

ORIGINAL

Decision SZ C9 030 SEP 8 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Roseville Telephone Company)
to Increase Certain Intrastate)
Rates and Charges Applicable to)
Telephone Services Furnished)
Within the State of California.)

Application 60813
(Filed August 14, 1981)

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I N D E X

<u>Subject</u>	<u>Page</u>
OPINION	2
Summary of Decision	2
Procedural Background	5
Background of Roseville	6
Public Witness Testimony	8
Summary of Issues	9
Investment Tax Credit (ITC)	11
1. Background	11
2. Roseville's Position	17
a. Reasonableness	17
b. Fairness	19
c. Eligibility	21
d. Impairment of Roseville's Ability to Raise Capital	22
3. Staff's Position	24
4. Discussion	28
Rate Base Adjustments	34
1. Capitalized Payroll Taxes and Capitalized Relief and Pension	36
a. Positions of the Parties	36
b. Discussion	40
2. Accounting for Compensated Absences	42
Rate of Return	43
Summary of Earnings	45
Rate Design	47
Service for the Handicapped	49
Findings of Fact	50
Conclusion of Law	53
ORDER	54
Appendix A - Rates and Charges	

O P I N I O N

Summary of Decision

By this application Roseville Telephone Company (Roseville) originally requested a revenue increase of \$6,693,000 or 30.5% based on test year 1982. After hearing, Roseville reduced its request to \$3.8 million. Both of these sums reflect Roseville's gross revenue requirement as well as that amount necessary to cover Roseville's settlements with The Pacific Telephone and Telegraph Company (Pacific). This decision adopts a gross revenue requirement for test year 1982 of \$2,468,000 and authorizes an increase in customer billing, after settlement, of \$3,836,000. Roseville is authorized a 13.28% return on rate base resulting in a 15.00% return on equity.

The most significant rate changes to produce the adopted revenue requirement can be summarized as follows:

1. Basic Access

	<u>Residential</u>	<u>Business</u>
<u>Roseville Main</u>		
Monthly Flat Rate (Rotary)	\$ 9.00	\$18.30
Monthly Flat Rate (Touchtone)	\$10.00	\$19.80
Trunk	\$ -	\$27.15
<u>Citrus Heights</u>		
Monthly Flat Rate (Rotary)	\$10.70	\$21.55
Monthly Flat Rate (Touchtone)	\$11.70	\$23.05
Trunk	-	\$31.85
<u>Monthly Standard Instrument Rental Rates</u>		
Rotary Dial	-	\$1.30
Touchtone	-	\$2.10

2. Service Connections

Service connection charges for those customers requesting services not requiring a premise visit are

increased by 50%. The percentage increase for services to a new customer which require a premise visit is approximately 18%.

3. Foreign Exchange Service

This service is presently being provided at flat rates for residential customers and measured rates for business customers. This decision, however, authorizes measured service for both residential and business customers. The percentage of increase or decrease experienced by those customers will therefore be dependent on usage.

4. Terminal Equipment

The charges related to terminal equipment were increased or decreased depending on any changes in the actual cost of the equipment. The most significant increase relates to the unbundling of station equipment from exchange basic access service. In addition to the applicable access charge, a customer who elects to rent a standard rotary telephone set from Roseville will be charged \$1.30.

The following table compares present and adopted rates for residential and business customers using a standard rotary telephone set or a touchtone telephone set. Touchtone service is currently available only for one-party customers.

Basic Access (Monthly)*

	<u>Present Rates**</u>		<u>Adopted Rates</u>		
	<u>Residence</u>	<u>Business</u>	<u>Residence</u>	<u>Business</u>	
<u>Roseville Main District Area</u>					
One-Party	\$6.25	\$12.50	\$10.30	\$19.60	✓
Touchtone	\$7.75	\$14.50	\$12.10	\$21.90	
Two-Party	\$5.15	-	\$ 8.70	-	
Four-Party	\$4.35	-	\$ 7.55	-	
<u>Roseville West & Folsom Lake</u>					
One-Party	\$7.25	\$13.50	\$10.30	\$19.60	✓
Touchtone	\$8.75	\$15.50	\$12.10	\$21.90	
Two-Party	\$5.25	-	\$ 8.70	-	
Four-Party	\$4.85	-	\$ 7.55	-	
<u>Citrus Heights District Area</u>					
One-Party	\$7.40	\$14.75	\$12.00	\$22.85	✓
Touchtone	\$8.90	\$16.75	\$13.80	\$25.15	
Two-Party	\$6.00	-	\$ 9.95	-	
Four-Party	\$5.10	-	\$ 8.65	-	

*Present and adopted rates include a utility-provided standard rotary telephone set. For one-party service, where touchtone service is available, present and adopted rates include a utility-provided touchtone set. The monthly increase for a one-party line customer may be reduced either by \$1.30 per month (standard rotary set) or \$2.10 per month (touchtone set) if the customer provides his own equipment.

**Present rates were authorized by D.57814 in 1959.

In addition to these rate changes, the decision also directs Roseville to implement the measured rate service plan proposed by the Commission staff (staff) beginning June 30, 1985, and the staff's recommended program of services for handicapped customers. Discussion in the decision focuses on the principal areas of disagreement between Roseville and the staff, including the

appropriate ratemaking treatment of the cumulative unamortized investment tax credit (ITC) for 1971 through 1981 and the propriety of certain staff audit adjustments.

Procedural Background

On October 29, 1981, a prehearing conference was held in this matter in San Francisco before Administrative Law Judge Sara Steck Myers. The prehearing conference was followed by five days of public hearing. Copies of Roseville's application were served and notice of hearing was published in accordance with this Commission's Rules of Practice and Procedure.

The first day of hearing was held in the City of Roseville on November 9, 1981 for the specific purpose of receiving the statements and testimony of Roseville's customers. This hearing was scheduled for both the afternoon and evening in order to afford the maximum opportunity for public witness testimony. A total of 52 customers made statements during the hearing.

The remaining four days of hearing were held in San Francisco on February 16, 17, 18, and 19, 1982. During this time, seven witnesses testified on behalf of Roseville. These witnesses included the president/chairman of the board, controller, and operations manager of Roseville, as well as four accounting and management consultants. The staff presentation was made by eight staff members, each with a background in either engineering, accounting, or economics, and each representing the staff of either the Communications or Revenue Requirements Division. A total of 33 exhibits were received into evidence.

On March 26, 1982, this matter was submitted upon the filing of concurrent briefs.¹ Roseville and the staff, however, subsequently joined in filing a Petition to Set Aside Submission on April 16, 1982. The petition is based on an Internal Revenue Service (IRS) information release which had not come to Roseville's attention until after briefs had been filed and which Roseville believes requires it to alter its position regarding the treatment of the investment tax credit allowable for 1981 property. Because the petition provides information pertinent to the resolution of this matter, we will set aside submission to consider the new facts which it contains. This application will therefore be submitted upon the effective date of this decision.

Background of Roseville

Roseville, a California corporation headquartered in the City of Roseville, provides public utility telephone service in a territory covering approximately 83 square miles in Placer and Sacramento Counties. Toll service to points outside this area is provided through a connection at Roseville with the facilities of Pacific.

Currently, Roseville has more than 74,000 telephones in service and operating revenues in excess of \$21,000,000. Roseville's total capitalization presently exceeds \$60,000,000. Its 3,500,000 shares of common stock are owned by approximately 7,000 shareholders, most of whom are individuals residing in the Sacramento area. At the time of hearing in this application, Roseville was in the process of selling \$6,000,000 in common stock, of which more than \$2,100,000 had already been sold to investors.

¹ Concurrent opening briefs were filed by both Roseville and the staff on March 23, 1982. The staff filed a reply brief on March 26, 1982.

Roseville's last authorized general rate increase was ordered in 1959.² (Decision (D.) 57814 (1959) 56 CPUC 723.) At that time, Roseville had only 9,000 telephones in service and operating revenues of less than \$1,000,000. Roseville believes that its past and anticipated future growth requires consistent upgrading of its equipment. Switching at Roseville is now 64% electronic and is intended to be fully electronic by 1985. Roseville plans to expend more than \$10,000,000 in 1982 for capital additions, including the replacement of electro-mechanical equipment at its Citrus Heights Central Office with fully electronic devices.

In his testimony, Robert L. Doyle, Roseville's president, enumerated several factors which led Roseville to refrain from seeking a general rate increase for more than 20 years. These factors included (1) a satisfactory level of company financing achieved through stock sales and long-term and short-term borrowings, (2) the receipt of toll revenues from Pacific,³ and (3) the maintenance of a rate of return consistent with those of comparable companies. Although Doyle and Mark B. Shull, Roseville's controller, verified that Roseville had filed for general rate relief in 1974, both indicated that this application was subsequently withdrawn by Roseville. Doyle explained that this action was taken once staff had determined that Roseville's earnings were sufficient and that a general rate increase was not required.

² Roseville was recently granted a rate increase, but only to cover the increased costs of accounting charges prescribed by the Federal Communications Commission (FCC). (D.93728 (1981).)

³ These revenues, referred to as settlements, are received by Roseville from Pacific to cover Roseville's separated cost of providing to Pacific extended area service and intrastate service plus a return on Roseville's investment allocated to those services.

Public Witness Testimony

Prior to hearing in this matter the Commission received numerous letters from Roseville's customers protesting the proposed rate increase. Several hundred customers attended the subsequent public witness hearing held on November 9, 1981, in Roseville. These customers provided both statements and petitions objecting to the level of rate increase sought by Roseville.⁴ Many of the customers focused on the difficulty that ratepayers on fixed incomes would have meeting this increased obligation. The absence of any lifeline allowance for telephone service as well as a customer's inability to make toll-free calls to Sacramento were found particularly burdensome. Complaints were also voiced relating to transmission and customer service problems. Among those customers critical of only the amount of the rate increase, however, a number praised Roseville's telephone operations and service.

In response to the customer statements made during hearing and its own investigation, the staff of the Communications Division prepared a report identified as Exhibit 26. Staff states that all of the service complaints made during the hearings were investigated by Roseville. If the problem was not already cured, Roseville undertook corrective action. A subsequent staff telephone survey indicated that these customers were satisfied with Roseville's efforts to provide and maintain good service. Following its review of Roseville's system, planned service improvements, and response to the public witness testimony, the staff concluded:

"Roseville Telephone Company's overall service performance level is good. The new

⁴ The petitions were signed by almost 1,000 customers, principally Citrus Heights residents. In Roseville's notice of the filing of and hearings on its application, it had stated that approval of its request would result in a 118.2% increase in rates charged to Citrus Heights' residential customers for single-party basic access line service.

electronic equipment scheduled to be installed in 1982 through 1985 will increase the capabilities of the company to provide a better quality service to its customers." (Exhibit 26 at p. 16.)

In order to satisfy ratepayer desire for a lifeline rate, measured residence service with rates less than one party flat rate residential service rates is required. As the Communications Division staff explains in Exhibit 27, however, Roseville is presently capable of offering only flat rate residential service and is therefore unable to provide any lifeline allowance for its customers at this time. In keeping with Roseville's estimate of the date on which a conversion to measured service could take place, staff urges the Commission to order Roseville to implement local measured service in its Citrus Heights District Area (DA) on or before June 30, 1985, and in its Roseville Main DA on or before March 31, 1986.

Regarding customer requests for an expanded local calling area, particularly to include Sacramento, the staff also reported that such a circumstance would require the implementation of Zone Usage Measurement (ZUM) service in the Roseville exchange as well as the entire Sacramento Extended Area. According to the staff, however, this topic must be addressed in a major rate proceeding involving Pacific in which an entire area, such as the Sacramento Extended Area, can be considered for ZUM. The staff therefore concludes that it is inappropriate to recommend any implementation of ZUM or expansion of local calling areas in this proceeding.

Summary of Issues

In its application Roseville proposed rates designed to increase annual customer billings based on test year 1982 by \$6,693,000 or 30.5%. Following a review and investigation of

Roseville's application and supporting data, staff issued its report recommending an increase in customer billings of \$2,557,000. Because of staff's use of more recent data, Roseville modified its position on certain issues to agree with the staff. Similarly, additional data provided by Roseville led staff to adjust some of its recommendations. The resulting stipulations were embodied in a jointly sponsored exhibit (Exhibit 32) which reflects the areas of agreement and disagreement. The principal contested issues relate to the following:

1. The appropriate ratemaking treatment of cumulative unamortized deferred ITC for 1971 through 1981.
2. The reasonableness of certain rate base adjustments (capitalized payroll taxes, capitalized relief and pension, and capitalized accrued vacation).
3. The appropriate rate of return within a stipulated range.

Based on the agreement reached between the two parties, Roseville lowered its requested additional annual revenues to \$4,226,000, while the staff recommendation was increased to \$2,694,000. Of this difference between Roseville and staff (\$1,532,000), the issue concerning rate treatment of ITC represented \$1,226,000. Based on the Petition to Set Aside Submission, discussed infra, Roseville's requested relief, however, underwent a further reduction to \$3,847,000.

Roseville and staff also reached an agreement concerning the appropriate rate design. (Exhibit 33.) Like the staff, Roseville believes that the change to local measured service will ensure that telephone service remains affordable to persons on fixed incomes (e.g. optional lifeline service can be offered).

● Investment Tax Credit (ITC)

The most significant disputed issue in this matter concerns the appropriate ratemaking treatment of cumulative unamortized ITC for the years 1971 through 1981. The issue, fully briefed by both parties, involves complex and somewhat unique accounting, tax, and ratemaking problems. As will be explained in the subsequent discussion, the parties' jointly filed Petition to Set Aside Submission modifies Roseville's position in keeping with the most recent IRS information release on this subject.

The basic dispute centers on the staff's contention that while Roseville treated ITC on a "flow-through" basis between 1971 to 1981, the ITC during this period should have been fully normalized. Adoption of the staff's position would result in a \$4,186,000 reduction in Roseville's rate base. Both parties have agreed that ITC arising after January 1, 1982, must be treated on a normalized basis under this Commission's D.93848 in Order Instituting Investigation (OII) 24.⁵ At one point, however, there was disagreement on whether an average or year-end figure was to be used to calculate the reserve for test year 1982.

1. Background

An examination of the legal and historical background of ITC is a necessary step toward resolving the issue of the appropriate ratemaking treatment of the ITC taken by Roseville during the period

⁵ OII 24 is this Commission's ongoing investigation into the appropriate ratemaking treatment of public utility income taxes. In D.93848 issued December 15, 1981, we concluded that conventional normalization methods should be used thereafter in order for a utility to maintain eligibility for ITC.

1971 through 1981. Because there was no provision in the law for ITC at the time of Roseville's last general rate increase in 1959, this Commission's D.57814 in that application does not address the subject.

In 1962, Congress created the ITC for the purpose, according to Roseville's counsel, of complementing accelerated depreciation as an added stimulus to private investment. The ITC was based on a percentage of the cost of qualifying plant and equipment.

Initially, the allowable credit was 3% for public utilities. In 1964 the credit was increased to 4% for all public utility enterprises except interstate gas transmission pipelines which, like manufacturing companies, were allowed a 7% credit. In that same year, Congress gave directions to federal regulatory agencies on the appropriate ratemaking treatment of the credit. Believing that immediate flow-through was inconsistent with the purpose of the credit, Congress provided that no federal regulatory agency could flow through the ITC more rapidly than ratably over the useful life of the qualifying property. Useful life was to be determined by the period of years over which depreciation of the property was computed. With the consent of the utility, the applicable 4% or 7% could be flowed through to income in the year of realization.

The ITC enacted in 1962 was repealed in 1969. In 1971, again to stimulate economic activity, Congress reenacted the credit. As part of this legislation, Congress added what is now § 46(f) to the Internal Revenue Code (I.R.C.). It was Congress' intent in drafting this section that the benefits of ITC would be shared between ratepayers and shareholders. Unlike its predecessor, however, the provisions of § 46(f) were to be applied by state, as well as federal regulatory agencies.

Section 46(f) presents three accounting options for the ratemaking treatment of ITC. Basically, Option 1 refers to the normalization method (I.R.C. § 46(f)(1)), Option 2 refers to the ratable flow-through method (I.R.C. § 46(f)(2)), and Option 3 (I.R.C. § 46(f)(3)) refers to the full flow-through method. When enacted, § 46(f) made Options 1 and 2 available to any public utility, but limited the availability of Option 3, flow-through of the ITC to income in the year of realization, to those utilities who had elected to flow through accelerated depreciation prior to 1969. Further, while all utilities were permitted to choose among any of the available options within 90 days of the enactment of the law, a failure to make an election and so inform the IRS by that time (March 9, 1972) resulted in Option 1, normalized calculation of ITC, being deemed to have been elected.

For both Options 1 and 2, the utility is required to establish a reserve for deferred ITC. Option 1 normalization allows the regulatory commission to deduct the deferral reserve from the test year rate base, but the deduction must be added back to rate base ratably over the useful life of the qualifying property. Option 2, ratable flow-through of each year's ITC to income over the useful life of the qualifying property, allows the utility to earn a return on the deferral while it is being amortized. The code specifically forbids deducting the ITC deferral from rate base in test years if Option 2, ratable flow-through, is used. (I.R.C. § 46(f)(2)(B).) It also prohibits reduction in cost of service if Option 1 is used. (I.R.C. § 46(f)(1)(A).) By operation of these requirements, a combination of these two methods is precluded.

The only IRS sanction provided for failure to comply with § 46(f) is disallowance of the ITC. This statutory sanction, however, only applies to noncompliance with § 46(f) subsections (1) (Option 1 normalization), (2) (Option 2 ratable flow-through), and (9) (additional credits), but not to § 46(f)(3) (Option 3 flow-through). (I.R.C. § 46(f)(4).) Additionally, this penalty is triggered only by the "first final" ratemaking determination which is inconsistent with § 46(f)(1), (2), or (9). In this regard § 46(f)(4)(A) provides:

"The requirements of paragraphs (1) (2) [Options 1 and 2], or (9) regarding cost of service and rate base adjustments shall not be applied to public utility property of the taxpayer to disallow the credit with respect to such property before the first final determination which is inconsistent with paragraph (1), (2), or (9)...is put into effect with respect to public utility property...of the taxpayer."

A "determination" is defined as one made with respect to public utility property by a regulatory agency which determines the effect of the allowable ITC on the taxpayer's cost of service or rate base for ratemaking purposes. (I.R.C. § 46(f)(4)(B).)

Against this legal background, Roseville's witnesses explained the actions taken by Roseville relative to ITC since the utility's last rate case in 1959. According to Mark Shull, Roseville's controller, when ITC was first available, Roseville treated it on a flow-through basis. Simultaneously, prior to 1969, Roseville took depreciation on a straight-line basis for both tax and book purposes. Roseville did not commence accelerated depreciation until 1970.

When the ITC was reenacted in 1971, Roseville commenced full flow-through of those credits from that time to the present. Shull advised this Commission in a letter dated February 9, 1972, that Roseville had elected Option 3 as its method of treating ITC. The IRS, however, was not similarly informed of this decision.

On March 23, 1972, Roseville received correspondence from its accountants (Arthur Young & Company) advising that Roseville was ineligible for Option 3 treatment because it had not elected to flow through accelerated depreciation prior to 1969. Roseville's president subsequently wrote the Commission on March 28, 1972, stating that Roseville's Option 3 election had not been effective and that its failure to make an election required it to use Option 1 for ratemaking purposes. (I.R.C. § 46(e).)

Despite this circumstance, Roseville continued to use full flow-through of ITC on its financial statements and its reports to this Commission. Roseville believed that eligibility to take ITC, the loss of which was the only sanction provided for failure to comply with § 46(f), would not be an issue until this Commission made a final determination concerning how it would treat ITC for ratemaking purposes.

Roseville sought to confirm this view with its accountants when facing an IRS audit in 1977. The accountants responded on June 28, 1977, that Roseville had not lost eligibility due to continued use of full flow-through of ITC and that it was permissible for Roseville to continue to use flow-through until such time as this Commission made a "first final" inconsistent determination. The accountants reasoned that because Roseville's last general rate case was in 1959 "the PUC has not made a determination which determines

the effect of the credit on Roseville's cost of service or rate base for ratemaking purposes in a manner inconsistent with [I.R.C. Sec. 46(f)(1)]." (Letter of June 28, 1977, attached to Exhibit 7.)

Although Roseville has never sought IRS advice on the ITC issue, the IRS audits of Roseville for 1977 and 1978 have not challenged Roseville's eligibility to flow through ITC for those years.

Following the filing date for briefs in this case, Roseville became aware of a recent IRS information release concerning the application of its transitional rules governing compliance by utilities with the Economic Recovery Tax Act of 1981 (ERTA). The release, attached to the jointly filed Petition to Set Aside Submission, states in part:

"Because [ERTA] has eliminated flow-through treatment of the investment tax credit for all public utility property placed in service after 1980, the entire investment tax credit allowable for such property shall be subject to the limitation of either Code Section 46(f)(1) [Option 1] or (f)(2) [Option 2]." (Internal Revenue News Release IR-82-25. February 12, 1982.)

Based on this determination, Roseville has concluded that in order to retain eligibility for 1981 ITC, it is required to normalize ITC for regulatory and financial reporting purposes for 1981. The petition represents the parties' agreement on this analysis of the IRS release. As a result, Roseville has reduced its request for an annual increase in customer billings from \$4,226,000 to \$3,847,000.

In the petition, staff conditions its agreement with Roseville on the news release being considered relevant only because Roseville has not had a general rate increase since 1959 and on any Commission decision adopting the stipulated position being so

limited. Staff further advises that its acceptance of ITC normalization for Roseville in 1981 should not be construed as representing staff's position with regard to any other utility regulated by the Commission.

2. Roseville's Position

Roseville contends that because it actually flowed through ITC, a rate base reduction, as recommended by the staff, is inappropriate. In support of this position Roseville argues:

1. It acted reasonably under the circumstances in flowing through ITC.
2. It would be unfair to Roseville to require a retroactive rate base reduction.
3. The proposed rate base reduction would cripple Roseville's efforts to raise capital necessary to finance future growth.
4. No rate base reduction is required by the I.R.C. and, in fact, such a reduction could provoke an IRS challenge to Roseville's eligibility for ITC during the years open to IRS audit.

Although one of Roseville's witnesses advanced the theory of a potential "constructive election" of Option 3 by Roseville, this argument was not pursued by Roseville in its brief.

a. Reasonableness

The circumstances leading to Roseville's decision to flow through ITC are outlined in Roseville's brief. First, supported by their accountant's analysis described above, Roseville believed that ITC eligibility would not become an issue until a final

Commission determination on Roseville's treatment of ITC. Second, Roseville was of the opinion that the Commission's treatment of the ITC and accelerated depreciation of Pacific and General Telephone Company of California (General) reflected Commission policy that full normalization was neither appropriate nor mandated by the I.R.C.

On this latter point, Roseville's counsel cites this Commission's D.87838 (82 CPUC 549 (1977)). Roseville argues that in that case the Commission adopted a variant of full normalization for treating the accelerated depreciation (Average Annual Adjustment ("AAA") method) and ITC (Annual Adjustment ("AA") method) of Pacific and General.⁶ Because of questions regarding the lawfulness of the "AA" method and its potential as an obstacle to eligibility for ITC, Roseville believed that adoption of that method would also be unwise. This position found support in staff comments to Roseville during this period that it would be more beneficial for Roseville to file for rate relief after the Pacific controversy was resolved.

Given the cloud cast on both normalization and the "AA" method, coupled with the advice of accountants and the staff, Roseville contends that continuing to flow through ITC until a rate proceeding was the only reasonable alternative. According to Roseville, this conclusion was further enhanced by the "very real" benefit received by ratepayers during this period due to Roseville's maintaining this position. The substance of this argument is discussed in the next subsection.

⁶ On December 15, 1981, however, the Commission abandoned these methods in favor of conventional normalization for all public utilities. We observed in D.93848 that the "AA" and "AAA" methods were designed to respond to particular circumstances which no longer prevailed since present ratemaking procedures allowed for adequate recognition of the nuances of normalization.

b. Fairness

In Roseville's opinion both Congress in enacting § 46(f) and the California Supreme Court in reviewing this Commission's treatment of ITC (City and County of San Francisco v PUC (1971) 6 Cal 3d 119, 130) have intended to ensure a balanced treatment of ITC, with neither the shareholder nor ratepayer receiving all of the tax benefit. Roseville contends that the staff's recommendation requiring a rate base reduction provides benefits beyond those resulting from either normalization or flow-through. Roseville's counsel summarizes its argument as follows:

"The reasoning behind full normalization treatment of ITC is that although federal income tax expense is not reduced for ratemaking purposes, the ratepayer benefits from the credit by a rate base reduction. This reduction is made in recognition of the fact that the credit is, in effect, cost-free capital for the utility, and that it would, in theory, be unfair to permit the utility to earn its authorized rate of return on it. This rationale is consistent with Congressional intent because it effects a sharing of the benefits between the ratepayer and the utility. This Commission and the California Supreme Court have criticized normalization as being overly generous to the utility at the expense of the ratepayer, but have acknowledged that it is this rationale that lies behind it.

'Rate Fixing Treatment of Accelerated Amortization,' Decision 59926, 57 P.U.C. 598 (1960); City of Los Angeles v. Public Utilities Commission, 15 C.3d 680, 687 (1975).

"The rationale behind normalization treatment of ITC does not permit a rate base reduction where ITC has already been flowed through, as Roseville has done. The utility has not benefited from use of any cost free capital, because the ITC immediately has been passed on to ratepayers. Indeed, the Staff witness who testified on the subject offered no justification for the Staff's proposal other than, to paraphrase, 'that is how a normalization company is treated.' Trans. 350, 11. 13-21. This response overlooks the fact that Roseville actually flowed through ITC from 1971-1981, and it mechanistically ignores the rationale underlying the rate base reduction that normalization customarily entails. What the Staff is really proposing is that the ratepayer receive 100% of the benefit of the credit when it was flowed through earlier, and another portion now by way of a rate base reduction. That is not fair, and cannot be supported by reference to any recognized rate making principle." (Roseville's concurrent opening brief at pp. 14-15.)

Roseville's counsel also cites a decision of the New Mexico Public Service Commission in which that agency concluded that a retroactive adjustment to rate base would be unfair. In that case, however, the public utility had mishandled ITC as a direct result of a previous erroneous determination by the agency. (New Mexico Public Service Commission, Case 1499, CCH Utilities Law Reports 23,028.01 (1980).)

Roseville also believes that its use of the flow-through treatment of ITC has benefited its customers. During the early years of availability of ITC, the impact on income tax expense and rate of return on total capitalization was not great because the amounts of ITC taken by Roseville were relatively small. Beginning in 1977, however, when Roseville took nearly \$800,000 in ITC, its rate of return on total capitalization was increased approximately 1-1/2% per year by use of flow-through. This same pattern was seen in succeeding years. Although acknowledging the impossibility of determining the precise benefit to its ratepayers, Roseville concludes its cost of service for financial reporting and for reporting to this Commission was substantially reduced in the latter years of this period. Further, Roseville asserts that its calculated rate of return on total capitalization and on equity was substantially increased to the point where it elected not to seek rate relief.

c. Eligibility

Relying on the testimony of William T. Diss, a senior tax partner with Arthur Young and Company, Roseville makes the following argument:

"Although §46(f)(3) [Option 3] of the Internal Revenue Code does not specifically provide for loss of eligibility under any circumstances, the idea of making a rate base reduction for a flow through utility is so repugnant to the purpose of the credit as revealed in its legislative history, and as reflected in the protections provided to utilities in §§46(f)(1) and (2) from regulatory bodies forcing them to pass on even 100% of the benefit to

ratepayers, that the IRS could logically take the position that Roseville was not eligible for ITC during open years (1977-81) under the Staff's proposal. Stated simply, the argument open to the IRS would be that if forcing a utility to pass on even 100% of the benefit of the credit to the ratepayer causes the loss of eligibility (absent an effective option 3 election), then forcing the utility to pass on more than 100% of the credit must cause the same result." (Roseville's concurrent opening brief at pp. 16-17.)

d. Impairment of Roseville's Ability to Raise Capital

This criticism of the staff's proposed rate base reduction centers on the manner in which Roseville has previously financed its operations. The factual and opinion basis for this argument was provided in testimony by Roseville's officers as well as outside consultants. According to these witnesses, Roseville holds a unique position among California utilities in its ability to consistently place additional equity in terms favorable to the utility. These highly favorable terms have resulted in part from management's decision and ability to pay stock dividends out of retained earnings prior to all 10 stock offerings which have been made since 1953. This practice has attracted local investors and the declaring of regular, although modest, cash dividends has maintained investor expectations. Additionally, Roseville's ability to acquire equity capital has enhanced its position with and the confidence of lenders.

According to Roseville, this rosy picture will be shattered by adoption of the staff's \$4 million rate base reduction. The deduction of this sum from 1981 year-end retained earnings of \$2,700,000 would result in a negative or deficit retained earnings for the year the adjustment was made. The resulting reserve would then be amortized over the life of the related property. Roseville argues this circumstance would place it in a weakened financial position and impair its ability to declare its usual stock and cash dividends. Investor interest and expectations would be greatly diminished by this circumstance especially when coupled with the disclosure or explanation of this adjustment in Roseville's financial statements, whether provided in the income statement and balance sheet or accompanying footnotes.

Roseville's counsel summarizes its view of the ultimate impact of adopting staff's recommendation as follows:

"[T]he rate base reduction being proposed by the Staff would likely cripple Roseville's ability to raise capital over the next several years. It could prevent payment of cash and stock dividends over the near term, which would damage Roseville's ability to sell equity. It might permanently damage Roseville's ability to sell equity on favorable terms. In addition, Roseville's lenders would be expected to become much more cautious. The end result of the adjustment could be expected to be much higher financing costs for debt and equity and even the possibility that Roseville would be unable to obtain the money it needs to finance the growth taking place in its service area and meet its commitments to acquire the

equipment necessary to institute local measured service by 1985. This risk alone should deter this Commission from adopting the highly questionable rate making proposal that the Staff has advanced." (Roseville's concurrent opening brief at p. 28.)

3. Staff's Position

During hearing, staff counsel Lynn Carew explained the staff's view that the appropriate ratemaking treatment of Roseville's ITC during the period 1971 through 1981 presented such unique questions that a stipulation on that issue would have been inappropriate. Staff witness Brian Chang, the senior utilities engineer making the staff's recommendation for a rate base reduction, made it clear that he was neither a tax nor financial expert. Nevertheless, taking the I.R.C. provisions at "face value", he was confronted with a situation which he felt it was his responsibility to bring to the Commission's attention: the existence of an acknowledged, for ratemaking purposes, Option 1 (normalization) utility having flowed through ITC from 1971 through 1981. Chang's response to this circumstance was to recommend the calculation of Roseville's rate base as if Roseville had normalized ITC during this period rather than flowing it through as the utility actually did.

Staff's brief demonstrates its complete awareness and understanding of Roseville's position. The staff's response to these points raised by Roseville can be summarized in the following manner:

a. Benefits to ratepayers questioned. During hearing staff counsel acknowledged that the benefits realized by either ratepayers or shareholders as a result of Roseville's decision to flow through ITC would be difficult to quantify. Nevertheless, staff

points out that while increased earnings resulting from Roseville's flow-through of ITC may have contributed to Roseville's restraint in filing for rate relief, in fact ratepayers never had the benefit of rates established on a flow-through basis. Further, much of the restraint in seeking rate relief was unquestionably due to generous toll settlements from Pacific, rather than to the increase in earnings resulting from ITC flow-through.

b. Staff recommendation consistent with ITC. Staff frames Roseville's argument relative to § 46(f) as follows: "Clearly, the thrust of Roseville's argument is that the IRS was powerless to disallow ITC under § 46(f) until Roseville had requested rate relief and the Commission had issued a final order inconsistent with § 46(f)." Staff does not believe that this Commission, like the IRS, is powerless to review Roseville's free choice of Option 3. Staff does not agree with Roseville's witness Diss that such action would violate congressional intent. According to the staff, it is not altogether clear that the ratepayers would receive a benefit from a combination of recognizing prior flow-through and ordering a rate base reduction since Roseville's cost of service was never determined on a flow-through basis. At most, all that could be said was that Roseville had exercised extraordinary restraint in refraining from seeking general rate relief for 22 years.

Staff also points out that review of Roseville's initial application indicates that Roseville, while presenting alternate methods of calculating the 1982 test year estimated rate of return, had adopted the Option 1 showing. Subsequently, only after Roseville apparently appreciated the impact of Option 1 in terms of the recommended rate base reduction did it decide to litigate the issue.

Staff asserts that the I.R.C. permits the Commission to deem Roseville an Option 1 company and make the recommended rate base reduction. (§ 46(f)(1)(B).) Further, even if the Commission decides to treat Roseville's actions as an effective Option 3 election, staff believes the Commission has the latitude to order the recommended rate base reduction, without triggering IRS disallowance, under Regulation 1.46-6(a)(3). That regulation provides, in relevant part:

"The provisions of section 46(f)(1) and (2) are limitations on the treatment of the credit for ratemaking purposes and for purposes of the taxpayer's regulated books of account only. *** If an election is made under section 46(f)(3), none of the limitations of section 46(f)(1) or (2) apply to certain section 46(f) property of the taxpayer. Thus, under the provisions of section 46(f)(3), no credit is disallowed if the credit is treated in any manner for ratemaking purposes, including any manner of treatment permitted under the limitations of section 46(f)(1) or (2)." (Emphasis added by staff.)

c. Retroactive ratemaking not involved. Staff does not regard its recommendation as retroactive ratemaking principally because Roseville's rates were last set in 1959 and the ratemaking imputation of an account for deferred ITC recommended by staff in this case spans the 1971-1981 period. As explained by staff witness Chang, the instant situation is clearly distinguishable from the hypothetical circumstance which assumes that Roseville had not withdrawn its 1974 application for rate relief. Had Roseville prosecuted that case to completion, its rates would have been set in 1974 and imputation of an account for deferred ITC in the instant proceeding which includes pre-1974 deferred credits would have been flawed for retroactivity.

d. Adoption of staff's recommendation not a factor in Roseville's ability to raise new capital. Staff also responds to Roseville's assertion that an adverse Commission determination on the ITC issue will create difficulties in Roseville's placement of debt and equity in the future. In particular, staff highlights the testimony of Roseville's own witness on this issue. That witness acknowledged that Roseville's policy of soliciting a narrowly defined group of potential shareholders already involves a certain risk that Roseville might outstrip its equity base (R.T. 218:3-21). This risk exists despite Roseville's ability to sustain very rapid growth in the 1970s.

Staff's cost of capital witness Christopher Blunt testified that, in determining Roseville's capital structure to be 40% debt/60% equity, he considered the ITC rate base reduction in terms of its effect in reducing retained earnings. It was Blunt's position that Roseville's management controls Roseville's capitalization ratio to a much greater degree than does the Commission and that Roseville's shareholders are somewhat atypical in terms of their decisions to invest. In this latter regard, Blunt testified:

"Roseville is a unique company, and we both know that they sell stock above book value. It appears to me that Roseville stockholders might not care about the book value of their shares, but are more concerned about the market value of their shares. As long as the market value stays up, they will be satisfied, because the dividends are based on market value, not book value."
(Transcript at 383-384.)

4. Discussion

At the outset, we commend the staff for its decision to fully litigate this issue before the Commission. Our struggle with the question of the appropriate ratemaking treatment for ITC and accelerated depreciation is reflected in decisions spanning the last ten years.

The reasons for the staff's concerns are clear: Roseville, having never met the condition precedent to flowing through ITC (the use of accelerated depreciation prior to 1969) and failing to make an effective election with the IRS, has been an Option 1 (normalization) utility since the reinstatement of this tax benefit in 1971. Nevertheless, from 1971 to 1981, Roseville has flowed through ITC in direct contravention of the I.R.C.

Although Roseville claims that its actions were permissible until it was in a ratemaking proceeding, we disagree with the relevance of that portion of § 46(f) on which this assertion is based. As noted earlier, § 46(f)(4)(A) provides for the disallowance of ITC, the only sanction provided under the I.R.C., only after a first final "inconsistent" determination by a regulatory agency. The ratemaking determination required in that case, however, is not a finding by the regulatory agency that the utility has used an option for which it was ineligible. Rather, it requires directions by the agency to the utility which are inconsistent with the terms of Options 1 and 2. This provision would therefore never have been triggered by a Commission decision which would likely have only ordered Roseville to abandon Option 3, an option not even addressed by this code provision, and employ Option 1.

In the event of such a decision, coupled with the apparent absence of any sanction for the improper use of Option 3, a situation could have developed in which no IRS penalty in the form of a disallowance of the credit would have been imposed. However, it is not the presence or absence of sanctions provided by the I.R.C. or a determination by this Commission which should have governed Roseville's decisions. It was clear to both Roseville and its accountants that the company was an Option 1 public utility with no opportunity, having never satisfied the prerequisites, of making an effective Option 3 election. Yet, Roseville chose to ignore this fact and continue to flow through ITC.

Examining some of Roseville's other arguments in support of its actions, we also find its reliance on our handling of Pacific's and General's ITC prior to 1981 partially misplaced. In that case (D.87838), we found, and clearly did not ignore, circumstances similar to Roseville's: ineligibility for Option 3 flow-through due to the failure to commence accelerated depreciation in a timely fashion. D.87838 reflects our displeasure at being unable to direct Pacific and General to flow through ITC. Nevertheless, we adopted methodologies for treating ITC and accelerated depreciation ("AA/AAA" method) which bore a direct relation to the option effectively elected by both of these utilities. That option was Option 2, ratable flow-through, not Option 1. With respect to Roseville's remaining arguments, we find some of them tainted by the questionable perception that apparent violations of the law should not result in adverse consequences.

Despite these shortcomings in Roseville's position, we ultimately reach the question of whether the proper response is a reduction in rate base like that proposed by the staff. Any

determination of this issue should take into consideration not only all pertinent circumstances, but also the legislative intent that ITC benefit both ratepayers and shareholders.

Although D.87838 applied only to Pacific and General, the decision fully recounts a history of varying approaches to the problem of the appropriate ratemaking treatment of ITC depending on the legislation and its judicial interpretation in effect at the time. In ultimately deciding on the "AA/AAA" method, we were guided by two important goals: to ensure that both ratepayer and utility were treated fairly and to ensure that the tax benefits were maintained. To the first end, we concluded: "Flow-through of the tax benefits accruing under accelerated depreciation and ITC is the best method of handling these benefits for the purpose of balancing the interest of the ratepayers and the companies for ratemaking purposes." (82 CPUC at 576.) Because of our concern with maintaining eligibility, however, we were unable to adopt this method for either Pacific or General. Again, in the interest of avoiding harsh treatment to either ratepayer or utility, we chose not the other extreme (normalization), but rather the specialized "AA/AAA" method as a means of properly balancing these competing interests.

It was not until December 1981 that we finally resolved this issue in favor of the use of conventional normalization by all public utilities subject to our jurisdiction. Our decision (D.93848) was prompted by the adoption of ERTA, which required that the normalization of ITC be applied to property placed in service after December 31, 1980. Although we adopted conventional normalization for all utilities, our decision still includes discussion and consideration of the "AA/AAA" methods. That discussion reflects our continued belief in the validity of those methodologies, but

recognizes that they were "controversial" and that the circumstances that first required their adoption no longer prevailed. As we stated at p. 13 of that decision:

"We agree that existing ratemaking procedures allow for adequate recognition of the nuances of normalization so that these more specialized methods are not presently required."

The opportunity to determine the appropriate ITC accounting methodology for Roseville never arose prior to 1981, the year in which D.93848 was signed. Roseville's attempt to file for general rate relief in 1974 never received review beyond the staff. Testimony received during hearing demonstrates that the staff had informed Roseville that their financial picture was so sound that no rate increase was necessary. The staff apparently also suggested to Roseville that by avoiding a rate case until resolution of the Pacific tax controversy, Roseville could maintain its enviable position of flowing through ITC.

Uncertainty about the treatment of ITC by both parties appears to have existed as late as the filing of this application in August 1981. Staff counsel states:

"Due to uncertainty about the treatment of investment tax credit, Roseville's A.60813 was prepared and submitted showing three alternate methods for calculating 1982 test year estimated rate of return . . ."

(Staff's opening concurrent brief at p. 13.)

These methods included the "Present Method" (flow-through), the "AA/AAA Method", and the "Normalized Method". According to Roseville's witness, this approach was taken at staff's request during pre-filing meetings.

Given this background, Roseville's potential confusion about the appropriate method of treating ITC appears understandable. Roseville believed that a disallowance for a credit would not occur until a rate determination and, based on our review of the statute, was faced with the potential of this sanction never being imposed. Roseville, familiar with our decisions involving Pacific and General, may therefore have correctly concluded that flow-through would best serve the interests of both ratepayer and shareholder in addition to being in keeping with Commission policy. The staff complains that the only tangible benefit to ratepayers is Roseville's decision to forestall a rate increase which may not itself even be a direct result of flowing through ITC. The staff, however, has not been able to specify any detriment caused to the ratepayer by Roseville flowing through ITC.

We note at this point staff counsel's apt observation at the outset of hearing that the benefits realized by either ratepayer or shareholder as a result of Roseville's decision to flow through ITC are difficult to quantify. A rate base reduction could, however, have serious consequences for both ratepayers and shareholders. Certainly, such a reduction could lead the IRS to question the propriety of Roseville using flow-through for the open years. While there may be argument what if anything the IRS could or would do upon such a review, such an examination would nevertheless place Roseville in a vulnerable position.

Additionally, we are concerned like Roseville of the impact of the proposed rate base reduction, even if slight, on the financial management and condition of Roseville. Roseville should in fact be applauded for its approach to financing which has no doubt

contributed to reducing the need for rate relief. However, even with "unique" investors, the absence of the type of rewards previously offered by Roseville for investment in the company could foreseeably have a demonstrable ill-effect on Roseville's ability to raise capital, especially in a weakened economy.

For these reasons, we conclude that a rate base reduction as proposed by the staff should not be adopted. The propriety of this conclusion is further enhanced by Roseville's decision to normalize ITC for 1981. As will be seen, this position will in fact result in a substantial reduction in rate base over that originally proposed by Roseville for normalization of ITC for 1982 only.

To determine the amount of the rate base reduction, we must first address a related issue. In originally calculating the ITC reserve for test year 1982, both staff and Roseville had used the full year end total of the unamortized portion. During hearings Roseville altered its position and advocated using an average figure. Roseville contends in its brief that the average is most reasonable because all rate base items are average figures and the deduction for unamortized ITC should be no different.

In its reply brief, staff altered its position on this issue to agree with Roseville. This change was based on this Commission's recent decisions with respect to the 1982 test years of Pacific and General. In those cases, we determined that the average rate base of these two utilities be reduced by an average figure representing test year deferred ITC. (D.93367 and D.82-06-054.) By using an average figure for 1982 deferred ITC, the rate base reductions proposed by staff and Roseville were changed to \$4,859,000 and \$531,000, respectively, thereby increasing the difference between the parties from an original \$4.2 million to \$4.3 million.

We will adopt, as anticipated by the staff, an average figure for deferred ITC for test year 1982. The use of an average figure is consistent with current tax law and, as noted by Roseville, the theory of normalization. By adopting this approach, Roseville's rate base will be reduced \$1,568,000, \$1,037,000 more than first proposed by Roseville. We believe that this rate base reduction is a sufficient response to Roseville's decision to flow through ITC from 1971 to 1981 with no further rate base reduction being required. Except to this extent, we otherwise reject staff's recommendation. The figure of \$1,568,000 will therefore be adopted for Roseville's average deferred ITC reserve.

Finally, we note that there was also a dispute concerning how, if staff's proposed rate base reduction were adopted, ITC on pre-1978 property would be amortized. Because we have not adopted the staff's position in this regard, the issue of the appropriate method of calculating the ITC reserve on pre-1978 property is now moot.

Rate Base Adjustments

After the filing of A.60813, the Revenue Requirements Division staff conducted its audit of Roseville's financial and accounting records. Staff's goal in making this audit was to correct past bookkeeping errors for purposes of determining test year results and to ensure that the utility had conducted its financial activities in a manner appropriate to and consistent with accepted accounting and ratemaking principles. In undertaking its audit, the staff placed primary emphasis on recorded 1979, 1980, and the first six months of 1981, while giving general consideration to the total time since Roseville's last rate case (1959). Staff's recommended adjustments resulting from the audit were summarized by staff counsel as follows:

- "1. Adoption of an IDC (Interest During Construction) fixed formula;

- "2. Adjustment of Roseville's recorded IDC from an unauthorized 10% rate to the prevailing Commission rate of 8%, thereby disallowing \$274,496 of excess IDC between 1974 and June 1981 less \$43,435 of depreciation;
- "3. Credit for 1980, of \$182,000 of direct G&A [General and Administrative] expenses, and charging this amount to construction;
- "4. Disallowance of \$6,000 of obsolete equipment (Materials and Supplies);
- "5. Transfer of \$42,000 salvage from retained earnings to the Depreciation Reserve;
- "6. Reclassification of certain phone store expenses (\$33,500) below the line, and disallowance in rate base of certain Phone Store inventory (\$23,000);
- "7. Disallowance of \$118,215, representing construction related payroll taxes overcleared for 1978, 1979, and 1980. Depreciation on the overcharge is \$15,258;
- "8. Disallowance of [\$60,906], representing construction related 'relief, pension, and workers' compensation' overcharged for 1978, 1979, and 1980. Depreciation on the overcharge is \$7,352;
- "9. Disallowance of \$970,700, representing construction related vacation, sick leave, and holidays overcleared for 1978, 1979, and 1980. Depreciation on the overcharge is \$83,048." (Staff's opening brief at pp. 4-5.)

Upon reviewing staff's audit, Roseville accepted many of the staff's adjustments. In addition, after receiving corrected data

from Roseville, the staff modified its \$970,700 disallowance reflected in Item 9 above, to \$202,000, a figure to which Roseville subsequently agreed. (See, Exhibit 32.)

During hearing, however, Roseville presented testimony disputing staff's disallowances in two categories: \$118,215 for capitalized payroll taxes and \$60,906 for capitalized relief and pension expense, less depreciation of \$15,258 and \$7,352, respectively. Roseville also sought a \$110,000 addition to rate base for accrued vacation capitalizable.

1. Capitalized Payroll Taxes and Capitalized Relief and Pension

These two issues lend themselves to a joint discussion since the staff's adjustments and Roseville's response in both cases are similar. We will follow a review of the parties' positions with our disposition of both issues.

a. Positions of the Parties

The bases for staff's adjustments were explained in staff's testimony during hearing and reiterated in staff's concurrent opening brief. In conducting its audit staff ascertained that Roseville reflected its payroll taxes (state unemployment, federal unemployment, and FICA) in three subaccounts of FCC Account 307 (Other Operating Taxes). Further, Roseville developed a rate (based upon prior years' taxes and total payroll) which it then applied to construction payroll for current years. Using this method, Roseville charged \$77,918 of \$480,264 (16.22%) to construction accounts for 1980; however, Roseville's actual 1980 construction payroll was 13.84%, rather than 16.22% of total payroll.

It is staff's position that a "normal" accounting procedure would be to set a rate, as Roseville did, and then adjust the final clearing of payroll taxes to construction for any error between the accrual rate and actual experience. This latter

adjustment was not made by Roseville with the result that Roseville overcharged its construction accounts 2.38% or \$11,430 in 1980, as well as \$10,081 in 1979, and \$96,704 in 1978, for a total of \$118,215. Staff recommends that for accounting purposes payroll taxes be charged to construction in the proportion of construction payroll to total payroll and that Roseville's rate base be reduced by the total \$118,215 less \$15,258 of depreciation.

A similar situation led staff to recommend a disallowance for Roseville's overcapitalization of certain relief and pension expenses. According to the staff, Roseville records all relief, pension, and workers' compensation in FCC Account 672, Relief and Pension. These expenses are then partially charged to the construction accounts through the clearing process for capitalization in plant in the same manner as payroll taxes.

Staff, using construction payroll as a basis, determined that, as in the case of payroll taxes, Roseville had failed to reconcile discrepancies between the accrual rate and actual experience in the relief and pensions category and overcharged a total of \$60,906. Staff again recommends that relief and pensions be charged to construction accounts in proportion to construction account payroll to total payroll and that Roseville's rate base be reduced by \$60,906 less \$7,352 of depreciation.

Roseville disputes the staff's adjustments on two basic grounds:

- (1) Staff's ratio for calculating the annual percentages used to clear payroll taxes and relief and pension to construction for the years 1978 to 1980 is erroneous.
- (2) In both cases, staff's adjustments are based on figures for 1978 which were

not recorded data for that year but rather adjustments of 1977 transactions. By doing so, staff has overstated the charges for payroll taxes and relief and pension made to construction for 1978.

With respect to Roseville's first contention, we note that the staff in calculating its annual percentages used the ratio of construction payroll excluding vacation and sick pay to total payroll including vacation and sick pay. Roseville, on the other hand, used the ratio of construction payroll excluding vacation and sick pay to the total payroll excluding vacation and sick pay. Roseville argues that logic dictates that the construction payroll and total payroll used to calculate the clearing percentage should either both exclude or both include vacation and sick pay. Staff, however, argues that to use a ratio based on total payroll excluding vacation and sick pay would fail to give proper recognition to the fact that payroll taxes apply to the employee's base salary, rather than to a salary figure excluding vacation and sick pay. As staff witness Douglas Long testified:

"The payroll taxes are charged on a person's salary remuneration, wages, and I felt that the taxes were applicable to their wages, irrespective of whether they were working on a capitalized item or on an expensed item, or even if they were on vacation or a holiday, in that if they got paid a base salary, it was that base salary that had the taxes applied to it; . . ." (Transcript at p. 395.)

Roseville also claims that staff in calculating the overcharges for capitalized payroll taxes and capitalized relief and pensions erroneously included figures which were not recorded 1978 transactions, but adjustments to 1977 figures. Regarding capitalized relief and pensions, Roseville explains that the adjustments for 1977 were the result of a Pacific separations audit. In accordance with that audit, Roseville reversed previous capitalization of relief and pension expense in the amount of \$123,238 and made a second entry to reflect the settlement effect of the increase in expense. The net result of these entries was to reduce rate base for year end 1977 by \$123,238. In the payroll tax category, Roseville contends that several adjustments were made in 1978 in its accounts reflecting payroll tax expense including two journal entries representing 1977 figures.

Roseville maintains that in both cases it had already either reduced rate base or eliminated the figures in question from rate base when staff either made the reduction or elimination again for 1978 purposes. According to Roseville, staff's failure to consider the effects of these entries prior to calculating the amount of payroll tax and relief and pension capitalized for 1978 had the effect of reducing rate base a second time for the same entry. Using its ratio and calculation of 1978 figures, Roseville argues that for the three years in question there was a net undercapitalization of relief and pension of \$27,153 and a net overcapitalization of payroll taxes of \$8,121. These figures compare to staff's assertion of an overcapitalization for 1978 to 1980 of \$118,215 and \$60,906, less depreciation, for payroll taxes and pension and relief, respectively.

During the hearing, staff maintained its position despite Roseville's testimony regarding the 1977 adjustments. Staff witness Long claimed that to verify Roseville's figures, offered as rebuttal to staff's audit, an audit of 1977 and possibly prior years would have been required. With a period of more than 20 years since the last rate increase, however, the staff was faced with a situation of determining a reasonable time upon which to base its audit. Staff chose a period of three recent years recorded data coupled with overall consideration of the period since 1959. Staff witness Long explained that professional examination would have required a thorough analysis of the underlying rationale for the 1977 adjustments and a review of its effects on plant in service for a sufficient period forward and backward, rather than a mere elimination of the 1977 dollars reflected in the journal entries in question. Given the constraints of staff's audit (the 1978-1980 time frame), such an examination was not possible within the context of this rate proceeding. In addition to staff's inability to address the cause and effect of the dollars in question, adoption of Roseville's position on the pension and relief expense figures would have required blanket acceptance of Pacific's separations audit, a step staff was apparently unwilling to take.

b. Discussion

From our review of the testimony on these issues, we have concluded that the staff's position is reasonable. Pivotal to this conclusion is our agreement with the staff that Roseville erred in failing to adjust the final clearing of its payroll tax and relief and pension expenses to construction for any discrepancies between the accrual rate and actual experience during 1978 to 1980. Faced

with more than 20 years since Roseville's last rate case, the staff was unavoidably confronted with the necessity of choosing a manageable time period which would be subject to its audit. We find the time chosen and approach taken by the staff in each instance to be reasonable.

While Roseville may claim that certain figures were not properly addressed by the staff in conducting its audit relative to capitalized payroll taxes and capitalized relief and pension, the staff's testimony conclusively demonstrates that Roseville committed the same error in calculating those charges in each of the three years covered by the audit. Because Roseville presented its 1977 adjustments as rebuttal to the staff's testimony, however, staff was not given an opportunity to verify the impact of those adjustments since such an analysis would have required an examination of years prior to 1978, the point at which staff's audit commenced. There is definitely a strong inference that such a review might have provided not only a different view of the adjustments than proposed by Roseville, but also may have revealed another period in which Roseville had repeated its error and overcharged these expenses to construction. Under such circumstances, a further reduction to rate base could have been required. As staff counsel points out, because of the limits which staff set on its audit, it was also unable to examine the Pacific separations agreement which resulted in some of the 1977 adjustments to relief and pension expenses which were made in 1978.

We are additionally persuaded of the soundness of staff's recommendation that payroll taxes and relief and pension be charged to construction in the proportion of construction payroll

excluding vacation and sick pay to total payroll including vacation and sick pay. The sole argument offered by Roseville for this ratio being based on total payroll excluding vacation and sick pay is that both sides of the ratio should either include or exclude this item. In fact, the staff and Roseville are in agreement that the numerator of the ratio (construction payroll) should exclude vacation and sick pay. Further, the staff's basis for including vacation and sick pay in the denominator is consistent with what it represents: total payroll.

We therefore adopt the staff's recommendations to reduce rate base for both capitalized payroll taxes and capitalized pension and relief. We will disallow \$118,215 less \$15,258 of depreciation for capitalized payroll taxes and \$60,906 less \$7,352 of depreciation for capitalized pension and relief.

2. Accounting for Compensated Absences

On December 31, 1981, six months after the close of the staff audit, Financial Accounting Standards Board Statement No. 43 ("Accounting for Compensated Absences") (F.A.S.B. 43) became effective. In accordance with F.A.S.B. 43, Roseville established a liability account for vacations earned, but not taken, as of December 31, 1981. This liability account includes approximately \$425,000 in accrued vacation for plant personnel, general accounting personnel, and executive personnel. Telephone plant is increased to the extent that portions of the charges for the above departments are capitalized.

During hearing, Roseville presented testimony on the impact of the establishment of this account on rate base. According to its witness, Roseville calculated the total liability accrued for each of the subject departments. This liability was then multiplied by a

historical percentage of payroll capitalized to determine the portion related to telephone plant. Based on this calculation, Roseville has proposed an addition of \$110,000 to 1982 beginning-of-year telephone plant and the addition of \$25,000 accumulated depreciation to the end-of-year depreciation reserve.

It is Roseville's position that its proposed addition to telephone plant should be adopted on the grounds that it explained its calculation and staff "introduced no evidence to challenge these calculations or question them in any way." (Roseville's opening brief at pp. 39-40.) In fact, however, staff witness Long had responded that F.A.S.B. 43 had not become effective until December 31, 1981, six months following the close of his audit. Although believing that Roseville has attempted to comply with F.A.S.B. 43, staff had not examined any of the calculations underlying Roseville's proposed addition to telephone plant nor had staff reviewed the reasonableness of the specific dollar amounts.

While we have no evidence to dispute that Roseville has attempted to comply with F.A.S.B. 43, the timing of its adoption has left us with a record void of any independent review of Roseville's calculations. Under these circumstances, we are reluctant to make the addition to telephone plant proposed by Roseville at this time. Our adopted figure for rate base will therefore not include the addition of \$110,000 for telephone plant.

Rate of Return

In its application Roseville requested a 13.8% rate of return based on a 10.2% embedded cost of debt and a 17.0% return on equity for test year 1982. In response staff estimated a 10.69% average cost of debt and recommended a rate of return of 13.13% to

13.43% equating to a return on equity of 14.75% to 15.25%. As part of its subsequent stipulation with the staff, Roseville accepted this rate of return range as reasonable.

The parties disagreed, however, on which end of the rate of return range would be most appropriate depending on our resolution of the issue related to Roseville's flow-through of ITC. Roseville asserted that the higher end of the range (15.25%) was more reasonable if the staff's proposed rate base reduction was adopted. Specifically, Roseville argued that the negative impact on retained earnings of a rate base reduction as proposed by the staff would in turn reduce the percentage of equity in Roseville's capital structure. As a result, Roseville's counsel states:

"[S]tockholders are further back in behind a greater proportion of debt with respect to their share of company earnings...are exposed to a higher risk. Therefore, they are entitled to a higher return, all other things being equal." (Roseville's opening brief at p. 31.)

During hearing the staff conceded that the higher end of its range might be applicable assuming the staff prevailed on the ITC issue. The staff witness, however, did not identify the exact percentage figure which should be adopted and further urged the Commission to adopt the lower end of its recommended rate of return range should the staff's rate base reduction not be adopted.

Our resolution of the ITC issue, which we have previously discussed, results in a rate base reduction which, although not as extensive as recommended by the staff, is greater than that originally estimated by Roseville. We have reviewed the staff's testimony and concluded that the impact of our decision need not be compensated through any adjustment of rate of return. We find the

midpoint of both ranges proposed by the staff to be reasonable and will therefore adopt a 13.28% rate of return on total rate base, which results in a 15.00% return on equity. Roseville is a growing utility which traditionally has sold its common stock directly, primarily to persons living in its service territory. It has been able to sell its stock at above book value. There was no indication in the record that this situation would change.

Summary of Earnings

The following table reflects the summary of earnings for Roseville at present rates based on the positions of staff and Roseville as well as our adopted figures in each category listed. Our decision in this case will result in a gross revenue requirement for test year 1982 of \$2,468,000. Because of the additional revenues needed for Roseville to meet its settlement obligation to Pacific, Roseville will be allowed to increase customer billings by \$3,836,000.

TABLE 1

THE ROSEVILLE TELEPHONE COMPANY
ESTIMATED AND ADOPTED SUMMARY OF EARNINGS
TEST YEAR 1982 - PRESENT RATES

Item	Staff	*Utility (Dollars in Thousands)	Adopted	
			Total Company	Intrastate
Operating Revenues				
Local Service	\$ 7,968	\$ 7,968	\$ 7,968	\$ 7,968
Extended Area Service	5,669	5,683	5,669	5,669
Message Toll	14,147	14,164	14,147	9,843
Miscellaneous	<u>1,605</u>	<u>1,605</u>	<u>1,605</u>	<u>1,605</u>
Total Revenues	29,389	29,420	29,389	25,085
Uncollectibles	<u>265</u>	<u>265</u>	<u>265</u>	<u>212</u>
Total Operating Revenues	29,124	29,155	29,124	24,873
Operating Expenses				
Maintenance	5,046	5,046	5,046	4,297
Traffic	1,578	1,578	1,578	1,345
Commercial	1,960	1,960	1,960	1,792
General Office Expense	2,644	2,644	2,644	2,341
Other Operating Expense	<u>1,670</u>	<u>1,670</u>	<u>1,670</u>	<u>1,434</u>
Subtotal	12,898	12,898	12,898	11,209
Depreciation Expense	4,388	4,396	4,388	3,808
Amortization	346	346	346	300
Prop. & Other Taxes	720	720	720	622
Payroll Taxes	542	542	542	468
State Income Tax	728	712	713	581
Federal Income Tax	<u>3,131</u>	<u>3,062</u>	<u>3,067</u>	<u>2,498</u>
Net Operating Expenses	22,753	22,676	22,674	19,486
Net Operating Revenues	6,371	6,479	6,450	5,387
Rate Base				
Plant in Service	81,141	81,449	81,141	69,976
Materials & Supplies	349	349	349	301
Working Cash	1,561	1,561	1,561	1,346
Less: Depr. Resrv.	18,041	18,097	18,041	15,559
Def. Tax Resrv.	5,990	5,990	5,990	5,166
Avg. Def. ITC Res.	<u>4,859</u>	<u>531</u>	<u>1,568</u>	<u>1,352</u>
Total Rate Base	\$54,161	\$58,741	\$57,452	\$49,546
Rate of Return	11.76%	11.03%	11.23%	10.87%

* Before Petition to Set Aside Submission.

Rate Design

Among the stipulated issues, Roseville and the staff also reached an agreement on rate design. That agreement is embodied in Exhibit 33 which sets forth three alternatives entitled as follows: (1) Initial Rate Design, based on a revenue requirement of \$1,641,000 (\$2,557,000 customer billings); (2) Alternative Rate Design I, based on a revenue requirement of \$2,580,800 (\$4,000,000 customer billings); and (3) Alternative Rate Design II, based on a revenue requirement greater than \$2,580,800.

We have reviewed Exhibit 33 and concluded that Alternative Rate Design I is the most reasonable means of yielding our adopted revenue requirement of \$2,468,000 and \$3,836,000 in customer billings. Because our adopted figures are below those contemplated by Alternative Rate Design I, we will be able to employ this rate design while also eliminating the necessity of the staff-proposed surcharge of \$120,000 and making only slight adjustments to the basic exchange rates originally proposed in Alternative Rate Design I. The following table reflects the rate designs first proposed by Roseville, those included in Exhibit 33, and that adopted by this decision.

TABLE 2

	Utility	Initial	Exhibit 33 Proposals		Adopted
			Alt. Rate Design I	Alt. Rate Design II	
			(000) Omitted		
Unbundling	(164.1)	-	-	-	-
Terminal Equipment					
Supplemental Equipment	37.2	25.5	25.5	25.5	31.5
Telephone Sets	187.8	1,502.6	1,502.6	1,502.6	1,471.3
Key Telephone Systems	(24.2)	(18.1)	(18.1)	(18.1)	(23.9)
PBX & Answering Services	77.6	83.8	83.8	83.8	83.8
Loudspeaker Paging Systems	.5	1.8	1.8	1.8	1.8
Dataphone Service	1.0	.9	.9	.9	.9
Protective Connection Arrangements	2.2	1.2	1.2	1.2	1.2
Touch Calling Service	-*	-	-	-	-
Wide Area Telephone Service	-	11.2	11.2	11.2	11.2
Directory Listing/Joint User/Interexchange Receiving Ser.	54.0	47.2	47.2	47.2	47.2
Custom Calling Service	20.3	20.1	20.1	20.1	20.1
Multi-Element Service					
Connection Charge	227.1	167.1	167.1	167.1	167.1
Mileage Rates	98.7	33.9	98.1	98.1	98.1
Foreign Exchange Service					
Residence Access	479.0	2.9	102.2	336.3	102.2
Business Access	456.3**	(22.7)	141.8	429.4	141.8
Mileage	322.1	161.1	322.1	322.1	322.1
Rotary Number	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Message Units					
Residence	116.1	116.1	116.1	116.1	116.1
Business	76.9	115.5	115.5	115.5	115.5
Foreign Exchange Service Total	1,446.4	368.9	793.7	1,315.4	793.7
Toll Terminal Service	-	.9	1.2	1.6	1.2
Basic Exchange Service					
Residence Access	3,750.2	628.4	1,269.9	2,010.5	1,248.9
Business Access	993.4	118.3	373.0	580.6	381.0
Coin Semipublic Access	42.4	16.8	24.1	32.2	24.4
Extension Station	-*	(513.5)	(513.5)	(513.5)	(513.5)
Basic Exchange Service Total	4,786.0	320.0	1,153.5	2,109.8	1,140.8
Service for the Handicapped	-	(10.0)	(10.0)	(10.0)	(10.0)
Billing Charge	-	-	120.2	41.8	-
Total	6,750.5	2,557.0	4,000.0	5,400.0	3,836.0

(Red Figure)

* Revenue effect is incorporated in unbundling exhibit.

** Correction - Business Trunks were not included.

As noted previously in Exhibit 27 the staff recommends that the Commission order Roseville to implement the measured service rate plan attached to that exhibit on or before June 30, 1985, for the Citrus Heights DA and on or before March 31, 1986, for the Roseville Main DA. Staff proposes that the plan should be filed by advice letter and become effective upon resolution approval by the Commission. Staff further recommends that all affected customers be provided written notice of the implementation of the plan 60 days prior to that implementation.

The benefits which will be realized by Roseville's customers as a result of local measured service have been reviewed earlier in this decision. Among other things, the measured service plan proposed by the staff will permit the institution of a residual measured rate service at a rate less than flat rate service, as well as the ultimate expansion of the local calling area, issues which were the focus of much of the public witness testimony. We believe that the staff's recommendations provide an expedient and reasonable means of achieving this additional service and will therefore adopt the staff's proposals contained in Exhibit 27.

Service for the Handicapped

Roseville also agreed to the recommendations contained in the staff's report "Recommended Program of Services for Handicapped Customers" (Exhibit 25). The exhibit, admitted into evidence by stipulation, recommends an initial allowance of \$10,000 per year to restore the shortfall in billing which results from the 50% discount allowed certified handicapped customers on specialized terminal equipment. Table 2 included in our discussion of rate design incorporates this provision. We will adopt this figure and direct

Roseville to file tariffs consistent with the recommendations contained in Exhibit 25. We will also order Roseville to publicize the program, track the response, and report the financial impact semiannually to the Commission until further order.

Findings of Fact

1. By this application, Roseville requests an annual increase in customer billing revenues of \$6,693,000.

2. Properly noticed hearings were held in this application at which all parties, including the public, were given an opportunity to participate.

3. While this application was submitted upon the filing of concurrent briefs, it is necessary to grant the Petition to Set Aside Submission, jointly filed by Roseville and the staff, to receive recent information critical to the resolution of this application.

4. Roseville's present overall level of telephone service is good; new electronic equipment scheduled for installation between 1982 and 1985 will enable Roseville to provide better quality service to its customers.

5. In general, the results of operations estimated for test year 1982 by the staff, and refined by data provided by Roseville, are based on more recent data than used by Roseville for its original estimate and, for the most part, are concurred in by Roseville.

6. Based on the agreement reached between staff and Roseville during hearing and Roseville's further modification of its position in the Petition to Set Aside Submission, Roseville's results of operations and rate of return for test year 1982 would require an increase in customer billing of \$3,847,000.

7. Adoption of the staff's estimated results of operations and rate of return for test year 1982 would require an increase in customer billing of \$2,694,000.

8. Except for staff's recommendation for a rate base reduction related to cumulative unamortized deferred ITC for 1971 through 1981, the staff's estimate of operating revenues, operating expenses, and rate base for the test year, as stated in Exhibit 32, is reasonable and should be adopted.

9. A determination of the proper ratemaking treatment of Roseville's cumulative unamortized ITC for 1971 through 1981 involves consideration of complex and somewhat unique accounting, tax, and ratemaking problems.

10. Under the applicable federal legislation, Roseville was given three accounting options for the ratemaking treatment of ITC; Option 1, normalized calculation of ITC, has been deemed to apply to Roseville since 1971.

11. Roseville treated ITC on a flow-through or Option 3 basis from 1971 through 1981.

12. Advice from accountants and the staff, coupled with decisions by the California Supreme Court and this Commission, led Roseville to continue to flow through ITC between 1971 and 1981.

13. Under the circumstances existing during 1971 through 1981, some justification existed for Roseville to flow through ITC.

14. ITC is a benefit to be shared by ratepayers and shareholders, and the Commission should endeavor to ensure that this tax benefit is maintained.

15. The rate base reduction proposed by the staff is not an appropriate response to Roseville's flow-through of ITC from 1971 through 1981, and its adoption could have a negative impact on Roseville's ratepayers and shareholders alike.

16. It is reasonable to require Roseville to treat ITC on a normalized basis beginning January 1, 1981.

17. In calculating ITC reserve, required for normalized ITC, for test year 1982 an average figure, as opposed to the full year-end total of the unamortized portion, is reasonable and should be adopted.

18. Normalization of ITC for 1981 and 1982 requires a reduction of Roseville's rate base by \$1,568,000, \$1,037,000 more than first proposed by Roseville.

19. A rate base reduction of \$1,568,000 is a reasonable response to Roseville's decision to flow through ITC from 1971 to 1981.

20. The staff's downward adjustments in rate base for capitalized payroll taxes (\$118,215 less \$15,258 of depreciation) and capitalized relief and pension (\$60,906 less \$7,352 of depreciation) are reasonable and should be adopted.

21. Roseville's payroll taxes and relief and pension should be charged to construction accounts in the proportion of construction payroll excluding vacation and sick pay to total payroll including vacation and sick pay.

22. An insufficient basis exists at this time to add \$110,000 to telephone plant related to Roseville's liability account for vacations earned, but not taken (F.A.S.B. 43).

23. A rate of return on common stock equity of 15.00% and an overall rate of return of 13.28% for the test year 1982 are reasonable.

24. The adopted results of operations and rate of return for test year 1982 result in a gross revenue requirement of \$2,468,000 and an increase in customer billings of \$3,836,000.

25. The rate design identified as Alternative Rate Design I in the jointly sponsored Exhibit 33 is the most reasonable means of yielding our adopted revenue requirement of \$2,468,000 and customer billings increase of \$3,836,000.

26. The implementation of measured service rates by Roseville will permit the institution of residence measured rate service, as well as the ultimate expansion of the local calling area, issues of much concern to Roseville's customers.

27. The staff's proposed measured service rate plan attached to Exhibit 27 is reasonable and should be implemented on or before June 30, 1985, in Roseville's Citrus Heights DA and on or before March 31, 1986, in its Roseville Main DA.

28. The measured service rate plan should be filed by Roseville by advice letter and its implementation noticed by customer bill insert 60 days prior to implementation.

29. The staff's recommended program of services for the handicapped, including the estimated initial allowance of \$10,000 per year, is reasonable and should be adopted.

30. Roseville should file tariffs which provide a program of services for handicapped customers consistent with the recommendations in the staff's Exhibit 25.

31. Because there is an immediate need for the rate relief authorized, this decision should become effective today.

32. The cost of service adopted herein is based on conventional normalization methods as mandated by the Economic Recovery Act of 1981 consistent with Commission D.93848 dated December 15, 1981 in Order Instituting Investigation 24.

Conclusion of Law

Roseville should be authorized to place into effect the increased rates found to be just and reasonable in the foregoing findings of fact.

O R D E R

IT IS ORDERED that:

1. Roseville Telephone Company (Roseville) is authorized to file with this Commission, 15 days after the effective date of this order, in conformity with the provision of General Order 96-A, revised tariff schedules with rates, charges, and conditions modified as set forth in Appendix A. The effective date of the revised tariff sheets shall be 5 days after the date of filing. The revised tariff schedules shall apply to service rendered on and after the effective date of the revised schedules.

2. Roseville shall implement measured service rates in its Citrus Height District Area on or before June 30, 1985, and in its Roseville Main District Area on or before March 31, 1986. Roseville shall file an advice letter for approval of the measured service rate plan for these district areas outlined in Exhibit 27. This filing shall be made no later than 6 months prior to its implementation. Roseville shall notify all affected customers of the implementation of the plan by bill insert mailed 60 days prior to that implementation.

3. Roseville shall file with the Commission, 15 days after the effective date of this order, in conformity with the provisions of General Order 96-A, tariffs providing a program of service for handicapped customers consistent with Exhibit 25. The tariffs shall be effective 5 days after the date of filing. The program shall be publicized by bill inserts immediately following the effective date. Roseville shall track the response to the program of handicapped services and its financial impact, and shall report thereon to the Commission semiannually beginning six months after the effective date of the tariffs establishing the program until further order.

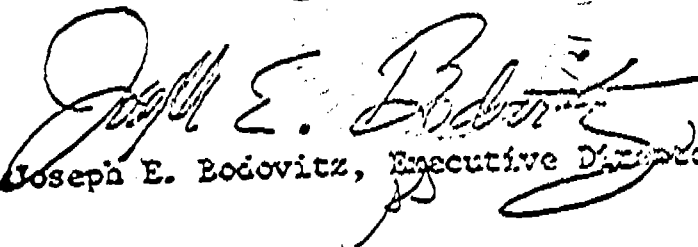
4. This matter is submitted and closed upon the effective date of this decision.

This order is effective today.

Dated SEP 8 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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


Joseph E. Bođovitz, Executive Director

APPENDIX A
 Page 1
 RATES AND CHARGES

The rates, charges, and conditions of Roseville Telephone Company are changed as set forth below.

Schedules Nos. A-1, A-2, and A-19 - Basic Exchange Service; Semipublic Coin Box Service; Toll Terminal Service

The following rates and revisions are authorized:

<u>Class and Grade of Service</u>	<u>Monthly Rate (Flat Rates)</u>
<u>Roseville Base Rate Area, Roseville West and Folsom Lake SRA's</u>	
Business	
Flat Business Line	\$18.30
Business Answering Line	18.30
Semipublic Coin Box	18.30
Trunk	27.15
Toll Terminal Line	27.15
Residence	
One-party	9.00
Two-party	7.40
Four-party	6.25
<u>Roseville's Citrus Heights District Area</u>	
Business	
Flat Business Line	21.55
Business Answering Line	21.55
Semipublic Coin Box	21.55
Trunk	31.85
Toll Terminal Line	31.85
Residence	
One-party	10.70
Two-party	8.65
Four-party	7.35

APPENDIX A
Page 2
RATES AND CHARGES

Schedules Nos. A-4, A-33 and G-1 - Mileage Rates

The proposed revisions as set forth in Exhibit No. 29, Appendix O, are authorized.

Schedules Nos. A-5, A-6, A-7, A-9, and A-33 - PBX and Answering Services

The proposed revisions as set forth in Exhibit No. 29, Appendix D are authorized.

Schedules Nos. A-14, A-13 and A-8 - Directory Listings; Joint User Service; Interexchange Receiving Service

The proposed revisions as set forth in Exhibit No. 29, Appendix I are authorized.

Schedule No. A-10 - Wide Area Telephone Service (WATS)

The utility is authorized to adopt the rates and charges applicable to WATS as set forth in The Pacific Telephone and Telegraph Company's Cal. P.U.C. Schedule No. 128-T.

Schedule No. A-12 - Touch Calling Service

The proposed revisions as set forth in Exhibit No. 29, Appendix H are authorized.

Schedule No. A-15 - Supplemental Equipment

The proposed revisions as set forth in Exhibit No. 33, Appendix A-1 are authorized.

Schedule No. A-20 - Foreign Exchange Service

The proposed revisions as set forth in Exhibit No. 29, pages 2-13 through 2-15 and Appendix P, Alternate Rate Design I, are authorized.

Schedule No. A-21 - Key Telephone Systems

The proposed revisions as set forth in Exhibit No. 33, Appendix C-1 are authorized.

Schedule No. A-24 - Dataphone Service

The proposed revisions as set forth in Exhibit No. 29, Appendix F are authorized.

Schedule No. A-25 - Protective Connecting Arrangements

The proposed revisions as set forth in Exhibit No. 29, Appendix G are authorized.

APPENDIX A
Page 3
RATES AND CHARGES

Schedule A-26 - Visit Charge

The proposed revisions as set forth in Exhibit No. 29, Appendix N are authorized.

Schedules A-29 and A-29 - Custom Calling Service; Remote Call Forwarding Service

The proposed revisions as set forth in Exhibit No. 29, Appendix J are authorized.

Schedule A-31 - Loudspeaker Paging Systems

The proposed revisions as set forth in Exhibit No. 29, Appendix E are authorized.

Schedule No. A-35 - Multielement Service Connection Charges

The proposed revisions as set forth in Exhibit No. 11, page 70 are authorized.

Schedule No. A-41 - Telephone Sets

The proposed revisions as set forth in Exhibit No. 33, Appendix B-1 are authorized.

(END OF APPENDIX A)

Basic Access (Monthly)*

	<u>Present Rates**</u>		<u>Adopted Rates</u>	
	<u>Residence</u>	<u>Business</u>	<u>Residence</u>	<u>Business</u>
<u>Roseville Main District Area</u>				
SS One-Party	\$6.25	\$12.50	\$10.30	\$19.60
SS One-Party Touchtone	\$7.75	\$14.50	\$12.10	\$21.90
Two-Party	\$5.15	-	\$ 8.70	-
Four-Party	\$4.35	-	\$ 7.55	-
<u>Roseville West & Folsom Lake</u>				
SS One-Party	\$7.25	\$13.50	\$10.30	\$19.60
SS One-Party Touchtone	\$8.75	\$15.50	\$12.10	\$21.90
Two-Party	\$5.25	-	\$ 8.70	-
Four-Party	\$4.85	-	\$ 7.55	-
<u>Citrus Heights District Area</u>				
SS One-Party	\$7.40	\$14.75	\$12.00	\$22.85
SS One-Party Touchtone	\$8.90	\$16.75	\$13.80	\$25.15
Two-Party	\$6.00	-	\$ 9.95	-
Four-Party	\$5.10	-	\$ 8.65	-

*Present and adopted rates include a utility-provided standard rotary telephone set. For one-party service, where touchtone service is available, present and adopted rates include a utility-provided touchtone set. The monthly increase for a one-party line customer may be reduced either by \$1.30 per month (standard rotary set) or \$2.10 per month (touchtone set) if the customer provides his own equipment.

**Present rates were authorized by D.57814 in 1959.

In addition to these rate changes, the decision also directs Roseville to implement the measured rate service plan proposed by the Commission staff (staff) beginning June 30, 1985, and the staff's recommended program of services for handicapped customers. Discussion in the decision focuses on the principal areas of disagreement between Roseville and the staff, including the

25. The rate design identified as Alternative Rate Design I in the jointly sponsored Exhibit 33 is the most reasonable means of yielding our adopted revenue requirement of \$2,468,000 and customer billings increase of \$3,836,000.

26. The implementation of measured service rates by Roseville will permit the institution of residence measured rate service, as well as the ultimate expansion of the local calling area, issues of much concern to Roseville's customers.

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28. The measured service rate plan should be filed by Roseville by advice letter and its implementation noticed by customer bill insert 60 days prior to implementation.

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30. Roseville should file tariffs which provide a program of services for handicapped customers consistent with the recommendations in the staff's Exhibit 25.

31. Because there is an immediate need for the rate relief authorized, this decision should become effective today.

SS ²²
Conclusion of Law

Roseville should be authorized to place into effect the increased rates found to be just and reasonable in the foregoing findings of fact.