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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into the Review of the California High Cost Fund-A Program.

Rulemaking 11-11-007
(Filed November 10, 2011)

SECOND AMENDED SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER

1. Background

Pursuant to Rule 7.3¹ this Amended Scoping Memo and Ruling revises the procedural schedule by adding an additional topic to the scope of this proceeding. With the Order Instituting Rulemaking (OIR) Rulemaking (R.) 11-11-007, the Commission began a review of the California High Cost Fund-A (CHCF-A) program. The OIR was issued pursuant to the Commission's Decision (D.) 10-02-016. The Commission has determined that a detailed review of the program is warranted in response to market, regulatory, and technological changes since the California High Cost Fund (CHFC-A) program was first established in 1987. In this OIR, the Commission seeks comment on how the program can more efficiently and effectively meet its stated goals. To the extent deficiencies are identified, the Commission will solicit proposals on how the program should be modified consistent with its statutory purposes.

¹ All references to Rules are to the Commission's Rules of Practice and Procedure.

This ruling revises the scope and schedule of this proceeding to add consideration of the implementation of a General Rate Case Plan (GRC Plan) for the Rural Incumbent Local Exchange Carriers or Small Incumbent Local Exchange Carriers (Small ILECs) that draw from the CHCF-A program as well as possible adjustments to the Waterfall mechanism. All other elements of earlier scoping rulings in this proceeding are unchanged.

2. Relevant Procedural History

The OIR was approved on November 10, 2011, and issued on November 18, 2011. Prior scoping rulings in this case were issued on May 22, 2013 and March 18, 2014. The overall scope of this proceeding remains unchanged except for the addition of new topics by this amended scoping ruling.

On October 15, 2012, the Small ILECs filed a motion for a Proposed Decision adopting a one-year stay in the CHCF-A General Rate Case Schedule (GRC) and “Waterfall Mechanism.”² Various parties filed Responses on October 30, 2012. The Small ILECs filed a Reply to the Responses, on November 5, 2012. The Commission issued the Interim Decision³ on February 13, 2013 adopting a one-year stay in the GRC Schedule of the Small ILECs with the exception of Kerman Telephone Company and a one-year freeze in the Waterfall Mechanism.⁴ The Decision also allowed the stay and

² A “Waterfall Mechanism” is a six-year cycle that begins on January 1 after a GRC decision is issued. A company receives full (100%) funding for three years following the GRC decision. In the fourth year the company receives funding at 80% of the GRC decision; in the fifth year 50% and in the sixth year 0%, unless a new rate case is filed. The cycle begins again with the filing and approval of a GRC application.

⁴ Retroactive to January 1, 2013 and extending to December 31, 2013.

freeze to be extended for six months by the assigned Administrative Law Judge (ALJ).

On October 24, 2013, the Small ILECs and ORA submitted a Joint Motion for a limited extension of the GRC schedules and a freeze of the waterfall mechanism for CHCF-A recipients. On December 20, 2013, in an ALJ Ruling issued by the assigned ALJ, the requests in the Joint Motion were approved.

On March 18, 2014, the assigned Commissioner issued an Amended Scoping Memo and Ruling. The Amended Scoping Ruling revised the scope set forth in that earlier Scoping Memo, identified new issues, set forth the issues to be addressed in workshops, EHs and/or briefs, and sought additional comments from the Parties, in light of the initial opening comments, the initial PHC, the second PHC, as well as the passage of Senate Bill 379. In addition, the proceeding was divided into two phases (Phase 1 and Phase 2). On March 25, 2014, the assigned ALJ issued an e-mail ruling clarifying the scope of the comments to the Amended Scoping Ruling.

On April 15, 2014, the Small ILECs submitted a letter to the Commission's Executive Director pursuant to Rule 16.6 requesting a 60-day extension to the current rate case deadline and associated waterfall mechanism. This deadline, as governed by D.91-09-042, D.13-02-005, and the December 20, 2013 ALJ Ruling issued in R.11-11-007, was set to expire on June 30, 2014. The Commission's Executive Director granted the request on April 29, 2014, effectively extending the rate case deadline and associated waterfall mechanism to August 29, 2014. This extension allowed time for the assigned Commissioner and ALJ to evaluate a proposal for a formal extension of the deadline and issue an appropriate Proposed Decision for the Commission's consideration.

On July 15, 2014, Commissioner Sandoval issued a PD that extended the current stay of the general rate case schedules and freeze of the waterfall provisions for CHCF-A recipients adopted in D.13-02-005 on February 13, 2013. The current stay of the GRC schedules and freeze of the waterfall provisions for CHCF-A recipients, set to expire on August 29, 2014,⁵ were extended. The stay of the GRC schedules was extended until December 31, 2014. The freeze of the waterfall provisions for CHCF-A recipients was extended to April 2015. The PD allowed for stay of the GRC schedules to be extended for three months by a ruling of the assigned ALJ if Phase 1 of this proceeding is not completed by December 31, 2014. The PD was adopted by the Commission on August 14, 2014.⁶

EHs were held on September 2 through September 4, 2014. Parties filed opening briefs on September 26, 2014 and reply briefs on October 10, 2014. The PD for Phase of the proceeding was issued on November 17, 2014.

3. Revised Scope of Proceeding, General Rate Case Plan

In August of this year the California Legislature passed AB 1693. AB 1693 would have required the Commission to issue its final decision on a GRC of a Small ILEC no later than 390 days following the Small ILECs filing of its GRC application or advice letter initiating the GRC. If the Commission failed to issue a final decision by the 390th day, the bill would have provided that the rate design proposed by the Small ILECs in its application or advice letter would take effect on an interim basis beginning 420 days following the filing of the

⁵ On April 29, 2014, the Commission's Executive Director granted a request for a 60-day extension of the general rate case deadline.

⁶ See D.14-08-010.

application or advice letter, subject to an accounting true-up in a final Commission decision or resolution concluding the rate case, if issued within 540 days. If a final decision or resolution concluding the case has not been issued by the Commission within 540 days, the bill would have provided that the interim rate design was to be considered final, effective as of the 420th day following the filing of the GRC application or advice letter, and that rate design would remain in place until the Commission issued a final decision or resolution concluding the GRC.

On September 20, 2014, Governor Brown vetoed AB 1693. However, in his veto message, the Governor encouraged the Commission to create a GRC Plan to spur timely completion of the Small ILECs' GRCs. The PD issued on November 17, 2014, in the instant proceeding acknowledges the Governor's veto message and proposes that the assigned Commissioner will issue for comment a GRC plan as well as appropriate adjustments to the Waterfall mechanism. This Amended Scoping Memo adds consideration of a GRC Plan for the Small ILECs who draw from the CHCF-A program to the scope of the instant proceeding.

3.1. Should the Commission Adopt the General Rate Case Plan Attached to this Amended Scoping Memo?

- A. If not, what revised or alternate GRC Plan should be adopted by the Commission?
- B. What adjustments, if any, should there be to the Waterfall Provisions of the Small ILEC's GRCs during the implementation of the GRC Plan?

4. Schedule

As set forth in this Amended Scoping Memo, a GRC Plan has been added to the scope of this proceeding. I seek comment on the proposed GRC Plan in order to expedite the issuance of an interim PD to implement the GRC Plan. The

revised schedule for the Commission to consider GRC Plan issues is as follows, but in any event, the Commission intends to complete this proceeding within eighteen (18) months of the date of this amended scoping ruling:

Event	Date
Comments Filed and Served	January 9, 2015
Reply Comments Filed and Served	January 23, 2015
Anticipated Date of Interim Proposed Decision	March 2, 2015

IT IS RULED that:

1. The Scope of this proceeding is amended to add consideration of a General Rate Case Plan for the Small Incumbent Local Exchange Carriers receiving funds from the California High Cost Fund-A Program.
2. A draft General Rate Case Plan is appended to this Amended Scoping Memo ruling as Attachment A.
3. Parties may submit comments on the proposed General Rate Case Plan, appended as Attachment A of this ruling, no later than January 9, 2015, and reply comments no later than January 23, 2015.

4. The remainder of the procedural schedule and scope of this proceeding as set forth in the previous scoping rulings is unchanged.

Dated December 9, 2014, at San Francisco, California.

/s/ CATHERINE J.K. SANDOVAL
Catherine J.K. Sandoval
Assigned Commissioner

ATTACHEMNTN A

ATTACHMENT A

R.11-11-007 CHCF-A Fund, Rate Case Plan Proposal Communications Division Comments on Phase I Issues: November 21, 2014 Revisions

1. General Rate Case cycle plan:

Table 1 illustrates a proposed GRC application cycle commencing January 1, 2015, allowing for four GRC applications (Group A) the first year (2015), followed by three applications during years two and three (Groups B and C respectively), equaling a cycle of ten GRC submissions every three years. The cycle would continue as such, but subject to review after the first cycle of submissions is completed. Small ILECs would continue to be required to submit succeeding applications by the end of the last Test Year to recover at the 100% waterfall threshold.

Table 1 also illustrates the proposed cycle for the next ten years. It would be reasonable to not penalize those carriers that are currently drawing 100% of their CHCF-A funding by making them subject to the waterfall by not allowing carriers to file a GRC until a future year, hence CD believes that it would be reasonable to suspend the waterfall provision while Groups A through C are submitting their respective first rounds of GRC applications. Additionally, the two carriers whose respective waterfalls are currently at 80% (Sierra and Volcano) would be included in the first GRC application cycle.

The Table 1 proposal provides for a balance of larger, medium, and smaller LECs to submit in each group, as described by customer count. We are open to further suggestions addressing how to administer the rate case cycle:

- Group A: Kerman (filing submitted and in process), Sierra, Siskiyou, Volcano
- Group B: Calaveras, Cal-Ore, Ponderosa
- Group C: Ducor, Foresthill, Pinnacles

Table 1

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Group A Files for GRC by 12/31	GRC Work	Test Year	100% No Means Test	100%	100% Group A Files for GRC by 12/31	GRC Work; 80% if no GRC filed	Test Year; 50% if no GRC filed	100% No Means Test; 0% if no GRC filed	100%; 0% if no GRC filed
	Group B Files for GRC by 12/31	GRC Work	Test Year	100% No Means Test	100%	100% Group B Files for GRC by 12/31	GRC Work; 80% if no GRC filed	Test Year; 50% if no GRC filed	100% No Means Test; 0% if no GRC filed
		Group C Files for GRC By 12/31	GRC Work	Test Year	100% No Means Test	100%	100% Group C Files for GRC by 12/31	GRC Work; 80% if no GRC filed	Test Year; 50% if no GRC filed

2. Other Rate Case Plan Issues: Data Requests and Notice of Intent prior to GRC filing:

ORA will provide the Small ILECs with data requests to be completed and submitted by the Small ILECs with initial GRC work papers. Data requests should be highly detailed and cover the areas identified by ORA and CD in their GRC experiences. Data requests will include but are not limited to questions about salaries, expenses, and current and future rate base projects. Data request responses should be required to provide traceable, *Excel* formatted responses to questions as appropriate. CD further proposes that an onsite meeting between the applicant Small ILEC, CD staff, ORA, and other interested parties be held after the application submission to evaluate various rate-base associated projects and other rate case issues.

Table 2 illustrates the proposed benchmarks of the GRC application and proceeding, beginning sixty days prior to the application date with a notice of intent, and tentatively completing with a Commission vote approximately 15 to 16 months after the GRC application submission.

Table 2

Benchmark	Day (Count)
Notice of Intent submitted	-60
Filing deficiencies identified by staff	-40
Company resolves deficiencies	-10
Company files application	0
Pre Hearing Conference	10-75
Parties perform discovery (including master data request); field visits and Public Participation Hearings held	0-150
Parties submit testimony	150-180
Hearings	240-270
Briefings	300-330
ALJ closes record	330
Issue Proposed Decision	420
Commission vote	450-480