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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Public Programs Branch

RESOLUTION T-17008
July 20, 2006

R E S O L U T I O N

Resolution T-17008. Citizens Telecommunications Company of California) (U-1024-C). Request to (1) implement a permanent California High Cost Fund-B (CHCF-B) surcredit; and (2) true up of temporary catch-up CHCF-B surcredit in compliance with Decision 98-09-039.

By Advice Letter No. 722, filed October 24, 2001, and Supplement A, filed April 13, 2004.

By Advice Letter No. 732, filed November 30, 2001, and Supplements A, B, and C, filed December 10, 2001, August 1, 2002, and April 13, 2004, respectively.

SUMMARY

A. Implementation of Permanent CHCF-B Surcredit:

On October 24, 2001, Citizens Telecommunications Company of California (Citizens)¹ filed Advice Letter (AL) No. 722 to make its provisional California High Cost Fund-B (CHCF-B) surcredit permanent. This resolution approves Citizens' AL No. 722 to implement on September 1, 2006 and thereafter a permanent surcredit of 3.63%. This surcredit will apply permanently on all intrastate billings, except for residential basic service, contract services, and coin-sent paid calls.

In addition to implementing the permanent surcredit of 3.63%, Citizens will also implement an incremental permanent surcredit of 4.40% (which includes a net offset of the over- refunded amount to customers as indicated in AL No. 732) for one year to

¹ Citizens Telecommunications Company of California's d/b/a/ is Frontier Communications of California.

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true-up the provisional CHCF-B permanent surcredit on all intrastate billings, except for residential basic service, contract services, and coin-sent paid calls. In sum, Citizens will implement a total permanent surcredit of 8.03%² for one year, commencing on September 1, 2006, and ending on the last day of the 12-month period. After the end of the 12-month period, Citizens will continue to implement a permanent surcredit of 3.63% on all intrastate billings, except for residential basic service, contract services, and coin-sent paid calls.

B. Implementation of Catch-up CHCF-B Surcredit:

On November 30, 2001, Citizens filed AL No. 732 to true-up its temporary CHCF-B catch-up surcredit for the period July 2001 through September 2001. In AL No. 732, Citizens proposes to apply a surcharge on its customers' billings to recover an overpayment to customers during this three-month temporary catch-up period. However, since the over refunded amount of \$84,617 (interest included) has already been addressed as a net offset in the true-up of the provisional permanent surcredit above, there will be no need to implement a catch-up surcharge as Citizens proposes. Therefore, Citizens shall file a supplement to AL No. 732 to state that the one-month catch-up surcharge will not be implemented because the overpayment to customers during the three-month temporary catch-up period has already been addressed as a net offset in the true-up of the provisional permanent surcredit.

BACKGROUND

A. Decision (D.) 96-10-066 –Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643; Investigation on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021)

In D.96-10-066, the Commission established the CHCF-B program to provide a universal service subsidy to Citizens and the other incumbent local exchange carriers (ILECs)³ for providing basic local telephone service to residential customers in high-cost areas at affordable rates. The purpose of the CHCF-B program is to replace the implicit subsidies used to support universal service with an explicit funding mechanism. The CHCF-B is funded through a surcharge on all end-users of intrastate telecommunications services, except for Universal Lifeline Telephone Service (ULTS)

² Permanent surcredit rate of 3.63% + additional surcredit rate as a result of the provisional permanent surcredit true up of 4.40% = 8.03% total surcredit rate.

³ The other ILECs are AT&T (formerly Pacific Bell, then SBC), Verizon California Inc. (formerly the merged GTE California Inc. and Contel Telephone Company), and SureWest Telephone Company (formerly Roseville Telephone Company).

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customers, coin-sent paid calling, debit card messages, one-way paging, usage charges to COPTs, customers receiving services under existing contracts that were executed on or before September 15, 1994 and directory advertising. The CHCF-B surcharge has been in place since February 1, 1997.

To avoid double recovery of universal service support by carriers, the Commission, in D.96-10-066, requires Citizens and the other ILECs to reduce all of their rates, except for residential basic service⁴, contracts, and coin-sent paid calls, by an equal percentage reduction (through a monthly surcredit to the customer's bill), in an amount that equals their anticipated monthly CHCF-B draws.

B. D.98-09-039 – Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly bill 3643; Investigation on the Commission's Own motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021.)

In September 1998, the Commission issued D.98-09-039 implementing the CHCF-B program established by D.96-10-066. Specifically, the Commission, in this decision, authorized Citizens and the other ILECs,⁵ to commence their monthly draws from their accumulated CHCF-B surcharge revenues (CHCF-B draws) commencing December 15, 1998. To offset the CHCF-B draws, the Commission ordered Citizens and the other ILECs to file an AL to implement a permanent surcredit (by an equal percentage of their CHCF-B draws) beginning on December 1, 1998, based on the average of the company's "**approved**" monthly claims submitted to the CHCF-B fund for the twelve-month period ending July 31, 1998. (*D. 98-09-039, Ordering Paragraph (OP) 1, p. 82.*) Once the monthly claims, on which the permanent surcredit would be based, were submitted by Citizens and that other ILECs to TD, the CHCF-B Administrative Committee (AC)⁶ was then charged with the duty of reviewing and approving the monthly claims. If material issues arose from the AC's review of the monthly claims, the Commission held that "the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues." (*Id. at OP 3, p. 82.*)

⁴ Residential basic exchange service is excluded from the rate reduction because the CHCF-B supports this service in high cost areas. The Commission, in D.96-10-066, held "If we were to reduce rates for basic service as well, this would widen, rather than narrow, the gap between residential rates and their costs." (*Id. at p. 208.*)

⁵ AT&T as a result of D.98-07-033, dated September 3, 1998, and subsequently SureWest Telephone Company in D.05-08-004, dated August 25, 2005, implemented permanent rate reductions, which allowed the company to true up its rate reduction with its approved fund draws from the CHCF-B program.

⁶ The CHCF-B AC (formerly CHCF-B Trust AC) was previously responsible for reviewing and approving CHCF-B claims by telecommunications carriers, but this function has been transferred to the Commission effective October 1, 2001, pursuant to D.01-09-064, dated September 20, 2001, in response to Legislative mandates (SB 669 and SB 742) to transfer surcharge revenues that fund the public purpose programs associated with the advisory board into

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Lastly, the Commission, in this decision, ordered Citizens and the other ILECs to file an AL to implement a temporary CHCF-B catch-up surcredit over three calendar months in accordance with the instructions issued by the Director of the Telecommunications Division (TD). (*D.98-09-039, OP 20, p. 84.*)

C. Resolution T-16239 – Citizens Telecommunications Company of California. Request to Implement a Permanent California High Cost Fund –B Surcredit in Compliance with Decision 98-09-039. By Advice Letter No. 632, Filed on September 22, 1998 and Supplemental Advice Letter 632-A, Filed on November 12, 1998. (Adopted November 19, 1998.)

In compliance with OP No. 1 of D. 98-09-039, Citizens filed AL No. 632 to implement a permanent surcredit on intrastate billings to customers beginning December 1, 1998. In Resolution T-16239, the Commission approved, on a provisional basis, Citizens' permanent surcredit of 3.07%, which was based on an estimated amount (approximately \$1.241 million) of Citizen's 12-month CHCF-B claims from August 1997 through July 1998. This permanent surcredit was adopted on a provisional basis because the CHCF-AC had not formally approved any of these claims filed by Citizens. (*Id. at p. 3.*) The Commission specifically held that ". . . the implementation of the permanent surcredit filed in Advice Letter 632 [is] to be on a provisional basis subject to further revision by further Commission action." (*Id.*)

D. Resolution T-16532 –Citizens Telecommunications Company of California, Inc. Request to Implement a Temporary California High Cost Fund –B Catch-up Surcredit in Compliance with Decision 98-09-039. Advice Letter No. 698, Filed on April 13, 2001. Supplements 698-A and 698-B Filed on May 18, 2002 and May 25, 2001, Respectively. (Adopted June 12, 2001.)

In Resolution T-16532, the Commission approved Citizens' temporary three-month CHCF-B catch-up surcredit of 20.20% to offset its approved claims of \$2.280 million for the period February 1997 through August 1998. The catch-up surcredit of 20.20% was applied to all intrastate services, except for residential basic service, contracts, and coin-sent paid calls for 3 months, from July 1, 2001 through September 30, 2001. This catch-up surcredit was in addition to the 3.07% provisional permanent surcredit that was authorized in Resolution T-16239.

Additionally, the Commission ordered Citizens to do the following:

the State Treasury. The CHCF-B AC currently acts as an advisory board to advise the Commission regarding the development, implementation and administration of the program, pursuant to PU Code Section 276(a).

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OP No. 4: Citizens shall track the catch-up surcredit rate reduction by establishing a memorandum account, entitled "Accounts Payable End-User Catch-Up Claim/Surcredit";

OP No. 5: Citizens shall file an AL within 60 days from the end of the catch-up period, no later than November 29, 2001, to true up the catch-up surcredit; and

OP No. 6: Citizens 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 October 1, 2001, to the day of the start of the actual true up, if any.⁷

In accordance with OP Nos. 4 and 5 of Resolution T-16532, Citizens tracked its temporary surcredit for 3 calendar months in a memorandum account, and filed AL No. 732 on November 29, 2001 to true-up the CHCF-B catch-up surcredit. Subsequently, Citizens filed Supplements 732A, 732B, and 732C, on December 10, 2001, August 1, 2002, and April 13, 2004, respectively.

In AL No. 732, Citizens requested to apply a one-month catch-up surcharge of 2.61% to recover an over payment to customers amounting to \$98,177 (including interest in accordance with OP No. 6 of Resolution T-16532). In AL No. 732A, Citizens included their Access Tariff, which was inadvertently left out when it filed AL No. 732. In AL No. 732B, Citizens adjusted its calculation for the true up from 2.61% to 2.12% one-month catch-up surcharge. Finally, in AL No. 732C, Citizens updated its one-month catch-up surcharge to 1.51% based on the projected billing base for July 2004 and an adjusted over payment of \$89,663 (per audit report), plus interest, pursuant to OP No. 6 of Resolution T-16532.

E. October 4, 2001 Director of the Telecommunications Division's (TD) Letter to Citizens

On October 4, 2001, Director of the TD sent a letter to Citizens to notify that the CHCF-B AC had completed its review of Citizens' monthly claims for the period February 1997 through July 1998. Specifically, TD informed Citizens that the CHCF-B AC approved an amount of \$1,475,781.31 for the 12-month period of August 1997 through July 1998. This amount was approximately \$235,000 more than Citizens' claimed amount of \$1.241 million for this period.

⁷ OP No. 6 of Resolution T-16532 was adopted from OP No. 25 of D.98-09-039.

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Because the CHCF-B AC's approved amount was greater than Citizens' claimed amount, TD instructed Citizens to adjust its provisional permanent rate that was adopted in Resolution T-16239 with the AC's approved amount of \$1,475,781.31. Further, TD instructed Citizens to file an AL no later than October 30, 2001 to reflect this adjustment.

In response, Citizens filed AL No. 722 to adjust its provisional permanent surcredit of 3.07% to a new permanent surcredit of 3.66% on October 24, 2001. However, Citizens subsequently lowered its proposed permanent surcredit of 3.66% to 2.58% in AL No. 722A, on the basis that the rate should be based on its projected June 2004 billing base.

F. D.02-04-059 – Order Instituting Rulemaking into Implementation of Senate Bill 669 As it Affects California High Cost Fund B and Other Public Purpose Programs (R.01-08-022).

In D.02-04-059, the Commission adopted the 3-month commercial paper rate issued by financial institutions (available at the Federal Reserve Board website) as the uniform interest rate to apply to all late payments for reimbursements and carrier claims, beginning with the payments processed in the first payment cycle, which was May 1, 2002.

G. Audit of Citizens' CHCF-B Claims Pursuant to Public Utilities (PU) Code Section 274

Public Utilities (PU) Code section 274 requires the Commission to conduct a compliance audit of program-related costs, including CHCF-B claims for all carriers. In compliance with this statute, the Commission retained an auditing firm in November 2001 to perform an audit of Citizens' CHCF-B claims for the period February 1, 1997 through December 31, 2000. A final audit report was issued in November 2002. Among other findings, the audit report concluded that Citizens over claimed \$13,205 for the catch-up period of February 1997 through July 1998.⁸

NOTICE/PROTESTS

The notice of Citizens' AL No. 722 and 722A, were published in the Commission Daily Calendars of October 29, 2001 and April 19, 2004. Citizens' AL No. 732 and its Supplements A, B, and C were published in the Commission Daily Calendars of December 7, 2001, December 14, 2001, August 5, 2002, and April 19, 2004, respectively.

⁸ The audit revealed that Citizens over claimed from the CHCF-B fund, totaling \$13,205 (or \$695 per month) during the 19-month audit period from 2/97 through 8/98 due to inclusion of lines with identical names and addresses, amounting to \$1,534, and incorrect Federal offset amounts, amounting to \$11,671.

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Citizens indicated that they mailed a copy of the ALs to adjacent utilities and/or interested parties as requested. No protests have been received.

DISCUSSION

A. Citizens' Request To Make its Provisional Surcredit Permanent

In compliance with Resolution T-16239, OP No. 1, Citizens filed AL No. 722 and its supplements requesting to adjust its CHCF-B provisional permanent surcredit and to implement a permanent surcredit of 2.58% based on its projected June 2004 billing base.

To date, Citizens does not have a permanent surcredit for the CHCF-B. The Commission has authorized Citizens to implement a "provisional" permanent surcredit in Resolution T-16239 and held that this issue would be subject to further revision by further Commission action. (*Resolution T-16239, p. 3.*) We will now revisit this issue and determine what Citizens' permanent surcredit rate should be.

Citizens proposes a permanent surcredit of 2.58% based on its projected June 2004 billing base. In D. 98-09-039, the Commission ordered Citizens to calculate its permanent surcredit by using the average of its 12-month "approved" claims from August 1997 through July 1998. Since the issuance of D. 98-09-039, there have been no other directives from the Commission on this matter. Accordingly, TD did not utilize Citizens' June 2004 billing base proposal because it does not comply with the requirements of D.98-09-039. Rather, TD used the net billing base for the 12-month period ending July 1998 (months for which the CHCF-B draws were made, pursuant to D.98-09-039) consistent with Citizens' time period basis of their provisional permanent surcredit calculation.

Both the CHCF-B AC and the auditors have reviewed Citizens' August 1997 through July 1998 claims and have provided TD with their findings. The CHCF-B AC's approved amount for this period is \$1,475,718.31. The auditors have determined that Citizens over claimed \$8,340⁹ for this 12-month period. Based on these two amounts, (using \$1,475,718.31 and adjusting this amount by \$8,340), TD has calculated the permanent surcredit for Citizens to be 3.63%. Thus, the Commission recommends that Citizens implement a permanent surcredit of 3.63% beginning on September 1, 2006 and thereafter.

⁹ Of the over claimed CHCF-B amount of \$13,205 from the CHCF-B fund by Citizens during the audit period 2/97 through 8/98, \$8,340 (\$695 per month x 12 months) of which relate to the period from 8/97 to 7/98 (basis period for provisional surcredit).

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B. True up of Citizens' Provisional Permanent Surcredit

In addition to calculating Citizens' permanent surcredit, the Commission now needs to true-up Citizens' provisional surcredit, which has been in effect since December 1, 1998 to the present date. This is necessary because the CHCF-AC's approved amount is greater than Citizens' claimed amount, upon which the provisional permanent surcredit is based on. In D.98-09-039, the Commission held that Citizens' permanent rate must be based on the "actual, approved" claim amount from August 1997 through July 1998. The Commission further held that "if material issues arise from the AC's review of the monthly claims, the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues.

The CHCF-B AC approved amount is approximately \$1.476 million whereas Citizen's claimed amount was \$1.241 million for the subject 12-month period. Consequently, the difference between these two amounts is approximately \$235,000. The net effect of this difference means that Citizens has been applying a smaller surcredit amount than what is should have applied since December 1, 1998. The Commission specifically held that "if material issues arise from the AC's review of the monthly claims, the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues." (Id. at COL 3; See also OP 3.) There is a significant difference between the AC's approved amount and Citizens' claimed amount. Thus, it is necessary to true-up the provisional permanent surcredit. Failure to true-up this difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated.

In D.98-09-039, the Commission provided authority for the true-up of Citizens' provisional permanent surcredit. Specifically, in OP 3 of this decision, the Commission ordered as follows:

"The CHCF-B Administrative Committee shall review the CHCF-B claims submitted by Citizens, GTE, Contel and Roseville for the 12-month period ending July 31, 1998 and report its findings to the Director of Telecommunications Division. If material issues arise from the CHCF-B AC's review of the CHCF-B claims, these companies' permanent surcredits shall be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon the resolution of these issues." (OP 3, D. 98-09-039.)

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By this ordering paragraph, it is clear that the Commission intended to allow for an adjustment to the provisional permanent surcredit to occur if material issues arose from the CHCF-AC's review of the CHCF-B claims. The Commission has now before us a material issue that has arisen from the CHCF-B AC's review of Citizens' monthly claims.

In Resolution T-16239, the Commission also authorized Citizens to implement a "provisional" permanent surcredit beginning in December 1998. The Commission did so because the CHCF-AC did not have a chance to formally approve any of the CHCF-B claims filed by Citizens. CHCF-AC has since had an opportunity to review those claims and has provided TD with the approved amount, which is significantly higher (rising to the level of materiality) than Citizens' claimed amount. Thus, in accordance with D.98-09-039, it is necessary for us to true-up the provisional permanent surcredit.

Since the provisional permanent surcredit has been in effect since December 1, 1998, the difference of approximately \$235,000 per year needs to be adjusted from this date to the present date. Additionally, because Citizens has retained approximately \$235,000 per year since December 1, 1998 (which should have otherwise accrued interest), it is necessary and appropriate to add interest onto the net difference. Therefore, the Commission recommends that Citizens' net difference of approximately \$235,000 per year for over 7.5 years, plus interest from December 1, 1998 to the present date be applied as a surcredit on all of Citizens' intrastate billings, except for certain services, over a one calendar year period.

The exact calculation of the surcredit adjustment is discussed more fully below in the "Surcredit Determination of True up of Provisional Permanent Surcredit" section of this resolution.

Appendix A illustrates the amount of excessive funds provided to Citizens since December 1, 1998. Column G of Appendix A shows that Citizens excessively accumulated over \$1.8 million over 7 years up to and including the January 2006 claim month.

D. True up of Three-Month Temporary Catch-Up Surcredit

In compliance with Resolution T-16532, OP No. 5, Citizens filed AL No. 732 and its supplements, requesting to true up its three-month temporary catch-up surcredit relating to CHCF-B to recover the over payment to its customers, amounting to \$89,663, plus interest. Further, Citizens proposes to implement a one-month catch-up surcharge of 1.51% based on its projected July 2004 billing base to recover such over payment.

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Nonetheless, with the \$13,205 adjustment per audit report, TD has calculated the over payment to customers to be \$76,458, plus interest, totaling \$84,617.

However, in lieu of a CHCF-B surcharge application to true up the three-month temporary catch-up surcredit during the period July 2001 through September 2001, the Commission believes that it is more appropriate that an adjustment amounting to \$84,617 (over payment to customers) be made on the true-up of provisional permanent surcredit to reduce the surcredit for one year.

Therefore, the Commission recommends that Citizens should file a supplement to AL No. 732 to indicate that the one-month catch-up surcharge will not be implemented as the over payment to customers during the three-month temporary catch-up period has been addressed as a net offset on the true up of provisional permanent surcredit.

E. Surcredit Determination of True up of Provisional Permanent Surcredit

To determine the CHCF-B surcredit for twelve months to true up the provisional permanent surcredit, the \$235,000 per year difference between Citizens' estimated CHCF-B claims (\$1.241 Million) and approved CHCF-B claims (\$1.476 Million) by the CHCF-B AC for the period ending July 1998, is increased to approximately \$2,115,000 for over 7.5 years¹⁰, plus interest¹¹ for those years. The resulting amount of \$2,389,579 was then adjusted by the over payment to customers (\$84,617) during the three-month temporary surcredit catch-up period (July through September 2001). The net difference and the projected net billing base for the twelve-month period ending December 2005 were then utilized to calculate the true up of provisional permanent surcredit of 4.40% for one year. Thus, the Commission believes that Citizens should apply an incremental permanent surcredit of 4.40% for one year, commencing September 1, 2006, in addition to the permanent surcredit of 3.63%, totaling 8.03% permanent surcredit.

F. Application of Surcredit

The permanent surcredit of 3.63% and the incremental permanent surcredit of 4.40% , resulting from the true up of provisional permanent surcredit, totaling 8.03% permanent surcredit, should apply on all intrastate billings, except for residential basic service, contract services, and coin-sent paid calls for one year. The 8.03% surcredit

¹⁰ Total number of years in which the surcredit should have been implemented (December 1, 1998) through the implementation date of this resolution, which is September 1, 2006.

¹¹ Interest was based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday (from December 1, 1998 through April 30, 2002), then on the three-month commercial paper rate issued by financial institutions (available at Federal Reserve Board website) (from May 1, 2002 through September 1, 2006).

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should be implemented on September 1, 2006, and ending on the last day of the 12-month period. After the 12-month implementation period of the total permanent surcredit of 8.03%, Citizens should continue to apply the permanent surcredit of 3.63% on all intrastate billings, except for residential basic service, contract services, and coin-sent paid calls.

G. Recommendations on the Permanent Surcredit and True up of Provisional Permanent Surcredit

With respect to AL No. 722, the Commission recommends that the Commission order Citizens to do the following: (1) file a supplement to AL No. 722 within five (5) business days from the effective of this resolution to reflect a permanent surcredit of 3.63% and an incremental permanent surcredit of 4.40% to true up the provisional permanent surcredit, totaling 8.03% permanent surcredit, for one year to apply on all intrastate customers' billings, except residential basic service, contract services, and coin-sent paid calls; (2) implement the total permanent surcredit of 8.03% for one year commencing on September 1, 2006, and ending on the last day of the 12-month period; (3) continue to apply the permanent surcredit of 3.63% after the 12-month implementation period of the total permanent surcredit of 8.03%; (4) provide to the Director of TD for review and approval, within five (5) business days from the effective date of this resolution, a copy of the customer notice that will be in the free-form section of the customer bill, explaining the change to the permanent surcredit and the inclusion of the incremental permanent surcredit for one year.

H. Recommendation on True up of Catch-Up Surcredit

With respect to AL No. 732, the Commission recommends that Citizens should file a supplement within five (5) business days from the effective date of this resolution. The supplement should indicate that the one-month catch-up surcharge to recover the overpayment to customers during the three-month temporary catch-up period will not be implemented as such over payment has already been addressed as a net offset in the true up of provisional permanent surcredit.

I. Adoption of Recommendations

In light of the above discussion, the Commission adopts the recommendations for (1) the permanent surcredit of 3.63% and an incremental permanent surcredit of 4.40% to true up the provisional permanent surcredit in AL No. 722 (which includes a net offset of the overpayment to Citizens' customers during the three-month temporary catch up period as indicated in AL No. 732); and (2) the net offset treatment of the over-refunded amount to Citizens' customers during that three-month temporary catch-up period as

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indicated in AL No. 732. The Commission believes that the recommendations, as discussed in this resolution, are appropriate, reasonable and consistent with prior Commission decisions and resolutions.

COMMENTS

In compliance with PU Code Section 311(g), a copy of the Notice of Availability letter of the draft resolution was e-mailed on June 20, 2006 to parties that informed TD of their e-mail address in order to continue to be on the service list of R.95-01-020/I.95-01-021, AT&T, Verizon California Inc., SureWest Telephone Company, Cox California Telecom, LLC, and CHCF-B AC, informing parties that this draft resolution is available for public viewing and comments at the Commission's website at:

<http://www.cpuc.ca.gov/static/documents/index.htm>. In addition, the TD informed these parties of the availability of the conformed resolution at the same website.

Comments filed on a timely basis will be addressed in this Resolution.

FINDINGS

1. Citizens Telecommunications Company of California (Citizens) filed Advice Letter (AL) No. 722 and its supplements to true up its California High Cost Fund B (CHCF-B) provisional permanent surcredit and implement a permanent surcredit.
2. Citizens' CHCF-B approved claims by the CHCF-B Administrative Committee (AC) during the twelve-month review period ending July 31, 1998 total \$1,475,781.31.
3. An audit of Citizens' CHCF-B claims revealed that Citizens over claimed a total amount of \$13,205 (or \$695 per month) from the CHCF-B fund during the 19-month audit period from February 1997 through August 1998 due to inclusion of lines with identical names and addresses (\$1,534); and incorrect Federal offset amounts (\$11,671).
4. The appropriate billing base for Citizens' permanent CHCF-B surcredit calculation should be the net billing base for the twelve-month period ending July 1998 (months for which the CHCF-B draws were made), pursuant to Decision (D.) 98-09-039.
5. Citizens' approved CHCF-B claim amount of \$1,475,781.31 during the twelve-month period ending July 31, 1998 should be adjusted by the over claimed amount during that period, totaling \$8,340 (\$695 per month of over claimed amount x 12 months), as disclosed in the audit report, when computing the permanent surcredit.

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6. The permanent CHCF-B surcredit calculation should be based on the net billing base and Citizens' approved CHCF-B claim amount (\$1,475,781.31) for the twelve-month period ending July 1998 less the over claimed amount of \$8,340 during that period as disclosed in the audit report.
7. Citizens' permanent surcredit should be 3.63%.
8. The interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday, per Ordering Paragraph (OP) No. 6 of Resolution T-16532 and OP No. 25 of Decision (D.) 98-09-039, was revised in D.02-04-059, issued April 22, 2002.
9. The Commission, in D.02-04-059, OP No. 7, adopted the three-month commercial paper rate issued by financial institutions (available at Federal Reserve Board website) as the uniform interest rate applicable to late payment of reimbursement and carrier claims, beginning with payments processed in the first payment cycle (which is May 1, 2002).
10. Citizens has been applying a smaller provisional permanent surcredit amount than what should have applied since December 1, 1998.
11. OP No. 3 of D.98-09-039 provides that if material issues arise from the AC's review of the monthly claims, the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues.
12. There is a significant difference (approximately \$235,000 per year for over 7.5 years) between the CHCF-B AC's approved amount and Citizens' estimated claimed amount that was utilized for the provisional permanent surcredit calculation.
13. Citizens has retained the net difference of approximately \$235,000 per year for over 7.5 years (which should have accrued interest from December 1, 1998 to the implementation date of this resolution).
14. Citizens' net difference of approximately \$235,000 per year for over 7.5 years, plus interest from December 1, 1998 to the implementation date of this resolution should be applied as a surcredit on all Citizens' intrastate billings, except for certain services, over a one calendar year period.

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15. Failure to adjust the difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated.
16. Citizens should apply an incremental permanent surcredit of 4.40% for one year to true up the provisional permanent surcredit, in addition to the permanent surcredit of 3.63%, totaling 8.03%
17. Citizens has accumulated in excess of \$1.8 million over 7 years up to and including January 2006 claim month as illustrated in Column G of Appendix A, attached to this resolution.
18. Citizens' over refunded amount of \$84,617 (includes interest) as indicated in AL No. 732 is addressed as a net offset in the true up of the provisional permanent surcredit.
19. The incremental permanent surcredit should be 4.40% for one year to true up the provisional permanent surcredit based on the difference between Citizens' estimated CHCF-B claims and approved CHCF-B claim amount for the period ending July 1998, plus interest, less over payment to customers in the amount of \$84,617, and the projected net billing base for the twelve-month period ending December 2005.
20. Within five (5) business days from the effective date of this resolution, Citizens should file a supplement to AL No. 722 to reflect a permanent surcredit of 3.63%, and an incremental permanent surcredit of 4.40%, to true up the provisional permanent surcredit, totaling 8.03% permanent surcredit for one year.
21. Citizens should implement a total permanent surcredit of 8.03% for one year to apply on all intrastate customers' billings, except residential basic service, contracts, and coin-sent paid calls, commencing on September 1, 2006 and ending after 12-month implementation period .
22. Citizens should continue to apply the permanent surcredit of 3.63% after the 12-month implementation period of the 8.03% CHCF-B total permanent surcredit rate.
23. Within five (5) business days from the effective date of this resolution, Citizens should file a supplement to AL No. 722 to reflect a permanent CHCF-B surcredit of 3.63% and an incremental permanent surcredit of 4.40%, totaling 8.03% permanent surcredit for one year, to apply on all intrastate customers' billings, except residential basic service, contract services, and coin-sent paid calls.

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24. Within five (5) business days from the effective date of this resolution, Citizens should provide to the Director of the Telecommunications Division for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining the change to the permanent surcredit of 3.63% and the inclusion of the incremental permanent surcredit of 4.40% for one year.
25. Within five (5) business days from the resolution effective date, Citizens should file a supplement to AL No. 732. The supplement should indicate that the one-month catch-up surcharge will not be implemented because the over payment to customers during the three-month temporary catch-up surcredit period has been addressed as a net offset in the true up of the provisional permanent surcredit.
26. The recommendations, as stated in this Resolution, are reasonable and should be adopted.

THEREFORE, IT IS ORDERED that:

1. Within five (5) business days from the effective date of this resolution, Citizens Telecommunications Company of California (Citizens) shall file a supplement to Advice Letter (AL) No. 722 to reflect a permanent California High Cost Fund B (CHCF-B) surcredit of 3.63% and an incremental permanent surcredit of 4.40%, totaling 8.03% permanent surcredit for one year, to apply on all intrastate customers' billings, except residential basic service, contract services, and coin-sent paid calls.
2. Citizens shall implement the total permanent surcredit of 8.03% for one year, commencing on September 1, 2006 and ending on the last day of the twelve-month period.
3. Citizens shall continue to apply the permanent surcredit of 3.63% after the 12-month period implementation of the total permanent surcredit of 8.03%.
4. Within five (5) business days from the effective date of this resolution, Citizens shall provide to the Director of the Telecommunications Division for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining the change to the CHCF-B permanent surcredit of 3.63% and the inclusion of the incremental permanent surcredit of 4.40% for one year.
5. Within five (5) business days from the effective date of this resolution, Citizens shall file a supplement to AL No. 732. The supplement shall indicate that the one-month

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catch-up surcharge will not be implemented as the over payment to customers has been addressed as a net offset in the true up of the provisional permanent surcredit.

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This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 20, 2006. The following Commissioners approved it:

STEVE LARSON
Executive Director

Appendix A							
Citizens' Claim History Summary							
Time Period	Claims	Revised/Final	Claim Amounts	Net Approved	Provisional	Actual	Difference between
	Initially Filed	Claims	Approved	Claim Amount Paid	Permanent Surcredit (Test Period)	Permanent Surcredit (Test Period)	
	(A)	(B)	(C)	(D)	(E)	(F)	(G) = (F) - (E)
08/97-07/98 *	Note 1	\$ 1,514,997.50	\$ 1,475,781.31	\$ 1,475,781.31	NA	NA	NA
02/97-07/98	Note 1	\$ 2,153,016.10	\$ 2,113,064.69	\$ 2,113,064.69	NA	NA	NA
08/98-07/99	Note 1	\$ 1,995,286.10	\$ 1,989,391.89	\$ 1,989,391.89	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
08/99-07/00	\$ 2,024,570.43	\$ 2,003,726.43	\$ 2,002,260.19	\$ 2,002,260.19	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
08/00-07/01	\$ 2,246,062.37	\$ 2,246,062.37	\$ 2,245,641.30	\$ 2,245,641.30	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
8/01-07/02	\$ 2,492,880.67	\$ 2,492,880.67	\$ 2,496,451.03	\$ 2,496,451.03	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
08/02-07/03	\$ 2,465,694.19	\$ 2,465,694.19	\$ 2,464,741.99	\$ 2,464,741.99	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
08/03-07/04	\$ 2,504,865.53	\$ 2,504,865.53	\$ 2,504,216.14	\$ 2,504,216.14	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
08/04-07/05	\$ 2,651,990.25	\$ 2,651,990.25	\$ 2,651,308.57	\$ 2,651,308.57	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
08/05-01/06	\$ 988,395.12	\$ 988,395.12	\$ 986,614.77	\$ 986,614.77	\$ 1,241,000.00	\$ 1,475,781.31	\$ 234,781.31
Total	\$15,374,458.56	\$ 19,501,916.76	\$ 19,453,690.57	\$ 19,453,690.57	\$ 9,928,000.00	\$11,806,250.48	\$ 1,878,250.48

*Revision #1 claims is being used; it was estimated to \$1.241 million for the provisional permanent surcredit