

**AT&T CALIFORNIA'S PROPOSAL FOR A SURCHARGE AND BALANCING  
ACCOUNT TO RECOVER COSTS INCURRED IN THE CITY OF SAN  
DIEGO'S UNDERGROUND UTILITY PROGRAM**

CPUC Application no.05-03-005

AT&T California proposes to implement a surcharge to be assessed on retail and wholesale end users located within the city of San Diego for purposes of recovering all costs incurred in the San Diego Underground Utility Program ("San Diego Project"). This comprehensive plan comprises AT&T California's initial proposal and is presented for discussion purposes only. It sets forth an itemized description of how the surcharge will be calculated, applied to customer bills, collected, and monitored by the Commission.

**A. How costs will be tracked and calculated by AT&T California**

AT&T California employees and contract workers shall comply with the following operating practice to ensure that San Diego Project expenditures are correctly recorded:

- A Modified Code ("MOD code") has been assigned to distinguish all surcharge projects associated with the San Diego Project. This MOD code shall be used to track all time and expenditures of the Project.
- San Diego identifies a surcharge project (i.e., the boundary for undergrounding a particular neighborhood or block of neighborhoods) and notifies AT&T California.
- AT&T California's Construction and Engineering ("C&E") confirms notice, assigns a project number, and develops a work order.
- C&E issues the work order.
- C&E performs the unique design work for the particular neighborhood or block of neighborhoods at issue in this surcharge project.
- C&E orders all supplies and equipment necessary to complete the undergrounding of its aerial wires for this surcharge project.
- C&E assigns personnel and or contract workers to perform the work.
- C&E completes the work and closes the work order.

## **1. Labor costs**

The labor involved in the San Diego Project includes (a) engineers who will design the undergrounding plan for each surcharge project initiated by San Diego, (b) other personnel and contract workers who will be doing the physical undergrounding of aerial wires, and (c) clerical support.

AT&T California personnel and/or contract workers shall complete timesheets on a daily basis, as is the current process, to track all activities performed in relation to each surcharge project. The timesheets will include an itemized description of each activity by Field Reporting Code (“FRC”), time spent performing the activity, and project number.

The MOD code allows AT&T California to differentiate activities performed for the San Diego Project from other projects. Any activities performed for assignments unrelated to the San Diego Project, such as Rule 32 undergrounding work, shall be recorded with a different project number and MOD code.

AT&T California will calculate the total number of hours spent exclusively on the San Diego Project on a monthly basis and apply a fully loaded rate for AT&T California personnel in accordance with D.04-09-063.<sup>1</sup> The fully loaded labor rates for personnel in the San Diego area are updated and submitted to the Commission annually. The most recent update of fully loaded rates was submitted on December 15, 2005.

For contract workers, AT&T California will approve contract-work invoices for payment and record payments against the project number and MOD code. Clerical support costs shall be recorded and submitted for reimbursement against the surcharge recovery following the same procedure.

## **2. Cost of Materials**

The material costs to be expended in the San Diego Project include copper and fiber cables, electronics, and associated items of plant. As invoices for materials are received, AT&T California will approve individual invoices for payment and record payments against the project number and MOD code.

## **3. Administrative Costs**

Administrative costs, such as non-recurring development IT support, will also be incurred in the San Diego Project. These costs will be recorded and submitted for reimbursement in accordance with the process set forth above. AT&T California shall identify Project related costs through the project number and MOD code and payment shall be applied against the surcharge recovery.

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<sup>1</sup> *Re UNE Reexamination for Pacific Bell*, Decision 04-09-063, *Opinion Establishing Revised Unbundled Network Element Rates for Pacific Bell Telephone Company dba SBC California*, mimeo, pp. 215, 289 (Conclusion of Law 121) (Sep. 23, 2004).

#### **4. Internal Audits & Reviews**

In accordance with AT&T California's current practice, the following audits and/or reviews are conducted to ensure accuracy of time recorded, billings and documentation:

- staff performs routine audits on randomly selected projects;
- finance group reviews reports to ensure accurate accounting of expenditures;
- C&E Area Manager reviews and approves time charges.

#### **B. How will the Surcharge be Set, Applied, Collected and Monitored?**

##### **1. To whom will the Surcharge be applied?**

AT&T California shall apply a fixed surcharge rate on all wholesale, resale, and retail lines issued to customers who subscribe to the following classes of service within the city of San Diego:

1. For Retail<sup>2</sup> and Resale Customers: 1FR, 1MR, 1MB, CENTREX, ISDN Pipes and PBX trunks.<sup>3</sup>
2. For Wholesale Customers: 2 Wire Voice Grade UNE loops (DS0s)

The surcharge will be labeled "City of San Diego Surcharge for Underground Conversion Costs" and found as a specific line item charge in the Taxes and Surcharges section of each applicable bill.

##### **2. Amount of Surcharge and Subsequent Adjustments**

All wholesale and resale customers who subscribe to a class of service, described in section B.1 above, shall pay an initial monthly surcharge of \$0.84 per customer line. This surcharge amount is based on estimated costs of \$6.05 million in year 1 of the San Diego Project and an estimated volume of 600,000 existing access lines in San Diego.<sup>4</sup>

AT&T California's estimated expenditure of \$6.05 million in year 1 is based on a total project estimate of \$125 million over 17 years. The \$125 million estimate is 23% of San Diego Gas & Electric's estimated expenditures of \$543 million, approved in Resolution E-3788. 23% is the historical relationship between AT&T California and SDG&E costs for this type of undergrounding construction. [See Attachment 1 for updated estimate of surcharge calculation.]

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<sup>2</sup> Retail customers include residential and business lines. The classes of services identified above include products such as: Business ISDN, Business Lines, Business Trunks, California 900, Direct Connection, FEX Lines, FPS Lines, Home ISDN, PRI, PSP/COPT, Residence (Flat, Measured, ADL, and Lifeline), and SDS 56.

<sup>3</sup> PBX Trunks will constitute one line for purposes of applying this surcharge.

<sup>4</sup> The volume of access lines in service in San Diego is based on current estimates. This estimate is subject to change and may be adjusted prior to Commission approval of application as data is updated.

The balancing account, described in Section C below, will provide AT&T California an opportunity to monitor the rate of recovery and adjust the surcharge accordingly (see Section C, below) to ensure recovery of costs associated with the Project.

AT&T California shall file an advice letter to adjust the surcharge every three years. The amount shall be adjusted up or down taking into account past balances and projected revenue and cost requirements for the Project.

AT&T California will annually adjust the surcharge up or down at any time during the life of the Project should the balancing account reflect a 20%, or more, surplus or deficit of cost recovery. In such an instance, AT&T shall file an advice letter making a surcharge adjustment.

**C. How will the Commission monitor Costs and Surcharge?**

AT&T California will establish a “balancing account” on its books of account to record all costs actually incurred in the Project, including labor, materials, and administrative costs, and all surcharge amounts collected. The account will be maintained on a monthly basis and will be interest-bearing.

AT&T California will provide the Telecommunications Division a report of the balancing account on an annual basis. This report shall include supporting workpapers reflecting the specific cost activities for the Project broken down by project number and revenue recovery.

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