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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Carrier Branch**

**RESOLUTION T-16921
April 21, 2005**

RESOLUTION

Resolution T-16921. SureWest Telephone (U-1015-C) Requests Authority To Withdraw Its "Employee Service" Tariff Schedule Cal. P.U.C. No. A27.

By Advice Letter No. 1056 - Filed January 18, 2005; and Advice Letter Supplement No. 1056A - Filed January 24, 2005.

Summary

This Resolution denies SureWest Telephone's (SureWest) request to withdraw its employee and retirees' telephone concession offering, from its "Employee Service" tariff Schedule Cal. P.U.C. No. A27, and authorizes SureWest to prospectively discontinue offering its employee and retirees' telephone concession to all new employees.

Background

By Advice Letter (AL) No. 1056, filed January 18, 2005 and AL Supplement No. 1056A - filed January 24, 2005, SureWest requests authority to withdraw its employee/retiree telephone concession offering, from its "Employee Service" tariff Schedule Cal. P.U.C. No. A27.

SureWest's employee and retirees' telephone concession benefit is a special/provisional offering in which active employees receive 50% off regular filed rates for their residence service and retirees receive free basic exchange service. In its filed AL No. 1056 SureWest states that, "this filing is being made in an ongoing effort to reduce Company costs."

In AL No. 1056, SureWest requested a "40 day interval" effective date, stated this AL related to a "Service Change" and submitted a notice which the utility was planning to send to its employees and retirees, for TD's approval. TD requested

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that SureWest change the effective date of the AL to read “by Commission Resolution” and change the category of the AL to “Special/Provisional.” On January 24, 2005, SureWest filed AL Supplement 1056A, which included TD’s recommended changes.

Notice/Protests

After reviewing SureWest’s employee/retiree notice, which SureWest sent with AL No. 1056, TD submitted its recommended changes to SureWest and on January 25, 2005, SureWest mailed out the following revised notice to its employees and retirees:

Important Message to Employees and Retirees

On January 18, 2005, SureWest Telephone filed Advice Letter No. 1056 with the California Public Utilities Commission (CPUC) to withdraw its Tariff Schedule No. A-27. This Advice Letter, if adopted by the CPUC, will discontinue employee and retiree telephone concession service. At such time, your telephone services will be converted to full tariffed rates. It is necessary for the Company to take this action in an ongoing effort to reduce Company costs. Although the specific date that the CPUC will issue its Resolution is not known, it is anticipated in the March 2005 timeframe.

Questions regarding Advice Letter 1056 may be directed SureWest Communications External Relations Department, and to the Telecommunications Division.

SureWest states that copies of AL No. 1056 and Supplemental AL No. 1056A were mailed to competing and adjacent utilities and/or other utilities, and other interested parties. Notice of AL No. 1056 and Supplemental AL No. 1056A were published in the Commission’s Daily Calendar of January 26, 2005. TD received four (4) protest letters¹ and eight (8) complaint letters² from SureWest’s retirees in response to these Advice Letter filings.

In the letters, many of the retirees stated that they were on a fixed income and that losing the telephone concession would be an additional burden that they could not afford. Other retirees wondered why SureWest was taking away their telephone concession since it appeared to be a small amount, but at the same time the members of the management committee still continued to receive their same salaries and/or bonuses and stock options. Another retiree wrote that as a shareholder of SureWest, he appreciates efforts to economize, but not at the

¹ Protest letters were sent to both SureWest and the TD.

² Complaint letters were sent only to TD.

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expense of retirees and employees. The retiree goes on to say that a more equitable manner might be to make new employees or new retirees ineligible for this benefit.

Discussion

In SureWest's advice letter filing, and in subsequent responses to data requests sent by the Telecommunications Division (TD), SureWest states that:

- There are 265 existing employees and 84 existing retirees who currently receive SureWest's employee/retiree telephone concession.
- SureWest indicated in its AL filing that its annual expense for its employee/retiree telephone concession is \$49,030.80.
- SureWest states it is requesting the withdrawal of its employee/retiree telephone concession "in an ongoing effort to reduce Company costs."
- SureWest employees are informed of the employee telephone concession at the time they are hired and new employees receive the concession as soon as they place an order with SureWest's business office.
- SureWest states that as of December 31, 2004, they had 89,651 total customers (83,340 residence customers and 6,311 business customers).

TD recommends that SureWest's request to withdraw its telephone concession offering be denied for the following reasons:

- Telephone concession is a tariffed offering and as such, the Commission has the authority to deny or approve changes to or deletions from carriers' filed tariffs.
- TD has received four (4) protest letters and eight (8) complaint letters from retirees regarding this advice letter, asking the Commission to either completely deny SureWest's request or deny it in part by authorizing SureWest to only stop offering the concession to new employees and to new retirees.
- The amount of savings (approximately \$49,000) to SureWest, if it were to withdraw the discount is 0.025% of SureWest's 2003 Total Operating Revenue and 0.63% of it's 2003 Income from Operations.³

³ SureWest Communications' Annual Reports for 1999, 2000, 2001, 2002 and 2003 can be viewed online at http://www.surw.com/ir/financials/annual_reports.php.

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- The monthly cost to each ratepayer/customer of SureWest’s telephone concession is: 4.56 cents (i.e. \$0.0456 equals \$49,030.80 divided by 12 then divided by 89,651).

The cost to individual ratepayers, for SureWest’s Employee telephone concession, is 4.56 cents per month to each residential and business customer. It does not appear that discontinuing this offering would have much cost-savings effect for ratepayers. Additionally, this cost to ratepayers would continue to decline once the offering was no longer offered to new employees.

In response to the numerous complaint/protest letters alleging that SureWest’s Management Committee continued to receive stock options, bonuses, yearly merit increases, etc, during times when employees and retirees were being asked to cut back, TD requested salary, bonus and stock options information for members of SureWest’s management committee for the past five years (2000-2004). SureWest provided the requested information to TD. Table A below shows the year to year percentage changes in the salaries and bonuses of SureWest’s management committee from year 2000 to year 2004. Table B below shows the amount of stock options and stock awards given to the members of the management committee.

Table A

<u>Change from Year to Year</u>	<u>Total Salaries</u>	<u>Total Bonuses</u>
2000 to 2001	17.45%	-37.50%
2001 to 2002	2.87%	5.71%
2002 to 2003	2.62%	32.43%
2003 to 2004	6.29%	-61.73%

Table B

<u>Year</u>	<u>Stock Awards (in shares)</u>	<u>Stock Options Granted (in shares)</u>
2000	0	189,250
2001	2,200	77,250
2002	2,157	85,250
2003	28,441	1,250
2004	4,400	0

An examination of the detail of the management committee members’ salary information reveals that their salaries have increased not decreased (with two exceptions) during the last five years. Two exceptions to this are: the eighth highest paid member had a 0.91% decrease in 2002 and the sixth highest paid member had a 1.92% decrease in 2003. The highest paid member has had the same six-figure salary for all of the past five years. The second highest paid member has had the same six-figure salary for all of the past four years. The third highest paid member had a 2.71% increase in 2004, a 12.11% increase in 2002 and a 19.37% increase in 2001 to their six-figure salary. The forth-highest paid member has had the same six-figure salary for all of the past four years. The 6.29% increase in total salaries from 2003 to 2004 is mainly from an increase of one member’s salary.

As far as management committee members’ bonuses are concerned, they have largely decreased from 2003 to 2004, after increasing from 2002 to 2003 and to a

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lesser degree from 2001 to 2002. Stock Award amounts were -1.95% lower in 2002, 1219% higher in 2003, and decreased -84.53% in 2004. Stock Options Granted amounts decreased -59.18% in 2001, increased 10.36% in 2002, decreased -98.53% in 2003 and zeroed out completely in 2004.

Another way that the management committee member could reduce approximately \$49,000 from the company's annual expenses would be for them to reduce their own salaries (or bonuses) to make up this shortfall. If the management committee members reduced their total salaries by approximately \$49,000 or more, and if they spread this decrease equitably among themselves, they would each sustain only a 2.53% salary reduction.

The telephone concession was offered to employees when they were hired by SureWest (or their predecessor Roseville Telephone Company). TD believes that it would be an undue hardship to take away a promised benefit from current employees and retirees. TD recommends instead, that SureWest be authorized to only discontinue offering its employee concession to new employees. In doing so, the offering would be limited to SureWest's current employees and retirees, but the benefit would not prospectively be given to any new hires. Current employees who later retire would still receive the telephone concession. After this change, the annual expense for this offering would continue to decrease over time, through attrition.

Commission approval of TD's recommendations are based on the specifics of this Advice Letter and its associated tariff sheets, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

In compliance with PU Code Section 311(g), this draft resolution was mailed on or before March 22, 2005 to the parties of record for public comment. Comments that are filed on a timely basis will be incorporated into the final resolution.

Findings

1. SureWest requests authority to withdraw its employee telephone concession as a tariffed offering.
2. SureWest's employee and retirees' telephone concession benefit is a special/provisional offering in which active employees receive 50% off regular filed rates for their residence service and retirees receive free basic local exchange service.
3. SureWest stated that as of January 21, 2005 there were 265 existing employees and 84 existing retirees who currently receive SureWest's employee/retiree telephone concession.

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4. SureWest calculated that its annual expense for its employee/retiree telephone concession is approximately \$49,000.
5. The amount of savings (approximately \$49,000) to SureWest if it were to withdraw the offering in relation to its 2003 financial data is 0.025% of SureWest's 2003 Total Operating Revenue and 0.63% of its 2003 Income from Operations.
6. The current monthly cost to each SureWest ratepayer/customer for the telephone concession is: 4.56 cents (\$0.0456).
7. SureWest states that, the filing of AL No. 1056 is being made in an ongoing effort to reduce Company costs.
8. Existing employees were informed that the telephone concession was part of their employee benefits package at the time they were hired. Likewise, existing retirees have stated they were given the telephone concession as part of their retirement package and that no indication was ever given to them that this benefit would be taken away.
9. TD has received twelve complaint/protest letters from retirees regarding this advice letter, asking the Commission to deny SureWest's request or have it apply only to new employees and new retirees.
10. A \$49,000 reduction in company expenses could be accomplished by a 2.53% decrease in each management committee member's 2004 salary.
11. TD recommends that SureWest's request for authorization to withdraw its "Employee Service" tariff schedule Cal. P.U.C. No. A27, be denied.
12. TD recommends instead, that SureWest be authorized to only discontinue offering its employee concession to new employees.
13. Once discontinued to new employees, the annual expense to SureWest for this offering would decrease over time, due to attrition.
14. We approve of TD's foregoing recommendations.

THEREFORE, IT IS ORDERED that:

1. SureWest's request to withdraw its tariff schedule Cal. P.U.C. No. A27, "Employee Service," is denied.

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2. SureWest is granted authority to discontinue offering its telephone concession to new hires, to be effective after the utility files an advice letter for TD review requesting said revision to its tariff schedule Cal. P.U.C. No. A27, "Employee Service."
3. SureWest shall continue to offer its telephone concession to existing employees and existing retirees, and to those existing employees who later retire with the utility.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission adopted this Resolution at its regular meeting on April 21, 2005. The following Commissioners approved it.

STEVE LARSON
Executive Director