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Decision 92-04-067 April 22, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Alternative
Regulatory Frameworks for Local
Exchange Carriers.

I.87-11-033
(Filed November 25, 1987)

In the Matter of the Application
of PACIFIC BELL (U 1001 C), a
corporation, for authority to
increase intrastate rates and
charges applicable to telephone
services furnished within the
State of California.

Application 85-01-034
(Filed January 22, 1985)

In the Matter of the Application
of General Telephone Company of
California (U 1002 C), a California
corporation, for authority to
increase and/or restructure certain
intrastate rates and charges for
telephone service.

Application 87-01-002
(Filed January 5, 1987)

And Related Matters.

I.85-03-078
OII 84
Case 86-11-028
I.87-02-025
Case 87-07-024

ORDER MODIFYING DECISIONS 89-12-048,
90-02-053, 90-03-075, AND 90-11-058

Pacific Bell (Pacific) petitions for modification of
Decisions (D.) 89-12-048, 34 CPUC 2d 155; D.90-02-053, 35 CPUC 2d
591; D.90-03-075, 36 CPUC 2d 107; and D.90-11-058, 38 CPUC 2d 269
("the four decisions"). Pacific's petition seeks to correct an
error which it made in calculating billing bases. These billing
bases were used by the Commission to establish billing surcharges
in the four decisions. Pacific seeks to correct the error on a
prospective basis.

Pacific's petition is brought under Rule 43, which provides in pertinent part:

"Petitions for modification...shall only be filed to make minor changes in a Commission decision or order. Other desired changes shall be made by application."

Division of Ratepayer Advocates (DRA) filed an opposition to Pacific's petition. DRA contends that a petition for modification is the wrong procedural approach to obtain the requested relief. (DRA does not dispute that an error was made, nor does DRA argue that the error should not be corrected.) DRA believes that Pacific should have filed an application to change the billing surcharges.

As we explained in D.89-01-044, the Commission uses several criteria to judge the propriety of using a petition as a procedural vehicle under Rule 43:

"For example, is the petition 'minor' in the sense that it addresses a discrete issue, or does it cause us to rethink all elements of a complex decision or proposal?...A petition is probably the correct vehicle in the former situation, while we would tend to require a new application in the latter. Notice considerations also play a part: Petitions in long-closed proceedings are generally disfavored because the service list is likely to be out of date." (31 CPUC 2d 677, 681.)

In the instant case, miscalculation of the billing bases is a discrete error, although its effects are somewhat complex and affect four different decisions. The financial effect of the error is relatively minor and each of the decisions is less than three years old. On balance, we find that this petition should be entertained.

In recent years, the Commission has employed surcharges (specific percentages applied to rates) to recover or refund adopted revenue changes. To implement a decision that orders a change in revenue via a surcharge or surcredit, Pacific first

determines the billing base (current overall revenue subject to surcharge) for the service. Pacific then determines a percentage which, when applied to the applicable billing base, adjusts revenues by the ordered amount. Prior to 1988, Pacific applied the same surcharge to local exchange customers and toll customers. In D.87-12-067 (Phase II of Pacific's 1986 general rate case - Application 85-01-034) we ordered Pacific to implement a specific intraLATA billing surcharge on local exchange services. Thus, for the first time Pacific was required to separate the billing bases for two categories of service (toll and exchange).

Shortly after D.87-12-067 was issued, Pacific asked the Commission to clarify that intraLATA toll private line service was a part of intraLATA toll services (toll billing base) for purposes of determining the surcharge. We granted Pacific's request in Ordering Paragraph 8 of D.88-02-046, 27 CPUC 2d 461. However, for reasons Pacific is unable to explain, it did not then transfer the toll private line charges from the exchange billing base to the toll billing base.

Nearly two years later, Pacific provided the Commission with its calculation of the toll and exchange billing bases for D.89-12-048. The information Pacific provided to the Commission erroneously assumed that Pacific had already removed the toll private line revenues from the exchange billing base and included these revenues in the toll billing base. The Commission, itself unaware of Pacific's error, accepted Pacific's calculations. As a consequence, D.89-12-048 and three subsequent decisions which have relied on the same calculations have resulted in incorrect

surcharges.¹ Because Pacific had inadvertently included \$225 million of revenues from toll private line service and other miscellaneous toll services in the exchange billing base, the calculation of the surcharge in each of the four decisions was based on the assumption that the exchange billing base was larger than it actually was.

The sum of the errors in D.89-12-048 and D.90-02-053 produced an overrecovery of approximately \$501,000 annually. The error in D.90-03-075 produced an overrecovery of \$2.3 million annually.

D.90-11-058 eliminated a specific customer charge for touchtone service and established expanded local calling areas for local exchange carriers. Because Pacific would lose revenues as a result of these changes in service, the Commission authorized Pacific to recover the lost revenue through a surcharge on exchange services. Because the exchange billing base assumed by Pacific continued to include toll private line revenues, the surcharge set by the Commission was incorrect. As of June 1991 when the local calling areas were expanded, this error produced an underrecovery of approximately \$21.3 million annually.

By August 1991, Pacific noticed that revenues decreased after expanded local calling areas were instituted. Pacific's Staff Manager of Financial Management (who is responsible for "revenue assurance") conducted an investigation of the revenue decrease. Her investigation revealed Pacific's earlier error in calculating the billing bases.

¹ Each of these decisions applied the surcharge only to the exchange billing base. There were no decisions which applied a surcharge to only the toll billing base. Surcharges that applied to both toll and exchange billing bases were correct because the overall billing base was correct.

We find that there is a clear error in the assumptions used to calculate the exchange billing base in the four decisions. It is reasonable to prospectively correct the applicable surcharges. Because we can calculate the prospective revenue effect of the billing base error, we can correct the error by making a single modification to the existing exchange surcharge. Pacific calculated the single modification to be a 0.704% increase to the existing exchange surcharge as of the filing of its petition for modification in October of 1991, or a 0.662% increase to the existing exchange surcharge if the change were to be implemented after January 1, 1992. The Commission Advisory and Compliance Division (CACD) has verified the calculation of this adjustment. We will authorize this increase of 0.662% in the exchange surcharge.

Pacific has provided the Commission with a list of specific corrections to each of the four decisions. This list is set forth as Attachment A to this decision. We provide this list for information only. Because we are adopting a single surcharge adjustment to correct for the previous errors, it is not necessary to specifically modify each of the erroneous surcharges stated in these prior decisions. It is sufficient to state that if each of these specific surcharges was corrected on a prospective basis as shown in Attachment A to this decision, the cumulative effect would be a 0.662% increase in the existing exchange surcharge.

While this error is relatively easy to fix, we are concerned that such a basic error could remain undetected for several years. The miscalculation is a very basic error in the determination of a utility's rates. We had expressly authorized Pacific to reclassify revenues, yet the reclassification did not occur.

Pacific states that it has a program to systematically review rate-related computations for possible errors. According to the declaration of Dennis Evans, Director of Regulatory

Proceedings, "Pacific comprehensively reviews all rate-related computations prepared in advance of a filing...Additionally, when the Commission issues a decision or resolution adopting a rate or revenue change, Pacific Bell employs...verification of the surcharge percent ordered by the Commission."

The procedures described by Evans appear to describe Pacific's program in theory, rather than in actual practice. The reviews described by Evans were not employed in relation to the four decisions which relied upon the erroneous calculations, or if these reviews were employed by Pacific, they were not competently performed. In fact, Pacific performed a detailed review of the computations only when it perceived a drop in revenues, and not as a routine practice in advance of each filing. We are not persuaded that Pacific would have ordered the same detailed review if the billing base error had resulted in an unexpected revenue increase of \$1.5 million per month, rather than a revenue decrease.

Evans further declares that Pacific is in the process of enhancing its monitoring and reviewing process to ensure that any future reclassifications will be promptly reflected in the accounting records. The enhancements described by Pacific are certainly needed, but they should not be limited solely to reclassifications. Effective monitoring of all revenue calculations will prevent other types of basic computational errors from occurring in the future.

Pacific should have in place a clear set of practices and procedures for monitoring and reviewing all revenue calculations. These procedures should include an express requirement that Pacific investigate both unexpected increases and decreases in revenues. These procedures should also include an express requirement that Pacific promptly report to the Commission revenue calculation errors, whether such errors result in overcollection or undercollection. We direct Pacific to submit these new procedures to CACD, within 90 days of the effective date of this order.

Findings of Fact

1. Pacific petitions for modification of D.89-12-048, D.90-02-053, D.90-03-075, and D.90-11-058.

2. For reasons Pacific is unable to explain, it did not transfer the toll private line charges from the exchange billing base to the toll billing base, as authorized by D.88-02-046.

3. Pacific provided the Commission with its calculation of the toll and exchange billing bases for D.89-12-048. The information Pacific provided to the Commission erroneously assumed that Pacific had already removed the toll private line revenues from the exchange billing base and included these revenues in the toll billing base.

4. D.89-12-048 and three subsequent decisions that have relied on the same calculations have resulted in incorrect surcharges.

5. There is a clear error in the assumptions used to calculate the exchange billing base in the four decisions.

6. It is reasonable to prospectively correct the applicable surcharges.

7. The correction will require a 0.662% increase to the existing exchange surcharge. CACD has verified the calculation of this adjustment.

Conclusions of Law

1. Pacific's petition to modify D.89-12-048, D.90-02-053, D.90-03-075, and D.90-11-058 should be granted.
2. Because Pacific is currently not recovering revenues which it would have recovered if it had correctly calculated the exchange billing base, this decision should be effective today.

O R D E R

IT IS ORDERED that:

1. The petition for modification of Decision (D.) 89-12-048, D.90-02-053, D.90-03-075, and D.90-11-058 by Pacific Bell (Pacific) is granted.
2. Within 5 days of the effective date of this order Pacific shall file an advice letter, to be effective immediately upon filing, with revised tariff sheets to implement the increase in the exchange surcharge adopted in this decision. Copies of the advice letter shall be served at the time of filing on all parties in I.87-11-033 and on anyone requesting such service.
3. Pacific shall submit to the Commission Advisory and Compliance Division (CACD) a detailed set of written procedures for monitoring and reviewing all revenue calculations subject to the jurisdiction of this Commission. These procedures shall include an express requirement that Pacific investigate both unexpected increases and decreases in revenues. These procedures shall also include an express requirement that Pacific promptly report to the Commission revenue calculation errors, whether such errors result

I.87-11-033 et al. ALJ/GLW/jft

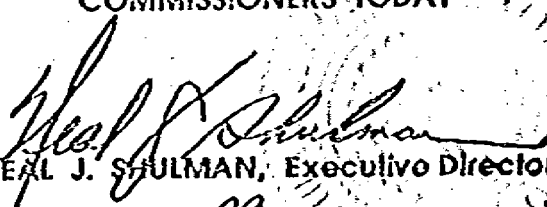
in overcollection or undercollection. Pacific shall submit an original and 3 copies of these procedures to CACD within 90 days of the effective date of this decision.

This order is effective today.

Dated April 22, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SHULMAN, Executive Director
ps

ATTACHMENT A

PROPOSED MODIFICATIONS TO DECISIONS 89-12-048, 90-02-053,
90-03-075, AND 90-11-058

D.89-12-048 - IntraLATA SPF to SLU shift, Direct Assignment of WATS - 1990 and ongoing, remove 1987-1989 one-time Direct Assignment of WATS:

Page 46, Pacific's Exchange Start-up surcharge adjustment, change from -5.968% to -5.969%.

Page 46, Pacific's Exchange IntraLATA SPF-SLU shift, change from 0.255% to 0.274%.

Page 46, Total Compliance Filing Adjustment, change from -4.035% to -4.017%.

Page 46, Exchange Total Surcharge 1/1/90, change from -9.287% to -9.269%.

Page 46, one-time refund to end 12/31/90 for 1987-89 direct assignment of WATS, change from -0.033% to -0.035%.

Page 46, Total Surcharge 1/1/91, change from -8.613% to -8.593%.

D.90-02-053 - Correction to the 1990 IntraLATA SPF-SLU shift:

Page 2, Ordering Paragraph 2, change positive 0.255% to positive 0.274%, negative 0.255% to negative 0.274%, and negative 0.510% to negative 0.548%.

D.90-03-075 - Modernization:

Page 30, Ordering Paragraph 2, change 1.1064% to 1.189%.

D.90-11-058 - Touch-Tone and Expanded Local Calling Area:

Appendix H, Table H-1, change Pacific's 2/1/91 surcharge from 4.960% to 5.344%.

Appendix H, Table H-1, change Pacific's 6/1/91 ongoing surcharge from 4.629% to 5.012%.

Appendix H, Table H-1, change Pacific 6/1/91 one-time surcharge from 0.481% to 0.520%.

Appendix H, Table H-1, change Pacific's 1/1/92 surcharge from -0.509% to -0.551%.

(END OF ATTACHMENT A)