APPENDIX A

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the matter of the Application of Foresthill Telephone Company (U-1009-C), dba Sebastian, to Review Intrastate Rates and Charges and Rate of Return For Telephone Services Furnished Within the State of California, and Increase Selected Rates.	Application No. 10-12-012 (Filed December 22, 2010)

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into as of June 28, 2011, by and among Applicant Foresthill Telephone Company, dba Sebastian ("Foresthill") and the Division of Ratepayer Advocates of the California Public Utilities Commission("DRA") in accordance with Article 12 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure. Foresthill and DRA are sometimes referred herein collectively as the "Parties."

RECITALS

WHEREAS, on December 22, 2010, Foresthill filed a general rate case application ("Application") seeking an increase of intrastate revenues and selected rates; and

WHEREAS, on December 23, 2010, the California Public Utilities Commission ("CPUC" or "Commission") published in its Daily Calendar public notice of the filing of the Application, and

WHEREAS, on January 21, 2011, DRA filed its Protest to the Application identifying certain issues with which it might oppose Foresthill's request for relief stated in the Application, and proposing its own schedule for the Commission's resolution of the Application; and

WHEREAS, Foresthill and DRA have submitted extensive testimony and exhibits concerning the issues identified in the Commission's Scoping Ruling dated March 2, 2011, and have reviewed the submissions of each other; and

WHEREAS, Foresthill and DRA have arrived at an agreement resolving all issues, which is reasonable in light of the whole record, is consistent with the law of the State of California, and is in the public interest.

AGREEMENT

NOW, THEREFORE, based upon the mutual agreement reflected in this Settlement Agreement, Foresthill and DRA agree to resolution of Foresthill's general rate case application as follows:

1. Total company and separated stipulated results of operations for test year 2012 at present rates are shown on Attachment A to this Settlement Agreement and should be reflected in this Commission's final decision herein. This table reflects Foresthill's existing CHCF-A revenues, not the settlement amount.

2. Total company results of operation for Foresthill in test year 2012 should be adopted by the Commission as reflected in Attachment B to this Settlement Agreement.

3. Separated, intrastate results of operation for Foresthill in test year 2012 should be adopted by the Commission as reflected in Attachment C to this Settlement Agreement. These results are subject to true-up adjustment in the event that the federal universal service support received by Foresthill for the test year differs from the agreed upon amount reflected in the agreed upon results of operations reflected herein.

4. The Commission should continue the existing rates for Foresthill.

5. While not reflected directly in the attached exhibits, the parties agree to adopt Foresthill's depreciation study submitted in the testimony that was served with its Application as its depreciation rates for future intrastate regulatory purposes, except with respect to vehicles, which rates will remain the same.

6. The parties agree that Foresthill's test year 2012 rate base and plant additions, net of plant retirements, be as stated in the spreadsheet that is Attachment B hereto.

7. While not reflected in the attached exhibits, the parties agree to adopt a capital structure for Foresthill consisting of 35% debt and 65% equity, a 5% cost of debt, and a return on equity of 12.69%. These factors result in a rate of return for Foresthill of 10%.

8. The provisions of this Settlement Agreement are not severable and shall only become effective after the Commission has entered an order approving this Settlement Agreement without modification. In the event this Settlement Agreement is not accepted in its entirety by the Commission, it shall be deemed to be withdrawn, without prejudice to any claims, positions or contentions that may have been made or are made in this proceeding by any party and shall not be admissible in evidence or in any way described in any proceedings hereinafter. Foresthill and DRA agree to admit into the of this proceeding testimony already served without waiving the right to object to such testimony or to cross-examine witnesses sponsoring such testimony in the event the Commission rejects or modifies the terms of this Settlement Agreement. The provisions of this Settlement Agreement shall not be construed as or deemed to be a precedent by any party or the Commission with respect to any issue, principle, or interpretation or application of law and regulations, for any purpose or in connection with any proceeding before a court of law or any state or federal government regulatory body.

9. The Commission shall have exclusive jurisdiction over any issues related to this Settlement Agreement and no other court, regulatory agency or other governing body will have jurisdiction over any issue related to the interpretation of this Settlement Agreement, or the rights of the Parties in this Settlement Agreement, with the exception of any court that may now or in the future, by statute or otherwise, have jurisdiction to review Commission decisions.

10. This Settlement Agreement was jointly prepared by the Parties and any uncertainty or ambiguity existing in the document will not be interpreted against any party on the basis that such party drafted or prepared the Settlement Agreement.

11. Each of the undersigned Parties agrees to abide by the terms of this Settlement Agreement.

12. The Settlement Agreement may be executed in counterparts.

13. This Settlement Agreement constitutes and represents the entire agreement between the Parties and supersedes all prior and contemporaneous agreements, negotiations, representations, warranties and understandings of the Parties with respect to the subject matter set forth herein.

14. This Settlement Agreement resolves all outstanding issues in this proceeding.

15. This Settlement Agreement may be amended or changed only by a written amendment signed by both Parties and approved by the Commission.

16. The Parties will file a Joint Motion seeking Commission approval of the Settlement Agreement in its entirety and without change.

17. By signing below, each signatory represents and warrants that he/she is authorized to sign this Settlement Agreement on such Party's behalf and thereby binds such Party to the terms of this Settlement Agreement.

DIVISION OF RATEPAYER ADVOCATES

Dated: 6/28/11 By:

Joseph P. Como
Director of the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2430
Fax: (415) 703-2057

Dated:_____ By:

Rhonda Armstrong
Vice President of Commercial Operations

Foresthill Telephone Company, dba Sebastian

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17. By signing below, each signatory represents and warrants that he/she is authorized to sign this Settlement Agreement on such Party's behalf and thereby binds such Party to the terms of this Settlement Agreement.

DIVISION OF RATEPAYER ADVOCATES

Dated:_____ By:

Joseph P. Como
Director of the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2430
Fax: (415) 703-2057

Dated: 6/29/2011 By: Rhonda Armstrong

Rhonda Armstrong
Vice President of Commercial Operations

Foresthill Telephone Company, dba Sebastian

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Attachment A
Comparison Exhibit
Foresthill Telephone Company Rate Case
A. 10-12-012
Test Year 2012
Comparison of Results of Operation at Current Rates

	Foresthill Proposed		DRA Proposed		FTC Exceeds DRA		Settled Amounts	
	Total Comp.	Intrastate	Total Comp.	Intrastate	Total Comp.	Intrastate	Total Comp.	Intrastate
OPERATING REVENUES:								
1 Local Network Services	823,304	823,304	823,063	823,063	0.03%	0.03%	815,722	815,722
2 Local Services - CHCF-A	1,790,534	1,790,534	1,790,534	1,790,534	0.00%	0.00%	1,790,534	1,790,534
3 Interstate USF	1,722,265	1,722,265	1,722,265	1,722,265	0.00%	0.00%	1,722,265	1,722,265
4 Long Distance Network								
Network Access Svces:								
5 Intrastate	301,030	301,030	327,789	327,789	-8.16%	-8.16%	301,030	301,030
6 Interstate	3,136,982	-	3,136,982	-			3,006,981	-
7 Miscellaneous	143,947	135,798	204,820	193,225	-29.72%	-29.72%	143,363	135,798
8 LESS: Uncollectible Rev.	(14,163)	(14,163)	(14,606)	(14,606)	-3.03%	-3.03%	(14,163)	(14,163)
9 Total Oper. Revenues	7,903,899	4,758,768	7,990,847	4,842,270	-1.09%	-1.72%	7,765,732	4,751,186
OPERATING EXPENSES:								
10 Plant Specific	1,581,345	1,027,705	1,242,935	807,775	27.23%	27.23%	1,387,204	901,534
11 Plant NSpecific (less depr.)	511,766	325,847	391,917	249,538	30.58%	30.58%	434,455	276,622
12 Depreciation & Amortization	1,909,351	1,235,849	1,330,987	861,496	43.45%	43.45%	1,767,567	1,144,078
13 Customer Operations	889,261	624,822	687,915	483,350	29.27%	29.27%	667,630	469,097
14 Corporate Operations	2,091,345	1,392,081	1,459,366	971,411	43.31%	43.31%	1,733,146	1,153,650
15 Total Oper. Expenses	6,983,068	4,606,304	5,113,120	3,373,570	36.57%	36.54%	5,990,002	3,944,981
OPERATING TAXES:								
16 Operating Fed Inc. Taxes	63,228	(102,243)	702,967	328,093	-91.01%	-131.16%	328,984	100,915
17 Operating State Income Taxes	18,033	(29,161)	200,495	93,576	-91.01%	-131.16%	93,830	28,782
18 Taxes Other Than operating	242,281	162,286	226,863	151,959	6.80%	6.80%	246,300	164,978
19 Total Operating Taxes	323,542	30,882	1,130,325	573,628	-71.38%	-94.62%	669,114	294,675
20 Net Operating Revenue	597,289	121,582	1,747,402	895,073	-65.82%	-86.42%	1,106,616	511,530
AVERAGE RATE BASE								
21 Telephone Plant-in-Service	26,066,707	17,460,184	23,500,704	15,741,477	10.92%	10.92%	25,313,005	16,955,334
22 Tel. Plt Held for Future Use	-	-	-	-			-	-
23 Tel. Plt Under Construction	900,000	602,845	789,600	528,898	13.98%	13.98%	501,600	335,986
24 Mat & Supplies	80,480	55,820	76,000	52,713	5.89%	5.89%	76,000	52,713
25 Working Cash	706,600	422,700	526,725	315,096	34.15%	34.15%	589,300	352,400
26 Less: Deprec. Res.	(9,553,613)	(6,341,497)	(9,035,095)	(5,997,315)	5.74%	5.74%	(9,327,554)	(6,191,444)
27 Def. Taxes	(1,779,979)	(1,178,035)	(1,552,280)	(1,027,338)	14.67%	14.67%	(1,552,280)	(1,027,338)
28 Customer Deposit	-	-		-				-
29 Total Rate Base	16,420,195	11,022,017	14,305,654	9,613,531	14.78%	14.65%	15,600,071	10,477,651
30 Rate of Return	3.64%	1.10%	12.21%	9.31%			7.09%	4.88%

Attachment B

Comparison Exhibit
Foresthill Telephone Company Rate Case
A. 10-12-012
Test Year 2012
Stipulated Settlement Amounts - Total Company

	Total Company Foresthill Proposed	Total Company DRA Proposed	FTC Proposed Exceeds DRA Proposed	Total Company DRA/Foresthill Stipulated Amounts
OPERATING REVENUES:				
1 Local Network Services	831,444	823,063	1.02%	815,722
2 Local Services - CHCF-A	3,906,699	1,261,561	209.67%	2,682,145
3 Interstate USF	1,722,265	1,722,265	0.00%	1,722,265
4 Long Distance Network				
Network Access Svces:				
5 Intrastate	301,030	327,789	-8.16%	301,030
6 Interstate	3,136,982	3,136,982	0.00%	3,006,982
7 Miscellaneous	143,947	204,820	-29.72%	143,363
8 LESS: Uncollectible Rev.	(14,163)	(14,606)	-3.03%	(14,163)
9 Total Oper. Revenues	10,028,204	7,461,874	34.39%	8,657,344
OPERATING EXPENSES:				
10 Plant Specific	1,581,345	1,242,935	27.23%	1,387,204
11 Plant Non-Specific (less depr.)	511,766	391,917	30.58%	434,455
12 Depreciation & Amortization	1,909,351	1,330,987	43.45%	1,767,567
13 Customer Operations	889,261	687,915	29.27%	667,630
14 Corporate Operations	2,091,345	1,459,366	43.31%	1,733,146
15 Total Oper. Expenses	6,983,068	5,113,120	36.57%	5,990,002
OPERATING TAXES:				
16 Operating Fed Inc. Taxes	721,643	539,015	33.88%	605,334
17 Operating State Income Taxes	205,822	153,734	33.88%	172,651
18 Taxes Other Than operating	242,281	226,863	6.80%	246,300
19 Total Operating Taxes	1,169,746	919,612	27.20%	1,024,285
20 Net Operating Income	1,875,390	1,429,142	31.22%	1,643,057
AVERAGE RATE BASE				
21 Telephone Plant-in-Service	26,066,707	23,500,704	10.92%	25,313,005
22 Tel. Plt Held for Future Use	-	-		-
23 Tel. Plt Under Construction	900,000	789,600	13.98%	501,600
24 Mat & Supplies	80,480	76,000	5.89%	76,000
25 Working Cash	706,600	526,725	34.15%	589,300
26 Less: Deprec. Res.	(9,553,613)	(9,035,095)	5.74%	(9,327,554)
27 Def. Taxes	(1,779,979)	(1,552,280)	14.67%	(1,552,280)
28 Customer Deposit	-	-		-
29 Total Rate Base	16,420,195	14,305,654	14.78%	15,600,071
30 Rate of Return	11.42%	9.99%		10.53%

Attachment C

Comparison Exhibit
Foresthill Telephone Company Rate Case
A. 10-12-012
Test Year 2012
Stipulated Settlement Amounts - Intrastate Results of Operation

	Intrastate Foresthill Proposed	Intrastate DRA Proposed	FTC Proposed Exceeds DRA Proposed	Intrastate DRA/Foresthill Stipulated Amounts
OPERATING REVENUES:				
1 Local Network Services	831,444	823,063	1.02%	815,722
2 Local Services - CHCF-A	3,906,699	1,261,561	209.67%	2,682,145
3 Interstate USF	1,722,265	1,722,265	0.00%	1,722,265
4 Long Distance Network				
Network Access Svces:				
5 Intrastate	301,030	327,789	-8.16%	301,030
6 Interstate	-	-		-
7 Miscellaneous	135,798	193,225	-29.72%	135,298
8 LESS: Uncollectible Rev.	(14,163)	(14,606)	-3.03%	(14,163)
9 Total Oper. Revenues	6,883,073	4,313,297	59.58%	5,642,297
OPERATING EXPENSES:				
10 Plant Specific	1,027,705	807,775	27.23%	901,534
11 Plant Non-Specific (less depr.)	325,847	249,538	30.58%	276,622
12 Depreciation & Amortization	1,235,849	861,496	43.45%	1,144,078
13 Customer Operations	624,822	483,350	29.27%	469,097
14 Corporate Operations	1,392,081	971,411	43.31%	1,153,650
15 Total Oper. Expenses	4,606,304	3,373,570	36.54%	3,944,981
OPERATING TAXES:				
16 Operating Fed Inc. Taxes	556,172	164,141	238.84%	377,110
17 Operating State Income Taxes	158,628	46,815	238.84%	107,559
18 Taxes Other Than operating	162,286	151,959	6.80%	164,978
19 Total Operating Taxes	877,086	362,915	141.68%	649,647
	-			
20 Net Operating Income	1,399,683	576,812	142.66%	1,047,669
	-			
AVERAGE RATE BASE	-			
21 Telephone Plant-in-Service	17,460,184	15,741,477	10.92%	16,955,334
22 Tel. Plt Held for Future Use	-	-		-
23 Tel. Plt Under Construction	602,845	528,898	13.98%	335,986
24 Mat & Supplies	55,820	52,713	5.89%	52,713
25 Working Cash	422,700	315,096	34.15%	352,400
26 Less: Deprec. Res.	(6,341,497)	(5,997,315)	5.74%	(6,191,444)
27 Def. Taxes	(1,178,035)	(1,027,338)	14.67%	(1,027,338)
28 Customer Deposit	-	-		-
29 Total Rate Base	11,022,017	9,613,531	14.65%	10,477,651
30 Rate of Return	12.70%	6.00%		10.00%

(END OF APPENDIX A)