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Decision 95-11-024 November 8, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
Citizens Utilities Company of )  
California (U 87 C) to restructure )  
intrastate rates and charges, and to )  
implement a New Regulatory Framework )  
for telephone service furnished )  
within the State of California. )

Order Instituting Investigation into )  
the rates, charges, service, )  
practices, and regulation of Citizens )  
Utilities Company of California. )

In the Matter of the Application of )  
Citizens Utilities Company of )  
California (U 87 C) and GTE )  
California Incorporated (U 1002 C) )  
for authority under Section 851 for )  
GTEC to sell to CUCC certain of its )  
property, in accordance with an )  
Asset Transfer Agreement dated )  
May 18, 1993. )

**ORIGINAL**

Application 93-12-005  
(Filed December 15, 1993)

Investigation 94-02-020  
(Filed February 16, 1994)

Application 93-07-039  
(Filed July 22, 1993)

(See Appendix A for appearances.)

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**FINAL OPINION**

S. Thompson

CUC is a wholly owned subsidiary of Citizens Utilities Company, a Delaware corporation (Citizens). Citizens Utilities Company of California (CUC) is an applicant originally requested an overall increase in telephone rates of \$12,153,750 (21.2%). CUC's telephone rates were reduced on an interim basis effective January 17, 1995 by Decision (D) 94-11-074. Today's decision permanently reduces CUC's test year 1995 telephone rates by \$5,724,679 (8.0%) for its services.

We order a penalty for CUC's failure to report service quality problems as required by General Order (GO) 133B. We adopt a Service Quality Assurance Program (SQAP) to ensure CUC will improve its quality of service. We also authorize a new regulatory framework (NRF) for CUC similar to the NRF for Pacific Bell (PacBell) and GTE California Incorporated (GTEC).

Finally, this decision restructures CUC's rates to bring them into further alignment with CUC's costs and other telephone company rates. This restructuring follows the rate design principles adopted in our Implementation Rate Design (IRD) decision (D.94-09-065), positioning CUC to engage in and allowing CUC's ratepayers to enjoy the benefits of competition.

The acquisition of CUC by Citizens Utilities Company of California involves a transfer of approximately 2,000,000 access lines as part of a larger transaction involving approximately 200,000 access lines nationwide. The acquisition was authorized by D.94-09-080 (as modified by D.94-11-033).

1 Citizens Utilities Company of California is a California business incorporated in 1927 to provide telephone and water utility service. By D.95-03-017 (as modified by D.95-04-034 and D.95-08-001), CUC was granted authority to separate its telephone and water operations. Water operations continue under the name CUC. A new certificate of public convenience and necessity was granted to Citizens Telecommunications Company of California Inc. (CTC California). CUC's telephone service began to be performed under the CTC California name on August 16, 1995, when CTC California's tariffs became effective. We will use the CUC name for the telephone matter before us in this decision, however, for consistency with the name used in the application for telephone rates.

## 2. Background

FINAL ORDER

CUCC is a wholly owned subsidiary of Citizens Utilities Company (Citizens), a Delaware corporation with its principal office in Stamford, Connecticut. Citizens, the parent company, is comprised of approximately 40 divisions and subsidiaries providing telephone, electric, gas, water, and wastewater services to more than 500 communities in 14 states. The parent company performs no administrative, accounting, financial, tax, engineering, legal, and regulatory services for its operating divisions and subsidiaries, including CUCC. At the time of filing the general rate application, CUCC provided both water and telephone service in 11 counties in California. (See footnote (14) 2) CUCC furnished telephone service in 23 exchange areas in 9 northern California counties, organized into 5 operating districts (Elk Grove/Susanville, Ferndale, Alturas and Butte) and 19. CUCC serves both urban and rural communities, including sparsely populated desert and mountain areas. Before 1994, Citizens had approximately 140,000 access lines nationwide, of which approximately 80,000 were operated in California by CUCC. On July 22, 1993, GTEC and CUCC filed Application (A.) D.93-07-039. GTEC sought authority to sell, and CUCC sought authority to buy, five California telephone exchanges. The asset transfer involves about 5,000 California access lines as part of a larger transaction involving approximately 500,000 access lines nationwide. The acquisition was authorized by D.94-09-080 (as modified by D.94-11-014). The California portion of the transaction closed on December 31, 1994. Upon completion of the entire acquisition, Citizens will have about 640,000 access lines nationwide, with about 85,000 access lines in California. CUCC last received general rate review of its telephone operations in 1983. (D.83-10-092/A130 CPUC 2d 47) On December 15, 1993, CUCC filed A.93-12-005, seeking authority to restructure its telephone rates effective January 17, 1995, and increase total

revenues by \$12,153,750 (21:24). CUC also requested authority to concurrently implement its proposal for NRF regulation. In response, On February 8, 1994, the Commission's Division of Ratepayer Advocates (DRA) filed a motion to consolidate A.93-07-039 with A.93-12-005. DRA argued that the access line transfer could affect CUC's revenue requirement in the general rate case (GRC) (see

On February 16, 1994, we issued Order Instituting Investigation (I.) 94-02-020, which we consolidated with A.93-12-005. The investigation provides a procedural forum to fully act on recommendations regarding revenue requirements, rates, practices, adequacy of service, regulatory approach, and other aspects of CUC's operations which might otherwise be beyond the confines of the relief requested by CUC. Prehearing conferences were held on February 8, 22, and 24, 1994 to consider the DRA motion and schedule among other things. By ruling dated March 1, 1994, A.93-07-039 was divided into two phases. D.94-09-080 (as modified by D.94-11-014) resolved all A.93-07-039 Phase I issues and authorized the sale and purchase transaction subject to certain conditions. (200-00-00.0)

Phase II of A.93-07-039 was consolidated with A.93-12-005 and I.94-02-020. Issues reserved for Phase II are the amount of GTEC's gain-on-sale, any necessary adjustments to GTEC rates from the sale, and the revenue requirement and rate-making effects on CUC of the acquisition. Parties were given the opportunity to identify issues regarding GTEC's gain-on-sale and rates. Because D.94-09-080 concludes that GTEC's gain-on-sale should be governed by the principles of NRF and no rate adjustments are necessary, however, no issues were identified. D.95-09-003 closed A.93-07-039 with respect to the GTEC issues. The Phase III CUC issues are addressed in this decision.

Consistent with the adopted schedule, CUCC served supplemental direct testimony on March 15, 1994. The supplemental direct testimony updated CUCC's showing and responded to directions given in D.92-12-019 and D.93-04-056 regarding completeness of applications. Among other things, CUCC modified its request to an overall increase of \$11,184,456 (19.5%). On May 31, 1994, CUCC applicant served additional supplemental testimony to further address the completeness of its showing.

On September 2, 1994, the parties filed briefs proposing interim rates. On November 22, 1994, the Commission issued D.94-11-074, authorizing interim rates for CUCC effective January 1, 1995. D.94-11-074 reduced CUCC's overall revenues and restructured rates. Further, it provided that the final rates adopted today are subject to a surcharge or surcredit. The surcharge or surcredit will adjust revenues collected under interim rates to result in 1995 revenues consistent with the test year 1995 results of operation adopted herein.

On September 15, 1994, we adopted the final IRD decision (D.94-09-065). Public participation hearings (PPH) were held on September 26, 1994 in Ferndale; September 27, 1994 in Fall River Mills; September 28, 1994 in Susanville; and September 29 and 30, 1994 in Elk Grove, California. On October 6, 1994, CUCC moved to bifurcate the GRO/NRF proceedings, with separate evidentiary hearings on rate design. CUCC sought an opportunity to update its rate design requests to reflect IRD policy decisions and comments made at the PPHs. The motion was granted. Evidentiary hearings on all issues except rate design were held from October 11, 1994 through November 1, 1994. Concurrent opening briefs on all issues except rate design were filed and served December 12, 1994, with concurrent reply briefs filed and served December 21, 1994, in this decision.

Unified Evidentiary hearings on rate design issues were held from February 14, 1995, through February 23, 1995. Several proposed hearing exhibits were served in March and April 1995. Concurrent opening to briefs on all rate design issues except specific price floor and proposals were filed and served on March 31, 1995, with reply briefs filed and served on April 14, 1995. Concurrent briefs on specific price floor proposals were filed and served on May 12, 1995. Oral argument was heard on May 16, 1995. The proceedings were submitted for decision upon receipt of the oral argument and a transcript on May 17, 1995. At the direction of the Administrative Law Judge (ALJ) on June 9, 1995, CUCC mailed an additional notice to business customers on the proposal to eliminate business flat gas rate service, with comments requested by June 30, 1995. In addition, a

Letter D-95-06-053 was issued on June 21, 1995. Among other things, it ordered CUCC to close its California Property Tax Service Memorandum Accounts and pass through applicable property tax savings to ratepayers in CUCC's next rates proceedings. By ruling dated June 29, 1995, submission of this proceeding was set aside for board receipt of additional evidence on CUCC's compliance with D-95-06-053. Also by ruling dated June 29, 1995, official notice was taken of recent interest rate data. This proceeding was resubmitted on July 24, 1995.

The ALJ's proposed decision (PD) was filed and served on August 17, 1995. Consistent with Rule 77.2 of the Commission's Rules of Practice and Procedure, comments were filed and served on September 6, 1995. According to CUCC, the PD incorrectly calculated intrastate revenues. By ruling dated September 7, 1995, the date for reply comments was extended from September 11 to September 18, 1995, and the scope and page limitation were expanded, to provide additional opportunity for parties to address or any alleged errors and provide thoughtful and thorough replies.

On September 13, 1995, CUCC filed an Emergency Motion for an Order Scheduling an All-Party Meeting and Extending The Time of a continuous improvement quality process with "Target Excellence".

For Filing Reply Comments To The Proposed Decision On By Ruling dated September 14, 1995, CUCO's motion was denied, but the filing of responses to the reply comments was authorized. Consistent with the ruling, reply comments were filed and served on September 18, 1995. Responses to the reply comments were filed and served on September 25, 1995.

By ruling dated October 17, 1995, a modified PD was filed and served on the parties for comment. Among other things, total 1995 revenues were recalculated. The necessary changes required a new reexamination of the entire record. The reexamination included PD's policy recommendations in light of the comments, replies, and responses, necessary rate revisions, initiation of Commission and regulation of CUCO under the NRP, pending local competition, and for all of the Commission's policies and goals--including universal service. Comments on the modified PD were filed and served on October 26, 1995, and replies to the comments were filed and served on October 31, 1995. We make limited changes to the modified PD based on the comments and replies as explained herein.

### 3. Service Quality

#### 3.1 CUCO

CUCO states that recent years have been extraordinarily challenging. Service has declined in some areas, according to CUCO, due to realignment of its operations, employee early retirements, forest fires, severe storms, and CUCO's ongoing efforts to refocus the organization and streamline operations.

Nonetheless, CUCO contends that it has redirected its focus and established very aggressive objectives to improve its operations and customer service. Among other things, CUCO says it has completed, is undertaking or will be doing the following: rebalancing the workload, creating better alignment between customer needs and company performance, serving customers with a 100% digital switching network, expanding its deployment of fiber optic cable, implementing infrastructure improvements, establishing a continuous improvement quality process with "Target: Excellence,"

surveying customer satisfaction monthly, conducting customer focus groups, forming a customer advisory council, ensuring the accuracy of plant records with a plant records verification and correction program, increasing customer service with more frontline employees in both the business office and repair center, responding to customer needs with new remote payment agencies, improving the way of handling of incoming customer calls with an automatic call distribution system and customer records information system, and replacing its toll or long distance telephone numbers for customer inquiries with a toll-free 800 number.

While CUCC acknowledges it has historically failed to meet some service quality standards and reporting requirements, CUCC believes the record supports a finding that CUCC has made significant progress to improve service quality and meet all the Commission's service quality standards and reporting requirements. According to CUCC, it has investigated and resolved and/or explained all service quality issues raised at the public participation hearings and in customer letters. It has largely stipulated to DRA's recommendations for a SQAP, described below. CUCC believes the SQAP will subject CUCC to substantial penalties in the event of future noncompliance. CUCC argues the record does not support imposing a penalty for service quality.

**3.2 DRA** has found that DRA failed to report units that did not comply with service quality standards. DRA points out that service quality is an important issue in this GRC. According to DRA, service quality assumes even greater importance to ratepayers when service is substandard and is accompanied by a substantial rate increase request (such as CUCC's modified request at the time of the PPHs for an increase of \$11,184,456, or approximately 19.5%). DRA's review of CUCC's quality of service involved several elements. DRA performed on-site investigations during field visits. Also, DRA reviewed the number and types of complaints handled by the Commission's Consumer Affairs Branch.

DRA found that CUCC has made progress in reducing the complaints brought to the Commission. Similarly, based on data filed pursuant to General Order (GO) 152-A, DRA found that private line alarm to service was adequate.

DRA also conducted a survey of CUCC customers. Compared to customers of PacBell, DRA reported a high percentage of CUCC's customers frequently experience service problems, and DRA found greater customer dissatisfaction with CUCC's resolution of billing and repair problems. DRA also found that a higher percentage of CUCC's Elk Grove exchange area customers experience network service problems than customers in CUCC's other exchange areas. Similarly,

customers in the Elk Grove exchange area are more dissatisfied with CUCC's installation and repair service than customers in other CUCC exchanges. DRA recommends Commission adoption of several installation improvement programs and repair service quality standards.

DRA also analyzed service quality data collected pursuant to the GO 133 series. Utilities are required to meet or exceed the nine standards contained therein.<sup>2</sup> If a service reporting unit performs above the service reporting levels established in GO 133-B, there is no requirement to report the performance level. According to DRA, this procedure essentially expects utilities to operate on the honor system, but non-reporting does not always mean compliance. DRA found CUCC failed to report units that did not meet the service reporting standards of GO 133 in 1991, 1992, and

even in this case. According to DRA, service quality assurance is a greater importance to ratepayers when service is substandard and is accompanied by a substantial rate increase request (such as CUCC's).

<sup>2</sup> The GO 133 series establishes minimum telephone service quality standards for California telephone utilities. The GO contains nine standards: held primary service orders, installation-line energizing commitments, customer trouble reports, dial tone speed, dial service (service observing), toll operator answering time, directory assistance operator answering time, trouble report service answering time, and business office answering time.

Also, DRA reviewed the number and type of complaints handled by the Commission's Consumer Affairs Branch.

1993 for three measures (directory assistance operator answering time, dial service, and trouble report service answering time). DRA contends that failure to report is a serious violation of the trust placed in the utility, as well as a violation of a Commission order, and recommends remedial action.

Based on reported measures and its investigation, DRA found the quality of telephone service for 1991, 1992, and 1993 adequate except for dial service observing,<sup>3</sup> trouble report service, answering time, and business office answering time. Due to CUCC's failure to report as required by Commission order, and its failure to meet the GO service quality standards for three measures, DRA recommends a SOAP. Under a SOAP, CUCC's dial service observing, trouble report service answering time, and business office answering time performance, as well as CUCC's reporting of GO 133 service measures, will be under continuous monitoring. SOAP will provide penalties in the form of refunds to customers for failure to meet performance or reporting standards.

DRA argues that a SOAP is particularly important for a utility. Under NRF, according to DRA, utilities are allowed to share or retain profits and are encouraged to cut costs. While maintaining the availability of high-quality telephone service to customers is one of the goals under NRF, DRA believes that there is a crucial need for continuous monitoring of CUCC's service quality under NRF to ensure maintenance of that quality of service. With some changes to which DRA agreed, CUCC largely accepts DRA's recommendation for a SOAP.

Finally, DRA reviewed CUCC data for major service interruptions. DRA recommends a Commission order that CUCC reduce

Static or noise on the line.

<sup>3</sup> Dial service observing is a measure of the ability of the equipment to complete a customer dialed call over the local and toll message network without the call encountering an equipment malfunction and/or all-paths-busy condition.

overall service outages by 40% and reduce equipment failure for service outages by 50% from the 1993 outage levels.

### 3.3 Discussion

#### 3.3.1 Service Improvement Measures and Monitoring

CUCC agreed to the many service quality improvement and monitoring provisions recommended by DRA, including SQAP. The agreements were presented in several exhibits. The ALJ directed CUCC and DRA to summarize their agreements in one document.

The parties could not agree on a joint document, and each submitted a document representing its understanding of the CUCC agreement. The disagreements are largely over details, and not the basic program. Appendix B resolves the differences. It also incorporates the parties' earlier agreement for CUCC to correct quarterly reports filed in 1991, 1992, and 1993, and our earlier expectation that CUCC will provide its plan to the Commission's Advisory and Compliance Division (ACAD) for all program elements. Appendix B presents the Service Quality Assurance Mechanism (SQAM) which implements SQAP and the service quality improvement measures that we find reasonable and adopts. In summary, CUCC is required to:

1. Correct the GO 133-B quarterly reports for 1991, 1992, and 1993 (except for 10 months when CUCC did not have service measuring equipment in place) to reflect directory assistance, operator answering time, service performance.
2. File GO 133-B monthly service performance results on an overall company basis.
3. Improve service by 30% in five specific areas:

a. Static or noise on the line,

b. Busy signal or recording before a customer finishes dialing the number, and

c. Required redials because the call does not go through the first time,

Telephone, installation and repair service problems, and

Customer dissatisfaction with CUCC's resolution of billing problems;

4. Reduce overall service outages by 40% and service outages relating to equipment failures by 50% (excluding connecting company outages), and

5. Be subject to a SQAM applicable to dial service, trouble report answering time, business office answering time, and non-reporting of GO 133-B measures.

### 3.3.2. Penalty

CUCC argues that it should not be subject to any further penalties for poor service quality or failure to submit reports as ordered by GO 133. We disagree.

#### 3.3.2.1 Failure to Meet Service Quality Standards

CUCC admits it has historically failed to meet some service quality standards. Indeed, we heard of service problems of many types from numerous customers. DRA's reports validate a wide range of problems. CUCC acknowledges its service problems by agreeing to the service improvements required in Appendix B, including a 30% reduction in static, busy signals, required redials, installation and repair problems, and bill problem resolution; a 40% reduction in overall service outages; a 50% reduction in service outages due to equipment failures; and a SQAM. CUCC says it agrees to these standards because it is committed to service improvements and believes these are achievable. We believe these are evidence of past poor service quality and are not minimal, but substantial, improvement mandates.

Utility rates are established at levels for a well run utility to both provide good service and have the opportunity to earn its authorized rate of return. CUCC's rates have always been sufficiently high to provide CUCC the resources to provide good

service. Nonetheless, CUCC has not always met our minimum service standards and CUCC's ratepayers have been unduly inconvenienced.

CUCC's deficient service quality is particularly troublesome since we have no evidence that CUCC failed to earn a satisfactory rate of return on its investments since its last GRC (D.83-10-091, 13 CPUC2d 47, test year 1983). In fact, CUCC testified that it did not apply for contribution from the California High Cost Fund (CHCF) after a means test was initiated (D.91-05-016) because it was earning in excess of its authorized rate of return. The evidence shows that in these same years CUCC reduced its work force, CUCC's customers experienced service problems, and CUCC failed to meet some GO 133-B minimum service standards.

We made several regulatory changes in the early 1990's because we knew most small and mid-sized local exchange companies (LECs) were earning rates of return in excess of their authorized levels. Besides modifying the CHCF to include a means test, we declined to order additional financial attrition reviews, and stated our expectation that mid-sized LECs--including CUCC--file a general rate application no later than January 1, 1993. (See D.91-07-044, 41 CPUC2d 1, 38, ordering paragraph 2) D.91-09-066, 41 CPUC2d 357, 374.) CUCC did not file until December 15, 1993, nearly one year later. The delay in CUCC's filing this GRC, despite our clear directions to the contrary, afforded CUCC the opportunity to continue earning above its authorized rate of return. CUCC was not without the financial resources to provide quality service and at least meet, if not exceed, all of our GO 133 service standards.

CUCC believes it will be adequately penalized under the SQAP in the event of future service quality deficiencies. While the SQAP will provide some incentives for the future, it does not incorporate specific incentives for all nine GO 133-B service

quality standards. We believe an additional incentive is necessary and appropriate.

### 3.3.2.2 Failure to Submit Reports

We minimize the regulatory burden on the utility under GO 133-B by requiring reports only of the units that do not meet the required service level. In exchange, the utility has the responsibility to timely and accurately report failures as required by our order. CUCC's incomplete and inaccurate reports resulted in effectively reporting compliance with the service standards in GO 133-B when that was not true.

CUCC contends that in September 1993, when it became aware of its failure to have filed complete and accurate reports for periods in 1991, 1992, and 1993, it conducted an extensive internal investigation and instituted changes to ensure that all required reports are filed in the future. This prospectively corrects but does not excuse its violations.

CUCC says that its corporate consolidation and relocation of responsibilities probably contributed to its failure to report. That does not adequately explain or excuse violation of a Commission order. We encourage companies to consolidate, relocate responsibilities and reorganize when it is in the best interests of the company and ratepayers. We do not expect consolidations, relocations, and reorganizations to result in reduced utility performance. Our support for these activities does not extend to the utility overlooking this Commission's orders.

CUCC states that because it filed inaccurate and incomplete reports rather than failing to file any report at all, the nature of CUCC's violation is not so egregious as to warrant an additional retroactive penalty. This does not absolve CUCC.

Utility reports are never to contain any false statement of fact or law. (Rule 1 of the Commission's Rules of Practice and Procedure) GO 133-B reports are to be signed and verified as accurate by a

Rather, we believe a refund to customers based on a rate of return

corporate officer (D.92.05.056) 44 CPU02d 437Y 441) D.92.12.007) 46 CPU02d 497.)

We agree with CUCC that the violation was not as egregious as it would be if there was any evidence that CUCC's action was planned and executed to deceive the Commission and the public. There is no evidence that CUCC executed such a plan. Nonetheless, failure to file breaks the trust placed in CUCC by the public and Commission. We do not believe violating a Commission order is, or should be, inconsequential. A penalty is necessary and appropriate for violation of a Commission order.

3.3.2.3 Rate of Return Adjustment

If the Commission imposes a penalty, CUCC recommends one crafted to directly benefit CUCC's customers rather than a monetary fine. CUCC says such a penalty could be a customer outreach and education program improving communication with its diversified customer base above and beyond what CUCC would do on its own to improve service quality and customer service. CUCC suggests

\$70,000, based on \$1 per line for approximately 70,000 access lines at the time of the reporting deficiencies.

DRA recommends a penalty of \$235,620 for CUCC's consistent substandard service quality and insistence that its only transgression was to provide incomplete and inaccurate reports. DRA's proposed penalty is based on \$3 per access line for approximately 78,540 access lines on December 31, 1993.

There is no precise formula to help us decide what combination of measures will provide the best incentives to CUCC.

We must rely on our judgment, informed by the record, along with our general experience and knowledge.

We decline to use the penalty to establish customer outreach and education activities as CUCC suggests. These programs should be undertaken from authorized rates as part of CUCC's overall efforts to improve service quality and customer service. Rather, we believe a refund to customers based on a rate of return

adjustment is a more direct benefit and can be easily accomplished with the surcharge or surcredit implemented to align 1995 revenues under interim rates with final rates. As we have in other similar cases (D.86593, 80 CPUC 599 (1976) and D.92366, 4 CPUC 428 (1980)), we will apply a penalty by reducing CUCC's authorized rate of return. In D.86593 (80 CPUC 599, 614), we applied a reduction in PacBell's assigned rate of return calculated with reference to the amount of money to its stockholders saved by the company providing poor service. In that case the penalty was \$740,000, or a reduction of 0.007% in PacBell's rate of return, with PacBell able to reduce the penalty by showing that its service was brought back to a normal level. In the instant proceedings, the record does not provide sufficient information of the savings to CUCC from its poor service quality and failure to file GOV 133-B reports for us to craft a similar approximate penalty. In D.92366 (4 CPUC 428, 449), we applied a reduction in GTE's authorized return on equity of 0.15% (equating to a \$7.4 million reduction in revenue requirement) for serious service deficiencies. The GTEC penalty was subject to removal no sooner than 13 months by GTEC demonstrating improved service. This provides a better model for our action here. We will reduce CUCC's authorized rate of return by 15 basis points (0.15%) or approximately \$330,000 in annual gross revenues (\$205,000 in net revenues). While less than the 0.15% reduction in the GTEC case, this is consistent with the differences in the problems between the companies. Our adopted rate of return and this adjustment will apply from January 1, 1995, since interim rates will be adjusted to produce revenues consistent with adopted final rates for 1995. (See D.94-11-074.) We will remove the rate of return reduction when final rates adopted herein are implemented. On an estimated 8.00% embedded cost of debt and 13.00% cost of

We remove the rate of return reduction with final rates (as implementation because we simultaneously implement the other with service quality improvement standards and SQAP. SQAP contains rebund automatic penalties and refunds for CUCC's failure to meet three service quality measures for file (GO 133-B) reports. CUCC should understand, however, that failure to meet other GO 133-B measures or the broader service improvement mandates will place it in jeopardy of future rate of return reductions or other penalties during a NRE review, in addition to SQAP.

Because we remove the adjustment with the initiation of SQAP, the exact amount of the penalty will be dependent upon how quickly CUCC files the tariffs adopted by this order and implements SQAP. If, for example, the final rates and SQAP become effective in December 1995, the penalty will apply for 11 months and be approximately \$302,500 in gross revenues (\$187,900 in net revenues). We direct that CUCC include its calculation of the penalty when it files the advice letter to implement the surcharge or surcredit directed in D.94-11-0740. The penalty will reduce the revenues otherwise necessary to align revenues collected under interim rates with final rates.

Just as with our approach in D.86593 (80 CPUC 2d 599, 615), this rate of return adjustment will not serve simply as a warning, but also, along with SQAP, as an incentive to upgrade service. It is an incentive since CUCC will understand that it will be subject to future rate of return adjustments or other revenue incentives in addition to SQAP if it fails to furnish adequate service to the public (See Public Utilities (PU) Code § 451.) We will review CUCC's progress in meeting the service quality measures established herein during CUCC's first NRE review.

**4.6 Cost of Capital** We will use the rates for 1991 for rates.

**4.1 CUCC** CUCC is directed to use the rates adopted herein for rate of return reduction when final rates are adopted.

CUCC requests an overall rate of return of 11.00% based on an estimated 8.00% embedded cost of debt and 13.00% cost of

equity. CUCC recommends a test year 1995 capital structure of 40% debt and 60% equity. This indicates a reasonable capital structure.

CUCC forecasts its test year 1995 cost of capital based on the capital structure and costs of Citizens, its parent company. CUCC argues that it is logical to use Citizens' capital structure and costs because CUCC obtains all its funds from its parent company, with no independent capital structure, long-term debt, or equity securities. Further, CUCC's ratepayers enjoy a lower overall cost of capital because of Citizens' financial strength and credit rating, according to CUCC. CUCC's return on equity (ROE) recommendation is based on averaging the results of its discounted cash flow (DCF), risk premium (RP), and capital asset pricing model (CAPM) analyses.

4.2 DRA For the following ROE is 11.71%. Third, the resulting ROE for an average year 1995 cost of 6.81%.

DRA recommends an overall rate of return of 9.5%. DRA makes no recommendation regarding capital structure and takes no issue with CUCC's recommended capital structure based on its understanding of past Commission decisions determining cost of capital without reference to capital structure for mid-sized LECs. DRA estimates CUCC's test year 1995 embedded cost of debt to be 6.81%. The resulting ROE would be 11.29% according to DRA, which is reasonable based on DRA's analyses using DCF, RP, and CAPM models.

4.3 Discussion DRA recommended that a just and reasonable ROE be adopted.

We adopt an overall rate of return of 9.75% for test year 1995. Just as we did in D.90-06-015 and D.91-09-066, we decline to adopt a specific capital structure and ROE. Rather, adopting an overall rate of return provides CUCC with an incentive to manage its capital structure efficiently. Moreover, it is consistent with our adopting a market rate of return for use in the new regulatory framework for CUCC.

CUCC's witness testified that long-term Treasury bonds were yielding 6.5% when he prepared his original testimony, but at the time he testified were yielding closer to 7.8% (Tr. pp. 1282-83).

We use the following factors to determine the overall rate of return. First, a reasonable capital structure is 40% debt and 60% equity.

Second, a reasonable estimate for the test year 1995 cost of debt is 6.81%. CUCC argues the reasonable cost of debt is 8.00%, with 6.81% corresponding to a capital structure of 37.6% debt and 62.4% equity for year-end 1995. We think otherwise. For the year-end 1995 debt to be 6.81%, year-end 1994 debt would need to be 9.19% for the average year 1995 cost to be CUCC's estimated 8.00%. No evidence supports a beginning of year cost of 9.19%, DRA's showing is based on reasonable estimates of embedded debt costs at year-end 1994 and 1995 of 6.87% and 6.75% respectively, for an average-year 1995 cost of 6.81%.

Third, the resulting ROE is 11.71%. For the following reasons, this is a reasonable result within the ranges of ROEs recommended by the parties.

CUCC's witness originally recommended that a just and reasonable ROE would be in the range of 11.0 to 13.4% based on its DCF, RP, and CAPM analyses. CUCC requested 12.16%. These recommendations were contained in CUCC testimony prepared in the fall of 1993. At the evidentiary hearings in October 1994, CUCC increased the recommended reasonable range to reflect increases in interest rates, and increased its requested ROE to 13.00%.

DRA recommended that a just and reasonable ROE would be in the range of 8.4% to 11.7%, based on its DCF, RP, and CAPM

4 Alternatively, if the average year cost is 8.00%, while the year-end 1995 debt ratio is 37.6% with a cost of 6.81%, the year-end 1994 debt would cost 9.12% at a 40% debt ratio. No evidence supports a year-end 1994 cost of 9.12%.

5 CUCC's witness testified that long-term Treasury bonds were yielding 6.5% when he prepared his original testimony, but at the time he testified were yielding closer to 7.8%. (Tr. pp. 1282-83.)

analyses. DRA recommended an ROE of about 11 1/2%. The rate that just "falls out" using DRA's recommended rate of return and cost of debt, and CUCC's capital structure is 11.29%, which DRA believes is reasonable. (The recommended ROE is based on a range of about 10.5% to 12.5%.)

(Determining the reasonable ROE involves judgment.) We have often expressed our opinion that the financial models employed in our cost of capital proceedings should not be

determinative and must be tempered with a great deal of judgment. (38 CPUC 2d 233, 239 (1990).) The Discounted Cash Flow (DCF)

(Model, Risk Premium (RP) Model, and Capital Asset Pricing Model (CAPM) cannot be relied upon exclusively to develop a particular ROE, but may be helpful in developing a range of reasonable values. (Id.) Our consideration of these three models has always been

accompanied with considerable reservation. (Id.) First, the application and interpretation of these financial models may not accurately reflect all of the intricacies of the financial market. (26 CPUC 2d 392, 426 (1987).) Second, although the

quantitative financial models are objective, the results are dependent on subjective inputs. (D. 912112059, mimeo at p. 25.) (46 CPUC 2d 319, 357 (1992).)

We also do not adjust our adopted ROE to exactly match each change in interest rates:

Our cost of capital decisions regularly note that ROE should follow the slope of interest rates but not in "lock step." We have moderated ROE increases during inflationary periods, and have declined to lower ROE abruptly when inflation is low. (D. 912112022, p. 41.)

In applying judgment here we note two things. First, long-term interest rates have declined since CUCC updated its testimony, and continue on a long-term downward trend. Because of this, we give more relative weight to CUCC's original, rather than updated, testimony. Second, CUCC's recommendations include

adjustments for flotation costs and quarterly compounding, 6. both of which increase the recommended ROE, and both of which we have, and continue to, reject (46 CPUC 2d 319, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000).

What we last found reasonable for CUCC provides another test of reasonableness. Our last overall rate of return for CUCC was 10.75% for test year 1991 (41 CPUC 2d 357, 373, (1991)). While we did not establish a specific ROE, the resulting ROE was between 12.34% and 12.48%. We here find a 11.71% ROE reasonable for test year 1995, or a reduction of between 62 and 76 basis points. The average ROE for energy companies with test year 1991 was 12.96%. (38 CPUC 2d 233, 236 (1990)). The average ROE for energy companies in test year 1995 is 11.75% (D19411-0767). That is, we have lowered energy company ROEs by 121 basis points. The reduction on CUCC's ROE is consistent with the reduction in the energy sector. The smaller reduction reflects differences between the telecommunications and energy industries, including the more imminent competitive changes underway in the telecommunications markets.

We recently reduced PacBell's overall rate of return from 11.5% (1990) to 10.0% (1995), for 150 basis points (D194106-011, mimeo. pp. 52, 130). We here reduce CUCC's overall rate of return 100 basis points (1991 to 1995). While we did not specifically address PacBell's ROE, the reduction in the overall rate of return also reduces PacBell's ROE. The reduction in CUCC's ROE of between 62 and 76 basis points is consistent with the reduction in the energy sector. The smaller reduction reflects differences between the telecommunications and energy industries, including the more imminent competitive changes underway in the telecommunications markets.

Because of testimony, and continue on a long-term downward trend.

6. Flotation costs are costs incurred with the issuance of new securities. Quarterly compounding relates to the assumption in the DCF model that dividends are paid quarterly.

62 and 76 basis points is consistent with our reduction of PacBell's ROE.

Therefore, considering all these factors, a just and reasonable overall test year 1995 rate of return for CUCC is 9.75%.

##### 5. Results of Operations

Appendix C shows CUCC's intrastate results of operations for test year 1995 at present rates as estimated by CUCC and DRA along with our adopted results. This chapter explains the results at present rates. Appendix C also shows the results using adopted final rates, which are developed by applying the rates and volumes from Chapter 7.

##### 5.1 Present Rate Operating Revenues

CUCC originally estimated test year 1995 present rates and operating revenues based on rates from the rescinded IRD decision (D.93-09-076, rescinded by D.93-10-033). DRA based its estimates on CUCC's existing rates. After conferring on methodology and calculation errors in each other's showings, CUCC and DRA presented joint testimony in support of an agreement covering nearly all elements of operating revenues under present rates. No party disputes the agreed upon areas of the joint testimony. The recommendations contained in the joint testimony are reasonable and are adopted. Three areas of disagreement remain:

##### 5.1.1 Access Lines

While CUCC and DRA agree on test year 1995 revenues (except for employee discounts), CUCC asks that the Commission make a separate finding that CUCC's access line forecast methodology is reasonable and adopt CUCC's forecast of 88,478 access lines for test year 1995. In support, CUCC says that the final calculation of total operating revenues under adopted rates will result in some changes in billing units for basic access service and access within the Local Access Transport Area (LATA). CUCC asserts that its wire center forecasting methodology, based on localized data driven by information specific to CUCC's serving areas, has proven extremely

accurate. CUCC disagrees with DRA's claim that CUCC and DRA agreed to an average number of 1995 access lines (excluding official company and public paystation lines) of 83,700.

DRA disputes that its methodology and results are any less accurate than CUCC's. Moreover, DRA contends CUCC's request is tantamount to reneging on their agreement. Revenues are equal to rates times volumes (e.g., access lines) and their agreement on revenues and rates means they also agree on volumes according to DRA. DRA asks that the Commission adopt the volumes that correspond to the CUCC/DRA agreed-upon revenues at present rates.

We decline to find either CUCC's methodology or specific access line forecast reasonable. We adopt the CUCC/DRA jointly sponsored operating revenues under present rates and the corresponding access line and sales volume forecast. While adopted rates will change some forecast billing units, we adjust present rate volumes as we explain below in our discussion of rate design.

### 5.1.2 Employee Discounts

For employees living in CUCC's service area, CUCC and DRA provide a 50% discount off of CUCC's basic local service rate for rank and file employees, and a 100% discount for management employees. CUCC and DRA disagree on the inclusion of management employee discounts in total operating revenues.

CUCC argues that the value of management employee discounts should not be included in CUCC's total operating revenues because CUCC does not receive the revenue. According to CUCC, employee discounts are provided because having employees with telephone service in CUCC's service area enables those employees to be readily accessible during off-shift hours in the event they are needed to respond to an emergency. In support, CUCC cites employee availability during the Fountain Fire, Ferndale earthquake, and outages caused by cable cuts. CUCC contends that employee concessions have been recognized by the Commission as an appropriate means of providing employees with an incentive to be

available. CUCC points to the tariffs of PacBell and GTE as examples of such concessions. CUCC does not oppose the 50% discount for rank and file employees, but objects to free basic telephone service for management employees at ratepayer expense. DRA argues that management employee discounts, if provided, should be at a stockholder expense. DRA points out that PacBell and GTE tariffs link their discounts to requirements that the employees either be on call at all times or be required to make regular use of their residential telephone for utility business. With no evidence that the free basic service offered CUCC management employees is linked to their accessibility in an emergency or utility business use of their residential telephone, DRA believes these revenues should be imputed in CUCC's operating revenues.

We agree with CUCC that the revenue associated with management employee discounts should not be included in total operating revenues. Eligibility for these discounts, however, should be part of CUCC's tariffs, just as they are for PacBell and GTE. CUCC supports its employee discounts on the basis of its employees being accessible during emergencies. We will require CUCC to include that provision in its tariffs (i.e., that eligibility for the discount requires management employees to be accessible by telephone during emergencies).

**5.1.3 Access Revenues** CUCC asserts that to make a true comparison of revenues at present rates with revenues at proposed rates, the Commission must start with an accurate representation of present rates. CUCC recommends that present total operating revenues include only revenues for which CUCC actually has a present rate or tariff. CUCC contends it has no rate or tariff for access services, and PacBell's 175-T Tariff for interLATA access (with which CUCC concurs) includes no provision for intraLATA service under present rates. Therefore, CUCC recommends excluding \$4,389,084 in access

revenues from total operating revenues at present rates. For the sake of consistency, CUCC recommends exclusion of \$1,733,688 from operating expenses for intralATA access services. (Exhibit 67) footnote 1, difference between scenarios 1 and 2.)

DRA concurs that there should be consistency between access revenues and access expenses. DRA believes PacBell's 175-Tariff provides for access revenues, and both access revenues and access expenses should be included. DRA argues that since CUCC seeks recovery of test year 1995 access expenses, access revenues must be included.

The parties are correct that there must be consistency between access revenues and expenses. CUCC will experience access expenses in test year 1995, and they are properly included in the results of operations. Whether or not PacBell's tariff covered access revenues at the time of CUCC's estimate, our regulatory scheme provides both access revenues and expenses for California LECs in 1995. Access revenues are therefore properly included in CUCC's test year 1995 forecast operating revenues and our adopted results.

## 5.2 Operating Expenses

CUCC and DRA used different methods to derive their original estimates of test year 1995 expenses. CUCC used a zero-based budgeting methodology. Under this approach, each cost center or department determined its functions and estimated its necessary costs, generally without reference to prior actual or budgeted amounts, which were then escalated to 1995 dollars. DRA used actual 1993 recorded expenses escalated to test year 1995 using subject specific escalation factors. If the actual 1993 recorded expenses differed significantly from either historical data or CUCC's own forecast, DRA used a five-year average of recorded expenses from 1989 through 1993, escalated to test year 1995. DRA differed with CUCC on escalation factors, including those for labor and management. CUCC estimated management escalation greater than

that for labor escalation, while DRA recommended the same to avoid escalation factors for both. Before hearings, CUCC and DRA discussed their differences and reached agreement on several items, including the amounts for most expenses, the methodology for income and other taxes, average depreciated rate base, plants in service in 1994 and 1995, accumulated depreciation in 1994 and 1995, materials and supplies, working capital, and customer advances. For operating expenses, the parties agreed to use 1993 recorded expenses escalated to test year 1995, largely using DRA's recommended escalations. In some cases, the test year estimates were adjusted to correct minor computational errors or incorporate new information. The parties presented joint testimony in support of their estimates. No testimony disputes these estimates and they are adopted, except to the extent discussed otherwise herein.

The parties do not agree on allocation factors, net debt on common plant, or savings from the acquisition and reorganization. S.S. coincident with the GTEC access line acquisition. We address these and limited other issues.

**5.2.1 Allocation Factors** Where possible, corporate and regional costs are charged directly to the operating division or subsidiary which benefits from the work performed. General costs are allocated on the basis of the average of four factors. The four-factor method uses the numerical average of each operating property's percentage of total plant, total payroll, total operating and maintenance expenses, and total customers. Specific application of the four-factor method may vary by jurisdiction due to inclusion or exclusion of certain items within the factors.

#### 5.2.1.1 CUCC

According to CUCC, DRA used a four-factor allocator based on the California Method, resulting in allocation factors of 7.77% for corporate costs, 12.24% for central region costs, and 36.86% for western region costs. CUCC recommends allocation

factors of 8.04%, 13.60%, and 39.67% respectively, as CUCC states and that it begins with the California Method and blends the factors from the Arizona Method, which is used in Arizona and some other jurisdictions in which CUCC operates. The combination of the two methods without adjustment results in a total that does not equal 100%. The adjustment is made to eliminate the possibility of over- or underrecovery of common costs. CUCC asserts this blending is consistent with all prior proceedings before this Commission since the early 1970s. While the Arizona Method includes commodities not purchased for resale, CUCC contends that the issue is not whether its California operations have costs associated with commodities for resale but whether the use of the California only methodology can result in over- or underrecovery of common expenses. CUCC asserts that its blended approach should be adopted since DRA makes no argument supporting a change in the methodology previously adopted by the Commission. The parties do not agree on allocation of common costs.

**5.2.1.2 DRA** DRA asserts the California method was adopted by the Commission in the 1950s. DRA states that the sole difference between methods lies in the treatment of commodities purchased for resale. DRA claims that there are no commodities for resale in CUCC's telephone operations, and it would therefore be unreasonable and unfair to charge California ratepayers for costs they do not incur. The four-factor method uses the average of four factors.

**5.2.1.3 Discussion** Neither CUCC nor DRA provide citations to prior decisions to support their claims. Similarly, CUCC states, without citation, that its method is more accurate than the four-factor method. The four-factor method may vary by jurisdiction due to inclusion or exclusion of certain items within the factors.

**7** There were only two CUCC general rate decisions in the last 44 years: D1464726 (51 CPUC 261 (1951)) and D783-10-092 (13 CPUC 2d 47 (1983)). We adopted a staff adjustment of 15% for parent company

for central region costs, 12.5% for corporate costs, 7.7% for western region costs, and 36.8% for CUCC's common costs. (Footnote continues on next page)

citation, that we used a blended allocation factor of 22.74% in 1988 last general rate case decision rather than the California-only factor of 23.52%, thereby saving California ratepayers money. No statement in the last GRO decision, and no evidence in this proceeding, supports that claim. Therefore, the proper method to use in this proceeding must be decided on the facts in this case.

CUCO contends the allocation factor should be blended with the factor required in other jurisdictions to reach 100%. We try to cooperate with other jurisdictions to ensure that utilities we regulate do not over- or undercollect because of different ratemaking treatments between jurisdictions. When necessary, multijurisdiction task forces have been established to resolve differences.

We will not, however, unilaterally blend the allocation factors and incur greater expense for California ratepayers, since that simply costs Californians more without direct knowledge from other jurisdictions of their actions. There is insufficient time to create a multistate task force to resolve whatever issues there may be between us for the purposes of this decision. Moreover, a task force is unnecessary for future ratemaking since CUCO will

Central Region Telephone Operations (CRO) in Dallas, Texas;  
Eastern Region Telephone Operations in Birmingham, West Virginia;  
and Telecommunications Management Services (TMS) in Redding,  
California. Cotton plant in the centralized operations is plant  
used for more than one of citizens' divisions and subsidiaries.

Citizens, CUCO's parent company, reached an agreement in

(Footnote continued from previous page) 1993 with GTE corporation (GTE) expenses allocated to CUCO in D.46472 (1991). That adjustment, however, was because of the "failure of the utility to supply detailed information about the parent company's operations, as required by Decision No. 43134." (51 CPUC 261, 265.) We required CUCO to properly book and allocate plant in D.83-10-092. (13 CPUC 47, 60.) That order, however, was regarding Redding's common utility plant used by both California telephone and water operations. We find no references to adopting a California method for allocating commodities purchased for resale.

soon begin incentive regulation under the NRE. Therefore, we will not pursue establishing a multistate task force because it would be difficult (involving the cooperation of potentially many other local states), time-consuming, costly, untimely for this decision, and unnecessary for future decisions.

CUCC speculates that there may be some telephone-related commodities purchased for resale in test year 1995, but neither specifically identifies nor quantifies those commodities. We will not base an allocation factor on costs which neither CUCC nor DRAYT have identified or estimated for test year 1995. There is no other justification to charge California ratepayers' expenses that are not incurred to provide their service. Thus, we use the California utility only allocation factors.

#### 5.2.2 Net Common Plant

In order to capture administrative economies, Citizens provides certain centralized services for its divisions and subsidiaries. Centralized operations are organized for various purposes in different locations, including the Stamford Administrative Office (SAO) in Stamford, Connecticut; Western Region Telephone Operations (WRTO) in Elk Grove, California; Central Region Telephone Operations (CRTO) in Dallas, Texas; Eastern Region Telephone Operations in Bluefield, West Virginia; and Telecommunications Management Services (TMS) in Redding, California. Common plant in the centralized operations is plant used for more than one of Citizens' divisions and subsidiaries.

Citizens, CUCC's parent company, reached an agreement in 1993 with GTE corporation (GTE) to buy GTE telephone properties in ten states. The increase in access lines nationwide from about 140,000 to 640,000 prompted Citizens to change some of its centralized operations, and change the allocation factors used to distribute common plant for cost recovery. That order, CPUC 93-03, reduced by 50% the common utility plant used by both California telephone and water operations. We find no references to adopting a California method for allocating commodities purchased for resale.

5.2.2.1 CUCC DRTO-1204 has provided notice of its proposed DRTO-1204

CUCC's estimate of test year 1995 total company net common plant is \$14,028,939, while DRA's estimate is \$4,851,000, S.2 for a difference of \$9,177,939, according to CUCC. CUCC says the basic difference is that DRA used a post-GTEC acquisition four-factor allocation ratio applied to pre-GTEC acquisition common plant. CUCC states that its showing uses a pre-GTEC acquisition allocation ratio applied to pre-GTEC acquisition common plant. If a post-GTEC acquisition four-factor allocation is applied to post-GTEC common plant, CUCC's net common plant would be approximately \$11,200,000, according to CUCC. DRTO-1204 has provided notice of its proposed

CUCC recommends rejection of DRA's showing. CUCC argues, among other things, that DRA did not include additional common plant acquired through or required by the GTEC acquisition, and incorrectly used a CRTO four-factor allocation ratio on Redding plant facilities when the proper factor would be that for the WRTO, and DRTO mistakenly applied post-acquisition allocation factors to pre-acquisition common plant. DRTO is being denied and will be transferred to DRTO 5.2.2.2. DRA states that, before allocation factors are applied, the differences between CUCC's and DRA's net common plant estimates are slight, with CUCC estimating \$39,268,000 and DRA estimating \$38,433,000. DRA asserts that it included \$5.5 million per year for 1994 and 1995 of CRTO plant in Dallas, and \$9.5 million in 1994 and \$9.0 million in 1995 in SAO plant for the additional common plant necessitated by the GTEC acquisition. (DRTO-1204 has provided notice of its proposed

DRA states that, before allocation factors are applied, the differences between CUCC's and DRA's net common plant estimates are slight, with CUCC estimating \$39,268,000 and DRA estimating \$38,433,000. DRA asserts that it included \$5.5 million per year for 1994 and 1995 of CRTO plant in Dallas, and \$9.5 million in 1994 and \$9.0 million in 1995 in SAO plant for the additional common plant necessitated by the GTEC acquisition. (DRTO-1204 has provided notice of its proposed

DRA believes it properly allocated Redding facilities, recognizing that the Redding TMS functions have been subsumed by S.2 other operating units, and CRTO will perform functions similar to those previously performed by TMS. DRA argues its net common plant estimate most fairly reflects CUCC's California telephone ratepayers share of CUCC's net common plant by its use of both

post-GTEC acquisition allocation factors and post-GTEC acquisition common plant.

### 5.2.2.3 Discussion

Phase II of A.93-07-039 was consolidated with A.93-12-005 on March 21, 1994. Phase II specifically included the issue of the effect on CUCO ratepayers of the acquisition. (See ruling dated March 21, 1994.) Despite several invitations and opportunities to update its case-in-chief to include all effects of the acquisition, CUCO declined to do so. As late as April 1995, in a showing to reflect the final acquisition purchase price (Exhibit 71), CUCO continued to use pre-acquisition net common plant and pre-1990,000,112 acquisition allocation factors.

We intend to take from this proceeding to fully account for the acquisition. We reject CUCO's primary showing based on pre-acquisition plant and allocation factors. We are convinced by CUCO, however, that DRA incorrectly assumes all Redding TMS facilities operations will be transferred to CRTO. Rather, while some TMS plant is and will be transferred to CRTO, most of it remains in place. Moreover, under CUCO's reorganized operations, the remaining TMS plant in test year 1995 will be part of WRTO, and the correct allocation factor for those facilities is that for WRTO. Further, we are convinced by CUCO that DRA fails to include all the pre-acquisition-related additional common plant. Therefore, we adopt CUCO's test year 1995 post-acquisition net common plant estimate (after plant transfers to CRTO and including acquisition-related additional plant), apportioned using the post-acquisition California allocation factors discussed above.

### 5.2.3 Acquisition/Reorganization Savings

CUCO and DRA agree that Citizens Acquisition of GTE properties provides opportunities for savings, but they disagree on the amount. CUCO's California telephone ratepayers share of CUCO's net common plant by the use of both

5.2.3.1 CUCC originally estimated savings of \$1,000,000, which it later updated to \$2,396,000. CUCC claims that its estimate is consistent with a test year 1995 total of 366 employees, down from 395 employees in 1993.

DRA's estimate of \$5,260,000 is faulty, according to CUCC. CUCC claims that DRA incorrectly estimates and sums acquisition savings of \$1,000,000 and reorganization savings of \$4,260,000. CUCC contends there is only one event, not two. CUCC states that without the acquisition of the 500,000 GTE access lines there would be no reorganization. Further, CUCC believes that DRA's estimate of 324 employees in the test year is erroneous. Finally, CUCC states that DRA's estimate of \$60,000 savings per employee is invalid.

5.2.3.2 DRA believes there are both acquisition and reorganization savings. DRA reasons that acquisition savings result from economies of scale and the ability to spread expenses over a larger customer base. DRA contends CUCC agreed to an estimate of \$1,000,000 in acquisition savings, which DRA adopts. In addition, DRA believes reorganization savings accrue from Citizens' creation of a new CRTD office and restructuring of TMS. DRA says that CUCC's total savings of \$2,396,000 sums \$1,000,000 in acquisition savings with \$1,396,000 in reorganization savings. DRA says its total savings of \$5,260,000 sums \$1,000,000 in acquisition savings with its estimate of \$4,260,000 in reorganization savings.

DRA says that its forecast of 324 test year 1995 employees is based on a regression analysis of employee levels between 1990 and 1994, after adjusting the 1994 number of employees. DRA states that it estimates less employees in 1994 than CUCC in order to reflect company data on the number of employees who transferred out of California as a result of the reorganization. DRA argues that its estimate of \$60,000 savings

per employee comes from CUCC's use of \$60,000 per employee to estimate savings from a reorganization CUCC performed in 1991 and 1992. DRA asserts the estimate is conservative since it is without any escalation to 1995 cost levels. 2001 was used as a base year constant with a base year 1993. 395 employees in 1993.

### 5.2.3.3 Discussion

While we largely agree with CUCC that the acquisition and reorganization savings should be treated as one event, we disagree with CUCC's estimate of test year 1995 employees. The data shows CUCC has decreased its number of employees from a peak of 487 in 1990, to 324 in 1995. There would be no reorganization savings if the acquisition of 324 employees in the test year is erroneous. Finally, CUCC states that DRA's estimate of \$60,000 savings per employee is invalid.

| Year | CUCC | DRA |
|------|------|-----|
| 1990 | 487  | 487 |
| 1991 | 441  | 441 |
| 1992 | 422  | 422 |
| 1993 | 395  | 395 |
| 1994 | 366  | 354 |
| 1995 | 366  | 324 |

CUCC and DRA agree on the number of employees through 1993. CUCC estimates 366 employees in 1994 and the same in 1995. DRA estimates 354 employees in 1994 (a reduction of 41 employees from 1993) based on employee transfers from California identified in a CUCC data response. DRA forecasts 324 employees in 1995 by reducing 30 employees from the 1994 level based on a regression analysis of the data over the years 1990 to 1994.

CUCC criticizes DRA's 1994 estimate because DRA neither accounted for employees moving into California to fill vacancies nor accounted for employees in the 41 total who did not move in 1994, but might have moved in 1993 or will move in 1995. CUCC's contentions are not convincing.

First, DRA's data request clearly sought to clarify "costs and savings associated with interstate and intrastate

relocations. (Exhibit 112, page 1.) CUCC was asked to present comprehensive information; CUCC's data response could have included data on inbound transfers, if CUCC believed they were a real factor, but did not. CUCC presents no evidence on inbound or other transfers.

Second, CUCC states both that DRA's use of the 1993 number of employees "is the only reasonable position in the DRA's entire presentation" (CUCC Opening Brief, December 12, 1994, p. 53), and that DRA erred in not adjusting the 41 transfers in 1994 to reflect at least one employee who allegedly transferred in 1993 (id., p. 54). CUCC cannot reasonably claim that the 1993 number is both right and wrong.

Third, CUCC's data response was dated May 3, 1994. CUCC only included employee transfers identified up to that date. Since the reorganization was ongoing and no data shows it was completed by May 3, 1994, it is likely that the estimate of 41 is conservative, and other transfers might have been identified after May 3, 1994.

Finally, CUCC criticizes DRA's analysis since DRA presents no information to refute the possibility that at least one employee of the 41 might not move until 1995. Again, CUCC could have but did not include that information in its data response.

Nonetheless, of the 41 identified transfers as of May 3, 1994, only 13 had relocated by that date, with 28 yet to move. There is the possibility that some of the 28 employees will not complete their move in 1994 but will move in 1995. We think it is reasonable, however, to estimate that all 41 employees will complete their move by test year 1995. We therefore reduce the 1993 employees in 1993 by the 41 transfers identified by CUCC and adopt a test year number of 354. This is 12 employees less than CUCC's estimate of 366.

Given the competition that is developing in the telecommunications market, there is every reason to believe that

CUCC will continue to reorganize and downsize to meet this increased competition, independent of the acquisition. DRA estimates that further reorganizations will result in an additional 30 employee reduction in 1995. We decline, however, to use DRA's regression result since we would estimate more employees in 1994 than does DRA (since we estimate 354 employees in 1995 and would estimate something greater than 354 in 1994; whereas DRA estimates 354 reduction employees in 1994). (CUC Opening Brief, December 1993) "no basis in evidence"

While we agree that further reorganizations may be desirable or necessary for CUCC to successfully challenge its peer competition, DRA presented no information on the specific additional reorganizations CUCC might undertake. We will not reduce forecast further employee reductions based on extrapolating past trends without some specific information on the savings opportunities. Moreover, we agree with CUCC that the acquisition and reorganization should be assessed together, not as independent events. Our estimate of an additional reduction of 12 employees from CUCC's estimate is consistent with that view. CUCC has already had significant employee reductions since 1990, eliminating 133 (27%) employees from its 1990 total of 487 to reach the test year estimate of 354. We decline to adjust further the test year estimate of 354 employees.

CUCC estimates \$2,396,000 savings from the acquisition and reorganization. We add \$812,400 to reflect the additional reduction of 12 employees at an estimated salary and overhead cost of \$67,700 per year. CUCC argues that the \$60,000 level used in its estimates for the 1991-92 consolidation is invalid here because the earlier consolidation involved all levels of employees (including management); while the current acquisition and reorganization only includes employees in CUCC's Redding and Elk Grove offices (administrative and support personnel only). To the contrary, we have no information that management level positions in Redding and Elk Grove are not also subject to this reorganization.

as part of the acquisition. In fact, unless the reduction is A.S.2 unreasonably skewed, it is not plausible that a reduction of 41 employees (over 10%) will not include management. DETA : not in scope

While CUCO contends the \$60,000 estimate is faulty, it provides no alternative amount. We agree with DRA that \$60,000 is a conservative estimate and does not include escalation from 1991-92 to 1995. Therefore we escalate \$60,000 to test year 1995 using the escalation factors in the joint testimony. This approach yields an estimated savings of \$67,700. As a result, for 12 A.S.2 additional employees we add \$812,400 to CUCO's estimate of \$2,396,000 for a total test year estimated savings from the acquisition and reorganization of \$3,208,400. In comments on the PD, DRA asserts that CUCO's inadequate showing of specific additional reorganizations is rewarded by the PD not forecasting further employee reductions. To the contrary, CUCO's obligation was to justify its test year forecast of 12 additional employees. CUCO had no burden to provide information justifying further reorganizations and different numbers of employees. CUCO's inconsistent with its test year forecast and request. On the other hand, DRA estimates fewer employees than does CUCO for the test year, but other than their results of its trend and its judgment, it fails to provide organizational, program, or other details to support its estimate.

We decline to adopt a trend to forecast additional employee reductions without more specific information on how CUCO could--with fewer employees--provide the high quality and scope of service we expect of utilities under our jurisdiction. Whether our adopted level of employees is sustainable in a competitive market after test year 1995 will be determined when competition fully develops. In the meantime, we believe a reduction from 1993 to test year 1995 of 41 employees (over 10%) is substantial and is supported by the record, is reasonable.

#### 5.2.4 Effect of Acquisition

There are three groups of ratepayers affected by the acquisition: GTEC ratepayers who remain GTEC customers, GTEC ratepayers who become CUCC customers, and CUCC customers. We are concerned that each group be treated fairly, and that no ratepayer group be made worse off as a result of management decisions re GTEC and Citizens to transfer assets. We are convinced that no ratepayer group will be disadvantaged by the acquisition.

##### 5.2.4.1 GTEC Customers Who Remain With GTEC

We addressed the effect of the acquisition on GTEC customers who remain GTEC customers in D-94-09-080. We decided, so that any gain-on-sale should go directly to either shareholders or ratepayers. Rather, we stated our belief that GTEC's decision to sell the exchanges to Citizens is just the kind of management activity we intended to encourage by the adoption of the NRF. The transaction may contribute to earnings as a NRF utility, do a 100% shareholders retain 100% of earnings up to the rate of return of a ceiling of 15.5%, and ratepayers receive 100% of the amount over 15.5%. We further decided that there should be no separate flow-through of any cost and revenue reductions due to the sale. Finally, we directed GTEC to revise its billing base (used to calculate surcharge adjustments which implement GTEC's annual price cap filing) to ensure that surcharge adjustments are as accurate as possible. Therefore, GTEC customers are treated fairly and properly consistent with NRF regulation.

##### 5.2.4.2 GTEC Customers Who Become CUCC Customers

We also addressed GTEC customers who become CUCC customers in D-94-09-080, where we expressed our concern that ratepayers whose service will now be provided by the acquiring utility should not be harmed by the transaction. (D-94-09-080, web mimeo p. 17.) These ratepayers are protected in the transaction in four ways.

First, we require any premium paid by CUCC for the property to be amortized below the line. For ratemaking purposes, we recognize no exception to the rule requiring purchased assets be booked at original cost less depreciation. Therefore, the assets used to serve these ratepayers will continue to be charged to these ratepayers at the same cost as before the transaction.

Second, Citizens incurred approximately \$17 million in transaction costs in excess of the price paid to GTE for the nationwide acquisition, of which approximately \$2 million would be allocated to CUCC. CUCC did not request recovery of these transaction costs in this proceeding, and none have been allowed. Therefore, rates for CUCC customers, including GTEC customers who become CUCC customers, are not adversely affected by transaction costs.

Third, D.94-09-080 considered the rates paid by GTEC customers who became CUCC customers in relation to both the rates paid by GTEC customers who remained GTEC customers (as adjusted by the IRD decision (D.94-09-065)) and CUCC's interim rates. We provided for fair and reasonable rate treatment for those customers, along with an opportunity for petitions to modify the decision if limited savings accrued not otherwise included in rates. No petitions were filed.

Finally, CUCC presented an analysis in these proceedings of the revenue increase to the former GTEC ratepayers studied in isolation from CUCC ratepayers. The revenue increase is required to bring CUCC's earnings on the acquired assets from 8.29% up to CUCC's requested rate of return. The analysis shows that the revenue increase exceeds CUCC's allocated savings. Whether acquired by CUCC or not, however, these customers would see higher rates when the rates are adjusted to reflect a current rate of return. Thus, the revenue increase may largely be irrelevant to the amount of savings. Nonetheless, even if considered, we do not authorize separate rates for GTEC customers who now become CUCC customers.

customers. Rather, all CUCC customers will pay the same rates, and any additional revenue requirement will be paid by all CUCC customers. As explained below, because the total acquisition and reorganization savings exceed the total of all the extra costs all customers will be better off as a result of the acquisition. 5.2.4.3 CUCC Ratepayers

Finally, we heard from many CUCC customers concerned that CUCC's rates not be increased because of the acquisition. These customers clearly do not want to pay higher rates because GTE and Jan Citizens managements have decided to alter what towns what assets pay. We agree with that concern. We specifically separated A.93-07-039 into two phases and consolidated Phase 2 with CUCC's general rate application to address the revenue requirement and ratemaking effects of the acquisition on CUCC. The evidence convinces us that CUCC customers are better off as a result of the acquisition for several reasons, including the same reasons affecting the GTEC customers who become CUCC customers.

First, we do not allow CUCC to put into rate base the price it paid for the assets. Rather, CUCC can only earn a return of and on GTEC's original cost minus depreciation.

Second, the acquired assets bring not only costs but also revenues. The rates paid by the former GTEC customers who become CUCC customers were largely, if not fully, compensatory of that plant before the transfer and will be so after the transfer. CUCC's existing customers will not suffer. Third, CUCC did not ask for, and we do not allow, the estimated \$17 million in transaction costs incurred by Citizens above the purchase price.

Fourth, the acquisition and reorganization savings exceed the additional revenue requirement related to the purchase. CUCC's estimates the revenue increase on the existing exchanges to bring the return to CUCC's requested level is \$874,032. Because this adjustment would occur during the GRC with or without the acquisition, this increase may be irrelevant to the savings.

Nonetheless, even if considered, the increase is offset by the allocated acquisition savings of \$1,844,508, for a net decrease in revenue requirements of \$970,476. CUC's estimate of the revenue increase on the acquired exchanges is \$297,357. That increase is offset by allocated acquisition savings of \$119,687 for a net increase in revenue requirements of \$177,670. Because we do not intend to establish separate rates for the acquired exchanges, the net increase for the acquired exchanges is paid by all customers. That increase, however, is more than offset by the \$970,476 net decrease for the existing exchanges, resulting in a combined net decrease of \$792,806. The net decrease is even larger using both our authorized rate of return (which is below that requested by CUC and used in its analysis) and our \$812,400 increase in CUC's estimated acquisition savings.

We come to the same conclusion with DRA's analysis as DRA believes that CUC's revenue requirements must be reduced by nearly 11 percent to DRA's full savings estimate of \$5,260,000 for CUC ratepayers to be indifferent to the acquisition. Otherwise, DRA claims, CUC ratepayers will be worse off. DRA's analysis, however, separately estimates acquisition and reorganization savings. DRA's analysis without the acquisition assumes CUC will still achieve \$4,260,000 in reorganization savings. We do not agree that CUC could achieve that level of reorganization savings without the acquisition. Using DRA's methodology but without the reorganization savings in the CUC non-acquisition case shows CUC ratepayers are better off even at the savings below our adopted level of \$3,208,400.

Therefore, if analyzed using either CUC's or DRA's approach with our adopted level of savings, CUC's revenue requirement will be less with the acquisition than without the acquisition. CUC ratepayers, including the GTEC customers who become CUC ratepayers, are better off after the acquisition.

Recoverable expenses are those that are necessary to the offering of telephone service or in some way provide a benefit to the

**5.2.5 Community Activities** In response to a request during the hearings, CUCO provided a record of community involvement activities. CUCO employee testifies that for the first nine months of 1994, CUCO employees performed 1,027 hours of volunteer activities charged to work hours. CUCO estimates that about 230 hours were charged by non-union bargaining unit (hourly) employees for a maximum cost of \$7,500. The remainder of the hours were charged by salaried employees. According to CUCO, CUCO estimates that for the year 1995 estimates would be the same as the 1994 expenses.

CUCO recommends no disallowance for employee work time spent on community activities since the hours are minimal, the activities benefit ratepayers, and recovery of such activities is allowed by Federal Communications Commission (FCC) rules and Commission decisions. CUCO asserts that it does not engage in these activities solely to enhance its corporate image. Rather, community involvement helps enable CUCO to identify community needs. Moreover, since salaried employees work in excess of 40 hours per week, their volunteer hours should not be counted as work hours according to CUCO. Finally, CUCO believes any disallowance would discourage company involvement in community activities.

DRA believes that ratepayers should not fund any part of employee salaries devoted to community activities, whether or not CUCO considers the total number of hours to be small. DRA contends that CUCO presented no evidence to show how telephone ratepayers non-directly benefit from these activities. DRA asserts that CUCO's shareholders will get the benefit of the goodwill created by the community activities and the expenses should not be charged to ratepayers.

While community involvement is worthwhile, the issue is whether the costs should be paid by ratepayers in telephone rates. Recoverable expenses are those that are necessary to the offering of telephone service or in some way provide a benefit to the

ratepayer. We are not convinced that the majority of these costs, if paid by CUC ratepayers, are in any way necessary to the provision of telephone service, contribute to service improvements, or otherwise benefit ratepayers.

For example, 167 out of 1,027 hours (16.3%) were for division membership activities in Rotary Club. As we have explained before, we do not allow recovery of service club costs.

There may be customers located in the district who take exception to some of the activities conducted by the clubs. In these circumstances, it is appropriate that the cost of company employee activities, however commendable, be borne by (applicant). (D.90-03-034, 35 CPUC 2d 630, 649) 12

Just as we do not allow recovery of club dues, we do not allow recovery for the work time spent on club activities.

Similarly, 110 out of 1,027 hours (10.7%) were devoted to hanging or removing signs, lights, and banners for holiday and other community events, including hanging football field lights. Some ratepayers might take exception to these activities. Even if all citizens ratepayers support these activities, the issue is whether they should pay for them in telephone rates. We think not. Ratepayers may support these activities and clubs with their own money and time as generously as they wish. Ratepayers should not be forced to pay for these activities as part of their telephone service. Rather, telephone rates should recover only those costs necessarily incurred to provide telephone service, or which benefit ratepayers, and those costs should be kept to a minimum.

On the other hand, we also recognize that CUC's attendance at some events (e.g., rotary club, chambers of commerce) promotes awareness of community growth patterns and developments for planning purposes. As said in D.88232: "Not everything the telephone company needs to know about future growth trends is going to appear in the local newspaper." (D.88232, 83 CPUC 149, 207 (1977).) Thus, some community involvement expenses may be

reasonable in making a similar decision regarding salaried employees, we disallowed 50% of the salaries of management employees. (Id.)

Our review of CUCC's community activities shows few activities which might promote company awareness of community growth patterns or other matters which might provide some benefit to ratepayers. Therefore, based on the record in this case, we disallow 75% of the total expenses, including salaried employee hours charged to work time. We estimate the test year 1995 cost for community involvement to be \$56,088 using \$7,500 for 230 hours in 9 months expanded to 12 months for both hourly and salaried employees. We allow \$14,022 and disallow \$42,066.

We hasten to reiterate that this decision is not a statement that we seek minimal company and company employee community involvement. Rather, it is simply a reflection of what activities can be expected to benefit, and are reasonably charged to, ratepayers. CUCC's ratepayers clearly told us they desire lower rates. We are in an era when companies need to pay great attention to their costs and minimize costs in every reasonable way. Similarly, we must scrutinize all utility expenses with great care. Applicant did not meet its burden of proof that the full amount of its community involvement expenses is necessary to provide telephone service or otherwise benefit ratepayers.

#### 5.2.6 Executive Compensation

This proceeding generated a large number of customer letters, petitions, and statements. Among the issues raised, including the level of rates and the quality of service, was the compensation of Citizens' Chief Executive Officer (CEO) Leonard Tow. Articles published in the New York Times in 1993 alleged that Tow received compensation of \$21.6 million in 1992. Customers expressed concern, and asked that the Commission not allow an unreasonable level of compensation for Citizens' CEO.

Thus, some community involvement expenses may be

CUCC contends Tow was not paid \$21.6 million in 1992, despite the articles to the contrary. We reach no conclusion about the level of his 1992 compensation. What is relevant for rate making is the amount found reasonable and included in rates. Last CUCC's last general rate decision was in 1983. (D.83-10-092, 13 CPUC, 2d, 47.) We allowed \$63,191 for rate making, which was the portion of Citizens' \$290,000 CEO compensation allocated to CUCC. Any amount paid in 1992 above the level included in rates was not funded by stockholders, not ratepayers. *U.S. v. Fournier*

CUCC presented specific evidence on executive compensation in the direction of the ALJ. CUCC shows Tow's total annual compensation for test year 1995 is forecast to be \$1,722,280. Applicant seeks recovery of the portion allocated to CUCC, or \$117,701. DRA does not dispute compensation in this range.

In test year 1995, Tow serves not only as CEO, but also as Chief Financial Officer (CFO) and Chairman of the Board of Directors. Citizens provides utility service in 5 different utility industries (telephone, electricity, gas, water, and wastewater) in 14 states. Most of these industries are under no consideration for, nor undergoing, significant change. It arguably requires considerable expertise to successfully serve as Chairman, CFO, and CEO of such a diverse company. We have no evidence that the level of compensation CUCC proposes is unreasonable for a person serving in multiple capacities, in a company serving in multiple jurisdictions and multiple industries.

Using our adopted California only allocation factors, the allocated portion of the compensation for Citizens' Chairman, (CEO & CFO) is \$113,748. If this was just for the CEO, this would represent an increase of 5.0% per year from the level found reasonable in 1983. This rate of increase is not out of line with the inflation rates reported by CUCC over the same period. The test year 1995 compensation, however, is not only for the CEO, but also the CFO and the Chairman. *U.S. v. Fournier*

The cost per line per month in 1983 was \$0.1240 for the CEO, while it is only \$0.0744 in 1995 for the CEO, CFO, and Chairman. This is a decrease of 40.3% in the cost per line per month. The last found reasonable for the CEO alone was \$0.1240.

The parties' agreement on the compensation for Citizens' Chairman, CEO, and CFO is presented in their joint testimony. The testimony recommends any other level. We find this amount to be reasonable.

### 5.2.7 Fountain Fire

A fire started in CUCC's Burney service territory on August 20, 1992, burning over 64,000 acres and causing extensive damage to CUCC's exchange and toll plant facilities. The fire became known as the "Fountain Fire" since it is believed to have started near a roadside fountain in the Burney area. It was declared a national disaster on August 29, 1992.

Commission Resolution E-3238 (dated July 12, 1991) authorized utilities to establish Catastrophic Event Memorandum Accounts (CEMA) to record costs resulting from declared disasters. On October 1, 1992, CUCC notified the Director of CACD that it had started booking costs incurred for repairing and replacing damaged facilities due to the Fountain Fire in its CEMA.

CUCC originally sought Fountain Fire cost recovery in this GRC of \$3,054,379, amortized over six years starting in 1995. DRA originally recommended \$88,814. DRA based its disallowance recommendation on the belief that CUCC's request was inconsistent with rate of return regulations (even as provided under Resolution E-3238), failed to consider savings that resulted from the fire, and included regular as well as overtime labor. DRA should not have included interest on plant or CEMA balances, and should have represented tax deductions for the damaged plant.

CUCC and DRA resolved their differences and presented an agreement in their joint testimony. CUCC and DRA agreed to recovery of \$1,713,402, amortized over two years. They recommend recovery of

in the form of a company specific surcharge applied to the same billing base currently used to calculate the surcharges for Universal Lifeline Telephone Service and the Deaf and Disabled Telecommunications Program. The amount includes expenses of the catastrophe and the cost of removing damaged facilities, less the amount of straight-time labor expenses; it also includes the net difference in cost between the old and new plant, the net difference in depreciation amounts, an estimate of savings associated with the more efficient new plant, and the tax benefits from retiring the old plant.

DRA estimates that the 1995 intrastate revenue requirement portion of the total is \$1,358,654, or \$679,327 per year for two years. Divided by DRA's estimated billing base, the annual surcharge would be 1.838%.

No testimony recommends any different treatment of the Fountain Fire expenses. We find the joint recommendation reasonable, and adopt the total recommended expense of \$1,713,402, with an intrastate revenue requirement of \$1,358,654. We amortize this over two years, or \$679,327 per year.

While we hesitate to use a surcharge for recovery, we agree with the parties and use a surcharge in this case. We consider, but reject, putting Fountain Fire costs into the results of operations with direction for its removal in the price cap filing two years from now. We reject this approach because the price cap effective date might not coincide with the 24-month amortization, complicating the removal.

Moreover, removing the expenses after two years would require applying a surcredit (or a reduced surcharge) under our NRF mechanism. That is, under our NRF system, rates are adjusted when necessary (e.g., each year with the price cap filing) by a surcharge or surcredit until the NRF surcharge or surcredit exceeds 5%. Until then, the rates themselves are not permanently changed. If a NRF surcharge or surcredit would not otherwise be necessary

but for the Fountain Fire expense removal, we will have created the need for a surcredit after the second year where one would be needed otherwise not exist. This Fountain Fire surcredit could last indefinitely.

We conclude that putting Fountain Fire costs in the rate base results of operations is potentially more complex than the two-year Fountain Fire surcharge recommended by the parties. A surcharge for two years provides relative certainty of cost recovery and will minimize our reliance on surcharges in the long run.

Consistent with D.95-02-050, CUCC's directory advertising service billings will be excluded from the surcharge billing base. Dividing the intrastate portion of the Fountain Fire costs over 10 years, and over the billing base of \$36,932,956 results in a surcharge of 1.839%. CUCC's tariffs shall provide for application of this surcharge for 24 months.

#### 5.2.8 All End-User Surcharge

CUCC proposes recovery of some of its revenue requirement from an All End User Surcharge (AEUS). The AEUS would be used to keep CUCC's Category I basic local exchange service rates at affordable levels in order to preserve universal service, according to CUCC. CUCC seeks AEUS contribution for three years and agrees to its termination after CUCC's first NRP review. DRA opposes an AEUS, arguing that it is inconsistent with both incentive regulation and the spirit of competition.

The need for an AEUS, or the use of alternatives (such as the high cost fund or universal services fund) will be determined by the level of rates. Even though the parties argued the merits of the AEUS in the revenue requirements portion of these proceedings, it was also argued during the rate design phase. We will defer our discussion of the AEUS to the rate design portion of this decision.

Until then, the rates themselves are not permanently changed. If a NRP surcharge or surcredit would not otherwise be necessary.



5.2.10 Depreciation and Infrastructure

CUCC and DRA presented joint testimony recommending depreciation rates and expenses. The recommended rates accelerate the depreciation in several important categories including copper cables, computers, and digital electronic switches. The depreciation expenses are based on an expectation that CUCC will accelerate its investment in new technology. We find reasonable and adopt the joint recommendations of CUCC and DRA on depreciation rates and expenses.

DRA also recommends an additional special amortization of \$2.0 million per year in six investment categories (digital electronic switching, other radio facilities, circuits equipment, aerial metallic cable, underground metallic cable, and buried metallic cable). DRA offers this special amortization over and above recommended depreciation rates as a further incentive for CUCC to improve its digital switching base with new improved switching technology. While CUCC contends that its system is among the most modern in the state, CUCC has a long way to go to fully modernize its system, according to DRA. DRA says that without the additional investment related to the special amortization, CUCC will have a difficult time realizing the benefits of Synchronous Optical Network (SONET), Integrated Services Digital Network (ISDN), or the Switched Multimegabit Data Service (SMDS).

DRA recommends that CUCC's rate of investment in new technology be monitored, and the special amortization be subject to possible future disallowance. If disallowed, DRA says CUCC should be directed to file an advice letter implementing a surcharge generating \$2.0 million per year, whether at that time CUCC is under traditional or incentive regulation.

Neither CUCC nor any other party offer evidence or other argument against DRA's proposal. Nevertheless, we reject DRA's recommendation.

Depreciation rates for telecommunications utilities have been set periodically in a process called reprscription. CUCC's reprscription requests have embodied promises of rapid transition to advanced technology. Despite the incentives we have provided by shorter plant lives for the authorized reprscriptions, we are disappointed with CUCC's progress and believe CUCC has more to accomplish to fulfill its promises. We have no evidence that the depreciation rates in the authorized reprscriptions have been insufficient or the cause of any lack of progress. Neither would lack of earnings appear to have been a confining factor,

particularly in light of CUCC's testimony that it did not apply for CHCP money after the means test was initiated.

DRA remains hopeful that CUCC's current promises of technological improvement will be fulfilled. We are guardedly hopeful as well, and think the reductions in plant lives adopted herein are consistent with CUCC's ongoing promises. No additional incentive is needed.

Moreover, DRA's monitoring recommendation is contrary to our intended regulation under the NRF. DRA suggests review of CUCC's future investment to verify that CUCC's rate of investment in new technology under NRF is greater than would have occurred under rate of return regulation. Determining what would have been the investment path under rate of return regulation compared to that under NRF would be difficult and controversial. We do not currently contemplate this type of review with potential disallowances under price cap regulation. We are not convinced that the incremental benefits of this type of incentive system on top of NRF justify the regulatory burdens, nor that this scheme would in any other way add value to our existing NRF regulation. While we do not foreclose the possibility that NRF regulation may result in reasonableness reviews and disallowances, we are not prepared here to initiate DRA's proposal with respect to plant in general or for six specific plant categories.

The proposed decision recommended that continuation of the special amortization be dependent upon CUCC fulfilling the expectation of accelerated investment in new technology rather than some or all of the \$2.0 million being diverted to stockholder dividends or other expenses. This determination would similarly be difficult and controversial. We are again not convinced that the incremental regulatory burden would add value to our NRF structure. Therefore, we reject the special amortization and its regulatory conditions.

Competition will eventually provide CUCC all the incentive it needs to make wise investment decisions. We need not impose our judgment in the near term by providing accelerated amortization for six particular investment categories with monitoring and the threat of disallowance. Rather, CUCC will make those decisions under NRF as it sees fit to remain competitive.

Consistent with our regulation of PacBell and GTEC under NRF (D.89-10-031, 33 CPUC2d 43), CUCC should file an annual depreciation application by June 30 of each year for approval of depreciation rates to become effective January 1 of the following year. If CUCC believes its requested depreciation rates fail to provide adequate compensation and incentive, CUCC may apply for special amortization in its annual depreciation application. As with any application, CUCC carries the burden of proof, including any request it might make for special amortization.

#### 5.2.11 Results of Operations at Present Rates

Our adopted test year 1995 results of operations at present rates is shown in Appendix C. As adopted at present rates, CUCC will earn an overall rate of return of 12.19%.

#### 6. New Regulatory Framework

CUCC applies for future regulation under our NRF. (For NRF decisions see D.89-10-031, 33 CPUC2d 43 (1989); D.94-06-011/2001 D.94-09-065.) No party opposes the concept of NRF regulation for CUCC. Moreover, the parties agree that the NRF for CUCC should be

consistent with that adopted for PacBell and GTEC, and they agree on nearly all elements of the NRF program.

For example, CUCC and DRA agree that the price cap formula should be as adopted in D.89-10-031, the inflation index should be the gross domestic product price index, and the exogenous ("z") factors should be the nine identified and adopted in D.94-06-011. They agree that the start-up revenue requirement should be the test year 1995 revenue requirement adopted herein.

If there is sharing, CUCC and DRA agree on the elements of the sharing mechanism: the benchmark rate of return should be 150 basis points above the market rate of return; the ceiling rate of return should be 500 basis points above the market rate of return, and the floor rate of return should be 325 basis points below the market rate of return. The parties agree that 100% of the return in excess of the ceiling rate of return should be returned to ratepayers. They agree that shareable earnings should be calculated as provided in D.89-10-031. CUCC and DRA agree on the trigger mechanism for review of the market rate of return.

Except for treatment of the ABUS, the parties agree that Category I, II, and III services should be defined as adopted in D.89-10-031 and D.94-09-065. The parties also agree that imputation standards, pricing flexibility, costing methods, and unbundling should be consistent with prior decisions.

AT&T recommends against our reciting the entire NRF program for CUCC in this decision. We agree. To avoid confusion and possible introduction of errors, we do not restate the existing requirements on all NRF issues. Rather, we adopt for CUCC the framework already established for PacBell and GTEC. We address only those items which need further discussion or about which the parties disagree.

**6.1 Market Rate of Return** While the parties differ on their rate of return recommendations, they agree that the market rate of return should be

be the overall rate of return adopted herein. We agree. We adopt an overall rate of return, and market rate of return, of 9.75%.

**6.2 Monitoring** CUCC and DRA agree to a reduced and modified monitoring of requirement, given their concerns that the monitoring reports required of PacBell and GTEC would be onerous for a company the size of CUCC. We find reasonable and adopt the parties' joint recommendation, as summarized in Attachment D.

**6.3 ABUS** CUCC recommends Commission adoption of an ABUS, with the ABUS included as a Category I service for treatment under the NRE. DRA opposes the use of an ABUS. If an ABUS is adopted, DRA opposes its inclusion as a Category I service. We reject use of an ABUS, as we explain in a subsequent section. ABUS categorization is therefore not an issue in our adopted NRE for CUCC.

**6.4 Trigger Mechanism** The parties agree to the trigger mechanism adopted for PacBell in D.94-06-011. The trigger mechanism is intended to alert the Commission to long-term changes in the economy or telecommunications industry. If triggered, the Commission may consider modifying the market rate of return. (D.94-06-011, mimeo. p. 133.)

We adopt the parties' joint recommendation to use the same trigger mechanism for CUCC that we use for PacBell. This program includes the Phase II 30-year Treasury bond rate of 7.99% against which the 150 basis point movements in actual and forecast bond rates are measured. We note that the 30-year Treasury bond rate on June 1, 1995 was 6.60%, or only 11 basis points above the level where the trigger might occur. Invoking the trigger, however, requires both the 30-year Treasury bond rate, and the three-year forecast of that rate, to be at or below 6.49% for at least three consecutive

months. While we are adopting a scheme in which the trigger might occur soon, we think doing so is reasonable for the same reasons we declined to adjust the trigger in D/94-06-011. That (is, changing the 7.99% to the current rate for the trigger mechanism would reduce the balanced sensitivity that we initially introduced into the mechanism, and which we seek here. Also, the lower rate would skew the trigger because future declines in Treasury rates may or may not be substantial. To lower the trigger would mean it would be unlikely to be tripped on the downside except during the most catastrophic of market changes. (D/94-06-011, mimeo of pgs 55-56) b6 b7C b7D Moreover, we do not intend to reset the trigger by following nominal interest rate movements in a lock step, to just as we do not do that as in setting the overall rate of return. (See discussion above on adding the cost of capital.)

**6.5b Sharing**

of the result of our adopting a settlement, sharing has been eliminated between the benchmark and ceiling rates of return for GTEC (D.93-09-038). b PacBell's sharing formula was also changed as part of PacBell's first NRP review. While equal sharing remains between the benchmark and ceiling rates of return, PacBell

earnings above the ceiling rate of return are now also shared, with 70% retained by shareholders and 30% returned to ratepayers (the "reverse taper") Jan (D.94-06-0119) and in the order of the Commission.

CUCC originally sought the new GTEC sharing formula. No sharing between the market and ceiling rates of return (with all over earnings retained by shareholders) and complete sharing of earnings above the ceiling rate of return (with all earnings above the ceiling returned to ratepayers) and CUCC believes sharing between the benchmarks and ceiling perpetuates many of the disadvantages and disincentives of traditional rate of return regulation. In further testimony, however, CUCC says it is not opposed to sharing as long as the productivity ("x") factor in the NRP formula is set at an attainable level. Otherwise, according to CUCC, sharing will not be possible and the issue moot.

DRA recommends the same sharing formula originally adopted for PacBell and GTEC (i.e., equal sharing between the benchmark and ceiling rates of return; all earnings over the benchmark ceiling paid to ratepayers). DRA says that as CUCC begins operations under NRP, neither CUCC nor the Commission have the experience or information specific to CUCC. DRA believes that for the same reason the Commission adopted the original NRP formula for PacBell and GTEC applies to CUCC. That is, equal sharing provides a reasonable protection to ratepayers if the NRP formula is inaccurate, while still maintaining strong incentives for CUCC to seek efficiencies. DRA points out that CUCC's sharing formula can be changed at its first NRP review if further information and utility experience support a change.

We adopt equal sharing between the benchmark and ceiling rates of return, with all earnings above the ceiling returned to ratepayers. This is consistent with the original sharing formula adopted in D.89-10-0311. It is recommended by DRA and accepted by CUCC (assuming the productivity factor is attainable). The difference remains between the benchmark and ceiling rates of return, PacBell

Regarding the attainability of the productivity factor, we point out that we have specifically rejected the proposal to develop company-specific productivity factors, and have held that the framework's productivity factor should be outside the utility's control. The productivity factor is designed to measure the productivity of the telecommunications industry compared to that of the economy as a whole. (D:89-10-031, 33 CPUC2d 43, 136, 153, 157 (1989); D.94-06-011, mimeo. pp. 21, 30, 31, 37.) This provides strong incentives for efficient operations.

While we recognize that there may be differences among local exchange carriers in the amount of attainable productivity improvements and reaching a productivity goal based on an external independent measure may be more difficult for some companies than others, we continue to reject company-specific productivity factors. Rather, to the extent there may be differences in the range of realistic productivity improvements, we see a well-crafted sharing mechanism as providing protection in this area. (33 CPUC2d 43, 137.) Therefore, attainability must be understood in the context of industry-wide, not company-specific, productivity factors.

(Just as we reasoned when we adopted the first sharing formula, the sharing formula adopted here provides a powerful incentive for CUCC to achieve all possible efficiencies while protecting ratepayers if the price formula is not calibrated perfectly. As we have for PacBell and GTEC, we will consider modifications to the sharing formula during CUCC's first NRF review. At that time, CUCC can provide data on its experience under NRF and other information for our review.)

## 6.6 Productivity Factor

The parties recommend different productivity factors. The "x" factor consists of a telecommunications industry total factor productivity growth rate, reduced by the economy-wide productivity growth rate, plus a stretch factor. CUCC and Roseville

Development of input indices are no less complex. For example, while it might seem that labor is readily measurable as total hours worked, according to CUCC "we might need to know how many hours are imputable to management verses non-management; older vs. younger; experienced vs. inexperienced; etc." (Exhibit 21, p. 42.) CUCC states that measuring capital stock is difficult due to problems of vintages and changing price levels. Moreover, capital stock must be estimated in replacement cost, not book values, and depreciation must be treated on an economic basis, according to CUCC. CUCC says a simpler approach measures the differential rate of price changes between the telecommunications industry and

the economy, and attributes the difference to productivity. Cucco observes that even for this simple approach, "obtaining an index of telecommunications prices in terms relevant to LECs may not be easy." (Exhibit 21, page 35.) Another approach identified by Cucco is that of econometric modeling, wherein productivity growth is measured by the coefficients of statistically estimated cost or production functions.

In making its recommendation, Cucco specifically rejects the applicability of the 4.5% productivity factor adopted for Pacific Bell and GTEC in 1989 (D.89-10-031). Cucco argues that the data used to develop the 4.5% is at least six years old and no longer relevant.

**6.6.2 DRA** conducted a study based on data from Cucco, Roseville and Contel of California. (Contel) and Cucco and Roseville criticize the DRA study for the same reasons that Cucco states productivity studies are difficult and complex. According to Cucco and Roseville, DRA measured outputs and inputs incorrectly, deflated revenues incorrectly, failed to take account of significant changes during the course of the study period (e.g., utilities exiting the settlements pool), and failed to take account of known future changes (e.g., reduced toll rates under IRD). Among other things, revenues improperly include Universal Service Funds, capital stock is not converted from book to replacement value, and tax effects are not neutralized, according to Cucco and Roseville.

**6.6.3 Roseville and the Stretch Factor** Roseville believes the DRA study is unreliable as the basis for any conclusion on productivity. Roseville asserts that Cucco has appropriately balanced the relevant concerns in arriving at its 2% recommendation, which Roseville supports.

Further, Roseville recommends the Commission not adopt a stretch factor in the productivity offset for Cucco, or if adopted, it be eliminated as soon as local competition is authorized.

Roseville contends that competition presents a "fundamental difference" in regulation between our first adoption of a stretch factor in 1989 and now. Roseville points out that intra-LATA competition became effective January 1, 1995, and both the Legislature and the Commission are committed to opening all telecommunications markets to competition no later than January 1, 1997 (one year after NRF when regulation will be implemented for CUCC). Competition will now provide all the incentive an LEO needs to become more efficient, and a stretch factor is not needed, according to Roseville.

6.6.4 Discussion

We reject CUCC's recommended 2.0% productivity factor. It fails to separately identify the telecommunications industry productivity factor compared to the economy-wide productivity factor, leaving us little information upon which to assess the components in determining the proper factor. Also, it fails to include a stretch factor. Moreover, we specifically concluded in both 1989 and 1994 that 2% underestimates the long-run productivity differential between the telecommunications industry and the economy, expected under either traditional rate of return regulation or NRF.

We agree with CUCC that conducting productivity studies is difficult and complex. Development of input and output indices requires care and judgment, as does the selection and use of price deflators. For example, as we noted in D.89-10-031, using the consumer price index rather than the gross national product price index changed the differential growth rate result by 82 basis points, producing a significant change from 1.70% to 2.52%.

Additional complexities and judgments are introduced in the development of replacement costs, economic depreciation and other variables in the analysis. The simpler approach CUCC cites still requires use of price indices.

Econometric modeling to determine productivity, as with the other methods, is not as simple as CUCC suggests.

approaches, requires considerable judgment in selecting inputs and interpreting the results. Furthermore, the increased dependence on subjective judgment while we consider all the information provided by CUCC, we assess it in the context of the complexities and difficulties inherent with all productivity studies. CUCC presents no evidence that the studies upon which it relies do not suffer from the same complexities and difficulties. Moreover, some of the studies are relied on by CUCC measure productivity for just one utility. We give these studies little weight. We have clearly stated that the productivity factor must be industry-wide, not company-specific. We disagree with CUCC's rejection of the applicability of the 4.5% productivity factor for PacBell and GTEC adopted in 1989 because of the vintage of the data. More recent data during the NRF review showed that long-run productivity growth rates are not increasing. (D.94-06-011, mimeo, p. 41). In fact, we increased the productivity factor to 5.0% for PacBell and GTEC in the NRF review based on that more recent data.<sup>8</sup> The vintage of the data does not weigh against the 4.5% result in light of the later information.

CUCC argues that its productivity factor should be less than 4.5% because CUCC has already secured many productivity gains. For example, CUCC's system is completely digital, and CUCC has already significantly reduced its number of employees, according to CUCC. We are not persuaded. By CUCC's own testimony, CUCC's productivity will increase from further deployment of fiber optics, centralization of administrative services, "Target Excellence" training, and process reengineering to eliminate unnecessary steps and restructure work. Also, the full benefits of the

fact that DRA's study cannot be relied upon for determining the productivity offset in an incentive regulation program.

<sup>8</sup> While D.93-09-038 adopted a series of productivity factors for GTEC, they are adjusted as set forth in paragraph 9 of Appendix A to D.93-09-038 to yield the same result adopted for PacBell in D.94-06-011.

acquisition/reorganization will be realized only over several years. Furthermore, the increased depreciation rates authorized and herein provide CUCC with resources to make productivity-improving investments. Therefore, CUCC is positioned to enjoy increases in productivity consistent with the industry. More importantly, however, we reject CUCC's arguments because our productivity factor is a reflection of industry, not company, productivity.

CUCC also argues that establishing CUCC's productivity factor above 2.0% will increase CUCC's financial risk and require an increase in CUCC's return on equity. Even if true, CUCC presents no data on different capital structures or returns on equity that would be required. We have no record upon which to increase CUCC's return. More importantly, however, we are not convinced by CUCC's argument. Because we establish a fair and reasonable productivity factor, no additional financial risk results.

We also recognize potential difficulties with the DRA study. We note, for example, that using employee hours might have been superior to DRA's use of the number of employees to measure labor input, as suggested by CUCC. We also note, however, that neither CUCC nor Roseville provide any data upon which to determine how sensitive the results are to this measure. Similarly, we recognize possible resulting errors when revenue changes (i.e., the output measure) occurs from settlements, universal fund accounts, or past or future rate changes which are not neutralized. We apply the appropriate weight to the DRA study, just as we do to the studies relied on by CUCC.

Roseville requests Commission adoption of a finding of fact that DRA's study cannot be relied upon for determining the productivity offset in an incentive regulation program. We

decline just as we decline to make this same finding for CUCC's studies. The studies upon which it relies.

As we have said in D.94-06-011, selecting the productivity factor for the price formula is not an exact science. (Mimeo. pp. 31.) And, similar to our reasoning with respect to financial models (46 CPUC2d 319, 357 (1992)), the productivity studies employed in our NRF proceedings are not determinative and must be tempered with a great deal of judgment. The studies cannot be relied upon exclusively to develop a particular productivity factor, but may be helpful in developing a range of reasonable values. While the studies are important and useful, they may not reflect all of the intricacies of the industry and the economy. Although the quantitative studies are objective, the results are dependent upon subjective inputs. Selection of a productivity factor for use in the NRF formula involves considerable judgment.

The "x" factor is composed of three parts: the telecommunications industry productivity factor minus the economy-wide productivity factor plus a stretch factor. Our most recently adopted "x" factor for PacBell and GTEC was 5.10% based on adding 50 basis points to the stretch factor portion of the prior 4.6% composite factor. While we have no evidence that industry productivity is now declining, the data in this proceeding generally shows the first factor--industry productivity--is less than in prior records. We have no data in this record to show

For example, the record on productivity relied on in D.89-10-031 shows various productivity measures ranging from 2.0% to 6.0% or higher. (33 CPUC2d 43, 158.) The record on productivity relied on in D.94-06-011 shows various productivity measures ranging from 2.0% to 9.5% (Mimeo. pp. 17-36.) This record shows various productivity measurements ranging from 1.3% to 7.1%. Using one specific showing, DRA estimated industry total factor productivity of 4% in the NRF review proceeding (D.94-06-011, mimeo. p. 27) and 3.7% in this proceeding. DRA recommended an "x" factor of 5.5% in the NRF review proceeding and 4.7% in this proceeding.

that the second factor, economy-wide productivity, is changing. We agree with Roseville, however, that competition changes our assessment of the third factor, the stretch factor. Considering the range of results from the studies in this record and the appropriate stretch factor, we adopt an "x" factor for Citizens of 4.0%.

**6.7 NRF Review** D.89-11-031 directed PacBell and GTEC to file applications for review of the NRF program no later than May 1, 1992. Among other things, a review in three years (1992) was found appropriate for consistency with the audit requirements of PU Code § 314.5. Guidance was provided on the issues that generally would and would not be considered during the 1992 review. A subsequent review was anticipated in another three years (1995).

D.94-06-011 found that the application process for the 1992 review took a substantial amount of time. We decided to initiate the 1995 review by an OIR issued in early 1995. This approach allowed rapid identification of the issues, engagement of the parties, and the ability to meet our regulatory goals for the telecommunications market by 1997.

We will not rely on a future CUCC NRF review, however, to accomplish our telecommunications regulatory goals for CUCC by 1997. Rather, that will be accomplished through this decision and decisions in other proceedings, such as those addressing universal service, local competition and open access. Nonetheless, NRF review for CUCC should be undertaken in three years consistent with our expectations under the original NRF program. For consistency with PU Code § 314.5, that review should be completed in 1998. Therefore, we direct CUCC to file an application for NRF review by October 1, 1997. Moreover, consistent with our goal of promoting

factor productivity of 4% in the NRF review proceeding. (D.94-06-011, mimeo, p. 27) and 3.7% in this proceeding. DRA recommended an "x" factor of 2.5% in the NRF review proceeding and 4.7% in this proceeding.

competition in telecommunications, we encourage CUCC to apply for changes to NRF which promote that objective.

Among other things, we will entertain review of the productivity ("x") factor, the benchmark rate of return, monitoring and reporting requirements, the sharing mechanism, and any other adjustments the parties believe should be made. We direct CUCC to address service quality and the extent to which the NRF meets each of our regulatory goals (33 CPUC2d 43 (92-115)). CUCC's application should include a list summarizing the issues CUCC proposes for review, and should include those we order (i.e., service quality and meeting NRF goals). To expedite identification and limitation of the issues for the CUCC proceedings, we direct the parties to submit their list of issues by the close of the protest period (i.e., 30 days after the notice of the filing of the application first appears in the Daily Calendar) and direct CUCC to state in its application (at the end of its list) our requirement for the parties to file their lists by the end of the protest period.

**7. Rate Design** In this chapter we establish the rates to recover CUCC's start-up revenue requirement and position CUCC and its ratepayers for competition. While we adopt hundreds of different rates, in tariff conditions, and tariff pages, we address only the areas of disagreement between the parties, with some limited exceptions. Also, CUCC proposes on a limited, transitional basis, to make up the revenue shortfall in Category 1 services below cost.

**10** While we order CUCC to file its application by October 1, 1997, nothing herein prohibits CUCC from filing earlier to seek alignment of its NRF structure with that of PacBell and GTEC. We subsequently make changes to the NRF for PacBell and/or GTEC, to seek other modifications CUCC believes necessary due to decisions we make in other proceedings, or to seek changes which advance competition. CUCC, of course, as applicant retains the burden of proof.

CUCC similarly urges rejection of DRA's conclusion that CUCC's cost

Where the parties agree, we adopt their common proposals unless discussed herein. Appendix B shows our adopted rates.

## 7.1 Methodology and Costs

### 7.1.1 CUCC

CUCC states its rate design is not based on a traditional rate design approach, such as applying a percentage increase to broad categories of services to meet the revenue requirement. Rather, CUCC asserts it developed a rate design that incorporates the Commission's explicit policies and overall direction, the realities of the increasingly competitive marketplace, its costs, and the needs of its customers.

CUCC states that it struck a balance among competing interests, realizing that it is impossible to develop rates that fully promote one rate design objective without undermining another equally important objective. Among its recommendations within that balance, CUCC proposes basic exchange service rates below its costs in order to preserve universal service and affordable rates. Consistent with its understanding of the IRD decision, CUCC proposes rates for Category II services that are above the lower of direct embedded costs (DEC) or long-run incremental costs (LRIC). In furtherance of its understanding of the Commission's goal to eliminate subsidies from rates, CUCC proposes removing the 7.97% surcharge on toll services and the 8.57% surcharge on intralata services. Also, CUCC proposes on a limited, transitional basis, an AEUS to make up the revenue shortfall in Category I services priced below cost.

CUCC urges Commission rejection of the DRA proposed rate design because, according to CUCC, it is not based on any costs at all, refuses to accept the realities of competitive effects on CUCC, grossly misunderstands the nature of CUCC's service areas and customers, usage patterns, and would allow the residential flat rate service to be priced at a level that is unacceptably high. CUCC similarly urges rejection of DRA's conclusion that CUCC's cost

studies are flawed because, according to CUCC, DRA did a very limited review and did not make an independent evaluation of the non-cost inputs. CUCC contends DRA relied on its beliefs about the level of costs, but CUCC says beliefs, without evidence, cannot be used by the Commission. CUCC argues that it has spent significant time, money, and resources preparing hundreds of cost studies. According to CUCC, its cost studies support its rate recommendations, and since CUCC should not be required to submit additional DEC and other cost studies in compliance filings, as proposed by DRA, finally, AT&T's recommendation to significantly reduce switched access rates should be rejected because, according to CUCC, AT&T has a single-minded focus on reducing the rates it pays CUCC as a service for its 7.1.2 DRA

ever adopted a position and the Commission should not be misled by DRA's recommendation that CUCC's entire rate design proposal be rejected. DRA states that CUCC failed to do cost studies for many services, and did incomplete studies for other services. The lack of, or incomplete, studies makes comparisons of cost assignments between services impossible, and leaves the Commission with no cost information for establishing prices, according to DRA. DRA finds CUCC's cost studies unreliable since, where comparisons can be made, the results are inconsistent with reported costs by PacBell and GTEC (e.g., CUCC's access line costs are less than those for PacBell and GTEC even though CUCC is believed to be a high cost company, according to DRA). DRA believes CUCC's cost studies are so flawed as to be useless, with the exception of LRIC studies for Category II price floors. DRA states that its proposed rate design protects CUCC's financial integrity, avoids excessive ratepayer cost, performs a delicate balance between competing rate design goals, and positions CUCC to be competitive in the toll market. After lowering toll and access rates consistent with competition, DRA recommends increasing Category I services based on DRA's belief that these services have

generally been priced below cost. DRA proposes increasing most basic non-recurring Category I charges (e.g., service connection) by a unit consumer price index derived inflation rate from CUCC's last GRC of 54.28%. DRA recommends applying an equal percentage increase of 32.2% to all other Category I services with the exception of basic residential access line services. The 32.2% increase is the unitary percent differential between 150% of PacBell's flat residential service rate (\$11.25 times 1.5 to equal \$16.88) and CUCC's present residential flat rate (\$12.75). Residential rates are priced last by DRA to recover the residual revenue needed to satisfy the revenue requirement.

Finally, DRA recommends CUCC be ordered to prepare DEC studies for all services as part of a compliance filing before new tariffs become effective. If the Commission's adopted revenue S.I.V. requirement is greater than that recommended by DRA, DRA recommends increasing the residential basic access line rate to a level up to 150% of GTEC's basic access rate.

**7.1.3 Discussion** As we said of PacBell and GTEC in the IRD decision, CUCC must be able to charge competitive rates if it is to be an effective competitor. No party disputes that CUCC's rates must position CUCC to be competitive where competition exists or is imminent. Therefore, we adopt a rate design that allows CUCC to charge competitive rates. Basic rates are not cost-based fundamental to that end.

A threshold issue is thus the usefulness of CUCC's cost studies. DRA points out many flaws in those studies, not the least of which is the approach CUCC uses to derive its DECs. According to CUCC, incremental costs are the foundation of its cost methodology. CUCC converts incremental costs to DEC by applying a current cost to book cost (CO/BC) ratio, and adding power and common equipment investments along with non-incremental plant, as appropriate.

But the CUC's approach is indirect and causes us concern. For example, if all future growth in a particular category is fiber optic cable, the incremental cost would be based on the fiber optic cable cost. The incremental cost would be annualized using the current cost of capital (i.e., financing costs) and the existing (embedded) network consists of parts copper and part fiber cable, so the embedded cost should reflect this mix and reflect the historical financing costs. The extent to which the CC/BC ratio successfully translates the future investment to capture the embedded mix and financing costs is unclear. We apply CUC's costs to rates as follows:

gas or Utilities have prepared embedded cost studies for pricing rate making purposes for decades. CUC could have used a historically tested approach that is direct and thorough in price calculating DEC's, but did not. Similarly, CUC could have, but did not, calculate the DEC using a more traditional approach by using a sample of cases to compare and validate its CC/BC approach. CUC testifies that it used the methodology adopted in D-83-04-0129 (In re CPUC 2d 88) to prepare its fully allocated costs (FACs) but CUC could have but did not eliminate allocated common overhead costs from its FACs to develop one or more DEC's for comparison with and as a validation of the DEC's estimated by its CC/BB approach. Inconsistent

31 If CUCC testifies that it did validate its cost study results by comparing the top-down investment per books to the bottom-up direct embedded investment results from its (cost study) process, then (Exhibit 14) p. 148: "After applying some reconciling adjustments, the adjusted top-down investment balance compared to the bottom-up study yields a difference of just over 2%, according to CUCC." While this is one potentially reasonable approach, little information is provided to substantiate this validation, and we are cautious of relying on the results.

Nevertheless, despite what CUCC could have done to present a more compelling case, and despite the flaws in its studies, the costs developed by CUCC are the best estimates of a

CUCG's costs in this record. Just as was true of PacBell and GTEC costs in the IRD proceeding, CUCG's reported costs were not explicitly reviewed and tested on the records (with limited exceptions regarding methodology for price floors discussed below). While we adopt CUCG's reported costs for the purposes of rate making, we do not approve specific DECs, LRICs, or FACs in this decision, just as we did not for PacBell and GTEC in the IRD proceeding. References to DECs, LRICs, or FACs should be understood to mean the costs reported by CUCG's auditors to capture the future investment and operating

We apply CUCC's costs to rates using the same guiding principles employed in the IRD decision as subject to the same key exceptions. The fundamental principle for all services is that the price should be cost-based. Our guideline for Category I services is that the rates should be equal to the DEC. The price ceiling for Category II services should be CUCC's proposed rate, limited by the price floor. The price floor should be the DEC or LRIC of the service, whichever is lower.

These guidelines are subject to the following key exceptions: First, residential basic exchange rates (including even flat rate service and measured rate service) will be set below DECA consistent with the Commission's universal service goals.

Second, all other monopoly Category II services will be priced either at their current (present) rate or level, the interim or (interim rate) level or at their DEC, whichever is higher. We do so this because CUCC, like QTEQ, will otherwise face sharp changes in its rates for basic exchange and other services. This occurs for CUCC primarily because we permanently eliminate two existing add-on surcharges on bills for basic exchange services (which helped CUCC support CUCC's below-cost rates). We made these same changes to

Nevertheless, despite what CUCC could have done to cautious of relying on the results.

11 That is, the 7.97% on intra-LATA message toll and the 8.57% surcharge on customer services (COC) developed by CUC, the costs developed by

for PacBell and GTEQ in the UIR order (D/94-09-065) and this principle assures that the rates for all telephone services not marked for special treatment will recover their DECs, while revived consumers currently paying more than DECs will pay the existing base rate and will therefore benefit from the removal of the surcharges of

(The need to soften what would otherwise be a precipitous change in rate levels leads us to apply the same initial guideline in setting CUCO's rates for Category II services as we did for GTEO in the IRD decision. The only variation is using interim rates, if higher than present rates, to further moderate the rate impact. Inasmuch as interim rates are an option here because of CUCO's interim rate increase, both a rapid and artificially high, capped, based

And third, the price ceiling for Ball Category II services as of  
will be set at DECA or CUCO's proposed rate, whichever is higher, in  
We don't think it's similarly soft on what would otherwise be unacceptable  
rate levels and balance revenue needs when we've achieved a stable rate

few other exceptions to these general pricing guidelines will be discussed in connection with specific services. Many of these exceptions arise because of the conflict between our desire to implement cost-based pricing and our decision to continue support for basic exchange services, all within a specific revenue per head requirement for test year 1995. If we are to design rates to produce the revenue requirement, while continuing to permit some of services to be priced below cost, it obviously requires other services to be priced above cost (ignoring, for the moment, any volume increases in volumes resulting from lower prices). Some of the other exceptions to our general guidelines result from a pragmatic

attempt to retain revenues from certain services to help support for other underpriced services. aid to some fully competitive incentive regulation

Yr222222DRA recommends CUCI be ordered to submit new cost studies with compliance filings, similar to those required of PacBell and GTEC in the IRD decision (Ordering Paragraphs 63 through 68). We adopt that recommendation, as discussed further below.



## 7.2 Toll and Usage Services

### 7.2.1 Message Toll Service

Message toll services (MTS) are sometimes called local long distance, generally includes calls beyond 12 miles (measured from the caller's serving rate center) up to the LATA boundary. MTS is a Category II service. CUCO proposes charging the same rates and rate structure adopted for PacBell in the IRD decision, including those for direct dial, operator-assisted services and optional ORI calling plans. CUCO asserts that adopting rates similar to those for PacBell will enable CUCO to compete in the intraLATA market, even opened to competition January 1, 1995. (DRA concurs. We agree with the parties and adopt CUCO's proposed rates and rate structure.)

#### 7.2.1.1 Price Elasticity

Price elasticity is the term used to describe the degree to which customer demand for a product will decline in response to an increase in price, and rise in response to a decrease in price. The adopted rates represent a substantial decrease in MTS rates (approximately 40%), and, depending upon the price elasticity, CUCO might experience a substantial increase in demand. The increase in demand will offset the decrease in prices, thus affecting the revenues that can be expected from MTS. Our adopted elasticity is important because the level of MTS revenues will influence the pricing level of other rates. However, no reliable conclusion can be drawn from previous studies.

The parties recommend different price elasticities. CUCO recommends a range of elasticities that vary by mileage from -0.10 to -0.45. DRA recommends an elasticity of -0.5, (which we adopted) for PacBell and GTEC in the IRD order. As we noted in the IRD decision, calculation of elasticities is not an exact science. S.I.S.V. (D.94-09,065, mimeo at p. 248.) After thoroughly considering the parties' positions, we adopt -0.5.

CUCO argues its proposed range of elasticities is superior to the single elasticity adopted in the IRD decision in A.93 because CUCO's elasticities take into consideration the results of

studies of telephone companies comparable to CUCC's. Further, CUCC's contends its proposal recognizes that short-range toll calls have different elasticities than long-range toll calls. We think

otherwise.

The elasticity adopted in the IRD order takes into account several studies. The results of the studies CUCC relies on here are within the range of results of those we considered in the IRD record. CUCC does not present any new information that convinces us the elasticity adopted in the IRD order is invalid here.

Further, in the IRD decision we rejected the testimony advocating and estimates of different elasticities by distance, and CUCC's witness in this case, Dr. Taylor, also testified in the IRD matter advocating distance-sensitive elasticities in both

proceedings. We rejected his testimony there and do so again. In the IRD order we noted Dr. Taylor conceded on cross-examination that intraLATA and interLATA elasticities (representing variations in distance) might be the same, and that studies showing variations in elasticity by distance might be explained by the historical correlation between the level of toll rates and the distance between the calling parties. (D.94-09-065, pps 152-3.) Dr. Taylor presented no new information here to convince us to reverse our prior conclusion. Moreover, he testified in this proceeding that "there is a great deal of stability in price elasticities for similar services across time, telephone companies and countries." (Exhibit 19, page 5.) We think that stability applies to our finding on MTS elasticity for CUCC relative to PacBell and GTE.

#### 7.2.1.2 Demand Forecast

CUCC's first estimates test Year 1995 MTS sales before reductions due to traffic carried by CUCC's competitors. That is, CUCC estimates sales of 50.6 million minutes at present rates, and 66.4 million minutes at proposed (reduced) rates, for about a 30% increase in sales. CUCC contends, however, that competition will

mean it will not carry 100% of the market. CUCC estimates a 15% market share loss, or resulting sales of 56.5 million minutes.

DRA argues the IRD decision has already established that competitive losses should not be recognized in rates. Under the IRD principles, DRA states that it is irrelevant whether CUCC does or does not carry 100% of the market. DRA recommends the entire forecast MTS stimulated sales be used for determining rates, and the rates not be increased to offset competitive losses.

We reject DRA's argument. PacBell and GTEC already had a NRF start-up revenue requirement at the time of the rate rebalancing undertaken in the IRD order. IRD rates were designed to yield each utility's start-up revenue requirement.

In contrast, we are determining CUCC's start-up revenue requirement in this proceeding. CUCC's revenue requirement must be determined as we have always determined revenue requirements. That is, in fairness to both ratepayers and stockholders, we must adopt the most reasonable forecast possible of actual sales for the test year. We have taken steps to allow competition in the MTS market. To the extent competition will occur in the test year, our forecast of test year MTS volumes for the start-up revenue requirement must recognize only the calls CUCC will carry.

The IRD principle upon which DRA relies applies after NRF begins for each utility. That is why we based PacBell and GTEC IRD rates on their 1990 start-up revenue requirement and sales without accounting for changes which occurred during their several years under NRF regulation. Equally so for CUCC, we will not be concerned about CUCC's sales after rates are determined for the test year. Once those rates are determined and NRF is implemented for CUCC, any loss in revenue due to intraLATA competition should not be recognized. (D 94-09-065, mimeo at p 163.)

CUCC estimates its sales to be 85% of the total market (15% market share loss), saying its resulting market share is a conservative estimate well in excess of the current market share of

AT&T, in the interLATA market. It is also a conservative estimate, according to CUCC, given customer survey results, in which customers say they will not choose CUCC as their carrier once they have a choice. We disagree with CUCC's estimate.

AT&T's share of the total interLATA market after years of competition is not relevant to the market share CUCC will keep in its first year of intralATA competition (i.e. test year 1995). Moreover, our telecommunications regulatory experience shows us that market penetration by competitors takes time. We believe CUCC will retain nearly all of this market in the test year.

CUCC, however, is remarkably candid about its customers' displeasure. CUCC's statement is corroborated by the many statements, letters, and petitions we received from CUCC's customers during the course of this proceeding. Given the clear unhappiness of CUCC's customers, we might adopt a lower demand forecast were it not for mitigating factors.

First, CUCC testifies of its commitment to increase service quality and be its customers' carrier of choice. The rates we adopt fund that effort, including such programs as CUCC's Target: Excellence. We would exclude these costs from rates if we thought the effort will not have a reasonable chance of being successful. Moreover, we provide CUCC an incentive to meet its customers' needs through our rate of return reduction, plus our adopted service quality measures and SOAP. We not only think CUCC can be successful, we provide CUCC the resources and incentives to succeed.

Second, CUCC's estimates assume equal access will be in place. To the contrary, while CUCC testified that it plans to implement equal access or presubscription by October 1, 1995, no record evidence shows whether this was or was not accomplished. In comments on the modified PD, CUCC and AT&T allege that between 50% and 75% of CUCC's ratepayers have had equal access available since October 1, 1995. Even assuming this to be true, equal access was not

not available to CUCC's customers for most of the test year, and, when available, was there only the last few months for less than all of CUCC's customers. There will be greater demand than is estimated by CUCC since some customers will not dial the necessary access codes without prescription for most if not all of the test year for all CUCC customers.

In comments on the modified PD, CUCC states it voluntarily implemented intra-LATA equal access in support of the Commission's and Legislature's pro-competitive policies, even though not required to do so. According to CUCC, Commission's failure to even acknowledge CUCC's efforts to promote competition will send a message that the Commission does not support LEC's efforts to further pro-competitive policies. We support LEC's efforts to promote competition. The issue here, however, is the best estimate of test year 1995 demand. The penetration and duration of equal access affects the demand forecast. Local exchange carriers should not infer from our estimate any lack of support for competition.

Therefore, we think a few percent market share effect in the test year will be larger for CUCC because of the level of its customers' dissatisfaction, but that effect will in turn be mitigated by several factors. Based on this assessment, we adopt test year sales which recognize a market share adjustment of 5% from the total MTS market.

**7.2.2 WATS, 800, and Operator Services**

CUCC proposes rates for WATS, 800, and operator services that are the same as the PacBell rates adopted in the IRD order. DRA concurs. With respect to sales, CUCC did not apply elasticity and market share loss estimates, while DRA applied its elasticity estimate. We adopt the rates recommended by CUCC and DRA, and develop volumes consistent with our adopted elasticity and market share numbers.

**7.2.3 Local Measured Usage** Local measured service charges customers for direct-dialed calls of 0 to 12 miles (or up to 16 miles in areas with 116 ZUM). Measured rate customers pay a monthly service rate plus usage rates for calls made within the local calling area. A call allowance of up to \$3 per month is given to residential measured-rate customers.

CUCc proposes a first minute rate for daytime local usage of \$0.0333 and a rate for additional daytime minutes of \$0.0105, with a 30% discount for evening calls and a 60% discount for night and weekend calls. CUCc proposes retention of the residential flat measured usage allowance of \$3.00. CUCc believes its rates are reasonable because they are the same rates adopted in the IRD decision for most California LECs.

DRA proposes a first minute charge of \$0.04, additional minutes of \$0.01, with 30% and 60% discounts for evening and night or weekend calls, respectively, and a \$3.00 residential measured usage allowance. We adopt CUCc's proposal.

DRA argues CUCc's proposal to use PacBell's rates is inappropriate because PacBell's local usage rates were set equal to PacBell's DEC minus 5% (not an appropriate model for CUCc according to DRA) and because DRA rejects CUCc's cost studies. We disagree. CUCc's first minute daytime rate exceeds its reported DEC, and the rate for additional minutes is only slightly below its reported DEC (recovering more of CUCc's DEC than does DRA's proposed rate). We think these rates are consistent with our rate design goals.

Moreover, we seek to provide low measured usage rates reasonably consistent with costs to provide customers a viable alternative to flat-rate service, as explained below. CUCc's proposed rates meet this objective better than those proposed by DRA. DRA also recommends its higher rates to keep the residential access line level rate at or below 150% of GTEC's residential access line rate. We agree with DRA's goal. Our adopted local measured usage rates

along with other rates and rate design decisions made herein allow us to satisfy this objective. We adopt volumes consistent with these rates considering customer reaction to the price changes and conversions from flat to measured rate service per month. (as for recovery) We adopt the recommendation of both CUCC and DRA to recover eliminate the distinction between local usage and PEX usage by blue pricing PEX usage at the local usage rate, in accordance with our previous pricing decision for PacBell in the BIRD decision. We also adopt the parties' recommendations to retain ZUM Zone 3 rates consistent with our policy to expand local calling where communities of interest extend beyond the 12-mile local calling area applied currently.

Finally, we also adopt the parties' recommendations to 3. reduce the per call rate for measured Universal Lifeline Telephone Service (ULTS) to \$0.08 for local calls above 60. CUCC has not previously requested special recovery for lost revenue due to the reduced ULTS rate, and we do not provide any. The ULTS Fund is to be used only as revenue recovery for the difference between the tariffed rate and the ULTS rate. The difference between present and adopted rates is not recoverable from the ULTS Fund.

#### 7.2.4. Equal Access

AT&T recommends that CUCC be authorized to report all costs associated with intralATA equal access implementation in a memorandum account, establish an access charge rate element to draw down and amortize the account by advice letter, and impute the rate element in its toll price floor. CUCC concurs with AT&T's recommendation as long as its adoption would not require intralATA

presubscription. DRA opposes AT&T's recommendation. We agree with DRA.

Equal access and presubscription are being addressed in other proceedings. We have not decided what equal access costs, if any, may be recovered. It would be premature to establish a memorandum account without providing CUCC guidance on the costs which may be booked.

CUCG states it only seeks authorization to report implementation costs in a memorandum account (with recovery of those costs at a later date in compliance with eventual Commission rules), and is not requesting a decision here on cost recovery, or other details. To grant this for CUCG alone, however, would be unfair to other utilities. Doing so for CUCG would allow CUCG cost recovery without fear of violating the prohibition of retroactive ratemaking, but would not do so for other utilities. Whatever we decide on equal access and cost recovery should be decided for all utilities at the same time. These issues are currently being addressed in 11:87-11:033 et al. and beyond. Interest 7.3 Switched Access

Switched access is the switching and transmission service provided by CUCG to connect other carriers with CUCG's (customer's) switched access. Currently a category of monopoly service, CUCG proposes a switched access rate structure modeled after the one adopted for PacBell in the IRD decision, with recovery as switched access charges comparable to those adopted for GTEC. The proposed rates represent a reduction of approximately 50% from those in effect prior to January 1, 1995 (i.e., present rates). According to CUCG, while still above cost, this rate reduction significantly furthers the Commission's objective to move rates toward cost. CUCG asserts that utilization of GTEC switched access rate levels recognizes the California market for switched access, and provides balance between competing rate design objectives.

DRA supports CUCG's proposal, pointing out that the 50% reduction will encourage use of the network while providing a contribution to keep residential rates at a reasonable level. DRA believes there will be no negative ramifications from adopting CUCG's proposed switched access rates. AT&T and PacBell recommend further reductions, but would be premature. It would be recovered, any way.

We adopt CUCG's proposed switched access rate structure. Our general rate guideline for Category I service is that the rate

equals the DEC. A key exception is that the rate (except for residential) is set at the higher of either the current (present) rate, interim rate, or DEC, to soften the transition to competitive rate levels. CUC's current switched access rates are above both the interim rates and DEC. No party recommends retaining CUC's current switched access rates. To be consistent with our price cap guideline, we could, but do not, retain CUC's current switched access rates and rate level. Rather, we lower access rates to a level which generates about \$4 million (nearly 30%) less than current rates. While a deviation from our exception, this is consistent with our overriding goal to move rates toward cost.

Both CUC and DRA propose reductions of about 50% from current levels. We are unable to reduce access rates that much while balancing all other rate design goals and achieving the revenue requirement. Nonetheless, by reducing access rates by nearly 30% we make substantial progress in moving access rates toward cost.

AT&T points out that CUC's interim switched access rates are those of PacBell and are much lower than those of GTEC. Adoption of CUC's proposed rates will be a rate increase from CUC's interim rates, according to AT&T. While true, interim rates were adopted without the benefit of the record now before us, and the fuller and more thorough consideration of all the many competing rate design objectives we undertake here.

AT&T and PacBell propose CUC's switched access rates be reduced all the way to CUC's DEC. They argue the IRD decision clearly states our intention that Category A services be cost-based. While they are correct that this is our intention, they overlook the exceptions we applied in IRD. For example, we adopted GTEC's proposed access rates, which are greater than GTEC's DEC. We could similarly set CUC's switched access rates above DEC by keeping them at current levels, to moderate the transition effects on other ratepayers. We decline to do so. Rather, we use this rule

opportunity to lower CUCC's switched access rates and move them closer to cost (which is not the higher of either the current residential rate or the rate for switched access). AT&T argues that rates greater than DEC cannot be sustained because competitors will be drawn into the market and prices will fall. To the contrary, switched access is a Category I monopoly service with competition not reasonably viable or even available at this time. CUCC can petition to move switched access to Category II, with pricing flexibility, when competitive access alternatives develop.

AT&T contends that CUCC's switched access rates will provide profits to cross-subsidize below-cost pricing for other services. While AT&T is correct that we do not eliminate cross-subsidies at this time, no specific profit is identified with access rates. To the extent revenues exceed costs for access services, those revenues are used for other purposes, such as keeping residential rates low. The total revenue requirement is based on the opportunity for CUCC to earn a just and reasonable return.

AT&T contends that switched access rates above DEC allow CUCC to extract excessive profits from competitors, including AT&T, to fund CUCC's efforts against its competitors. We disagree. Our imputation mechanism will prevent anticompetitive cross-subsidization.

AT&T and PacBell argue that access rates should be priced at DEC and the revenues otherwise produced from access rates above DEC should be recovered from an ARUS. As discussed more thoroughly in a section devoted to ARUS below, we reject the use of an ARUS.

Alternatively, PacBell recommends any revenue shortfall from pricing access rates at DEC be recovered from CUCC's basic rates for the California High Cost Fund (CHCF). Neither option, however, is available for CUCC. First, the basic rates adopted herein balance many competing rate design goals and cannot be increased to fund this shortfall. Second, we do not expect CUCC to



harmful. In fact, if the start-up revenue requirement was not based on the reduced interim access rates and a 2-factor reduction was not applied to PacBell rates, PacBell could have benefited by interim rates. The rates we establish must balance competing interests, including the effects on IECs, LECs, CUCC, and CUCC's customers. Permanently reducing CUCC's switched access rates balances these competing interests.

We note that to the extent our adopted access rates allow us to satisfy universal service goals, those access rates may need realignment with the adoption of either our decision in the universal service proceeding (R:95-01-020; I:95-01-021) or a decision addressing the recategorization of access from Category I to Category II, or another decision in this evolving industry. Parties will have an opportunity to address realignment of access and other rates in the universal services proceeding, local competition proceeding (R:95-04-043; I:95-04-044) or other appropriate proceedings. It is premature to attempt further resolution of access rate issues here; however, without the benefit of the evidence, argument and policies being considered in other dockets, Parties will be heard timely in the appropriate other proceedings.

CUCC agrees with DRA's volumes for switched access interLATA services, but recommends intraLATA volumes consistent with its intraLATA toll volumes. We adopt volumes consistent with our estimated intraLATA toll market and CUCC's market share.

Finally, CUCC agrees with certain modifications proposed by DRA to CUCC's intrastate access tariff (1995, removing tariff references to services for which CUCC has no forecasted demand, including the two-year limitation for grandfathered private line services, removing the special access surcharge and including specific changes intended to clarify tariff application). We adopt DRA's modifications.

rebalancing included funds for access rates, PacBell will not be

#### 7.4 Private Line, Special Access, and Miscellaneous Services

##### 7.4.1 Private Line and Special Access Services

CUCC and DRA agree on proposed rates and volumes, with the ceiling rates equivalent to those adopted for PacBell's private line and special access services in the IRD decision. Moreover, they agree that the special access tariff structure and rate elements adopted in IRD should be mirrored in CUCC's special access tariff. We adopt their recommended rates, rate structure, and volumes.

DRA says there are some minor differences in interpretation of some tariff elements, but does not explain or support its view. We adopt CUCC's proposed tariffs.

The parties agree to grandfather certain private line services for two years, at which time these private line services will be billed under the special access tariff. We adopt this as a condition.

Finally, DRA proposes a nonrecurring special order charge for voice grade special access services of \$525 per occurrence. CUCC recommends no charge because it has incorporated this element in its installation charge. We adopt CUCC's proposal.

##### 7.4.2 Miscellaneous and Special Services

This category includes services such as PBX mileage, special assemblies of equipment, emergency 911, and high voltage. CUCC proposes rates reflective of its costs and balancing competing objectives. DRA rejects CUCC's cost studies and recommends a percentage increase. We adopt CUCC's proposed rates consistent with our overall pricing methodology, except where discussed differently below. The parties agree on volumes, which we adopt.

CUCC proposes to retain the fire reporting service rate for existing customers but not offer this service to new customers (i.e., grandfather these rates). DRA is opposed. DRA contends that fire reporting service is generally subscribed to by small volunteer fire departments in rural areas. DRA believes that small

rural communities should continue to have this service option, even if there is little growth in subscribership. We agree with DRA.

#### 7.4.3 Directory Services

##### 7.4.3.1 Directory Assistance

Both CUCG and DRA agree that directory assistance calls should be charged \$0.35 per call. The parties disagree on the number of "free" calls per month, referred to as the call allowance. CUCG proposes a monthly call allowance of zero for business and two for residential customers. DRA recommends zero for business and five for residential customers.

CUCG presents no argument why its call allowance should not be the same as that adopted for PacBell and GTEC in the IRD decision. We adopt DRA's recommendation for consistency with the IRD order. This strikes a balance between the need to generate revenue from a largely discretionary service and the desire to provide customers with some reasonable amount of customer service without additional charges. Also consistent with the IRD order, we include intraLATA foreign numbering plan calls in the monthly call allowance as recommended by DRA and unopposed by CUCG.<sup>12</sup>

The parties dispute projected revenue from this service. We adopt DRA's estimate of \$221,517. CUCG's estimate is unreasonable, based on no residential directory assistance calls beyond the call allowance. DRA's estimate relies on PacBell's call distribution data to estimate the number of calls beyond the residential call allowance of five per month, applied to CUCG's data on estimated actual calls. It is reasonable to estimate some residential customers will exceed the monthly call allowance as does DRA's estimate. CUCG contends DRA erred by not considering

CUCG proposes to retain the five reporting service rate for existing customers but not offer this service to new customers. DRA contends (i.e., grandfather these rates). DRA is opposed.

<sup>12</sup> Foreign numbering plan calls are calls to a different area code that are within the same LATA, such as from Ferndale (707) to San Francisco (415). DRA

repression effects. To the contrary, we are persuaded by DRA that the data already contains compensating factors that would have resulted in overestimating the repression had DRA applied a separate repression analysis.

#### 7.4.3.2 Directory Listings

We adopt the recommendation made by both CUCC and DRA that additional directory listing charges (i.e., additional alphabetical listings in the white pages) should be \$1.00 per listing per month for both business and residential customers.

#### 7.4.3.3 Joint User Service

We adopt CUCC's proposal to lower the PBX joint user rate from \$7.50 per month to \$3.75, equalizing joint user service rates for all types of subscribers to joint user services. DRA concurs with CUCC's proposal.

#### 7.4.4 Billing and Collection

CUCC proposes no changes to rates for billing and collection services. With limited exception, CUCC's rates exceed costs for these services, and CUCC proposes no rate increases consistent with the objective of considering underlying costs. According to CUCC, CUCC worries that increasing its current rates will impede its ability to compete. DRA proposes an increase of 5.87% for these services, which are primarily used by other providers of telecommunications services (e.g., IECs) should not be immune from the rate increases borne by customers of other services provided by CUCC. DRA states the modest increase will generate additional revenue without discouraging use of these services.

In the short run, firms may charge value-based prices in competitive markets, charging whatever the market will bear. This might be many times the provider's cost of service. Over time, however, competitors will drive the price to cost. While we could endorse DRA's approach to test the market and forecast the more revenues to apply to below cost services, we will not.

Rather, we adopt rates consistent with our pricing guideline for Category II services (i.e., the higher of either DEC or CUCC's best proposed rate). We must forecast realistic estimates of test year revenues for purposes of the start-up revenue requirement. Revenues based on rates consistent with our pricing guidelines best meet that goal.

CUCC states it agrees with DRA's volumes for interLATA billing and collection. CUCC disagrees with DRA's volumes for intraLATA billing and collection, where, according to CUCC, DRA estimates larger volumes based on a CUCC market share loss greater than 15%.

DRA states that the total of its forecast volumes for both interLATA and intraLATA billing and collection are actually not CUCC's current total volumes for these services, without stimulation or repression. DRA asserts it divided the total A.A.V forecast equally between interLATA and intraLATA.

We adopt volumes consistent with the parties' agreement on interLATA billing and collection. We agree with DRA that total test year billing and collection volumes at adopted rates will be no less than current volumes. We therefore adopt DRA's intraLATA estimate, which we adjust to reflect our estimate of CUCC's market share in the intraLATA market as discussed in the preceding section on the demand forecast.

**7.4.5 Employee Discounts** As discussed under operating revenues, CUCC provides a 50% discount off of the monthly basic service charge for rank and file employees, and a 100% discount for management employees. DRA objects because the tariffs do not require either management availability or management's use of a home telephone for utility business, as do those for PacBell and GTEC. Moreover, DRA believes no ratepayer benefits accrue from the management discount, while the discount insulates management from the negative effects of their own rate proposals.

Consistent with our discussion under forecast operating revenues, we adopt CUCC's proposal, along with the requirement that eligibility be based on management availability during emergencies.

#### 7.4.6 PIC Charge

During the course of the hearings, CUCC agreed to change its requested intralATA primary interexchange carrier (PIC) charge from \$7 to \$5, to be consistent with the interstate charge. All parties agree on the revised rate and volumes. We adopt CUCC's proposed rate and volumes.

AT&T proposes that CUCC's proposed PIC charge should apply only once for any service order, even if the customer changes both its intralATA and interLATA PIC simultaneously. We defer that issue to our proceedings on presubscription in 1.87-11-033 et al.

#### 7.4.7 PBX Mileage

CUCC proposes rates of \$4.00 per 1/4 mile, eliminating the previous rate disparity between noncontiguous and contiguous mileage charges to promote simplicity and uniformity. DRA proposes \$1.75 for each 1/4 mile to similarly promote simplicity and uniformity.

CUCC's proposal represents a significant rate increase without reference to cost. Nonetheless, we adopt CUCC's proposal. PBX mileage charges are in Category II. Our general pricing approach for the price ceiling is to use the higher of DEC or CUCC's proposed rate. CUCC's proposed rate may be a test of the market. While we declined to adopt a rate proposed by DRA that would test the market for billing and collection, we understand by CUCC's proposal that it is willing to face its competition with this rate, and that CUCC believes the rate is supportable. CUCC's proposal reflects its determination that mileage charges are an appropriate service from which to obtain contribution to revenue requirement, according to CUCC. We adopt CUCC's proposal based consistent with our Category II pricing guideline. We adopt the volumes for this service agreed to by the parties to the higher of

#### 7.4.8. High Voltage Services

CUCC recommends rates based on its cost studies, with ever increases ranging from 15% to 80%. DRA rejects CUCC's cost studies and recommends here as elsewhere its percentage increase. We decline to use DRA's percentage increase approach as a general pricing policy, and adopt CUCC's proposed rates with one exception: CUCC proposes a rate of \$0.00 (zero) for High Voltage Protection to 15,000 Volts. We reject a zero rate and adopt DRA's proposal of \$28.60. This is an increase of 25%, which is within the range of increases adopted for similar services based on CUCC's proposals.

#### 7.4.9. 911 Services

CUCC proposes no rate changes. DRA recommends its flat percentage increase, along with elimination of 911 flat rate of one service and conversion of the service to measured rates.

We do not use DRA's percent increase as our general pricing policy. We adopt CUCC's proposed rates. As explained below under basic exchange services, we decline to adopt DRA's recommendation to convert all business flat rate service to measured rate service, and thus decline to do so for 911 services as well.

#### 7.4.10. Returned Check Charge

CUCC and DRA both recommend that the returned check charge be increased to \$10.00. We agree.

#### 7.5. Service Connection, Move, and Change Charges

CUCC proposes rates for service connection and other nonrecurring services based on its cost studies, the need for contribution to revenue requirement and the balancing of other competing rate design objectives. DRA recommends rejection of CUCC's cost studies and therefore rejection of CUCC's proposed rates. DRA recommends applying an increase of 54.28% to present rates based on wage inflation since CUCC's last GRC.

Our pricing standard for these Category I services is to use the higher of either present rates, interim rates or DEC's

CUCC's service connection charge cost studies are based on current costs with overheads. That is, CUCC calculated a fully allocated cost (FAC) rather than a DEC for these services. Without a DEC, we elect to use the higher of either present or interim rates.

DRA argues its approach was adopted by the Commission for small and mid-sized LECs in IRD and should be used here. (D.94-09-065, mimeo, p. 264.) DRA is partially correct. In the IRD decision, we increased small and mid-sized LECs' nonrecurring rates by the lower of either the percentage needed to recover the revenue requirement or the compounded annual percentage of the California Wage Escalation Factor from the effective date of the LEC's last GRC through 1991. The IRD decision also says, however, that IRD was not the appropriate order in which to make rate design changes other than those necessary to mitigate the direct effect of the IRD revenue rebalancing, that IRD was not a GRC for the small and mid-sized LECs, and that those changes should be considered in subsequent GRCs. This proceeding -- CUCC's GRC -- is the place for a more comprehensive consideration of all rate design objectives and alternatives. (Without a DEC, however, application of our pricing guideline is limited.) Interim rates largely reflect DRA's 1.5 percent increase method. To that extent, we adopt DRA's approach here.

Moreover, DRA points out that in IRD we limited increases for most basic monopoly services to 100%. (D.94-09-065, mimeo, p. 8.) DRA recommends rejection of CUCC's proposals which exceed 100%. For example, CUCC recommends increasing the premises visit rate for business and residential customers from \$20.00 (present rates) to \$80.00. We heard from many customers opposing this increase. We agree. We adopt the interim rate for premises visits of \$30.75. The adopted service connection and move and change rates represent increases of about 54% and are well within our 100% IRD guideline. The result to satisfy the revenue requirement in this case, however, we can lower the rate, and adopt a rate of \$17.82.

CUCG and DRA agree on volumes for service connections and nonrecurring services. We adopt those volumes.

## 7.6 Basic Exchange Services

### 7.6.1 Residential

CUCG proposes a monthly flat rate residential service charge of \$17.85, and a measured service charge of \$14.15. CUCG states that its proposal balances the goals of moving rates closer to cost and preserving universal service.

DRA proposes a monthly flat rate residential service charge of \$15.75 (\$17.85 in Elk Grove including the Extended Area Service, (EAS), increment), and a measured service charge of \$8.65 (\$9.75 in Elk Grove including the EAS increment). DRA's proposals are based on its much lower revenue requirement. DRA prices residential access rates to recover the residual revenue requirement needed after all other prices are set. If the Commission adopts a revenue requirement higher than that recommended by DRA, DRA recommends that CUCG's residential basic access flat rate service be increased up to 150% of GTEC's residential basic access flat rate (i.e., up to \$25.87), with all its Category I basic access line services also increased by the same percentage applied to the residential basic access flat rate until the adopted revenue requirement is met.

The first key exception to our Category I pricing guideline of setting rates equal to DEC is that we set residential basic exchange rates below DEC in pursuit of our universal service goal. Consistent with that exception, we in general adopt DRA's residual pricing approach.

As we did in the IRD decision for PacBell and GTEC, we first calculate CUCG's residential flat rate by subtracting the federally mandated end-user common line (EUCL) charge from CUCG's PAC, and dividing the result by two. For GTEC we needed to increase the result to satisfy the revenue requirement. In CUCG's case, however, we can lower the rate, and adopt a rate of \$17.85.

This rate is well below CUCC's DEC, and satisfies our pricing guideline. It is a \$0.05 (0.3%) increase from the interim rate of \$17.80 (i.e., \$16.40 with the surcharge). It is \$0.60 (3.5%) more than the GTEC residential flat rate of \$17.25, which is well below DRA's recommendation to keep the rate less than 150% of GTEC's flat rate.

As we said in the IRD decision, there is no formula to determine the rate levels that best balance our conflicting desires: to move rates closer to costs and keep residential rates affordable. Rates must equal costs to promote economic efficiency (so resource choices can be made based on costs) and equity (so no customer pays costs caused by another customer). If the basic rate is not affordable, however, customers will not subscribe, and we will fall short of our long-standing goal of universal service. We rely on our judgment, informed by the record and our general experience, to perform this balance. We think a residential flat rate of \$17.85 accomplishes this balance, particularly with the reduction from interim rates we adopt for the residential measured rate. This rate promotes our universal service objective, and we position CUCC for competition by adopting CUCC's proposed rate (a rate CUCC believes cannot be higher without making CUCC uncompetitive).

Measured rate service is available to all residential customers, regardless of income level. The discount from flat rate service makes measured rate service a practical alternative for customers who do not find flat rate service economical and are able to limit their local calling. Measured rate service may also appeal to customers of limited means who do not qualify for ULTS.

CUCC's current measured service rate is set at about 48% to 55% of the flat rate and provides a discount of between \$6.24 and \$8.09 from the flat rate (depending upon one's service area including the current 8.57% surcharge). Similar to our approach in the IRD order for PacBell, we start by retaining the existing

differential between measured and flat service, which we then adjust as we did for GTEC to balance revenue needs. We adopt a measured rate of \$9.60. This sets the measured rate at 54% of the flat rate. While it is an increase from the current measured rate of \$7.60 (including the 8.57% surcharge), it is a reduction of \$2.99 (23.7%) from the interim rate of \$12.59 (including the surcharge) and is \$4.55 (32.2%) less than CUCC's proposed rate. Moreover, it provides an \$8.25 discount from the adopted flat rate. This increases the current discount and will provide increased opportunity for customers to save money relative to flat rate service by converting from flat to measured rates. The \$3.00 monthly local calling allowance provided residential measured rate customers means these customers can make 40 daytime local calls of 5 minutes each before exhausting the \$3.00 allowance. If 25% of the local calls are in the evenings and 25% are nights and weekends, the customer can make up to 51 calls before exhausting the \$3.00 allowance. The break-even point where measured service becomes more costly than flat service under the new rates is when the local calls total \$11.25 (\$3.00 allowance plus \$8.25 discount). Customers can make up to 149 daytime calls of 5 minutes each before reaching the \$11.25 amount. If 25% of the local calls are in the evenings and 25% are nights and weekends, the customer can make up to 192 calls before reaching the \$11.25 amount.

Thus, measured rate service provides a reasonable alternative for those who can limit their calling, and with the increased discount from the flat rate--is a reasonable alternative to flat rate service for even more customers. Further, it provides customers a way to moderate the effect of increased basic rates.

We adopt DRA's estimate of the number of customer conversions from flat to measured service. CUCC's estimate does not recognize factors which may prevent conversion by some customers to measured service even if the measured rates would be

less expensive. For example, some customers prefer flat rates for ease of budgeting and avoidance of the risk of bill variations (with the risk of occasional high bills). Others prefer flat rates because they distrust CUCC rendering an accurate bill. They do not wish to keep track of their calls for comparison with the bill from CUCC, and they prefer to minimize the potential number of contacts with CUCC for bill corrections. Some customers prefer flat rates and because they are easy to understand, and they have been used successfully for years. We adopt DRA's estimate, which estimates a significant conversion, but also takes into account other factors. While DRA's estimate is reasonable for the test year, we think even more customers will convert over time as they become familiar with the potential savings, and find their neighbors using measured rates with success. This is a reasonable estimate of the period and limit 7.6(1) 180-Day Waiver of Move and Change Charges of policy limited

CUCC proposes that residential customers be permitted 120 days after the effective date of these rates in which to make up to two service changes without charge. DRA believes customers should be permitted a maximum of two changes without charge for a period of 90 days or more from the date these rates are effective.

The adopted rates may cause residential customers to reevaluate the cost-effectiveness of flat versus measured rate service in light of their individual calling patterns. Since our adopted rate design brings rates closer to costs and is more economically efficient, we should permit residential ratepayers to take advantage of cost-based rates. Therefore, just as we did in the IRD order, we adopt the parties' proposal to allow customers a maximum of two changes (e.g., conversion from flat to measured service and back). We extend the time to 180 days in which customers may make up to two changes. We do this because 90 days does not give customers sufficient time to make the decision to switch, call the utility to initiate the change, receive sufficient bills to

evaluate their experience under the new rates using the new service compared to the old service, and, if necessary, call the utility to initiate the second change. (Unless the customer decides to make the first switch and notifies the utility within 30 days of the date these rates become effective, 90 days will not allow many customers to receive a full month's bill under the new rates before they must decide whether to switch back.<sup>13</sup>

Our desire is for customers to have at least one full month, if not a few months, of experience before making that decision. There is no evidence that the cost CUCR incurs for the second switch is any greater if the switch is allowed within a reasonable time period greater 90 days. Because this waiver of service connection charges should not be indefinite, however, we will limit the period to 180 days. This is a reasonable balance of a limited policy to waive conversion charges with the time customers need to make an informed decision.

#### 7.6.1.2 Universal Lifeline Telephone Service

Both CUCR and DRA propose ULTS rates of \$5.62 for flat service and \$3.00 for measured service. Further, CUCR proposes offering ULTS customers a 50% discount on EAS calling plans. These

the adopted rates may cause residential customers to reevaluate the cost-effectiveness of flat versus measured rates.

13. For example, assume bills are rendered every 30 days, the customer is billed on day 1 (for usage during the previous 30 days), the new rates in this order become effective on day 1, and the customer learns of these new rates on day 1. If the customer calls the utility to convert service on day 35, the bill received on day 30 will be under the old schedule. The bill on day 60 will charge 5 days under the old schedule and 25 days under the new schedule. The bill on day 90 will give the customer the first full month of experience under the new schedule, but there will be insufficient time for the customer to evaluate the bill to determine whether or not to convert back to the original schedule before the 90-day waiver period expires. In this example, the customer must make the decision to remain on the new schedule or convert back to the old schedule using only the information in the bill rendered on day 60, with only a partial month of experience upon which to make the decision.

proposals are consistent with the statewide policy we established in the IRD order and are adopted here.

As DRA proposes a modified definition for ULTS in CUC's Basic Exchange and Toll Tariff, Schedule R-1, Section 11.1, Rule No. 1. CUC does not oppose DRA's suggestion, with one exception. CUC says the definition should reference intralATA as well as interLATA users, in accordance with the IRD decision. We agree with CUC, and direct that CUC file tariffs consistent with DRA's recommendation modified to reflect intralATA as well as interLATA users.

Further, CUC may not request revenue recovery from the ULTS Fund for the difference between present and adopted rates. Rather, ULTS Fund recovery is only for the difference between the tariffed and ULTS rates. CUC avers that it has not requested such recovery, and we here clarify the recovery CUC may request.

CUC proposes decreasing the measured service rate and increasing the flat rate, consistent with costs and balancing competing rate design goals. CUC strongly objects to DRA's proposal to eliminate the business flat rate and convert all customers to measured rates. CUC argues that customers feel strongly about having a choice of service. Further, CUC asserts that the Commission's goal of aligning rates with costs (so that customers pay the costs they impose on the system) does not require the elimination of flat rate service.

DRA recommends an increase in the rate for measured service and elimination of business, FEX business, PBX and PAL flat rate services. According to DRA, flat rate customers should be converted to measured service with implementation of the final rates adopted herein. DRA believes that CUC should be ordered to notify its customers of the elimination of the flat rate option within 5 days after the Commission issues this decision. DRA further points out that for over 70 years the Commission has been concerned

with properly charging customers the costs they place on the long distance network, and specifically with the elimination of flat rate service in the business service. DRA notes that flat rate service is not an option for GTEC customers, and will be eliminated by October 1995 for PacBell customers as a result of the IRD decision.

Despite our eliminating PacBell's flat rate service in the IRD order, we agree with CUCC and retain flat rate service here. We heard from a large percentage of CUCC's business flat rate customers representing a broad range of types of businesses (e.g., real estate, insurance, banks, auto dealers, lumber yards, museums, churches, appliance repair stores, craft stores, women's centers, health clinics, restaurants, event promoters, doctors, dentists, lawyers, veterinarians, accountants, labor unions, fire districts, utility districts). The responses were unanimous in their opposition to eliminating flat rate service. Customers feel very passionately that choices should be retained. They want to have the ability to choose the service that best suits their needs.

They believe that as long as residential customers have a flat rate choice, so should business customers. We agree, as long as rates can reasonably reflect costs.

To do this we first set the measured rate at CUCC's proposed rate of \$20.25. This is based on CUCC's DEC minus the BUCL charge, which is the same approach used in the IRD order to derive PacBell's and GTEC's measured business rate. CUCC's present business measured rate (with the 8.57% surcharge) is \$23.99. The interim rate (with surcharge) is \$29.25. Our adopted rate is a decrease of \$3.74 (15.6%) from the present rate and \$9.00 (30.8%) from the interim rate. It is also lower than DRA's proposed rate of \$27.45. Our adopted rate moves the rate closer to cost while balancing conflicting rate design goals, positioning CUCC for competition at CUCC's proposed rate, and meeting the revenue requirement.

Within 5 days after the Commission issues this decision, the Commission has been concerned

We next increase the flat rate to \$38.70. This rate is set by considering CUCO's PAC minus the EUCI charge. It is an increase of \$11.67 (43%) over the present flat rate (\$27.03 with the surcharge) and \$5.76 (17%) over the interim flat rate (\$32.94 with the surcharge), and is therefore less than the 100% limit we have used in the IRD decision (D 94-09-065 mimeo pp. 8). The \$18.45 differential (\$38.70 minus \$23.25) allows business customers to save money under measured service if they make no more than 244 weekday daytime local calls of 5 minutes per month per line. Business customers whose local calls of 5 minutes exceed 244 per month will still find the flat rate service more cost effective. This rate reflects CUCO's costs and provides substantial incentive for customers to switch to measured service, consistent with our overall policy. The new rate is already on measured service.

CUCO believes a business flat rate of \$38.70 is as high as to effectively eliminate the flat rate option. We think customers otherwise. Customers choose flat rate service for many reasons, including cost effectiveness, convenience, risk aversion to high bills, and avoidance of the need to check bills for accuracy. Customers who would otherwise pay more under measured service, or prefer flat rates for other reasons, will still elect flat rate service. This rate reflects CUCO's cost and is therefore efficient and fair.

Since our adopted rates design brings rates closer to costs and is more economically efficient, we should permit business ratepayers to take advantage of the new rates. Therefore, just as

as decisions over to others, flat rate service should be continued as

long as the rate can reasonably reflect cost.

Thus, while retaining flat rates deviates from our policy 14. If some business calls are at night or weekends, even more calls can be made and money saved under measured service. For example, assuming 25% of calls are during the weekend for a business open 7 days per week, the differential allows business customers to save money under measured service up to 287 calls per month per line. This provides additional incentive for conversion.

we allow residential customers 180 days to make up to two conversions between service without charge, we will do the same for business customers. Some customers expressed a preference for flat rates to ease budgeting, to avoid the risk of high bills, and to avoid the time and cost necessary to check bills for accuracy. The 180 day waiver of move and change charges will allow customers to try conversion to measured service to test their concerns.

We adopt CUCC's estimate of the number of customers converting to measured service. CUCC estimates a significant increase in conversion, which we think corresponds with our adopted rates.

While it may appear inconsistent to retain flat rate service for CUCC when we eliminated it for PacBell in the IRD order, we think otherwise. The majority of CUCC's business customers are already on measured service. The new rates will result in a significant percentage of CUCC's remaining flat rate customers converting to measured rates. This is compatible with the movement of PacBell's business customers, which is our goal, but can be accomplished in this case voluntarily by basing the rates on cost.

We could have eliminated flat business rates previously but did not. It is untimely to order the elimination of CUCC's flat rate service now. Within several months we expect the initiation of local competition. Competition will soon dictate the rates and rate designs used by competitors. That is, individual marketers and managers of competing companies will make these decisions rather than regulators. Pending our turning these decisions over to others, flat rate service should be continued as long as the rate can reasonably reflect cost.

Thus, while retaining flat rates deviates from our policy for PacBell and GBC, it is reasonable given the desire of CUCC to continue offering flat rate service, the strong feelings of CUCC's customers, and the adopted rate design which reflects costs and provides additional incentive for conversion. This is especially

true given that local competition is on the horizon. Whether flat rates remain a rational offering by providers, and a viable rate structure in a competitive market, will soon be determined by the forces of competition.

### 7.6.3. Extended Area Service for Elk Grove Area

#### 7.6.3.1 Existing or Three-Tier Plan

CUCC's rates currently include an EAS increment for customer calls from Elk Grove to Sacramento (south of the American River). For example, the present EAS charge is \$0.89 for residential measured, \$1.69 for residential flat and \$5.00 for business measured. These charges are not separately itemized but are bundled into the monthly bill. CUCC proposes a new EAS arrangement, consisting of 3 choices: the basic plan, the block plan, and the unlimited plan.

Under the basic plan, residential and business customers will receive 120 minutes of EAS calling per month at no additional charge. Calls over 120 minutes will be charged at \$0.02 per minute, not to exceed \$6.00. Under the block plan, residential and business customers will pay an additional monthly fee of \$2.00 on top of their basic rate and receive a total of 300 minutes of EAS calling per month. Calls over 300 minutes will be charged at \$0.02 per minute, not to exceed \$6.00. Under the unlimited plan, residential and business customers will pay \$4.00 on top of their basic rate and receive unlimited EAS calling. CUCC states it will directly mail information about the EAS options to all affected customers, including an individualized statement of their EAS usage for 3 months so that they can determine which EAS option best meets their individual needs.

DRA recommends CUCC's existing EAS structure be retained, and all CUCC customers pay the same EAS increments for unlimited EAS calling. DRA proposes that existing EAS increments be increased by the same percentage increase applied to other basic exchange services, resulting in a monthly EAS increment of \$1.10 for

residential measured rate customers, \$2.10 for residential flat rate customers, and \$6.20 for measured business and PBX customers. DRA opposes CUCC's plan because DRA believes the plan is really a toll plan, fails to reflect the customer concerns expressed at the Elk Grove PPHs, and will create additional customer confusion and abuse.

AT&T opposes CUCC's EAS plan because it will not cover CUCC's costs. AT&T asserts CUCC's plan will prevent competition because CUCC's rates are below the rate CUCC will charge its competitors for the monopoly building blocks necessary to provide comparable service. AT&T recommends that EAS rates at least cover their incremental costs, and be set at \$0.03 per minute. While this rate is still so low as to preclude competition, AT&T asserts it at least reflects cost causation and recovery principles.

CUCC's plan is reasonable and, with modification to the business EAS described below, is authorized. We strive to provide customers with choices and keep rates low. While DRA is correct that Elk Grove customers told us they do not want to pay extra for EAS calls, and the CUCC plan seems to introduce EAS charges where none existed before, the truth is that present rates include EAS charges. Elk Grove ratepayers, even if they did not previously realize it, have been paying a monthly fee for EAS.

CUCC's customers told us that they want low rates. While it was reasonable to bundle EAS charges in basic rates when basic rates were lower, it is less so as basic rates increase. Rather, customers who make no or few EAS calls should not be forced to pay the EAS costs caused by others. Customers who make no or few EAS calls will save money under CUCC's plan. It is reasonable to "unbundle" the EAS charge and allow customers to have choices.

Compared to charging an EAS increment to all, this will lower the bills for customers who make no or few EAS calls, and it will more properly assess proportionate charges for those who are average or heavy EAS users.

While CUCC asserts its plan has customer support, DRA argues otherwise. CUCC used focus groups and surveys in developing and assessing its EAS proposals. DRA believes CUCC's methods for eliciting ratepayer involvement and comment were invalid. In the very support, DRA points out that ratepayers at the Elk Grove PPHs were clear in their opposition to eliminating, or charging for, EAS. DRA believes CUCC ratepayers strongly oppose added EAS charges and will oppose CUCC's plan. We come to another conclusion.

At the direction of the ALJ, in January 1995 CUCC provided additional notice to its customers regarding its updated rate design proposals, including its EAS plans. Customers were invited to send their opinions to the Commission's Public Advisor. Based on the large number of responses in opposition to CUCC's original revenue requirement and rate design requests, we know CUCC's customers will tell us their opinions. Very few customers, however, expressed opposition to CUCC's revised proposals. We believe CUCC's customers now understand EAS costs money either for all customers or tailored to those who use EAS. We think the low response shows customer lack of opposition to, and acceptance of, the three-tier plan. We believe CUCC's plan best meets its customers' needs and is fair.

The one change we make to CUCC's proposal is to price business EAS at \$2.50 for the block plan and \$5.00 for the unlimited plan. EAS is priced below cost. Nonetheless, we see no reason to reduce the present EAS business increment from its current level of \$5.00 for unlimited calls. We price the block plan at one-half the price of the unlimited plan consistent with CUCC's proposal.

**7.6.3.2 EAS Charges and Competition** AT&T argues the EAS rates are so low as to be below cost. While true, EAS has been understood by CUCC's customers as part of their basic service. We keep CUCC's EAS rates below cost just as we keep all basic exchange rates low. By unbundling the EAS

charges, we allow rates to better reflect costs and begin to separate EAS from basic service. CUCG would like to argue otherwise. AT&T opposes CUCG's proposed EAS plan, contending it will prevent competition. AT&T admits its proposed rates are also insufficient to allow competition. While we adopt CUCG's proposal, we will rely on other proceedings to address the resolution of below cost rates. CUCG ratepayers strongly oppose AT&T's proposal.

In comments on the proposed decision, AT&T says its only concern with EAS rates being below cost can be rectified if subsidy funding equal to the difference between the rate established for long distance EAS and its cost is available to all competitors via a competitively neutral mechanism, as contemplated in the universal service proceeding (R. 95-01-020 at R. 95-02-021). We decline to act on AT&T's comment here.

AT&T's comment was not offered during the proceedings, and has not been subject to cross-examination. It is beyond the scope of comments permitted under a strict reading of Rule 57.3. Because AT&T did not move to reopen the record, proof of benefit to respondents is

In comments on the modified PD, AT&T contends that its proposal to fund subsidies via a competitively neutral mechanism was offered during the proceeding in the context of its advocacy of the AEUS. To the extent AT&T is rearguing its position on the AEUS, consistent with Rule 77.3 we give AT&T's comment no weight. To the extent AT&T proposes a new link to the universal service proceeding mechanism, this remains beyond the scope of this proceeding.

While we think AT&T's proposal might have merit, this record does not allow us to make that decision here. We have not yet decided, for example, whether to employ a voucher, a F.F.C. voucher or auction method for universal service funding. Without a decision on the mechanism we cannot adopt a parallel vehicle. Nor do we know the specifics of AT&T's proposal for EAS rates and whether the mechanics can be perfected. Parties have not had an

opportunity to assess AT&T's proposal. Further, we do not know if this proposal is feasible while still meeting all other Commission and legislative goals.

Nonetheless, AT&T or another party may offer this proposal in the universal service, local competition, or other appropriate proceeding. Other parties will then have an opportunity to assess the proposal.

We may need to realign EAS rates or consider other options to meet the potentially conflicting goals of universal service and local competition in the EAS service area just as we may need to realign access rates. EAS resolution might be accomplished by a universal service funding mechanism, a rate realignment, or some other approach. We cannot make that decision on this record, but will explore these issues when appropriately raised by AT&T or another party in other proceedings.

In comments on the proposed decision, DRA says adoption of CUCC's usage-based EAS plan requires that we also find the EAS plan to be a competitive, Category II, intraLATA toll service, which can be provided by CUCC's competitors. In reply comments, CUCC and AT&T disagree with DRA. We decline to adopt DRA's comment on the proposed decision. DRA's comment was not offered in the evidentiary record in this proceeding and has not been subject to cross-examination. It is beyond the scope of comments permitted under a strict reading of Rule 77.3. DRA did not move to reopen the record.

Moreover, DRA's comment reverses its agreement with the parties which we adopt above that CUCC's Category I, II and III services be as defined in D.89-10-031 and D.94-09-065 (See discussion in Section 6, New Regulatory Framework). DRA says the agreement was predicated on a misunderstanding that CUCC's EAS toll charges would be included in CUCC's basic exchange flat rates and not based on usage. Even if true, we are not convinced this fact alone requires a recategorization of each of the individual

It would further, AT&T contends EAS is priced below cost. This also differentiates EAS from intraLATA toll, according to AT&T, contrary to the apparent assumption underlying DRA's comments. DRA's answer is that, according to CUCC, EAS rates recover projected access expenses. We are not convinced that any re-categorization is warranted here. DRA may, however, raise this issue in other appropriate proceedings, just as we suggest AT&T or another party may raise AT&T's EAS proposal.

**7.6.3.3 Revenues and Expenses** DRA argues that the original joint exhibits on revenues and expenses were based on CUCC's existing EAS plan and no adjustments are necessary upon adoption of CUCC's new EAS plan. DRA states that CUCC's forecast increase of \$158.7 million EAS minutes on top of a joint exhibit base of 1812 million minutes is excessive. CUCC, on the other hand, estimates that EAS volumes and expenses will increase. We think CUCC's increased estimates are unrealistic and adopt the estimates in the joint exhibit.

**7.6.3.4 Confusion and Abuse** Telephone rates are becoming more and more complicated as we unbundle rates, provide customers more choices, align rates with costs, accommodate existing competition, and position companies and customers for future competition. We agree with DRA that CUCC's three-tier plan may introduce some confusion and an opportunity for possible abuse. We therefore adopt several measures to address these concerns.

First, we adopt CUCC's proposal that it directly mail information on EAS to affected customers. This information should explain the benefits of conversion from the system of charging all customers bundled EAS charges to the unbundled three-tier plan (allowing customers with few EAS calls to save money and give some customers choices consistent with the costs they impose on the system). It should clearly explain the options, and include an individualized statement of each customer's EAS usage for 1991.

representative months or the 3 immediately preceding months. Whatever 3-month period CUCC chooses should be the same for all customers. We will direct CUCC to submit its proposed BAS notice to the Commission's Public Advisor for approval before it is mailed.

Second, BAS minutes should be included on all subsequent customer bills. This is similar to the accounting on measured service bills of all local usage (even if below the \$3.00 allowance for residential customers). Itemization of BAS minutes on all bills will allow each customer to determine whether their selected plan continues to best meet their needs.

Third, just as we allow waiver of move and change charges for residential and business customers upon adoption of these rates, we similarly require waiver for 180 days of charges CUCC would otherwise assess customers for up to two changes between BAS plans. This waiver is separate from, and independent of, the waiver of charges between measured and flat rate service.

**7.6.4 Zone Usage Measurement Service** We adopt CUCC's recommendation, with which DRA agrees, to continue offering ZUM - Zone 3 calling at daytime rates of \$0.10 for the first minute and \$0.04 for each additional minute, with 30% and 60% discounts for evening, night, and weekend service.

**7.6.5 Conversion of Multiparty Service** We adopt CUCC's recommendation, with which DRA agrees, to convert all multiparty service to single party service. Modern technology (e.g., FAX machines, home computers) makes the sharing of telephone lines less private, less secure, more difficult, and more unreliable. Moreover, party lines do not allow immediate access to the end-user being called and do not permit a 911 operator to instantly identify the street address of the calling party. In keeping with our goal to improve service quality for all California telephone customers, we order conversion of multiparty service to single party service.

#### 7.6.6 Centrex Service

Centrex is a Category II service. Our pricing guideline for Category II services is to set the price ceiling at DEC or CUC's proposed rate, whichever is higher. We therefore declined to adopt DRA's proposed rates (which in all but 2 cases are higher than CUC's), and adopt CUC's proposed rates. In three instances where CUC's DEC exceeds CUC's proposed rate, we adopt CUC's DEC. Where CUC has not provided a DEC, we adopt CUC's proposed rate.

AT&T argues that in the cases where the imputed price floor for Centrex rates is above CUC's proposed rate or DEC, the imputed price floor and must be the adopted rate. Centrex and PBX service with direct inward dialing (DID) are alternative services. Under our imputation rules for Category II services, the DID rate must be imputed into the Centrex service price floor. We adopt a rate above the imputed price floor in the interest of not revealing CUC's price floors for these services. CUC may subsequently file an advice letter consistent with our NRE downward flexibility price rules for Category II services, if it wishes.

We also adopt CUC's proposal for distance-sensitive Centrex service line pricing. DRA argues this conflicts with our ruling in the IRD order. To the contrary, the reasons we declined distance-sensitive Centrex in IRD do not apply here. We declined to approve PacBell's distance-sensitive Centrex because PacBell's proposal also provided for negotiated rates. We stated that negotiated rates conflict with our clear distinction between tariffs and contracts, and raise the possibility of discriminatory pricing in violation of PU Code Section 453. CUC does not propose negotiated distance-sensitive Centrex.

We also declined to adopt GTEC's distance-sensitive rates proposal in the IRD order. GTEC's proposal used recurring rates different than adopted elsewhere in the IRD order. Rather than speculate about the appropriate discount to the rates adopted in IRD, or force GTEC to offer a discount greater than it signs off

contemplated, we declined to adopt GTEC's plan, and invited GTEC to resubmit its plan after reading the IRD order. In CUCC's case, we do not need to invite CUCC to resubmit its proposal.

#### 7.6.7 PBX Service

CUCC proposes a PBX trunk measured rate of \$20.25 and a flat rate of \$26.75. DRA proposes a PBX trunk measured rate of \$27.45 (\$33.60 in Elk Grove) and elimination of the flat rate.

Both parties recommend eliminating the rate differential between business and PBX flat rates.

We retain business flat rate service while increasing the flat rate to reflect cost. We adopt PBX trunk measured and flat rates consistent with our adopted business rates, and eliminate the rate differential between business and PBX flat rates. The EAS increment is not included in the rate but is in addition, consistent with our adoption of CUCC's EAS plan.

#### 7.6.8 Foreign Exchange Service (FEX)

FEX is a non-essential Category I service for which there is no readily substitutable option. CUCC proposes rates consistent with its assessment of cost and balancing conflicting rate design goals, as it does for all Category I services. DRA applies its percentage/increase approach as it does for Category I services.

Our pricing guideline for all Category I monopoly services, other than basic service, is to price at the higher of the current level, interim level or CUCC's DEC. CUCC's and DRA's proposed rates are variously higher or lower than present rates, interim rates, or DEC. We do not see any compelling reasons to deviate in this case from our general pricing guideline. Thus, we set FEX rates at the higher of present rates, interim rates, or DEC. In addition to recommending rejection of DRA's proposed

#### 7.6.9 Custom Calling Features

We adopt CUCC's recommended rates with which DRA mostly agrees, for custom calling features and the volumes reflected in the parties' joint exhibit. DRA proposes higher rates for four

services (toll restriction programming, fee, line hunt programming fee, business call trace per activation, residential call trace per activation). Consistent with our Category II pricing guidelines, if we adopt CUCC's proposed rates, which in all cases exceed CUCC's DEC. Where CUCC did not provide a DEC, we adopt CUCC's proposed rate.

CUCC proposes that business flat rate customers be able to select two custom calling features free and residential flat rate customers select one custom calling feature free from four choices (programmable toll, distinctive ringing, speed call 8 code, call forwarding). We reject this proposal. We generally seek to unbundle services, and see no particular reason to deviate from that principle here.

#### 7.6.10 Miscellaneous Charges

The parties recommend different charges for miscellaneous services. We do not deviate from our Categories I and II pricing policies, but adopt the higher of either the present level, interim level or DEC for Category I and the higher of CUCC's proposed rate or DEC for Category II. Where CUCC did not provide a DEC study, we use the higher of the current, interim, or proposed rate as appropriate. We use the volumes agreed to by CUCC and DRA.

#### 7.6.11 Public Access Line, Semi-Public, and Public Telephone Service

Public telephone service is a competitive, Category II, and business service. Consistent with our Category II pricing guidelines, we decline to adopt DRA's recommended percentage increase to existing rates. Rather, we adopt the higher of CUCC's proposed rates or DEC.

In addition to recommending rejection of DRA's proposed DEC rates, the California Payphone Association (CPA) proposes that restrictions on the use of Public Access Line (PAL) service be eliminated from CUCC's tariff as they are removed from those of PacBell and GTEC. In particular, CPA asks that rules governing use of

and user restrictions, competition in other services, and through competition for intraLATA toll calling in the payphone market be the same for CUCC's service area as for PacBell and GTE. We agree and will require CUCC to adopt the same standards in its tariffs as we require of PacBell and GTE.

#### 7.6.12 Notice of New Rates

Customers must be told of the new rates adopted herein before they will have the information to make informed decisions, for such as converting from flat to measured service. Therefore, after review and approval of the notice by the Commission's Public Utility Advisor, we direct CUCC to notify its customers of the new rates, including the new flat and measured rates, the local measured service rates, the 180 day period for up to two conversions between flat and measured service, and the 180 day period for up to two conversions between EAS plans in the Elk Grove operating district.

#### 7.7 Existing Surcharges

Both CUCC and DRA recommend removing the 7.97% surcharge on toll services and the 8.57% present (8.54% interim) surcharge on intraLATA services. The parties estimate this recommendation will reduce first year 1995 revenues about \$3.3 million (4.9% of the adopted revenue requirement). No party argues for retention of these surcharges.

Surcharges can be a source of customer misunderstanding and distrust, and complaints. Moreover, general surcharges can limit our ability to relate all other rates to their underlying costs, and can distort rate relationships. Thus, we seek to use surcharges sparingly, such as when tied to specific programs or costs (e.g., Deaf and Disabled Telecommunications Program, Inefficient Universal Lifeline Telephone Service, NRR adjustments up to 5%). We eliminate the use of surcharges when we can achieve the FCC goal that the FCC provides.

This GRC provides the opportunity to eliminate two of its significant general surcharges, and collect the revenue requirement.

**7.8. AEGIS and CHCF**

on all. The AEUS, or a related use of the CHCF, was one of the most controversial issues in this proceeding. I intend to bring up

### 7.8.1 CUCC

CUCC recommends that \$778 million (10.8%) of its requested revenue requirement be funded by a statewide AEUS. CUCC proposes the AEUS be authorized until CUCC's first NRP review, after which its reliance on the AEUS will end. The funds derived from the AEUS would be used to preserve universal service by keeping CUCC's Category I basic local exchange rates at affordable levels, according to CUCC.

CUCC says that despite its numerous cost reducing measures over the last several years, its costs remain high because it serves a large number of rural and sparsely populated areas where the cost of service is significantly higher than in the densely populated cities. CUCC asserts that the AEUS will fund those Category I services otherwise priced below cost and will not be used to reduce the cost of competitive services, as alleged by DRA. Rather, CUCC says all Category II services must be priced above cost (either LRIC or DEC, whichever is lower), preventing cross-subsidization. CUCC argues that it is illogical to load costs on access and toll rates when the Commission has just concluded a seven-year proceeding to rebalance rates for those two services.

10. CCUC states that implicit subsidies in rates are a major cause of inefficient and result in competitors targeting entry into those local markets to undercut services priced above cost. CCUC points out that the FCC provides Universal Service Fund support to LECs while not regulating via price cap or incentive mechanisms. CCUC asserts this demonstrates that DRA's objection to the use of AEUS with NRF is misplaced.

to alter CUCCL states that the Commission has ample authority to employ an AEUS to meet revenue shortages under regulatory powers vested in the Commission through Article 12, Section 6 of the California Constitution, and Public Utilities Code Sections 451, 453, 701, 728, and 768. CUCCL asserts that the IRD decision leaves open the use of an AEUS for LECs. CUCCL argues that its requested AEUS of \$7.8 million, applied to the statewide ULTS billing base of about \$10.6 billion, makes the monthly bill impact of its proposal less than \$103 per customer. DRA believes the issue is not as simple as CUCCL asserts.

While its rates will ultimately allow CUCC to both recover its costs and challenge its competitors, CUCC believes an AEUS is necessary for a limited time to facilitate the transition without dramatically increasing basic service rates. CUCC states that the universal service proceeding is the forum in which to determine how to recover the shortfall associated with pricing basic services below cost, but, in the interim, the shortfall should be recovered through an AEUS.

7.8.2 DRA While the OICP provides financial support for

should DRA recommends that CUCC's revenue requirement be recovered from company-specific rates. If CUCC's proposed rates result in a revenue shortfall, DRA recommends a company-specific per surcharge rather than a surcharge on all other customers in California. Having anticipated competition since 1991, DRA asserts that CUCC should have implemented sufficient cost reductions by now to ensure it can provide affordable basic service. Otherwise, DRA recommends CUCC delay its commencement of NRP regulation until it is able to do so without relying on a statewide subsidy.

DRA rejects CUCC's assertion that the AEUS cannot be used to reduce the costs of competitive services. Rather, DRA says this

could happen, if CUCC's cost studies understate the actual costs of Category II services. DRA contends that the AEUS is unnecessary for CUCC since CUCC's earned rate of return in recent years has been high. If CUCC needs transitional support into incentive regulation, DRA says it may obtain that support from Citizens, CUCC's parent company, and the shareholders who stand to directly benefit from that incentive regulation.

DRA believes the issue is not whether the AEUS rate and impact per customer is low or high, but whether any subsidy in a competitive intraLATA market is sound public policy. DRA asserts that surcharges mandated by statute (e.g., CHCF, ULTS, Deaf and Disabled Telecommunications Program) should not be confused with the AEUS. PacBell and AT&T support the AEUS according to DRA, but because it is in their self-interest to have lower access charges. DRA charges that their self-interest, however, is incompatible with good public policy.

While the CHCF provides financial support for utilities serving rural and small metropolitan areas, DRA believes the Commission intends the CHCF be discontinued for small and mid-size LECs after each has had a GRC. Therefore, DRA believes the CHCF is not available to CUCC subsequent to this GRC.

DRA rejects AT&T's recommendation that the AEUS be made permanent. DRA contends that recovery of CUCC's revenue requirement is not a universal service or public policy issue, nor an issue for customers of PacBell, GTEC and all other California telephone companies, but is an issue for CUCC and CUCC alone.

### 7.8.3 AT&T and PacBell

DRA supports the use of an AEUS. AT&T believes access rates should be set at CUCC's DEC, and the subsidy that higher access rates would otherwise provide should be explicitly identified and recovered in the AEUS.

DRA rejects CUCC's assertion that the AEUS is needed to reduce the costs of competitive services. Rather, DRA says this

This will have several salutary effects, according to AT&T. First, the necessary subsidies to support below-cost services will be clearly identified and the Commission can work to recover these funds in the most competitively neutral way. Second, once the subsidy amount is clearly identified and made recoverable from the AEUS, CUCC's long-term economic viability will be improved since there will be no risk that uneconomic cross-subsidies will be reduced by competition. Third, to the extent CUCC's switched and access rates are based on cost, uneconomic investment by efficient switched access providers will be avoided. Forth, the AEUS applied across all telecommunications companies surchargeable revenues will have a de minimus effect, which AT&T estimates to be about 0.1% per bill. Fifth, since the AEUS is not easily avoided by customers, it properly places the burden of funding universal service on all telecommunications users and not just a subset, such as purchasers of switched access. I do not think this GRC\NR proceeding is the place in which to discuss this.

AT&T proposes the AEUS be made permanent pending the outcome of local competition proceedings. AT&T believes use of an AEUS is sound public policy consistent with price cap regulation since its purpose is to subsidize below-cost basic exchange services and not to shield CUCC from competition. AT&T argues that higher access rates force all Californians to fund CUCC's costs just the same as does an AEUS (since IECs pass the higher access costs through their rates to their California customers), except that the subsidy is hidden in access rates and is explicit in an AEUS. Moreover, the AEUS is a stable source of revenue according to AT&T, while the subsidy hidden in access rates is unpredictable. AT&T asserts it is unpredictable because stimulation effects are difficult to forecast, perhaps resulting in CUCC over-funding service undercollecting its costs. It is unclear to me what effect of access rates is intended. PacBell argues for substantially lower access rates than proposed by CUCC. PacBell asserts that any resulting revenue

argument and policy being considered in other dockets. Employing

**7.8.14 Discussion:**

#### 7.8.4 Discussion

1. We decline to use an AEUS to fund part of CUCC's revenue requirement. There is no dispute that the impact on the typical end bill from CUCC's revenue needs spread over all California telephone ratepayers would be minimal. And there is no dispute that we have the authority to employ an AEUS. The issue, however, is the proper way for utilities to cover their costs and receive revenues. The proposed AEUS is a rate design mechanism which makes a customers of all telephone companies pay some costs incurred by the customers of one telephone company. We agree with CUCC and PacBell that the universal service proceeding (R 95-01-020, D. 95-01-021) is the appropriate forum in which to determine how to recover revenue shortfalls associated with pricing some services below cost. We do not think this GRC/NRF proceeding is the place in which to address that more global policy issue. We rely on the universal service proceeding to resolve the extent to which we need to use any special mechanisms to fund universal service.

3 In comments on the proposed decision, AT&T states that its subsidizing basic exchange rates to promote universal service by establishing above-cost switched access rates addresses the universal service funding issue in this GRC/NRP, despite the intent of the proposed decision to leave that more global policy issue to other proceedings. We disagree. This proceeding must balance its competing interests and regulatory goals. The access rates adopted herein are reductions from present rates. As stated in our access rate discussion, parties will have an opportunity in the universal service, local competition or other proceeding to propose a realignment of access rates. It is unrealistic to resolve universal service, local competition and access rate matters in the GRC/NRP proceeding of this utility without the benefit of evidence, argument and policy being considered in other dockets. Employing

access rates to help meet universal service goals pending a full consideration of that matter in other appropriate dockets does not produce any inconsistencies in this decision.

We disagree with CUCO that a transitional funding mechanism is necessary pending our decision in the universal service proceeding. We authorize CUCO to charge rates which are just and reasonable without the need to use an AEUS.

Moreover, we eliminate the use of surcharges where we can. For example, we end the 7.97% and 8.57% general surcharges for CUCO, just as we eliminated similar surcharges for PacBell and GTEC in the IRD decision. We will not trade the elimination of those surcharges with a replacement AEUS. In particular, we will not adopt an AEUS in a CUCO proceeding which raises bills for many customers of PacBell/GTEC and all other telephone companies in California, whether or not the effect is small. Whatever our future eventual policy decision regarding support for high cost companies and universal service, that decision should be made after having the opportunity to fully consider our options and their implications for all of California's telephone companies and ratepayers in a general rulemaking and investigation, not the GR of this utility.

AT&T and PacBell seek lower access rates. As we have explained above, however, the access rates we authorize for CUCO and properly balance all rate design considerations. AT&T believes the AEUS would identify necessary subsidies and allow recovery of those subsidies in ways that are economically efficient and competitively neutral. The outcome of the universal service proceeding will similarly accomplish this goal. Contrary to AT&T's concern, we do not believe uneconomic investment by efficient switched access providers is a concern until we make our decision in the universal service proceeding, because switched access is a category of monopoly service at this time. CUCO's long-term economic viability is not at risk to the extent access rates recover revenues above the

costs since competition is not present when competition is imminent, we will consider requests from CUCC and other utilities to convert access to Category II. Similarly, revenue instability is not problematic pending competition.

Therefore, we reject using an ABUS to fund part of CUCC's revenue needs and below cost rates. The rates we adopt herein for CUCC are just and reasonable without reliance on an ABUS.

In reply comments on the PD, CUCC recommends two solutions to the alleged errors in the PD: First, CUCC offers to temporarily forego NRF and continue interim rates (D94211-074) pending Commission decisions in the local competition and universal service dockets. CUCC suggests the Commission issue a second interim opinion in this matter now, with the CUCC final decision on after decisions are issued in the other proceedings. Revenue shortfalls between CUCC's second interim and final decisions would be recovered from the CHCF. The final decision would adjust CUCC's rates in conformance with universal service rules and authorize CUCC to begin regulation under NRF.

Alternatively, CUCC's second proposal is that it temporarily forego NRF; revenue shortfalls be recovered from the CHCF and the Commission issue a second interim decision authorizing CUCC to charge its proposed rates for basic residential and business-like services. CUCC recommends a final decision adjusting CUCC's rates and implementing NRF after local competition and universal service decisions are made.

We decline to adopt either of CUCC's recommendations for variations thereof. This record provides sufficient information and recommendations to adopt a reasonable revenue requirement and rates. We need not delay action here pending resolution of local competition and universal service issues. Further delay of this proceeding would unreasonably complicate this and other cases, and delay implementation of the economically more efficient rates authorized herein. Additional adjustments to CUCC's rates will be at

made, if necessary, as a result of the decisions in those and other proceedings. We adopt rates here which will avoid unnecessary rate changes and customer confusion to the fullest extent possible. I.e. Reasonable rates can be authorized without relying on an AECUS or the CHCP. In the absence of a comparable service, they disagree on the price of the service, they disagree on the price of the service, they disagree on the price of the service.

**7.9. Price Floors:** CUCc requests pricing flexibility for Category II services. No party opposes the request and we authorize pricing flexibility. CUCc proposes specific price floors based on its cost studies. As we previously stated, CUCc's cost studies were not explicitly reviewed and tested in this record, with limited exceptions noted below. We therefore do not approve specific cost studies or cost estimates. Nonetheless, we adopt DRA's recommendation to find CUCc's cost studies and reported costs sufficient for the purpose of setting price floors.

Proposed price floors are contained in exhibit 85, which was jointly offered by CUCc and AT&T. CUCc and AT&T originally disagreed therein on the price floors for several services (i.e., 800 Service, Competitive Alternative 1; 800 Service, Competitive Alternative 2; WATS Service, Competitive Alternative 2; Enhanced 1000 Savings Plan, Competitive Alternative 2; Enhanced 1000 Savings Plan, Competitive Alternative 3; Enhanced 1000 Savings Plan, Competitive Alternative 4). These disagreements were generally due to differences over inclusion of various costs and contribution elements, and differences in estimated volumes. CUCc and AT&T reported their subsequent price floor briefs that, after further discussions, they reached agreement on these price floors. In addition, they agreed to increase the price floors for basic Centrex service (agreeing to impute the contribution from direct inward covered dialing (DID) and PBX trunk hunting into the basic Centrex service feature package). No disputes remain on the methods and we adopt to AT&T, the calculation of the appropriate PBX trunk imputation is

the results subject to the compliance filing requirement explained below.

### 7.9.1 Centrex

While CUCC and AT&T agree on the price floor for basic Centrex service, they disagree on two elements of the price floors for other Centrex offerings, specifically Centrex service lines and Centrex distance sensitive service lines (2,000 feet, 4,000 feet and 6,000 feet). First, they dispute imputing the contribution for a PBX trunk into the Centrex service line price floor. Second, they disagree on the assumed distance from the central office for customers on distance sensitive Centrex line service.

#### 7.9.1.1 Imputation of PBX Trunk

CUCC opposes AT&T's imputation of the PBX trunk because CUCC's Centrex service lines are restricted to intragroup Centrex functions only. A Centrex customer must purchase a minimum of two one-party business access lines, Centrex features, and optional Centrex service lines, according to CUCC. (While customers requesting PBX service purchase PBX trunks and optional DID numbers, DID trunks, and hunting service.) CUCC believes imputation is incorrect since a Centrex service line does not provide full access to the switched network without the use of a one-party business line.

AT&T believes that the contribution from a PBX trunk must be imputed into the Centrex service line price floor. AT&T argues imputation insures that monopoly LECs cannot create a price squeeze by charging less for their competitive services than the combination of their costs and the amount they charge a competitor for the monopoly components required to provide the competitive service. AT&T contends CUCC's Centrex service price floor must cover its costs plus the imputation of the contribution it foregoes by not selling the PBX trunks to a competitor. If it is to be consistent with the Commission's imputation safeguards, according to AT&T, the calculation of the appropriate PBX trunk imputation is

complicated by the need to include a trunk-to-station ratio. Since Centrex service requires a distinct line while a PBX trunk serves several stations, AT&T says this ratio converts PBX trunk contribution to a per station amount. AT&T believes CUCC's choice to incorporate measured business service into its Centrex service does not change the fact that PBX trunk imputation is calculated on a per station basis. DRA believes AT&T's proposed price floors are more appropriate than CUCC's given the structure of CUCC's Centrex service.

We agree with AT&T and DRA. CUCC's service lines must be treated similarly to access lines for the purpose of imputation to ensure fair competition. 7.9.1 Distance Sensitive Centrex

The second dispute concerns the loop length used in the calculation of the loop cost for distance sensitive service line rates. CUCC bases its calculation on the median distance of 1,000, 2,000, and 3,000 feet while AT&T assumes the maximum distance of 2,000, 4,000, and 6,000 feet. CUCC argues AT&T's calculation incorrectly assumes all customers are located the maximum distance from the central office, while its calculation recognizes a more appropriate median distance.

We agree with AT&T. No party introduced any evidence on actual average or median loop length. While the average in the 1,000 to 2,000 foot range could be 1,000, it could also be another number. Using a lower number than actual loop length would result in a price floor which does not cover CUCC's actual costs. In the absence of actual data, we err on the side of caution and use the maximum footage in each range. 7.9.2 Price Squeeze

AT&T states that tariffed discounts offered some high volume MTS customers could result in an average price below the applicable price floor. To prevent an anticompetitive price squeeze, AT&T recommends that competitive alternative price floors be

for WATS, 800, and Enhanced 1000 Savings Plan services be limited to customer locations which generate the same level of usage as used to calculate the floor. That is, the same minutes of use per month assumed by CUCC in developing its price floors would become the threshold of use for customers to be eligible for that of service. According to AT&T, if CUCC wishes to execute a customer-specific contract or introduce a new tariffed discount plan for a customers with different minutes of use than used to calculate the price floor, CUCC would submit a corresponding new competitive price alternative price floor with its request to AT&T.

CUCC states that its proposed tariffs contain provisions that establish minimum usage requirements. If the usage falls below the prescribed minimum, the customer becomes ineligible for the service, according to CUCC. Moreover, CUCC believes that tariff restrictions would impede its ability to configure its network to best serve individual customer requirements.

AT&T's concerns are legitimate. The specific competitive alternative price floor calculations for WATS, 800, and Enhanced 1000 Savings Plan services assume that each customer location generates 60,000 minutes of use (MOUs) per month. We will require CUCC's price floors for those competitive alternative services to only apply to customer locations that generate the MOUs used to calculate the price floors. If CUCC wishes to execute a customer-specific contract or introduce a new tariff discount plan for customers that generate a different level of MOUs per month, CUCC should submit a corresponding new competitive alternative price floor using the calculations identical to those in Exhibit 85, except that the different level of MOUs would be substituted for the 60,000 MOUs level assumed in Exhibit 85.

### 7.9.3 Toll Service Price Floors

CUCC's price floor calculations for toll services are based on toll volumes that reflect CUCC's estimate of its intraLATA sales. Specifically, CUCC's calculations assume that CUCC will



proceedings or appropriate nondisclosure agreements. CACD shall verify compliance of the price floors with our requirements before a CUCC's tariffs become effective. (ii) Consistent with a goal of having new price floors in a competitive market should be based on the cost of service.

**7.10 Category III** No party disputes CUCC's Category III rate requests. We adopt CUCC's proposed Category III rates. (ii) Consistent with a goal of having new price floors in a competitive market should be based on the cost of service.

**7.11 Tariff Revisions** In Exhibit 125, Appendix A, DRA recommends revisions to CUCC's basic exchange and access tariffs. CUCC does not object to DRA's recommendations, with the exceptions of (i) the definition of long ULTS and the elimination of business flat rate service addressed above. We adopt DRA's recommendations, except as discussed above regarding ULTS and business flat rate service, or to the extent that they differ with any other decision herein. CUCC voted before the Board to adopt the proposed rates.

**7.12 Adopted Rates and Final Results of Operations** TATA

CUCC's final test year 1995 results of operations at the adopted rates is presented in Appendix C, with revenues and expenses consistent with rates and volumes adopted herein. The test adopted rates are shown in Appendix B. (ii) Consistent with a goal of having new price floors in a competitive market should be based on the cost of service.

1. CUCC failed to meet some GO 133 service quality standards and reporting requirements in 1991, 1992, and 1993. (ii) Consistent with a goal of having new price floors in a competitive market should be based on the cost of service.

2. DRA proposes a service quality improvement and monitoring program, including a service quality assurance program, with which CUCC largely agrees, and which is reasonable. (ii) Consistent with a goal of having new price floors in a competitive market should be based on the cost of service.

3. The SQAP does not incorporate specific incentives for all GO 133 service quality standards. (ii) Consistent with a goal of having new price floors in a competitive market should be based on the cost of service.

4. An additional incentive is needed because SQAP does not incorporate specific incentives for all GO 133 service quality standards. (ii) Consistent with a goal of having new price floors in a competitive market should be based on the cost of service.

CUCC's submission of incomplete and inaccurate GO 133 service quality reports violates Rule 1 of the Commission's Rules of Practice and Procedure, the requirement that the reports be complete and accurate.

verified as accurate by a corporate officer, and the requirements of GO-133, by last of August 2000, must be met since CUC's revenues

6. A rate of return penalty provides a direct penalty to the company and a direct benefit to ratepayers.

7. A rate of return penalty of 15 basis points for CUC's violations is reasonable considering rates of return penalties applied to other companies.

8. The rates of return penalty can be lifted when final rates are implemented because we simultaneously implement other services for quality improvements standards and the SQAP allocation

9. Long-term interest rates have declined since CUC updated its rate of return testimony in October 1994 to 11.5%.

10. A reasonable overall test year of 1995 rate of return for CUC is 9.75%, based on considering several factors, including a reasonable capital structure of 40% debt and 60% equity, a test year cost of debt of 6.81% and a reasonable ROE of 11.71%.

11. The adopted rate of return reflects a reduction in ROE from that last found reasonable for CUC, which, considering differences between the industries, is consistent with the reductions in ROE for energy companies over the same period and is consistent with our recent reduction in PacBell's rate of return and ROE.

12. The joint testimony on operating revenues under present rates, with the corresponding access line and volume forecasts, is reasonable.

13. CUC does not receive revenue from employees to the extent their bills include employee discounts.

14. CUC's present tariffs do not limit employee eligibility for discounts on basic telephone service, in contrast to the tariffs of PacBell and GTE.

15. CUC supports its employee discounts for basic service by citing employee availability during several recent disasters and difficulties.

16. Access revenues are properly included in CUCC's total revenues since CUCC will incur access expenses in test year 1995 and access revenues must be recognized if access expenses are charged to ratepayers.

17. The joint testimony on operating expenses is reasonable, except for the special amortization and as specifically determined otherwise.

18. CUCC's primary showing on net common plant must be rejected because it is based on pre-acquisition plant and pre-acquisition allocation factors despite the fact we have clearly stated this proceeding should fully account for the acquisition.

19. Not all of TMS operations in Redding will be transferred to CRTO, the remaining TMS plant will be part of WRTO, the allocation factor for TMS facilities is that for WRTO, and the CUCC total post-acquisition net common plant includes additional acquisition-related plant with the portion chargeable to CUCC ratepayers allocated using California allocation factors.

20. Unilaterally blending the allocation factors between jurisdictions in this proceeding simply costs CUCC ratepayers more without direct knowledge of the actions of other jurisdictions.

21. Establishing a multistate task force to address allocation factors between jurisdictions would be difficult, time consuming, costly, untimely for this decision, and unnecessary for future decisions under the NRP.

22. CUCC telephone ratepayers do not incur commodities purchased for resale in the provision of their telephone service, and it is reasonable to base allocation factors on the California method which excludes commodities for resale.

23. All 41 employees identified for transfer under the reorganization will complete their move by test year 1995, resulting in 354 employees in test year 1995.

CUCC employee availability during recent difficult times.

24. The savings per employee from the reorganization is \$67,700 in test year 1995, based on CUCC's estimate of \$60,000 from 1991/92 to test year 1995.

25. The acquisition/reorganization savings for test year 1995 is \$3,208,400.

26. All ratepayer groups affected by the GTEC acquisition are either no worse off or are better off as a result of the acquisition, since NRP regulation for GTEC customers who remain GTEC customers provides equitable treatment; any premium paid by CUCC for the property is amortized below the line; the transaction costs in excess of the purchase price are not included in rates; and the acquisition/reorganization savings exceed the additional uper revenue requirement caused by the purchase.

27. The majority of CUCC's expenses related to both hourly and salaried employees for community activities are not necessary in the provision of telephone service, do not contribute to service improvements, do not promote company awareness of community growth patterns, and do not otherwise benefit ratepayers.

28. The compensation for CUCC's CEO, CFO, and Chairman allowed in rates for test year 1995 has increased from the level found reasonable in test year 1983 for the CEO alone at a rate of increase consistent with labor inflation rates over the period, while the cost per line has decreased over the same period.

29. The joint CUCC and DRA recommendation on the recoverable amount of Fountain Fire expenses is reasonable since it includes straight-time labor, the net difference between old and new plant, the net difference in depreciation amounts, an estimate of savings associated with the new plant, and the tax benefits from retiring the old plant.

30. Recovery of Fountain Fire expenses by a surcharge is reasonable since the alternative of putting the costs in the results of operations will complicate its removal (given that the price cap effective date might not coincide with the 24-month period).

amortization) and a surcharge that is certain to expire in 21 years will minimize long-term reliance on surcharges.

31. Reduced plant lives reflected in depreciation rates adopted in this decision provide incentive for technological improvements, are consistent with CUCC's ongoing promise of improvements, and no additional incentive through a special amortization is needed.

32. While NRF regulation may result in reasonableness reviews and disallowances, a compelling showing has not been made here that the incremental benefits of monitoring investments under NRF compared to those that would have been made under rate of return regulation, or those made in six specified plant categories with the potential surcredit disallowances, exceed the regulatory burdens, nor that this scheme would in any other way add value to our existing NRF regulation.

33. CUCC's reasonable total test year 1995 revenue at present rates is \$71,630,259, total expense is \$54,459,880, rate base is \$138,207,048, and overall rate of return is 12.19%.

34. The NRF for CUCC should be the same as currently operative for PacBell and GTEC, except for any deviations specifically adopted for CUCC.

35. The NRF monitoring reports required of PacBell and GTEC would be onerous for CUCC.

36. Equal sharing of earnings between the benchmark and ceiling rates of return, with all earnings above the ceiling returned to ratepayers, is consistent with the original NRF-sharing formula adopted in 1989, is recommended by DRA, is accepted by CUCC (assuming the productivity factor is attainable), and provides a powerful incentive for CUCC to achieve all possible efficiencies while protecting ratepayers if the price formula is not calibrated perfectly.

37. Because the NRF productivity factor is designed to measure the productivity of the telecommunications industry,

compared to that of the economy as a whole, and is not designed to be company specific, attainability of the productivity factor is in the context of industry-wide, not company specific results.

38. CUC's recommended 2.0% productivity factor fails to separately identify the telecommunications productivity factor compared to the economy productivity factor, and fails to include a stretch factor.

39. A productivity factor of 2% underestimates the long-run productivity differential between the telecommunications industry and the economy expected under either traditional rate of return regulation or NRP regulation.

40. Whether CUC's own recent productivity gains diminish its ability to meet the productivity factor adopted for PacBell and GTEC is irrelevant since the productivity factor in the NRP formula reflects industry, not company, productivity.

41. Adoption of a fair and reasonable productivity factor in the NRP formula neither changes CUC's financial risk nor requires an increase in CUC's return on equity.

42. The appropriate "x" factor for CUC is 4.0%, based upon the range of results of the studies in this record and the relevant stretch factor considering competition in the telecommunications industry.

43. The rate design recommendations to which the parties agree are reasonable.

44. The costs developed by CUC are the best estimates of its costs despite the flaws and indirect approach used in its cost studies.

45. The IRD pricing principles employed for GTEC are reasonable to employ for CUC since, like GTEC, CUC's rates would undergo great changes unless the rate impacts are moderated.

46. The reasonable price guideline for Category II services is that the rate equals the DEC, and for Category II services is that to

the price ceiling equals the DEC with the price floor the lower of DEC or LRIC.

47. The price guidelines are subject to several key exceptions, including that residential basic rates are set below DEC consistent with universal service goals; all other Category I services are priced at the higher of the current rate, the interim rate or DEC to soften what would otherwise be precipitous changes in rate levels; the price ceiling for all Category II services is the higher of DEC or CUCC's proposed rate to similarly moderate the rate impact; and selected rates are set above cost so that other long rates can be set below cost while still generating the revenue needed to meet requirements.

48. The results of the price elasticity studies on which CUCC's relies are within the range of results we considered in the IRD proceeding, and CUCC does not present any new information to alter the conclusions reached in the IRD order.

49. CUCC's message toll sales in test year 1995 will be less than 100% of the total market carried by all providers, adjusted to reflect the level of CUCC customers' dissatisfaction, but offset by CUCC's commitments to increase service quality, CUCC's goal to be its customers' carrier of choice, and the lack of equal access for most, if not all, customers for most, if not all, of the test year.

50. CUCC's proposed local measured usage rates are consistent with our pricing guidelines and rate design goals because CUCC's proposed first minute local measured usage rate is above CUCC's DEC, the rate for additional minutes is only slightly below DEC (recovering more of CUCC's DEC than DRA's proposed additional minute rate), and we seek to provide reasonable usage rates consistent with cost as a viable alternative to flat rate service.

51. While switched access is a Category II service and our pricing guideline for Category II services is to price at the higher of the current rate, interim rate or DEC, no party recommends that

retaining CUCC's current rates even though it is higher than the interim rate and DEC's are today's prevailing rates.

52. It is reasonable to modify our pricing guideline for on-switched access rates in order to move these rates closer to cost, encourage use of the network, and still provide contribution to help keep other rates at reasonable levels.

53. A call allowance for residential customers calls to air and directory assistance of 05 free calls is consistent with the IRD order, and balances the need to generate revenue with the desire to provide service to customers without additional charges.

54. DRA's estimate of revenues from directory assistance and service is reasonable since it reflects calls in excess of 05 free calls and repression from the price effect of on-switched.

55. DRA's recommended billing and collection rates exceed CUCC's DEC and CUCC's proposed rates, and therefore exceed our pricing guideline for Category II rates (i.e., the higher of either DEC or CUCC's proposed rate).

56. Given that CUCC did not calculate a DEC for service connection charges, adoption of the higher of present or interim rates largely reflects DRA's recommended percentage increase (since interim rates result from a percentage increase) and is consistent with the percentage increase used in the IRD decision.

57. Measured basic exchange service is available to all customers regardless of income levels, is a reasonable alternative to flat rate service for customers who can limit their calling, and is a reasonable alternative for even more customers than under present rates (since we increase the differential between measured and flat rate service), thereby providing customers a way to moderate the effect of increased rates for flat rate service.

58. A reasonable balance between a limited policy to waive conversion charges and sufficient time for customers to make informed decisions is to allow customers a maximum of two changes of within 180 days.

59. A flat rate business service can be retained with a rate set to recover costs while providing customers increased incentive to convert to measured rate service. It is reasonable to expect that a flat rate business service can be retained with a rate set to recover costs while providing customers increased incentive to convert to measured rate service.

60. CUC's three-tier BAS plan provides customers with choices, keeps rates low for customers who make not too few BAS calls, and more properly assesses proportionate charges for those who are average or heavy BAS users.

61. Confusion and possible abuse from CUC's three-tier BAS plan can be addressed by requiring CUC to directly mail and provide information to customers with their BAS experience for three months include BAS minutes on all bills, and allow waiver of conversion charges between plans for up to 180 days.

62. Modern technology makes sharing of telephone lines less private, less secure, more difficult, more unreliable, and neither permits immediate access to the person being called nor a 911 operator to instantly identify the street address of the calling party.

63. Converting all multiparty lines to single party service furthers our goal to improve service quality for all California telephone customers.

64. The imputed price floor for Centrex service is above CUC's rate or DEC's rate.

65. The reasons we rejected distance sensitive Centrex service line pricing for PacBell and GTE do not apply to CUC's proposal.

66. CUC's proposal to include two custom calling features is free for business flat rate customers and one for residential flat rate customers is inconsistent with our policy (objective to flat rate unbundled services).

67. General charges can be a source of customer misunderstanding, distrust, and complaints, which limit our ability to relate all other rates to their underlying costs and can distort rate relationships.

68. The proposed ABUS is a rate design mechanism which makes all customers of all telephone companies pay costs incurred by all customers of one telephone company and ensures the universal utility.

69. The universal service proceeding (R.95-01-020, Docket No. I.95-01-021) is not this GRC/NRP proceeding; it is the appropriate forum in which to determine how to recover revenue shortfalls associated with pricing some services below cost.

70. No party opposes use of CUCC's cost studies and reported costs for the purpose of setting Category II price floors.

71. The contribution from a PBX trunk must be imputed into the Centrex service line price floor to ensure fair competition over

72. Distance-sensitive Centrex rates will not cover CUCC's actual costs if a shorter distance than actual loop length is used.

73. In the absence of data on actual loop length, using a maximum loop length in each pricing range ensures CUCC's actual costs will be recovered.

74. The competitive alternative price floor calculations for WATS, 800, and Enhanced 1000 Savings Plan services can result in an average price below the appropriate price floor unless the price floors are limited to customer locations that generate the MOUs used to calculate the price floors.

75. CUCC's price floor calculations for toll services are based on toll volumes that reflect CUCC's estimate of its intraLATA sales (e.g., 85% of the total intraLATA toll market).

76. The adopted number of access lines and volumes at authorized rates are reasonable because they incorporate price elasticity and other factors.

77. CUCC's reasonable test year 1995 total revenue is \$65,905,580, total expense is \$52,412,272, rate base is \$138,207,048, and rate of return is 9.75%.

Since CUCC did not calculate a DEC

Conclusions of Law

1. The Service Quality Assurance Mechanism and Service Quality Improvement measures stated in Appendix B should be adopted.

2. CUCC's authorized rate of return should be reduced by 15.1 basis points from January 1, 1995 until the final rates adopted herein become effective.

3. CUCC's test year 1995 overall rate of return should be 9.75%.

4. CUCC's revenues for ratemaking should not include revenues imputing the discounts for employees who receive discounts, but employees should be required to be accessible during emergencies to be eligible for the discounts.

5. CUCC should recover 25% of its estimated test year 1995 community activity expenses including costs for both hourly and salaried employees.

6. A surcharge of 1.839% should be authorized for 24 months to recover reasonable Fountain Fire expenses.

7. CUCC's results of operations producing an overall rate of return of 12.19% at present rates should be adopted.

8. The "x" factor in the NRP formula for CUCC should be 4.0%.

9. CUCC should be directed to file an application by October 1, 1997 for review of its NRP.

10. CUCC's reported costs should be used for making individual rates.

11. The price elasticity for message toll service should be -0.5.

12. The pricing guideline for service connection charges should be to set the rate at the higher of present or interim rates since CUCC did not calculate a DEC.

13. Customers should have up to 180 days to make up to two changes between flat and measured service, and separately between EAS plans, without incurring conversion charges.

14. CUCC should mail information directly to customers on its new EAS plan, include EAS minutes on all bills, and waive conversion charges between plans up to 180 days.

15. All multiparty lines should be converted to single party service.

16. CUCC's existing 7.97% surcharge on toll services and 8.57% present (8.54% interim) surcharge on intralATA services should be eliminated.

17. CUCC should be authorized pricing flexibility for Category II services.

18. CUCC's competitive alternative price floors for WATS, 800, and Enhanced 1000 Savings Plan services should apply to customer locations that generate the MOUs used to calculate the price floors, and CUCC should submit new competitive alternative price floors using different MOUs if CUCC wishes to execute a customer-specific contract or introduce a new tariff discount plan for customers with a different level of MOUs.

19. CUCC should submit new price floors in compliance filings with its tariffs to reflect the agreements reached between CUCC and AT&T, along with the rates and sales volumes adopted in this decision.

20. The revenue requirement shown in Appendix C for test year 1995 at authorized rates should be adopted, and the rates shown in Appendix E should be authorized to allow CUCC to collect the adopted test year 1995 revenues.

21. The test year 1995 results of operations, rates, and charges set forth in Appendixes C and E are just and reasonable.

22. This decision should be effective today to speed the transition from CUCC's interim to final rates, implement the service quality programs as soon as possible, and begin regulation of CUCC under the NRP without delay.

IT IS ORDERED that

2. CUCC shall be bound by the terms and conditions of the Service Quality Assurance Mechanism and Improvements stated in Appendix B.

4. CUCC's tariffs shall specify that management employees must be available by telephone during emergencies to be eligible for the basic service discount.

6. The Regulation of CUCC's operations shall follow the principles of the new regulatory framework (NRF) established in D.89-10,031 (33, CPU02d 43), D.94-06-011, and D.94-09-065 subject to the following differences. CUCC shall file monitoring reports specified in Appendix D. Earnings between the benchmark and

ceiling rates of return shall be shared equally between shareholders and ratepayers, with earnings above the ceiling rate of return returned to ratepayers. The "x" factor in the NRF formula for CUCC shall be 14.0%. CUCC shall file an application for NRF review on or before October 1, 1997. The application shall address CUCC's service quality, experience before and after NRF action (including a report which documents CUCC's service quality and experience both in general and specifically with the Service Quality Assurance Mechanism and Improvements specified in Appendix B), the extent to which CUCC's NRF meets each of our regulatory goals, and any other matters CUCC recommends be addressed. The application shall include a summary list identifying all the issues CUCC proposes for review, and shall state at the end of its list that other interested parties shall submit their recommendations for issues by the close of the protest period.

CUCC shall exempt customers who request conversion from flat rate service to measured rate service, or the reverse, from conversion charges for a maximum of two changes per access line for up to 180 days from the effective date of the tariffs filed pursuant to this order. CUCC shall exempt customers who request conversion between extended area service (EAS) plans in the Elk Grove operating district from conversion charges for a maximum of two changes per access line for up to 180 days from the effective date of the tariffs filed pursuant to this order.

After review and approval of the notice by the Commission's Public Advisor, CUCC shall notify its customers of the new rates, terms and conditions adopted herein, including the new flat and measured rates, the local measured service rates, the 180-day period for up to two conversions between flat and measured service, and the 180-day period for up to two conversions between EAS plans in the Elk Grove operating district. The notice shall be completed within 30 days of the date of this order, or if the price floor for service exceeds the price floor for each service.

performed by a bill insert shall be completed within 60 days of the date of this order.

9. After review and approval of the notice by the Commission's Public Advisor, CUCC shall notify affected customers of the new EAS plan in the Elk Grove operating district. The notice shall include a statement of the benefits of conversion from the system of charging all customers bundled EAS charges to the unbundled three-tier plan. It shall clearly explain the options and shall include an individualized statement of each customer's EAS usage for a representative month or the 30 months immediately preceding the notice. The 30-month period used by CUCC shall be the same 30 months for all customers. The notice shall be completed within 30 days of the date of this order or, if performed by a bill insert, shall be completed within 60 days of the date of this order.

10. EAS minutes shall be reported on all Elk Grove operating district customer bills for all three EAS plans.

11. CUCC shall terminate its provisions of multiparty service and shall convert existing multiparty lines to single-party service on the effective date of the new tariffs filed pursuant to this order.

12. CUCC's tariffs shall adopt the same standards for public access lines, semi-public and public telephone service as were required of Pacific Bell regarding use and user restrictions to date of competition in minutes services and competition for intraLATA toll calling in the payphone market.

13. CUCC shall make a compliance filing before it may exercise pricing flexibility for Category II services. The compliance filing shall calculate new price floors consistent with the rates and volumes adopted in this decision. It shall demonstrate that each toll rate element is greater than or equal to the price floor for that service. It shall demonstrate that the service revenues exceed the price floor for each service. The

price floors shall include the corrections and agreements reached between CUCC and AT&T regarding Exhibit 85, as stated in the price floor briefs filed May 12, 1995, and be consistent with the sales volumes and rates adopted herein. Further, CUCC shall make a compliance filing before it may exercise pricing flexibility for a new Category II service.

14. The price floor compliance filings shall be made by advice letter to the Director of CACD. CUCC shall submit reasonable additional information or data as requested by CACD to complete or explain its advice letter filing. CUCC shall make proprietary information related to price floor filings available to other parties subject to the protective order in these proceedings, or to parties who execute appropriate nondisclosure agreements. The nondisclosure agreements may contain reasonable provisions to ensure that the proprietary information is not disclosed to the party's employees or consultants involved in marketing or is not in other ways used to CUCC's disadvantage. The compliance filings shall become effective upon the approval of the Director of CACD.

15. When CUCC wants to revise a price floor for a particular Category II service, it shall file a 40-day advice letter requesting the change. The filing shall include a revised cost study for the service.

16. CUCC's competitive alternative price floors for WATS, 800, and Enhanced 1000 Savings Plan service shall apply to customer locations that generate the minutes of use used to calculate the price floor. CUCC shall submit new competitive alternative price floors using different minutes of use if CUCC wishes to execute a new tariff discount plan for customers with a different level of minutes of use.

17. This proceeding is closed. This order is effective today. Dated November 8, 1995 at San Francisco, California.

price floors shall include the category II service. Further, CUCO shall make a compliance filing before it may exercise pricing flexibility for a

DANIEL Wm. FESSLER

President

P. GREGORY CONLON

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners

other parties subject to the project. I will file a written concurring opinion.

/s/ Henry M. Duque

Commissioner

The nondisclosure agreements may contain reasonable information to ensure that the proprietary information is not disclosed to the

party's employees or consultants involved in marketing or is not in other ways used to CUCO's disadvantage. The compliance filing

shall become effective upon the approval of the Director of CACD.

15. When CUCO wants to revise a price floor for a particular

Category II service, it shall file a 40-day advance letter

requesting the change. The filing shall include a revised cost

study for the service.

16. CUCO's competitive alternative price floors for WATS,

800, and Enhanced 1000 Savings Plan service shall apply to customer

locations that generate the minutes of use used to calculate the

price floor. CUCO shall submit new competitive alternative price

floors using different minutes of use if CUCO wishes to execute a

new tariff discount plan for customers with a different level of

minutes of use.

APPENDIX A

List of Appearances

Applicant: Ellen Deutsch, Jacqueline R. Kinney, and Russ Mitten, Attorneys at Law, for Citizens Utilities Company of California.

Interested Parties: Beck & Ackerman, by Jeffrey F. Beck and Steven M. Hoffer, Attorneys at Law, for CP National, Evans Telephone Company, GTE West Coast Incorporated, Kerman Telephone Company, Pinnacles Telephone Company, The Siskiyou Telephone Company, Tuolumne Telephone Company, and The Volcano Telephone Company; Cooper, White & Cooper, by E. Garth Black and Mark P. Schreiber, Attorneys at Law, for Roseville Telephone Company, Calaveras Telephone Company, California-Oregon Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., and Winterhaven Telephone Company; Rudolph W. Deutsch and Karen M. Potkul, Attorneys at Law, and Daniel P. Rhinehart, for AT&T Communications, Inc.; Michael J. Golabek, Attorney at law, for GTE California Incorporated; Graham & James, by Martin A. Mattes, Attorney at Law, for California Payphone Association; Seth M. Lubin and Lesla Lehtonen, Attorneys at Law, for Sprint Communications Company, L.P.; Robert J. Mazique, for Pacific Bell; and Ted M. Hussey, for Communication Workers of America, Local 9583.

Protestant: Patricia E. Shelby and Margaret L. Wedge, for Concerned Ratepayers Against Pillaging, Profiteering, Yutz.

Division of Ratepayer Advocates: Mary Adu and Laura Tudisco, Attorneys at Law, Joseph Abhulimen, Amy Cheung, J. C. Jong, and Michael C. Amato.

(END OF APPENDIX A)

## APPENDIX B 99A

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**SERVICE QUALITY ASSURANCE MECHANISM AND IMPROVEMENTS**

The GO 133-B service standards shall be achieved by the entity that failed to achieve the GO 133-B service standards in an amount determined by the following calculation:

**Service Quality Assurance Mechanism**

The total amount of the customer refund ("Total Refund") shall be equal to the number of calls that fail to meet the GO 133-B service standards multiplied by the number of calls that fail to meet the GO 133-B service standards. The SQAM shall be set forth in Exhibits 104, 105, 106, and 107 and summarized herein, shall be applicable to Citizens Utilities Company of California (CUC) under the following terms and conditions:

1. The SQAM shall be applicable to:

o Dial Service--98% of customer-dialed calls

o Trouble Reports Service Answering Time ("TRSAT")  
 o Business Office Answering Time ("BOAT")  
 (The failing entity shall apply)

o Reporting of GO 133-B Service Measures

2. The GO 133-B service standards that CUC must meet on a monthly basis to avoid triggering a SQAM refund are:

o Dial Service--98% of customer-dialed calls over the local and toll message network must be completed without a busy condition, applying as its option, CUC may, at its option, apply the required refund for each month in order to make the required refund.

o TRSAT--80% of calls must be answered within 20 seconds

o BOAT--80% of calls must be answered within 20 seconds

o Reporting--see Section 10

3. A SQAM customer refund shall be triggered only if a reporting entity fails to meet the GO 133-B service standards in Section 2 in three months within any period of six consecutive months. The SQAM shall be applied to the third month in which the subject entity failed to meet the GO 133-B standards. Thereafter, the SQAM shall be triggered for each subsequent month within a six-month period in which the subject entity fails to meet the GO 133-B service standards. The failing penalized month is counted as a failed month in the six-month rolling timeframe. No failed month for which a SQAM customer refund is triggered shall be counted more than once even if the entity's achieved service performance.

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4. Once a customer refund is triggered under Section 137, CUCC shall issue a refund to those access lines served by the entity that failed to achieve the GO 133-B service standards in an amount determined by the following calculation:
- o The total amount of the customer refund ("Total Refund") shall be equal to the number of calls that fail to meet the GO 133-B service standards in Section 2 multiplied by the following Assurance Rates: .001, .002, .003, .004, .005, .006, .007, .008, .009, .010, .011, .012, .013, .014, .015, .016, .017, .018, .019, .020, .021, .022, .023, .024, .025, .026, .027, .028, .029, .030, .031, .032, .033, .034, .035, .036, .037, .038, .039, .040, .041, .042, .043, .044, .045, .046, .047, .048, .049, .050, .051, .052, .053, .054, .055, .056, .057, .058, .059, .060, .061, .062, .063, .064, .065, .066, .067, .068, .069, .070, .071, .072, .073, .074, .075, .076, .077, .078, .079, .080, .081, .082, .083, .084, .085, .086, .087, .088, .089, .090, .091, .092, .093, .094, .095, .096, .097, .098, .099, .100, .101, .102, .103, .104, .105, .106, .107, .108, .109, .110, .111, .112, .113, .114, .115, .116, .117, .118, .119, .120, .121, .122, .123, .124, .125, .126, .127, .128, .129, .130, .131, .132, .133, .134, .135, .136, .137, .138, .139, .140, .141, .142, .143, .144, .145, .146, .147, .148, .149, .150, .151, .152, .153, .154, .155, .156, .157, .158, .159, .160, .161, .162, .163, .164, .165, .166, .167, .168, .169, .170, .171, .172, .173, .174, .175, .176, .177, .178, .179, .180, .181, .182, .183, .184, .185, .186, .187, .188, .189, .190, .191, .192, .193, .194, .195, .196, .197, .198, .199, .200, .201, .202, .203, .204, .205, .206, .207, .208, .209, .210, .211, .212, .213, .214, .215, .216, .217, .218, .219, .220, .221, .222, .223, .224, .225, .226, .227, .228, .229, .230, .231, .232, .233, .234, .235, .236, .237, .238, .239, .240, .241, .242, .243, .244, .245, .246, .247, .248, .249, .250, .251, .252, .253, .254, .255, .256, .257, .258, .259, .260, .261, .262, .263, .264, .265, .266, .267, .268, .269, .270, .271, .272, .273, .274, .275, .276, .277, .278, .279, .280, .281, .282, .283, .284, .285, .286, .287, .288, .289, .290, .291, .292, .293, .294, .295, .296, .297, .298, .299, .300, .301, .302, .303, .304, .305, .306, .307, .308, .309, .310, .311, .312, .313, .314, .315, .316, .317, .318, .319, .320, .321, .322, .323, .324, .325, .326, .327, .328, .329, .330, .331, .332, .333, .334, .335, .336, .337, .338, .339, .340, .341, .342, .343, .344, .345, .346, .347, .348, .349, .350, .351, .352, .353, .354, .355, .356, .357, .358, .359, .360, .361, .362, .363, .364, .365, .366, .367, .368, .369, .370, .371, .372, .373, .374, .375, .376, .377, .378, .379, .380, .381, .382, .383, .384, .385, .386, .387, .388, .389, .390, .391, .392, .393, .394, .395, .396, .397, .398, .399, .400, .401, .402, .403, .404, .405, .406, .407, .408, .409, .410, .411, .412, .413, .414, .415, .416, .417, .418, .419, .420, .421, .422, .423, .424, .425, .426, .427, .428, .429, .430, .431, .432, .433, .434, .435, .436, .437, .438, .439, .440, .441, .442, .443, .444, .445, .446, .447, .448, .449, .450, .451, .452, .453, .454, .455, .456, .457, .458, .459, .460, .461, .462, .463, .464, .465, .466, .467, .468, .469, .470, .471, .472, .473, .474, .475, .476, .477, .478, .479, .480, .481, .482, .483, .484, .485, .486, .487, .488, .489, .490, .491, .492, .493, .494, .495, .496, .497, .498, .499, .500, .501, .502, .503, .504, .505, .506, .507, .508, .509, .510, .511, .512, .513, .514, .515, .516, .517, .518, .519, .520, .521, .522, .523, .524, .525, .526, .527, .528, .529, .530, .531, .532, .533, .534, .535, .536, .537, .538, .539, .540, .541, .542, .543, .544, .545, .546, .547, .548, .549, .550, .551, .552, .553, .554, .555, .556, .557, .558, .559, .560, .561, .562, .563, .564, .565, .566, .567, .568, .569, .570, .571, .572, .573, .574, .575, .576, .577, .578, .579, .580, .581, .582, .583, .584, .585, .586, .587, .588, .589, .590, .591, .592, .593, .594, .595, .596, .597, .598, .599, .600, .601, .602, .603, .604, .605, .606, .607, .608, .609, .610, .611, .612, .613, .614, .615, .616, .617, .618, .619, .620, .621, .622, .623, .624, .625, .626, .627, .628, .629, .630, .631, .632, .633, .634, .635, .636, .637, .638, .639, .640, .641, .642, .643, .644, .645, .646, .647, .648, .649, .650, .651, .652, .653, .654, .655, .656, .657, .658, .659, .660, .661, .662, .663, .664, .665, .666, .667, .668, .669, .670, .671, .672, .673, .674, .675, .676, .677, .678, .679, .680, .681, .682, .683, .684, .685, .686, .687, .688, .689, .690, .691, .692, .693, .694, .695, .696, .697, .698, .699, .700, .701, .702, .703, .704, .705, .706, .707, .708, .709, .710, .711, .712, .713, .714, .715, .716, .717, .718, .719, .720, .721, .722, .723, .724, .725, .726, .727, .728, .729, .730, .731, .732, .733, .734, .735, .736, .737, .738, .739, .740, .741, .742, .743, .744, .745, .746, .747, .748, .749, .750, .751, .752, .753, .754, .755, .756, .757, .758, .759, .760, .761, .762, .763, .764, .765, .766, .767, .768, .769, .770, .771, .772, .773, .774, .775, .776, .777, .778, .779, .780, .781, .782, .783, .784, .785, .786, .787, .788, .789, .790, .791, .792, .793, .794, .795, .796, .797,

## APPENDIX B

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8. The SQAM shall not be applicable for any TRSAT and BOAT entity during the month in which CUCC is required to implement the rate modifications ordered by the Commission's final decision in A.93-12-005.
9. The SQAM shall not be applicable for TRSAT and BOAT during the month in which CUCC implements its new billing system and for one month thereafter.
10. CUCC shall file GO 133-B monthly service performance results on an overall company basis with its GO 133-B quarterly reports. If CUCC fails to report a failing reporting unit in its quarterly reports for any service measurement of GO 133-B, a penalty of \$1.00 per access line for each month that the failing reporting unit does not report shall be applied. Refunds shall be distributed to the customers of the reporting unit in accordance with section 57.
11. CUCC may request discontinuance of the SQAM within three years or at the time of its review under New Regulatory Framework.
12. CUCC shall not recover from its ratepayers the costs of calculating and implementing this SQAM.

CUCC's achievement of these service quality recommendations will be compared to the results of DRA's 1992 survey of CUCC's customers with the results of an identical future survey of CUCC's customers.

CUCC has agreed to develop service improvement programs and work to achieve service quality improvements in accordance with the Division of Ratepayer Advocates' (DRA) recommendations identified below. No penalties are associated with these recommendations at this time.

1. CUCC shall correct within 90 days of the date of this order the GO 133-B quarterly reports for 1991, 1992, and 1993 to reflect DAOAT service performance with the exception of DAOAT performance results from October 1992 through July 1993 when CUCC did not have service measuring equipment in place.
2. CUCC shall reduce the rates for the following problems by at least 30% from the 1992 level reported in DRA's customer survey within three years beginning with the effective date of the Commission decision in this proceeding:

## APPENDIX B

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- (1) Static or noise on the telephone line;
- (2) Busy signal or recording before a customer finished dialing the number;
- (3) Redial the called number because the call did not go through the first time;
- (4) The rate of telephone installation and repair service problems; and
- (5) The rate of dissatisfaction with billing, problem resolutions and billing errors.
- CUCC shall reduce the service outages relating to overall service outages by 40% and equipment failures by 50% (excluding connecting company outages) from the 1993 service outage level over the next three-year period beginning on the effective date of the decision in this proceeding.
- CUCC shall provide its planned service improvement programs to the Commission Advisory and Compliance Division for review within 90 days after a Commission decision in this proceeding. These programs shall specify how CUCC will seek to achieve the improvements specified in Sections 2 & 3.
- CUCC's achievement of these service quality recommendations shall be determined by comparing the results of DRA's 1992 survey of CUCC's customers with the results of an identical future survey of CUCC's customers.
- CUCC has agreed to develop service improvement programs and work to achieve service quality improvements in accordance with the Division of Ratepayer Advocates' (DRA) recommendations identified below. No penalties are associated with these recommendations at this time.
- CUCC shall correct within 90 days of the date of this order the GO 133-B quarterly reports for 1991, 1992, and 1993 to reflect DRAAT service performance with the exception of DRAAT performance results from October 1992 through July 1993 when CUCC did not have service measuring equipment in place.
- CUCC shall reduce the rates for the following problems by at least 30% (END OF APPENDIX B) reported in DRA's customer survey within three years beginning with the effective date of the Commission decision in this proceeding:

## APPENDIX C

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## Citizens Utility Company of California

Test Year 1995

| ITEM                      | RESULTS OF OPERATION - INTRASTATE |              |               |                        |
|---------------------------|-----------------------------------|--------------|---------------|------------------------|
|                           | PRESENT RATES                     |              |               | Adopted<br>Final Rates |
|                           | CUGC                              | DRA          | Adopted       |                        |
| <u>Operating Revenues</u> |                                   |              |               |                        |
| Local Network             | \$ 23,130,507                     | \$23,190,345 | \$ 23,130,507 | \$ 26,790,121          |
| Network Access            | 30,161,593                        | 30,167,403   | 30,161,593    | 23,909,722             |
| Long Distance             | 9,860,034                         | 9,860,034    | 9,860,034     | 7,100,357              |
| Misc                      | 8,666,440                         | 8,665,758    | 8,666,440     | 8,281,821              |
| Uncollect                 | (188,315)                         | (188,578)    | (188,315)     | (176,442)              |
| Total Operating Revenues  | 71,630,259                        | 71,694,962   | 71,630,259    | 65,905,580             |
| <u>Operating Expenses</u> |                                   |              |               |                        |
| Plant Specific            | 6,824,258                         | 6,824,257    | 6,824,258     | 6,824,258              |
| Plant Nonspecific         | 23,925,835                        | 23,302,043   | 22,317,486    | 22,041,161             |
| Customer Operations       | 6,988,756                         | 6,988,756    | 6,988,756     | 6,988,756              |
| Corporate Operations      | 10,042,333                        | 8,074,980    | 9,334,514     | 9,334,514              |
| Total Operating Expenses  | 47,781,182                        | 45,190,036   | 45,465,014    | 45,188,689             |
| Taxes other than income   | 1,444,306                         | 1,390,325    | 1,444,306     | 1,444,306              |
| State Income Tax          | 916,992                           | 1,049,033    | 1,030,762     | 763,139                |
| Federal Income Tax        | 6,072,417                         | 6,968,836    | 6,844,798     | 5,016,138              |
| Total Tax                 | 8,433,715                         | 9,408,194    | 9,319,866     | 7,223,584              |
| Total Expense             | 56,214,897                        | 54,598,230   | 54,784,880    | 52,412,272             |
| Net Revenues              | 15,415,362                        | 17,096,732   | 16,845,379    | 13,493,308             |
| Rate Base                 | 139,366,926                       | 132,197,708  | 138,207,048   | 138,207,048            |
| Rate of Return            | 11.06%                            | 12.93%       | 12.19%        | 9.75%                  |

(END OF APPENDIX C)

APPENDIX D1A  
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| No. | Report Title                                      | Code         |
|-----|---------------------------------------------------|--------------|
| 1   | FCC Joint Board Monitoring Report                 | C.A.-00-00   |
| 2   | USTA subscribership                               | C.A.-00-01   |
| 3   | G.O. 152 Private Line Alarm                       | C.A.-01-00   |
| 4   | G.O. 133 A Telephone Sync Levels                  | C.A.-01-01   |
| 5   | Informal service complaints reports               | C.A.-02-00   |
| 6   | Notification of major service interruption        | C.A.-02-02   |
| 7   | Major service interruption summary                | C.A.-02-03   |
| 8   | Quality of service performance reports            | C.A.-02-05   |
| 9   | FCC Utilization Reports 495A and 495B             | C.A.-03-00   |
| 10  | Summary of Category II rate changes               | C.A.-05-00   |
| 11  | G.O. 95 - Accid./Ln. stats., fac. related         | C.A.-XX-00   |
| 12  | Customer information notices                      | C.A.-XX-01   |
| 13  | Emergency Spanish lang. assist. bureau meas.      | C.A.-XX-02   |
| 14  | Non-English speaking percent by exchange          | C.A.-XX-03   |
| 15  | G.O. 107-B Prac. to assure privacy & secrecy      | C.A.-XX-04   |
| 16  | G.O. 107-B Telephone tap devices discovered       | C.A.-XX-05   |
| 17  | G.O. 95 - Infractions Cleared                     | C.A.-XX-07   |
| 18  | ULTS                                              | C.A.-XX-08   |
| 19  | Expense matrix                                    | C.B.-01-00   |
| 20  | Market penetration for Category II services       | C.B.-01-01   |
| 21  | Misc. info. research into TFP                     | C.B.-02-00   |
| 22  | Technology development rpts, other                | C.C.-01-01   |
| 23  | 3-year capital budget summary                     | C.C.-01-02   |
| 24  | Network op. planning analysis report              | C.C.-XX-01   |
| 25  | New network service development planning summary  | C.C.-XX-02   |
| 26  | Monthly Operating Report 9000                     | C.D.-01-00   |
| 27  | Notice of tax and accounting changes              | C.D.-03-00   |
| 28  | Separated results of operations                   | C.D.-04-00   |
| 29  | Separated results of operations                   | C.D.-04-01   |
| 30  | Revenue data for Category II and III              | C.D.-07-00   |
| 31  | Annual Report to FCC, Form M                      | C.D.-XX-00   |
| 32  | Annual Report to shareholders (SEC 10K)           | C.D.-XX-01   |
| 33  | Quarterly Report to shareholders (SEC 10K)        | C.D.-XX-02   |
| 34  | Interest during construction                      | C.D.-XX-04   |
| 35  | Members, dues/contributions and donations         | C.D.-XX-05   |
| 36  | Sale of stocks, bonds, and other indebtedness     | C.D.-XX-07** |
| 37  | G.O. 96-A Tariff Contracts and Deviations         | C.D.-XX-08   |
| 38  | Weighted average cost of capital                  | C.D.-XX-09** |
| 39  | DEAF Trust (monthly exp. and annual budget)       | C.D.-XX-10   |
| 40  | Financial news releases                           | C.D.-XX-11   |
| 41  | Central Off. equip. deploy & util rpt (annual)    | C.E.-01-00   |
| 42  | Central Off. equip. deploy & util rpt (qtrly)     | C.E.-01-01** |
| 43  | Interoffice facilities deploy & util rpt (annual) | C.E.-01-02   |
| 44  | Interoffice facilities deploy & util rpt (qtrly)  | C.E.-01-03** |
| 45  | OSP deployment and utilization report (annual)    | C.E.-01-04   |

## APPENDIX D

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|     |                                                   |              |
|-----|---------------------------------------------------|--------------|
| 46  | OSP deployment and utilization report (qtrly)     | C.E.-01-05** |
| 47  | Report of Central Offices                         | C.E.-04-00   |
| 48  | Service specific cost tracking report (qtr & ann) | C.F.-01-0000 |
| 49  | Service specific cost tracking report new serv    | C.F.-01-NS00 |
| 50  | Business Line 800                                 | C.F.-01-NS01 |
| 51  | Centrex                                           | C.F.-01-NS02 |
| 52  | Voice Messaging                                   | C.F.-01-NS03 |
| 53  | CAM documentation and changes                     | C.F.-01-NS03 |
| 54  | Affiliate co. trans. and intercompany a/c         | C.F.-01-NS03 |
| 55  | Notification of diversification activities        | C.F.-01-NS03 |
| 56  | Complaints from competitors, phone and type       | C.F.-01-NS03 |
| 57  | Service specific tariff imputation report         | C.F.-01-NS03 |
| 58  | Service specific tariff imputation report         | C.F.-01-NS03 |
| 59  | Results of Operation                              | C.F.-01-NS03 |
| 60  | Shareable Earnings Report                         | C.F.-01-NS03 |
| 61  | Non-English speaking customers for CUCC           | C.F.-01-NS03 |
| 62  | check at NRF review                               | C.F.-01-NS03 |
| 63  | Report to be filed annually                       | C.F.-01-NS03 |
| 64  | Report to be filed annually                       | C.F.-01-NS03 |
| 65  | Report to be filed annually                       | C.F.-01-NS03 |
| 66  | Report to be filed annually                       | C.F.-01-NS03 |
| 67  | Report to be filed annually                       | C.F.-01-NS03 |
| 68  | Report to be filed annually                       | C.F.-01-NS03 |
| 69  | Report to be filed annually                       | C.F.-01-NS03 |
| 70  | Report to be filed annually                       | C.F.-01-NS03 |
| 71  | Report to be filed annually                       | C.F.-01-NS03 |
| 72  | Report to be filed annually                       | C.F.-01-NS03 |
| 73  | Report to be filed annually                       | C.F.-01-NS03 |
| 74  | Report to be filed annually                       | C.F.-01-NS03 |
| 75  | Report to be filed annually                       | C.F.-01-NS03 |
| 76  | Report to be filed annually                       | C.F.-01-NS03 |
| 77  | Report to be filed annually                       | C.F.-01-NS03 |
| 78  | Report to be filed annually                       | C.F.-01-NS03 |
| 79  | Report to be filed annually                       | C.F.-01-NS03 |
| 80  | Report to be filed annually                       | C.F.-01-NS03 |
| 81  | Report to be filed annually                       | C.F.-01-NS03 |
| 82  | Report to be filed annually                       | C.F.-01-NS03 |
| 83  | Report to be filed annually                       | C.F.-01-NS03 |
| 84  | Report to be filed annually                       | C.F.-01-NS03 |
| 85  | Report to be filed annually                       | C.F.-01-NS03 |
| 86  | Report to be filed annually                       | C.F.-01-NS03 |
| 87  | Report to be filed annually                       | C.F.-01-NS03 |
| 88  | Report to be filed annually                       | C.F.-01-NS03 |
| 89  | Report to be filed annually                       | C.F.-01-NS03 |
| 90  | Report to be filed annually                       | C.F.-01-NS03 |
| 91  | Report to be filed annually                       | C.F.-01-NS03 |
| 92  | Report to be filed annually                       | C.F.-01-NS03 |
| 93  | Report to be filed annually                       | C.F.-01-NS03 |
| 94  | Report to be filed annually                       | C.F.-01-NS03 |
| 95  | Report to be filed annually                       | C.F.-01-NS03 |
| 96  | Report to be filed annually                       | C.F.-01-NS03 |
| 97  | Report to be filed annually                       | C.F.-01-NS03 |
| 98  | Report to be filed annually                       | C.F.-01-NS03 |
| 99  | Report to be filed annually                       | C.F.-01-NS03 |
| 100 | Report to be filed annually                       | C.F.-01-NS03 |

## APPENDIX E 9A

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Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Class                      | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|--------------------------------------------|-----------------|-----------------|--------------------|
| A1                 | ACCESS LINES                               |                 |                 |                    |
|                    | Business Access Flat - Single              | \$ 24.90        | \$ 38.76        |                    |
|                    | Business Access Flat - Single Elk Grove    | 29.90           | 38.76           |                    |
|                    | Business 4 Party Flat                      | 22.70           | 38.76           |                    |
|                    | Business Access Measured - Single          | 22.10           | 20.25           |                    |
|                    | PBX Trunk Flat                             | 37.25           | 38.70           |                    |
|                    | PBX Trunk Flat - Elk Grove                 | 44.75           | 38.70           |                    |
|                    | PBX Trunk Measured                         | 22.10           | 20.25           |                    |
|                    | Residential Access Flat - Single           | 12.75           | 17.85           |                    |
|                    | Residential Access Flat - Single Elk Grove | 13.60           | 17.85           |                    |
|                    | Residential Access Flat - Elk Grove        | 14.45           | 17.85           |                    |
|                    | Residential Access Measured - Single       | 7.00            | 9.60            |                    |
|                    | Residential 2 Party Flat                   | 10.85           | 17.85           |                    |
|                    | Residential 2 Party Flat                   | 11.60           | 17.85           |                    |
|                    | Residential 2 Party Flat - Elk Grove       | 12.55           | 17.85           |                    |
|                    | Residential 4 Party Flat                   | 8.95            | 17.85           |                    |
|                    | Residential 4 Party Flat - Suburban        | 11.75           | 17.85           |                    |
|                    | ULTS Flat Rate                             | 6.38            | 5.62            |                    |
|                    | ULTS Measured Rate                         | 3.50            | 3.00            |                    |
|                    | ULTS 61-70 Calls                           | 0.10            | 0.08            |                    |
|                    | ULTS 70+ Calls                             | 0.15            | 0.08            |                    |
|                    | Public Access Line - Flat                  | 43.45           | 42.65           |                    |
|                    | Public Access Line - Flat Elk Grove        | 48.45           | 42.65           |                    |
|                    | Public Access Line - Measured              | 31.10           | 29.25           |                    |
|                    | Semi-Pub. Pay Station                      | 29.60           | 27.00           |                    |
|                    | Semi-Pub. Pay Station - Elk Grove          | 32.10           | 27.00           |                    |
|                    | Toll Station - Public Ext.                 | 24.90           | 45.00           |                    |
|                    | Public Telephone Service                   | 0.20            | 0.20            |                    |
|                    | FEX Flat - Business                        | 22.00           | 26.80           |                    |
|                    | FEX Measured - Business                    | 4.00            | 13.00           |                    |
|                    | FEX Mileage - PBX and Business             | 3.25            | 4.00            |                    |
|                    | FEX Mileage - Non-cont. Business           | 12.00           | 12.00           |                    |
|                    | FEX Extension Mileage - PBX and Business   | 3.25            | 4.00            |                    |
|                    | Switched Measured - Zone A Business        | 35.90           | 24.50           |                    |
|                    | Switched Measured - Zone B Business        | 46.90           | 53.45           |                    |
|                    | Switched Measured - Zone C Business        | 70.00           | 77.45           |                    |
|                    | FEX Flat - Residential                     | 10.00           | 10.00           |                    |
|                    | Switched Measured - Zone A Residential     | 19.45           | 27.85           |                    |
|                    | Switched Measured - Zone B Residential     | 28.45           | 36.35           |                    |
|                    | Switched Measured - Zone C Residential     | 48.45           | 58.95           |                    |

APPENDIX E  
Page 2Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element                                     | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|--------------------------------------------------|-----------------|-----------------|--------------------|
|                    | FEX Mileage - Residential                        | 3.25            | 4.00            | A1                 |
|                    | FEX Mileage - Residential Suburban               | 2.75            | 4.00            |                    |
|                    | FEX PBX Trunk Flat                               | 22.00           | 26.80           |                    |
|                    | FEX PBX Trunk Measured                           | 4.00            | 13.00           |                    |
|                    | Switched Measured - Zone A PBX                   | 50.75           | 60.55           |                    |
|                    | Switched Measured - Zone B PBX                   | 61.75           | 71.55           |                    |
|                    | Switched Measured - Zone C PBX                   | 85.75           | 95.55           |                    |
|                    | FEX Key Trunk Flat                               | 22.00           |                 |                    |
|                    | FEX Key Trunk Measured                           | 4.00            |                 |                    |
|                    | Local Measured Service (LMS) Day Initial Minutes | 0.0315          | 0.0333          |                    |
|                    | LMS Day Additional Minutes                       | 0.0100          | 0.0105          |                    |
|                    | LMS Evening Initial Minutes                      | 0.0210          | 0.0233          |                    |
|                    | LMS Evening Additional Minutes                   | 0.0070          | 0.0074          |                    |
|                    | LMS Night Initial Minutes                        | 0.0130          | 0.0133          |                    |
|                    | LMS Night Additional Minutes                     | 0.0040          | 0.0042          |                    |
|                    | Dial Mobile Telephone Systems                    |                 |                 |                    |
|                    | Primary Service                                  | 25.00           | 25.00           |                    |
|                    | Paging Access                                    | 10.00           | 10.00           |                    |
|                    | Farmer Line                                      |                 |                 |                    |
|                    | Business                                         | 7.50            | 20.25           |                    |
|                    | Residence                                        | 5.00            | 17.85           |                    |
|                    | Channel Mileage                                  | 1.10            | 4.00            |                    |
|                    | Basic Extended Area Service                      |                 |                 |                    |
|                    | Basic Business EAS Plan > 120 Minutes            |                 |                 |                    |
|                    | Basic Residential EAS Plan > 120 Minutes         |                 |                 |                    |
|                    | Maximum Charge                                   |                 |                 |                    |
|                    | Optional Extended Area Service                   |                 |                 |                    |
|                    | EAS Business Block Plan - Monthly Charge         |                 | 2.50            |                    |
|                    | EAS Residential Block Plan - Monthly Charge      |                 | 2.00            |                    |
|                    | EAS Business Block Plan > 300 Minutes            |                 | 6.00            |                    |
|                    | EAS Residential Block Plan > 300 Minutes         |                 | 6.00            |                    |
|                    | Maximum Charge                                   |                 | 6.00            |                    |
|                    | EAS Business Unlimited Plan - Monthly Charge     |                 | 6.00            |                    |
|                    | EAS Residential Unlimited Plan - Monthly Charge  |                 | 6.00            |                    |
| A2                 | MULTI-ELEMENT SERVICE CHARGES                    |                 |                 |                    |
|                    | Service Connection Charges                       |                 |                 |                    |
|                    | Personalized Telephone Number                    |                 |                 |                    |
|                    | Reconnection Business                            |                 |                 |                    |

## APPENDIX E 3A

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Citizens Utility Company of California  
Present and Adopted Rates 19

| Tariff<br>Schedule | Rate Element<br>Class                             | Present<br>Rate | Present<br>Rate | Adopted<br>Rate | Adopted<br>Rate |
|--------------------|---------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                    | Reconnect - Residential 00000                     | 15.00           |                 | 23.25           |                 |
|                    | Reserved Number for Current Customer - Bus/Res    | 10.00           |                 | 10.00           |                 |
|                    | Reserv. Number for Non-current Cust. - Bus/Res    | -               |                 | 10.00           |                 |
|                    | New Service Order - ULTS                          | 3.00            |                 | 7.00            |                 |
|                    | New Service Order - Residential 0000              | 9.00            |                 | 14.00           |                 |
|                    | New Service Order - Business 0000                 | 14.00           |                 | 21.50           |                 |
|                    | S O Charge Records - ULTS 000                     | 2.00            |                 | 2.00            |                 |
|                    | Records Only - Residential 000                    | 6.00            |                 | 6.00            |                 |
|                    | Records Only - Business 000                       | 8.50            |                 | 8.50            |                 |
|                    | Employee Service Order Change - Records           | (3.00)          |                 | -               |                 |
|                    | Central Office Connection - ULTS 000              | 5.00            |                 | 10.00           |                 |
|                    | Central Office Connection - Residential           | 15.00           |                 | 23.25           |                 |
|                    | Central Office Connection - Business 1            | 25.00           |                 | 38.50           |                 |
|                    | Move Service Order - ULTS 000                     | 2.50            |                 | 5.75            |                 |
|                    | Move Service Order - Residential 000              | 7.50            |                 | 11.50           |                 |
|                    | Move Service Order - Business 000                 | 11.00           |                 | 17.00           |                 |
|                    | FEX Connection - Business                         | 75.00           |                 | 115.75          |                 |
|                    | FEX Connection - Residential                      | 50.00           |                 | 75.25           |                 |
|                    | Line Connection Charge 0000                       | 25.00           |                 | 40.00           |                 |
|                    | Visit Charges 000                                 |                 |                 | 15.37           |                 |
|                    | Premise Visit Charge - ULTS 000                   | 6.66            |                 | 15.37           |                 |
|                    | Premise Visit Charge - Business and Residential   | 20.00           |                 | 30.75           |                 |
|                    | Premise Visit - Customer Premises Equipment (CPE) | 20.00           |                 | 50.00           |                 |
|                    | Premise Visit for CPE (Overtime) 000              | 30.00           |                 | 75.00           |                 |
| A3                 | USAGE AND TOLL CHARGES 0000                       |                 |                 |                 |                 |
|                    | Zone Usage Measurement Service 000                |                 |                 |                 |                 |
|                    | ZUM Day Initial Minutes - Z3 000                  | 0.1000          |                 | 0.1000          |                 |
|                    | ZUM Day Additional Minutes - Z3                   | 0.0400          |                 | 0.0400          |                 |
|                    | ZUM Evening Initial Minutes - Z3                  | 0.0700          |                 | 0.0700          |                 |
|                    | ZUM Evening Additional Minutes - Z3 000           | 0.0280          |                 | 0.0280          |                 |
|                    | ZUM Night Initial Minutes - Z3 000                | 0.0400          |                 | 0.0400          |                 |
|                    | ZUM Night Additional Minutes - Z3 000             | 0.0160          |                 | 0.0160          |                 |
|                    | Switched FEX Day Initial Minutes - Z1 000         | 0.0480          |                 | 0.0333          |                 |
|                    | Switched FEX Day Additional Minutes - Z1          | 0.0120          |                 | 0.0105          |                 |
|                    | Switched FEX Evening Initial Minutes - Z1         | 0.0340          |                 | 0.0233          |                 |
|                    | Switched FEX Evening Additional Minutes - Z1      | 0.0008          |                 | 0.0074          |                 |
|                    | Switched FEX Night Initial Minutes - Z1           | 0.0190          |                 | 0.0133          |                 |
|                    | Switched FEX Night Additional Minutes - Z1        | 0.0050          |                 | 0.0042          |                 |
|                    | Switched FEX Day Initial Minutes - Z3             | 0.1200          |                 | 0.1000          |                 |
|                    | Switched FEX Day Additional Minutes - Z3          | 0.0500          |                 | 0.0400          |                 |
|                    | Switched FEX Evening Initial Minutes - Z3         | 0.0900          |                 | 0.0700          |                 |
|                    | Switched FEX Evening Additional Minutes - Z3      | 0.0340          |                 | 0.0280          |                 |

APPENDIX B7A  
Page 4 of 7Citizens Utility Company of California  
Present and Adopted Rates

| Tariff Schedule | Rate Element                               | Present Rate | Present Rate | Adopted Rate | Tariff Schedule |
|-----------------|--------------------------------------------|--------------|--------------|--------------|-----------------|
|                 | Switched FEX Night Initial Minutes - Z3    | 0.0500       | 0.0500       | 0.0400       | Residential     |
|                 | Switched FEX Night Additional Minutes - Z3 | 0.0100       | 0.0100       | 0.0100       | Residential     |
|                 | Inward 800 Service                         | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Rec. Rate / Line Full                      | 0.00         | 20.00        | 20.00        | Residential     |
|                 | Rec. Rate / Line Half                      | 0.00         | 20.00        | 20.00        | Residential     |
|                 | Setup / Message Half                       | 0.00         | 0.05         | 0.05         | Residential     |
|                 | Setup / Message Full                       | 0.00         | 0.05         | 0.05         | Residential     |
|                 | Full 9AM to 9PM < 100 hours                | 0.00         | 21.50        | 10.17        | Residential     |
|                 | All Other                                  | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Full 9AM to 9PM > 100 hours                | 0.00         | 0.00         | 0.00         | Residential     |
|                 | All Other                                  | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Half 9AM to 9PM < 100 hours                | 0.00         | 15.20        | 10.17        | Residential     |
|                 | All Other                                  | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Half 9AM to 9PM > 100 hours                | 0.00         | 0.00         | 0.00         | Residential     |
|                 | All Other                                  | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Outward WATS Service                       | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Rec. Rate / Line Full                      | 0.00         | 25.00        | 25.00        | Residential     |
|                 | Rec. Rate / Line Half                      | 0.00         | 25.00        | 25.00        | Residential     |
|                 | Setup / Message Half                       | 0.00         | 0.05         | 0.05         | Residential     |
|                 | Setup / Message Full                       | 0.00         | 0.05         | 0.05         | Residential     |
|                 | Usage Half 0 - 5                           | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Usage Half 5.1 - 15                        | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Usage Half 15.1 - 30                       | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Usage Half Over 30                         | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Usage Full 0 - 5                           | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Usage Full 5.1 - 15                        | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Usage Full 15.1 - 30                       | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Usage Full Over 30                         | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Received Collect Calls                     | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Day - Band 4 - First Minute                | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Day - Band 4 - Additional Minute           | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Evening - Band 4 - First Minute            | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Evening - Band 4 - Additional Minute       | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Night/Weekend - Band 4 - First Minute      | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Night/Weekend - Band 4 - Additional Minute | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Local 3rd Party Calling - CC               | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Day - Band 4 - First Minute                | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Day - Band 4 - Additional Minute           | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Evening - Band 4 - First Minute            | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Evening - Band 4 - Additional Minute       | 0.00         | 0.00         | 0.00         | Residential     |
|                 | Night/Weekend - Band 4 - First Minute      | 0.00         | 0.00         | 0.00         | Residential     |

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Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element                               | Present<br>Rate | Present<br>Rate | Adopted<br>Rate | Adopted<br>Rate |
|--------------------|--------------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                    | Night/Weekend - Band 4 - Additional Minute | 0.052           | 0.052           | 0.046           | 0.046           |
|                    | Coin Calling                               | 0.050           | 0.050           | 0.055           | 0.055           |
|                    | Day - Band 4 - First Minute                | 0.650           | 0.650           | 0.650           | 0.650           |
|                    | Day - Band 4 - Additional Minute           | 0.130           | 0.130           | 0.100           | 0.100           |
|                    | Evening - Band 4 - First Minute            | 0.500           | 0.500           | 0.450           | 0.450           |
|                    | Evening - Band 4 - Additional Minute       | 0.091           | 0.091           | 0.050           | 0.050           |
|                    | Night/Weekend - Band 4 - First Minute      | 0.400           | 0.400           | 0.400           | 0.400           |
|                    | Night/Weekend - Band 4 - Additional Minute | 0.052           | 0.052           | 0.050           | 0.050           |
|                    | Sent Paid Coin                             | 0.050           | 0.050           | 0.050           | 0.050           |
|                    | Day - Band 3 - First Minute                | 0.600           | 0.600           | 0.550           | 0.550           |
|                    | Day - Band 3 - Additional Minute           | 0.100           | 0.100           | 0.100           | 0.100           |
|                    | Evening - Band 3 - First Minute            | 0.500           | 0.500           | 0.450           | 0.450           |
|                    | Evening - Band 3 - Additional Minute       | 0.070           | 0.070           | 0.050           | 0.050           |
|                    | Night/Weekend - Band 3 - First Minute      | 0.350           | 0.350           | 0.400           | 0.400           |
|                    | Night/Weekend - Band 3 - Additional Minute | 0.040           | 0.040           | 0.050           | 0.050           |
|                    | Message Toll Service                       | 0.050           | 0.050           | 0.050           | 0.050           |
|                    | Day - Band 3 - First Minute                | 0.2000          | 0.2000          | 0.1140          | 0.1140          |
|                    | Day - Band 3 - Additional Minute           | 0.1000          | 0.1000          | 0.0700          | 0.0700          |
|                    | Day - Band 4 - First Minute                | 0.2200          | 0.2200          | 0.1140          | 0.1140          |
|                    | Day - Band 4 - Additional Minute           | 0.1300          | 0.1300          | 0.0700          | 0.0700          |
|                    | Day - Band 5 - First Minute                | 0.2500          | 0.2500          | 0.1360          | 0.1360          |
|                    | Day - Band 5 - Additional Minute           | 0.1600          | 0.1600          | 0.1140          | 0.1140          |
|                    | Day - Band 6 - First Minute                | 0.2800          | 0.2800          | 0.1360          | 0.1360          |
|                    | Day - Band 6 - Additional Minute           | 0.1900          | 0.1900          | 0.1140          | 0.1140          |
|                    | Day - Band 7 - First Minute                | 0.3100          | 0.3100          | 0.1360          | 0.1360          |
|                    | Day - Band 7 - Additional Minute           | 0.2200          | 0.2200          | 0.1140          | 0.1140          |
|                    | Day - Band 8 - First Minute                | 0.3400          | 0.3400          | 0.1470          | 0.1470          |
|                    | Day - Band 8 - Additional Minute           | 0.2500          | 0.2500          | 0.1250          | 0.1250          |
|                    | Day - Band 9 - First Minute                | 0.3700          | 0.3700          | 0.1470          | 0.1470          |
|                    | Day - Band 9 - Additional Minute           | 0.2800          | 0.2800          | 0.1250          | 0.1250          |
|                    | Day - Band 10 - First Minute               | 0.4000          | 0.4000          | 0.1470          | 0.1470          |
|                    | Day - Band 10 - Additional Minute          | 0.3100          | 0.3100          | 0.1360          | 0.1360          |
|                    | Evening - Band 3 - First Minute            | 0.1400          | 0.1400          | 0.0912          | 0.0912          |
|                    | Evening - Band 3 - Additional Minute       | 0.0700          | 0.0700          | 0.0560          | 0.0560          |
|                    | Evening - Band 4 - First Minute            | 0.1540          | 0.1540          | 0.0912          | 0.0912          |
|                    | Evening - Band 4 - Additional Minute       | 0.0910          | 0.0910          | 0.0560          | 0.0560          |
|                    | Evening - Band 5 - First Minute            | 0.1750          | 0.1750          | 0.1088          | 0.1088          |
|                    | Evening - Band 5 - Additional Minute       | 0.1120          | 0.1120          | 0.0912          | 0.0912          |
|                    | Evening - Band 6 - First Minute            | 0.1960          | 0.1960          | 0.1088          | 0.1088          |
|                    | Evening - Band 6 - Additional Minute       | 0.1330          | 0.1330          | 0.0912          | 0.0912          |
|                    | Evening - Band 7 - First Minute            | 0.2170          | 0.2170          | 0.1088          | 0.1088          |



APPENDIX E 9A  
Page 7.66Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Class                                 | Present<br>Rate | Adopted<br>Rate |
|--------------------|-------------------------------------------------------|-----------------|-----------------|
|                    | 1st Hour Overtime                                     | 84.00           | 84.00           |
|                    | Each Additional 1/4 Hour Overtime                     | 21.00           | 21.00           |
|                    | 1st Hour Sundays and Holidays                         | 112.00          | 112.00          |
|                    | Each Additional 1/4 Hour Sundays and Holidays         | 28.00           | 28.00           |
|                    | Intra Building Network Cable                          |                 |                 |
|                    | Consultation Mon. - Fri. Man Hours 8-5                | 40.00           | 40.00           |
|                    | Consultation Other Hours Mon. - Fri. and Saturdays    | 60.00           | 60.00           |
|                    | Consultation for Sundays and Holidays                 | 80.00           | 80.00           |
|                    | Charge for Design Materials/Drawings                  | 50.00           | 50.00           |
|                    | Installation and Rearrangements Mon. - Fri. 8-5       | 56.00           | 56.00           |
|                    | Installation & Rear. Other Hours Mon. - Fri. and Sat. | 84.00           | 84.00           |
|                    | Installation and Rearrangements Sun. & Hol.           | 112.00          | 112.00          |
|                    | Utility Provided Materials                            | ICB             | ICB             |
|                    | Repair and Maintenance Mon. - Fri. 8-5                | 56.00           | 56.00           |
|                    | Repair and Maint. Other Hours Mon. & Fri. and Sat.    | 84.00           | 84.00           |
|                    | Repair and Maint. Sun. & Hol.                         | 112.00          | 112.00          |
|                    | Utility Provided Materials                            | ICB             | ICB             |
|                    | Charge for Copies of INC charts                       | ICB             | ICB             |
|                    | Addl. LLDP Location Charts                            | ICB             | ICB             |
|                    | ICB - Individual case basis                           |                 |                 |
| A5                 | OPTIONAL FEATURES                                     |                 |                 |
|                    | Call Central                                          |                 |                 |
|                    | Basic Home Mailbox                                    | 4.95            | 4.95            |
|                    | Basic Business Mailbox                                | 6.95            | 6.95            |
|                    | Enhanced Home Mailbox                                 | 5.95            | 5.95            |
|                    | Family Mailbox                                        | 7.95            | 7.95            |
|                    | Announced Only - Business                             | 2.95            | 2.95            |
|                    | Voice Mail Misc Charge                                | 5.00            | 5.00            |
|                    | Voice Mail Non-recurring charge                       | 5.00            | 5.00            |
|                    | Pager Notification                                    | 0.00            | 0.00            |
|                    | Premium Home Mailbox                                  | 0.00            | 0.00            |
|                    | Enhanced Business Mailbox                             | 8.95            | 8.95            |
|                    | Premium Business Mailbox                              | 10.95           | 10.95           |
|                    | Call Routing Feature Mailbox                          | 2.95            | 2.95            |
|                    | Centrex 3.2                                           |                 |                 |
|                    | Call Waiting                                          | 1.00            | 1.00            |
|                    | Electronic Business Sel                               | 1.50            | 1.50            |
|                    | Basic Centrex Service                                 | 2.65            | 2.65            |
|                    | Station Call Park                                     | 0.50            | 0.50            |
|                    | Hunt Group                                            | 5.00            | 5.00            |

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Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Rate                  | Present<br>Rate | Present<br>Rate | Adopted<br>Rate | Rate |
|--------------------|---------------------------------------|-----------------|-----------------|-----------------|------|
|                    | Centrex Service Line                  | 00.50           | 12.25           | 13.75           |      |
|                    | Paging Access                         | 00.15           | 1.25            | 1.25            |      |
|                    | WATS Service Arrangement              | 00.50           | 35.00           | 35.00           |      |
|                    | Thirty Port Conferencing              | 00.50           | 25.00           | 25.00           |      |
|                    | Six Port Conferencing                 |                 | 20.00           | 5.00            |      |
|                    | Attendant Console Service             |                 | 55.60           | 67.62           |      |
|                    | Automatic Route Selection             | 00.00           | 30.00           | 6.00            |      |
|                    | Automatic Line Per Line               | 00.00           | 1.25            | 3.02            |      |
|                    | Code Call Access                      | 00.00           | 1.25            | 1.25            |      |
|                    | Data Call Protection                  | 00.00           | 1.00            | 1.00            |      |
|                    | Night Answer                          | 00.00           | 2.00            | 2.00            |      |
|                    | Dist. Sensitive Line - 2000'          | 00.00           | 6.00            | 8.10            |      |
|                    | Dist. Sensitive Line - 4000'          | 00.00           | 8.25            | 10.45           |      |
|                    | Dist. Sensitive Line - 6000'          | 00.00           | 10.50           | 12.80           |      |
|                    | Centrex Central Office Line           | 00.00           | 9.95            | 9.95            |      |
|                    | Executive Busy Override               | 00.00           | 2.00            | 2.00            |      |
|                    | Music On Hold                         | 00.00           | 0.55            | 0.55            |      |
|                    | Simplified Dialing                    | 00.00           | 3.00            | 3.00            |      |
|                    | Station Message Detail Recording      | 00.00           | 43.00           | 43.00           |      |
|                    | Speed Calling 30                      | 00.00           | 1.50            | 1.50            |      |
|                    | Speed Calling 50                      |                 | 1.50            | 1.50            |      |
|                    | Uniform Call Distribution - per group |                 | 7.00            | 7.00            |      |
|                    | Uniform Call Distribution - per phone |                 | 1.00            | 1.00            |      |
|                    | Program Charge                        |                 | 10.00           | 10.00           |      |
|                    | CO Conversion to Centrex Charge       |                 | 10.00           | 20.00           |      |
|                    | Custom Calling                        | 00.00           |                 |                 |      |
|                    | Business 2                            | 00.00           |                 |                 |      |
|                    | Call Forward (CF) Variable            | 00.00           | 3.75            | 3.75            |      |
|                    | Call Forward Fixed                    | 00.00           | 3.75            | 13.75           |      |
|                    | Call Waiting (CW)                     | 00.00           | 6.25            | 6.25            |      |
|                    | 3 Way Calling                         | 00.00           | 6.25            | 6.25            |      |
|                    | Speed Calling (SC) - 8 Code           | 00.00           | 4.40            | 4.40            |      |
|                    | SC - 30 Code                          | 00.00           | 6.25            | 6.25            |      |
|                    | 3 Way & SC - 30                       | 00.00           | 10.00           | 10.00           |      |
|                    | 3 Way & SC - 8                        | 00.00           | 8.15            | 8.15            |      |
|                    | 3 Way & CF                            | 00.00           | 7.50            | 7.50            |      |
|                    | CF and SC - 30 Code                   |                 | 7.50            | 7.50            |      |
|                    | CF and SC - 8 Code                    |                 | 5.65            | 5.65            |      |
|                    | CW & 3 Way Calling                    | 00.00           | 10.00           | 10.00           |      |
|                    | CF and CW                             | 00.00           | 7.50            | 7.50            |      |
|                    | CW and SC - 30 Code                   | 00.00           | 10.00           | 10.00           |      |
|                    | CW and SC - 8 Code                    | 00.00           | 8.15            | 8.15            |      |
|                    | 3 Way, CF and SC - 30 Code            | 00.00           | 12.50           | 12.50           |      |
|                    | 3 Way, CF and SC - 8 Code             |                 | 10.65           | 10.65           |      |

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Citizens Utility Company of California Inc  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>(List)               | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|--------------------------------------|-----------------|-----------------|--------------------|
|                    | 3 Way, CW and SC - 30 Code           | 15.00           | 15.00           |                    |
|                    | 3 Way, CW and SC - 8 Code            | 13.15           | 13.15           |                    |
|                    | 3 Way, CF and CW                     | 12.50           | 12.50           |                    |
|                    | CF, CW and SC - 30 Code              | 12.50           | 12.50           |                    |
|                    | CF, CW and SC - 8 Code               | 10.65           | 10.65           |                    |
|                    | CF, CW, 3 Way & SC - 30 Code         | 17.50           | 17.50           |                    |
|                    | CF, CW, 3 Way and SC - 8 Code        | 15.65           | 15.65           |                    |
|                    | Distinctive Ringing, Programming Fee | 5.00            | 5.00            |                    |
|                    | Distinctive Ringing                  | 5.25            | 5.25            |                    |
| Residential        | Call Forward (CF) Variable           | 2.50            | 2.50            |                    |
|                    | Call Forward Fixed                   | 2.50            | 2.50            |                    |
|                    | Call Waiting (CW)                    | 3.75            | 3.75            |                    |
|                    | 3 Way Calling                        | 3.75            | 3.75            |                    |
|                    | Speed Calling (SC) - 8 Code          | 2.50            | 2.50            |                    |
|                    | SC - 30 Code                         | 4.40            | 4.40            |                    |
|                    | 3 Way & SC - 30                      | 6.90            | 6.90            |                    |
|                    | 3 Way & SC - 8                       | 5.00            | 5.00            |                    |
|                    | 3 Way & CF                           | 5.00            | 5.00            |                    |
|                    | CF and SC - 30 Code                  | 5.65            | 5.65            |                    |
|                    | CF and SC - 8 Code                   | 3.75            | 3.75            |                    |
|                    | CW & 3 Way Calling                   | 6.25            | 6.25            |                    |
|                    | CF and CW                            | 5.00            | 5.00            |                    |
|                    | CW and SC - 30 Code                  | 6.90            | 6.90            |                    |
|                    | CW and SC - 8 Code                   | 5.00            | 5.00            |                    |
|                    | 3 Way, CF and SC - 30 Code           | 8.75            | 8.75            |                    |
|                    | 3 Way, CF and SC - 8 Code            | 6.90            | 6.90            |                    |
|                    | 3 Way, CW and SC - 30 Code           | 10.00           | 10.00           |                    |
|                    | 3 Way, CW and SC - 8 Code            | 8.15            | 8.15            |                    |
|                    | 3 Way, CF and CW                     | 8.75            | 8.75            |                    |
|                    | CF, CW and SC - 30 Code              | 8.75            | 8.75            |                    |
|                    | CF, CW and SC - 8 Code               | 6.90            | 6.90            |                    |
|                    | CF, CW, 3 Way & SC - 30 Code         | 11.90           | 11.90           |                    |
|                    | CF, CW, 3 Way and SC - 8 Code        | 10.00           | 10.00           |                    |
|                    | Distinctive Ringing, Programming Fee | 5.00            | 5.00            |                    |
|                    | Distinctive Ringing                  | 5.25            | 5.25            |                    |
|                    | Intercom Programming Fee             | 5.00            | 5.00            |                    |
|                    | Intercom                             | 1.00            | 1.00            |                    |
| Toll Restriction   | Centrex                              | 2.00            | 2.00            |                    |
|                    | Co Programmed, Business              | 3.00            | 3.00            |                    |
|                    | Co Programmed, Residence             | 2.50            | 2.50            |                    |
|                    | Business, Programming Fee            | 10.00           | 10.00           |                    |
|                    | Residential, Programming Fee         | 10.00           | 10.00           |                    |

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Citizens Utility Company of California Inc  
Present and Adopted Rates

| Tariff<br>Schedule                                   | Rate Element<br>Rate | Present<br>Rate | Adopted<br>Rate |
|------------------------------------------------------|----------------------|-----------------|-----------------|
|                                                      | 00.01                |                 | 00.01           |
|                                                      | 01.01                |                 | 01.01           |
| <b>Advanced Calling Features</b>                     | 03.01                |                 | 03.01           |
| Call Return - Business                               | 03.01                | 5.00            | 5.00            |
| Call Return - Residential                            | 03.01                | 3.50            | 3.50            |
| Call Trace per Activation - Business                 | 03.01                | 4.00            | 4.00            |
| Call Trace per Activation - Residential              | 03.01                | 4.00            | 4.00            |
| Priority Ring - Business                             | 03.01                | 4.25            | 4.25            |
| Priority Ring - Residential                          | 03.01                | 4.00            | 4.00            |
| Repeat Dialing - Business                            | 03.01                | 4.25            | 4.25            |
| Repeat Dialing - Residential                         | 03.01                | 3.50            | 3.50            |
| Select Call Accept - Business                        | 03.01                | 4.50            | 4.50            |
| Select Call Accept - Residential                     | 03.01                | 3.50            | 3.50            |
| Select Call Forward - Business                       | 03.01                | 5.00            | 5.00            |
| Select Call Forward - Residential                    | 03.01                | 3.50            | 3.50            |
| Select Call Rejection - Business                     | 03.01                | 5.00            | 5.00            |
| Select Call Rejection - Residential                  | 03.01                | 4.00            | 4.00            |
| <b>Advanced Calling Feature Discount - Business</b>  | 03.01                |                 |                 |
| 2 Feature                                            | 03.01                | (2.50)          | (2.50)          |
| 3 Feature                                            | 03.01                | (3.75)          | (3.75)          |
| 4 Feature                                            | 03.01                | (5.25)          | (5.25)          |
| 5 Feature                                            | 03.01                | (6.50)          | (6.50)          |
| <b>Advanced Calling Feature Discount - Residence</b> | 03.01                |                 |                 |
| 2 Feature                                            | 03.01                | (1.25)          | (1.25)          |
| 3 Feature                                            | 03.01                | (1.85)          | (1.85)          |
| 4 Feature                                            | 03.01                | (2.50)          | (2.50)          |
| 5 Feature                                            | 03.01                | (3.20)          | (3.20)          |
| <b>Access Line Hunt - Bus. &amp; Res.</b>            | 03.01                |                 |                 |
| Circular Hunting                                     | 03.01                | 5.00            | 5.00            |
| Directory Number Hunting                             | 03.01                | 5.00            | 5.00            |
| Multi-Line Hunting                                   | 03.01                | 5.00            | 5.00            |
| Line Hunt - Programming Fee                          | 03.01                | 10.00           | 10.00           |
| Trunk Hunt - PBX                                     | 03.01                | 1.00            | 1.00            |
| <b>Information Services Call Blocking</b>            | 03.01                |                 |                 |
| Call Blocking                                        | 03.01                | 15.00           | 15.00           |
| Remove Call Blocking - Business                      | 03.01                | 15.00           | 15.00           |
| Remove Call Blocking - Residential                   | 03.01                | 5.00            | 5.00            |
| Transfer of Service - Business                       | 03.01                | 15.00           | 15.00           |
| <b>Digital Central Office Services - Datapath</b>    | 03.01                |                 |                 |
| Per Line                                             | 03.01                | 26.90           | 26.90           |
| Non-recurring Charge                                 | 03.01                | 76.30           | 76.30           |

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Citizens Utility Company of California, Inc.  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Description                     | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|-------------------------------------------------|-----------------|-----------------|--------------------|
| A6                 | Digital Central Office Services - Dialin        |                 |                 |                    |
|                    | Per Line - Business                             | 43.30           | 43.30           |                    |
|                    | Per Line - Residential                          | 43.30           | 43.30           |                    |
|                    | Non-recurring Charge - Residential              | 76.30           | 76.30           |                    |
|                    | Non-recurring Charge - Business                 | 76.30           | 76.30           |                    |
|                    | DIRECTORY SERVICES                              |                 |                 |                    |
|                    | Directory Listing                               |                 |                 |                    |
|                    | Additional Listing - Business                   | 1.00            | 1.00            |                    |
|                    | Additional Listing - Residential                | 0.60            | 1.00            |                    |
|                    | Reference Listing - Business                    | 1.00            | 1.00            |                    |
|                    | Reference Listing - Residential                 | 0.60            | 1.00            |                    |
|                    | Hotel Guest Listing - Business                  | 1.00            | 1.00            |                    |
|                    | Hotel Guest Listing - Residential               | 0.60            | 1.00            |                    |
|                    | Line of Information - Business                  | 1.00            | 1.00            |                    |
|                    | Line of Information - Residential               | 0.60            | 1.00            |                    |
|                    | Non-published Listing - Business                | 0.30            | 1.00            |                    |
|                    | Non-published Listing - Residential             | 0.30            | 1.00            |                    |
|                    | Non-listed Listing - Business                   | 0.30            | 1.00            |                    |
|                    | Non-listed Listing - Residential                | 0.30            | 1.00            |                    |
|                    | Joint User Service                              |                 |                 |                    |
|                    | Business Line                                   | 3.75            | 3.75            |                    |
|                    | Coin Box                                        | 3.75            | 3.75            |                    |
|                    | Private Branch Exchange Service                 | 7.50            | 3.75            |                    |
| A7                 | Interexchange Receiving Service                 | 6.25            | 6.25            |                    |
|                    | Directory Assistance Service                    |                 |                 |                    |
|                    | Directory Services - Each Call                  | 0.35            | 0.35            |                    |
|                    | (Residential Customers have a 5 call allowance) |                 |                 |                    |
|                    | Directory Service Operator Assisted Calls       | 0.95            | 0.95            |                    |
|                    | MISCELLANEOUS CHARGES                           |                 |                 |                    |
|                    | Mileage Charges                                 |                 |                 |                    |
|                    | 1st 1/4                                         | 1.75            | 1.75            |                    |
|                    | Add. 1/4                                        | 1.75            | 4.00            |                    |
|                    | 1st 1/4, N-C                                    | 3.50            | 4.00            |                    |
|                    | Employee Service                                |                 |                 |                    |
|                    | ED Flat Rate - 50%                              | 7.22            | 8.83            |                    |
|                    | ED Flat Rate - 100%                             | 14.45           | 17.65           |                    |
|                    | ED Flat Rate - 50%                              | 6.37            | 8.83            |                    |
|                    | ED Flat Rate - 100%                             | 13.60           | 17.65           |                    |
|                    | ED Measured Rate - 50%                          | 3.50            | 4.00            |                    |

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**Citizens Utility Company of California**  
**Present and Adopted Rates**

| <b>Tariff<br/>Schedule</b> | <b>Rate Element</b>                               | <b>Present<br/>Rate</b> | <b>Present<br/>Rate</b> | <b>Adopted<br/>Rate</b> | <b>Tariff<br/>Schedule</b> |
|----------------------------|---------------------------------------------------|-------------------------|-------------------------|-------------------------|----------------------------|
|                            | <b>ED Measured Rate - 100%</b>                    |                         | 7.00                    | 9.60                    |                            |
|                            | <b>ED 4 Party - 50%</b>                           | 5.87                    | 5.87                    | 8.80                    |                            |
|                            | <b>Special Assemblies of Equipment</b>            |                         |                         |                         |                            |
|                            | Paging Directory Group Installation Charge        | 75.00                   | 75.00                   | 75.00                   |                            |
|                            | Paging Dir. Group 100                             | 15.00                   | 15.00                   | 55.00                   |                            |
|                            | Direct Inward Dial (DID) - 50                     | 0.00                    | 0.00                    | 110.00                  |                            |
|                            | DID - 100                                         | 209.50                  | 209.50                  | 209.50                  |                            |
|                            | DID Common Equipment                              | 264.00                  | 264.00                  | 264.00                  |                            |
|                            | DID Trunk                                         | 6.25                    | 6.25                    | 8.00                    |                            |
|                            | DID Trunk - Installation Charge                   | 77.00                   | 77.00                   | 77.00                   |                            |
|                            | <b>Fire Report</b>                                |                         |                         |                         |                            |
|                            | Siren                                             | 4.05                    | 4.05                    | 4.05                    |                            |
|                            | Single T-10                                       | 101.25                  | 101.25                  | 101.25                  |                            |
|                            | Single T-10 Installation Charge                   | 1,500.00                | 1,500.00                | 1,500.00                |                            |
|                            | Single T-20                                       | 123.75                  | 123.75                  | 123.75                  |                            |
|                            | Single T-20 - Installation Charge                 | 2,000.00                | 2,000.00                | 2,000.00                |                            |
|                            | Single T-30                                       | 170.00                  | 170.00                  | 170.00                  |                            |
|                            | Single T-30 Installation Charge                   | 2,400.00                | 2,400.00                | 2,400.00                |                            |
|                            | Dual T-10                                         | 125.00                  | 125.00                  | 125.00                  |                            |
|                            | Dual T-10 Installation Charge                     | 1,500.00                | 1,500.00                | 1,500.00                |                            |
|                            | Dual T-20                                         | 150.00                  | 150.00                  | 150.00                  |                            |
|                            | Dual T-20 Installation Charge                     | 2,000.00                | 2,000.00                | 2,000.00                |                            |
|                            | Dual T-30                                         | 170.00                  | 170.00                  | 170.00                  |                            |
|                            | Dual T-30 Installation Charge                     | 2,500.00                | 2,500.00                | 2,500.00                |                            |
|                            | Station Mod                                       | 4.50                    | 4.50                    | 4.50                    |                            |
|                            | Station Mod2                                      | 140.00                  | 140.00                  | 140.00                  |                            |
|                            | 1 Trunk 20 Stations                               | 140.00                  | 140.00                  | 140.00                  |                            |
|                            | Conference                                        | 5.25                    | 5.25                    | 5.25                    |                            |
|                            | REM Conference                                    | 4.45                    | 4.45                    | 4.45                    |                            |
|                            | <b>Government Agency Contracts</b>                |                         |                         |                         |                            |
|                            | Government Agency K - Centrex 3 year              | 15.75                   | 15.75                   | 15.75                   |                            |
|                            | Government Agency K - Centrex 5 year              | 15.00                   | 15.00                   | 15.00                   |                            |
|                            | Government Agency K - Centrex 7 year              | 14.75                   | 14.75                   | 14.75                   |                            |
| <b>A8</b>                  | <b>SPECIAL SERVICES</b>                           |                         |                         |                         |                            |
|                            | <b>Universal Emergency Reporting Service E911</b> |                         |                         |                         |                            |
|                            | Flat Access Line                                  | 24.90                   | 24.90                   | 38.70                   |                            |
|                            | Measured Access Line                              | 22.10                   | 22.10                   | 20.25                   |                            |
|                            | Interexchange Mileage                             | 12.00                   | 12.00                   | 12.00                   |                            |
|                            | Interexchange Intercompany Mileage                | 12.00                   | 12.00                   | 12.00                   |                            |
|                            | Interrupter                                       | 3.00                    | 3.00                    | 3.00                    |                            |
|                            | 50 Line Console Installation Charge               | 220.00                  | 220.00                  | 220.00                  |                            |
|                            | 50 Line Console                                   | 285.00                  | 285.00                  | 285.00                  |                            |

## APPENDIX B 1A

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Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Description             | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|-----------------------------------------|-----------------|-----------------|--------------------|
|                    | Auto Location ID - Installation         | 1,334.00        | 1,334.00        |                    |
|                    | Auto Location ID                        | 155.25          | 155.25          |                    |
|                    | Auto Number ID - Install                | 1,210.00        | 1,210.00        |                    |
|                    | Auto Number ID                          | 80.50           | 80.50           |                    |
|                    | Pacific Bell Facility Charge - Install  | 975.00          | 975.00          |                    |
|                    | Pacific Bell Facility Charge            | 80.00           | 80.00           |                    |
|                    | PSAP Term. Equip Installation Charge    | 1,700.00        | 1,700.00        |                    |
|                    | PSAP Term. Equip                        | 180.00          | 180.00          |                    |
|                    | Radio Access Unit                       | 2.75            | 2.75            |                    |
|                    | Patch Access Unit                       | 3.80            | 3.80            |                    |
|                    | Tie Line Circuit                        | 1.90            | 1.90            |                    |
|                    | PSAP Reserve Power Installation Charge  | 600.00          | 600.00          |                    |
|                    | PSAP Reserve Power                      | 170.00          | 170.00          |                    |
|                    | Ringback Switchhook                     | 34.50           | 34.50           |                    |
|                    | 400 Line Circuit                        | 1.15            | 1.15            |                    |
|                    | High Voltage Protection                 |                 |                 |                    |
|                    | TY 1/CI B2/1st Line Installation Charge | 73.65           | 73.65           |                    |
|                    | TY 1/CI B2/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 1/CI B4/1st Line Installation Charge | 147.25          | 147.25          |                    |
|                    | TY 1/CI B4/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 2/CI B2/1st Line Installation Charge | 144.60          | 144.60          |                    |
|                    | TY 2/CI B2/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 3/CI A2/1st Line Installation Charge | 144.60          | 144.60          |                    |
|                    | TY 3/CI A2/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 3/CI A4/1st Line Installation Charge | 286.50          | 286.50          |                    |
|                    | TY 3/CI A4/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 3/CI B2/1st Line Installation Charge | 73.65           | 73.65           |                    |
|                    | TY 3/CI B2/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 3/CI B4/1st Line Installation Charge | 147.25          | 147.25          |                    |
|                    | TY 3/CI B4/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 4/CI A2/1st Line Installation Charge | 144.60          | 144.60          |                    |
|                    | TY 4/CI A2/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | TY 4/CI A4/1st Line Installation Charge | 286.50          | 286.50          |                    |
|                    | TY 4/CI A4/2nd-8th Installation Charge  | 21.70           | 21.70           |                    |
|                    | HVP Power Supply Installation Charge    | 21.70           | 21.70           |                    |
|                    | TY 1/CI B2/1st Line                     | 104.45          | 104.45          |                    |
|                    | TY 1/CI B2/2nd-8th                      | 23.55           | 23.55           |                    |
|                    | TY 1/CI B4/1st Line                     | 88.75           | 88.75           |                    |
|                    | TY 1/CI B4/2nd-8th                      | 27.40           | 27.40           |                    |
|                    | TY 2/CI B2/1st Line                     | 124.75          | 124.75          |                    |
|                    | TY 2/CI B2/2nd-8th                      | 40.90           | 40.90           |                    |
|                    | TY 3/CI A2/1st Line                     | 84.85           | 84.85           |                    |
|                    | TY 3/CI A2/2nd-8th                      | 13.70           | 13.70           |                    |
|                    | TY 3/CI A4/1st Line                     | 123.85          | 123.85          |                    |
|                    | TY 3/CI A4/2nd-8th                      | 47.10           | 47.10           |                    |
|                    | TY 3/CI B2/1st Line                     | 84.25           | 84.25           |                    |
|                    | TY 3/CI B2/2nd-8th                      | 23.55           | 23.55           |                    |

## APPENDIX E 1A

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Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Class                      | Present<br>Rate | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|--------------------------------------------|-----------------|-----------------|-----------------|--------------------|
|                    | TY 3/CI B4/1st Line                        | 00.180.1        | 111.75          | 126.35          |                    |
|                    | TY 3/CI B4/2nd-8th                         | 00.031          | 47.10           | 63.72           |                    |
|                    | TY 4/CI A2/1st Line                        | 00.018.1        | 84.85           | 91.87           |                    |
|                    | TY 4/CI A2/2nd-8th                         | 00.030          | 13.70           | 17.66           |                    |
|                    | TY 4/CI A4/1st Line                        | 00.018.0        | 123.85          | 137.95          |                    |
|                    | TY 4/CI A4/2nd-8th                         | 00.030          | 47.10           | 63.72           |                    |
|                    | HVP 15000 Volts                            | 00.000.1        | 22.90           | 28.60           |                    |
|                    | HVP Power Supply                           | 00.000.0        | 17.25           | 31.15           |                    |
|                    | 21 S                                       | 00.030          |                 |                 |                    |
|                    | RULE 12 C                                  | 00.030          |                 |                 |                    |
|                    | Bad Check Charge                           | 00.000          | 5.00            | 10.00           |                    |
| 1T                 | ACCESS TARIFF                              | 00.000          |                 |                 |                    |
|                    | 03.15                                      | 00.000          |                 |                 |                    |
|                    | Private Line                               | 00.000          |                 |                 |                    |
|                    | Private Line Mile - 1/2                    | 00.000          | 3.00            | 3.00            |                    |
|                    | Private Line Mile - 1                      | 00.000          | 0.65            | 0.65            |                    |
|                    | Private Line Mile - 2                      | 00.000          | 1.35            | 1.35            |                    |
|                    | Private Line Mile - 3                      | 00.000          | 1.95            | 1.95            |                    |
|                    | Private Line Mile - 4                      | 00.000          | 2.60            | 2.60            |                    |
|                    | Private Line Mile - 5                      | 00.000          | 3.25            | 3.25            |                    |
|                    | Local Private Line - Termination           | 00.000          | 3.00            | 3.00            |                    |
|                    | Private Line - 1st Termination             | 00.000          | 9.00            | 9.00            |                    |
|                    | 00.000                                     | 00.000          |                 |                 |                    |
|                    | Access Ordering                            | 00.000          |                 |                 |                    |
|                    | Design Change                              | 00.000          | 23.00           | 23.00           |                    |
|                    | Service Date Change                        | 00.000          | 23.00           | 23.00           |                    |
|                    | 00.000                                     | 00.000          |                 |                 |                    |
|                    | Switched Access                            | 00.000          |                 |                 |                    |
|                    | Switched Installation - FGA                | 00.000          | 122.13          | 156.60          |                    |
|                    | Switched Installation - FGB                | 00.000          | 122.13          | 157.85          |                    |
|                    | Switched Installation - FGC                | 00.000          | 122.13          | 116.02          |                    |
|                    | Carrier Common Line                        | 00.000          | 0.0123000       | 0.012800        |                    |
|                    | Local Switching                            | 00.000          | 0.0123000       | 0.0207791       |                    |
|                    | Call Setup                                 | 00.000          |                 |                 |                    |
|                    | Information                                | 00.000          |                 |                 |                    |
|                    | Local Transport - Facility                 | 00.000          | 0.000640        | 0.0103316       |                    |
|                    | Local Transport Termination                | 00.000          | 0.009500        | 0.030           |                    |
|                    | Switched Operator Transfer                 | 00.000          | 0.30            | 0.0312          |                    |
|                    | 800 Query                                  | 00.000          | 0.0312          |                 |                    |
|                    | 00.000                                     | 00.000          |                 |                 |                    |
|                    | Special Access                             | 00.000          |                 |                 |                    |
|                    | Bridging - 4 Wire                          | 00.000          | 4.50            | 13.64           |                    |
|                    | C Conditioning                             | 00.000          | 6.54            | 33.10           |                    |
|                    | Channel Mileage Facility - HICAP           | 00.000          | 36.72           | 25.00           |                    |
|                    | Channel Mileage Facility - Voice Grade (2) | 00.000          | 2.11            | 9.24            |                    |
|                    | Channel Mileage Facility CDN 2.4K          | 00.000          | 0.95            | 9.24            |                    |
|                    | 00.000                                     | 00.000          |                 |                 |                    |

## APPENDIX E 19A

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Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Rate                                 | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|------------------------------------------------------|-----------------|-----------------|--------------------|
|                    | Channel Mileage Facility CDN 4.8K                    | 1.27            | 9.24            |                    |
|                    | Channel Mileage Facility CDN 9.6-19.2K               | 1.72            | 9.24            |                    |
|                    | Channel Mileage Facility CDN 56KBPS                  | 6.82            | 9.24            |                    |
|                    | Channel Mileage Termination - HICAP                  | 117.73          | 125.00          |                    |
|                    | Channel Mileage Termination - Voice Grade (2)        | 16.34           | 25.00           |                    |
|                    | Channel Mileage Termination CDN 2.4K                 | 32.31           | 11.27           |                    |
|                    | Channel Mileage Termination CDN 4.8K                 | 50.70           | 11.27           |                    |
|                    | Channel Mileage Termination CDN 9.6-19.2K            | 70.78           | 11.27           |                    |
|                    | Channel Mileage Termination CDN 56KBPS               | 339.88          | 11.27           |                    |
|                    | Channel Termination CDN 2.4K                         | 84.65           | 60.00           |                    |
|                    | Channel Termination CDN 4.8-19.2K                    | 98.35           | 60.00           |                    |
|                    | Channel Termination CDN 56KBPS                       | 111.58          | 60.00           |                    |
|                    | Channel Termination - HICAP                          | 162.59          | 117.00          |                    |
|                    | Channel Termination 2 Wire Voice Grade               | 24.52           | 33.40           |                    |
|                    | Channel Termination 4 Wire Voice Grade               | 33.36           | 42.40           |                    |
|                    | Cust. Spec. Rec. Level                               | 4.51            | 15.15           |                    |
|                    | Improved Return Loss                                 | 12.93           | 12.93           |                    |
|                    | 1st Installation Non-recurring Charge DDS            | 630.00          | 630.00          |                    |
|                    | Addit. Installation Non-recurring Charge DDS         | 630.00          | 630.00          |                    |
|                    | Installation Non-recurring Charge - HICAP            | 662.00          | 633.50          |                    |
|                    | 1st Installation Non-recurring Charge Voice Grade    | 422.49          | 596.00          |                    |
|                    | Addit. Installation Non-recurring Charge Voice Grade | 332.60          | 525.00          |                    |
|                    | Multiplex DS1 to Voice                               | 360.50          | 449.64          |                    |
|                    | Spec. Signal Capacity                                | 0.48            | 30.45           |                    |
|                    | HICAP DS1 - Channel Mileage - Terminating            | 162.59          | 125.00          |                    |
|                    | HICAP DS1 - Channel Mileage - Facility               | 21.00           | 25.00           |                    |
|                    | HICAP- DS1 - Ter/Month                               | 175.00          | 175.00          |                    |
|                    | Local Private Line Channel Termination               | 10.00           | 10.00           |                    |
|                    | Local Distance Channel Type A                        | 169.52          | 175.00          |                    |
|                    | Local Distance Channel Type C                        | 344.00          | 449.64          |                    |
|                    | Auto Loop Transfer                                   | 175.00          | 103.00          |                    |
|                    | Billing and Collection                               |                 |                 |                    |
|                    | Processing                                           | 0.01            | 0.01            |                    |
|                    | Rendering                                            | 0.19            | 0.19            |                    |
|                    | CMDS II                                              | -               | -               |                    |
|                    | Data Transmission                                    | -               | -               |                    |
|                    | Inquiry                                              | 0.02            | 0.02            |                    |
|                    | Rating                                               | 0.01            | 0.01            |                    |
|                    | Record Keeping                                       | 0.03            | 0.03            |                    |
|                    | Recording                                            | 0.01            | 0.01            |                    |
|                    | Message Detail                                       | -               | 50.00           |                    |
|                    | 911 Contract                                         |                 |                 |                    |
|                    | MSAG Monthly                                         | 1,900.00        | 1,900.00        |                    |
|                    | Common Equipment                                     | 723.69          | 723.69          |                    |
|                    | ALI Database                                         | 284.11          | 284.11          |                    |

(END OF APPENDIX E)

## APPENDIX E 19A

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Citizens Utility Company of California  
Present and Adopted Rates

| Tariff<br>Schedule | Rate Element<br>Rate                                       | Present<br>Rate | Present<br>Rate | Adopted<br>Rate | Tariff<br>Schedule |
|--------------------|------------------------------------------------------------|-----------------|-----------------|-----------------|--------------------|
|                    | Line Card                                                  | 52.58           | 52.58           | 52.58           |                    |
|                    | Modems                                                     | 16.04           | 16.04           | 16.04           |                    |
|                    | ALI Monitors                                               | 61.45           | 61.45           | 61.45           |                    |
|                    | Multiplexers                                               | 30.73           | 30.73           | 30.73           |                    |
|                    | PSAP Answering Position                                    | 250.88          | 250.88          | 250.88          |                    |
|                    | Printers                                                   | 17.47           | 17.47           | 17.47           |                    |
|                    | Power Supply                                               | 78.22           | 78.22           | 78.22           |                    |
|                    | Trunk Interface                                            | 85.93           | 85.93           | 85.93           |                    |
|                    | Common Equipment - Non-recurring                           | 2,181.00        | 2,181.00        | 2,181.00        |                    |
|                    | ALI Database - Non-recurring                               | 873.00          | 873.00          | 873.00          |                    |
|                    | Line Card - Non-recurring                                  | 71.11           | 71.11           | 71.11           |                    |
|                    | Modems - Non-recurring                                     | 40.00           | 40.00           | 40.00           |                    |
|                    | ALI Monitors - Non-recurring                               | 76.30           | 76.30           | 76.30           |                    |
|                    | Multiplexers - Non-recurring                               | 141.90          | 141.90          | 141.90          |                    |
|                    | PSAP Answering Position - Non-recurring                    | 3,927.00        | 3,927.00        | 3,927.00        |                    |
|                    | Printers - Non-recurring                                   | 40.00           | 40.00           | 40.00           |                    |
|                    | Power Supply - Non-recurring                               | 437.00          | 437.00          | 437.00          |                    |
|                    | Trunk Interface - Non-recurring                            | 110.00          | 110.00          | 110.00          |                    |
|                    | Additional Engineering, Labor and Miscellaneous Services   |                 |                 |                 |                    |
|                    | Primary Interexchange Carrier Charge                       | 5.00            | 5.00            | 5.00            |                    |
|                    | Engineering - Basic                                        | 36.40           | 36.40           | 36.40           |                    |
|                    | Engineering - OT                                           | 50.85           | 50.85           | 50.85           |                    |
|                    | Engineering - Premium                                      |                 |                 |                 |                    |
|                    | Install - Basic                                            | 27.60           | 27.60           | 27.60           |                    |
|                    | Install - OT                                               | 35.95           | 35.95           | 35.95           |                    |
|                    | Install - Premium                                          | 19.20           | 19.20           | 19.20           |                    |
|                    | Stand-by - Basic                                           | 27.60           | 27.60           | 27.60           |                    |
|                    | Stand-by - OT                                              | 35.95           | 35.95           | 35.95           |                    |
|                    | Stand-by - Premium                                         | 19.20           | 19.20           | 19.20           |                    |
|                    | Test and Main - Basic                                      | 27.60           | 27.60           | 27.60           |                    |
|                    | Test and Main - OT                                         | 35.95           | 35.95           | 35.95           |                    |
|                    | Test and Main - Premium                                    | 19.20           | 19.20           | 19.20           |                    |
|                    | Programming Services - Basic                               | 19.20           | 19.20           | 19.20           |                    |
|                    | Programming Services - OT                                  | 27.60           | 27.60           | 27.60           |                    |
|                    | Programming Services - Premium                             | 35.95           | 35.95           | 35.95           |                    |
| A-9                | Fountain Fire Surcharge                                    | N/A             | N/A             | 1.839%          |                    |
|                    | (expires 24 months after the above rates become effective) |                 |                 |                 |                    |
|                    | 00.00                                                      | 00.00           | 00.00           | 00.00           |                    |
|                    | 00.01                                                      | 00.01           | 00.01           | 00.01           |                    |
|                    | 00.02                                                      | 00.02           | 00.02           | 00.02           |                    |
|                    | (END OF APPENDIX E)                                        |                 |                 |                 |                    |
|                    | 00.000,1                                                   | 00.000,1        | 00.000,1        | 00.000,1        |                    |
|                    | 00.000,1                                                   | 00.000,1        | 00.000,1        | 00.000,1        |                    |
|                    | 00.000,1                                                   | 00.000,1        | 00.000,1        | 00.000,1        |                    |

## APPENDIX F

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## GLOSSARY

|          |                                                        |                           |      |
|----------|--------------------------------------------------------|---------------------------|------|
| A.       | Application                                            | local exchange companies  | AT&T |
| AEUS     | All End User Surcharge                                 | long-run incremental cost | AT&T |
| ALJ      | Administrative Law Judge                               | minutes of the            | AT&T |
| AT&T     | AT&T Communications of California Inc.                 | minutes of the            | AT&T |
| CAPM     | capital asset pricing model                            | new regulatory            | AT&T |
| CC/BC    | current cost book cost                                 | originating               | AT&T |
| CEMA     | Catastrophic Event Memorandum                          | AT&T                      | AT&T |
| CEO      | Chief Executive Officer                                | Public Access             | AT&T |
| CFO      | Chief Financial Officer                                | post retirement           | AT&T |
| CHCF     | California High Cost Fund                              | proposed                  | AT&T |
| Citizens | Citizens Utilities Company                             | primary                   | AT&T |
| CPA      | California Payphone Association                        | public                    | AT&T |
| CRTO     | Central Region Telephone Operations                    | Public                    | AT&T |
| CTCC     | Citizens Telecommunications Company of California Inc. | Public                    | AT&T |
| CUC      | Citizens Utilities Company of California               | Public                    | AT&T |
| D.       | Decision                                               | risk premium              | AT&T |
| DCF      | discounted cash flow                                   | Standard                  | AT&T |
| DEC      | direct embedded cost                                   | switched                  | AT&T |
| DID      | direct inward dialing                                  | synchronous               | AT&T |
| DRA      | Division of Ratepayer Advocates                        | Service                   | AT&T |
| EAS      | Extended Area Service                                  | Service                   | AT&T |
| EUCL     | end-user common line                                   | Telecommunications        | AT&T |
| FACs     | fully allocated costs                                  | Universal                 | AT&T |
| FCC      | Federal Communications Commission                      | Western                   | AT&T |
| FEX      | Foreign Exchange Service                               | Zone Use                  | AT&T |
| GO       | General Order                                          |                           | AT&T |
| GRC      | General Rate Case                                      |                           | AT&T |
| GTEC     | GTE California Incorporated                            |                           | AT&T |
| I.       | Investigation                                          |                           | AT&T |
| IEC      | Interexchange Companies                                |                           | AT&T |
| IRD      | Implementation Rate Design (IRM)                       |                           | AT&T |

## APPENDIX F

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|            |                                             |          |
|------------|---------------------------------------------|----------|
| ISDN       | Integrated Services Digital Network         |          |
| LATA       | Local Access and Transport Area             |          |
| LECs       | local exchange companies                    | A        |
| LRIC       | long-run incremental costs                  | 200A     |
| MOUs       | minutes of use                              | 1A       |
| MTS        | message toll service                        | AT&T     |
| NRF        | new regulatory framework                    | CAPM     |
| ORP        | originating responsibility plans            | CC/BC    |
| PacBell    | Pacific Bell                                | CRM      |
| PAL        | Public Access Line                          | CEO      |
| PBOP       | post retirement benefits other than pension | CEO      |
| PD         | proposed decisions                          | CHCP     |
| PIC        | primary interexchange carrier               | Citizens |
| PPH        | public participation hearing                | CPA      |
| PU         | Public Utilities                            | CRTO     |
| Rulemaking | Rulemaking                                  | CTCC     |
| ROE        | Return on Equity                            | CUC      |
| RP         | risk premium                                | D        |
| SAO        | Stamford Administrative Office              | DCF      |
| SMDS       | Switched Multimegabit Data Service          | DHC      |
| SONET      | Synchronous Optical Network                 | DID      |
| SQAM       | Service Quality Assurance Mechanism         | DRA      |
| SQAP       | Service Quality Assurance Program           | EAS      |
| TMS        | Telecommunications Management Services      | EUCI     |
| UTLS       | Universal Lifeline Telephone Service        | FACS     |
| WRTO       | Western Region Telephone Operations         | FCC      |
| ZUM        | Zone Use Measurement                        | FX       |

General Order

General Rate Case

GTE California Incorporated

Investigation

Interexchange Companies

(END OF APPENDIX F)

Commissioner Henry M. Duque, concurring:

I concur with the result reached by my colleagues, but wish to write separately on one important issue.

This decision adopts an "x" factor for Citizens of 4.0%. (Mimeo, p. 63.) I concur with this result, but write to clarify that my support for this factor stems from the specific nature of the "x" factor, the unique circumstances of Citizens, the record in this case, and the sensitivity of today's decision to these issues.

First, I wish to stress that the "x" factor is not a productivity factor, but a composite number consisting of the difference between telecommunications industry productivity factor and the economy wide productivity factor, plus a stretch factor. (Mimeo. p. 62.) This decision does not adopt specific values for each of these components, only a value for the composite number.

Second, each telecommunications company has unique historic, geographic, financial circumstances that affect the determination of an appropriate composite "x" factor. The discussion throughout this decision indicates that we have considered this uniqueness, both here and throughout the entire decision. Thus, the adoption of a 4.0% value in this decision does not eliminate the need to examine the appropriateness of "x" factors in other cases for different companies.

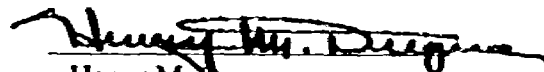
Third, this proceeding has its own regulatory history. Some of the exhibits in this case date from December 1993 -- a full two years ago. Thus, there is little basis for believing that a review of this identical issue based on a record developed today would necessarily reach a similar conclusion.

Finally, this decision is extremely sensitive to these issues. The decision explicitly permits Citizens a timely reconsideration of the appropriateness of the "x" factor and its entire NRF structure should Citizens desire to seek alignment of regulatory structure with that of Pacific and GTEC. (Mimeo. p. 64, footnote 10; Mimeo, p. 135, Conclusion of Law 6.)

A.93-12-005, et al.  
D.95-11-024

For these reasons, I support the results reached by my colleagues. I write separately only to emphasize my reasoning on this one important issue.

Dated November 8, 1995, at San Francisco, California.



Henry M. Duque  
Commissioner