

ORIG,
Ru. 2002-4

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Telecommunications Branch

RESOLUTION T-15714
January 24, 1995

R E S O L U T I O N

RESOLUTION T-15714. GTE WEST COAST INCORPORATED. ORDER
REVISING BASIC EXCHANGE RATES.

BY ADVICE LETTER NO. 395 FILED OCTOBER 19, 1994, AS
SUPPLEMENTED BY ADVICE LETTER NO. 395A FILED DECEMBER
23, 1994.

SUMMARY

GTE West Coast Incorporated (GTE West Coast) has requested increases in recurring rates of between 16 and 38 percent for various exchanges to recover a net revenue requirement of \$764,942, which is due to regulatory changes, including federal Universal Service Fund (USF) payment changes. No draw from the California High Cost Fund (HCF) was requested.

A portion of the requested net revenue requirement is to recover the 1993 and 1994 amounts caused by Dial Equipment Minute (DEM) and Post-retirement Benefits Other than Pensions (PBOP) changes, and the 1994 amount for federal tax rate increase and Statement of Financial Accounting Standard (SFAS) 112 changes. The 1993 and 1994 changes for DEM, PBOP, federal tax rate increase, and SFAS 112 result in ongoing revenue requirement increases. GTE West Coast is authorized to recover the estimated 1995 impacts of these regulatory changes. We deny GTE West Coast's request to recover the 1993 and 1994 impacts of these regulatory changes. We authorize an increase in rates to collect only the ongoing portion of GTE West Coast's request, amounting to \$344,795, as specified in Appendix A of this resolution. Rates will increase by approximately 16 percent above rates approved in Decision (D.) 94-09-065. GTE West Coast is ordered to file a supplemental advice letter with tariff sheets consistent with Appendix A, to be effective on 5 days notice.

BACKGROUND

Appendix B of D.88-07-022 requires each Local Exchange Carrier (LEC) to file, by October 1 of each year, an advice letter that both proposes a rate design and requests HCF support, if needed, to offset the forecasted net increase or decrease in its settlement revenues caused by regulatory changes. LECs are required to increase their basic exchange access line service (BEALS) residential rates to a level equivalent to 150 percent of Pacific Bell's (Pacific) in order to be eligible to draw from the HCF.

GTE West Coast filed its HCF advice letter on October 19, 1994 to comply with D.88-07-022. The 19 other small and mid-size LECs in California also filed their HCF advice letters in October, which were acted upon in Resolution T-15700. However, GTE West Coast's HCF advice letter was not acted upon in Resolution T-15700 because its advice letter was incomplete.

In order to be eligible to draw from the HCF, a carrier's BEALS rates must be at 150 percent of Pacific's rates. Decision 94-09-065, the Implementation Rate Design (IRD) decision, increased rates for most small and mid-size LECs up to 150 percent of Pacific Bell's rates, if it was necessary, to compensate for changes in settlement payments to the small and mid-size LECs due to changes in toll, access and private line rates. The IRD decision did not compensate small and mid-size LECs for changes unrelated to the IRD case.

Pacific's residential rate for flat rate service was set at \$11.25 by D.94-09-065; 150 percent of that rate is \$16.85. However, in D.94-09-065 it was only necessary to increase GTE West Coast's rates by 15 percent over its present rates in order to compensate it for changes to its settlement revenues projected to occur as a result of IRD. Thus, GTE West Coast's rates are currently less than 150 percent of Pacific's rates. GTE West Coast has requested an additional increase in rates through the HCF advice letter filing.

Although the worksheet accompanying GTE West Coast's HCF advice letter No. 395 indicated that recovery of the net revenue requirement would come from local rates, the company did not submit its proposed revisions to its local exchange rate design. Resolution T-15700 ordered GTE West Coast to file a supplemental advice letter setting forth its proposed rate changes, and stated that the supplement would be acted upon by a separate resolution. The supplement was filed on December 23, 1994 and is subject to the 20 day protest period.

In its supplemental advice letter, GTE West Coast proposes increasing its recurring BEALS rates for residence and business customers by between 16 and 38 percent for various exchanges in order to recover a net revenue requirement of \$764,942.

NOTICE/PROTESTS

Public notice of GTE West Coast's HCF advice letter and supplement appeared in the Commission's Daily Calendar in October and December, 1994. Notice of the rate proposal was mailed to customers on December 23, 1994. The Commission Advisory and Compliance Division (CACD) received approximately thirty-five letters and one telephone call from customers opposing the rate increase. Many of the ratepayer letters complained that their rates increased on January 1, 1995 and GTE West Coast proposes increasing rates further on February 1, 1995. Some commentors also requested that their rates be set comparable to Pacific's rates. No formal protests were filed.

DISCUSSION

In its HCF net revenue requirement calculation, GTE West Coast included effects that occurred during previous years. Specifically, GTE West Coast included an incremental loss of revenue due to transitional DEM and PBOP impacts for 1993, 1994 and 1995, and an incremental loss of revenue due to federal tax rate increase and SFAS 112 impacts for 1994 and 1995. The following table illustrates its request.

Table 1

	<u>DEM and PBOP Transition</u>	<u>Fed. Tax Increase and SFAS 112 Impacts</u>	<u>Total</u>
1993	\$130,778		\$130,778
1994	130,778	\$158,591	289,369
1995	<u>130,778</u>	<u>158,591</u>	<u>289,369</u>
	\$392,334	\$317,182	\$709,516

According to GTE West Coast, it originally excluded these effects for the year in which they occurred because it was anticipating exiting the settlement pools, but negotiations with Pacific were unsuccessful. Thus, GTE West Coast is requesting recovery of the revenue losses it experienced in 1993 and 1994 as well as 1995; the company requests a permanent rate increase to recover the cumulative amounts from several years. However, only the impact from one year is an ongoing loss of revenue.

GTE West Coast was not eligible to draw from the HCF during 1993 and 1994, and in fact returned money to ratepayers through a surcredit during these years.

In Resolution T-15700, we concluded that the inclusion of these changes in its revenue request would be reasonable, based on the fact that GTE West Coast did have a surcredit in effect for those years. However, upon further deliberation, we find the inclusion of these changes in the 1995 HCF filing to be retroactive. GTE West Coast chose not to request inclusion of the impacts of these changes for the year the changes occurred. Instead, the company is now requesting to recover amounts for past periods. However, that is inconsistent with Commission policy. As the Commission said in Southern California Water Co., D.92-03-094 (1992) 43 Cal. P.U.C. 2d 596,600:

It is a well established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking. (Emphasis in original.)

While we do not object to including the one-year impacts of these changes, which will be carried forward into future HCF filings, we find inclusion of the impact of the changes for past years unreasonable. Even though GTE West Coast requested a surcredit in the HCF filings for past years, GTE West Coast itself chose to exclude the impacts of these changes from those past years' HCF filings.

We will permit GTE West Coast to include the DEM and PBOP impacts and the federal tax increase and SFAS 112 impacts for 1995, but will not permit GTE West Coast to collect revenue for past periods when it did not request recovery. Thus, we will permit GTE West Coast to recover the amounts listed for 1995 in Table 1 above, which total \$289,369. Decision 94-09-065 ordered LECs to include in their HCF filings the incremental revenue requirement from Appendix E of D.94-09-065 and the Net Interstate Expense Adjustment (NIEA) amounts. The addition of these two items to \$289,369 results in a net revenue requirement for GTE West Coast of \$344,795. This is the net ongoing revenue requirement GTE West Coast will experience each year.

Since GTE West Coast's rates are less than 150 percent of Pacific's rates, the amount of \$344,795 should be recovered by increasing recurring BEALS rates, as outlined in Appendix A. This is an increase of approximately 16 percent over the rates established by D.94-09-065, which authorized an increase of 15 percent effective January 1, 1995. In total, rates will increase about 34 percent from rates in effect during 1994. Only one of GTE West Coast's exchanges will have a residential flat rate of 150 percent of Pacific's rate, with rates for all other exchanges set below 150 percent of Pacific's rate. Most residential customers of small and mid-size LECs in California pay 150 percent of Pacific's BEALS rates, and therefore we do not find this increase to GTE West Coast's rates unreasonable.

GTE West Coast is ordered to file tariff sheets with an advice letter, consistent with Appendix A, to be effective on 5 days notice.

FINDINGS OF FACT

1. The advice letter filing by GTE West Coast is a compliance filing required by Appendix B of D.88-07-022, which requires each LEC to file, by October 1 of each year, an advice letter that both proposes a rate design and requests HCF support, if needed, to offset the forecasted net increase or decrease in its settlement revenues.
2. LECs are required to increase their residential BEALS rates to a level equivalent to 150 percent of Pacific Bell's in order to be eligible to draw from the HCF.
3. GTE West Coast's rates are less than 150 percent of Pacific's rates.
4. GTE West Coast did not submit its proposed revisions to the company's local exchange rate design with its original HCF

filing, but did so in a supplemental advice letter filed on December 23, 1994.

5. In its supplemental advice letter, GTE West Coast proposes increasing its recurring rates for residence and business customers by between 16 and 38 percent in order to recover a net revenue requirement of \$764,942.

6. The Commission Advisory and Compliance Division (CACD) received approximately thirty-five letters and one telephone call from customers opposing the rate increase.

7. GTE West Coast's proposed rate design includes recovery of 1993 and 1994 amounts for the DEM and PBOP impacts, and the 1994 amount for federal tax rate increase and SFAS 112 impacts.

8. GTE West Coast did not request inclusion of the impacts of these changes for the year the changes occurred, and we find inclusion of the impact of the changes for past years unreasonable and inconsistent with Commission policy.

9. \$344,795 is the net ongoing revenue requirement GTE West Coast will experience each year and should be recovered from increasing recurring BEALS rates as outlined in Appendix A.

10. Only one of GTE West Coast's exchanges will have a residential flat rate of 150 percent of Pacific's rate, with rates for all other exchanges set below 150 percent of Pacific's rate. Most residential customers of small and mid-size LECs in California pay 150 percent of Pacific's rates, and therefore we do not find this increase to GTE West Coast's rates unreasonable.

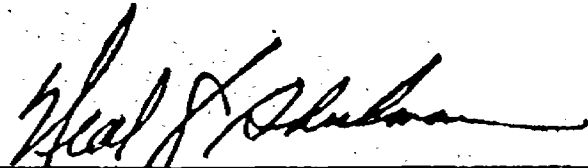
January 24, 1995

THEREFORE, IT IS ORDERED that:

1. We approve GTE West Coast Incorporated's advice letter No. 395 as supplemented and as adjusted in Appendix A of this resolution.
2. GTE West Coast Incorporated shall file a supplemental advice letter consistent with Appendix A of this Resolution, to be effective on 5 days notice.

The effective date of this Resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 24, 1995. The following Commissioners approved it:


NEAL J. SHULMAN
Executive Director

NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners

President Daniel Wm. Fessler,
being necessarily absent, did
not participate.

GTE West Coast Incorporated

Revenue to be recovered	\$ 344,795
Percent rate increase	16.40%

	1994 Aug. Units	Present Rate	Present Revenue	IRD Rate (1/1/95)	IRD Rate Revenue	% Increase Pres. to IRD	Adopted Rate	Adopted Revenue	% Increase IRD to Adop.	% Increase Pres. to Adop.
RESIDENCE										
1 FR CC/K/O/SR	8,219	\$ 9.65	\$ 951,760	\$ 11.10	\$ 1,094,771	15.03%	\$ 12.90	\$ 1,272,301	16.22%	33.68%
1FR HSRA	439	10.65	56,104	12.25	64,533	15.02%	14.25	75,069	16.33%	33.80%
1FR GSRA	310	12.65	47,058	14.55	54,126	15.02%	16.85	62,682	15.81%	33.20%
Suburban Flat K/O/SR	109	7.10	9,287	8.15	10,660	14.79%	9.50	12,426	16.56%	33.80%
Employee - CC/K/OSR	43	4.83	2,490	5.55	2,864	15.03%	6.45	3,328	16.22%	33.68%
Employee HSRA	4	5.33	256	6.13	294	15.02%	7.13	342	16.41%	33.90%
Employee GSRA	3	6.33	228	7.28	262	15.02%	8.43	303	15.88%	33.28%
Total	9,127		\$ 1,067,182		\$ 1,227,510			\$ 1,426,452		
BUSINESS										
1FB CC/K/O/SR	1,651	\$ 19.25	\$ 381,381	\$ 22.15	\$ 438,836	15.06%	25.80	\$ 511,150	16.48%	34.03%
1 FB HSRA	45	20.25	10,935	23.30	12,582	15.06%	27.10	14,634	16.31%	33.83%
1 FB GSRA	33	22.25	8,811	25.60	10,138	15.06%	29.65	11,741	15.82%	33.26%
Semi-pub coin	31	19.30	7,180	22.20	8,258	15.03%	25.85	9,616	16.44%	33.94%
semi-pub coin GSRA	-	20.30	-	23.35	-	15.02%	27.05	-	15.85%	33.25%
Semi-pub void HSRA	-	22.30	-	25.65	-	15.02%	29.85	-	16.37%	33.86%
PBX-flat "A" CC/K/O/SI	264	38.65	122,443	44.45	140,818	15.01%	51.75	163,944	16.42%	33.89%
PBX-flat "B" CC/K/O/SI	647	28.80	223,603	33.10	256,988	14.93%	38.55	299,302	16.47%	33.85%
PBX-flat "A" GSRA	-	41.65	-	47.90	-	15.01%	55.45	-	15.76%	33.13%
PBX-flat "B" GSRA	2	31.80	763	36.55	877	14.94%	42.35	1,016	15.87%	33.18%
PBX-flat "A" HSRA	-	39.65	-	45.60	-	15.01%	53.10	-	16.45%	33.92%
PBX-flat "B" HSRA	3	29.80	1,073	34.25	1,233	14.93%	39.85	1,435	16.35%	33.72%
Suburban Flat	2	13.50	324	15.55	373	15.19%	18.10	434	16.40%	34.07%
Total	2,678		\$ 756,513		\$ 870,103			\$ 1,013,273		
Total Res. & Bus.	11,805		\$ 1,823,695		\$ 2,097,613			\$ 2,439,725		