

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Carrier Branch

RESOLUTION T-16085
October 9, 1997

R E S O L U T I O N

RESOLUTION T-16085. PACIFIC BELL (U-1001-C). REQUEST FOR APPROVAL OF BUDGET FOR CALIFORNIA HIGH COST FUND-A ADMINISTRATION EXPENSES FOR 1996. REQUEST TO RECOVER FROM THE FUND THE EXPENSES OF ADMINISTERING THE FUND DURING 1996.

BY ADVICE LETTER NO. 17758 FILED ON SEPTEMBER 29, 1995

SUMMARY

Pacific Bell (Pacific) requests approval of a budget of \$238,749 for administering the California High Cost Fund-A (CHCF-A) during 1996, and requests recovery from the CHCF-A of 1996 out-of-pocket expenses of \$136,496 for administering the CHCF-A, as authorized in Decision No. (D.) 94-09-065.

No protests to Advice Letter No. 17758 were filed.

This Resolution approves the corrected budget amount of \$239,212 for 1996 CHCF-A administration total expenses, and authorizes the CHCF-A to pay Pacific the corrected amount of \$136,659 as reimbursement for the expenses actually paid or incurred directly by Pacific in administering the CHCF-A during 1996.

BACKGROUND

The CHCF was established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of smaller local exchange telephone companies (LECs) that concurred in statewide average toll, private line, and access rates. Decision No. 94-09-065 eliminated the carrier common line rate element of switched access rates and the increment to this rate element that had provided the funding for the CHCF until the end of 1994. This decision ordered the CHCF to be funded from January 1, 1995 forward by an all-end-user surcharge. This expanded the number of payees into the CHCF from approximately 22 LECs to approximately 400 telecommunications providers.

Ordering paragraph 71 of D.94-09-065 ordered Pacific to continue administering the CHCF, and page 290 (mimeo) stated that it is fair that Pacific should be compensated for its expanded duties of administering the CHCF. Ordering paragraph 73 of D.94-09-065 ordered Pacific to develop an annual budget for the costs of its administration of the CHCF and submit an advice letter by October

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1 of each year requesting approval of the budget for the following calendar year.

Decision 96-10-066 created a new high-cost fund, the California High Cost Fund-B (CHCF-B), for the high-cost areas of the two large and three mid-size LECs in California, and renamed the existing CHCF the "CHCF-A".

Pacific filed Advice Letter No. 17758 on September 29, 1995 requesting approval of the estimated budget of \$181,948 for its administration of the CHCF-A for calendar year 1996. Telecommunications Division (TD) staff examined the budget requested in Advice Letter No. 17758, found the expense estimate reasonable, but has not previously prepared a resolution for formal Commission approval of this budget.

By Advice Letter Supplement No. 17758A, filed on April 19, 1996, Pacific submitted a revised 1996 CHCF-A budget of \$261,800. The increase was due primarily to shifting expenses that had been previously budgeted for 1995 but not actually paid until 1996, as well as outright increases expected in certain categories of expenses.

On March 10, 1997, Pacific filed Advice Letter Supplement No. 17758B to request Commission approval of the amount actually spent on CHCF-A administration during 1996, and requesting authorization to recover the expenses Pacific incurred in administering the CHCF-A during 1996. This supplement and its attached budget worksheet state that the actual 1996 expenses of the CHCF-A were \$238,749. While this Supplement itself doesn't make this point clear, the workpapers sent under separate cover indicate that \$102,553 of the total CHCF-A expenditures were paid directly out of the CHCF-A's bank account rather than from a Pacific bank account. The actual expenses paid or incurred by Pacific for administering the CHCF-A during 1996 were \$136,659, after correcting a minor error in Pacific's figure of \$136,496.

NOTICE/PROTESTS

Pacific states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities, and interested parties, as requested. Notice of Advice Letter No. 17758 was published in the Commission Daily Calendar of October 4, 1995. Notice of Advice Letter Supplement No. 17758B was published in the Commission Daily Calendar of March 17, 1997. No protest to this Advice Letter or its supplements has been received.

DISCUSSION

Decision 94-09-065 left the task of establishing administration guidelines for the CHCF, under its new funding source, to the TD staff, working with Pacific. TD staff met with Pacific personnel during early 1995 and discussed the broad outlines of how the CHCF should work, including the idea of creating a trust to serve

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as the entity to carry out Pacific's assigned administrative responsibilities. TD staff has also met and conferred frequently with the Pacific Bell employee chiefly involved in the day-to-day operation of the CHCF.

In October of 1995, Pacific established the California High Cost Fund Trust Administrative Committee (Committee), composed of current employees of Pacific Bell and Pacific Telesis. The purpose of the Committee is to fulfill and oversee Pacific's role as the CPUC's agent for administering the CHCF. The Committee immediately established the California High Cost Fund Trust (CHCF Trust) to carry out its duties. The CHCF Trust applied to the Internal Revenue Service on March 13, 1996, for a letter ruling granting tax-exempt status, and received such a ruling in March, 1997.

The system of administration of the CHCF-A, and CPUC oversight thereof, that has evolved in practice is that by September the Committee approves an estimated budget for the following year, and delegates day-to-day processing and resolution of CHCF-A issues to the Pacific Bell employee who is the CHCF-A administrator. This administrator brings larger issues to the attention of the Committee members and the TD staff person assigned to monitor this operation, and has the president of the Committee sign letters to the CHCF Trust's bank requesting payment of bills for most of the expenses of administering the CHCF-A. The only expenses incurred during 1996 that have not been paid out of the CHCF-A's bank account are the portions of the salaries of three Pacific Bell or Pacific Telesis employees attributable to the time they spent working on CHCF-A matters during 1996, and the internal overhead expenses directly allocable to these salary amounts. The several other Pacific Bell or Pacific Telesis employees who serve on the Committee have served without compensation or reimbursement from the CHCF-A.

TD has examined the budget requested in Advice Letter No. 17758 and Supplements. TD finds the amounts spent to administer the CHCF-A during 1996 to be reasonable. TD's only disagreement with the final spending count submitted is that it understates the cost on one of the invoices paid for banking services by \$300, and miscalculates the amount of Pacific attorneys' salaries and overheads attributed to CHCF-A administrative work by \$163. Of the \$239,212 actually spent on CHCF-A administration during 1996, about 54% represents the salary and benefits costs incurred by Pacific for the CHCF-A administrator. Because two years' premiums for liability insurance were paid during 1996, this took an atypically large portion of 1996 administrative expenses (24%). The other expenses paid and their proportions of the total expenses during 1996 were: bank processing fees, 10%; attorney fees and salaries, 9%, and accountant's fees, 3%.

TD concludes that the Advice Letter as supplemented meets the requirements set forth in the Commission Orders and G.O. 96-A, and recommends that the Commission approve this filing, as supplemented by Pacific and adjusted by TD. Commission approval

is based on the specifics of the Advice Letter, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

FINDINGS

1. Pacific filed AL No. 17758 requesting Commission approval of a budget of \$181,948 for administering the CHCF-A during 1996, as ordered in ordering paragraph 73 of D.94-09-065.

2. Pacific filed AL Supplement No. 17758A requesting Commission approval of a revised budget of \$261,800 for administering the CHCF-A during 1996.

3. Pacific filed AL Supplement No. 17758B requesting Commission approval of a revised budget of \$238,749 for administering the CHCF-A during 1996, and requesting recovery from the CHCF-A of 1996 expenses paid or incurred by Pacific of \$136,496. Of the total CHCF-A expenditures during 1996, \$102,553 were paid directly out of the CHCF-A's bank account, rather than from Pacific's resources.

4. The actual expenses paid or incurred by Pacific for administering the CHCF-A during 1996 were \$136,659, after correcting a minor error in Pacific's figure of \$136,496.

5. The \$239,212 actually spent on CHCF-A administration during 1996 is reasonable, and Pacific should be authorized to recover the \$136,659 actually paid or incurred by Pacific for administering the CHCF-A during 1996.

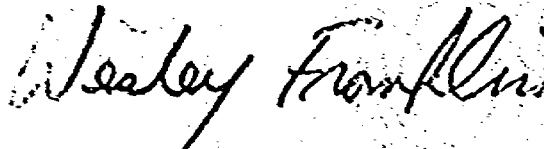
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THEREFORE, IT IS ORDERED that:

1. The final budget submitted by Pacific Bell (Pacific) for 1996 expenses of administering the California High Cost Fund-A (CHCF-A) is approved.
2. Pacific is hereby granted authority to have the bank in custody of the CHCF-A monies pay to Pacific the amount of \$136,659 to reimburse Pacific for its 1996 expenses of administering the CHCF-A.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 9, 1997. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

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