

ATTACHMENT 1

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of KERMAN TELEPHONE CO.
(U 1012 C) pursuant to Public Utilities Code
Sections 851 through 854 for authority to sell a
warehouse and related land.

A. 04-06-022

SETTLEMENT AGREEMENT

Sean P. Beatty
COOPER, WHITE & COOPER LLP
201 California Street, 17th Floor
San Francisco, CA 94111
Phone: 415-433-1900
Fax: 415-433-5530
sbeatty@cwclaw.com
Attorneys for Kerman Telephone Co.

Natalie D. Wales
OFFICE OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: 415-355-5490
Fax: 415-703-2262
ndw@cpuc.ca.gov

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SETTLEMENT AGREEMENT

This Settlement Agreement is entered into as of November 12, 2004, by and among Kerman Telephone Co. ("Kerman") and the Office of Ratepayer Advocates ("ORA").

RECITALS

WHEREAS, on June 18, 2004, Kerman filed an application with the Commission ("Application"); and

WHEREAS, the Application seeks Commission authority to sell a warehouse and related land located in the City of Kerman to Kerman's parent company, Sebastian Enterprises Inc., for a price of \$120,000 ("Transaction"); and

WHEREAS, on July 22, 2004, ORA filed a protest of the Application; and

WHEREAS, the Commission held a prehearing conference on November 4, 2004; and

WHEREAS, Kerman and ORA have arrived at an agreement which is reasonable in light of the facts, 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, Kerman and ORA agree that the Commission should grant the Application, thereby

1 authorizing the Transaction, subject to the following:

2 1. The sale price for the land and building identified in the Application is \$120,000. The
3 net book values of the land and building are \$46,382 and \$2,323, respectively. The gain on sale
4 associated with the Transaction is \$71,295. The disposition of the gain on sale shall be determined
5 based on the outcome of the gain on sale rulemaking (R.04-09-003) currently pending before the
6 Commission. The gain shall be tracked in a memorandum account accruing interest based on a three-
7 month commercial paper rate. Kerman shall file an advice letter within 60 days after the Commission
8 determines the appropriate disposition of the gain in R.04-09-003. The advice letter shall reflect the
9 ratemaking treatment of the gain from this Transaction and the rate impact to the ratepayers of
10 Kerman, and shall include a copy of this Agreement.

11 2. For a period of five years from the date of the Transaction, should the subject parcel
12 be sold again ("Subsequent Transaction"), any gain on sale in excess of the sale price in this
13 Transaction shall be allocated to Kerman's ratepayers in the same manner that the gain on sale of the
14 subject parcel was allocated to Kerman's ratepayers for this Transaction. Within 60 days of the
15 Subsequent Transaction, Kerman shall file an advice letter to inform the Commission of the rate
16 impact to Kerman's ratepayers from the Subsequent Transaction. The advice letter shall include
17 documentation of the terms and conditions of the Subsequent Transaction and a copy of this
18 Settlement Agreement.

19 3. For a period of five years from the date of the Transaction, should Kerman purchase
20 additional land that is (1) similar to the subject parcel, (2) of acreage similar to or less than the
21 subject parcel, and (3) within a five mile radius of the subject parcel (hereinafter referred to as
22 "Additional Land") to provide utility services, Kerman shall only be allowed to earn its authorized
23 rate of return on the Additional Land at Kerman's book value of the subject parcel. In addition, for a
24 period of five years from the date of the Transaction, the cost of any lease or other use of Additional
25 Land to provide utility services shall not exceed the cost to ratepayers as if Kerman had not sold the
26 subject parcel. It is the parties' intention that for a reasonable period of time the disposition of the
27 subject parcel should not result in increased costs to ratepayers. A copy of this Settlement
28 Agreement, and documentation of the terms and conditions of any activities subject to this paragraph,

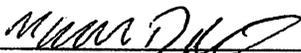
1 shall be submitted in the rate case filing of Kerman that immediately follows those activities.

2 4. The provisions of this Settlement Agreement are not severable and shall only become
 3 effective after the Commission has entered an order approving this Settlement Agreement without
 4 modification. In the event this Settlement Agreement is not accepted in its entirety by the
 5 Commission, it shall be deemed to be withdrawn, without prejudice to any claims, positions or
 6 contentions which may have been made or are made in this proceeding by any party and shall not be
 7 admissible in evidence or in any way described in any proceedings hereinafter. In the event the
 8 Commission rejects or modifies the terms of this Settlement Agreement, Kerman and ORA agree that
 9 the Commission should set a procedural schedule for the service of testimony and the holding of
 10 hearings. The provisions of this Settlement Agreement shall not be construed as or deemed to be a
 11 precedent by any party or the Commission with respect to any issue, principle, or interpretation or
 12 application of law and regulations, for any purpose or in connection with any proceeding before a
 13 court of law or any state or federal government regulatory body.

14 5. This Settlement Agreement entirely resolves the issues raised by the Application. A
 15 Commission decision adopting this Settlement Agreement shall also close this proceeding.
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17 OFFICE OF RATEPAYER ADVOCATES

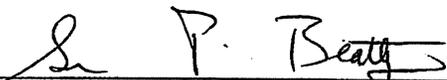
18 Dated: 11/19/04

19 By: 

20 Natalie D. Wales
21 Counsel to the Office of Ratepayer Advocates

22 KERMAN TELEPHONE CO.

23 Dated: 11/19/04

24 By: 

25 Sean P. Beatty
26 Counsel to Kerman Telephone Co.

27 (END OF ATTCHMENT 1)
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