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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of Application of Kerman Telephone Co. (U 1012 C) 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.

A.11-12-011
(Filed December 28, 2011)

**RESPONSE OF KERMAN TELEPHONE CO. (U 1012 C)
TO SECOND AMENDED SCOPING MEMO AND RULING OF ASSIGNED
COMMISSIONER AND ADMINISTRATIVE LAW JUDGE**

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November 3, 2014

1 **I. INTRODUCTION.**

2 Pursuant to the procedural schedule outlined in the Second Amended Scoping Memo and
3 Ruling of Assigned Commissioner and Administrative Law Judge ("Ruling"), issued on August
4 28, 2014, Kerman Telephone Co. d/b/a Sebastian (U 1012 C) ("Kerman") hereby responds to the
5 issues identified in the Ruling and updates its Application in this proceeding to reflect the new
6 schedule, scope, and timeframe for resolution of this case.¹ Kerman maintains that its original
7 Application was entirely appropriate, and Kerman continues to object to the unprecedented delays
8 and irregular procedures that have characterized what should have been a routine rate case.
9 Kerman's legal objections remain the subject of a pending writ petition before the Fifth District
10 Court of Appeal, and nothing in this filing should be interpreted as a deviation from – or waiver of
11 – Kerman's positions in that forum. Kerman has not been treated fairly by this Commission, and
12 that unfairness deepens with each additional day that this case remains unresolved.

13 Notwithstanding Kerman's standing objections and pending legal claims, Kerman has
14 "updated" its ratemaking proposals and the financials supporting those proposals based on the
15 directives in the Ruling. This filing presents a revised revenue requirement based on a 2016 test
16 year and calculates a revised rate design to fulfill that revenue requirement, including an updated
17 draw from the California High Cost Fund A ("CHCF-A"). Updated financials and ratemaking
18 calculations in support of Kerman's updated requests for rate relief are provided with this filing,
19 and further support is provided in pre-filed testimony served contemporaneously with this update.
20 That testimony includes an updated set of testimony, including supplementary testimony from
21 Michael Burke and Larry Thompson, revised testimony from David D. Clark and William S.
22 Barcus, and testimony from a new company witness, Eric Kehler.² Together with this filing, the

23

24 ¹ The Ruling outlines a procedural schedule that calls for an "update" to Kerman's Application on
25 November 1, 2014. This filing, along with contemporaneously-served testimony, constitutes that
26 "update." Since November 1, 2014 falls on a weekend, the submission date for this response is
27 November 3, 2014.

28 ² Two of Kerman's original witnesses have left the company, so Mr. Lofy's and Mr. Drake's
original testimony had to be updated through testimony from Mr. Clark and Mr. Kehler.

1 testimony outlines Kerman's updated proposal for relief and provides the support for that relief.
2 Except as updated through this filing and the associated testimony, Kerman's Application and its
3 original testimony stand as previously submitted.

4 In addition to updating its Application as directed in the Ruling, Kerman addresses each of
5 the issues identified in the Ruling as being part of the scope of this proceeding. To the extent that
6 it is appropriate and called for by current law, Kerman has modified its proposal and/or the
7 support for that proposal to account for the identified issues.

8

9 **II. IF KERMAN'S WRIT RELIEF IS GRANTED, THE SCOPE AND SCHEDULE**
10 **FOR THIS CASE WOULD HAVE TO CHANGE TO ACCOMMODATE THE**
11 **FINDINGS OF THE COURT OF APPEAL.**

11

12 The Ruling outlines a current scope for the proceeding, but that scope would have to be
13 adjusted if Kerman prevails in its request that the Court of Appeal annul the previous two
14 decisions issued in this proceeding. The first of those decisions, D.12-12-003 (the "Settlement
15 Decision"), rejected a settlement presented jointly by Kerman and the Office of Ratepayer
16 Advocates ("ORA," then the "Division of Ratepayer Advocates"), and Kerman has challenged the
17 standard under which the Commission evaluated that settlement. The second decision, D.13-10-
18 051 (the "Stay Decision"), imposed a stay on Kerman's rate case and denied Kerman's request for
19 interim rate relief to commence as of the month of the original 2013 test year. Kerman challenged
20 both decisions through a timely writ petition submitted on February 13, 2014 to the Fifth District
21 Court of Appeal. That petition remains pending as of the date of this filing.

22

23 Neither lifting the stay nor the issuance of the Ruling nor the submission of this response
24 to the Ruling obviate the need for the Court of Appeal to address Kerman's claims and redress
25 Kerman's ongoing injuries. If the Court of Appeal grants writ relief, the scope and schedule will
26 need to be revisited. If the Court finds that interim rate relief should have been awarded in
27 January 2013, or at any time during the stay or ongoing delay in this case, the Commission would
28 have to take immediate steps to modify the scope to award such relief. If the Court finds that the
settlement was rejected based on improper standards, the Commission would have to create an

1 immediate vehicle to view the settlement through a lawful lens. Further, if the Court finds that the
2 delays in this case were improper, the Commission may need to accelerate the timeframe for
3 resolution of this case and/or return to a consideration of Kerman's original ratemaking request
4 and promptly address it.

5 Any writ relief, in whole or in part, will generate a need to revisit the scope and schedule
6 for this proceeding. The Commission should be aware of that possibility, and be prepared to react
7 expeditiously if Kerman's views are vindicated. Nothing in this update or in the associated
8 testimony should be interpreted to obviate the need for relief from the Court of Appeal, and, if
9 appropriate, Kerman is prepared to move forward with this case based on its originally-submitted
10 Application and testimony.

11
12 **III. UPDATES TO APPLICATION AND ASSOCIATED SUPPORT.**

13 Based on the schedule and scope identified in the Ruling, Kerman hereby updates its
14 Application to rely upon a 2016 test year. The use of this test year is consistent with the
15 Commission's forward-looking ratemaking practices, and the Commission's practice of using a test
16 year that immediately follows the year in which the rate case will be adjudicated. Based on the
17 delays in this case, and unless a different outcome is ordered by the Court of Appeal, a 2016 test
18 year is appropriate.³

19 Kerman's updated revenue requirement for the updated test year is \$11,000,111, and, based
20 on revenue projections for 2016 at the rates proposed in Kerman's Application, Kerman would
21 require a CHCF-A draw of \$6,829,361 to meet its revenue requirement. Kerman's ratemaking
22 calculations are based on an authorized rate of return on intrastate rate base of 13.63%, as
23 explained in Mr. Burke's testimony. Kerman hereby renews its proposal to eliminate Extended
24 Area Service charges and its proposals to adjust rates Premises Visit Charges, Inside
25 Wire/Premises Work Charges, Intrabuilding Network Cable Charges, Visit Charges, and Returned

26
27 ³ Although this update uses a test year of 2016, the results of the rate case should be effective as
28 soon as reasonably possible.

1 Check Charges. Kerman has updated the amount of revenue expected to be derived from those
2 rate changes for test year 2016.

3 In addition to these updates in Kerman's overall ratemaking calculations, Kerman hereby
4 updates its Application in the following specific respects:

5 1. In addition to the statutes identified as authority in Kerman's original Application,
6 Kerman also relies upon the new ratemaking directives in Public Utilities Code Section 275.6.
7 This statute was revised during the 2012 Legislative session, and generally codifies the
8 Commission's existing rate-of-return practices for "small independent telephone corporations" like
9 Kerman, while clarifying that investments in broadband-capable facilities by the "small
10 independent telephone corporation" may be placed in regulated intrastate rate base.

11 2. Kerman hereby attaches updated financials in Exhibit A hereto, including balance
12 sheets and income statements as of September 2014.

13 3. Kerman also has identified the original cost of property and equipment and the
14 depreciation reserve applicable thereto as of September 2014 in the materials presented in Exhibit
15 A hereto.

16 4. A summary of Kerman's projected earnings for the updated test period of 2016 is
17 provided hereto as Exhibit B.

18 5. Kerman confirms that its capital stock is not listed on a "national securities
19 exchange" and that its capital stock is not registered with the Securities and Exchange
20 Commission. Since Kerman's most recent filing pursuant to General Order 104-A, there have
21 been no transactions of the type described in that General Order, nor have any such transactions
22 been proposed during that timeframe.

23 In addition to these updates to its Application, Kerman has updated its supporting
24 testimony in several respects. Mr. Barcus, Kerman's President, has prepared updated testimony
25 providing an overview of the company. Mr. Clark, Kerman's Regulatory Manager, has prepared
26 an update to his previously-submitted testimony to reflect Kerman's updated request for relief.
27 Mr. Clark's testimony addresses the development of a revenue requirement and an appropriate rate
28 design for the company based on a 2016 test year, and Mr. Clark also updates and supplements the

1 original testimony of Mr. Lofy addressing depreciation. Mr. Kehler, Kerman's Senior Project
2 Engineer, is providing updated testimony addressing Kerman's construction plans and explaining
3 the basis for the depreciable lives that Kerman has utilized in calculating the value of plant for the
4 test year. Mr. Burke, Kerman's rate of return expert, has prepared supplemental testimony
5 confirming his conclusions and updating his analysis in light of the passage of time since
6 Kerman's rate case was originally submitted. Mr. Thompson has prepared a brief supplement to
7 his previously-submitted testimony that confirms his original conclusions.

8 Except insofar as the Court of Appeal may direct the Commission to adjudicate this case as
9 originally presented, Mr. Barcus's updated testimony is intended to take the place of his original
10 testimony.⁴ Subject to the same qualification, the testimony offered by Mr. Clark is intended to
11 take the place of his original testimony. Mr. Clark's updated testimony also updates and takes the
12 place of Mr. Lofy's original testimony addressing depreciation. Unless the Court of Appeal directs
13 the Commission to adjudicate this case as originally presented, Mr. Kehler's testimony is intended
14 to replace the testimony of Mr. Drake that was submitted with Kerman's original Application. The
15 supplementary testimony provided by Mr. Burke and Mr. Thompson is not designed to replace
16 their previous testimony, and, except where their original testimony is explicitly clarified or
17 revised, the previous testimony offered by these witnesses stands as submitted.

18 Except as specifically stated herein, or as explained in the associated testimony provided
19 contemporaneously with this update, Kerman's Application stands as originally presented. Should
20 additional issues need to be addressed in this proceeding, Kerman reserves the right to address
21 them through rebuttal testimony, briefing, and/or some other appropriate procedural mechanism.
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24 ⁴ For the purpose of evaluating the settlement presented in this case under proper standards, for the
25 purpose of calculating interim rate relief as presented in Kerman's original rate case filing, or for
26 the purpose of resolving this case more expeditiously than called for in the Ruling, the Court of
27 Appeal could take action that would require the use of the original testimony. Kerman expressly
28 reserves the right to utilize its original testimony, without any updates or supplements, should the
Court of Appeal take actions that necessitate this course.

1 **IV. COMMENTS ON ISSUES IDENTIFIED IN RULING.**

2 In addition to requesting an update to Kerman's original Application, the Ruling identifies
3 eight specific issues that it states are within the scope of this proceeding. Kerman offers the
4 following comments on these issues in connection with this update to ensure that each of the
5 issues in the Ruling are addressed herein:

6 **1. Determination of the appropriate revenue requirement for Kerman:** Kerman's
7 original filing computed a revenue requirement of \$10,996,326 based on a 2013 test year. Due to
8 the passage of time and the schedule outlined in the Ruling, which would not resolve this case
9 until the middle of 2015 at the earliest, Kerman's update relies upon a test year of 2016, and
10 calculates a revenue requirement of \$11,000,111. Support for this revenue requirement is offered
11 in the Exhibits hereto and in the accompanying testimony from Kerman's various witnesses. As
12 noted above, should the Court of Appeal take action that would make the original 2013 test year
13 more appropriate, Kerman reserves the right to utilize that test year and the proposals and
14 testimony associated therewith.

15 **2. Determination of the appropriate rate of return for Kerman:** To reflect the
16 current fiscal, economic, political, and regulatory risks attendant to the current environment in
17 which Kerman must attract capital, Kerman proposes an overall rate of return of 13.63%. Support
18 for this rate of return is provided in the testimony of Michael Burke provided with the original
19 Application, as supplemented by his Supplementary Testimony submitted contemporaneously
20 with this filing.

21 **3. Review of Kerman's rates and charges and sources of supplemental intrastate**
22 **funding through the CHCF-A:** Kerman's current basic, residential rate is set at \$20.25, a level
23 that the Commission has deemed reasonable, reasonably comparable to urban rates, and sufficient
24 to qualify Kerman and other "small independent telephone corporations" for CHCF-A support.
25 *See* D.10-02-016 (suspending the 150% rule and adopting a \$20.25 rate benchmark pending
26 conclusion of the CHCF-A rulemaking). Kerman has not proposed to change this basic rate, and it
27 has proposed only minor changes to other local service rates. As explained above, Kerman stands
28 by the rate recommendations presented in its original Application.

1 Kerman's rate design should be comprised of local service revenue at the proposed rates,
2 forecasted High Cost Loop Support ("HCLS") supporting intrastate revenue requirement,
3 intrastate access and intercarrier compensation revenue, and support from the CHCF-A. By law,
4 the Commission must:

5 provide universal service rate support from the [CHCF-A] . . . in an amount
6 sufficient to supply the portion of the revenue requirement that cannot reasonably
7 be provided by the customers of each small independent telephone corporation
after receipt of federal universal service rate support.

8 Pub. Util. Code § 275.6(c)(4). In this sense, the CHCF-A is a residual funding source
9 that must be calculated after all other intrastate revenue sources are considered. CHCF-A
10 must be supplied in an amount that would give Kerman a fair opportunity to recover its
11 costs and earn a reasonable return on its investments.

12 Kerman's proposed rate design has been calculated in accordance with Public
13 Utilities Code Section 275.6. That computation is summarized in Mr. Clark's testimony.

14 **4. Determination of whether the proposals contained in Kerman's to-be-filed**
15 **modifications to A.11-12-011 are reasonable, consistent with Sections 275.6, 451, 454, 455,**
16 **and 726:** This Application, and the Exhibits and testimony provided herewith, demonstrate that
17 Kerman's proposed relief is reasonable. Kerman has considered each of the identified statutes in
18 connection with its update to its Application, and each will be satisfied if Kerman's proposed relief
19 is granted. Public Utilities Code Section 275.6 presents a specific set of ratemaking requirements
20 under which the Commission must compute revenue requirement and rate design for "small
21 independent telephone corporations," and Kerman's proposal is entirely consistent with those
22 requirements. Public Utilities Code Section 451 requires that all rates be "just and reasonable,"
23 and Kerman's proposed rate structure would meet this requirement. Kerman's proposal would also
24 comply with the directives in Public Utilities Code Sections 454 and 455 to seek prior approval for
25 a rate change. This rate case is the vehicle for that approval. Public Utilities Code Section 726
26 was repealed in 1996, so it has no bearing on this proceeding. (*See* AB 1683 (1996).) To the
27 extent that the Ruling intended to refer to Public Utilities Code Section 728, Mr. Clark's testimony
28 demonstrates that Kerman provides high-quality, safe, reliable service, consistent with

1 Commission safety standards and service quality regulations.

2 **5. Identification of all Kerman affiliates and the affiliate revenues, consistent**
3 **with section 275.6:** Public Utilities Code Section 275.6 does not require Kerman to identify all
4 affiliates in connection with a general rate case. However, Kerman supplies annual reports to the
5 Commission, consistent with Commission General Order 104-A, which identify the full roster of
6 Kerman affiliates. As reflected in Kerman's 2014 annual report, Kerman's affiliates are as follows:
7 Sebastian Enterprises, Inc. (SEI) – parent company, Foresthill Telephone Co., Kertel
8 Communications, Inc., Audeamus, CVIN, LLC, S&K Moran Limited Partnership, and Barcus
9 Family Limited Partnership.

10 Public Utilities Code Section 275.6 does not require Kerman to "identify revenues from all
11 affiliates," nor can this overbroad request be justified under any provision of the Public Utilities
12 Code in connection with this rate case. Section 275.6(e) contains a limited, informational
13 requirement that

14 [u]pon request from the commission, a small independent telephone corporation
15 that receives support from the [CHCF-A] shall provide information regarding
16 revenues derived from the provision of unregulated internet access service by that
17 corporation or its affiliate within that corporation's telephone service territory.
The commission shall treat as confidential any information provided pursuant to
this subdivision.

18 Pub. Util. Code § 275.6(e) (emphasis added). As the statutory language clearly shows, only
19 "revenue derived from the provision of unregulated internet access service" in Kerman's service
20 territory, if received by Kerman or an affiliate, would be subject to disclosure, and this disclosure
21 would only be required upon request. Revenues received from Internet access provided via
22 Kerman's local loop are subject to this provision, but no other revenues generated from other
23 activities are within its scope.

24 Although it has not been explicitly stated in the Ruling, Kerman interprets Issue No. 5 in
25 the Ruling to be a "request" for identification of revenues that are within the scope of Public
26 Utilities Code Section 275.6(e). These revenues are identified in Mr. Clark's testimony, and they
27 are marked as confidential in accordance with the protections of Public Utilities Code Section
28 275.6(e).

1 While Kerman has identified these revenues in response to the implicit request in the
2 Ruling, these revenues have absolutely no relevance to the establishment of a revenue requirement
3 or a rate design for Kerman. Nothing in Public Utilities Code Section 275.6 or other provision of
4 law requires or permits the Commission to use these revenues in ratemaking for "small
5 independent telephone corporations." Accordingly, these unregulated revenues have not been
6 incorporated into Kerman's ratemaking recommendations in any way. The identification of these
7 revenues is purely informational, consistent with the language and intent of Public Utilities Code
8 Section 275.6.

9 **6. Determination of whether any past or present capital investments, used**
10 **partially or exclusively by Kerman's affiliates, are included in Kerman's rate base**
11 **calculations:** Kerman's proposed rate base includes forecasted intrastate regulated investments for
12 a 2016 test year. Kerman's rate base does not include any investments by Kerman's affiliates, nor
13 could any such separate affiliate investments be included in rate base under the law.

14 Consistent with Public Utilities Code Section 275.6(c)(6), Kerman's proposed rate base
15 includes "all reasonable investments necessary to provide for the delivery of high-quality voice
16 communication services and the deployment of broadband-capable facilities." Pub. Util. Code §
17 275.6(c)(6). These investments are Kerman's intrastate investments alone. Kerman is the "small
18 independent telephone corporation" that has brought this rate case, and a consideration of the
19 interstate portion of Kerman's investments in ratemaking would exceed the Commission's
20 jurisdiction. *See Louisiana Public Serv. Comm'n v. FCC* (1986) 476 U.S. 355, 360 (state public
21 utilities commissions regulate intrastate aspects of regulated telephone companies); 47 U.S.C. §
22 151 (the FCC has jurisdiction over the interstate portion of regulated telephone companies); Pub.
23 Util. Code § 202 (the provisions of the Public Utilities Code "shall not apply to interstate
24 commerce"). The Commission cannot include interstate or unregulated investments in rate base,
25 so those investments are not included in Kerman's proposal. *See In the Matter of Petition of*
26 *Declaratory Ruling that AT&T's Phone-to-Phone Telephone Services are Exempt from Access*
27 *Charges*, WC Docket No. 02-361, *Order FCC 04-97* (rel. April 21, 2004) (confirming that
28 "information services" are not subject to common carrier regulation); *Minnesota Public Utilities*

1 *Commission v. FCC*, 483 F.3d 570, 580 (2007) ("any state regulation of an information service
2 conflicts with the federal policy of nonregulation").

3 Kerman's local loop facilities are "partially used" by Kerman's Internet Service Provider
4 ("ISP") affiliate in providing advanced services that customers have chosen in Kerman's territory.
5 Access to the local loop is paid for through an interstate tariff that is open to all affiliated and
6 unaffiliated companies. *See* NECA Tariff No. 5. The revenues resulting from Kerman's provision
7 of wholesale Digital Subscriber Line ("DSL") service to its affiliate help fulfill Kerman's interstate
8 revenue requirements, and are unrelated to the intrastate ratemaking considerations in this
9 proceeding. Only the intrastate component of Kerman's multi-use facilities has been included in
10 Kerman's intrastate rate base calculations for the 2016 test year. None of these facilities is
11 "exclusively used" by Kerman's affiliates, but even if they were, these costs would be assigned to
12 the interstate jurisdiction and not included in intrastate revenue requirement. Loop facilities that
13 are "jointly utilized" are includable in the ratemaking analysis in this proceeding, as investments in
14 "broadband-capable facilities" by a "small independent telephone corporation" may lawfully be
15 included in intrastate rate base. Pub. Util. Code § 275.6(c)(6).

16 **7. Determination of whether Kerman meets the requirements set forth in Section**
17 **275.6(d) concerning participation in the CHCF-A program:** Kerman meets each of the
18 prerequisites for participation in the CHCF-A under Public Utilities Code Section 275.6(d).
19 Kerman is subject to "rate-of-return regulation" under Commission rules, and Kerman has
20 confirmed its acceptance of rate-of-return regulation by submitting this case. Pub. Util. Code §
21 275.6(d)(1). Kerman is also a "telephone corporation," and subject to the Commission's
22 jurisdiction as to its intrastate operations. Pub. Util. Code § 275.6(d)(2). Further, Kerman is a
23 "carrier of last resort" in its service territory. Pub. Util. Code § 275.6(d)(3). Kerman qualifies
24 under multiple prongs of the "rural telephone company" definition under federal law. Pub. Util.
25 Code § 275.6(d)(4); 47 U.S.C. § 153(44). In particular, Kerman had "less than 15 percent of its
26 access lines in communities of more than 50,000 on February 8, 1996." 47 U.S.C. §§ 153(44)(D).

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1 **8. Identification and assessment of any safety considerations raised by Kerman's**
2 **application:** As discussed in Mr. Clark's testimony provided contemporaneously with this filing,
3 Kerman has a strong record of providing high-quality, reliable, safe service to its rural service
4 area. However, the delays in processing this rate case have put necessary plant improvements on
5 hold, and, if further delays occur, the safety and reliability associated with Kerman's network
6 could be compromised for some customers as Kerman's very old plant continues to degrade. It is
7 imperative for public safety that this rate case be processed and that Kerman receive the rate relief
8 necessary to proceed with necessary network repairs and improvements.

9

10 **V. CONCLUSION.**

11 Kerman urges the Commission to proceed expeditiously with this rate case. As far as
12 Kerman is aware, this rate case is now the longest rate case in history for a small telephone
13 company, and even the schedule outlined in the Ruling will not result in a final decision until the
14 summer of 2015. Kerman's rate structure was last adjusted as of January 1, 2008, and necessary
15 adjustments are now long overdue. Regardless of any developments in the CHCF-A rulemaking
16 and irrespective of any other case or regulatory development, the Commission has a duty to
17 proceed with and complete this proceeding. As reflected in this filing and in the associated
18 testimony, Kerman has gone to great lengths to prepare an update to its rate case within a very
19 short timeframe. The Commission should ensure that the case is processed with all reasonable
20 dispatch and without any need for further updates or material changes in the schedule. Should the
21 Court of Appeal grant Kerman's requested relief, the Commission should be prepared to act
22 quickly on the Court's directives and make appropriate changes to the scope and schedule set forth
23 in the Ruling.

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1 Based on Kerman's original Application, this update, and the associated testimony and
2 Exhibits provided with these filings, Kerman has presented ample support for its proposal.
3 Kerman asks that its revenue requirement of \$11,000,111 be adopted, that its proposed end user
4 rate adjustments be approved, and that its rate design include a \$6,804,638 draw from the CHCF-
5 A, consistent with Public Utilities Code Section 275.6.

6 Dated this 3rd day of November, 2014, at San Francisco, California.

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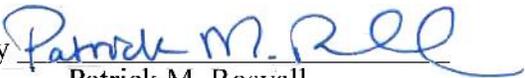
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By 
Patrick M. Rosvall
Attorneys for Kerman Telephone Co.

EXHIBIT A



SEBASTIAN

Putting people first.

Kerman Telephone Co INCOME STATEMENT 9/30/14

ACTUAL

OPERATING REVENUES

Local Service	1,396,996.71
Local Service-CHCF	2,746,568.25
Network Access Service	3,933,603.73
Network Access-FUSF	1,435,953.00
Miscellaneous	180,613.35

Total Operating Revenues	<u>9,693,735</u>
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OPERATING EXPENSES

Plant Operations	3,011,750.84
Depreciation	1,913,316.69
Customer Operations	1,016,023.49
Corporate Operations	2,363,341.60
Interest	299,891.11
Property Taxes	222,453.00

Total Operating Expenses	<u>8,826,777</u>
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OPERATING INCOME BEFORE I-TAX	<u>866,958</u>
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OPERATING TAXES	-
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Current Income Taxes	32,495.05
Deferred Income Taxes - Exp	305,427.00
Total Operating Income Taxes	<u>337,922</u>

OPERATING INC. AFTER TAX *	<u>529,036</u>
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Net Non-Oper. Income After I-Tax	(10,871.30)
Net Non-Reg. Income After I-Tax	-

NET INCOME	<u>518,165</u>
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Kerman Telephone Co.

Balance Sheet

9/30/14
Current Month

ASSETS

CURRENT ASSETS

Cash And Equivalents	2,157,618.42
Telecommunications Accounts Receivable	1,039,876.79
Affiliate Accounts Receivable	808,137.14
Other Current Assets	727,651.28

Total Current Assets 4,733,283.63

NONCURRENT ASSETS

Lease Deposit	498,688.52
Non-Operating Plant Net	-
Other	1,038.16

Total Noncurrent Assets 499,726.68

REGULATED PLANT

Regulated Plant Under Construction	1,655,951.18
Regulated Plant In Service	45,521,357.56
Regulated Accumulated Depreciation	(24,340,699.85)

Total Regulated Plant 22,836,609

TOTAL ASSETS 28,069,619.20

LIABILITIES AND SHAREHOLDERS EQUITY

CURRENT LIABILITIES

Accounts Payable	218,630.16
Affiliated Accounts Payable	909,592.74
Other Current Liabilities	(242,920.40)
Curr Mature-Long Term Debt	1,222,889.31

Total Current Liabilities 2,108,192

LONG TERM DEBT 10,454,045.58

DEFERRED INCOME TAXES 4,666,257.00

SHAREHOLDER EQUITY

Capital	1,886,712.44
Retained Earnings	9,174,247.41
Dividends Declared	(738,000.00)
Current Year Net Income	518,164.96

Total Shareholders Equity 10,841,124.81

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY 28,069,619.20

EXHIBIT B

SEPARATED RESULTS OF OPERATIONS

ESTIMATED YEAR:

ITEMS	TOTAL	INTERSTATE	INTRASTATE
	COMPANY		TOTAL
	(a)	(b)	(c)=(a-b)
OPERATING REVENUES:			
1 Local Network Service	1,742,798	0	1,742,798
2 Federal USF	2,032,176	0	2,032,176
3 State CHCF-A	3,630,688	0	3,630,688
4 Network Access Svces:			
5 Intrastate	252,956	0	252,956
6 Interstate	5,287,212	5,287,212	0
7 Miscellaneous Revenues	256,250	21,371	234,879
8 Less:Uncollectible Revenues	(5,171)	0	(5,171)
9 Total Operating Revenue	13,196,910	5,308,583	7,888,326
OPERATING EXPENSES:			
10 Plant Specific	3,567,641	1,363,456	2,204,185
11 Plant Non Specific	652,879	270,213	382,766
12 Depreciation & Amortization	3,425,277	1,409,183	2,016,094
13 Customer Operations	1,425,924	342,561	1,083,363
14 Corporate Operations	3,541,020	1,108,768	2,432,253
15			
16 Total Operating Expenses	12,612,841	4,494,181	8,118,660
OPERATING TAXES:			
17 Operating Fed Income Taxes	(76,374)	164,150	(240,524)
18 Operating State Inc. Taxes	(21,782)	46,818	(68,600)
19 Taxes other than operating	302,613	106,320	196,293
20 Deferred Oper Income Taxes	0	0	0
21 Total Operating Taxes	204,457	317,288	(112,831)
22 NET OPERATING INCOME	379,612	497,114	(117,503)
RATE BASE			
23 Telephone Plant-In-Service	49,698,009	17,460,898	32,237,111
24 Tel Plt held for future use	0	0	0
25 Tel Plt under construction	1,581,188	555,536	1,025,652
26 Mat & Supplies	277,841	79,584	198,257
27 Working Cash	1,005,500	514,200	491,300
28 Less:Depr Reserve	(28,871,342)	(10,445,796)	(18,425,546)
29 Def. Taxes	(4,360,104)	(1,707,290)	(2,652,814)
30 Customer deposit	0	0	0
31 Total Rate Base	19,331,092	6,457,132	12,873,960
32 Rate of Return	1.96%	7.70%	-0.91%