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Decision 98-09-039 September 3, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643.	Rulemaking 95-01-020 (Filed January 24, 1995)
Investigation on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643.	Investigation 95-01-021 (Filed January 24, 1995)

ORIGINAL

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INTERIM OPINION

I. Summary

This decision implements the California High Cost Fund-B (CHCF-B) established by the Commission in Decision (D.) 96-10-066 to subsidize basic exchange service provided to residential customers by California's largest local exchange carriers (LECs). Specifically, this decision authorizes Citizens Telephone Company (Citizens), Contel Telephone Company (Contel), GTE California Incorporated (GTE),[1] and Roseville Telephone Company (Roseville) to commence monthly draws from their accumulated CHCF-B surcharge revenues (CHCF-B draws) beginning December 15, 1998. To offset their CHCF-B draws, this decision orders Citizens, GTE/Contel, and Roseville to implement permanent surcredits on December 1, 1998.

This decision also authorizes Pacific Bell (Pacific) to commence monthly draws from its accumulated CHCF-B surcharge revenues beginning September 15, 1998. Pacific was previously ordered in D.98-07-033 to implement permanent rate reductions beginning September 1, 1998, to offset its CHCF-B draws.

Finally, this decision orders Citizens, GTE/Contel, Pacific, and Roseville to implement a three-month temporary surcredit equal to their approved CHCF-B draws for prior periods. This decision does not set a specific date for the large LECs to implement their temporary surcredits. Rather, the Director of the Telecommunications Division is authorized to instruct the large LECs to file

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[1] D.96-10-066 designated the following LECs as eligible to draw from the CHCF-B: Citizens, Contel, GTE, Pacific Bell, and Roseville; herein after referred to as "large LECs." Subsequently, the Commission approved the merger of GTE and Contel. Therefore, this decision shall treat GTE and Contel as a single entity (i.e., "GTE/Contel").

advice letters to implement their temporary surcredits once a fund has been established in the State Treasury to receive CHCF-B surcharge revenues pursuant to Assembly Bill (AB) 2461 and procedures are in place to disburse these revenues to the large LECs.[2]

II. Background

In D.96-10-066, the Commission established the CHCF-B to subsidize basic exchange service provided to residential customers in designated high-cost areas.[3] This decision also contained the following instructions for how the incumbent LECs currently serving high-cost areas should reduce their rates by an amount equal to their subsides from the CHCF-B:

> Concurrent with the effective date of the [CHCF-B] fund, the...LECs affected by the CHCF-B shall reduce all of their rates, except for residential basic service and existing contracts, by an equal percentage. This overall reduction shall equal the anticipated monthly draw the incumbent LECs anticipate receiving from the fund. The rate reduction shall be accomplished by a monthly surcredit to each customer's bill through an advice letter filing. In order to ensure that the total reductions equal the total amount the LECs receive from the fund, the...LECs shall establish memorandum accounts to track the rate reductions, so that a true up with the actual monies received from the CHCF-B can occur if necessary.
>
> We shall afford the ...LECs the opportunity to decide what rates or price caps should be reduced downward to permanently offset the explicit subsidy support. Until that is accomplished, a monthly surcredit shall be used to offset any anticipated monthly draw. The LECs shall be permitted to file applications describing what rates or

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[2] AB 2461 requires the establishment of a fund in the State Treasury to receive CHCF-B surcharge revenues and the disbursement of these revenues by the State Controller.

[3] The CHCF-B is funded with monies from a surcharge paid by end users of intrastate telecommunications services.

> price caps they seek to permanently rebalance downward as a result of receiving monies from the CHCF-B. (D.96-10-066, mimeo., p. 209.)

In D.96-10-066, the Commission ordered intrastate telecommunications carriers ("the carriers") to implement the CHCF-B surcharge beginning February 1, 1997. The surcharge was set to raise $352 million per year,[4] and it remains in effect today.

In D.97-01-020, the Commission ordered the formation of a trust to receive the CHCF-B surcharge revenues remitted by the carriers and to disburse these monies to the large LECs beginning no later than May 30, 1997, for services rendered by the LECs beginning February 1, 1997.[5] However, formation of the CHCF-B trust was delayed by the Commission's decision to obtain tax-exempt status for the CHCF-B prior to forming the CHCF-B trust.[6] By the time the IRS granted tax-exempt status to the CHCF-B on July 1, 1998,[7] the State Legislature had pending before it AB 2461. This legislation, if enacted, would establish a fund in the State Treasury to receive CHCF-B surcharge revenues and provide for the disbursement of these monies by the State Controller. The enactment of AB 2461 would, therefore, supercede the Commission's previous order to form the CHCF-B trust. Due to the pending enactment of AB 2461, no action was taken to implement the CHCF-B trust after the IRS granted tax-exempt status to the CHCF-B.

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[4] D.96-10-066, Ordering Paragraph (OP) 8.h and Appendices D & E.

[5] D.97-01-020, mimeo., p. 8, Conclusion of Law 12, and OP 1.a.13.d.

[6] In D.98-01-023, the Commission authorized the CHCF-B Administrative Committee to seek a private a letter ruling from the Internal Revenue Services (IRS) granting tax-exempt status to the CHCF-B.

[7] The IRS issued a private letter ruling dated July 1, 1998, that concluded the CHCF-B and the income earned by the CHCF-B are not subject to federal income tax.

Since the CHCF-B surcharge was implemented in February 1997, the carriers have collected approximately $557 million in CHCF-B surcharge revenues through August 1998. However, due to the delay in implementing the CHCF-B, no surcharge revenues have been remitted by the carriers to the CHCF-B, no disbursements have been made by the CHCF-B to the large LECs, and only one of the large LECs has implemented a rate reduction to offset its anticipated draws from the CHCF-B.[8] To break this logjam, assigned Commissioner Knight issued a ruling on June 5, 1998, which proposed the following:

- Citizens, GTE/Contel, and Roseville would implement permanent surcredits beginning December 1, 1998, while Pacific would implement a permanent price reduction in accordance with D.98-07-033. The large LECs would fund their permanent rate reductions with the CHCF-B surcharge revenues they have been collecting since February 1997 until disbursements from the CHCF-B become available.
- Once the CHCF-B becomes operational and carriers have remitted their accumulated CHCF-B surcharge revenues to the Fund, the large LECs would draw upon these monies to finance a temporary "catch-up" surcredit to offset their draws from the CHCF-B for the period of February 1997 through November 30, 1998.

On June 19 1998, opening comments regarding the proposal in the assigned Commissioner's ruling (ACR) were submitted by the following parties: AT&T Communications of California (AT&T), GTE, ICG Telecom Group, Inc (ICG),[9] MCI Telecommunications Corporation (MCI), the Office of Ratepayer

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[8] Pacific filed Application (A.) 97-03-004 to propose rates and price caps that should be permanently lowered to offset Pacific's anticipated CHCF-B draws. In D.98-07-033, the Commission adopted $305.2 million in price reductions.

[9] Opening and reply comments were submitted jointly by ICG, Teleport Communications Group, Time-Warner AxS of California, L.P., and the California Cable Television Association. These parties are referred to collectively as "ICG."

Advocates (ORA), Pacific, and The Utility Reform Network (TURN). Informational workshops regarding the ACR proposal were held on June 26 and June 30, 1998.[10] On July 3, 1998, reply comments regarding the ACR proposal were submitted by the same parties who submitted opening comments and by the CHCF-B Administrative Committee.

III. Implementation of Permanent Surcredits

A. The ACR Proposal

In D.96-10-066, the Commission ordered the large LECs to implement permanent rate reductions equal to their draws from the CHCF-B. To fulfill this mandate, the ACR proposed that Citizens, GTE/Contel, and Roseville each file an advice letter by September 21, 1998, to implement permanent surcredits beginning December 1, 1998.[11] Each LEC's permanent surcredit would be based on the average of the LEC's monthly CHCF-B claims for the 12-month period ending July 31, 1998.[12] As required by D.96-10-066, each LEC's surcredit would reduce all of its rates, except for residential basic service and contracts, by an equal percentage. The Telecommunications Division would review the advice letters and prepare a resolution adopting permanent surcredits for these LECs.

The ACR stated that the CHCF-B Administrative Committee should review the CHCF-B claims on which the surcredits would be based, and report

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[10] The informational workshops were ordered by assigned Administrative Law Judge (ALJ) Kenney in a ruling issued on June 13, 1998.

[11] The ACR recognized that Pacific would implement a permanent rate reduction in accordance with D.98-07-033.

[12] Pursuant to D.96-10-066, OP 15(b)(1), the assigned ALJ issued a ruling on April 28, 1998, which required the large LECs to submit claims to the CHCF-B by September 15, 1998, for each month during the period of February 1997 through July 1998.

its findings to the Telecommunications Division. If material issues were to arise from the Committee's review of the CHCF-B claims, the ACR stated the permanent surcredits should be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon the resolution of these issues.

The ACR proposed that until the CHCF-B becomes operational, each large LEC should "self-fund" its permanent rate reduction[13] by drawing on the CHCF-B surcharge revenues the LEC has been collecting since February 1997. The self-funding mechanism would remain in effect until the enactment and implementation of AB 2461, at which point the LECs would remit their remaining CHCF-B surcharge revenues to the CHCF-B and receive disbursements from the CHCF-B to fund their permanent rate reductions.

Finally, the ACR proposed that there be no true up of Citizen's, GTE/Contel's, and Roseville's surcredits with their draws from the CHCF-B since their surcredits will be based on their actual CHCF-B draws for the 12-month period ending July 31, 1998. The ACR recognized that Pacific would true up its rate reduction with its actual CHCF-B draws in accordance with the Commission's instructions in D.98-07-033.

B. Position of the Parties

Several parties recommended modifications to the ACR proposal for implementing the permanent CHCF-B rate reductions. AT&T recommended that large LECs' CHCF-B draws and offsetting rate reductions be implemented simultaneously. GTE stated that the implementation of permanent surcredits by

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[13] Unless otherwise indicated, this decision uses the terms "surcredit" and "rate reduction" synonymously.

Citizens, GTE/Contel, and Roseville should not preclude these LECs from filing applications to replace their surcredits with permanent reductions of specific rates and price ceilings.[14] Pacific stated that the large LECs should not have to remit interest on their accumulated CHCF-B surcharge revenues to the extent the large LECs use these monies to self-fund their permanent rate reductions.[15]

C. Discussion

We have carefully reviewed the ACR proposal to implement permanent rate reductions and parties' recommendations for modifying the proposal. Based on this review, we conclude that the ACR proposal, modified to reflect the parties' recommendations, is reasonable. Accordingly, we shall require Citizens, GTE/Contel, and Roseville to file advice letters by September 21, 1998, to implement permanent surcredits beginning on December 1, 1998.[16] Each LEC's permanent surcredit shall be based on the average of the LEC's approved monthly CHCF-B claims for the 12-month period ending July 31, 1998. As required by D.96-10-066, each LEC's surcredit shall reduce all of its rates, except for residential basic service and contracts, by an equal percentage.[17]

The Telecommunications Division shall review the advice letters submitted by Citizens, GTE/Contel, and Roseville, and prepare for the

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[14] Pursuant to D.96-10-066, the large LECs may file applications to readjust specific rates and rate caps to offset their draws from the CHCF-B (D.96-10-066, mimeo., p 209). Thus far, only Pacific has filed such an application.

[15] D.98-01-023 and D.98-04-068 require all telecommunications carriers to invest their CHCF-B surcharge revenues in interest-bearing accounts and to remit the interest so earned to the CHCF-B.

[16] Pacific shall implement a permanent rate reduction in accordance with D.98-07-033.

[17] As a practical matter, the permanent surcredits cannot be applied to coin-sent paid calls, which have been exempted from the CHCF-B surcharge pursuant to D.96-10-066.

Commission's consideration a resolution adopting a permanent surcredit for each of these LECs. The CHCF-B Administrative Committee shall review the CHCF-B claims on which the surcredits will be based, and report its findings to the Telecommunications Division. If material issues arise from the Committee's review of the CHCF-B claims, the permanent surcredits shall be implemented on a provisional basis beginning on December 1, 1998, and adjusted at a later date, if necessary, upon the resolution of these issues.

Until the CHCF-B becomes operational, Citizens, GTE/Contel, Pacific, and Roseville shall self-fund their permanent rate reductions with monthly draws from the CHCF-B surcharge revenues they have been collecting since February 1997. The self-funding mechanism shall remain in effect until the enactment and implementation of AB 2461. Once AB 2461 is implemented, the large LECs shall remit their CHCF-B surcharge revenues to the CHCF-B,[18] and fund their permanent rate reductions with disbursements from the CHCF-B.

The LECs shall commence monthly draws from their accumulated CHCF-B surcharge revenues on the 15th day of the calendar month in which they implement their permanent rate reductions. Therefore, Pacific may begin its monthly draws on September 15, 1998,[19] and Citizens, GTE/Contel, and Roseville may commence their monthly draws on December 15, 1998. The large LECs shall continue to make their draws on the 15th day of each calendar month

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[18] The assigned ALJ shall issue a ruling instructing the large LECs when and where to remit their remaining CHCF-B revenues and associated interest (D.97-01-020, OP 1.a.13.f, and D.98-01-023, OP 9).

[19] D.98-07-033, OP 5, required Pacific to file tariffs to implement its permanent CHCF-B price reductions beginning on the first day of a calendar month. Pacific complied by filing tariffs to implement its permanent price reductions on September 1, 1998.

until disbursements become available from the CHCF-B.[20] In addition, the large LECs shall not have to accrue and remit interest on their accumulated CHCF-B surcharge revenues to the extent the LECs draw on these monies to pay CHCF-B claims approved by the CHCF-B Administrative Committee.

The LECs' monthly draws shall be based on their monthly CHCF-B claims that have been reviewed and approved by the CHCF-B Administrative Committee.[21] We emphasize that each LEC may draw from its accumulated CHCF-B surcharge revenues only the amount of its monthly claim that has been approved by the Committee.[22]

There shall be no true up of Citizen's, GTE/Contel's, and Roseville's permanent surcredits with their actual draws from the CHCF-B since their surcredits will be based on their approved CHCF-B draws for the 12-month period ending July 31, 1998. Since there will be no true up for these LECs, there is no need for them to implement the true-up memorandum accounts ordered in D.96-10-066.[23] Pacific shall true up its rate reduction with its CHCF-B draws in accordance with D.98-07-033.[24]

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[20] The Director of the Telecommunications Division shall notify the large LECs when they are to cease their monthly draws from their accumulated CHCF-B surcharge revenues.

[21] The large LECs' draws will be based on the actual number of high-cost lines served by the LECs (D.96-10-066, mimeo, p. 191). Therefore, the large LECs' draws may be more or less than their permanent rate reductions since the rate reductions will be fixed while their monthly draws will vary based on the number of high-cost lines served.

[22] The CHCF-B Administrative Committee shall provide written notice to each LEC regarding the amount of its CHCF-B claim that it is authorized to draw.

[23] D.96-10-066, OP 8.f.

[24] D.98-07-033, OP 7, requires Pacific to perform a one-time true up of its permanent price reductions with its approved draws from the CHCF-B for the 12-month period proceeding the effective date of its price reductions.

Pursuant to the ALJ ruling dated April 28, 1998, the large LECs must submit their CHCF-B claims within one calendar month plus 15 days after the close of the calendar month for which the claim is made. We anticipate that the CHCF-B Administrative Committee will need, on average, 30 days to review the LECs' claims and to notify the LECs of the amount they are authorized to draw from their accumulated CHCF-B surcharge revenues. Thus, for each calendar month for which a LEC submits a timely claim, the LEC may draw the amount of its claim that has been approved by the Committee two calendar months plus 15 days after the close of the month for which the claim is submitted.[25]

If the CHCF-B Administrative Committee is unable to complete its review of a LEC's timely submitted CHCF-B claim within 30 days, the LEC may draw the full amount of its claim from its accumulated CHCF-B surcharge monies pending the review and approval of its claim by the Committee. If the Committee ultimately determines the LEC is entitled to less than the amount of its claim, the LEC shall immediately refund the difference, plus interest.[26]

Since the large LECs' draws will be based on their monthly CHCF-B claims, Pacific's first draw on September 15, 1998, shall be based on its claim for June 1998.[27] Similarly, Citizens', GTE/Contel's, and Roseville's first draws on

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[25] Once AB 2461 is implemented, the procedures adopted in this decision regarding the large LECs' CHCF-B draws shall be revised, as necessary, to comply with the statute.

[26] Consistent with D.98-01-023 and D.98-04-068, the amount of interest shall be based on the seven-day compound yield on taxable money market funds as published in the Wall Street Journal each Thursday.

[27] Pursuant to the ALJ Ruling dated April 28, 1998, Pacific's CHCF-B claim for June 1998 is due on September 15, 1998, the same day that this decision authorizes Pacific to make its first CHCF-B draw based on its June 1998 claim. Since Pacific will be submitting its claim the same day it makes its draw, the CHCF-B Administrative Committee will not have had time to review and approve Pacific's claim. Therefore,

Footnote continued on next page

December 15, 1998, shall be based on their claims for September 1998. Our requirement for Pacific and the other large LECs to commence their draws based on CHCF-B claims for the months June and September 1998, respectively, has the effect of reducing the size of the "catch-up amount" that was anticipated by the ACR which assumed that the LECs' first CHCF-B draws would be based on their claims for December 1998. Attachment A to this decision indicates that even with the smaller catch-up amounts, the LECs will have CHCF-B surcharge revenues sufficient to self-fund their permanent rate reductions for at least one year.

Although we shall require Citizens, GTE/Contel, and Roseville to implement permanent surcredits by December 1, 1998, these LECs may still file applications to reduce specific rates and price ceilings by an amount equal to their draws from the CHCF-B.[28] In D.96-10-066, we stated that the purpose of the CHCF-B is to (1) provide explicit subsidies to the large LECs for the provision of basic residential service in high-cost areas, and (2) enable the large LECs to reduce their rates to remove the implicit subsidies used to fund residential service in high-cost areas. We believe that the implicit subsidies are more likely to be removed by targeted reductions of rates and price caps (targeted rate reductions) than by across-the-board surcredits. Therefore, Citizens, GTE/Contel, and Roseville shall have 24 months from the effective date of this

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when the Committee completes its review of Pacific's June 1998 claim, Pacific shall immediately refund any amount the Committee disapproves, plus interest.

[28] Each LEC's monthly CHCF-B draw is based on the number of "primary" residential lines in high-cost areas served by the LEC during the month for which the draw is made.

decision to file applications for targeted rate reductions.[29] The size of the targeted rate reductions proposed in any such application shall be based on the LEC's actual draws from the CHCF-B during the most recent 12-month period for which data is available at the time the application is filed. If no such application is filed within the 24-month period, then the LEC's surcredits shall remain in effect as long as the LEC is drawing CHCF-B support.

Finally, to ensure that the large LECs' customers benefit from the CHCF-B for the entire time period that the CHCF-B is in effect, we shall require the large LECs to maintain the permanent rate reductions ordered by this decision and D.98-07-033 for the same number of months that the LECs receive monies from the CHCF-B.[30] To implement this requirement, the large LECs shall submit advice letters within 60 days from the effective date of this decision containing tariffs which require the LECs to maintain their permanent rate reductions for the same number of months they receive monies from the CHCF-B ("the CHCF-B rate reduction tariffs").[31] The Telecommunications Division shall review the advice letters and, if necessary, prepare a resolution adopting CHCF-B rate reduction tariffs.

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[29] If any such applications are filed before the permanent surcredits are implemented on December 1, 1998, the surcredits shall be implemented pending the Commission's decisions on the applications.

[30] This decision instructs the LECs to draw subsidies from the CHCF-B three months after the LECs rendered the services for which the subsidies are owed. Therefore, if the CHCF-B were ever terminated, the LECs should (1) continue to draw subsidies from the CHCF-B for three months after the termination of the Fund; and (2) maintain their rate reductions ordered by this decision and D.97-07-033 for three months after the termination of the Fund.

[31] The large LECs, excluding Pacific Bell, shall not have to maintain their permanent rate reductions for the period of time associated with the adjustment of previously paid CHCF-B claims.

IV. Implementation of Catch-up Surcredits

A. The ACR Proposal

In D.97-01-020, the Commission anticipated that the CHCF-B would begin disbursements to the large LECs by May 1997 for services rendered by the LECs starting in February 1997. However, as described previously in this decision, disbursements from the CHCF-B have not yet begun, resulting in the accumulation of hundreds-of-millions of dollars owed by the CHCF-B to the large LECs for service rendered since February 1997 (i.e., "the catch-up amount").

Since the catch-up amount was unanticipated, the Commission never specified a mechanism for paying the catch-up amount to the large LECs or for reflecting the catch-up amount in the LECs' rates. Therefore, the ACR proposed that each large LEC file an advice letter by May 15, 1999, to implement a surcredit to amortize its catch-up amount over a 12-month period beginning July 1, 1999 (i.e., "the catch-up surcredit"). Each LEC's catch-up surcredit would be based on its monthly CHCF-B claims for the period of February 1997 through November 1998; and each LEC's surcredit would reduce all of its rates, except for residential basic service and contracts, by an equal percentage. The catch-up amount owed to each LEC would be disbursed by the CHCF-B in 12 monthly installments.

The ACR's proposed mechanism for handling the catch-up amount assumed that carriers would have remitted their accumulated CHCF-B surcharge revenues to the CHCF-B prior to July 1, 1999, and that the CHCF-B would be ready to commence disbursements to the large LECs by July 1, 1999. If these assumptions proved wrong, the ACR stated that the assigned ALJ would issue a ruling specifying a new date for implementing the catch-up surcredits.

B. Position of the Parties

AT&T, ICG, and MCI ("the IECs") believe the catch-up surcredit will provide the customers of the large LECs with an incentive to remain with the large LECs for the duration of the surcredit. To mitigate what they see as the anticompetitive effect of the catch-up surcredit, the IECs recommended that the surcredit be implemented for as short a period of time as possible. ICG stated that a one-month catch-up surcredit would be unfair to customers who happen to have an unusually small amount of usage or charges during the month in which the surcredit would be applicable. Because of this, ICG recommended the catch-up surcredit be amortized over two or three months.

ICG stated that the catch-up surcredit should be implemented as soon as possible in order to minimize the mismatch between the customers who paid the CHCF-B surcharge and the customers who receive the surcredit. ICG also recommended that the large LECs should be required to file proposals to insure that customers who paid the CHCF-B surcharge to the large LECs but then switch to a competitor prior to the implementation of the catch-up surcredit receive cash payments from the large LECs equal to the surcredits the customers would have received had they remained with the large LECs. According to ICG, this would remove the anticompetitive incentive that customers have to remain with the large LECs until the catch-up surcredit is fully paid out.

Pacific supported the ACR proposal, but noted that there could be a material difference between the catch-up amount and the catch-up surcredit because the former has a fixed value while the latter will vary with changes in the billing base. Pacific suggested the large LECs should adjust their catch-up surcredits near the end of the 12-month period to correctly match the catch-up amounts with the offsetting surcredits. Pacific also stated that if the Commission were to determine that the catch-up surcredit provides an anticompetitive

incentive for customers to remain with the large LECs, the solution is to amortize the catch-up amount over a long period of time so that customers would not see the surcredit as a significant dollar amount and, therefore, would not have an incentive to stay with the large LECs.

ORA supported the ACR proposal, and suggested that if the CHCF-B initially lacks funds to pay the catch-up amounts owed to the large LECs, then the interest on the amounts owed to the LECs should not exceed the interest collected on the CHCF-B revenues previously held by the LECs. ORA opposed the true up suggested by Pacific. ORA stated that D.98-07-033 did not allow a true up of Pacific's permanent rate reductions with Pacific's draws from the CHCF-B.[32] According to ORA, if there is no true up for Pacific's permanent rate reductions, there should likewise be no true up of the LECs' catch-up surcredits.

TURN stated that the time period for the catch-up surcredits should be as short as possible, subject to the limitation that no LEC's catch-up surcredit should exceed 25%. TURN also stated that the catch-up amount and related surcredits should not be increased by the interest that carriers are collecting on their CHCF-B surcharge revenues. Rather, TURN believes the interest remitted by carriers to the CHCF-B should be used to reduce future surcharge levels.

C. Discussion

We have carefully reviewed the ACR proposal to implement the catch-up surcredits and parties' recommendations for modifying the proposal. Based on this review, we find that the ACR proposal, modified to reduce the duration of

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[32] ORA is mistaken that D.98-07-033 does not require Pacific to true up its permanent rate reductions with its CHCF-B draws. Ordering Paragraph 7 of D.98-07-033 requires Pacific to file an advice letter to true up its permanent rate reductions with Pacific's approved CHCF-B draws for the 12-month period ending August 31, 1998.

the catch-up surcredit from 12 months to three months, is reasonable. We conclude that a catch-up surcredit of three months duration is appropriate because such a surcredit balances the interests of (1) customers of the large LECs who would not fully benefit from a surcredit of longer duration because they would not remain customers of the large LECs for more than three months, and (2) customers who would not fully benefit from a surcredit of shorter duration because they happen to have an unusually small amount of usage or charges during the period the surcredit would be in effect.[33]

We agree with ICG that the catch-up surcredit should be implemented as soon as possible. The catch-up amount due to the ratepayers of the large LECs is approximately $481 million,[34] and no public interest is served by keeping this money from the ratepayers any longer than necessary. Therefore, once AB 2461 is enacted, the Executive Director shall work with the appropriate State agencies to implement as soon as possible (1) the State Fund designated by AB 2461 to receive CHCF-B surcharge revenues remitted by the carriers and (2) the procedures to disburse these revenues to the large LECs (who shall then pass these funds on to their ratepayers via the catch-up surcredits).[35]

When the State Fund is ready to operate, the Director of the Telecommunications Division shall notify the large LECs regarding: (i) when they should cease the monthly draws from their accumulated CHCF-B surcharge revenues; (ii) when they should file advice letters to implement their catch-up

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[33] Any disadvantage to the competitors from the catch-up surcredit is offset by the advantage the competitors gained by the LECs having previously charged rates that included the implicit subsidies used to fund residential service in high cost areas.

[34] Attachment A, Line 10.

[35] If AB 2461 is not enacted into law, the Commission will move ahead in the area of fund administration, consistent with the law.

surcredits; and (iii) the procedures they should follow in order to receive CHCF-B monies from the State Fund. The Telecommunications Division shall review the LEC's advice letters and prepare for our consideration a resolution adopting a catch-up surcredit for each of the large LECs.

As required by D.96-10-066, each LEC's catch-up surcredit shall reduce all of its rates, except for residential basic service and contracts, by an equal percentage.[36] Consistent with our discussion earlier in this decision, the catch-up surcredit for Pacific Bell shall be based on its approved CHCF-B claims for the period of February 1997 through May 1998; and the catch-up surcredits for Citizens, GTE/Contel, and Roseville shall be based on their approved CHCF-B claims for the period of February 1997 through August 1998. The CHCF-B shall disburse the catch-up amount owed to each LEC in three monthly installments paid on the 15th day of each calendar month that the surcredits are in effect. Since the disbursement of catch-up amounts from the CHCF-B and the offsetting surcredits occur over the same period of time, there is no need to accrue interest to reflect a timing difference between these two events.[37]

We adopt TURN's recommendation that the catch-up amounts owed to the large LECs should not include the interest on CHCF-B surcharge revenues that carriers are required to remit pursuant to D.98-01-023 and D.98-04-068. Instead, such interest shall be used to reduce future CHCF-B surcharge levels.

If the CHCF-B initially lacks funds to pay the entire catch-up amount owed to the LECs, the available funds should be disbursed on a pro rata basis

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[36] As a practical matter, the true-up surcredit cannot be applied to coin-sent paid calls, which have been exempted from the CHCF-B surcharge pursuant to D.96-10-066.

determined in accordance with each LEC's catch-up amount relative to the sum of the LECs' catch-up amounts. The remaining catch-up amounts owed to the LECs shall accrue interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday. We shall not adopt ORA's proposal to forgo paying such interest to the extent the large LECs have not previously earned an equivalent amount of interest on their accumulated CHCF-B surcharge revenues.

We agree with Pacific's assessment that there could be a material difference between the approved catch-up amounts and the dollar value of the catch-up surcredits realized by the customers of the large LECs. Therefore, we shall adopt Pacific's proposal to true up the catch-up amounts with the catch-up surcredits. To implement the true up, each large LEC shall file within 60 days from the expiration of its catch-up surcredit an advice letter to amortize over one month, via a surcredit or surcharge, the difference between its approved catch-up amount and the dollar value of the catch-up surcredit realized by its customers.[38] Any difference between the approved catch-up amount and the catch-up surcredit realized by the LEC's customers shall accrue interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday. The true-up surcharge/surcredit shall apply equally to all rates, except for residential basic service, contracts, and coin-sent paid calls which shall not be subject to the true-up surcharge/surcredit.

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[37] Citizens, GTE/Contel, and Roseville should show their permanent and catch-up surcredits as a single line item on customers' bills. Pacific should likewise show its catch-up surcredit as a separate line item on customers' bills.

Finally, we disagree with ICG's proposal that customers who paid the CHCF-B surcharge to the large LECs but then switched to a competitor prior to the implementation of the catch-up surcredits should receive cash payments from the large LECs equal to surcredits the customers would have received had they remained with the large LECs. In essence, what ICG is asking for is a refund. We do not believe it is appropriate to view the catch-up surcredit as a refund to customers. Rather, the surcredit is meant to ensure that incumbent LECs do not realize a windfall from their receipt of CHCF-B draws for prior periods. We are also concerned that the cost to implement ICG's proposal might be too high.[39] Up until now, we have utilized a surcredit/surcharge approach for handling universal service funds due to the proven cost effectiveness of this approach, and we see no reason to alter our approach now.

Findings of Fact

1. In D.96-10-066, the Commission ordered the LECs eligible to receive funding from the CHCF-B to use one of the following two methods to reduce their rates by an amount equal to their anticipated CHCF-B draws: (i) file an advice letter to implement a monthly surcredit to reduce all rates, except for residential basic service and existing contracts, by an equal percentage; or (ii) file an application to propose rates and/or price caps that should be permanently reduced. The Commission also ordered these LECs in D.96-10-066 to establish

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[38] The Telecommunications Division shall prepare for the Commission's consideration a resolution adopting a true-up surcharge/surcredit for each of the large LECs.

[39] The LECs would incur costs to: (a) identify former customers who now subscribe to the LEC's competitors; (b) determine the amount of CHCF-B surcharge paid by these former customers; (c) determine the amount of catch-up surcredit due to these customers; and (d) issue checks to the former customers.

memorandum accounts to track the rate reductions so that a true up with their actual CHCF-B draws can occur if necessary.

2. Pacific filed A.97-03-004 to propose rates and price caps that should be permanently lowered to reflect Pacific's anticipated CHCF-B draws. In D.98-07-033, the Commission adopted permanent price reductions for Pacific to offset to Pacific's anticipated CHCF-B draws.

3. Citizens, GTE/Contel, and Roseville have taken no action to reduce their rates to reflect their anticipated CHCF-B draws.

4. In D.96-10-066, the Commission ordered carriers to implement the CHCF-B surcharge beginning February 1, 1997.

5. In D.97-01-020, the Commission ordered the formation of a trust to receive the CHCF-B surcharge revenues collected by the carriers and to disburse these monies to the large LECs. However, the Commission withheld authorization to form the trust until the IRS granted federal tax-exempt status to the CHCF-B.

6. Assembly Bill 2461 is currently pending before the State Legislature. If enacted, AB 2461 would (i) establish a fund in the State Treasury to receive CHCF-B surcharge revenues and (ii) require the State Controller to disburse these revenues to the large LECs. The enactment of AB 2461 would supercede the Commission's order in D.97-01-020 to form a trust to receive and disburse CHCF-B surcharge revenues.

7. Carriers have collected approximately $557 million in CHCF-B surcharge revenues through August 1998, but none of these revenues have been remitted to the CHCF-B.

8. Citizens, GTE/Contel, Pacific, and Roseville have provided basic exchange service to residential customers in high-cost areas from February 1997 through August 1998 without drawing support from the CHCF-B, resulting in the CHCF-B owing hundreds of millions of dollars to these LECs. However,

since these LECs have not implemented rate reductions to offset their anticipated CHCF-B draws for this same period, they have not been necessarily harmed by the delay in receiving support from the CHCF-B.

9. Citizens, GTE/Contel, Pacific, and Roseville owe funds to the CHCF-B as a result of the CHCF-B surcharge they have levied on their customers.

10. To prevent the further accumulation of CHCF-B surcharge revenues by the carriers and debts by the CHCF-B, the assigned Commissioner issued a ruling which proposed that: (a) Citizens, GTE/Contel, and Roseville implement permanent surcredits beginning December 1, 1998; (b) Citizens, GTE/Contel, Pacific, and Roseville self-fund their permanent rate reductions using the CHCF-B surcharge monies they have been collecting since February 1997 until disbursements from the CHCF-B become available; and (c) each large LEC implement a 12-month catch-up surcredit beginning July 1, 1999, to amortize its actual CHCF-B draws for the period of February 1997 through November 1998.

11. The ACR proposal described in Finding of Fact No. 9, modified to reduce the period of the catch-up surcredit from 12 months to 3 months, is reasonable.

12. On April 28, 1998, the assigned ALJ issued a ruling which required the large LECs to submit their CHCF-B claims within one calendar month plus 15 days after the close of the calendar month for which the claim is made. This ruling also required the large LECs to submit by no later than September 15, 1998, their monthly CHCF-B claims for February 1997 through July 1998.

13. This decision authorizes Pacific to make its first CHCF-B on September 15, 1998, based on Pacific's CHCF-B claim for June 1998. Since Pacific's CHCF-B claim for June 1998 is not due to be submitted by Pacific until September 15, 1998, the CHCF-B Administrative Committee will not have had

time to review and approve Pacific's June 1998 CHCF-B claim prior to Pacific making its draw based on this claim.

14. All carriers are required by D.98-01-023 and D.98-04-068 to accrue and remit interest on the CHCF-B surcharge revenues they are holding based on the seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday.

15. To the extent the large LECs self-fund their permanent rate reductions with the CHCF-B surcharge revenues they are holding, these monies will not be available to accrue interest for later remittance to the CHCF-B in accordance with D.98-01-023 and D.98-04-068.

16. Since this decision requires Citizens, GTE/Contel, and Roseville to implement permanent surcredits based on their approved CHCF-B claims for the 12-month period ending July 31, 1998, there is no need to for these LECs to true up their permanent surcredits with their actual CHCF-B draws.

17. Allowing Citizens, GTE/Contel, and Roseville to file applications for targeted rate reductions to offset their CHCF-B draws in lieu of across-the-board surcredits would increase the likelihood of achieving the Commission's stated goal in D.96-10-066 that the large LECs should use the monies they receive from the CHCF-B to remove the implicit subsidies in their rates that were previously used to fund residential service in high-cost areas.

18. Spreading the catch-up surcredit over three months instead of a longer period of time reduces the number of customers of the large LECs who paid the CHCF-B surcharge since February 1997 but who do not receive the full catch-up surcredit because they do not remain customers of the large LECs for the entire period of time that the catch-up surcredit is in effect.

19. Spreading the catch-up surcredit over three months instead of a shorter period of time reduces the number of customers who would not fully benefit

from the surcredit because they happen to have an unusually small amount of usage or charges during the period in which the surcredit is in effect.

20. The interest that carriers are required to remit on their CHCF-B surcharge revenues pursuant to D.98-01-023 and D.98-04-068 can be used to set future surcharge levels.

21. Since this decision requires that the disbursement of catch-up amounts from the CHCF-B and the offsetting catch-up surcredits occur over the same period of time, there is no need to accrue interest to reflect a timing difference between these two events.

22. If the CHCF-B lacks funds to pay the entire catch-up amount owed to the LECs, the large LECs will incur costs to finance the difference between the catch-up surcredits that this decision orders them to implement and the disbursements that they will receive from the CHCF-B.

23. There could be a material difference between the approved catch-up amounts and the dollar value of the catch-up surcredits realized by the customers of the large LECs.

24. As a practical matter, none of the surcharges and surcredits ordered by this decision can be applied to coin-sent paid calls, which have been exempted from the CHCF-B surcharge pursuant to D.96-10-066.

Conclusions of Law

1. Citizens, GTE/Contel, and Roseville should file advice letters by September 21, 1998, to implement permanent surcredits beginning on December 1, 1998. Each LEC's surcredit should: (i) reduce all of the LEC's rates, except for residential basic service, contracts, and coin-sent paid calls, by an equal percentage; and (ii) be based on the average of the LEC's approved

monthly claims submitted to the CHCF-B for the 12-month period ending July 31, 1998.

2. The Telecommunications Division should review the advice letters submitted by Citizens, GTE/Contel, and Roseville, and prepare a resolution adopting permanent surcredits for each of these LECs.

3. The CHCF-B Administrative Committee should review the CHCF-B claims submitted by Citizens, Contel, GTE, and Roseville for the 12-month period ending July 31, 1998, and report its findings to the Director of the Telecommunications Division. If material issues arise from the Committee's review of these claims, the permanent surcredits should be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon the resolution of these issues.

4. Until the CHCF-B commences disbursements to Citizens, GTE/Contel, Pacific, and Roseville, the large LECs should self-fund their permanent rate reductions by making monthly draws from the CHCF-B surcharge revenues they have been collecting and accumulating since February 1997.

5. The LECs' monthly draws from their accumulated CHCF-B surcharge revenues should occur on the 15th calendar day of each month. Pacific should commence its monthly draws on September 15, 1998, and the other large LECs should commence their monthly draws on December 15, 1998.

6. Each large LEC's monthly draws from its accumulated CHCF-B surcharge revenues should equal the amount of the LEC's monthly CHCF-B claim that has been approved by the CHCF-B Administrative Committee.

7. The CHCF-B Administrative Committee should review each CHCF-B monthly claim submitted by a large LEC. Upon completion of its review of each monthly claim, the Committee should provide written notice to the LEC

submitting the claim regarding the amount of the claim that the LEC is authorized to draw from its accumulated CHCF-B surcharge revenues.

8. Beginning with CHCF-B claims for the month of August 1998, the large LECs should submit their monthly CHCF-B claims to the CHCF-B Administrative Committee within one calendar month plus 15 days from the close of the month for which the claim is made.

9. Each large LEC should be authorized to draw the amount of its timely submitted CHCF-B claim two calendar months plus 15 days after the close of the month for which the claim is timely submitted. If the CHCF-B Administrative Committee cannot complete its review of a LEC's timely submitted claim prior to this date, the LEC should be authorized to draw the full amount of its claim from its accumulated CHCF-B surcharge monies pending the review and approval of its claim by the Committee.

10. If a large LEC makes a draw from its accumulated CHCF-B revenues based on a CHCF-B claim that has not yet been reviewed by the CHCF-B Administrative Committee, and the Committee later determines the LEC is entitled to less than the amount of its claim, the LEC should immediately refund the amount of its claim that has been disapproved by the Committee plus interest based on the seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday.

11. The large LECs should not have to comply with the requirement in D.98-01-023 and D.98-04-068 to accrue and remit interest on their accumulated CHCF-B surcharge revenues to the extent these monies are used to pay CHCF-B claims approved by the CHCF-B Administrative Committee.

12. Pacific's first draw on September 15, 1998, from its accumulated CHCF-B surcharge revenues should be based on its CHCF-B claim for the month of June 1998. Once the CHCF-B Administrative Committee completes its review of

Pacific's June 1998 claim, Pacific should immediately refund any amount of the claim disapproved by Committee, plus interest determined in accordance with Conclusion of Law No. 10.

13. Citizens', GTE/Contel's, and Roseville's first draws on December 15, 1998, should be based on their CHCF-B claims for the month of September 1998.

14. The LECs' self-funding mechanism should remain in effect until the enactment and implementation of AB 2461. Once AB 2461 is implemented, the LECs should remit their CHCF-B surcharge revenues to the CHCF-B, and fund their permanent rate reductions with disbursements from the CHCF-B.

15. The large LECs should continue to make their draws on the 15th day of each calendar month in accordance with Conclusions of Law Nos. 1 through 13 until the commencement of disbursements from the CHCF-B.

16. There should be no true up of Citizen's, GTE/Contel's, and Roseville's permanent surcredits with their actual CHCF-B draws. If there is no true up, there is no reason for these LECs to implement the true-up memorandum accounts ordered in D.96-10-066.

17. Citizens, GTE/Contel, and Roseville should be allowed no more than 24 months from the effective date of this decision to file applications to reduce their rates and price ceilings by an amount equal to their approved CHCF-B draws. The size of the rate reductions proposed in any such application should be based on the LEC's actual CHCF-B draws during the most recent 12-month period for which data is available at the time the application is filed.

18. The enactment of AB 2461 would supercede the Commission's order in D.97-01-020 to form a trust to receive and disburse CHCF-B surcharge monies.

19. Once AB 2461 is enacted, the Executive Director should coordinate with the appropriate State agencies to implement, as soon as possible, the Fund in the

State Treasury to receive CHCF-B surcharge revenues and the procedures to disburse these revenues to the large LECs.

20. Once the State Fund is ready to operate, the Director of the Telecommunications Division should notify each large LEC regarding: (i) when the large LEC should cease its monthly draws from its accumulated CHCF-B surcharge revenues; (ii) when the large LEC should file an advice letter to implement its catch-up surcredit; and (iii) the procedures the large LEC should follow in order to receive CHCF-B monies from the State Fund.

21. The Telecommunications Division should review the advice letters submitted by the large LECs to implement their catch-up surcredits and prepare for the Commission's consideration a resolution adopting a catch-up surcredit for each of the large LECs.

22. Each LEC's catch-up surcredit should be implemented over three calendar months and reduce all of its rates, except for residential basic service, contracts, and coin-sent paid calls by an equal percentage.

23. The catch-up surcredit for Pacific Bell should be based on its approved CHCF-B claims for the period of February 1997 through June 1998; and the catch-up surcredits for Citizens, GTE/Contel, and Roseville should be based on their approved CHCF-B claims for the period of February 1997 through August 1998.

24. The catch-up amounts owed to the large LECs should not include the interest on CHCF-B surcharge revenues that carriers are required to accrue and remit pursuant to D.98-01-023 and D.98-04-068. Instead, such interest should be used to reduce future CHCF-B surcharge levels.

25. The CHCF-B should disburse the catch-up amount owed to each LEC in three monthly installments paid on the 15th day of each calendar month that the LEC's catch-up surcredit is in effect.

26. If the CHCF-B initially lacks funds to pay the entire catch-up amounts owed to the LECs, the available funds should be disbursed on a pro rata basis determined in accordance with each LEC's catch-up amount relative to the sum of the LECs' catch-up amounts. The remaining catch-up amounts owed to the LECs should accrue interest equal to the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday.

27. Each large LEC should true up its catch-up surcredit with the catch-up amount approved by the CHCF-B Administrative Committee. Any difference between the dollar value of the catch-up surcredit realized by the LEC's customers and the approved catch-up amount should accrue interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday. To implement the true up, each large LEC should file an advice letter within 60 days from the expiration of its catch-up surcredit. Each large LEC should propose in its advice letter a one-month surcharge or surcredit, as appropriate, to amortize the true-up amount. The true-up surcharge/surcredit should apply equally to all rates, except for residential basic service and contracts which should not be subject to the surcharge/surcredit.

28. Citizens, GTE/Contel, and Roseville should show their permanent and catch-up surcredits as a single line item on customers' bills. Pacific should show its catch-up surcredit as a separate line item on customers' bills.

29. The large LECs should maintain the rate reductions ordered by this decision and D.97-07-033 for the same period of time that they receive subsidies from the CHCF-B.

30. The following order should be effective immediately.

INTERIM ORDER

IT IS ORDERED that:

1. Citizens Telephone Company (Citizens), GTE California Incorporated/Contel Telephone Company (GTE/Contel), and Roseville Telephone Company (Roseville) shall each file an advice letter by September 21, 1998, to implement a permanent surcredit beginning on December 1, 1998. Each company's permanent surcredit shall be based on the average of the company's approved monthly claims submitted to the California High Cost Fund-B (CHCF-B) for the 12-month period ending July 31, 1998. Each company's surcredit shall reduce all of its rates, except for residential basic service, contracts, and coin-sent paid calls, by an equal percentage.

2. The Telecommunications Division shall review the advice letters submitted by Citizens, GTE/Contel, and Roseville pursuant to Ordering Paragraph No. 1, and prepare for the Commission's consideration a resolution adopting a permanent surcredit for each of these companies.

3. The CHCF-B Administrative Committee shall review the CHCF-B claims submitted by Citizens, GTE/Contel, and Roseville for the 12-month period ending July 31, 1998, and report its findings to the Director of the Telecommunications Division. If material issues arise from the Committee's review of the CHCF-B claims, these companies' permanent surcredits shall be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon the resolution of these issues.

4. Until disbursements become available from the CHCF-B, Citizens, GTE/Contel, and Roseville shall each self-fund its permanent surcredit by making monthly draws from the CHCF-B surcharge revenues it has been

collecting and accumulating since February 1997. The monthly draws shall occur on the 15th day of each calendar month, with the first draw occurring on December 15, 1998.

5. Until disbursements become available from the CHCF-B, Pacific Bell (Pacific) shall self-fund the rate reductions ordered by the Commission in Decision (D.) 98-07-033 by making monthly draws from the CHCF-B surcharge revenues that Pacific has been collecting and accumulating since February 1997. Pacific's monthly draws shall occur on the 15th day of each calendar month, with the first draw occurring on September 15, 1998.

6. The monthly draws by Citizens, GTE/Contel, Pacific, and Roseville (the large Local Exchange Carriers) from their accumulated CHCF-B surcharge revenues shall be based on their monthly claims submitted to the CHCF-B. The actual monthly draw by each large Local Exchange Carrier (large LEC) shall equal the amount of the large LEC's monthly claim that has been approved by the CHCF-B Administrative Committee.

7. The CHCF-B Administrative Committee shall review each monthly claim submitted by the large LECs. Upon completion of its review of each monthly claim, the Committee shall provide written notice to the large LEC submitting the claim regarding the amount of the claim that the LEC is authorized to draw from its accumulated CHCF-B surcharge revenues.

8. Beginning with CHCF-B claims for the month of August 1998, the large LECs shall submit their monthly CHCF-B claims to the CHCF-B Administrative Committee within one calendar month plus 15 days from the close of the calendar month for which the claim is made.

9. For each calendar month for which a large LEC timely submits a CHCF-B claim, the large LEC may draw the amount of its claim that has been approved by the CHCF-B Administrative Committee two calendar months plus 15 days

after the close of the month for which the claim is submitted. If the Committee cannot complete its review of a LEC's claim prior to this date, the LEC may draw the full amount of its claim from its accumulated CHCF-B surcharge revenues.

10. If a large LEC draws from its accumulated CHCF-B revenues based on a CHCF-B claim that has not yet been reviewed by the CHCF-B Administrative Committee, and the Committee later determines the LEC is entitled to less than the full amount of its claim, the LEC shall immediately refund the amount of its claim disapproved by the Committee, plus interest based on the seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday.

11. Pacific's first draw on September 15, 1998, from its accumulated CHCF-B surcharge revenues shall be based on its CHCF-B claim for the month of June 1998. Once the CHCF-B Administrative Committee completes its review of Pacific's June 1998 claim, Pacific shall immediately refund any amount of the claim disapproved by the Committee , plus interest determined in accordance with Ordering Paragraph no. 10.

12. Citizens', GTE/Contel's, and Roseville's first draws on December 15, 1998, from their accumulated CHCF-B surcharge revenues shall be based on their approved CHCF-B claims for the month of September 1998.

13. The large LECs shall continue to make their CHCF-B draws on the 15th day of each calendar month in accordance with Ordering Paragraphs Nos. 1 through 12 until they are instructed to cease their draws by Director of the Telecommunications Division pursuant to Ordering Paragraph No. 19.

14. The large LECs shall not have to comply with the requirement in D.98-01-023 and D.98-04-068 to accrue and remit interest on their accumulated CHCF-B surcharge revenues to the extent these monies are used to pay CHCF-B claims approved by the CHCF-B Administrative Committee.

15. Citizens, GTE/Contel, and Roseville shall not true up their permanent surcredits with their actual draws from the CHCF-B. These three companies are relieved of their obligation to implement the true-up memorandum accounts required by Ordering Paragraph 8.f. of D.96-10-066.

16. The interest on CHCF-B surcharge revenues that carriers are required to accrue and remit pursuant to D.98-01-023 and D.98-04-068 shall be used in setting future CHCF-B surcharge levels.

17. Citizens, GTE/Contel, and Roseville may file applications within 24 months from the effective date of this order to reduce their rates and price ceilings by an amount equal to their actual CHCF-B draws. The size of the rate reductions proposed in any such application shall be based on the LEC's actual CHCF-B draws during the most recent 12-month period for which data is available at the time the application is filed.

18. Once Assembly Bill (AB) 2461 is enacted, the Executive Director shall coordinate with the appropriate State agencies to implement as soon as possible (i) a Fund in the State Treasury to receive CHCF-B surcharge revenues remitted by the carriers and (ii) procedures to disburse these revenues to the large LECs.

19. When the State Fund established pursuant to AB 2461 to receive and disburse CHCF-B surcharge revenues is ready to operate, the Director of the Telecommunications Division shall provide written instructions to the each large LEC regarding: (i) when the large LEC shall cease its monthly draws from its accumulated CHCF-B surcharge revenues; (ii) when the large LEC shall file an advice letter to implement its catch-up surcredit; and (iii) the procedures the large LEC shall follow in order to receive CHCF-B monies from the State Fund.

20. Each large LEC shall file an advice letter to implement its catch-up surcredit in accordance with the instructions issued by the Director of the

Telecommunications Division pursuant to Ordering Paragraph No. 19. Each large LEC shall implement its catch-up surcredit over three calendar months.

21. The catch-up surcredit for Pacific shall be based on its approved monthly CHCF-B claims for February 1997 through May 1998. The catch-up surcredits for Citizens, GTE/Contel, and Roseville shall be based on their approved monthly CHCF-B claims for February 1997 through August 1998. Each company's surcredit shall reduce all of its rates, except for residential basic service, contracts, and coin-sent paid calls, by an equal percentage.

22. The Telecommunications Division shall review the advice letters submitted by the large LECs pursuant to Ordering Paragraph 20, and prepare for the Commission's consideration a resolution adopting a catch-up surcredit for each of the large LECs.

23. The CHCF-B shall disburse the catch-up amount owed to each large LEC in three monthly installments paid on the 15th day of each calendar month that the LEC's catch-up surcredit is in effect.

24. If the CHCF-B initially lacks funds to pay the entire catch-up amount owed to the large LECs, the available funds shall be disbursed on a pro rata basis determined in accordance with each LEC's catch-up amount relative to the sum of the LECs' catch-up amounts. The remaining catch-up amounts owed to the LECs shall accrue interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday.

25. Each large LEC shall true up its catch-up surcredit with the catch-up amount approved by the CHCF-B Administrative Committee. Any difference between the aggregate dollar value of the catch-up surcredit realized by the LEC's customers and the approved catch-up amount shall accrue interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday. To implement the true up,

each large LEC shall file an advice letter within 60 days from the expiration of its catch-up surcredit. Each large LEC shall propose in its advice letter a one-month surcharge or surcredit, as appropriate, to amortize the true-up amount. The true-up surcharge/surcredit shall apply equally to all rates, except for residential basic service and contracts which shall not be subject to the surcharge/surcredit.

26. The Telecommunications Division shall review the advice letters submitted by the large LECs pursuant to Ordering Paragraph 25, and prepare for the Commission's consideration a resolution adopting a true-up surcredit/surcharge for each of the large LECs.

27. Citizens, GTE/Contel, and Roseville shall show their permanent and catch-up surcredits as a single line item on customers' bills. Pacific shall show its catch-up surcredit as a separate line item on customers' bills.

28. The large LECs shall file advice letters within 60 days from the effective date of this decision containing tariffs which require the LECs to maintain their permanent rate reductions for the same number of months they receive monies from the CHCF-B ("CHCF-B rate reduction tariffs"). The Telecommunications Division shall review the advice letters and, if necessary, prepare for the Commission's consideration a resolution adopting CHCF-B rate reduction tariffs.

This order is effective today.

Dated September 3, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

Attachment A

CASH FLOW ASSOCIATED WITH CHCF-B PERMANENT SURCREDIT AND CATCH-UP SURCREDIT

(Pacific's Permanent Rate Reduction Effective 9/1/98 & other LEC's Permanent Surcredits Effective 12/1/98)

	Pacific ($ million)	GTE/Contel ($ million)	Roseville ($ million)	Citizens ($ million)
I. Permanent Surcredits				
1. Annual Draw Per D.96-10-066	$305.24	$43.56	$0.52	$2.51
2. Monthly Draw (line 1 ÷ 12)	$25.44	$3.63	$0.04	$0.21
3. 1998 Intrastate Billing Base per Price Cap Resolutions	$6,050.46	$1,977.81	$60.10	$50.82
4. Intrastate Revenues Subject to Surcharge, estimated (line 3 * 0.8, assuming 20% of revenues were access revenues not subject to surcharge)	$4,840.37	$1,582.25	$48.08	$40.66
5. Surcharge Collected, estimated (Line 4 * 0.0267 * # of months)	$196.80 (2/97 thru 6/98)	$75.68 (2/97 thru 9/98)	$2.30 (2/97 thru 9/98)	$1.94 (2/97 thru 9/98)
6. Surcharge Collection Per Month	$11.58	$3.98	$0.12	$0.10
7. Internal Monthly Surplus or (Deficit) (line 2 - line 6)	($13.86)	$0.35	$0.08	($0.11)
8. Months to use up prior surcharges (line 5 ÷ line 7)	14.20	Indefinite	Indefinite	18.21
9. Permanent Surcredit Rate, estimated (line 1 ÷ (line 3 * 0.8), assuming 20% of revenues are residential basic not subject to surcredit)	not applicable (permanent rate reductions effective 9/1/98 funded by CHCF B claims starting June 1998)	2.75% (effective 12/1/98 funded by CHCF-B claim period starting September 1998)	1.07% (effective 12/1/98 funded by CHCF-B claim period starting September 1998)	6.18% (effective 12/1/98 funded by CHCF-B claim period starting September 1998)
II. Catch-Up Surcredits				
10. Draws, estimated (line 2 * appropriate # of months)	$407 (2/97 thru 5/98)	$69 (2/97 thru 8/98)	$0.82 (2/97 thru 8/98)	$3.97 (2/97 thru 8/98)
11. 3-Month Surcredit, estimated (line 10 ÷ (line 3 * 0.8/12*3), assuming 20% of line 3 is residential basic service not subject to surcredit)	33.63%	17.44%	6.85%	39.10%

(END OF ATTACHMENT A)