BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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REPLY COMMENTS OF THE PUBLIC ADVOCATES OFFICE TO THE STRAW PROPOSAL ADDRESSING GENERAL RATE CASE – RELATED MATTERS IN THE SMALL LOCAL EXCHANGE CARRIERS' TERRITORIES

CANDACE CHOE
Attorney

Public Advocates Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-5651
E-Mail: Candace.Choe@cpuc.ca.gov

JAMES AHLSTEDT
BIXIA YE
Public Utilities Regulatory Analysts

Communications and Water Policy Branch
Public Advocates Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-3196
Email: James.Ahlstedt@cpuc.ca.gov

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I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Pursuant to Administrative Law Judge Wercinski's January 28, 2021 E-mail ruling requesting comments on the *Straw Proposal Addressing General Rate Case – Related Matters in the Small Local Exchange Carriers' Territories* (Straw Proposal)[1], the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits the following Reply Comments. The Straw Proposal addresses two issues, defining which surcharges and fees shall be included in the residential service all-inclusive rate calculation to determine whether the all-inclusive rate falls within the California Public Utilities Commission's (Commission) $30-$37 range of reasonableness and the ratemaking treatment of miscellaneous revenues.[2]

Under Public Utilities (P.U.) Code §275.6 (c)(3), the Commission must ensure the rates charged to customers of the Small Independent Local Exchange Carriers' (Small ILECs) are comparable to the rates charged to customers of urban telephone corporations. Furthermore, low-income customers in California, including the Small ILECs' customers, have access to the California LifeLine program to reduce their monthly bills for basic telephone service.[3] As stated in Opening Comments, the Straw Proposal would change what the Commission considers a reasonable rate without analyzing whether the change complies with P.U. Code §275.6 (c)(3).[4] The Small ILECs' proposal to include *more* surcharges and fees in the all-inclusive rate methodology also is not accompanied by an analysis or re-evaluation of whether the proposal complies with P.U. Code §275.6 (c)(3).[5] The Commission should not adopt the proposed change

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[1] *Straw Proposal Addressing General Rate Case – Related Matters in the Small Local Exchange Carriers' Territories* (Henceforth Straw Proposal), R.11-11-007, January 28, 2020.

[2] Straw Proposal at p. 3.

[3] *California LifeLine Program*, California Public Utilities Commission, Viewed on March 1, 2021. https://www.cpuc.ca.gov/lifeline/

[4] *Opening Comments of the Public Advocates Office to the Straw Proposal Addressing General Rate Case – Related Matters in the Small Local Exchange Carriers' Territories* (henceforth Cal Advocates Opening Comments), R.11-11-007, February 22, 2021, pp. 1-2.

[5] *Opening Comments of Calaveras Telephone Company (U 1004 C), Cal-Ore Telephone Co. (U 1006 C), Ducor Telephone Company (U 1007 C), Foresthill Telephone Co. (U 1009 C), Kerman Telephone Co. (U 1012 C), Pinnacles Telephone Co. (U 1013 C), The Ponderosa Telephone Co., (U 1014 C), Sierra Telephone Company, Inc. (U 1016 C), The Siskiyou Telephone Company (U 1017 C), and Volcano*

(continued on next page)

described in the Straw Proposal or the Small ILECs' proposal. The Commission should maintain the all-inclusive rate methodology used when it established the $30-$37 range of reasonableness in Decision (D.) 14-12-084.[6]

Regarding the Straw Proposal's template for reporting miscellaneous revenues, the Commission should reject the Small ILECs' proposal to replace column [D] *"Facility/Utility Property Paid by state subsidies, federal subsidies, subsidiary and/or affiliate in percentage"* with "*Percentage of the asset included in rate base*."[7] The Small ILECs incorrectly argue that "ratepayers do not 'pay for' facilities."[8] As explained in Section II.B below, revenues from California ratepayers, including the Small ILECs' customers, are calculated and accounted for in the Small ILECs' authorized revenue requirement. As such, ratepayers statewide are paying for the Small ILECs' assets and facilities. The Small ILECs should include the actual amount of the asset in addition to the percentage subsidized in the report of miscellaneous revenues.[9] The Commission should update column [D] of the reporting template to include the following underlined text: "*Facility/Utility Property <u>subsidized</u> by state subsidies, federal subsidies, subsidiary and/or affiliate in percentage <u>and amounts</u>*".

II. DISCUSSION

A. The Commission Should Continue Using the Method for Calculating the All-Inclusive Rate Used When D.14-12-084 was Adopted

The Commission should formally adopt the all-inclusive rate calculation methodology used when the $30-$37 range of reasonableness was adopted in D.14-12-084 because the Commission is already using this methodology[10] and because including additional surcharges

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Telephone Company (U 1019 C) (the "Independent Small LECs") on Straw Proposal Addressing General Rate Case-Related Matters In The Small Local Exchange Carriers' Territories (henceforth Small ILEC Opening Comments), R.11-11-007, February 22, 2021, p. 2.

[6] Cal Advocates Opening Comments at pp. 3-4.

[7] Small ILEC Opening Comments at p. 13.

[8] Small ILEC Opening Comments at p. 13.

[9] Cal Advocates Opening Comments at p. 12.

[10] *Decision Adopting Intrastate Rates and Charges, Intrastate Revenue Requirement and Rate Design, and Modifying Selected Rates for Foresthill Telephone Company*, D.19-04-017, A.17-10-004, May 6, 2019, p. 18 and Conclusions of Law 3 and 4, p. 73.

and fees would alter the rates for basic residential service without an analysis of the reasonableness of those rates.[11] The Commission should reject the Small ILECs' proposal to include all surcharges and fees in the all-inclusive rate methodology because the Small ILECs do not provide an analysis or re-evaluation of whether its proposal complies with P.U. Code §275.6 (c)(3). Additionally, the Small ILECs' proposal would immediately raise seven of the ten Small ILECs' all-inclusive rates, which includes basic rates, to be higher than the $37 cap. This is inconsistent with the Commission's finding in D.19-04-017 that the basic residential rates it approved would result in all-inclusive rates within the $30-$37 range. D.19-04-017 adopted new basic residential rates for the Foresthill Telephone Company.[12]

1. Using the National Exchange Carrier Association's Access Recovery Charge Benchmark Formula in Place when D.14-12-084 was Adopted is a Reasonable Methodology to Calculate the All-Inclusive Rate

The Small ILEC's acknowledge that the $30-$37 range of reasonableness was originally derived from the Access Recovery Charge (ARC) benchmark formula used by the National Exchange Carrier Association (NECA) and that the Small ILECs have used a variation of this formula to calculate the all-inclusive rate in prior General Rate Cases (GRC).[13] Using the ARC benchmark formula remains the most appropriate methodology to calculate the all-inclusive rates because:

- It was used to derive and justify the $30-$37 range of reasonableness.[14]
- The $30-$37 range of reasonableness using the ARC benchmark formula satisfies P.U. Code §275.6 (c)(3), the legal standard that requires comparable treatment between customers of Small ILECs and customers in urban areas, and fairness to statewide customers who subsize Small ILECs.[15]

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[11] Cal Advocates Opening Comments at pp. 4-5.

[12] *Decision Adopting Intrastate Rates and Charges, Intrastate Revenue Requirement and Rate Design, and Modifying Selected Rates for Foresthill Telephone Company*, D.19-04-017, A.17-10-004, May 6, 2019, p. 18 and Conclusions of Law 3 and 4, p. 73.

[13] Small ILEC Opening Comments at pp. 6-7.

[14] Cal Advocates Opening Comments at p. 1.

[15] Cal Advocates Opening Comments at pp. 3-4.

- It has been used in recent GRCs.[16]
- It allows the Commission the flexibility to adjust basic rates annually to account for inflation while staying within the $30-$37 range of reasonableness for at least the next six years,[17]

The Commission should not adopt the Straw Proposal's methodology[18] or the Small ILECs' methodology[19] without an additional analysis and re-evaluation on whether basic residential rates resulting from both methodologies comply with P.U. Code §275.6 (c)(3). Such an analysis and re-evaluation could require changing the $30-$37 range of reasonableness.

2. The Small ILECs' Methodology Violates P.U. Code §275.6 (c)(3) Because it Would Cause Rates to Exceed the $37 All-Inclusive Rate Cap Without an Analysis Proving Existing Rates to be Unreasonable.

In their Opening Comments, the Small ILECs include an Exhibit which shows the basic residential rates and the proposed all-inclusive rates using the Small ILECs' methodology for each individual Small ILEC.[20] Seven of the ten Small ILECs currently have a $25 basic residential rate which, under the Small ILECs' proposal, would result in a $37.03 all-inclusive rate.[21] Therefore, using the Small ILECs' proposed all-inclusive rate methodology would immediately exceed the $37 all-inclusive rate cap despite there being no change to the basic residential rate. For example, when the Commission adopted Foresthill Telephone Companies' $25 basic residential rate in 2019, it found that the $25 basic residential rate resulted in an all-inclusive rate of $33.50 which fell within the $30-$37 range of reasonableness.[22]

The Small ILEC's proposal would immediately make seven Small ILECs' all-inclusive rates fall outside of the all-inclusive range of reasonableness. This would then require a decrease in the basic residential rate without any analysis or evidence to prove that the existing basic

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[16] Small ILECs Opening Comments at pp. 6-7 and Cal Advocates Opening Comments at p. 4.

[17] Cal Advocates Opening Comments at pp. 9-10.

[18] Straw Proposal at pp. 6-8.

[19] Small ILEC Opening Comments at p. 2.

[20] Small ILECs Opening Comments Exhibit A.

[21] Small ILECs Opening Comments Exhibit A.

[22] D.19-04-017, p. 18 and Conclusions of Law 3 and 4, p. 73.

residential rates are unreasonable. Therefore, the Commission should reject the Small ILECs' proposal.

B. The Small ILECs' Argument that Ratepayers do not Pay for the Small ILECs' Facilities is Misleading

The Small ILECs argue that "ratepayers do not 'pay for' facilities"[23] and as such, column [D] of the miscellaneous revenues reporting template should be updated to "percentage of the asset included in rate base" rather than the "Facility/Utility Property Paid by state subsidies, federal subsidies, subsidiary and/or affiliate in percentage."[24] This argument is incorrect.

The Small ILECs neglect to mention that the CHCF-A program is an important source of revenue to fund their revenue requirement, and that the CHCF-A program is funded by all ratepayers statewide rather than solely from the Small ILECs' customers. As stated in Cal Advocates' previous testimony, California and federal "[s]ubsidies are a large portion of the Small ILECs annual revenue streams. In 2018, 71% (46% State and 25% federal subsidies) of the Small ILECs' funds were derived from subsidies."[25] That same year the end-user revenue made up 21% of the Small ILECs' revenues.[26]

To justify their argument that the ratepayers statewide do not pay for the facilities, the Small ILECs rely on two incomparable or nonrelevant cases and incorrectly conclude that P.U. Code § 275.6(b)(5) confirms "… that revenue requirement does not include ratepayer contributions to investment capital; it only provides 'return on [] rate base.'"[27] However, Commission approved repair and maintenance expenses and depreciation expenses of facilities are included in operating expenses that the Small ILECs recover through CHCF-A subsidies;[28] in addition to a return on rate base. The Small ILECs fail to acknowledge that they rely on

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[23] Small ILEC Opening Comments at p. 13.

[24] Small ILEC Opening Comments at p. 13.

[25] Cal Advocates witness Mr. James Ahlstedt's testimony on Broadband Revenue Imputation, Affordability of Broadband, Local Rates, and Federal Universal Service Revenues, pp. 4-5 and 4-6.

[26] Cal Advocates witness Mr. James Ahlstedt's testimony on Broadband Revenue Imputation, Affordability of Broadband, Local Rates, and Federal Universal Service Revenues, p. 4-6.

[27] Small ILEC Opening Comments, footnotes 51, 52, and 53 at p. 13.

[28] Depreciation expense is an annual portion of the total value of the asset that the company allocates throughout the asset's useful life.

significant state subsidies to earn their rate of return from year to year. Therefore, the Commission should disregard the Small ILECs' argument that ratepayers do not pay for the Small ILECs' facilities. The Commission should update column [D] of the reporting template to include the following underlined text: "Facility/Utility Property *subsidized* by state subsidies, federal subsidies, subsidiary and/or affiliate in percentage *and amounts*".

III. CONCLUSION

The Commission should not include every surcharge and fee in the all-inclusive rate calculation because it would invalidate the Commission's pre-existing $30-$37 all-inclusive range of reasonableness. Instead, the Commission should adopt a methodology that is consistent with the all-inclusive rate methodology used when D.14-12-084 was adopted and results in residential rates meeting the standards set forth in P.U. Code §275.6 (c)(3). Additionally, the Commission should disregard the Small ILECs' argument that the ratepayers do not pay for the Small ILECs' facilities.

Respectfully submitted,

/s/ CANDACE CHOE

Candace Choe
Attorney for

Attorney for
Public Advocates Office
California Public Utilities Commission
505 Van Ness Street
San Francisco, CA 94102
Telephone: (415) 703-5651
E-Mail: Candace.Choe@cpuc.ca.gov

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