

Decision 88 03 064 MAR 23 1988⁵
ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 Pacific Bell, a corporation, for)
 authority to increase certain intra-)
 state rates and charges applicable)
 to telephone services furnished)
 within the State of California.)

Application 85-01-034
 (Filed January 22, 1985;
 amended June 17, 1985 and
 May 19, 1986)

I.85-03-078
 (Filed March 20, 1985)

And Related Matters.

OII 84
 (Filed December 2, 1980)

Case 86-11-028
 (Filed November 17, 1986)

OPINION MODIFYING DECISION 87-12-067 IN RESPONSE TO
PETITION OF CALAVERAS TELEPHONE COMPANY ET AL.

On March 11, 1988, several local exchange telephone companies (petitioners), filed a petition ¹ requesting

¹ The Petitioners are Calaveras Telephone Company, California-Oregon Telephone Co., Citizens Utilities Company of California, CP National, Ducor Telephone Company, Evans Telephone Company, GTE West Coast Incorporated, Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, Kerman Telephone Co., Pinnacles Telephone Company, The Ponderosa Telephone Co., Sierra Telephone Company, the Siskiyou Telephone Company, Tuolumne Telephone Company, and the Volcano Telephone Company.

modification of Ordering Paragraph 15a of D.87-12-067, our second interim opinion on Pacific Bell's revenue requirement. Ordering Paragraph 15a, as modified, currently provides² as follows:

"15a. Each exchange telephone company which is a party to this proceeding shall implement the transition in allocation of nontraffic sensitive (NTS) costs to intraLATA toll services prescribed in the foregoing Opinion, gradually converting from use of an allocator based on SPF to one based on SLU through six annual steps and a step for direct assignment of WATS, beginning in January 1986 and continuing in January of each year thereafter until and including January 1992, thus coinciding with the interLATA SPF to SLU transition. On or before February 29, 1988, each exchange carrier offering intraLATA WATS service shall make an Advice Letter Filing under the terms of GO 96-A to revise the appropriate tariffs to implement a flash cut conversion to direct assignment of closed end intraLATA WATS line costs and to implement an intraLATA billing surcharge on local exchange services, exclusive of intraLATA toll (inclusive of intraLATA toll private line) to offset the lost intraLATA toll settlement effects due to the SPF to SLU transition and the WATS phase-down. Thereafter each exchange telephone company shall make an Advice Letter filing under the terms of GO 96-A in coordination with each annual adjustment in its NTS cost allocator, in order to establish or revise its billing surcharge on intraLATA services, excluding intraLATA toll (inclusive of intraLATA toll private line), using the newly effective NTS cost allocator. The revenues resulting from the billing surcharge shall be administered on a bill-and-keep basis."

2 Ordering Paragraph 15a was itself modified in D.88-02-046, issued February 24, 1988.

Petitioners believe that Ordering Paragraph 15a must be modified in order to prevent certain undesirable rate impacts at this time. Petitioners have attached to their petition a schedule prepared by Pacific Bell which shows the settlement impacts of adopting two steps of intraLATA SPF to SLU, plus direct assignment of WATS on a flash-cut basis, without implementing any reduction of intraLATA toll rates at the same time. Petitioners assert that the effect of this action is to transfer funds among the pool participants in a manner that sums to zero for the pool participants as a whole. Petitioners also assert that if the surcharge for this separations shift is implemented in isolation, as required by Ordering Paragraph 15a, several companies will require negative surcharges of 33% to 50%. These surcharges would take effect with the May 1 billing cycle and be replaced two or three months later by substantial rate increases due to the settlement effects of the Pacific Bell rate design decision which will be before the Commission shortly. Petitioners assert that these high negative surcharge levels in some cases result from a particular company having an "adjusted" intraLATA SPF factor which is lower than its SLU factor. In addition, the problem is exacerbated by the need to incorporate a 12-month revenue effect into an 8-month period.

According to petitioners, the companies experiencing the largest positive settlement impacts (and thus requiring the largest negative surcharges) will also be the same companies with the largest revenue losses if the Commission, as petitioners anticipate, reduces intraLATA toll rates in its forthcoming rate design decision. This is because the companies with the highest proportional intraLATA settlement rate base distribution amounts (upon which the temporary increase in pool rate of return is being spread) will be the same companies to experience the largest degree

of negative settlement impact (requiring rate increases) if and when the Commission reduces intraLATA toll rates in its forthcoming rate design decision (Petition p. 3).

Petitioners assert that the Commission did not anticipate the magnitude of these short-lived surcharges or the degree of rate volatility they would produce when it adopted Ordering Paragraph 15a, since at that time the Commission did not anticipate a substantial delay in issuance of the rate design decision. Furthermore, Petitioners suggest that these temporary rate dislocations can be eliminated by including intraLATA separations shifts with the other settlements, separations, and rate impacts to be implemented in the forthcoming Pacific Bell rate design decision. Petitioners note that this approach was suggested to the Commission in the joint supplemental brief on High Cost Fund issues filed in this Docket on June 1, 1987.³ In the interim, Petitioners propose that, on an optional basis, the Commission authorize all rural and small metro local exchange companies (i.e., those local exchange companies other than Pacific Bell and GTE-California) to use a memorandum account. More specifically, petitioners suggest that the following language be added to Ordering Paragraph 15a:

"In lieu of use of the surcharge set forth above, any rural or small metro local exchange company (those companies other than Pacific Bell and GTE-California) may elect to accrue the net settlement impacts from January 1, 1988, in a memorandum account, the balance of which will be combined with the settlement impacts for such company resulting from the rate design decision in this Pacific Bell rate case, with the total net settlement impact to be implemented in each local company's rate design in the manner set forth in the rate

³ These high cost fund issues will be before the Commission at the time it considers the forthcoming rate design decision.

design decision. Those companies electing to adopt such a memorandum account procedure shall so notify the Executive Director by withdrawing their February 29, 1988 surcharge advice letter filings. Further, those rural and small metro local exchange companies electing to do so may combine the net settlement effect of future annual intraLATA separations changes by combining them in a single advice letter filing with other Commission-ordered settlement and separations changes under existing advice letter procedures, as the same may be modified in the rate design decision to be issued in this Pacific Bell rate case." (Petition, p. 5.)

Two of the petitioning companies, CP National and Tuolumne Telephone, have indicated that if the Commission adopts the above modification and allows the settlement effects to be carried in a memorandum account and offset against the settlement impacts of the forthcoming rate design decision, they would like the Commission's permission to withdraw a prior petition for modification filed February 29, 1988, which had suggested an alternative remedy, since they prefer the remedy suggested in the March 11th petition.

There is apparently no opposition to petitioners' request for memorandum account treatment. As petitioners note, the Commission did not intend the adoption of Ordering Paragraph 15a to result in temporary rate dislocations for the small telephone companies; indeed Ordering Paragraph 15a was a transitional provision in lieu of a concurrently adopted rate design. Pending issuance of that rate design decision, the solution that petitioners have suggested is a reasonable alternative approach which avoids undesirable rate fluctuations and protects the ratepayer interest in the interim.

We will adopt petitioners' suggestion with three minor exceptions. First, we will provide that the memorandum accounts shall accrue interest at the three-month commercial paper rate.

Second, we will not adopt the final sentence contained in petitioners' proposed modification of Ordering Paragraph 15a in this decision, given our preference to consider this issue in the forthcoming rate design decision. Finally, we will provide that the companies electing to use the memorandum account procedure shall supplement, rather than withdraw, their February 29, 1988 surcharge Advice Letter Filings.

Findings of Fact

1. Petitioners have requested a modification of Ordering Paragraph 15a of the Phase 2 decision, on the basis that its contemplated adoption of two steps of intraLATA SPF to SLU, plus direct assignment of WATS on a flash-cut basis, if implemented without any accompanying reduction in intraLATA toll rates, will transfer funds among the settlement pool participants in a manner that ultimately will result in undesirable and volatile rate impacts.

2. Petitioners suggest that by including these intraLATA separations shifts with the other settlements, separations, and rate impacts which will be implemented in its upcoming rate design decision, the Commission will avoid triggering these temporary rate dislocations, while still flowing through the entire settlement impact for each company.

3. Ordering Paragraph 15a of D.87-12-067, as modified by D.88-02-046, should be further modified as petitioners propose, to provide for election of memorandum account treatment in lieu of surcharge/surcredit treatment, in order to avoid the intraLATA settlement impacts depicted in Exhibit A to the Petition.

Conclusions of Law

1. Ordering Paragraph 15a of D.87-12-067, as modified by D.88-02-046, should be modified as more particularly set forth in the ordering paragraph below.

2. The Petition of CP National and Tuolumne Telephone for Modification of D.87-12-067, filed February 29, 1988, is effectively rendered moot by the disposition of petitioners' related March 11, 1988 Petition for Modification.

ORDER

IT IS ORDERED that:

1. Ordering Paragraph 15a of D.87-12-067 as modified by D.88-02-046, is further modified as follows:

15a. Each exchange telephone company which is a party to this proceeding shall implement the transition in allocation of non-traffic sensitive (NTS) costs to intraLATA toll services prescribed in the foregoing Opinion, gradually converting from use of an allocator based on SPF to one based on SLU through six annual steps and a step for direct assignment of WATS, beginning in January 1986 and continuing in January of each year thereafter until and including January 1992, thus coinciding with the interLATA SPF to SLU transition. On or before February 29, 1988, each exchange carrier offering intraLATA WATS service shall make an Advice Letter Filing under the terms of GO 96-A to revise the appropriate tariffs to implement a flash-cut conversion to direct assignment of closed end intraLATA WATS line costs and to implement an intraLATA billing surcharge on local exchange services, exclusive of intraLATA toll (inclusive of intraLATA toll private line) to offset the lost intraLATA toll settlement effects due to the SPF to SLU transition and the WATS phase-down. Thereafter, each exchange telephone company shall make an Advice Letter Filing under the terms of GO 96-A in coordination with each annual adjustment in its NTS cost allocator, in order to establish or revise its billing surcharge on intraLATA services, excluding intraLATA toll (inclusive of intraLATA toll private line), using the newly effective NTS cost allocator. The revenues resulting from the billing surcharge shall be administered on a bill-and-keep basis.

In lieu of use of the surcharge set forth above, any rural or small metro local exchange company (those companies other than Pacific Bell and GTE-California) may elect to accrue the net settlement impacts from January 1, 1988, in a memorandum account, the balance of which will be combined with the settlement impacts for each company resulting from the rate design decision issued in this docket, with the total net settlement impact to be implemented in each local company's rate design in the manner set forth in that decision. This memorandum account will accrue interest at a rate equal to 1/12th the interest rate on Commercial Paper (3-months) for the previous month as published in the Federal Reserve Statistical Release, G.13, or its successor. Those companies electing to adopt this memorandum account procedure shall do so by supplementing their February 29, 1988 surcharge Advice Letter Filings, on or before April 10, 1988.


2. Except as provided above, petitioners' request for modification of D.87-12-067 relative to implementation of the settlement effects of the intraLATA SPF to SLU shift, is denied without prejudice.

This order is effective today.

Dated MAR 23 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.



Victor Weisner, Executive Director