

Mailed April 20, 2001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation into the Revenue Requirement of Roseville Telephone Company Pursuant to Decision 00-11-039.

FILED
PUBLIC UTILITIES COMMISSION
APRIL 19, 2001
SAN FRANCISCO OFFICE
INVESTIGATION 01-04-026

**ORDER INSTITUTING INVESTIGATION
INTO THE REVENUE REQUIREMENT
OF ROSEVILLE TELEPHONE COMPANY**

Summary

By this order, we institute an investigation into Roseville Telephone Company's (Roseville's) intrastate revenue requirement as ordered in Decision (D.) 00-11-039. The purpose of this proceeding is to investigate Roseville's expense levels and revenue requirement to determine the appropriate source of permanent funding to replace the \$11.5 million Extended Area Service (EAS) payment which Roseville previously received from Pacific Bell (Pacific), and which, pursuant to D.00-11-039, Roseville will receive from the California High Cost Fund--B (CHCF--B) on a temporary basis during the pendency of this proceeding.

Respondent will be Roseville Telephone Company. We anticipate that the Office of Ratepayer Advocates (ORA) will be an interested party in the proceeding.

Background

On August 20, 1999, Roseville filed Application (A.) 99-08-043 asking the Commission to address the rate and revenue issues related to the EAS

arrangements between Pacific and Roseville. The EAS compensation agreement between the companies provided Roseville with \$11.5 million in annual revenues. Roseville asked the Commission to authorize replacement funding, and proposed using either the CHCF--A or CHCF--B.

In D.00-11-039, we determined that it was not appropriate to use either the CHCF-A or CHCF-B as a permanent source of funding for the \$11.5 million. In proceeding A.99-08-043, ORA and Pacific stated that no replacement funding was warranted because of inefficiencies on the part of Roseville. Both Pacific and ORA asserted Roseville is a financially healthy company with exceptionally high corporate expenses in some areas. As we stated in that decision, none of the studies cited by parties in that proceeding provided us with enough information to conclude that Roseville does not need the \$11.5 million payment as part of its revenue requirement. However, we expressed our concern that we could not adopt a rate increase for Roseville's ratepayers to provide the additional revenues without first re-examining Roseville's expense levels and revenue requirement.

Scope of Proceeding

The purpose of this investigation is to initiate an in-depth examination of Roseville's current revenue requirement and expense levels. That will enable us to determine whether the \$11.5 million should be obtained from Roseville's ratepayers, Roseville's shareholders, or a combination of the two.

We pointed out in D.00-11-039 that we do not intend to rescind Roseville's status as a New Regulatory Framework (NRF) company while we conduct our investigation. We also indicated that we do not intend to conduct a full-blown General Rate Case for Roseville. We do not intend to perform a rate design (except to the extent necessary if we determine some of the revenues must come

from Roseville's ratepayers). However, since some or all of the \$11.5 million could come from Roseville's ratepayers, all parties (including Roseville) must present a rate design proposal for cost recovery of the \$11.5 million. Also, we do not intend to revisit the rate of return adopted for Roseville in D.96-12-074.

Preliminary Scoping Memo

Rule 6(c)(1) of our Rules of Practice and Procedure provides that an order instituting investigation (OII) "shall determine the category and need for hearing, and shall attach a preliminary scoping memo. The order, only as to the category, is appealable under the procedures in Rule 6.4." This investigation is preliminarily determined to be ratesetting, as that term is defined in Rule 5(c).

We anticipate that evidentiary hearings will be necessary to address factual disputes.

As a preliminary step, Roseville is ordered to file/serve the following documents. In addition, Roseville shall serve all supporting workpapers containing all the assumptions needed and used for the derivation of each individual estimate. Where judgement is involved, Roseville should provide an explanation of why the estimate was proposed:

- **Balance Sheet and Income Statements**

Balance sheet as of the latest available date, together with an income statement covering the period from the close of the last year for which an annual report has been filed with the Commission to the date of the balance sheet submitted.

- **Cost Support**

Cost support for services for which Roseville proposes price changes.

- General

Total Company Results of Operation and Separated Results of Operation (estimated) should be provided for the test year (Y), and year Y-1, and recorded for years (Y-2 through Y-4).¹ The Separated Results of Operation should include operating revenues, operating expenses, and rate base components by jurisdiction including identifying the separations factors used. The Separated Results of Operations should also reflect test year net operating incomes and rates of return by jurisdiction.

Workpapers supporting the determination of the net-to-gross multiplier should be presented plus workpapers showing how the intrastate revenue requirement is calculated.

Three years recorded plus year-to-date the total number of access lines in service and net inward movement for the estimated years. Also, provide the same information stated separately for business and residence services.

A rate table for the test year (Y) that documents present and proposed rates and charges, and revenue streams, by tariff schedule, for all services provided. The rate design should reflect Roseville's proposal for recovery of the \$11.5 million.

- Operating Revenues

Three years plus year-to-date recorded revenues and uncollectible revenues separated for local service, interstate service, intrastate interLATA access service, intrastate intraLATA toll service, and miscellaneous service revenues. Also Roseville should provide the estimated amounts for the estimated years. The recorded revenue data should be provided on a monthly basis.

- Expenses

A schedule of operating expenses by Federal Communications Commission (FCC) account for the test year (Y) and Y-1, and Y-2, Y-3, and

¹ Y = test year; Y-1 = current year; Y-2, Y-3, and Y-4 = previous three recorded years.

Y-4. The recorded operating expenses should be provided on a monthly basis.

Provide new depreciation rates and the supporting depreciation study that is the basis of the rates. The new depreciation rates should be applicable to test year (Y) plant.

Provide a statement of income tax methods used for ratemaking purposes and supporting calculations for the test year, including detailed workpapers showing the calculation of all taxes.

- Rate Base (average)

Use Standard Practice U-16 (September 13, 1968) for computing the Working Cash Allowance, Simplified Basis.

Provide accumulated depreciation and rate base components for the estimated year and test year.

Such documents shall be filed in this docket and served on ORA and on the Director, Telecommunications Division, as well as the assigned Administrative Law Judge (ALJ) and assigned Commissioner, within 150 days of the date of issuance of this order. Since this OII could result in a rate increase for Roseville's customers, it is appropriate that the Commission and interested parties have all pertinent financial information available.

ORA needs to be able to audit Roseville's books in a timely manner in order to obtain the information necessary to prepare its case. At a minimum, the audit should include recorded data for 2000 and for the first eight months of 2001. ORA is therefore authorized to obtain an outside auditor to audit Roseville's books. ORA should issue a Request for Proposal (RFP) so that an auditor may be hired and ready to conduct the audit within six months in accordance with the schedule discussed below. We anticipate the cost of the audit will not exceed \$550,000. The contract ceiling cannot be exceeded without the approval of the Commission's Executive Director. Moreover, the contract is subject to the final approval of the Executive Director and must conform to all

state contracting rules and procedures. We are aware that Roseville was recently audited by an outside auditor in its NRF Review proceeding, A.99-03-025. However, that audit focused on affiliate transactions and does not provide the information needed to analyze Roseville's revenue requirement and expense levels. Therefore, it is necessary to have a different type of audit performed in this investigation.

Also, Roseville shall provide notice to its ratepayers of the possibility of a rate increase as a result of this proceeding. Such notice shall be reviewed and approved by the Public Advisor.

As we indicated in D.00-11-039 we intend to incorporate by reference the record in A.99-03-025 into the record of this OII, and may use some of the results we found in that proceeding to assist us in this OII. We will, therefore, incorporate by reference the record of A.99-03-025 into this OII, once we issue a decision in docket A.99-03-025.

In accordance with Rule 6(c)(1), we provide a preliminary schedule that we propose be followed. The preliminary schedule will be discussed at the first prehearing conference (PHC) and may change as a result.

Schedule

We will adopt the following preliminary schedule:

OII issued	April 2001
ORA issues RFP	45 days from issuance of OII
Roseville filing	150 days from issuance of OII
First PHC	30 days from Roseville's filing of information and workpapers
ORA awards auditor contract	October 26, 2001
Audit performed	December 2001--March 2002
Audit report released	April 2002

Testimony filed	June 2002
Rebuttal testimony filed	August 2002
Second PHC	September 2002
Evidentiary hearings	September 2002
Proposed Decision	January 2003

A scoping memo will be issued following the initial PHC.

Any person who objects to the preliminary categorization of this investigation, shall raise such objections by filing an objection ten days before the first PHC is held in this proceeding. This preliminary schedule will be reviewed at the first PHC and may be subject to change during the course of the proceeding.

Carl W. Wood shall be the assigned Commissioner, and Karen A. Jones shall be the assigned ALJ.

Ex Parte Communications

This proceeding is subject to Rule 7, which specifies standards for engaging in ex parte communications and the reporting of such communications. Pursuant to Rules 7(a)(3) and 7(c), ex parte communications will be permitted, pursuant to the restrictions of Rule 7(c). Such ex parte communications are subject to the reporting requirements set forth in Rule 7.1, unless and until the categorization determination is modified by the Commission pursuant to Rule 6.4.

Therefore, **IT IS ORDERED** that:

1. An investigation is instituted on the Commission's own motion into the revenue requirement of Roseville Telephone Company (Roseville) (U 1015 C).
2. Roseville (U 1015 C) is made respondent to this investigation.

3. Within 150 days of the issuance of this Order Instituting Investigation (OII), Roseville shall file and serve the information listed in the Appendix and all supporting workpapers as discussed in this order and serve three complete sets on the Office of Ratepayer Advocates (ORA), and one complete set on each of the Director of the Telecommunications Division, the Assigned Administrative Law Judge and the Assigned Commissioner.

4. The ORA is authorized to contract with an auditor to perform an audit of Roseville.

5. The contract amount shall not exceed \$550,000 without the approval of the Executive Director.

6. The category of this investigation is preliminarily determined to be “ratesetting” as that term is defined in Rule 5(c) of the Commission’s Rules of Practice and Procedure.

7. Any person who objects to the preliminary categorization of this investigation, or to the preliminary schedule, shall raise such objections by filing an objection ten days before the first prehearing conference is held in this proceeding.

8. Roseville shall provide notice to its ratepayers of the possibility of a rate increase as a result of this proceeding. Such notice shall be reviewed and approved by the Public Advisor.

9. The record of Application (A.) 99-03-025 shall be incorporated by reference into the record of this OII.

10. The Executive Director shall cause this OII to be served on respondent and on the service list in A.99-08-043.

This order is effective today.

Dated April 19, 2001, at San Francisco, California.

LORETTA M. LYNCH

President

RICHARD A. BILAS

CARL W. WOOD

GEOFFREY F. BROWN

Commissioners

Commissioner Henry M. Duque, being necessarily absent, did not participate.

Appendix

- Balance Sheet and Income Statements

Balance sheet as of the latest available date, together with an income statement covering the period from the close of the last year for which an annual report has been filed with the Commission to the date of the balance sheet submitted.

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(End of Appendix)