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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Market Structure Branch

RESOLUTION T-16971
December 15, 2005

R E S O L U T I O N

Resolution T-16971. SureWest Telephone. (U-1015-C). Order Adopting Price Cap Mechanism in Compliance with Decision 96-12-074 Through Adjustments to Surcharges to be Effective January 1, 2006.

By Advice Letter No.1153 Filed on October 3, 2005.

Summary

This Resolution authorizes SureWest Telephone (formerly known as Roseville) to increase its annual revenues by \$987,696 effective January 1, 2006. The revenue adjustments adopted and surcharge changes in this Resolution are reflected in Appendix A and B, respectively.

SureWest requested an incremental revenue increase of \$987,696 due to the impact of one-time Z-Factor adjustment for Revenue Requirement Review Cost Recovery.

Background

New Regulatory Framework (NRF)

In Decision (D.) 96-12-074 the Commission adopted an incentive-based regulatory framework (called the new regulatory framework or "NRF") for Roseville based on the NRF adopted for SBC (formerly known as Pacific) and Verizon California (formerly known as GTE California or GTEC). The decision requires Roseville to follow the principles of NRF established in D.89-10-031, D.94-06-011, and D.94-09-065.

Roseville's prices and rate caps would be indexed annually according to the Gross National Product Price Index (GNP-PI) inflation index reduced by a productivity

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adjustment. Prices could also be adjusted for a limited category of exogenous events beyond the control of utility management, called Z-factors, whose effects are not reflected in the GNP-Pi. Only specific types of cost changes were considered Z-factors: changes in federal and state tax laws to the extent they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.

Z-factor treatment was not authorized for all unforeseen or exogenous events. Normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions were excluded. Included with the price cap indexing mechanism was a mechanism that shared earnings that exceeded a specified level between shareholders and ratepayers.

With regards to Roseville, the Commission modified Roseville's regulatory framework in D.01-06-077 by: a) eliminating depreciation reviews, b) suspending the I-X portion of the price adjustment formula, c) eliminating Z-factors except to finish implementation of those Z-factors now being implemented and d) establishing a LE factor mechanism for Roseville as established in D.98-10-026. The sharing mechanism continues to apply to Roseville and earnings between the benchmark and ceiling rates of return are to be shared equally between shareholders and ratepayers.

SureWest's Price Cap Filing

On October 3, 2005, SureWest filed its 2006 price cap advice letter (A.L. No.1153) filing to comply with O.P. No. 7 of D.96-12-074. In this filing, SureWest proposed to include the following exogenous (Z-factor) adjustment to its revenues:

- **Revenue Requirement Review Cost Recovery** **\$987,696**
This is a one-time test year expense adjustment to recover the cost associated with the general rate case revenue requirement proceeding.

As shown above, the net result of the above-mentioned (Z-factor) adjustment was an increase of \$987,696 in SureWest's revenues. SureWest used an annualized billing base of \$63,428,131 for calculating the surcharge/surcredit effective January 1, 2006. To recover this revenue, SureWest requests authorization to modify:

1. The current surcharge to be applied to all Local Exchange Services with the exceptions of Category III Services and the taxes and surcharges currently listed in the tariffs from 4.5238% to 6.0810%.

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2. The current surcharge to all intraLATA toll in Schedule Cal. P.U.C. No. A25 from -2.2452% to -0.6880%.
3. The current surcharge to all Access Services listed in the Schedule Cal. P.U.C. No.1 from -0.2012% to 1.3560%.

Notice/Protests

SureWest states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities, and interested parties, as requested. Notice of Advice Letter 1153 was published in the Commission Daily Calendar of October 7, 2005. No protest to this Advice Letter has been received.

Discussion

Revenue Requirement Review Cost Recovery

Decision 05-08-004 confirmed that SureWest may apply for recovery of the cost associated with its general rate case revenue requirement proceeding. Although SureWest is a NRF company, it is participating in this proceeding at the Commission's request. The Commission has routinely allowed utilities to recover the costs of participating in rate case proceedings.

However, since the expense incurred is a one-time event, the decision finds that SureWest would not be allowed to include the expense in its revenue requirement on an ongoing basis, but instead apply for recovery of this expense as a limited exogenous factor. The Telecommunications Division recommends the adoption of SureWest's request to recover the rate case expense through a one-time adjustment of \$987,696.

Price Floor:

SureWest's proposed 2006 price floors were reviewed and SureWest applied the inflation factor of 2.17% to its price floor adjustments. For the purpose of adjusting its price floor, SureWest proposes a GDP-PI factor of 2.17% based on the following approach:

- | | |
|-------------------------------------|---------|
| 1. GDP-PI 2 nd Qtr, 2004 | 108.987 |
| 2. GDP-PI 2 nd Qtr, 2005 | 111.584 |

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3. "I" Factor (Ln2-Ln1/Ln1) 2.38%

For future price cap filings, SureWest shall continue to utilize the GDP-PI Implicit Price Deflator.

Impact of Adopted Changes

The \$987,696 revenue increase adopted here for 2006 results in a surcharge increase as shown in Appendix B of this resolution. The effect of the higher surcharge is that customers will pay slightly more for telephone service in 2006 than they paid in 2005.

Telecommunication Division Recommendations:

The Telecommunications Division concludes that SureWest's Advice Letter No.1153 meets the requirements set forth in the Commission Orders and G.O. 96-A and recommends that the Commission approve this filing by resolution.

Commission approval is based on the specifics of the Advice Letter and the associated contract, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311 (g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings

1. On October 3, 2005, SureWest filed its price cap filing AL No.1153, and requests the following adjustment in its revenues:

Revenue Requirement Review Cost Recovery	\$987,696
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2. SureWest requests to recover their annual revenues by applying:
- a) The current surcharge to be applied to all Local Exchange Services with the exceptions of Category III Services and the taxes and surcharges currently listed in the tariffs from 4.5238% to 6.0810%.
 - b) The current surcharge to all intraLATA toll in Schedule Cal. P.U.C. No. A25 from -2.2452% to -0.6880%
 - c) The current surcharge to all Access Services listed in the Schedule Cal. P.U.C. No.1 from -0.2012% to 1.3560%.

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3. SureWest used an inflation factor of 2.38% based on the Bureau of Economic Analysis's GDP-PI Implicit Price Deflator to adjust its price floors.
4. We find reasonable SureWest's revenue adjustment request of \$987,696 for the recovery of one-time adjustment associated with the Revenue Requirement Review.
5. No protest to this Advice Letter has been received.
6. We adopt TD's recommendation to approve SureWest's AL No.1153.

THEREFORE, IT IS ORDERED that:

1. SureWest Telephone shall increase its 2006 annual revenue by \$987,696 through a one-time adjustment as adopted herein and reflected in Appendix B.
2. SureWest Telephone shall implement billing surcharges/surcredits reflecting the revenue increase ordered in Ordering Paragraph 1, applied to a total billing base of \$63,428,131: a surcharge of 1.3560% on intraLATA access services, a surcharge of 6.0810% on intraLATA exchange and private line services and a surcredit of - 0.6880% on intraLATA toll services to become effective on January 1, 2006, subject to review and approval by the Telecommunications Division.
3. The revisions to SureWest Telephone price floors filed in Advice Letter No.1153 are adopted, and shall be implemented on January 1, 2006.

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This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on December 15, 2005 adopted this Resolution. The following Commissioners approved it:

STEVE LARSON
Executive Director

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**Appendix A
Resolution T-16971
SureWest Telephone Company
2006 Price Cap Filing**

	SureWest Proposed Revenue Impacts	Adopted Impacts
One-Time Adjustments	\$987,696	\$987,696
TOTAL	\$987,696	\$987,696

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**Appendix B
Resolution T-16971
SureWest Telephone Company
2006 Price Cap Filing
(Adjustments by %)**

	Current Surcharge/ surcredit	SureWest Proposed Surcharge/ Surcredit	Adopted Surcharge/ Surcredit
Access	-0.2012%	1.3560%	1.3560%
Local	4.5238%	6.0810%	6.0810%
Toll	-2.2452%	-0.6880%	-0.6880%