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Decision 97-12-045 December 3, 1997

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of Roseville Telephone Company (U 1015 C) to restructure intrastate rates and charges and to implement a new regulatory framework for telephone services. furnished within the State of California.

Application 95-05-030  
(Filed May 15, 1995)

**ORIGINAL**

Order Instituting Investigation into the rates, charges, service, practices and regulation of Roseville Telephone Company.

Investigation 95-09-001  
(Filed September 7, 1995)

(See Appendix A of Decision 96-12-074 for appearances.)

**FINAL OPINION**

**1. Summary**

This decision adjusts rates as requested in the petition for modification filed by Roseville Telephone Company (applicant or Roseville), determines no further inquiry is necessary into service quality and closes these proceedings.

**2. Procedural Background**

On January 21, 1997, applicant filed a petition for modification of Decision (D.) 96-12-074. On February 20, 1997, the Office of Ratepayer Advocates (ORA) filed a response in opposition to the petition. On March 3, 1997, applicant filed a reply to ORA's response.

A prehearing conference was held on May 30, 1997, for the purpose of setting further hearing. (Rule 47(h) of the Commission's Rules of Practice and Procedure.) ORA

presented evidence at the prehearing conference, but did not participate further.<sup>1</sup> Applicant presented evidence at a hearing held July 8, 1997.

On October 6, 1997, the proposed decision (PD) was filed and served. Applicant filed comments on October 27, 1997. Changes are made to the PD, and incorporated herein, based on the comments, and an adjustment to the surcharge based on the current unavailability of the California High Cost Fund-B (CHCF-B) surcredit.

### 3. Petition for Modification

Applicant seeks modification of D.96-12-074 to correct alleged errors in the adopted rate design. Applicant believes the errors reduce applicant's revenues by approximately \$1.3 million (relative to revenues before any changes authorized in D.96-12-074). Moreover, applicant asserts that the errors do not allow recovery of the \$470,492 revenue increase authorized in D.96-12-074. This results in a total revenue deficiency of approximately \$1.8 million, according to applicant. In particular, the petition identifies potential errors in the treatment of switched access and billing and collection revenues. According to applicant, these errors relate to the Commission's adoption of applicant's proposed zone usage measurement (ZUM) area changes.<sup>2</sup>

#### 3.1. Discussion

We conclude that the rates adopted in D.96-12-074 should be adjusted. This is necessary due to the adoption of Roseville's proposed ZUM area changes. The ZUM area changes affect test year rate design by (1) increasing ZUM revenues, and (2) decreasing switched access and billing and collection revenues that Roseville receives under its Designated Carrier Plan (DCP) with Pacific Bell (Pacific). D.96-12-074 reflects

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<sup>1</sup> Receipt of some exhibits was unopposed, and the exhibits were received at the prehearing conference. Receipt of another exhibit was decided at the evidentiary hearing July 8, 1997. Receipt of Exhibit 157 is addressed in this decision.

<sup>2</sup> The ZUM area changes convert the Roseville-to-the-Sacramento-Main-exchange (south of the American River) route from toll to ZUM zone 3, and the Citrus Heights to Lincoln and Pleasant Grove routes from ZUM zone 3 to ZUM zone 1.

the increase in ZUM revenues, but does not fully account for the corresponding decrease in switched access and billing and collection revenues.

The decrease results because minutes and messages formerly billed under the DCP are converted to ZUM. That is, the ZUM area changes shift minutes of use from access to local, thereby decreasing switched access service revenues Roseville receives from Pacific under the DCP. Similarly, the ZUM area changes reduce the billing and collection revenues Roseville receives from Pacific, since Roseville does not bill Pacific for billing and collection charges on messages that are no longer part of the DCP.

Roseville presents a rate design and revenue summary comparing present revenues with revenues generated using rates authorized in D.96-12-074. Roseville shows that, relative to the adopted revenue requirement, authorized rates before correction result in an annualized shortfall of \$1,777,511. We adopt this summary as the revenue shortfall. (See Attachment 1).

Roseville proposes three methods to recover the revenue requirement deficiency: (1) eliminate the free directory assistance call allowance for calls to 411 and 555-1212 (approximately \$389,361); (2) eliminate the California High Cost Fund-B (CHCF-B) surcredit<sup>3</sup> (approximately \$515,473); and/or (3) apply a surcharge on intraLATA services. We decline to eliminate the directory assistance call allowance for the reasons stated in D.96-12-074. That is, the call allowance is consistent with that allowed in the service areas of Pacific, GTE California Incorporated (GTEC) and Citizens Telecommunications Company of California. It provides a reasonable balance between the need to generate revenue and the desire to provide residential customers with some reasonable amount of customer service before additional charges are levied. Moreover, the ZUM area changes benefit business as well as residential customers. Elimination of the call allowance would place a disproportionate burden on residential

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<sup>3</sup> D.96-10-066, Ordering Paragraph 8(e).

customers. Finally, insufficient revenue is generated, even when supplemented under Roseville's proposal with CHCF-B funds, to completely eliminate the need for a surcharge. Since a surcharge is still necessary, we decline to eliminate this allowance.

The PD adopted Roseville's recommendation to eliminate the CHCF-B surcredit, with a residual surcharge to recover the remainder of the necessary revenue. In fact, however, the effective date for implementing the CHCF-B surcredit has been extended. The surcredit is not currently available for the purpose proposed by Roseville. Therefore, we decline to adopt Roseville's CHCF-B surcredit proposal. Rather, we adopt one surcharge of sufficient magnitude to generate the necessary revenue. That surcharge is 3.9082%. (See Attachment 2.)

### **3.2. ORA's Position**

ORA contends that the revenue calculation should not be examined in isolation. ORA points out that average access line growth for 1995-96, according to Roseville Communication Company's annual report, is closer to 7%, rather than the 5% used by ORA in its general rate case calculations. ORA asserts that, if this is the case, all related figures should be adjusted accordingly.

We decline to review all related figures. The petition addresses alleged errors in the application of adopted numbers, and we authorize adjustments based on test year estimates. We do not reopen the proceeding to update estimates for actual results.

ORA argues that this petition should be denied, as were Pacific's and GTEC's petitions for modification in D.97-02-049. We disagree. Pacific and GTEC sought modification to the Implementation Rate Design decision (D.94-09-065; 56 CPUC2d 117) because of alleged errors in elasticity projections compared to actual experience. In contrast, Roseville requests correction of errors in the rate design based on adopted results. Roseville does not request modification of any test year estimate based on actual results. The situations are not similar, and we decline to adopt ORA's recommendation.

ORA asserts that the alleged errors, even if true, are insufficient to reach any New Regulatory Framework (NRF) trigger. ORA contends that Roseville's rate of return would decrease at most only 67 basis points. Roseville contends the reduction is approximately 90 basis points. We note that a NRF trigger would not be reached in either case. Nonetheless, rates must be adopted that give Roseville a reasonable opportunity to generate revenues equal to its revenue requirement.

Exhibit 157 was offered as evidence by ORA, but receipt was opposed by Roseville, and the matter was taken under submission. We decline to receive Exhibit 157 as evidence. Among other things, Exhibit 157 compares actual with adopted results and forecasts for revenues and access lines. Our consideration of the petition, however, is not an opportunity for an alignment with actual results. This is a general rate case proceeding. We continue to apply future test year ratemaking principles here, consistent with its use in general rate case ratemaking. Therefore, the motion for receipt of Exhibit 157 is denied.

#### **4. Comments on Proposed Decision**

In comments on the PD dated October 27, 1997, Roseville says the revenue requirement deficiency began to accrue on February 1, 1997 (the effective date of the new rates ordered in D.96-12-074). Roseville contends fairness should allow it to recover the full revenue requirement deficiency, not simply correct the error beginning with the effective date of the new surcharge. Roseville proposes that the revenue requirement deficiency not accounted for in the PD be recovered through a modification to the surcharge adjustment now pending in connection with Roseville's first annual price cap advice letter pursuant to the new regulatory framework. We adopt a variation of Roseville's recommendation.

We decline to complicate Roseville's first annual NRF price cap advice letter adjustment with an additional revenue requirement collection of limited duration. Rather, we authorize Roseville to file an advice letter with a revised tariff to become effective January 1, 1998, or 11 months after the initial deficit began. The revised tariff will include two surcharges. The first surcharge is the 3.9082% authorized above, and is

permanent (unless modified by later order) to correct the deficit going forward. The second surcharge will be for recovery of 11 months of revenue deficiency, in the amount of \$1,629,385, plus interest.<sup>4</sup> The second surcharge will be collected for 24 months.

The advice letter will calculate the second surcharge to collect the adopted deficit of \$1,629,385, plus interest. The deficit will be collected over the adopted billing base of \$45,481,058. The surcharge will thus be approximately 1.7913% for 24 months (i.e., about half of the 3.5826% if otherwise collected over 12 months). The total of the two surcharges will be approximately 5.6995% (1.7913% plus 3.9082%). We direct recovery over 24 months since a surcharge of about 5.6995% for 24 months is more reasonable than a surcharge of about 7.4908% for 12 months (i.e., 3.5826% plus 3.9082%).

Because the exact surcharge over 24 months may include interest, the revenue shortage and surcharge will be calculated in the advice letter filed by Roseville. Interest will be at the three month commercial paper rate, and may be included on the deficit as it accumulated over 11 months to a total of \$1,629,385. Interest may be applied for the period of February 1, 1997 through December 31, 1997. Interest may also be applied to the estimated uncollected deficit until the full deficit is collected by the end of the twenty-fourth month. The advice letter will be reviewed by Telecommunications Division, and the tariff will go into effect unless suspended by the Director of the Telecommunications Division.

#### 5. Service Quality

The PD on the petition for modification dealt with the matter raised in the petition (i.e., ZUM area changes and a possible revenue shortfall). For purposes of clarity and completeness, the PD noted that the proceeding remained open for further inquiry into Roseville's quality of service, as ordered in D.96-12-074, as well as Roseville's application for rehearing. In comments on the PD, Roseville asks that the service quality portion of the proceeding be closed. We will do so, even though it is

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<sup>4</sup> \$1,777,511 per year or \$1,629,385 for 11 months.

outside of the scope of the petition for modification, since this matter is now ripe for decision.

D.96-12-074 ordered limited further inquiry into Roseville's quality of service.<sup>5</sup> We noted that failures to meet some General Order (GO) 133-B service quality standards had occurred, but that Roseville was making progress in improving service and consistently meeting Commission requirements. To assure ourselves that the recent improvements were not an anomaly, however, we kept the proceedings open. We stated that, based on further inquiry, we would later decide whether or not to adopt the recommendations of the ORA for a Service Quality Assurance Program (SQAP), Service Quality Assurance Mechanism (SQAM), Service Improvement Program (SIP), require Roseville to report monthly GO 133-B measurements with its current quarterly reports, or order other relief.

Exhibit 78 is a Roseville service quality report and testimony produced in response to ordering paragraph 2 of D.96-12-074. Exhibit 78 shows that, despite some earlier failures which led to the concern expressed in D.96-12-074, Roseville met all General Order 133-B service quality standards from July 1995<sup>6</sup> through February 1997 (the latest data then available).

No party submitted comments on, or opposed, Roseville's showing. No party suggested that further service quality proceedings are warranted. The evidence neither shows problems which merit further inquiry, nor which justify adoption of service improvement measures. We see no need, and decline, to order a SQAP, SQAM, or SIP;

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<sup>5</sup> See discussion at mimeo pp. 9 - 13, and ordering paragraphs 2 and 15, mimeo pp. 144 and 148.

<sup>6</sup> Roseville's comments on the PD say that updated measurements show Roseville met all GO 133-B standards from June 1995 through February 1997. Exhibit 78, however, shows that the Trouble Report Service Answering Time (TRSAT) standard was not met in June 1995. Addressing TRSAT for 1995, Exhibit 78 at page 5 states: "The other month that Roseville fell below the reporting level was June." With this one minor correction, the data shows Roseville has met all GO 133-B standards from July 1995 through February 1997.

require Roseville to report monthly GO 133-B measurements with its current quarterly reports; or order other relief.

Therefore, we close the service quality portion of these proceedings. This order becomes the final order in these proceedings, since the proceedings were held open only for the limited purpose of further inquiry into Roseville's quality of service. (See ordering paragraph 15, mimeo p. 148, D.96-12-074.)<sup>7</sup>

#### **Findings of Fact**

1. Roseville filed a petition for modification of D.96-12-074, seeking correction of alleged errors in the adopted rate design.
2. Relative to the adopted revenue requirement, rates authorized in D.96-12-074 result in an annualized shortfall of \$1,777,511.
3. Eliminating the directory assistance call allowance produces insufficient funds to eliminate the need for a surcharge.
4. The effective date for implementing the CHCF-B surcredit has been extended, and the surcredit is not currently available for the purpose proposed by Roseville.
5. A surcharge of 3.9082% will generate \$1,777,511 annually.
6. Among other things, Exhibit 157 compares actual with adopted results and forecasts.
7. The revenue requirement deficiency began to accrue on February 1, 1997.
8. The further evidence does not show any service quality problems which require further inquiry, and no need exists to order a SQAP, SQAM, SIP; require Roseville to report monthly GO 133-B requirements with its current quarterly reports; or order other relief.
9. These proceedings had remained open only for the limited purpose of further inquiry into Roseville's quality of service.

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<sup>7</sup> An application for rehearing of D.96-12-074 is pending, and will be addressed by a separate order.



**Conclusions of Law**

1. Roseville's rates should be adjusted to provide recovery from February 1, 1997.
2. Recovery of the revenue shortfall for the first year should be over 24 months, with interest.
3. The motion to receive Exhibit 157 should be denied.
4. These proceedings should be closed.
5. Because of the need to adjust rates without delay, this order should be effective immediately.

**FINAL ORDER**

**IT IS ORDERED that:**

1. Within 14 days of the date of this order, Roseville Telephone Company (Roseville) shall file an advice letter with tariffs consistent with this order, in compliance with General Order 96-A, to become effective January 1, 1998. The tariffs shall include two surcharges. The first surcharge shall be 3.9082%, and shall be permanent (unless modified by later order). The second surcharge shall be effective for 24 months, shall recover 11 months of revenue deficiency in the amount of \$1,629,385, and may include interest. The advice letter shall show Roseville's interest calculation. Interest shall be calculated at the three month commercial paper rate. Interest may be applied to the deficit as it accumulated over 11 months to \$1,629,385, and may be applied for the period February 1, 1997 through December 31, 1997. Interest may also be included on the estimated uncollected deficit balance over 24 months beginning January 1, 1998, until the full deficit plus interest is collected. The tariff shall become effective unless suspended by the Director of the Telecommunications Division.
2. The motion of the Office of Ratepayer Advocates to receive Exhibit 157 is denied.

A.95-05-030, I.95-09-001 ALJ/BWM/wav \*\*,

3. Application 95-05-030 and Investigation 95-09-001 are closed.

This order is effective today.

Dated December 3, 1997, at San Francisco, California.

P. GREGORY CONLON

President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners

## ANNUAL IMPACT WITH ZUM AREA CHANGES

ROSEVILLE TELEPHONE COMPANY  
RATE DESIGN AND REVENUE SUMMARY  
ANNUAL REVENUE EFFECT OF D96-12-074 WITH ZUM AREA CHANGES

TARIFF SCHEDULE	SERVICE CATEGORY TYPES	DESCRIPTION	PRESENT ANNUAL REVENUE	D96-12-074 ANNUAL REVENUE (w/ ZUM Changes)	REVENUE CHANGE	
1	A3	I	Basic Exchange Access Service - Res.	\$14,474,959	\$16,254,778	\$1,779,820
2	A3	I	Basic Exchange Access Service - Bus.	\$5,524,855	\$6,331,344	\$806,489
3	A4	I	Semi-Public Coin Box Service	\$60,903	\$103,746	\$42,843
4	A5	II	Primary Rate Interface Service #	\$92,834	\$92,834	\$0
5	A7	I	Off-Premises Extension Service	\$58,176	\$99,500	\$41,324
6	A8	II	Digital Business Service #	\$568,020	\$877,089	\$309,070
7	A9	III	Voice Mail #	\$430,302	\$474,923	\$44,621
8	A12	II	Advanced Communication Package	\$2,526	\$2,526	\$0
9	A13	I	Zone Usage Measurement Service	\$4,603,759	\$6,664,392	\$2,060,633
10	A14	II	Joint User Service	\$28,150	\$39,410	\$11,260
11	A15	II	Additional Directory Listings	\$15,007	\$34,384	\$19,377
12	A15	I	Non Published Service	\$99,341	\$119,209	\$19,868
13	A15	II	Personalized Number Service	\$11,480	\$11,480	\$0
14	A15	I	Directory Assistance (411)	\$0	\$227,376	\$227,376
15	A17	I	Secretarial Line Service	\$36,432	\$48,350	\$11,918
16	A18	II	Direct-Inward-Dialing Service #	\$232,380	\$232,380	\$0
17	A20	II	Inside Wiring Maintenance	\$219,081	\$404,068	\$184,987
18	A21	II	Integrated Service #	\$37,082	\$66,662	\$29,580
19	A22	I	Foreign Exchange Service #	\$1,177,351	\$1,479,011	\$301,660
20	A24	II	Custom Calling Service #	\$1,847,002	\$1,847,581	\$578
21	A26	II	Remote Call Forwarding Service	\$166,960	\$233,744	\$66,784
22	A28	I	Multi-Element Service Charges	\$2,915,962	\$2,995,362	\$79,400
23	A28	I	Return Check/Verification/Interrupt Charges	\$13,058	\$26,844	\$13,788
24	A28	I	Late Payment Charge	\$0	\$293,133	\$293,133
25	A31	I	Automatic Intercept Service	\$2,294	\$4,588	\$2,294
26	*	*	Miscellaneous Nonrecurring Charges	\$269,373	\$281,960	\$12,587
27	CPUC NO. 1	II	Special Access/Private Line Services #	\$1,777,465	\$1,949,587	\$172,122
28	CPUC NO. 1	II	Dedicated Switched Access	\$508,668	\$508,668	\$0
29	CPUC NO. 1	II	Switched Access Services	\$4,586,080	\$10,669,617	\$6,102,537
30	CPUC NO. 1	II	Billings & Collections	\$1,923,318	\$3,273,695	\$1,350,377
31			All End User Surcharge	\$0	\$0	\$0
32			SUB TOTAL	\$41,692,816	\$55,667,241	\$13,984,425
33			LESS:			
34			California High Cost Fund			\$3,682,243
35			Intrastate InterLATA Access			\$3,699,356
36			Intrastate IntraLATA Toll Service			\$355,206
37			Settlement Transition from Pacific			\$4,167,980
38			8.57% Billing Surcharge			\$3,386,659
39			SUB TOTAL			(\$1,307,019)
40			AUTHORIZED PER D96-12-074			\$470,492
41			SHORTFALL			(\$1,777,511)

\* The Miscellaneous Nonrecurring Charges are applicable to 8 different services which are indicated by the # sign.

(END OF ATTACHMENT 1)

ATTACHMENT 2

ROSEVILLE TELEPHONE COMPANY  
SURCHARGE

Revenue deficiency	\$1,777,511
Billing base	45,481,058
Percent surcharge	3.9082%

(END OF ATTACHMENT 2)