

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Carrier Branch**

**RESOLUTION T-16805
December 18, 2003**

R E S O L U T I O N

Resolution T-16805. 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, 2004.

By Advice Letter 856 Filed on October 1, 2003.

Summary

This Resolution authorizes Roseville Telephone Company a \$0 change to its annual revenues effective January 1, 2004 and to continue to implement its 2003 surcharge rates. Roseville did not seek an exogenous cost (Z factor) adjustments in its 2004 price cap filing.

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 (Pacific) and GTE California Incorporated (GTEC), which is now know as Verizon California Incorporated. 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 subject to the following difference... Earnings between the benchmark and ceiling rates of return shall be shared equally between shareholders and ratepayers.

Following is a brief summary of elements of the Commission's price cap regulation that apply to Roseville:

In D.89-10-031, the Commission adopted an incentive-based regulatory framework for Pacific and GTEC. Prices and rate caps would be indexed annually according to the

Gross National Product Price Index (GNP-PI) inflation index reduced by a productivity adjustment, and also adjusted for a limited category of exogenous events, called Z-factors, whose effects are not reflected in the GNP-Pi and are beyond the control of utility management. . Only specific types of costs 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.

Since D.89-10-031, the Commission has subsequently issued several decisions that modified the original NRF program. D.93-09-038, ordered GTEC to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI) as the inflation index commencing with GTEC's 1994 price cap filing. The Commission, in D.94-06-011, also 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 Commission authorized Pacific and GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

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.

Roseville's Price Cap Filing

On October 1, 2003, Roseville filed its 2004 price cap advice letter (A.L. 856) filing to comply with O.P. No. 7 of D.96-12-074. In this filing, Roseville proposed no exogenous (Z-factor) adjustments to its revenues and therefore the net result of (Z-factor) adjustment this year is zero. Since there is no (Z) factor adjustment to its revenues, Roseville requests authorization to maintain the current level of its surcharges/surcredits.

1. No change in the current surcharge rate of 4.5238% 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 for the year 2004.
2. No changes in the current surcredit to all intraLATA toll in Schedule Cal. P.U.C. No. A25 at -2.2452% for the year 2004.
3. No changes in the current surcredit to all Access Services listed in the Schedule Cal. P.U.C. No.1 at -0.2012% for the year 2004.

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 856 was published in the Commission Daily Calendar of October 22, 2003. 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 federal program intended to preserve universal service by offsetting the cost of the local loop in high cost areas. The USF provides subsidies to qualifying local exchange telephone companies that provide service to customers who live in areas that are expensive to serve. The Federal Communications Commission (FCC) determines which areas qualify as high cost areas. To qualify for USF subsidies, a telephone company must demonstrate that the actual per-line cost to provide service to telephone customers that are expensive to serve exceeds a national average per-line cost determined by the FCC. Differences between

amounts received from the USF by a qualifying company and its actual high costs are collected/refunded from intrastate customers.

In its 2003 price cap filing, Roseville proposed a revenue increase of \$525,765 for the removal of prior year's one-time adjustment that was assigned to local exchange services, pursuant to Resolution T-15978 (change in 2001 estimate to 2001 latest view). In its 2004 price cap filing, Roseville is requesting zero ongoing adjustment (annual change 2003 estimate) for Interstate Universal Service Fund Reduction.

Price Floor:

Roseville's proposed 2004 price floors were reviewed and Roseville uniformly applied the inflation factor of 1.50% to its price floor adjustments. For the purpose of adjusting its price floor, Roseville proposes a GDP-PI factor of 1.50% based on the following approach:

1. GDP-PI 2 nd Qtr, 2002	110.48
2. GDP-PI 2 nd Qtr, 2003	112.14
3. "I" Factor (Ln2-Ln1/Ln1)	1.50%

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 856 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, 2003, Roseville filed its price cap filing A.L. 856, and requests no adjustment in its revenues:
2. Roseville requests to recover their annual revenues by applying:
 - a) No changes in the current surcharge rate of 4.5235% 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
 - b) No changes in the current surcredit to all intraLATA toll in Schedule Cal. P.U.C. No. A25 at -2.2452%.
 - c) No changes in current surcredit to all Access Services listed in the Schedule Cal. P.U.C. No.1 at -0.2012%.
3. Roseville used an inflation factor of 1.50% based on the Bureau of Economic Analysis's GDP-PI Implicit Price Deflator to adjust its price floors.
4. We find reasonable Roseville's zero revenue adjustment request for 2004.
5. No protest to this Advice Letter has been received.
6. We adopt TD's recommendation to approve Roseville's A.L. 856.

THEREFORE, IT IS ORDERED that:

1. Roseville Telephone Company shall adjust its annual revenues by \$0 effective January 1, 2004, as a result of its 2004 annual price cap filing in A.L. 856.
2. Roseville shall continue to implement 2003 Price Cap billing surcharge rate of 4.523% as applied to all Local Exchange Services, (2.2452%) for IntraLATA Toll and (0.2012%) for intraLATA access service, to become effective on January 1, 2004, subject to review and approval by the Commission's Telecommunications Division. Adopted surcharges are shown in Appendix B.
3. The revisions to Roseville's price floors filed in A.L. 856 are adopted and shall be effective January 1, 2004.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on December 18, 2003 adopted this Resolution. The following Commissioners approved it:

/s/ WILLIAM AHERN

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

Appendix A
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Roseville Telephone Company
2004 Price Cap Filing

	Roseville Proposed Revenue Impacts	Adopted Impacts
One-Time Adjustments	\$0	\$0
Ongoing LE- Factors	\$0	\$0
TOTAL	\$0	\$0

Appendix B
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Roseville Telephone Company
2004 Price Cap Filing
(Adjustments by %)

	Current Surcharge/ surcredit	Roseville Proposed Surcharge/ Surcredit	Adopted Surcharge/ Surcredit
Access	(0.2012%)	(0.2012%)	(0.2012%)
Local	4.5238%	4.5238%	4.5238%
Toll	(2.2452%)	(2.2452%)	(2.2452%)