

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure**

**RESOLUTION T-16601
December 11, 2001**

RESOLUTION

RESOLUTION T-16601. ROSEVILLE TELEPHONE COMPANY. (U-1015-C). ORDER ADOPTING PRICE CAP MECHANISM IN COMPLIANCE WITH DECISION 96-12-074 THROUGH ADJUSTMENTS TO SURCHARGES TO BE EFFECTIVE JANUARY 1, 2002.

BY ADVICE LETTER 628 FILED ON OCTOBER 1, 2001.

SUMMARY

This Resolution authorizes Roseville Telephone Company to decrease its annual revenues by \$577,817 effective January 1, 2002. The revenue adjustments adopted in this Resolution are reflected in Appendix A.

Roseville requested an incremental revenue decrease of approximately \$577,817 due to impacts of exogenous (Z-Factor) changes in the amount of annual Interstate Universal Service Fund support payments received; inclusion of a one-time true-up of projected Federal Universal Service Funding; reversal of the one-time Flood Adjustment; and, reversal of the one-time Overland Consulting audit expense.

BACKGROUND

New Regulatory Framework (NRF)

In Decision (D.) 96-12-074, the California Public Utilities Commission (CPUC) adopted an incentive-based form of regulation for Roseville Telephone Company (Roseville) that was based on the New Regulatory Framework (NRF) that was previously adopted for GTEC California Incorporated (GTEC) and Pacific Bell (Pacific). In Ordering Paragraph (O.P.) 7 of D.96-12-074, we ordered that:

“Regulation of Roseville’s operations shall follow the principles of the new regulatory framework (NRF) established in D.89-10-031 (33 CPUC2d 43), D.94-06-011 (55 CPUC2d 1), D.94-09-065 (56 CPUC2d 117), D.95-12-052, and D.96-05-

036, and service re-categorization consistent with D.96-03-020, subject to the following differences or clarifications..... Earnings between the benchmark and ceiling rates of return shall be shared equally between shareholders and ratepayers, with earnings above the ceiling rate of return returned to ratepayers.....The “I minus X’ (inflation minus productivity plus stretch) portion of the price cap formula is suspended until a final decision is issued in the Commission’s review of Roseville’s NRF.....”

In D.89-10-031, the CPUC originally adopted an incentive-based NRF for Pacific and GTEC. In that decision, the CPUC stated:

“This new regulatory framework is centered around a price cap indexing mechanism with sharing of excess earning above a benchmark rate of return level.....

Following a startup revenue adjustment [D.89-12-048].....prices for the utilities’ basic monopoly services and rate caps for flexibly priced services will be indexed annually according to the Gross National Product Price Index (GNP-PI) inflation index reduced by a productivity adjustment of 4.5%.

The indexing formula also allows for rate adjustments for a limited category of exogenous factors whose effects will not be reflected in the economy wide GNP-PI [since replaced by the GDP-PI]. While all such costs cannot be foreseen completely, we recognize that the following factors may be reflected in rates as exogenous factors [called Z-factors]: changes in federal and state tax laws to the extent that they affect the local exchange carriers disproportionately, mandated jurisdictional separation changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.”

However, the CPUC did not authorize (Z-factor) treatment for all unforeseen or exogenous factors. In D.89-10-031, the CPUC also stated that:

“.....normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions would be excluded as Z factor items.”

Since D.89-10-031, the CPUC has subsequently issued several decisions modifying the NRF program. In D.93-09-038, for instance, we ordered GTEC to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI) commencing with GTEC’s 1994 price cap filing. The CPUC, through D.94-06-011, likewise ordered Pacific to replace the GNP-PI with the GDP-PI commencing with Pacific’s 1995 price cap filing. In D.94-

09-065, the CPUC authorized Pacific and GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

ROSEVILLE'S PRICE CAP FILING

On October 1, 2001, Roseville filed its 2002 price cap advice letter (A.L. 628) filing to comply with O.P. No. 7 of D.96-12-074. In this filing, Roseville proposed to include the following exogenous (Z-factor) adjustments to its revenues (reduction in parenthesis):

- **Universal Service Fund (USF) Recovery Adjustment** **(\$485,491)**
This adjustment reflects a reduction in Roseville's 2001 projected interstate high cost fund payment based on National Exchange Carrier Association (NECA) calculations.

- **Flood Cost Adjustment** **\$ 47,674**
This adjustment reflects the reversal of flood costs that were authorized for amortization and recovery over a three-year period.

- **Overland Consulting Fees Adjustment** **(\$140,000)**
This adjustment reflects the removal of a one-time adjustment for Overland Consulting fee for their audit and affiliate transactions.

- **Total Revenue Adjustment** **(\$577,817)**

As shown above, the net result of the above-mentioned (Z-factor) and other adjustments is a decrease of \$577,817 in Roseville's revenues. To reduce their revenue, Roseville 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 4.3553% to 3.3091%.
2. The current surcredit to all intraLATA toll in Schedule Cal. P.U.C. No. A25 from -2.3403% to -2.4676%.
3. The current surcredit to all Access Services listed in the Schedule Cal. P.U.C. No.1 from -0.3191% to -0.4236%.

NOTICE/PROTESTS

Roseville states that a copy of the Advice Letter and related tariff sheets were mailed to competing and adjacent utilities and/or other utilities, and to the customer named in the contract. Notice of Advice Letter 628 was published in the Commission Daily Calendar of October 3, 2001. No protest to this Advice Letter has been received.

DISCUSSION

Interstate Universal Service Fund Reduction:

The National Exchange Carrier Association (NECA) administers the Interstate Universal Service Fund (USF), which is a program intended to preserve universal service by offsetting the cost of the local loop in high cost areas. Roseville proposed a revenue decrease of \$525,765 [\$116,778 (USF amounts received from NECA for 2001) minus \$642,543 (USF amount projected by NECA)], to reflect the most current view of expected payments from NECA for the year 2002.

Roseville also indicated through a footnote that the Federal State Joint Board Recommended Decision requires a phase out of Interim Hold Harmless amounts beginning January 1, 2001 in the amount of \$1 per line per month. In the event that the FCC adopts an alternative phase out, Roseville will make a supplemental filing to reflect such alternative.

We find reasonable and adopt the Interstate Universal Service Fund Recovery (Z-factor) adjustment of (\$485,491). This adjustment reflects the one-time adjustments of (\$525,765) (change from 2001 estimate to 2001 latest view), a one-time adjustment of \$116,778 (the ongoing adjustment) and \$(76,504) for the removal of a one-time adjustment for a change in 2000 estimate to the year 2000 latest view that was included in Roseville's 2001 A.L. 628 filing.

Flood Cost Adjustment:

D.96-12-074, O.P. 7, authorized Roseville to include as a one-time (Z-factor) adjustment the elimination of \$62,819 per year from rates after the allowed expenses of \$188,457 in the Catastrophic Event Memorandum Account for the 1995 flood had been fully recovered in three years.

In this advice letter filing, Roseville requests removal of \$47,674 that represents the Flood Cost recovery one-time surcharge included in the 2001 price cap. The \$47,674

consists of \$46,159 plus \$1,515 (interest on one-time adjustment) for the period February 1, 2000 through December 31, 2000. We find reasonable and adopt the Removal Flood Costs adjustment (Z-factor) of \$47,674.

Overland Consulting Fees:

Roseville requests a one-time adjustment of (\$140,000) to remove payments made for the Overland Consulting audit of Roseville's non-regulated operations, as ordered in D.99-06-051, O.P. 10. We find reasonable and adopt Roseville's request to remove the one-time adjustment of (140,000).

Price Floor:

Roseville's proposed 2002 price floors were reviewed and Roseville uniformly applied the inflation factor of 2.30% to its price floor adjustments. For the purpose of adjusting its price floor, Roseville proposes a GDP-PI factor of 2.30% based on the following approach:

1. GDP-PI 2 nd Qtr, 2000	106.78
2. GDP-PI 2 nd Qtr, 2001	109.24
3. "I" Factor (Ln2-Ln1/Ln1)	2.30%

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

Telecommunication Division Recommendations:

The Telecommunications Division concludes that Roseville's Advice Letter 628 meets the requirements set forth in the Commission Orders and G.O. 96-A and recommends that the Commission approve this filing.

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 1, 2001, Roseville filed its price cap filing A.L. 628, and requests the following adjustments in its revenues:

Universal Service Fund Recovery Adjustment	(\$485,491)
Removal Flood Cost	\$ 47,674
Overland Consulting Fees	(\$140,000)
Total Revenue Adjustment	(\$577,817)

2. Roseville requests to decrease 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 4.3553% to 3.3091%.
 - b) The current surcredit to all intraLATA toll in Schedule Cal. P.U.C. No. A25 from -2.3403% to -2.4676%.
 - c) The current surcredit to all Access Services listed in the Schedule Cal. P.U.C. No.1 from -0.3191% to -0.4236%.
3. Roseville used an inflation factor of 2.30% based on the Bureau of Labor Statistic's GDP-PI Implicit Price Deflator to adjust its price floors.
4. Roseville's revenue adjustment request of \$525,765 on a one-time basis, the removal of a one-time adjustment (change in 2000 estimate to 2000 latest view) of (\$76,504), and the ongoing adjustment (annual change) of \$116,778 associated with reduced Interstate Universal Service Fund recovery payment should be granted.
5. Roseville's revenue adjustment request to remove \$46,159 on a one-time basis and the interest on a one-time adjustment of \$1,515 associated with the Removal Flood Cost should be granted.
6. Roseville one-time adjustment of \$140,000, an expense paid to Overland Consulting for the audit of Roseville's non-regulated operations should be granted.

7. The revenue adjustments associated with Interstate Universal Service Fund Reduction, Removal of Flood Costs and Overland Consulting Fees result in a net revenue decrease of \$577,817.
8. No protest to this Advice Letter has been received.
9. T.D. recommends that the Commission approves Roseville's A.L. 628.

THEREFORE, IT IS ORDERED that:

1. Roseville Telephone Company shall decrease its annual revenues by \$577,817 effective January 1, 2002, as a result of its 2002 annual price cap filing in A.L. 628.
2. The revisions to Roseville's price floors filed in A.L. 628 are adopted and shall be effective January 1, 2002.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on December 11, 2001 adopted this Resolution. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

Appendix A
Resolution T-16601
Roseville Telephone Company
2002 Price Cap Filing

	Roseville Proposed Revenue Impacts	Adopted Impacts
On-going Adjustments		
Universal Service Fund	\$116,778	\$116,778
One-Time Adjustments		
Universal Service Fund	(\$76,504)	(\$76,504)
Removal Flood Cost	\$47,674	\$46,674
Overland Consulting	(\$140,000)	(\$140,000)
Other Adjustments		
Universal Service Fund	(\$525,765)	(\$525,765)
GRAND TOTAL	\$577,817	\$577,817