

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight and Programs Branch**

**RESOLUTION T-17567
May 10, 2018**

R E S O L U T I O N

RESOLUTION T-17567. Kerman Telephone Company's request for a reimbursement of \$33,184.24 from the California High Cost Fund-A, seeking recovery of revenue shortfalls from its collection of federally-mandated Access Recovery Charges, is approved.

By Advice Letter 413, filed on March 1, 2017.

SUMMARY

This Resolution approves Kerman Telephone Company's Advice Letter 413, seeking reimbursement of \$33,184.24 for an Access Recovery Charge revenue shortfall. This shortfall resulted from higher National Exchange Carrier Association ARC paid in excess of what Kerman collected in rates, as allowed by Decision 16-06-053, during the period August 2016 through June 2017.

BACKGROUND

Access Recovery Charge

The Federal Communications Commission (FCC) established the Access Recovery Charge (ARC) in the Connect America Fund 11-161¹ proceeding. The ARC allows rate of return carriers to recover part of the revenues that carriers lost through FCC-mandated reductions to access rates² commencing on July 1, 2012.³ The ARC is charged to and recovered from all non-LifeLine customers. The National Exchange

¹ FCC 47 C.F.R. § 51.915(e)

² Access rates are a charge that a long distance provider pays to the local exchange carriers that respectively originate and terminate a call. The ARC allows the incumbent local exchange carrier to recover part of the revenues lost through FCC-required reductions to access rates.

³ FCC 47 C.F.R. §51.917(e)(6)

Carrier Association (NECA) works with the FCC in administering the ARC.⁴ Correspondingly, NECA modifies ARC rates assessed to carriers annually, by January 1, for rates effective the following July 1.

Kerman Telephone Company's Filing Regarding ARC

Kerman Telephone Company (Kerman) owns and operates a telephone system that provides local exchange telephone service to approximately 4,600 customers in the city of Kerman and in surrounding unincorporated areas of Fresno County. Kerman is eligible for California High Cost Fund-A (CHCF-A) support pursuant to Public Utilities Code § 275.6.

Rulemaking 11-11-007 ordered a review of the CHCF-A program. Shortly after that, Kerman filed for a General Rate Case in Application (A.) 11-12-011, which remained on hold during the pendency of the first phase of the Rulemaking.

During the first phase of the CHCF-A review for program recipients, Decision (D.)14-12-084 established a "presumptively reasonable" basic service rate floor of \$30.00 and rate ceiling of \$37.00, inclusive of additional charges. In setting this range, the decision recognized that the FCC had designated \$30.00, inclusive of additional charges as the rate ceiling it allows when telephone corporations charge the ARC.

On January 29, 2016, Kerman filed its third motion for interim rate relief in A.11-12-011. D.16-02-022 adopted on February 25, 2016, granted this request, and ordered that the interim rate relief was subject to true-up after the adoption of a GRC decision.⁵ The Commission (CPUC) then adopted D.16-06-053 in Kerman's GRC on June 23, 2016, ordering final rates for Test Year 2016. Specifically, D.16-06-053 stated the following:

Conclusion of Law 22⁶ states, "Raising the basic residential rate to \$30 inclusive of the EAS and ARC is reasonable and should be adopted. The new rate will increase Kerman's local revenue for 2016 by \$102,809."

O.P. 4(a) of D.16-06-053⁷ sets, "Basic residential rates of \$30.00 per month and basic business service rates of \$36.30 per month. These rates are inclusive of the Extended Area Service Charge and the Access Recovery Charge".

⁴ NECA is a membership association of U.S. local telecommunications companies providing such services as filing interstate access charge tariffs with the FCC and ensuring compliance with FCC rules.

⁵ D.16-02-022 O.P. 4 and D.16-06-053 O.P. 2

⁶ D.16-06-053 at page 140.

However, with the FCC setting its all-inclusive rate ceiling at \$30.00 when a carrier charges the ARC, Kerman's basic service rate of \$22.58 plus additional charges summed to \$31.73. Kerman found that it could only charge a fraction of the ARC—\$0.56 of the \$2.29 ARC—to not exceed the FCC ceiling, while foregoing \$1.73 in ARC. Hence, Kerman requested ARC recovery from the CHCF-A fund through this AL.

Pursuant to D.16-02-022 O.P. 4 and D.16-06-053 O.P. 2, Kerman filed Advice Letter (AL) 409 on July 29, 2016, for true-up of interim rate relief. This AL also included a request for reimbursement of ARC that Kerman reported to NECA but did not collect from customers, after interpreting this Commission's and the FCC's guidelines addressing the "all-inclusive" rate ceiling of \$30.00 that cannot be exceeded when a carrier continues to charge the ARC.⁸

Commission Resolution T-17531 adopted on February 9, 2017, addressed Kerman's AL 409 for interim rate relief true-up but deferred the request for ARC recovery. Findings and Conclusions 11 of Resolution T-17531 stated, "It is not appropriate to include the ARC adjustment in Kerman's true-up calculation, but Kerman may file a Tier 3 advice letter seeking disposition of the ARC recovery."

NECA Access Recovery Charge Requirement

On May 18, 2016, NECA notified Kerman that its ARC tariff would increase to \$2.29 effective July 1, 2016, and that it not be allowed to reduce or eliminate the ARC until July 1, 2017. This notification also defined the surcharge components the FCC uses in calculating the \$30.00 ceiling, as shown in Table 1.⁹

Column A of Table 1 reflects the NECA ARC calculation prior to Kerman's GRC D.16-06-053 effective date of June 23, 2016. Column B, line 4 shows that Kerman's ARC increased to \$2.29 effective July 1, 2016, increasing the all-inclusive rate to \$31.73 (Column B, line 10). Finally, Column C, lines 4 and 10 shows that Kerman could reduce its ARC rate to \$0.56 on July 1, 2017, with an all-inclusive residential rate of \$30.00,

⁷ D.16-06-053 at page 144.

⁸ Decision 14-12-084, page 67; "all inclusive" includes the basic service rate plus all state and federal surcharges and fees.

⁹ FCC 47 C.F.R. § 51.915(b)(11) lists the rate celling component charges as the federal end user common line charge and the ARC; the flat rate for residential local service, extended area service charges, state subscriber line surcharges; per-line state high cost and/or state access replacement universal service contributions, state E911 charges, and state TRS surcharges, known in California as the Deaf and Disabled Telecommunications Program (DDTP).

without having to forego ARC revenues. Therefore, Kerman requested foregone ARC revenue recovery for August 2016 through June 2017.

Table 1				
Kerman Telephone Company, Test Year 2016 GRC (D.16-06-053) All-Inclusive Rate with ARC Comparison				
BILLING COMPONENTS USED TO CALCULATE ALL-INCLUSIVE RATE AS PRESCRIBED BY NECA		A	B	C
		NECA ARC Calculation	NECA ARC Annual Adjustment After Kerman GRC Issuance D.16-06-053	NECA ARC Annual Adjustment
		Prior to 6/23/2016	Effective 7/1/2016	Effective 7/1/2017
1	Residential Rate	\$ 20.25	\$ 22.58	\$ 22.58
2	Subscriber Line Charge	\$ 6.50	\$ 6.50	\$ 6.50
3	EAS	\$ 0.63	\$ -	\$ -
4	Access Recovery Charge	\$ 1.66	\$ 2.29	\$ 0.56
5	Surcharges			
6	CHCF-A	\$ 0.07	\$ 0.08	\$ 0.08
7	CHCF-B		\$ -	\$ -
8	DDTP	\$ 0.10	\$ 0.11	\$ 0.11
9	911	\$ 0.16	\$ 0.17	\$ 0.17
10	All-Inclusive Total including ARC	29.37	\$ 31.73	\$ 30.00
11	ARC Calculation in excess of \$30	\$ (0.63)	\$ 1.73	\$ 0.00

DISCUSSION

Advice Letter 413

Kerman filed AL 413 on March 1, 2017, as authorized by Resolution T-17531, seeking recovery of \$33,184 from the CHCF-A. On March 20, 2017, Staff suspended Kerman AL 413 and subsequently authorized a second suspension.

Staff confirms Kerman’s GRC-adopted basic residential service rate of \$22.58, and all-inclusive rate of \$31.73 effective July 1, 2016. Staff also confirms that Kerman reduced the ARC on its residential customers’ bills by \$1.73 from August 1, 2016, through June 30, 2017, so that it could continue to recover a portion of the ARC.

ARC is a federal charge and cannot be adjusted or eliminated except through the federal process and timeframe. As such, the ARC could not be adjusted until July 1, 2017, so

Kerman was required to remit \$43,925.96 to NECA.¹⁰ As illustrated in Table 2, from August 1, 2016 through June 30, 2017, Kerman reported \$43,925.96 to NECA (column A) and collected, \$10,741.72 (column B), resulting in a net shortfall of \$33,184.24 (column C). Staff also confirms that the justification for the CHCF-A reimbursing Kerman is the inclusive rate language in D.16-06-053,¹¹ and the timing of the decision relative to potential changes in the ARC.

Table 2			
Comparison: Kerman Telephone Company ARC Revenue Remittance versus Collection, August 1, 2016 - June 1, 2017			
Billing Month	A	B	C=(A)-(B)
	ARC Revenue Reported to NECA, \$2.29 per Residential Customer *	ARC Revenue Collected, \$0.56 per Residential Customer *	ARC Revenue Shortfall
8/1/2016	\$ 3,888.01	\$ 950.78	\$ (2,937.23)
9/1/2016	\$ 4,085.69	\$ 999.12	\$ (3,086.57)
10/1/2016	\$ 3,999.36	\$ 978.01	\$ (3,021.35)
11/1/2016	\$ 4,006.36	\$ 979.72	\$ (3,026.64)
12/1/2016	\$ 3,972.70	\$ 971.49	\$ (3,001.21)
1/1/2017	\$ 3,965.71	\$ 969.78	\$ (2,995.93)
2/1/2017	\$ 4,035.05	\$ 986.74	\$ (3,048.31)
3/1/2017 **	\$ 3,993.27	\$ 976.52	\$ (3,016.75)
4/1/2017 **	\$ 3,993.27	\$ 976.52	\$ (3,016.75)
5/1/2017 **	\$ 3,993.27	\$ 976.52	\$ (3,016.75)
6/1/2017 **	\$ 3,993.27	\$ 976.52	\$ (3,016.75)
	\$ 43,925.96	\$ 10,741.72	\$ (33,184.24)
* Non-LifeLine			
** Estimated Amounts			

AL 413 includes estimated ARC revenue amounts for March through June 2017, and Staff requested that Kerman update the data in Table 2 to confirm that the requested reimbursement amount, net of the reported ARC revenue minus collected ARC revenue is reasonable. Staff's subsequent documentation review confirms that the reimbursement amount as requested by AL 413 is reasonable.

¹⁰ FCC 47 C.F.R. §§ 51.917(e) and 51.917(f).

¹¹D.16-06-053, O.P.4(a) adopting ““Basic residential rates of \$30 per month...These rates are inclusive of the Extended Area Service Charge and the Access Recovery Charge”.

CONCLUSION

In AL 413, Kerman seeks to recover a revenue shortfall of \$33,184.24 for reported but uncollected ARC revenues. Staff reviewed this request and finds it reasonable. Therefore, Staff recommends that the Commission adopt Kerman's request for reimbursement, in the amount of \$33,184.24.

FINDINGS

1. The Federal Communications Commission established the Access Recovery Charge (ARC) in the Connect America Fund 11-161 proceeding.
2. Decision (D.) 14-12-084 established a "presumptively reasonable" basic service rate floor of \$30.00 and rate ceiling of \$37.00, inclusive of additional charges. In setting this range, the decision recognized that the FCC had designated \$30.00, inclusive of additional charges, as the rate ceiling it allows when telephone corporations charge the ARC.
3. The Commission adopted D.16-02-022 on February 25, 2016, granting interim rate relief to Kerman Telephone Company (Kerman), with Ordering Paragraph (O.P.) 4 stating that the interim rate relief was subject to true-up after the adoption of a decision.
4. Public Utilities Commission (Commission) D.16-06-053 adopted rates in Kerman's General Rate Case (GRC) for Test Year 2016.
5. Conclusion of Law 22 of D.16-06-053, "Raising the basic residential rate to \$30 inclusive of the EAS and ARC is reasonable and should be adopted".
6. Ordering Paragraph (O.P.) 4(a) of D.16-06-053, sets "Basic residential rates of \$30.00 per month and basic business service rates of \$36.30 per month. These rates are inclusive of the Extended Area Service Charge and the Access Recovery Charge".
7. However, with the FCC setting its all-inclusive rate ceiling at \$30.00 when a carrier charges the ARC, Kerman's basic service rate of \$22.58 plus additional charges summed to \$31.73. Kerman found that it could only charge a fraction of the ARC—\$0.56 of the \$2.29 ARC—to not exceed the FCC ceiling, while foregoing \$1.73 in ARC. Hence, Kerman requested ARC recovery through the CHCF-A Fund in Advice Letter 413.
8. Resolution T-17531 addressed Kerman's interim rate relief but deferred the question

of ARC reimbursement, stating that Kerman may file a Tier 3 AL seeking disposition of the ARC recovery.

9. On May 18, 2016, NECA notified Kerman that its ARC tariff would increase to \$2.29 effective July 1, 2016, and that it would not be allowed to reduce or eliminate the ARC until July 1, 2017.
10. The issuance of Kerman's GRC D.16-06-053 caused the ARC calculation to result in an all-inclusive rate that summed to \$1.73 more than the \$30.00 all-inclusive rate threshold.
11. Kerman filed AL 413 on March 1, 2017, as authorized by Resolution T-17531, seeking recovery of \$33,184.24 from the California High Cost Fund.
12. Staff confirms that Kerman reduced the ARC on its customers' residential bills by \$1.73 from August 1, 2016, through June 30, 2017.
13. AL 413 includes estimated ARC revenue amounts for March through June 2017. Updated data from Kerman confirms that the reimbursement amount as provided by AL 413 is reasonable.

THEREFORE, IT IS ORDERED that:

1. Kerman Telephone Company's request for reimbursement of \$33,184.24 for unrecovered revenue from the Access Recovery Charge is approved and will be remitted from the California High Cost Fund-A within 45 days of the issuance of this Resolution.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 10, 2018, the following Commissioners voting favorable thereon:

ALICE STEBBINS
Executive Director