

Decision 88-12-044 December 9, 1988

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)

And Related Matters.)

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

OII 84
(Filed December 2, 1980)

C.86-11-028
(Filed November 17, 1986)

(See Decision 88-07-022 for appearances.)

OPINION MODIFYING DECISION 88-07-022

By a petition filed on November 1, 1988 twelve small independent local exchange telephone companies (LECs)¹ have requested a modification of Appendix B of Decision (D.) 88-07-022 concerning the mechanism for implementing the intrastate High Cost Fund authorized in Ordering Paragraph 64 of that Decision. These parties wish the Commission to authorize use of a surcharge, surcredit, or memorandum account option for annual revenue effect filings when the LEC can demonstrate good cause for adopting such a mechanism rather than adjusting its recurring exchange rates. They

1. The companies are CP National, Evans Telephone Company, GTE West Coast Incorporated, Happy Valley Telephone Company, Hornitos Telephone Company, Kernan Telephone Co., Pinnacles Telephone Company, Sierra Telephone Company, The Siskiyou Telephone Company, Tuolumne Telephone Company, The Volcano Telephone Company, and Winterhaven Telephone Company.

propose adding the following sentence to the end of Section B of Appendix B:

For good cause, a company may propose in its advice filing that in lieu of increases or decreases to its recurring exchange rates, it instead be authorized to utilize a surcharge, surcredit, or memorandum account to reflect the net revenue change, and such proposal shall take effect if and to the extent approved by Commission resolution.

The petition explains that such options are especially useful where net revenue increases or decreases will be reversed within a very short time due to the timing of Commission proceedings. It also emphasizes that the requested modification would only authorize the affected companies to propose such rate devices. Actual approval of the company proposal would be by Commission resolution following the LEC's advice letter filing.

The Division of Ratepayer Advocates (DRA) filed a timely response to the LEC's petition. DRA supports the proposed modification for surcredit and surcharge options, but opposes the memorandum account option, arguing that an LEC might use a memorandum account to reflect overcollections thereby depriving customers of a positive revenue requirement adjustment while passing on negative revenue requirement adjustments through billing surcharges.

DRA also recommends that the requested modification be limited to a "one time only authorization" for 1989. DRA bases this recommendation on its position that there is not a sufficient showing in the record to permanently amend the HCF implementation plan.

We agree with the petitioners that a modification allowing for surcredits or surcharges is appropriate in circumstances where revenues are expected to change within a short time period. However, we are concerned that use of memorandum accounts may unexpectedly lead to accumulation of very large

amounts of excess revenue for which no offset is available. Even when refunds with interest are later paid, overcollections are, as DRA points out, essentially unfair to ratepayers and ought to be avoided whenever possible since the means of accomplishing the refund is necessarily imperfect.

However, memorandum accounts are not unreasonable in the case where a company is already in the position of owing a very large refund, while being confined to a very small total intraLATA billing base.² We will accomplish this by allowing companies to choose to limit any surcredit to 50% of total intraLATA billing base even where that is insufficient to completely deplete an existing memorandum account. Any other outcome could result in the unacceptable possibility of negative rates.

We will not restrict this modification to the 1989 HCF filing as DRA recommends. To do so simply opens the possibility of further petitions such as the present one if large rate shifts are pending in future years when these HCF filings are due. Our determination of whether the LEC has demonstrated good cause for deviating from the preferred rate adjustments provides sufficient protection against future misuse. We see no evidentiary impediment to a general, rather than a one time restriction.

Findings of Fact

1. This petition for modification asks for authority, where good cause can be demonstrated, to choose a surcharge, surcredit, or memorandum account option for implementing annual rate changes pursuant to the provisions of the intrastate High Cost Fund authorized by D.88-07-022.

2. Use of memorandum accounts can lead to accumulation of large amounts of excess revenue for which there is no offsetting.

² This is presently true for Hornitos Telephone Company.

balance. Such overcollections are undesirable and should be avoided whenever possible.

3. DRA recommends restricting the proposed options to 1989 HCF filings.

Conclusions of Law

1. It is reasonable to provide local exchange carriers with the choice of a surcharge or surcredit rather than rate changes in conjunction with annual intrastate High Cost Fund advice letter filings where the proponent can demonstrate good cause for doing so.

2. It is reasonable to permit the use of memorandum accounts in the narrow situation where to do otherwise would result in negative or extremely low rates due to the small total intraLATA billing base of the local exchange carrier.

3. The Commission's review of an LEC's good cause showing for implementation of one of the proposed options protects against misuse by the LECs and makes restriction to only 1989 filings unnecessary.

ORDER

IT IS ORDERED that the following additional sentence be added to the end of Section B of Appendix B of Decision 88-07-022:

For good cause, a company may propose in its advice filing that in lieu of increases or decreases to its recurring intraLATA exchange rates it instead be authorized to utilize a surcharge or surcredit to reflect the net revenue change. In addition, a company may choose to limit any surcredit to 50% of its total intraLATA billing base even where that is insufficient to deplete an existing memorandum account.

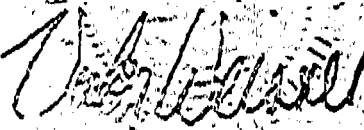
This order is effective today.

Dated DEC 9 1988, at San Francisco, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. O'HANIAN
Commissioners

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



Victor Wanger, Executive Director

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