

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division  
Public Programs Branch

RESOLUTION T-17057  
August 24, 2006

R E S O L U T I O N

**Resolution T-17057.** Resolution to Resolve Material Issues Related to Citizens Telecommunications Company of California's (U-1024-C) Permanent California High Cost Fund-B (CHCF-B) Surcredit, Pursuant to Resolution T-17008, Issued July 20, 2006.

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SUMMARY

On October 24, 2001, Citizens Telecommunications Company of California (Citizens)<sup>1</sup> filed Advice Letter (AL) No. 722 to make its provisional California High Cost Fund-B (CHCF-B) surcredit permanent. On July 20, 2006, Resolution T-17008 was issued (1) approving Citizens' permanent surcredit of 3.63% to apply on all intrastate billings, except residential basic service, contract services, and Universal Lifeline Telephone Service (flat rate exchange service, reduced service connection charges, and mileage if applicable) (ULTS), commencing September 1, 2006 and continuing thereafter; and (2) requiring the Commission to finalize and resolve material issues related to Citizens' permanent surcredit in accordance with D.98-09-039.

This resolution finalizes the material issues and orders Citizens to implement an incremental permanent surcredit of 1.44% for one year to adjust the provisional CHCF-B permanent surcredit on all of Citizens' intrastate customer billings, except residential basic service, contract services and ULTS for one year, commencing October 1, 2006 and ending on the last day of the 12-month period. The 1.44% incremental permanent surcredit will be in addition to the 3.63% permanent surcredit adopted in Resolution T-17008.

BACKGROUND

A. Decision (D.) 96-10-066 –Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643; Investigation on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021)

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<sup>1</sup> Citizens Telecommunications Company of California's d/b/a/ is Frontier Communications of California.

In D.96-10-066, the Commission established the CHCF-B program to provide a universal service subsidy to Citizens and the other incumbent local exchange carriers (ILECs)<sup>2</sup> for providing basic local telephone service to residential customers in high-cost areas at affordable rates. The purpose of the CHCF-B program is to replace the implicit subsidies used to support universal service with an explicit funding mechanism. The CHCF-B is funded through a surcharge on all end-users of intrastate telecommunications services, except for Universal Lifeline Telephone Service (ULTS) customers, coin-sent paid calling, debit card messages, one-way paging, usage charges to COPTs, customers receiving services under existing contracts that were executed on or before September 15, 1994 and directory advertising. The CHCF-B surcharge has been in place since February 1, 1997.

To avoid double recovery of universal service support by carriers, the Commission, by D.96-10-066, requires Citizens and the other ILECs to reduce all of their rates, except for residential basic service<sup>3</sup>, contracts, and coin-sent paid calls, by a percentage (through a monthly surcredit to the customer's bill), that equals their anticipated monthly CHCF-B draws.

B. D.98-09-039 – Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643; Investigation on the Commission's Own motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021.)

In September 1998, the Commission issued D.98-09-039 implementing the CHCF-B program established by D.96-10-066. The Commission authorized Citizens and the other ILECs,<sup>4</sup> to commence their monthly draws from their accumulated CHCF-B surcharge revenues (CHCF-B draws) commencing December 15, 1998. To offset the CHCF-B draws, the Commission ordered Citizens and the other ILECs to file an AL to implement a permanent surcredit (by an equal percentage of their CHCF-B draws) beginning December 1, 1998, based on the average of the company's "approved" monthly claims submitted to the CHCF-B fund for the twelve-month period ending July 31, 1998. (*D. 98-09-039, Ordering Paragraph (OP) 1, p. 82.*) Once the monthly claims, on which the permanent surcredit would be based, were submitted by Citizens and that other ILECs to TD (Telecommunications Division), the CHCF-B Administrative

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<sup>2</sup> The other ILECs are AT&T (formerly Pacific Bell, then SBC), Verizon California Inc. (formerly the merged GTE California Inc. and Contel Telephone Company), and SureWest Telephone Company (formerly Roseville Telephone Company).

<sup>3</sup> Residential basic exchange service is excluded from the rate reduction because the CHCF-B supports this service in high cost areas. The Commission, in D.96-10-066, held "If we were to reduce rates for basic service as well, this would widen, rather than narrow, the gap between residential rates and their costs." (*Id. at p. 208.*)

<sup>4</sup> AT&T as a result of D.98-07-033, dated July 2, 1998, and subsequently SureWest Telephone Company in D.05-08-004, dated August 25, 2005, implemented permanent rate reductions, which allowed the each to true up its rate reduction with its approved fund draws from the CHCF-B program.

Committee<sup>5</sup> (AC) was then charged with the duty of reviewing and approving the monthly claims. If material issues arose from the AC's review of the monthly claims, the Commission held that "the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues." (*Id. at OP 3, p. 82.*)

C. Resolution T-16239 – Citizens Telecommunications Company of California. Request to Implement a Permanent California High Cost Fund –B Surcredit in Compliance with Decision 98-09-039. By Advice Letter No. 632, Filed on September 22, 1998 and Supplemental Advice Letter 632-A, Filed on November 12, 1998. (Adopted November 19, 1998.)

In compliance with OP No. 1 of D. 98-09-039, Citizens filed AL No. 632 to implement a permanent surcredit on intrastate billings to customers beginning December 1, 1998. In Resolution T-16239, the Commission approved, on a provisional basis, Citizens' permanent surcredit of 3.07%, which was based on an estimated amount (approximately \$1.241 million) of Citizens' 12-month CHCF-B claims from August 1997 through July 1998. This permanent surcredit was adopted on a provisional basis because the CHCF-AC had not formally approved any of the claims filed by Citizens. (*Id. at p.4.*) The Commission held that "... the implementation of the permanent surcredit filed in Advice Letter 632 [is] to be on a provisional basis subject to further revision by further Commission action." (*Id.*)

Specifically, Resolution T-16239 states as follows:

- The AC has not formally approved any of the CHCF-B claims filed by Citizens. Therefore, TD recommends that the Commission require the implementation of the surcredit be on a provisional basis, subject to revision, if necessary, by the Commission utilizing the process set forth in OP 3 of D.98-09-039. (Resolution T-16239, p. 4; *See also* Finding 3 and OP 1.)
- OP 3 of D.98-09-039 states "The CHCF-B AC shall review the CHCF-B claims submitted by Citizens, GTE/Contel (Verizon), and Roseville for the 12-month period ending July 31, 1998 and report its finding to the Director of TD. If material issues arise from the Committee's review of the CHCF-B claims, these companies' permanent surcredits shall be implemented on a provisional basis beginning December 1, 1998 and adjusted at a later date, if necessary, upon the resolution of these issues."

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<sup>5</sup> CHCF-B AC (formerly CHCF-B Trust AC) was previously responsible for reviewing and approving CHCF-B claims by telecommunications carriers, but this function has been transferred to the Commission effective October 1, 2001, pursuant to D.01-09-064, dated September 20, 2001, in response to Legislative mandates (SB 669 and SB 742) to transfer surcharge revenues that fund the public purpose programs associated with the advisory board into the State Treasury. The CHCF-B AC currently acts as an advisory board to advise the Commission regarding the development, implementation and administration of the program, pursuant to PU Code Section 276(a).

- TD further recommends that the provisional status be effective until the Commission acts through a subsequent resolution action to establish the permanent surcredit. (Resolution T-16239, p. 4; *See Also* Finding 4 and OP 1.)
- We will adopt TD's recommendation to require the implementation of the surcredit filed in AL 632 to be on a provisional basis subject to further revision by further Commission action. (Resolution T-16239, p. 4; *See also* OP 1.)

D. October 4, 2001 Director of the Telecommunications Division's (TD) Letter to Citizens

On October 4, 2001, the TD Director sent a letter to Citizens advising that the CHCF-B AC had completed its review of Citizens' monthly claims for the period February 1997 through July 1998 and had approved payment of \$1,475,781.31 for that period. This amount was \$234,781.31 more than Citizens' claimed amount of \$1.241 million.

Because the CHCF-B AC's approved amount was greater than Citizens' claimed amount, TD instructed Citizens to adjust its provisional permanent rate that was adopted in Resolution T-16239 to account for the higher payment. Further, TD instructed Citizens to file an AL no later than October 30, 2001 to reflect this adjustment.

In response, on October 24, 2002, Citizens filed AL No. 722 to adjust its provisional permanent surcredit of 3.07% to a new permanent surcredit of 3.66%. However, Citizens subsequently filed AL No. 722A to lower its proposed permanent surcredit to 2.58% on the basis that the rate should be based on its projected June 2004 billing base.

E. Resolution T-17008 - Citizens Telecommunications Company of California. Request to Implement a Permanent California High Cost Fund -B Surcredit in Compliance with Decision 98-09-039. By Advice Letter No. 722, Filed on October 21, 2001, and Supplement A, Filed April 24, 2003. (Adopted July 20, 2006.)

In Resolution T-17008, the Commission approved Citizens' permanent surcredit of 3.63% to apply on all intrastate billings, except basic residential service, contract services, and ULTS on a going-forward basis. The permanent surcredit was based on the approved CHCF-B AC's claim amount of \$1.476 million and the net billing base for the period ending July 1998 (consistent with the basis period indicated in Commission D.98-09-039).

However, in Resolution T-17008, the Commission left unresolved the calculation and application of an incremental permanent surcredit amount (additional offset to Citizens' customers) resulting from the difference between the CHCF-B AC's approved amount

and estimated claim amount for the period December 1, 1998 (implementation date of the provisional permanent surcredit) through September 1, 2006 (implementation date of the permanent surcredit). In OP 7 of Resolution T-17008, the Commission stated "In the near future, the Commission shall consider and order final approval and adjustments of Citizens' permanent surcredit in accordance with D.98-09-039." In accordance with this OP, this resolution addresses the calculation and application of Citizens' permanent surcredit adjustment.

F. D.02-04-059 – Order Instituting Rulemaking into Implementation of Senate Bill 669 As it Affects California High Cost Fund B and Other Public Purpose Programs (R.01-08-022).

In D.02-04-059, the Commission adopted the 3-month commercial paper rate issued by financial institutions (available at the Federal Reserve Board website) as the uniform interest rate to apply to all late payments for reimbursements and carrier claims, beginning with payments processed in the first payment cycle, which was May 1, 2002.

**NOTICE/PROTESTS**

The notice of Citizens' AL No. 722 and 722A, were published in the Commission Daily Calendars of October 29, 2001 and April 19, 2004. Citizens indicated that they had mailed a copy of the AL to adjacent utilities and/or interested parties as requested. TD did not receive any protests to this AL.

**DISCUSSION**

In Resolution T-17008, the Commission approved Citizens' request in AL No. 722 to make its provisional permanent surcredit permanent and ordered Citizens to implement a permanent surcredit of 3.63% on a going-forward basis, commencing September 1, 2006 and continuing thereafter.

In addition, the Commission held that it would resolve the material issue of dispute related to Citizens' application of a surcredit rate for the period between December 1, 1998 and September 1, 2006 as follows:

"In the near future, the Commission shall consider and order final approval and adjustments of Citizens' permanent surcredit in accordance with D.98-09-039." (OP 7, Resolution T-17008).

In this resolution, the Commission now finally and permanently resolves Citizens' provisional permanent surcredit adjustment in compliance with D. 98-09-039 as set forth in OP 7 of Resolution T-17008.

In D.98-09-039, the Commission set forth the rules and process for the adjustment of Citizens' permanent surcredit. Specifically, in OP 3 of the decision the Commission ordered:

"The CHCF-B Administrative Committee shall review the CHCF-B claims submitted by Citizens, GTE, Contel and Roseville for the 12-month period ending July 31, 1998 and report its findings to the Director of the Telecommunications Division. If material issues arise from the CHCF-B AC's review of the CHCF-B claims, these companies' permanent surcredits shall be implemented on a provisional basis beginning December 1, 1998 and adjusted at a later date, if necessary, upon the resolution of these issues." (OP 3, D.98-09-039)."

In the decision, the Commission also held that Citizens permanent surcredit must be based on "actual, approved" claim amount from August 1997 through July 1998 (the subject period).

In accordance with D.98-09-039, the CHCF-B AC reviewed Citizens' claims and determined that the approved amount is \$1.471 million for the subject period. Citizens' estimated claimed amount for the same period is \$1.241 million. Hence, there is a significant difference of approximately \$235,000 per year, between the CHCF-B AC's approved amount and Citizens' claimed amount. The net effect of this disparity is that Citizens' customers have been receiving a smaller surcredit than they should have. Failure to adjust this difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated. Thus, it is necessary to offset that difference of \$235,000 per year for several years to Citizens' customers in the form of a surcredit to resolve the material issues set forth in Resolution T-17008.

To determine the amount that Citizens should offset to its customers, TD believes that it is equitable and reasonable to limit the basis for the incremental permanent surcredit calculation to three years<sup>6</sup>. Accordingly, TD has calculated the incremental permanent surcredit to be 1.44% based on three years' (from October 1, 2003 through October 1, 2006) difference between the CHCF-B AC's approved amount and the estimated

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<sup>6</sup> Instead of using the total number of years in which the surcredit should have been implemented (December 1, 1998 through the implementation date of Resolution T-17008, which is September 1, 2006), we limit the incremental permanent surcredit calculation to three years to balance ratepayer and shareholder interests.

amount of \$704,342.31 plus interest<sup>7</sup> of \$51,439.09, totaling \$755,781.40. The total was then divided by the net billing base of \$52,384,462 for the 12-month period ending December 2005.

Therefore, TD recommends that the Commission order Citizens to implement an incremental permanent surcredit of 1.44% to resolve material issues of dispute. The surcredit will apply on all intrastate billings, except residential basic service, contract services, and ULTS, commencing October 1, 2006 and ending on the last day of the 12-month implementation period. The 1.44% incremental permanent surcredit will be in addition to the 3.63% permanent surcredit approved in Resolution T-17008, which becomes effective on September 1, 2006 and continuing thereafter.

In addition, TD recommends that the Commission order Citizens, within five (5) business days from the effective date of this resolution to (1) file a compliance advice letter to address and adjust the material issues set forth in this resolution, by reflecting an incremental permanent surcredit of 1.44% for one year to apply on all intrastate billings, except residential basic service, contract services, and ULTS, commencing October 1, 2006 and ending on the last day of the 12-month implementation period; and (2) provide to the Director of TD for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining that the 1.44% incremental permanent surcredit is in addition to the permanent surcredit of 3.63% for one year (pursuant to Resolution T-17008), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.

The Commission believes that TD's recommendations, as discussed in this resolution, are appropriate, reasonable and consistent with prior Commission decisions and resolutions.

## COMMENTS

In compliance with PU Code Section 311(g)(1), a copy of the Notice of Availability letter of the draft resolution was e-mailed on July 25, 2006 to parties that informed TD of their e-mail address in order to continue to be on the service list of R.95-01-020/I.95-01-021, AT&T, Verizon California Inc., SureWest Telephone Company, Cox California Telecom, LLC, and CHCF-B AC, informing parties that its draft resolution was available for public viewing and comments at the Commission's website at: <http://www.cpuc.ca.gov/static/documents/index.htm>. In addition, the TD informed these parties of the availability of the conformed resolution on the website.

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<sup>7</sup> It is reasonable to include interest onto the difference because this amount has been retained by Citizens for three years which should have accrued interest in a financial institution. The interest was based on the 3-month commercial paper rate issued by financial institutions (available at the Federal Reserve Board website) as the uniform interest rate to apply to all late payments for reimbursements and carrier claims, pursuant to D. 02-04-059.

### **Citizens Comments**

On August 9, 2006, Citizens filed comments on the draft resolutions and made the following points in its comments. Although Citizens appreciates the adjustment of the provisional permanent surcredit to three years only, the company states the adjustment:

1. Constitutes retroactive ratemaking;
2. Violates prior Commission decisions; and
3. Violates due process and it is discriminatory

### **Retroactive Ratemaking**

Citizens asserts that under Public Utilities Code 728, the Commission is authorized to set rates that will be thereafter observed. Further, to account for possible delays in setting rates, the company states that the Commission uses memorandum accounts to determine prior period revenues or expenses that will be recovered or refunded in future years. Even though a surcredit is being set herein, this does not change the retroactive ratemaking analysis. Finally, Citizens states that the Commission has used the surcredit and rate reduction synonymously for determining the CHCF-B surcredit.

### **Decision 98-09-039**

Citizens states that the Commission contradicts its ruling in D.98-09-039 that the company would not be required to implement a true-up mechanism. Specifically, Citizens points to OP 15 of D.98-09-039 which states:

“Citizens, GTE/Contel, and Roseville shall not true-up their permanent surcredits with their actual draws from the CHCF-B draws. These three companies are relieved of their obligations to implement the true-up memorandum accounts required by the Ordering Paragraph 8.f of D.96-10-066.”

### **Due Process and Discrimination**

Citizens indicates that they did not receive any advance notice of the refund of additional CHCF-B amounts to its customers. The company further states that there are no Commission decisions and/or resolutions that notify Citizens that the provisional permanent surcredit is subject to retroactive refund. Finally, Citizens believes that only Verizon and Citizens are subject to retroactive adjustments of their CHCF-B draw.

### **TD's Response**

TD has reviewed Citizens' opening comments and disagree with its assertion that the Commission violates its prior decisions and therefore it does not have any authority upon which to base the creation of the additional surcredit.

### **Retroactive Ratemaking**

The adjustments ordered in this resolution are not retroactive as the Commission clearly intended to adjust the provisional CHCF-B amount at a later date. The California Supreme Court noted that "The prohibition only applies in the situation when the Commission is "promulgating 'general rates' " (Southern California Edison Company v. Pub. Utilities Com. (1978) 20 Cal.3d 813, 816 cited in D.03-02-035, p. 12; See also, California Manufacturers Association v. Public Utilities Commission, 24 Cal. 3d 251, 261 (1979)"). Furthermore, "Before there can be retroactive ratemaking there must be at least be ratemaking." (Id. at 817.) In this case, no rates are being changed as a result of the implementation of the incremental surcredit. The surcredit adjustment at issue here will neither increase nor decrease the utilities' previously adopted rates. Rather, the purpose of the incremental surcredit is to adjust/true-up the "estimated" CHCF-B claims, which the provisional/interim surcredit is based on upon, with the actual, approved CHCF-B claims for prior years. This is necessary in order to effectuate the Commission's directives set forth in its prior decisions and resolutions.

Since December 1, 1998 to present date, Citizens has implemented the surcredits on a provisional basis because the surcredits are based on their "estimated" claims, and not "actual, approved" claims. In 2001, AC completed its review of the companies' claims and determined that the "actual, approved" amounts were greater than the companies' claimed amounts for the subject period (August 1997 to July 1998). In other words, the companies were drawing more money from the CHCF-B fund than they were offsetting through the provisional surcredits. Specifically, the difference between the approved and the claimed amounts was \$234,781 per year for Citizens. In D.96-10-066 and D.98-09-039, the Commission emphasized that the surcredits that are equal to the monthly draws are necessary in order to prevent the LECs from receiving a windfall as a result of both remittances from the CHCF-B fund and the CHCF-B surcharge income. Moreover, it would be contrary to the Commission's intent and unfair to the customers if Citizens is not required to adjust/reconcile their estimated claims, which their provisional surcredits are based upon, with the Committee's actual, approved claims.

Furthermore, the ordering of the incremental surcredit is consistent with and supports the Commission's rationale behind the CHCF-B funding mechanism. In D.96-10-066, the Commission directed the large LECs to reduce their rates to ensure that they did not reap a windfall from the CHCF-B fund as follows:

Concurrent with the effective date of the fund, the five large and mid-size LECs affected by the CHCF-B shall reduce all of their rates, except for residential basic service and existing contracts, by an equal percentage. This overall reduction shall equal the anticipated monthly draw the incumbent LECs anticipate receiving from the fund. The rate reduction shall be accomplished by a monthly surcredit to each customer's bill through an advice letter filing. (68 CPUC 2d at 630).

### Decision 98-09-039

OP 1 of D.98-09-039 ordered Citizens to file an AL to implement a permanent surcredit commencing December 1, 1998 that was supposed to be based on 12 months of actual, approved claims. However, since reviewing the 12-months of claims was not a quick and easy task, the Commission also adopted OP 3 of Decision 98-09-039, which states, "If *material* issues arise from the Committee's review of the CHCF-B claims, these companies' permanent surcredits shall be implemented on a provisional basis beginning December 1, 1998, and *adjusted at a later date*, if necessary, upon the resolution of these issues." (Emphasis added.)

To comply with OP 1 of D.98-09-039, Citizens filed AL No. 632, but the permanent surcredit was based on the estimated, rather than the approved CHCF-B claim amount for the period ending July 1998. Thus, the Commission, in Resolution T-16239, approved Citizens' request to implement a permanent surcredit on an interim basis, subject to further revision by the Commission, pursuant to OP 3 of D.98-09-039. Further, OP 15 states "... shall not true up their permanent surcredits with their **actual** draws from the CHCF-B". (Emphasis added.) However, the permanent surcredit was not based upon "actual" draws but "estimated" draws.

The intent of OP 3 of D.98-09-039 is to true-up the provisional permanent surcredit with the resolution of any issues associated with the 12 months of CHCF-B claims for the period ending July 1998. Thus, we believe that the difference between the CHCF-B estimated amount and the truncated previous three year calculation based on the implementation date of this resolution, including interest, totaling approximately \$755,781 is material enough for Citizens operations to warrant an adjustment to CHCF-B surcredits.

## **Due Process**

Citizens' due process argument also lack merit. Citizens has had ample notice and opportunity that the incremental surcredit adjustment was going to be addressed and ordered by the Commission in the future as follows:

- D.98-09-039 – the Commission expressly held that if material issues arose from the AC's review of the CHCF-B claims, the permanent surcredits would be implemented on a provisional basis beginning on December 1, 1998, and adjusted at a later date, if necessary, upon the resolution of these issues.
- Resolution T-16239 – Because the AC (the Committee) had not formally approved any of the CHCF-B claims filed by Citizens, TD recommended that the Commission require the implementation of the surcredit be on a provisional basis, subject to revision, if necessary, by the Commission utilizing the process set forth in OP 3 of D.98-09-039.
- Resolution T-16239 - TD further recommended that the provisional status be effective until the Commission acts through a subsequent resolution action to establish the permanent surcredit. (p. 4; *See Also* Finding 4 and OP 1.)
- Resolution T-16239 – The Commission adopted TD's recommendation of requiring the implementation of the surcredit filed in AL 632 to be on a provisional basis subject to further revision by further Commission action. (p. 4; *See also* OP 1.)
- Resolution T-17008 - The Commission held that "In the near future, the Commission shall consider and order final approval and adjustments of Citizens' permanent surcredit in accordance with D.98-09-039." (Resolution T-17008, OP 7)

Except as modified herein or discussed above, TD rejects all other comments filed by Citizens.

## **FINDINGS**

1. In Resolution T-17008, issued July 20, 2006, the Commission approved Citizens Telecommunications Company of California's (Citizens) request in Advice Letter (AL) No. 722 to implement a California High Cost Fund B (CHCF-B) permanent surcredit of 3.63% to apply on Citizens intrastate billings, except residential basic

service, contract services and Universal Lifeline Telephone Service (flat rate exchange service, reduced service connection charges, and mileage, if applicable)(ULTS), commencing on September 1, 2006 and continuing thereafter.

2. In this resolution, the Commission now finally and permanently resolves Citizens' provisional permanent surcredit adjustment in compliance with Decision 98-09-039 as set forth in Ordering Paragraph (OP) 7 of Resolution T-17008.
3. OP 7 of Resolution T-17008 stated "In the near future, the Commission shall consider and order final approval and adjustments of Citizens' permanent surcredit in accordance with D.98-09-039."
4. To comply with OP 7 of Resolution T-17008 and D.98-09-039, this resolution is being issued to resolve the material issues related to Citizens' permanent surcredit resulting from the difference of approximately \$235,000 between the CHCF-B approved claim amount and Citizens' estimated claim amount (basis for the provisional permanent surcredit calculation).
5. In OP 3 of D.98-09-039, the Commission provided rules and authority for the adjustment of Citizens' permanent surcredit. The Commission also held that if any material issues that arose from the CHCF-B AC's review of the CHCF-B claims, the provisional permanent surcredit would be adjusted at a later date.
6. The CHCF-B AC's approved claim amount is \$1.471 million, which is \$235,000 more than Citizens' estimated claim amount of \$1.241 million for the 12-month period ending July 1998.
7. The approximately \$235,000 per year difference for several years is a material amount, which needs to be adjusted. The net effect of this disparity is that Citizens' customers have been receiving a smaller surcredit than they should have.
8. Failure to adjust the \$235,000 difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated. Thus, it is necessary to offset that difference of \$235,000 per year for several years to Citizens' customers in the form of a surcredit to resolve the material issues set forth in Resolution T-17008.
9. OP 7 of Commission D.02-04-059 adopted the three-month commercial paper rate issued by financial institutions (available at Federal Reserve Board website) as the uniform interest rate applicable to late payment of reimbursement and carrier claims, beginning with payments processed in the first payment cycle (which is May 1, 2002).

10. To determine the amount that Citizens should offset to its customers, TD believes that it is equitable and reasonable to limit the basis for the incremental permanent surcredit calculation to three years.
11. The Telecommunications Division (TD) has calculated the incremental permanent surcredit to be 1.44% based on three years' (from October 1, 2003 through October 1, 2006) difference between the CHCF-B AC's approved claim amount and the estimated amount of \$704,342.31, plus interest of \$51,439.09, totaling \$755,781.40. The total was then divided by the net billing base of \$52,384,462 for the 12-month period ending December 2005.
12. It is reasonable to include interest onto the \$235,000 per year difference for three years because this amount has been retained by Citizens for these years which should have accrued interest in a financial institution, pursuant to D.02-04-059.
13. Citizens should implement an incremental permanent surcredit of 1.44% to resolve material issues of dispute. The surcredit will apply on all intrastate billings, except residential basic service, contract services, and ULTS commencing October 1, 2006 and ending on the last day of the 12-month implementation period.
14. The 1.44% incremental permanent surcredit will be in addition to the 3.63% permanent surcredit, adopted in Resolution T-17008, which becomes effective on September 1, 2006 and continuing thereafter.
15. Within five (5) business days of the effective date of this resolution, Citizens should be required to file a compliance advice letter to address and adjust the material issues set forth in Resolution T-17008, by reflecting (1) an incremental permanent surcredit of 1.44% for one year to apply on all intrastate billings, except residential basic service, contract services, and ULTS, commencing October 1, 2006 and ending on the last day of the 12-month implementation period; and (2) the incremental permanent surcredit of 1.44% is in addition to the permanent surcredit of 3.63% adopted in Resolution T-17008.
16. Within five (5) business days of the effective date of this resolution, Citizens should provide to the Director of TD for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining that the 1.44% incremental permanent surcredit is in addition to the permanent surcredit of 3.63% for one year (pursuant to Resolution T-17008), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.
17. On August 9, 2006, Citizens filed comments on this resolution.

18. TD addressed Citizens' comments in this resolution. Those comments not addressed in this resolution are denied.
19. The recommendations, as stated in this Resolution, are reasonable and appropriate, and should be adopted.

**THEREFORE, IT IS ORDERED that:**

1. Citizens shall implement an incremental permanent surcredit of 1.44% to resolve material issues of dispute. The surcredit shall apply on all intrastate billings, except residential basic service, contract services, and Universal Lifeline Telephone Service (flat rate exchange service, reduced service connection charges, and mileage if applicable) (ULTS), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.
2. The 1.44% incremental permanent surcredit will be in addition to the 3.63% permanent surcredit approved in Resolution T-17008, which becomes effective on September 1, 2006 and continuing thereafter.
3. Within five (5) business days of the effective date of this resolution, Citizens shall file a compliance advice letter to address and adjust the material issues set forth in Resolution T-17008, by reflecting (1) an incremental permanent surcredit of 1.44% for one year to apply on all intrastate billings, except residential basic service, contract services, and ULTS, commencing October 1, 2006 and ending on the last day of the 12-month implementation period; and (2) the incremental permanent surcredit of 1.44% is in addition to the permanent surcredit of 3.63% adopted in Resolution T-17008.
4. Within five (5) business days of the effective date of this resolution, Citizens shall provide to the Director of the Telecommunications Division for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining that the 1.44% incremental permanent surcredit is in addition to the permanent surcredit of 3.63% for one year (pursuant to Resolution T-17008), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 24, 2006. The following Commissioners approved it:

/s/ STEVE LARSON

STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
President  
GEOFFREY F. BROWN  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners