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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of
Roseville Telephone Company (U 1015 C) to
review its New Regulatory Framework.

A. 99-03-025

REVISED SETTLEMENT AGREEMENT

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In the Matter of the Application of
Roseville Telephone Company (U 1015 C) to
review its New Regulatory Framework.

A. 99-03-025

REVISED SETTLEMENT AGREEMENT

This Revised Settlement Agreement is entered into as of August 6, 2004, by and among
SureWest Telephone ("SureWest"), the Office of Ratepayer Advocates ("ORA") and The Utility
Reform Network ("TURN").

RECITALS

WHEREAS, on May 3, 2002, SureWest filed a Petition for Modification ("PFM") of D.01-
06-077, the decision addressing the first triennial review of Sure West's New Regulatory Framework
("NRF").

WHEREAS, the PFM sought modification of the sharing mechanism component of
SureWest's NRF; and

WHEREAS, on May 24, 2002, ORA filed a response to the PFM opposing the modification
of the sharing mechanism; and

WHEREAS, on August 5, 2003, the assigned administrative law judge issued a draft decision
denying the PFM; and

WHEREAS, on October 16, 2003, Commissioner Kennedy issued an alternate draft decision
that would have modified the sharing mechanism consistent with the PFM; and

WHEREAS, on November 6, 2003, the assigned administrative law judge granted a motion to
intervene filed by The Utility Reform Network ("TURN"); and

1 WHEREAS, on March 5, 2004, the assigned commissioner issued a ruling setting the PFM
2 for hearings; and

3 WHEREAS, SureWest served opening testimony on May 3, 2004; and

4 WHEREAS, ORA conducted an on-site audit of SureWest during the week of May 10th 2004;
5 and

6 WHEREAS, ORA served its testimony on June 18, 2004; and

7 WHEREAS, SureWest, ORA and TURN have arrived at an agreement which is reasonable in
8 light of the whole record, is consistent with the law of the State of California, and is in the public
9 interest.

10
11 **AGREEMENT**

12 NOW, THEREFORE, based upon the mutual agreement reflected in this Revised Settlement
13 Agreement, SureWest, ORA and TURN agree to resolution of the issues raised in SureWest's PFM
14 as follows:

15 1. In satisfaction of its shareable earnings obligation for earnings in the years 2000, 2001,
16 2002 and 2003, including resolution of any adjustments to SureWest's shareable earnings calculation
17 for those years, whether such adjustments have been identified or not, including those identified
18 during ORA's on-site audit, SureWest shall pay \$6.2 million. The \$6.2 million payment is
19 attributable to each particular year as follows: 2000 - \$1.7 million; 2001 - \$1.1 million; 2002 - \$2.8
20 million; 2003 - \$600,000. SureWest's rates of return for use in regulatory reporting are as follows:
21 2000 - 12.86%; 2001 - 12.37%; 2002 - 13.88%; 2003 - 12.01%. Without impacting the results of
22 this Revised Settlement Agreement, this Revised Settlement Agreement does not preclude parties
23 from addressing in another proceeding any specific accounting or ratemaking issue in this
24 proceeding.

25 2. In satisfaction of its shareable earnings obligation, if any, for earnings in 2004,
26 including any adjustments to SureWest's shareable earnings calculation for the calendar year 2004,
27 whether such adjustments have been identified or not, including those identified during ORA's on-
28 site audit, SureWest shall pay \$750,000.

1 3. The payments of \$6,950,000 identified in Paragraphs 1 and 2 plus applicable interest,
2 less the earnings of \$477,576 already shared per Commission Resolution T-16775, shall be returned
3 to end users as consumer dividends over a period of four years beginning January 1, 2005, or, in the
4 event a Commission decision approving this Revised Settlement Agreement is not adopted until after
5 January 1, 2005, beginning no later than two months following the Commission decision approving
6 this Revised Settlement Agreement. For purposes of this Revised Settlement Agreement, "consumer
7 dividends" are surcredits applicable to the aggregate amount of recurring intrastate customer billings
8 associated with all end user services by SureWest, except for the following services as defined as of
9 the date this Revised Settlement Agreement is signed: (a) access charges listed in Schedule Cal.
10 P.U.C. No. 1; (b) taxes and surcharges listed in Schedule Cal. P.U.C. No. A.25; and (c) Category III
11 Services.

12 4. In addition to the \$6,950,000 payments required by Paragraphs 1, 2, and 3, SureWest
13 shall account for and make an additional one time payment of \$2.6 million which, in combination
14 with the payments required in Paragraphs 1, 2, and 3, constitutes the full and complete satisfaction of
15 SureWest's shareable earnings obligation relative to the years 2000-2004. The additional one time
16 payment of \$2.6 million shall be returned to end users as consumer dividends during the years 2005
17 and 2006. In the event a Commission decision approving this Revised Settlement Agreement is not
18 adopted until after January 1, 2005, the consumer dividends of \$2.6 million for 2005-2006 will be
19 calculated to return the entire \$2.6 million payment by the close of the 2006 calendar year.

20 5. The Commission decision approving this Revised Settlement Agreement shall
21 constitute full and complete final Commission action resolving all pending shareable earnings
22 calculations and amounts for the years 2000 – 2004. In particular, the Commission decision
23 approving this Revised Settlement Agreement shall resolve completely any open issues referred to in
24 Commission Resolutions T-16617 (December 11, 2001), T-16682 (August 22, 2002) and T-16775
25 (October 30, 2003) for the years 2000-2002. The Commission decision approving this Revised
26 Settlement Agreement shall constitute final Commission action resolving pending shareable earnings
27 Advice Letter No. 932 filed by SureWest for the year 2003. SureWest and ORA shall forward to the
28 Telecommunications Division ("TD") a letter informing TD that it is the parties' intention that this

1 Revised Settlement Agreement and a Commission decision approving this Revised Settlement
2 Agreement resolve all open issues relative to Advice Letter No. 932 and that Advice Letter No. 932
3 should be disposed of consistent with this Revised Settlement Agreement and the resulting
4 Commission decision approving this Revised Settlement Agreement.

5 6. Beginning January 1, 2007, SureWest shall implement a yearly consumer dividend in
6 the amount of \$1.3 million to end users, which is in addition to the consumer dividends referenced in
7 Paragraph 3. The amount of this yearly consumer dividend shall be reduced by the amount of
8 reduction, if any, of the \$11.5 million payment that is currently the subject of Commission review in
9 A.01-04-026. In the event that the Commission reinstates the sharing mechanism, the yearly
10 consumer dividend identified in this paragraph shall be discontinued effective as of the date on which
11 the sharing mechanism is actually reinstated.

12 7. SureWest shall file an advice letter(s) to implement the consumer dividends described
13 in this Revised Settlement Agreement.

14 8. Parties agree that SureWest's sharing mechanism shall be suspended beginning
15 January 1, 2005 until at least December 31, 2010. The sharing mechanism as it pertains to SureWest
16 shall remain suspended after December 31, 2010 until the Commission orders a change in the
17 suspended status of the sharing mechanism for SureWest. In return for the suspension of sharing as
18 of January 1, 2005, SureWest shall pay the amounts described in Paragraphs 1, 2, 4, and 6, above.
19 For purposes of this Revised Settlement Agreement, the "sharing mechanism" refers to the features in
20 SureWest's NRF that require SureWest to share 50% of its revenues with end users for revenues in
21 excess of an 11.5% rate of return, to return to end users 100% of all revenues in excess of the ceiling
22 rate of return of 15%, and permits SureWest to seek an increase in intrastate rates or revenues
23 because its earnings have fallen below the floor rate of return of 6.75%.

24 9. To preserve the benefit to end users of the consumer dividends established in this
25 Revised Settlement Agreement, SureWest shall not increase intrastate rates for the purpose of
26 recovering the amounts of the consumer dividends provided to end users. More specifically,
27 SureWest shall not seek to increase intrastate rates prior to January 1, 2007 without an equal
28 reduction in other intrastate rates to offset the increase in intrastate rates. The limitation on intrastate

1 rate increases in this paragraph shall not prevent SureWest from seeking to raise rates to offset a
2 Commission-mandated or Federal Communications Commission ("FCC")-mandated reduction in an
3 element of SureWest's rate design that is consistent with a Commission or FCC decision mandating
4 such reduction. In addition, this paragraph shall not prevent ORA or TURN from objecting to such
5 an increase in SureWest's intrastate rates.

6 10. For future submissions of annual rate of return filings, SureWest shall follow the
7 Commission's accounting and ratemaking policies and procedures; specifically, SureWest shall
8 report its earnings based on: a) flow-through of federal income tax timing differences as reflected in
9 CPUC policy, including the flow-through of timing differences associated with software development
10 costs; and b) appropriate inclusion of allowance for funds used during construction (AFUDC) and
11 telephone plant under construction (TPUC) in ratebase to avoid double recovery of cost. For annual
12 rate of return reporting purposes, SureWest shall continue to report its actual yearly rate of return on
13 April 1st of each year, and such filing shall reference to the market based rate of return at 10%,
14 benchmark at 11.5%, ceiling at 15%, and the floor at 6.75%.

15 11. SureWest shall file its next triennial NRF review no later than 90 days after a final
16 decision in R.01-09-001/I.01-09-002, or as specified in a further order of the Commission.

17 12. The parties agree that SureWest's service quality should not be a factor in resolving
18 the issues raised in SureWest's PFM. SureWest understands that the decisions of ORA and TURN to
19 refrain from reviewing SureWest's service quality in this PFM proceeding should in no way limit the
20 authority of ORA or TURN to fully review such service quality in subsequent NRF proceedings.

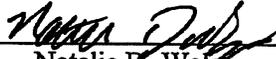
21 13. The provisions of this Revised Settlement Agreement are not severable and shall only
22 become effective after the Commission has entered an order approving this Revised Settlement
23 Agreement without modification. In the event this Revised Settlement Agreement is not accepted in
24 its entirety by the Commission, it shall be deemed to be withdrawn, without prejudice to any claims,
25 positions or contentions which may have been made or are made in this proceeding by any party and
26 shall not be admissible in evidence or in any way described in any proceedings hereinafter. In the
27 event the Commission rejects or modifies the terms of this Revised Settlement Agreement, SureWest,
28 ORA and TURN agree not to object to the preparation and service of rebuttal testimony by SureWest.

1 and to the commencement of evidentiary hearings no sooner than 10 calendar days after the service
2 of such rebuttal testimony. The provisions of this Revised Settlement Agreement shall not be
3 construed as or deemed to be a precedent by any party or the Commission with respect to any issue,
4 principle, or interpretation or application of law and regulations, for any purpose or in connection
5 with any proceeding before a court of law or any state or federal government regulatory body.

6 14. This Revised Settlement Agreement entirely resolves the issues raised by SureWest's
7 PFM. A Commission decision adopting this Revised Settlement Agreement shall also close this
8 proceeding.

9 15. This Revised Settlement Agreement supersedes in its entirety the Settlement
10 Agreement effective as of July 26, 2004 previously entered into by and between the parties.
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13 OFFICE OF RATEPAYER ADVOCATES

14
15 Dated: 8/16/04 By: 
16 Natalie B. Wales
17 Counsel to the Office of Ratepayer Advocates

18 THE UTILITY REFORM NETWORK

19
20 Dated: 8/16/04 By: 
21 William Nusbaum
22 Counsel to The Utility Reform Network

23 SUREWEST TELEPHONE

24
25 Dated: 8/16/04 By: 
26 Sean P. Beatty
27 Counsel to SureWest Telephone
28