

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Telecommunications Branch

RESOLUTION NO. T-13038
December 19, 1988

R E S O L U T I O N

ORDER AUTHORIZING 1989 INTRASTATE HIGH COST FUND REVENUE REQUIREMENT OF \$12,562,219; INCREMENTAL INCREASE IN CARRIER COMMON LINE CHARGE OF \$0.0007 PER MINUTE; AND REVISIONS TO LOCAL EXCHANGE COMPANIES BASIC EXCHANGE RATES AND INTRALATA BILLING SURCHARGE/SURCREDIT.

SUMMARY

This resolution authorizes Pacific Bell, GTE California (GTEC) and GTE West Coast to increase their Carrier Common Line Charge (CCLC) by an increment of \$0.0007 per minute to provide funds for the 1989 intrastate High Cost Fund (HCF) revenue requirement of \$12,562,219. The increment, when added to the current HCF element of \$0.0001 in the CCLC rates becomes \$0.0008 effective January 1, 1989.

In addition, this resolution authorizes local exchange companies to revise their local exchange rates while maintaining the average one party residence flat rate of 150% of comparable California urban rate or revise the intraLATA billing surcharge/surcredit to compensate for the net positive or negative settlements effects for 1989. Each local exchange company's advice letter request is discussed below and summarized in Appendix A of this resolution.

BACKGROUND

By Decision No. 88-07-022, dated July 8, 1988 the Commission adopted the intrastate HCF mechanism stating in Ordering Paragraph No. 64:

"64. The proposed modifications to the intrastate HCF mechanism adopted in D.85-06-115, as described in the foregoing opinion, are hereby adopted and shall be implemented in the manner described in Appendix B of this decision."

Page 2 of Appendix B of D.88-07-022, requires each local exchange company to file an advice letter incorporating the net settlements effects upon its company of regulatory changes ordered by the Commission and the Federal Communications Commission (FCC). Page 2 of Appendix B states:

"These advice letter filings will include previously authorized annual filings for interLATA SPF to SLU shifts set forth in D.85-06-115 as well as all other regulatory changes of

industry-wide effect such as changes in levels of interstate high cost funding, interstate NTS assignment, other FCC-ordered changes in separations and accounting methodology and Commission-ordered changes such as rate changes affecting access charges, intraLATA toll or EAS settlements revenues, interLATA separations shifts and the effects of other Commissions decisions which increase or decrease settlements revenues or cost assignments."

"The advice letter and supporting workpapers shall also set forth proposed revisions to the company's local exchange rate design to compensate for the net positive or negative settlements effects while maintaining the overall rate design within the 150% guidelines as most recently defined Commission decision and further calculating any resultant increases or decreases in the company's HCF funding requirements."

In addition the following sentence was added to the end of Section B of Appendix B by our decision dated December 9, 1988 which addressed the Petition for Modification filed on November 1, 1988 by twelve small independent local exchange telephone companies (LEC)[1]:

"For good cause, a company may propose in its advice filing that in lieu of increases or decreases to its recurring intraLATA exchange rates it instead be authorized to utilize a surcharge or surcredit to reflect the net revenue change. In addition, a company may choose to limit any surcredit to 50% of its total intraLATA billing base even where that is insufficient to deplete an existing memorandum account."

On various dates in October 1988, having requested and been granted an extension, twenty LECs filed their advice letter as required by Appendix B of D. 88-07-022 which sets forth their 1989 net settlement effect and requests for 1989 HCF support and/or revisions to the basic exchange rates and intraLATA billing surcharge/surcredit. Of the 20 LECs, 5 LECs requested intrastate HCF support to recover their 1989 net settlement effects totaling \$12,688,342 which is revised to \$12,562,219. A summary of each LEC advice letter filing and requests is shown in Appendix A.

In compliance with the aforementioned Ordering Paragraph No. 64, both Pacific and GTEC filed an advice letter on November 1, 1988 requesting authority to increase the HCF element in the CCLC by an increment of \$0.0007 to fund the intrastate HCF for recovery of the requested 1989 net settlement effects. Pacific filed Advice Letter (AL) No. 15474 and GTEC filed AL No. 5177. A similar request was filed by GTE West

1 The companies are CP National, Evans Telephone Company, GTE West Coast Incorporated, Happy Valley Telephone Company, Hornitos Telephone Company, Kerman Telephone Co., Pinnacles Telephone Company, Sierra Telephone Company, The Siskiyou Telephone Company, Toulumne Telephone Company, The Volcano Telephone Company, and Winterhaven Telephone Company.

Coast on November 7, 1988 in AL No. 317 and Supplement on November 18, 1988.

To date, the Commission has not received any protest to the advice letter filings of the twenty LECs, to Pacific's AL No. 15474, to GTEC's AL No. 5177 or to GTE West Coast AL No. 317.

DISCUSSION

The intrastate HCF, as adopted and set forth in Appendix B of D.88-07-022, provides financial support to LECs whose customers Basic Exchange Access Line Service rates would necessarily be increased to recover loss settlement revenues at a level threatening universal service. Appendix B of D.88-07-022 authorizes each LEC to make an annual advice letter filing by October 1 of each year that proposes a rate design and requests for HCF support to reflect the net increase or decrease in settlement revenues upon its company irrespective of its current earnings. The LECs are allowed up to three years to make a general rate filing before their HCF is affected. The LECs are permitted to recover 100% of the revenue requirement effect from the intrastate HCF for the years 1988 through 1990. The amount of recovery from the intrastate HCF is reduced to 80%, 50% and 0% over the next three succeeding years if the LEC has not initiated a general rate proceeding by December 31 of the previous year. Authorizations granted in this resolution are made irrespective of each LEC's current earnings which have not been reviewed or adopted as reasonable since that issue is normally undertaken in a general rate proceeding.

Twenty LECs except Pacific and GTEC filed advice letters as required by the guidelines and procedures for intrastate HCF set forth in Appendix B of D.88-07-022. These advice letters have been summarized in Appendix A of this resolution. Appendix A indicates that five LECs have requested intrastate HCF support; 10 LECs have requested an intralATA billing surcredit; 2 LECs requested no intrastate HCF; one LEC has requested to reduce Basic Exchange Access Line Service (BEALS) rates; one LEC requested to increase BEALS rates; and one LEC has requested using memorandum account. Each of these are discussed below.

REQUEST FOR HCF

The 5 LECs requesting intrastate HCF to recover their 1989 positive net settlement effects^[2] totaling \$12,688,342 and revised to \$12,562,219 are: Roseville Telephone Company, \$3,141,180; Citizens Utilities Company of California, \$9,361,234 as amended to \$9,235,111; Sierra Telephone Company, \$80,879; The Volcano Telephone Company, \$88,650; and Foresthill Telephone Company, \$16,399. In addition, to

2 As shown in Appendix A, a positive net settlement effect denotes a need for intrastate HCF support and/or increase rates. A negative net settlement effect denotes a need to decrease rates.

be eligible for intrastate HCF each LEC is required by D.88-07-022, to propose a rate design that will increase its BEALS rates by a uniform percentage up to 100%, rounded to the nearest \$.05 while maintaining the 150% threshold level of comparable urban rates, a standard measured generally by a 1-R flat rate of Pacific's present \$8.35 per month. Except for Foresthill whose present average residence flat rate of \$13.18 and Citizens of \$12.75 which exceed the 150% threshold level, the other 3 LECs propose to increase their BEALS rates by a uniform percentage such that the residence flat rate is increased up to \$12.55 per month. Listed below is each LEC present 1-R flat rates, the proposed rates and the percent increase:

	<u>Present 1-R Rate</u>	<u>Proposed 1-R Rate</u>	<u>% Increase</u>
Roseville	\$12.45	\$12.55	0.8%
Sierra	10.60	12.55	18.4
Volcano	7.80	12.55	61.0
	8.85	12.55	42.0
	9.90	12.55	27.0

The proposed increases in BEALS rates are reasonable and are in compliance with D.88-07-022.

Included in Citizens \$9,361,234 request is \$5,691,899 from eliminating the USOA balancing account filed in AL No. 453 which was rejected on October 24, 1988 for non-compliance for failing to "propose a bill and keep surcharge/surcredit method to close out their USOA effective January 1, 1989" as required by D.88-09-030. On November 17, 1988, Citizens filed AL No. 455 to be in compliance with D.88-09-030. In AL No. 455, Citizens states that if the inclusion of the balancing account impact in the HCF filing is approved, the proposed bill and keep surcharges contained in AL No. 455 will not be implemented on January 1, 1988. On December 1, 1988 Citizens filed a Supplement A to both AL No. 454 and AL No. 455 to correct the interest calculation in the USOA balancing account. The amended amount is \$126,123 lower or \$5,565,776. We have not received any protest to Citizens' AL No. 454 in which it requested inclusion of the balancing account in the HCF. Since Citizens' BEALS rates already exceed the 150% threshold and Appendix B of D.88-07-022 allows for other "FCC-ordered changes in separations and accounting methodology and Commission-ordered changes", Citizens' request to include the balancing account impact in the HCF is appropriate. Based on our review the revised USOA balancing account impact of \$5,565,776 is reasonable. Also, the total requested 1989 HCF amount of \$12,688,342 as amended to \$12,562,219 is reasonable.

BILLING SURCREDIT REQUEST

Ten LECs listed in Appendix A of this resolution have requested to flow through the negative net settlement effects as a bill and keep intraLATA billing surcredit. In support of their request, the LECs state that the proposed surcredit offers a less disruptive method of flowing through the revenue requirement reduction and avoids the

necessity of adopting unreasonably low recurring rates pending the supplement rate design proceeding. Based on our review of the recurring rates for these LECs, to require them to flow through the reduction in recurring rates will, in some cases, result in negative rates. This is especially the case with Pinnacles Telephone Company whose 1-R flat rate will be reduced from \$10.70 monthly to -\$2.30 monthly when large rate shifts are pending in the supplement rate design proceeding. Therefore, the request to flow through the revenue reduction as a bill and keep intraLATA billing surcredit is reasonable and should be authorized.

REQUEST FOR NO INTRASTATE HCF SUPPORT

In AL No. 847, Contel of California (Contel) did not make a request for intrastate HCF support. Instead Contel has included the positive net settlement effect to offset various revenue requirement reductions in its motion filed in A.88-05-009 (1989 Financial Attrition Application). Pursuant to D.88-11-050, dated November 23, 1988 which granted Contel's motion, Contel will be withdrawing AL No. 847. GTE West Coast, by AL No. 312 also did not request intrastate HCF support due to the small positive net settlement effect of \$4,221 and the complexity and cost of processing such a small local rate increase. West Coast's request is reasonable and will be granted.

REQUEST TO REDUCE BEALS RATES

Ducor Telephone Company in AL No. 141, proposes to reduce BEALS rates by a uniform 27% to flow through its net settlement effect of (\$24,900). Ducor's present monthly 1-R flat rate will be reduced from \$13.50 to \$9.90. The advice letter request is reasonable and will be granted.

REQUEST TO INCREASE BEALS RATES

As directed by D.88-07-022, a LEC is required to increase its 1-R flat rate up to the 150% threshold before the LEC is eligible to receive intrastate HCF support. Therefore, Winterhaven Telephone Company by AL No. 5, proposes to increase its BEALS rates by a uniform 24% which will increase the monthly 1-R flat rate from \$8.25 to \$10.20. The positive net settlement effect to be recovered from the proposed increase is \$25,929. Winterhaven's request is reasonable and will be granted.

REQUEST FOR MEMORANDUM ACCOUNT

Evans Telephone Company and the former Capay Telephone Company (Capay is now merged with Evans Telephone Company) request authority to place the negative net settlement effect of \$58,940 into a memorandum account. We are concerned that the use of such a mechanism may unexpectedly accumulate very large amounts of excess revenue for which no offset is available. Such overcollections are undesirable. In response to the Petition for Modification filed on November 1, 1988, our decision issued on December 9, 1988 which modified Section B of Appendix B of D.88-07-022, authorizes a utility to propose a surcharge or surcredit to reflect the net revenue change in lieu of increases or decreases to its recurring exchange rates. Evans' AL Nos. 182 & 116

are not in compliance with that decision. However, on December 12, 1988, Evans' filed Supplement A to AL Nos. 182 & 116 proposing a bill and keep intraLATA billing surcredit of 1.01%. Evans' Supplement A is in compliance with our decision which modified Section B of D.88-07-022 and will be adopted.

In compliance with Ordering Paragraph No. 64 of D.88-07-022, Pacific filed AL No. 15474, GTEC filed AL No. 5177 and GTE West Coast filed AL No. 317 and Supplement to request authority to increase the CCLC by \$0.0007 per minute of use to be effective January 1, 1989. When this increment is added to the present HCF element of \$0.0001 the total HCF element in the CCLC is \$0.0008 which is required to fund the original requested 1989 intrastate HCF revenue requirement of \$12,688,342. The increment of \$0.0007 is not affected by the revised intrastate HCF amount of \$12,562,219. The requests are reasonable and should be authorized.

In order to protect the interest of the ratepayers, we believe, in this case, that customers should be informed as soon as practicable or at least in the first bill cycle implementing the tariff changes. In future filings, we believe customers should be informed at the time the advice letter is filed.

FINDINGS OF FACT

1. Ordering Paragraph No. 64 of D.88-07-022 adopted and directed the implementation of the intrastate High Cost Fund described in Appendix B of that decision.
2. Appendix B provides for HCF funding by a uniform incremental amount on the Carrier Common Line Charge of all local exchange company interLATA access tariff.
3. The Advice Letter filings by the LECs listed in Appendix A of this resolution are compliance filings required by Appendix B of D.88-07-022.
4. The review of each LEC's current earnings is normally done in a general rate proceeding therefore, no finding of reasonableness concerning the current earnings of the LEC is made.
5. To be eligible for intrastate HCF, D.88-07-022 requires the LECs to propose a rate design that will increase or decrease basic exchange access line service rates by a uniform percentage while maintaining the 150% threshold level of comparable California urban rates presently measured by Pacific's 1-R flat rate of \$8.35 per month.
6. To recover their 1989 positive net settlement effects, Roseville Telephone Company by AL No. 269 and Supplement, Sierra Telephone Company by AL Nos. 121 & 134 and The Volcano Telephone Company by AL No. 153 propose to increase BEALS rates and recover the balance from the intrastate HCF. These advice letter requests are reasonable and should be adopted.

7. Citizens requested in AL No. 454 and Supplement to include the balancing account impact in its intrastate HCF filing. Citizens' BEALS rates already exceed the 150% threshold level and Appendix B of D.88-07-022 allows for other "FCC-ordered changes in separations and accounting methodology and Commission-ordered changes". No protest have been received to this request. Therefore, Citizens request is appropriate and should be granted.
8. The requests for 1989 intrastate HCF support by Roseville Telephone Company of \$3,141,180, Citizens Utilities Company of California of \$9,361,234 as amended to \$9,235,111, Sierra Telephone Company of \$80,879, The Volcano Telephone Company of \$88,650, and Foresthill Telephone Company of \$16,399 totaling \$12,688,342 and revised to \$12,562,219 are reasonable and adopted.
9. The request by some LECs to flow through the 1989 negative net settlement effect as a bill and keep surcredit to avoid low recurring rates and in some cases, negative rates is reasonable and granted.
10. GTE West Coast by AL NO. 312 request no intrastate HCF is granted.
11. Ducor Telephone Company's AL No. 141 which proposes to reduce BEALS rates by a uniform percentage to flow through the negative net settlement effect is reasonable and granted.
12. Winterhaven Telephone Company by AL No. 5 proposes to increase BEALS rates to recover the positive net settlement effect is reasonable and granted.
13. Our decision issued on December 9, 1988 on the Petition for Modification authorizes the use of a surcharge or surcredit in lieu of increases or decreases in recurring exchange rates to reflect the net revenue change. Evans Telephone Company's Supplement A of AL Nos. 182 & 116 which proposes a bill and keep intraLATA billing surcredit of 1.01% to reflect its negative net settlement effect of \$58,940 is in compliance with that decision and is adopted.
14. Pacific Bell's AL No. 15474, GTEC's AL No. 5177 and GTE West Coast's AL No. 317 and Supplement are compliance filings as a result of D.88-08-022.
15. The incremental increase of \$0.0007 per minute of use or a total amount of \$0.0008 in CCLC to fund the 1989 intrastate HCF is reasonable and should be adopted.
16. To protect the interest of the ratepayers, customers should be informed of the tariff revisions as soon as practicable or at least in the first bill cycle implementing the tariff revisions.
17. In future advice letter filings, customers should be informed of the tariff revisions at the time the advice letter is filed.

IT IS ORDERED that:

- (1) Authority is granted to incrementally increase the CCLC by \$0.0007 per minute of use to fund the 1989 intrastate HCF revenue requirement of \$12,562,219. The above access tariff revisions are effective January 1, 1989.
- (2) Roseville Telephone Company's AL No. 269 and Supplement; Citizens Utilities Company of California's AL No. 454 and Supplement; Sierra Telephone Company's AL Nos. 121 and 134; The Volcano Telephone Company's AL No. 153; and Foresthill Telephone Company's AL No. 130 request to increase Basic Exchange Access Line Service rates and/or recover the 1989 net settlement effects are granted. The revised tariffs shall become effective January 1, 1989.
- (3) The advice letters and supplements of the LECs requesting a bill and keep intraLATA billing surcredit as discussed in this resolution are granted. The tariff revisions contained in the advice letters shall become effective January 1, 1989.
- (4) Ducor Telephone Company's AL No. 141 request to reduce their Basic Exchange Access Line Service rates to flow through the negative net settlement effect is granted. The tariff revisions shall become effective January 1, 1989.
- (5) Winterhaven Telephone Company's AL No. 5 requesting authority to increase its Basic Exchange Access Line Service rates to offset the positive net settlement effect is authorized. The tariff revisions contained in the advice letter shall become effective January 1, 1989.
- (6) All tariff sheets filed under Pacific's Advice Letter No. 15474, GTEC's Advice Letter No. 5177, GTE West Coast Advice Letter No. 317 and the Advice Letters of the LECs listed in Appendix A as authorized in this resolution shall be marked to show that such sheets were authorized by Commission Resolution No. T-13038.
- (7) For these 1989 HCF annual advice letter filings, the local exchange companies shall notify their customers of the tariff revisions authorized in this resolution as soon as practicable but not later than the first bill cycle implementing the tariff revisions.

- (8) In future annual HCF filings, the local exchange companies shall notify their customers of the proposed filings at the time the filings are made.

The effective dated of this Resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1988. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



Executive Director

APPENDIX A
SUMMARY
1989 HIGH COST FUND

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LOCAL EXCHANGE COMPANIES	ADVICE LETTER NO.	NET SETTLEMENT EFFECTS	COMMENTS
1. Contel	: 847	: 11,067,000	: Did not request HCF support. Instead has filed a motion in which it has requested that this amount be used to offset other rev. req. reduction. Adv. Let. to be withdrn.
2. Roseville	: 269 & Supp.	: 3,226,905	: Incr. BEALS by .8% or \$85,725 and recover the bal. of \$3,141,180 from HCF.
3. Citizens	: 454 & Supp.	: 9,235,111	: Requested the full amt. from HCF of which \$5,565,776 is from USOA bal. acct.
4. Sierra	: 121 & 134	: 462,738	: Incr. BEALS by 18.4% or \$381,859 and recover the bal. of \$80,879 from HCF.
5. CP National	: 246-T	: -4,755	: Request (0.107)% surcredit.
6. W. Coast	: 312	: 4,221	: Not requesting rates or HCF.
7. Evans/Capay	: 182 & 116 & Supp.	: -58,940	: Request the amt. be placed in a memo acct.. Supp. request (1.01)% surcred.
8. Volcano	: 153	: 470,746	: Incr. BEALS 27-61% or \$382,096 and recover the bal. of \$88,650 from HCF.
9. Ponderosa	: 153	: -211,781	: Request (7.83)% surcredit.
10. Kerman	: 171	: -108,034	: Request (5.37)% surcredit.
11. Toulumne	: 140-T	: -107,150	: Request (5.96)% surcredit.
12. Siskiyou	: 159	: -279,723	: Request (22.68)% surcred.
13. Happy Val.	: 102 & Supp.	: -36,993	: Request (4.88)% surcredit.
14. Cal-Ore	: 129 & 157	: -71,907	: Request (10.54)% surcred.
15. Foresthill	: 130	: 16,399	: Request full amt. to be recovered from HCF.
16. Calaveras	: 119	: -100,771	: Request (17.59)% surcred.
17. Winterhaven	: 5	: 25,929	: Incr. BEALS by 24%.
18. Ducor	: 141	: -24,900	: Reduce BEALS by 27%.
19. Hornitos	: 92	: -70,000	: Request (50.00)% surcred.
20. Pinnacles	: 65	: -15,969	: Request (28.03)% surcred.

5 have requested HCF.
10 have requested Surcredit.
2 have not requested HCF.
1 have reduced BEALS.
1 have increased BEALS.
1 have requested Memo Acct.
20