECEIPTS           | 45,420                       | 751                               | 46,171                           |
| MULTI-FUNCTION SYSTEMS         | 0                            | 0                                 | 0                                |
| EXCHANGE REGROUPING            | 0                            | 217                               | 217                              |
| BASIC LOCAL EXCHANGE           | 1,000,167                    | 0                                 | 1,000,167                        |
| TOTAL                          | \$2,873,353                  | \$35,424                          | \$2,908,777                      |

ACROSS-THE-BOARD PERCENTAGE = 6.0%

NOTES: Services with "\*" denote across-the-board treatment.  
Services with "\*\*" denote twice across-the-board increase.

(1) Corrected to reflect Commission's September 10 verbal decision.

## MEMORANDUM DECISIONS

### TELEPHONE

Guadalupe Valley Telephone Cooperative, Inc., Docket No. 8087. Examiner's Report adopted October 6, 1988. Application to offer private pay telephone service.

Southwestern Bell Telephone Company, Docket No. 8132. Examiner's order adopted September 22, 1988. Applicant's request for revision to the San Antonio Metropolitan Exchange--Bracken Base Rate Area within Bexar, Guadalupe, and Comal Counties granted.

Southwestern Bell Telephone Company, Docket No. 8237. Examiner's order adopted September 22, 1988. Applicant's request for boundary area revision within Travis County granted.

GTE Southwest, Inc., Docket No. 8223. Examiner's order adopted September 22, 1988. Applicant's request to establish the Echo Hills Special Rate Area in the Texarkana Exchange within Bowie County granted.

Complaint of International Telecharge Against AT&T, Docket No. 8042. Withdrawn and dismissed without prejudice October 24, 1988.

General Telephone Company of the Southwest, Docket No. 7652. Amended Examiner's Report adopted March 10, 1988. Tariff for Centranet service approved per stipulation.

Mustang Telephone Company, Docket No. 8141. Examiner's Report adopted November 23, 1988. Request for implementation of Tel-Assistance Service Plan pursuant to PURA Section 94 approved.

Southwestern Bell Telephone Company, Docket No. 8140. Examiner's Report adopted November 23, 1988. Application to eliminate Eight-Party Rural Exchange Service and Information Terminal Service granted.

### ELECTRIC

Pedernales Electric Cooperative, Inc., Docket No. 8269. Complaint petition of James R. York dismissed with prejudice, September 19, 1988.

Pedernales Electric Cooperative, Inc., Docket No. 8264. Complaint petition of Veronica Grajczyk dismissed without prejudice, August 17, 1988.

Southwestern Electric Power Company, Docket No. 5301. Examiner's Report adopted February 15, 1984. Stipulated rate increase approved.

Texas-New Mexico Power Company, Docket No. 8095. Examiner's Report adopted with modifications September 8, 1988. \$4.6 million base rate revenue increase approved per stipulation.

Sam Rayburn G&T, Inc., Docket No. 7991. Examiner's Report adopted July 14, 1988. Stipulated case. Revenue requirement of \$49,909,523 approved.

Brazos Electric Power Cooperative, Inc., Docket No. 8009. Examiner's Report adopted October 7, 1988. Applicant's request for a transmission line and associated substation within Collin County granted.

Texas Utilities Electric Company, Docket No. 8025. Examiner's Report adopted October 7, 1988. Applicant's request to change service area boundaries within Collin County granted.

West Texas Utilities Company, Docket No. 8076. Examiner's Report adopted October 7, 1988. Applicant's request for a transmission line within Tom Green County granted.

Texas Utilities Electric Company, Docket No. 8083. Examiner's Report adopted October 7, 1988. Applicant's request for a transmission line within Fannin County granted.

Gulf States Utilities Company, Docket No. 7966, Examiner's Report adopted October 24, 1988. Commission approved stipulated standard avoided cost calculation; terms and conditions for the purchase of firm energy from qualifying facilities; and tariff sheets setting forth the methodologies for purchases of non-firm power from a qualifying facility.





