

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16622
January 9, 2002**

RESOLUTION

RESOLUTION T-16622. PACIFIC BELL TELEPHONE COMPANY.
REQUEST TO IMPLEMENT A TEMPORARY CALIFORNIA HIGH COST
FUND-B CATCH-UP SURCREDIT IN COMPLIANCE WITH
DECISION 98-09-039.

ADVICE LETTER 22328 FILED ON OCTOBER 25, 2001.
SUPPLEMENT 22328-A FILED ON OCTOBER 31, 2001.

SUMMARY

On October 25, 2001, Pacific Bell Telephone Company (Pacific) filed Advice Letter 22328 in compliance with Ordering Paragraph (OP) 20 of Decision (D.) 98-09-039 that required Pacific to implement a catch-up surcredit for a 3-month period relating to the California High Cost Fund (CHCF-B) claim payments received. In addition, Pacific filed a supplement indicating the three-month surcredit rate. This resolution approves a temporary three-month catch-up surcredit of 29.143% to offset Pacific's approved claims of \$409.341 million for the time period from February 1997 to May 1998. The catch-up surcredit of 29.143% will apply to all intrastate services, except residential basic exchange service and certain other services, and will be effective February 1, 2002 through April 30, 2002. In addition, Pacific will track in a memorandum account all catch-up surcredit amounts applied to customer accounts during the February 1, 2002 through April 30, 2002 period. Any difference between the aggregate realized catch-up surcredit amount and the adopted surcredit amount will be trued-up by an Advice Letter filed within 60 days from April 30, 2002.

BACKGROUND

On October 4, 2001, the Director of Telecommunications Division (TD) requested Pacific to file an Advice Letter on or before October 25, 2001 to implement a catch-up surcredit for its approved CHCF-B claims for February 1997 through May 1998. The catch-up

surcredit amount will be offset by the claims paid by TD ¹ in order to achieve revenue neutrality for Pacific.

1. D. 96-10-066

In D.96-10-066, the Commission established the CHCF-B program to provide universal service subsidy support in the high cost areas of the service territories of Pacific and three other local exchange carriers (LECs).² By establishing the CHCF-B program, the Commission is ensuring the continued availability of residential telephone basic service at affordable rates in high cost areas. The CHCF-B program will provide support for only one residential line per household. One outcome of the CHCF-B program is to reduce any disparity in residential basic telephone rates between urban and rural areas.

To prevent Pacific and the other three LECs from receiving a windfall, the four carriers are required to reduce rates for all intrastate services, except for residential basic exchange services and certain other services,³ by amounts equal to the CHCF-B fund draws. Residential basic exchange service is excluded because the CHCF-B program supports this service in high cost areas. In addition, if reducing the rates for residential basic service is allowed, the Commission stated, "this would widen, rather than narrow, the gap between the residential rates and their costs."⁴

2. D. 98-09-039

In D. 98-09-039, the Commission partially implemented the CHCF-B program through a self-funding mechanism since the trust account for CHCF-B was not established until October 1999. Under this set-up, Pacific ⁵ and the other three LECs ⁶ offset their monthly draws from the CHCF-B program by a rate reduction either through a permanent rate reduction or surcredit. Besides this surcredit, Pacific (as well as the other LECs) is required to implement a catch-up surcredit pursuant to OP 20 of D.98-09-039. Specifically OP 20 of D.98-09-039 states:

¹ Pursuant to Decision 01-09-064, dated September 20, 2001 and effective October 1, 2001 and thereafter, TD (in concert with Information Management Service Division), not CHCF-B Administrative Committee, is now responsible for the CHCF-B payments

² The other three carriers are Verizon California, Inc, Citizens Telecommunications Company of California (Citizens) and Roseville Telephone Company (Roseville).

³ Other services are coin-sent paid calling, debit card messages, one-way radio paging, COPT usage, contracts existing on or prior to 9/15/94, ULTS services, and directory advertising.

⁴ D.96-10-066, page 209.

⁵ Pacific Bell implemented permanent rate reductions as a result of D.98-07-033. D.98-07-033 allows Pacific Bell to "true-up" its rate reduction with its approved fund draws from the CHCF-B program.

⁶ Verizon, Citizens, and Roseville have implemented a surcredit, adopted on a provisional permanent basis, instead of a permanent rate reduction.

“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 Each large LEC shall implement its catch-up surcredit over three calendar months.”

In addition, each LEC is required to true up its catch-up surcredit to match the amount of the claims approved by the CHCF-B Administrative Committee (AC) ⁷ for the period from February 1997 through May 1998.

3. D. 01-09-064

Attachment C of D.01-09-064 indicates a time-line for carrier payments under the provision of Senate Bill (SB) 669 (1999), as amended by SB 742 in 2001(Chapter 1.5). Under the provision of D.01-09-064, once the catch-up surcredit is implemented, the Director of TD, on the 15th day of each calendar month, will instruct the Information Management Service Division to distribute the catch-up amount in three monthly installments.

NOTICE/PROTEST

The notice of Pacific’s Advice Letter was published in the Commission Daily Calendar of October 31, 2001. Pacific mailed a copy of the Advice Letter to adjacent utilities and/or interested parties of the service list as requested.

DISCUSSION

The TD recommends that the Commission adopt a temporary catch-up surcredit of 29.143% for Pacific for a 3-month period starting February 1, 2002 through April 30, 2002. The catch-up surcredit will be applied to all intrastate services provided by Pacific except residential basic and certain other services. The surcredit is based upon the CHCF-B claims of \$409.341 million for the period from February 1997 through May 1998.

1. Adopting A Temporary Catch-Up Surcredit

The estimated catch-up surcredit rate of 29.143% is based upon the CHCF-B approved claims of \$409.341 million for the period from February 1997 through May 1998 and

⁷ The claims were approved by the CHCF-B AC on September 13 & 20, 2001, prior to the implementation of D.01-09-064.

three month total of monthly average of 12 months ending August 31, 2001 recorded billing base. The billing base adjusts out billings for residential basic service and certain other services, uncollectibles, and billing adjustments. Pacific filed a supplement to reflect the inclusion of the catch-up surcharge rate of 29.143% and the associated access tariff sheet.

The catch-up surcredit rate of 29.143% will begin on the first day of the month and will be effective for three months, beginning February 1, 2002 and ending April 30, 2002.

Pursuant to OP 27 of D.98-09-039, Pacific is required to show the catch-up surcredits as a single line item on customers' bills. In addition, Pacific will explain the CHCF-B catch-up surcredits to their customers in the free form section of the customer bill. Within 5 working days from the effective date of this resolution, Pacific will provide to the Director of TD for review and approval a copy of the catch-up surcredit explanation that will be in the free form section of the customer bill.

We will adopt the recommended catch-up surcredit rate of 29.143% beginning on the first day of the month and ending three months later, or February 1, 2002 and ending April 30, 2002. The TD will distribute the catch-up amount in three equal monthly installments paid on the 15th day of each calendar month that Pacific's catch-up surcredit is in effect.

2. Tracking the Temporary Catch-Up Surcredit

D.96-10-066 requires Pacific to establish a memorandum account to track the catch-up surcredit rate reductions. Pacific is required to establish a separate account, entitled "Universal Service Surcredit Payable to Customers", as requested by Pacific in its comments filed on December 24, 2001 on the draft resolution, to record all catch-up surcredits applied to customer accounts during the period February 1, 2002 through April 30, 2002 (inclusive).

3. True-Up of Temporary Catch-Up Surcredit

OP 25 of D.98-09-039 mandates a true up of Pacific's catch-up surcredit with the catch-up amount of \$409.341million adopted by the Commission. Pacific will be required to file an Advice Letter within 60 days from the end of its catch-up period, or no later than June 30, 2002. Any difference between the aggregate realized catch-up surcredit and the adopted catch-up surcredit will accrue interest starting on the first day from the end of the catch-up period, or May 1, 2002, to the starting date of the true-up, whether the true-up is a surcredit or surcharge amount. The true-up surcredit/surcharge amount

accrues interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday.

As part of its true-up Advice Letter filing, Pacific will provide workpapers, or make available documents at Pacific's office in San Francisco, California, supporting the surcredit/surcharge amount. Pacific should expect an audit by the TD staff (or auditors operating under the direction of TD staff) to verify the true up surcredit/surcharge amount.

4. Audit Requirements

Public Utilities Code (P.U. Code) Section 274 requires the Commission to conduct a compliance audit of program-related costs including CHCF-B claims. The approval of Pacific's claims from February 1997 through May 1998 by the CHCF-B AC was subject to this audit requirement. If an audit determines that Pacific's claims should be lower than the catch-up amount of \$409.341 million, then the incremental amount with interest will be part of the true-up of the catch-up surcredit. Interest is based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday. The resolution addressing the true-up of the catch-up surcredit shall include the result of the audit findings in the development of the true-up surcredit/surcharge amount.

COMMENTS

A draft resolution, prepared by the TD staff, on the recommended catch-up surcredit was mailed on December 7, 2001, in accordance with Public Utilities Code Section 311 (g) to the parties of record in R.95-10-020/I.95-010-021, CHCF-B Administrative Committee, and to Pacific, Verizon, Citizens and Roseville.

On December 24, 2001, Pacific timely filed comments on the draft resolution. Pacific commented on three issues: a technical error relating to the catch-up surcredit rate; a factual error relating to the catch-up time period; and a legal error relating to audit findings.

On the technical issue, Pacific states that the catch-up surcredit rate should be 29.1%, not 29.143%. Pacific states that the catch-up surcredit rate was carried out to one decimal point, not three decimal points, because the Commission approved Verizon California's (Verizon's) catch-up surcredit rate to one decimal point in Resolution T-16531. We recognize that Verizon's catch-up surcredit rate was one decimal; however, Verizon's catch-up surcredit amount was \$79.042 million. Pacific's catch-up surcredit

amount is \$409.341 million requiring greater accuracy and precision in order to minimize the “true-up of the catch-up surcredit” amount. Pacific will file within five days from the effective date of this resolution a supplement to its Advice Letter to reflect the adopted catch-up surcredit rate of 29.143%.

On the factual issue, Pacific has two points: the naming of a memorandum account; and the catch-up timing period. Pacific stated that the company has established the memorandum account and referred to it as “Universal Service Surcredit Payable to Customers”, instead of “Accounts Payable End-User Catch-Up Claim/Surcredit.” We will adopt Pacific’s recommendation of naming the memorandum account as “Universal Service Surcredit Payable to Customers” as long as the tracking mechanism will identify the purpose of the memorandum account. The second technical issue is Pacific requesting a change from its advice letter filing in the billings period of the catch-up surcredit time period to March 1, 2002 through May 30, 2002, from February 1, 2002 through April 30, 2002. As indicated in its comments, Pacific requests this additional time in order to do the billing programming for the algorithm that will be used to apply the catch-up surcredit to customer bills. We will deny Pacific’s request as Pacific was aware of this billing requirement and should have the algorithm in place by the implementation date of the catch-up surcredit time period. Pacific shall put in place this billing process by January 31, 2002 in order to implement the catch-up surcredit for billings from February 1, 2002 through April 30, 2002.

On the legal issue, Pacific points out that any adjustments from the findings from an audit, as required by Ordering Paragraph 8 of this resolution, should be recoverable from the CHCF-B fund. Pacific noted that the CHCF-B program should be “revenue neutral to the participating carriers”⁸ as determined by the Commission in approving Pacific’s permanent rate reductions in D.98-07-033. P.U. Code Sections 274 and 314.5 require that the Commission conduct an audit of a utility every three years. For financial integrity of the CHCF-B program, we will conduct an audit of Pacific’s claims from February 1997 through May 1998. This time period of February 1997 through May 1998 is for the temporary catch-up surcredit, which is not part of the permanent rate reduction. If the audit results in findings that Pacific’s claims should have been lowered, then any adjustments will be part of the true-up of the temporary catch-up period, and not recoverable from the CHCF-B program. The resolution addressing the true-up of the catch-up surcredit shall include the result of the audit findings in the development of the true-up surcredit/surcharge amount.

FINDINGS

⁸ Pacific’s comments dated December 24, 2001, Page 2.

1. Pacific Bell Telephone Company's (Pacific's) proposed surcredit amount of \$409.341 million, as approved by the California High Cost Fund-B (CHCF-B) Administrative Committee (AC) for CHCF-B claims, is reasonable and should be adopted.
2. Pacific's proposed surcredit of 29.143%, applicable to all intrastate services, except residential basic service and certain other services, over three months is reasonable and should be adopted.
3. Pacific will file, within five days from the effective date of this resolution, a supplement to its Advice Letter setting forth the adopted catch-up surcredit rate of 29.143%.
4. The surcredit amount will apply on the first day of the month, or February 1, 2002, and will apply for 3 months, or through April 30, 2002. By January 31, 2002, Pacific will put in place a billing process to implement the catch-up surcredit for billings from February 1, 2002 through April 30, 2002.
5. Once Pacific's catch-up surcredit is implemented, the Director of Telecommunications Division (TD), on the 15th day of each calendar month, will instruct the Information Management Service Division to distribute the catch-up amount of \$409.341 million in three monthly installments that the Pacific's catch-up surcredit is in effect.
6. Pacific is required to show the catch-up surcredit as a single line item on customers' bills.
7. Pacific will explain the CHCF-B catch-up surcredit to their customers in the free form section of the customer bill.
8. Within 5 working days from the effective date of this resolution, Pacific will provide to the Director of TD for review and approval a copy of the catch-up surcredit explanation that will be in the free form section of the customer bill.
9. On December 24, 2001, Pacific filed comments on the draft resolution. Pacific's comments are addressed in the Comments Section of this resolution.
10. Pacific will track the catch-up surcredit rate reduction by establishing a memorandum account, entitled Universal Service Surcredit Payable to Customers.

11. Pacific will file an Advice Letter within 60 days from the end of the catch-up period, or no later than June 30, 2002, to true-up the catch-up surcredit.
12. Pacific will include interest, based upon the average seven-day compound yield on taxable money market funds published in the Wall Street Journal, starting on the first day from the end of the catch-up period, or May 1, 2002, to the day of the start of the actual true-up, if any.
13. Any adjustments resulting from claims audits of CHCF-B claims from February 1997 through May 1998 will be included by TD staff in the true-up calculation of the catch-up surcredit. The resolution addressing the true-up of the catch-up surcredit shall include the result of the audit findings in the development of the true-up surcredit/surcharge amount.

THEREFORE, IT IS ORDERED that:

1. Pacific Bell Telephone Company's (Pacific's) catch-up surcredit amount of \$409.341 million and surcredit rate of 29.143% for California High Cost Fund-B (CHCF-B) is adopted.
2. Pacific shall file within five days from the effective of this resolution a supplement to its Advice Letter setting forth the adopted catch-up surcredit rate of 29.143%.
3. The catch-up surcredit rate shall apply to billings for all intrastate services, except residential basic service, coin-sent paid calls, and contracts from February 1, 2002 through April 30, 2002. By January 31, 2002, Pacific shall put in place a billing process to implement the catch-up surcredit for billings from February 1, 2002 through April 30, 2002.
4. The Director of the Telecommunications Division (TD), on the 15th day of each calendar month, shall instruct the Information Management Service Division to distribute the catch-up amount of \$409.341 million in three monthly installments that the Pacific's catch-up surcredit is in effect.
5. Pacific shall show the catch-up surcredit as a single line item on customers' bills and explain the CHCF-B catch-up surcredit to their customers in the free form section of the customer bill.

6. Within 5 working days from the effective date of this resolution, Pacific shall provide to the Director of TD for review and approval a copy of the catch-up surcredit explanation that will be in the free form section of the customer bill.
7. Pacific shall track the catch-up surcredit rate reduction by establishing a memorandum account, entitled Universal Service Surcredit Payable to Customers.
8. Pacific shall file an Advice Letter within 60 days from the end of the catch-up period, no later than June 30, 2002, to true-up catch-up surcredit.
9. Pacific shall include interest, based upon the average seven-day compound yield on taxable money market funds published in the Wall Street Journal, starting on the first day from the end of the catch-up period, or May 1, 2002, to the day of the start of the actual true-up, if any.
10. An audit of Pacific's CHCF-B claims from February 1997 through May 1998 shall be done pursuant to Public Utilities Code Section 274. The resolution addressing the true-up of the catch-up surcredit shall include the result of the audit findings in the development of the true-up surcredit/surcharge amount.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 9, 2002. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners