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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of Kerman Telephone Co. (U1012C) d/b/a Sebastian, to Review Intrastate Rates and Charges and Rate of Return for Telephone Service Furnished within the State of California, and to Modify Selected Rates.

Application 11-12-011
(Filed December 28, 2011)

**ASSIGNED COMMISSIONER'S AND
ADMINISTRATIVE LAW JUDGE'S SCOPING MEMO AND RULING**

Pursuant to Rule 7.3(a) of the Commission's Rules of Practice and Procedure (Rules), this Scoping Memo determines the scope, schedule, and other procedural matters concerning the above-captioned proceeding.

Background

In December 2011, Kerman Telephone Company d/b/a Sebastian (Kerman) filed this general rate case (GRC) application requesting review of its revenue requirement and an increase in net intrastate revenues of \$2.9 million. This proposed increase in revenue requirement equates to a proposed California High Cost Fund-A (CHCF-A) draw by Kerman for test year 2013 of \$6.49 million. The application does not request a change to Kerman's basic residential local exchange rate of \$20.25, but does request other selected rate changes such as charges for Extended Area Service, premise visits, inside wire, intra-building network cable, and returned checks.

The Commission's Division of Ratepayer Advocates (DRA) protested the application on January 26, 2012, noting that the Commission is currently examining the CHCF-A in Rulemaking (R.) 11-11-007. DRA's protest requests a stay of Kerman's GRC application while the CHCF-A Rulemaking is pending. Further, DRA proposed that the Commission freeze Kerman's revenue requirement at Kerman's current CHCF-A draw pursuant to the "waterfall provision" of the CHCF-A program until the Commission concludes R.11-11-007.

A prehearing conference (PHC) was held on March 20, 2012. DRA's stay request was discussed and the assigned Administrative Law Judge (ALJ) ruled that to the extent DRA's protest was a motion for stay of the proceeding, it was denied. However, the ALJ noted that the substantive proposal to freeze Kerman's revenue requirement at the current CHCF-A draw would be considered within the scope of the case. Moreover, the ALJ suggested parties discuss this proposal through settlement discussion, or use a Commission-appointed mediator. The parties agreed to pursue settlement and mediation and agreed to a second PHC in May to set the schedule for the case if settlement was not reached.

A second PHC was held on May 30, 2012 where parties provided further input on a suggested scope and schedule for the proceeding.

Scope and Issues

In this proceeding, the Commission will first address the threshold issue of whether to freeze Kerman's revenue requirement and CHCF-A draw at current levels until the Commission concludes or reaches a decision on draws from the CHCF-A in R.11-11-007. A related threshold issue within the scope of this case is when would Kerman make a future GRC filing if its CHCF-A draw is frozen at this time.

Once a Proposed Decision is issued and voted on regarding the threshold issues noted above, and if the Commission votes against a freeze and determines that Kerman's application for a \$2.9 million revenue requirement increase should be considered, the scope of the proceeding will involve the following:

- Determine the revenue requirement for Kerman using a 2013 test year;
- Review Kerman's rates and charges and sources of supplemental intrastate funding through the CHCF-A;
- Consider the impacts of the Federal Communications Commission's Connect America Fund Order and policies regarding federal funding mechanisms on Kerman's rate design; and
- Whether the following proposals by Kerman in the application are reasonable:
 - \$5.8 million in network upgrades and use of CHCF-A fund for these investments;
 - Return on Equity of 14.81%;
 - Return on Rate Base of 12.69%;
 - Proposed changes to local service rates and charges;
 - CHCF-A support of \$6.49 million;
 - \$2.9 million in plant additions; and
 - Proposed depreciation expense for test year 2013.

Schedule

The schedule for briefs and/or comments on the threshold issues noted above shall be:

Event	Date
Opening Comments Filed	June 25 ¹
Reply Comments Filed	July 3
Proposed Decision Issues	July or August

If parties stipulate to a shortened comment period, a proposed decision could be considered for a vote by the Commission more quickly. Otherwise, the decision could require 30 days for public review and comment prior to a vote.

If the Commission does not agree to freeze Kerman's revenue requirement and CHCF-A draw at current levels until the conclusion of R.11-11-007, the following schedule for resolution of this proceeding will apply:

Event	Date
DRA Testimony Served	September 28
Kerman Reply Testimony Served	October 15
Evidentiary Hearings Commission Courtroom State Office Building 505 Van Ness Avenue San Francisco, CA 94102	October 30, 31, and November 1, at 10:00 a.m.
Opening Briefs Filed	November 15
Reply Briefs Filed	December 5
Proposed Decision Issues	No later than 90 days from submittal

¹ All dates are 2012 unless otherwise noted.

It is anticipated the case will be submitted with the filing of reply briefs. The above schedule anticipates a final decision the first quarter of 2013. In any event, we anticipate this application should conclude no later than 18 months from the date of this scoping ruling pursuant to Pub. Util. Code § 1701.5.

Category of Proceeding

In Resolution ALJ 176-3287, dated January 12, 2012, the Commission preliminarily determined that the category of this proceeding is ratesetting as defined in Rule 1.3(e) and that hearings are necessary. The parties do not oppose the Commission's preliminary categorization of these proceedings and this ruling confirms the categorization and need for hearings. Pursuant to Rule 7.6, this ruling may be appealed only as to category.

Presiding Officer

Pursuant to Rule 13.2(b), ALJ Dorothy Duda is designated as the presiding officer in this application.

Ex Parte Rules

Parties shall comply with the rules concerning ex parte communications for ratesetting cases set forth in Article 8 of the Commission's Rules of Practice and Procedure and Pub. Util. Code § 1701.3(c).

Filing, Service, and Service List

Parties are encouraged to file and serve electronically, whenever possible. This proceeding will follow the electronic service protocols adopted by the Commission in Rule 1.10 for all documents, whether formally filed or just served. This rule allows electronic service of documents, in a searchable format, unless the party or state service list member did not provide an e-mail address. If no e-mail address was provided, service should be made by U.S. mail. Concurrent e-mail service to ALL persons on the service list for whom an e-mail address is

available, including those listed under “Information Only,” is required. Parties are expected to provide paper copies of served documents upon request.

Pursuant to Rule 1.10(e), serving parties shall provide the assigned ALJ with a paper copy, and an electronic copy of all documents. More information regarding electronic filing is available at <http://www.cpuc.ca.gov/puc/efiling>.

Parties must use the most current service list available on the Commission’s website when filing and/or serving documents in this proceeding.

IT IS RULED that:

1. The scope and schedule of this proceeding is as set forth in this ruling.
2. This ruling confirms the categorization of this proceeding as ratesetting and finds that hearings may be necessary. This ruling, only as to category, is appealable under the procedures in Rule 7.6.
3. Administrative Law Judge Dorothy Duda is the presiding officer in this proceeding.
4. Parties shall comply with the ex parte rules for ratesetting cases set forth in Article 8 of the Commission’s Rules of Practice and Procedure and Public Utilities Code Section 1701.3(c).

Dated June 15, 2012, at San Francisco, California.

/s/ MICHEL PETER FLORIO
Michel Peter Florio
Assigned Commissioner

/s/ DOROTHY J. DUDA
Dorothy J. Duda
Administrative Law Judge