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Decision 93127 JUN 2 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for authority to increase certain intrastate rates and charges applicable to telephone services furnished within the State of California.	Application No. 58223 (Filed July 14, 1978)
Investigation on the Commission's own motion into the rates, tolls, rules, charges, operations, costs, separations, inter-company settlements, contracts, service, and facilities of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a California corporation; and of all the telephone corporations listed in Appendix A, attached hereto.	OII 21 (Filed July 25, 1978)

(See Decision 90642 for appearances.)

SUPPLEMENTAL OPINION ON REFUNDS

Decision (D.) 92703, dated February 18, 1981, ordered The Pacific Telephone and Telegraph Company (Pacific) to refund overcollections of $20.9 million. The overcollection resulted from the additional 90-day delay authorized in D.90919, for implementing the Zone Usage Measurement (ZUM) plan ordered in D.90642 (Application 58223).

Ordering Paragraph 1 of D.92703 ordered Pacific to file for Commission approval within 30 days of the effective date of D.92703 a plan to refund the $20.9 million plus interest. In compliance with this ordering paragraph, Pacific filed its proposed Refund Plan on April 16, 1981, which is attached as Appendix A.

The proposed Refund Plan by Pacific, with but one exception explained in the next paragraph, is in accordance with D.92703. It provides refunds to customers receiving service on March 20, 1981 (the effective date of D.92703) who were subject to the ZUM plan. The refund will be distributed on a pro rata basis using monthly recurring exchange charges. Interest, compounded monthly, on the basic refund amount overcollected from January 8, 1980 to March 22, 1980 will be computed using the Federal Reserve Commercial Paper Rate 3-Month Prime, as specified in Ordering Paragraph 2. Refunds will commence within 90 days of the refund order. The proposed format for the reporting requirements showing the refunds distributed within 90 days after the distribution date, as required by Ordering Paragraph 3, is also provided in Appendix A. Except for Pacific's incorrect interpretation of the settlement impact on General Telephone Company (General), which Pacific attempts to rationalize in Appendix B, Intrastate Settlement Effects of Pacific's Refund, the proposed Refund Plan is reasonable and will result in an equitable return of charges to ZUM customers.

In Appendix B, Pacific incorrectly interprets the Commission's intent in D.92703. As stated on page 11a (mimeo) of D.92703, the overcollection was \$21.6 million, less \$0.7 million General settlements, to produce \$20.9 million overcollection by Pacific. Instead of refunding exchange revenue by the \$20.9 million which we determined is the net revenue (after settlements), Pacific proposes to compute its settlements with General as if the \$20.9 million were actually the difference between ZUM rates and the measured local and multi-message charges that were in effect prior to the ZUM implementation. Pacific is in error, since the \$20.9 million is the net (to Pacific) of the overcollection of exchange revenues from January 8, 1980 to March 22, 1980.

Pacific's method would require recomputing Pacific's settlements with California independent telephone companies, where applicable. This not only creates complications which the Commission wished to avoid but results in General's being forced to contribute a portion of the $20.9 million which Pacific overcollected. It is not equitable for General to share a further obligation which only Pacific incurred.

The Commission in D.92703 intended for Pacific to reduce its exchange revenue by the amount of the refund. As noted in that decision, the excess revenue was collected as a simple result of the failure to implement the decreases in measured local and multi-message rates to ZUM concurrently with the intended increases in exchange rates and terminal equipment in Pacific's rate increase granted in D.90642. In order to make the refund easier and less costly to administer, the Commission ordered the allocation of refunds to be based on recurring exchange charges, as it had done in prior telephone refunds. Pacific should, therefore, reduce its exchange revenue by the amount of the refund, which would not require recomputing the settlement effects on other independent telephone companies.

Findings of Fact

1. The proposed Refund Plan of Pacific in Appendix A provides for a reasonable return of charges to affected ZUM customers.

2. Pacific's proposal of how it should charge the overcollected revenues, which is explained in Appendix B, is based on an incorrect interpretation of D.92703. If implemented, it also would create an inequity by forcing other independent telephone companies to share in a refund which is solely Pacific's obligation.

3. The correct interpretation of D.92703 requires Pacific to refund exchange revenue of $20.9 million plus interest. The amount of refund deducted from its exchange revenue category is exclusive of the multi-message unit operations, which are now Zones 2 and 3 ZUM.

4. In order to have these refunds made without further delay, the effective date of this order should be the date of signature.

Conclusion of Law

The Refund Plan in Appendix A is just and reasonable.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. The proposed Refund Plan of The Pacific Telephone and Telegraph Company (Pacific) in Appendix A is approved.

2. The amount of refund should be deducted from Pacific's exchange revenue category that is exclusive of the multi-message unit operations, which are now Zones 2 and 3 ZUM.

This order is effective today.

Dated JUN 2 1981 at San Francisco, California.

John E. Bryson
President
Richard D. Gravelle
Leonard M. Grimes, Jr.
Victor Calvo

Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate in the disposition of this proceeding.

The Pacific Telephone and Telegraph Company

ZONE USAGE MEASUREMENT

REFUND PLAN

The following procedures will be used to refund overcollections of $20.9 million resulting from the delay authorized in implementing a Zone Usage Measurement (ZUM) plan. This plan is in response to Decision 92703, dated February 18, 1981.

A. Refund Distribution

The refund amount, including interest, will be distributed to current customers subject to ZUM on a pro rata basis, using each customer's current recurring monthly exchange charges as the proportional factor. For purposes of this refund current customers are those who were receiving service on the effective date of D.92703, March 20, 1981.

B. Refund Calculation

1. Total Basic Refund: $20.9 million as ordered by D.92703.

2. Interest: Interest computed at the Commercial Paper Rate (3 months prime) compounded monthly will be applied to the total basic refund amount. Since the basic refund amount was collected over the period January 8, 1980 to March 22, 1980, interest will be applied on the total amount from the midpoint of the collection period, February 14, 1980, to the date of refund.

3. Individual refunds will be calculated as follows:

$$\text{Individual Refund} = (BR + I) \times \frac{A}{T}$$

Where:
- BR = Basic Refund Amount
- I = Interest
- A = This Account's Recurring Monthly Exchange Charges
- T = Total Recurring Exchange Charges for All Customers Subject to ZUM

The Pacific Telephone and Telegraph Company

ZONE USAGE MEASUREMENT

REFUND PLAN

C. Manner of Refund

1. Current Customers - by bill credit.

2. Current customers who discontinue service - by final bill credit plus check if refund exceeds final bill outstanding balance.

D. Timing

Refunds will commence within 90 days of a refund order approving this plan with the refunds to be completed for current customers in not more than one billing month thereafter.

E. Reporting Requirements

Pacific will file a report with the Commission within 90 days of completion of the refunds. The report will contain the following information:

1. The total basic refundable amount plus interest due customers.

2. The total amount credited on bills either initially or through adjustment.

3. The total amount of drafts issued.

4. The total amount of drafts returned as undeliverable.

5. The total amount of drafts outstanding and an estimate of the portion which will never be presented for payment.

6. The total amount which remains undisbursed (1-2-3+4+5 [portion]).

7. The amount of expense incurred in making refunds and accounts charged therewith.

(END OF APPENDIX A)

APPENDIX B

The Pacific Telephone and Telegraph Company

REFUNDS ORDERED IN CPUC DECISION 92703

INTRASTATE SETTLEMENT EFFECTS OF PACIFIC'S REFUND

The text of Decision 92703 states the following at the end of its discussion of the proper recipients of refunds in this case:

> "Refunds should accordingly be made to all customers subject to ZUM rates. Based on our experience in prior telephone refunds we believe that allocating such refunds on the basis of recurring exchange charges will be <u>the easiest and least costly method to administer</u>. We therefore will require that refunds be made to all current customers (customers who are receiving service as of the date of this order) subject to ZUM, by means of bill credits to be based on recurring exchange charges." (CPUC Decision 92703, p 13, mimeo, emphasis added.)

It is clear from this text that the Commission's conclusion and order that Pacific refund the amounts found appropriate to customers subject to ZUM on the basis of monthly recurring exchange charges for a typical month is primarily the result of considering the administrative problems of alternative approaches which might have more closely reflected the distribution of reductions among Pacific's customers had the introduction of ZUM not been delayed the additional 90 days now found unreasonable.

In light of this, Pacific is computing its settlements with California independent telephone companies, where applicable, as if its ZUM-related revenues including message charge revenues had been lower by the $20.9 million found to be its net overcollection.

As a result, the bulk of the impact of this refund upon intrastate settlements is on General Telephone with which Pacific has an interchanged ZUM message settlement arrangement. There are also relatively minor impacts on other types of settlements. These effects follow from the impact of this refund on Pacific's exchange rate of return, as defined for purposes of interchanged extended area service (EAS) settlements and the income tax effects of the interest charges associated with Pacific's refund, which increases all intrastate settlements to independents in small amounts.

(END OF APPENDIX B)