

Decision 99-04-016 April 22, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Annual Depreciation
Application of Roseville Telephone Company.
(U 1015 C)

Application 98-12-026
(Filed December 23, 1998)

OPINION

ORIGINAL

Summary

The application is dismissed. Roseville Telephone Company shall continue to use current depreciation rates, and need not file another depreciation rate review application unless certain events occur as specified herein. This proceeding is closed.

Background

Ordering Paragraph 5 of Decision (D.) 96-12-074 requires that Roseville Telephone Company (Roseville) file an annual application for review of its depreciation rates. The application is due on or before June 30 of each year, for approval of depreciation rates to become effective January 1 of the following year. Ordering Paragraph 7 of the same decision directs that Roseville is to be regulated under the principles of the new regulatory framework (NRF) for telephone utilities.

By letter dated June 24, 1998, the Executive Director granted Roseville an extension of time to file the depreciation application otherwise due by June 30, 1998. The revised time for filing the application was no later than 60 days after the Commission rendered its decision in Rulemaking 98-03-040 (the third triennial NRF review for Pacific Bell (Pacific) and GTE California, Incorporated (GTEC)). That order was adopted on October 8, 1998. By letter dated

December 4, 1998, the Executive Director granted Roseville an additional extension of time to file its depreciation application until December 24, 1998.

Roseville timely filed this application on December 23, 1998. The application requests approval to change depreciation rates in three plant accounts, and to maintain current depreciation rates in all other plant accounts, resulting in an overall increase in depreciation expenses of \$335,298.¹ Roseville requests this change be made effective January 1, 1999. Notice of the application was printed in the Daily Calendar on January 7, 1999.

Roseville proposed that the application be categorized as ratesetting (Rule 5(c) of the Commission's Rules of Practice and Procedure), and that no hearing be held. On January 7, 1999, the Commission preliminarily categorized the matter as ratesetting with no hearing needed.²

On February 8, 1999, the Office of Ratepayer Advocates (ORA) filed a timely protest. ORA recommends that the application be denied because, according to ORA, the application is incomplete and Roseville fails to use proper depreciation study techniques. ORA agrees the matter should be categorized as ratesetting. ORA, however, disagrees with the conclusion that no hearing is necessary. Rather, ORA says no hearing is necessary if the Commission denies the application based on Roseville's failure to justify the proposed depreciation rate changes; otherwise, if the Commission elects to determine whether or not to adopt Roseville's proposed depreciation rate changes, a hearing is needed.

¹ This is an increase in total operating expenses of 0.6%, based on test year 1996 expenses adopted in Decision 96-12-074.

² Resolution ALJ 176-3007 (January 7, 1999), reported in the Daily Calendar on January 12, 1999.

On February 18, 1999, Roseville filed a reply to ORA's protest. Roseville points out that the Commission has now eliminated depreciation reviews for Pacific and GTEC, and Roseville says it agrees that depreciation reviews are no longer appropriate for telephone utilities regulated under NRF.³ Consequently, Roseville says it would not object to ORA's suggestion that the Commission dismiss the application without further proceedings.

If the Commission desires to go forward, however, Roseville suggests it meet with ORA to resolve differences regarding additional information necessary to satisfy ORA's concerns, with a subsequent report to the assigned Administrative Law Judge. According to Roseville, a decision can then be made whether further filings and proceedings are necessary. At the same time, Roseville asserts its depreciation methodology is correct, but that the impact of the disagreement with ORA cannot be determined without further assessment. Roseville believes further discussions with ORA would be helpful in that case, unless the Commission first dismisses the application.

The draft decision of Administrative Law Judge Mattson in this matter was mailed to the parties on March 18, 1999, in accordance with Public Utilities Code Section 311(g) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed by Roseville on April 7, 1999. No reply comments were filed. We make changes herein consistent with Roseville's comments, thereby generally giving Roseville 90 days (rather than 30 days) to file a subsequent depreciation application if one becomes necessary.

³ D.98-10-026.

Discussion

We dismiss the application without requiring further expenditure of limited time and resources by Roseville, ORA, advisory staff or the Commission. Additional effort in this area appears unwarranted and unreasonable for the following reasons.

Depreciation rates under NRF regulation are primarily relevant for calculating the sharing of earnings with ratepayers above certain levels. Roseville's sharing advice letters have not shown Roseville's earnings to be in a sharing range.⁴ An increase in depreciation rates and expenses will only further reduce Roseville's earnings for sharing purposes. Roseville is apparently willing to take whatever additional risk there may be of sharing its earnings with ratepayers by not objecting to the application being dismissed. In that sense, dismissal of the application benefits ratepayers.

Moreover, Roseville filed an application for review of its NRF on March 8, 1999. Roseville proposes that we there consider the elimination of depreciation reviews, and the suspension of sharing. We do not decide those issues here. There is some chance, however, that Roseville's depreciation reviews will be eliminated and sharing will be suspended, just as they have been for Pacific and GTEC.⁵

⁴ For example, Roseville's March 31, 1998 Advice Letter No. 415 reported that Roseville's calendar year 1997 actual intrastate rate of return was 9.05%, compared to a NRF benchmark for 50/50 sharing of 11.50%, and an earnings cap of 15.00%. Roseville's March 31, 1999 Advice Letter No. 445 reported that Roseville's calendar year 1998 actual intrastate rate of return was 10.02%, compared to a NRF sharing benchmark of 11.50%, and an earnings cap of 15.00%.

⁵ D.98-10-026.

It would be an unwise use of scarce resources to review depreciation rates now if depreciation rate reviews, and sharing, are soon eliminated and/or suspended. Rather, limited resources should be focused on the NRF review application and other proceedings. Since dismissal of this application actually increases the chances, in the interim, of sharing earnings with ratepayers, a more reasonable use of limited resources is to dismiss this application. We will undertake further review of Roseville's depreciation rates only if we decline to eliminate or suspend depreciation reviews in Roseville's NRF proceeding.

In the meantime, we will retain Roseville's depreciation rates at current levels. They were last found reasonable in D.97-12-029, just slightly over one year ago. We think it unlikely that major changes have occurred in such a short time.

Since we may consider elimination of depreciation rate reviews in Roseville's NRF application, Roseville should not necessarily be required to file another depreciation review application until the issue is there addressed in one of two ways. First, if the Scoping Memo and Ruling of the Assigned Commissioner in the NRF review proceeding does not include depreciation rate review as an issue, depreciation rate reviews for Roseville are continued (at least until a subsequent NRF review). Roseville should then file its depreciation rate review application within 90 days of the date the Scoping Memo is filed. Second, if the issue is included in the Scoping Memo, Roseville should file its depreciation rate review application within 90 days after the NRF review decision is issued if the decision continues depreciation reviews, unless ordered otherwise.

Findings of Fact

1. Roseville requests an increase in depreciation expenses of \$335,298 effective January 1, 1999.
2. Roseville does not object to the application being dismissed.

3. Depreciation rates under NRF are primarily relevant for calculating the sharing of earnings with ratepayers.

4. An increase in depreciation rates and expenses will reduce Roseville's earnings for the purposes of sharing with ratepayers.

5. Roseville filed an application for review of its NRF on March 8, 1999.

6. Roseville proposes in its NRF proceeding the elimination of depreciation rate reviews and the suspension of sharing.

7. Thorough examination of NRF review issues (including the elimination of depreciation rate reviews and the suspension of sharing, to the extent included in the Scoping Memo and Ruling of the Assigned Commissioner) is a better use of the limited resources of Roseville, ORA, advisory staff and the Commission than consideration here of changing Roseville's depreciation rates, particularly since dismissal of the application actually increases the chances in the interim of sharing earnings with ratepayers, which is a risk that Roseville accepts by not objecting to the dismissal of this application.

Conclusions of Law

1. This application should be dismissed.

2. Roseville's depreciation rates should continue at current levels.

3. Roseville should not be required to file a depreciation rate review application unless elimination or suspension of depreciation rate reviews is not an issue in the Scoping Memo and Ruling of the Assigned Commissioner in Roseville's NRF proceeding, or unless the decision in Roseville's NRF proceeding continues depreciation rate reviews.

4. Unless directed otherwise, Roseville should file its next application for review of its depreciation rates within 90 days of (a) the date the Scoping Memo in Roseville's NRF review proceeding is filed if depreciation rate reviews are not

an included issue, or (b) the date Roseville's NRF decision is issued if depreciation reviews are continued by that order.

5. This order should be effective today to facilitate efficient use of time and resources in this proceeding, the NRF proceeding, and other proceedings.

O R D E R

IT IS ORDERED that:

1. This application is dismissed.
2. Roseville Telephone Company (Roseville) shall continue to use current depreciation rates.
3. Unless later directed otherwise, Roseville shall file its next depreciation rate review application within 90 days of (a) the date the Scoping Memo in Roseville's new regulatory framework (NRF) review proceeding is filed if depreciation rate reviews are not an included issue, or (b) the date Roseville's NRF decision is issued if depreciation reviews are continued by that order.
4. This proceeding is closed.

This order is effective today.

Dated April 22, 1999, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners