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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 ALJ HALLIGAN'S JANUARY 30, 2015 RULING**

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1 **I. INTRODUCTION.**

2 Pursuant to the modified procedural schedule outlined in the email ruling of Assigned  
3 Administrative Law Judge ("ALJ") Halligan, issued on January 30, 2015 ("Ruling"), Kerman  
4 Telephone Co. d/b/a Sebastian (U 1012 C) ("Kerman") hereby submits this supplement to modify  
5 its ratemaking proposal in two material respects. Specifically, this supplement and the  
6 contemporaneously-served testimony address two changes in ratemaking metrics adopted in  
7 Decision ("D.") 14-12-084 ("D.14-12-084" or "Phase 1 Decision"). The Ruling was issued based  
8 on a Joint Motion filed by Kerman and the Office of Ratepayer Advocates ("ORA") to modify the  
9 procedural schedule in order to provide the parties with the opportunity to address the  
10 requirements adopted in the Phase 1 Decision and its corresponding impacts on the rate relief  
11 under review in this proceeding. As explained in the Joint Motion, Kerman submitted an update  
12 to its Application on November 3, 2014 pursuant to a revised Scoping Memo dated August 28,  
13 2014. Following that update, the Commission issued a Proposed Decision addressing Phase 1  
14 issues in the pending CHCF-A proceeding (R.11-11-007), which was adopted on December 18,  
15 2014 and formally released on December 19, 2014. The Phase 1 Decision contains two material  
16 ratemaking provisions that were not addressed in Kerman's November 3, 2014 update, and these  
17 provisions must be considered in this rate case.

18 First, Kerman submits an updated rate design based on a modified local residential service  
19 rate that would bring Kerman within the range of reasonableness for basic, residential rates  
20 established in the Phase 1 Decision. Second, Kerman submits revisions to its revenue requirement  
21 to account for the Federal Communications Commission's ("FCC") cap on corporate operations  
22 expenses adopted in the Phase 1 Decision, along with information necessary to rebut the  
23 appropriateness of applying the cap to Kerman. Updated financials and ratemaking calculations in  
24 support of Kerman's modified request for rate relief are provided in David D. Clark's updated pre-  
25 filed testimony, which is being served contemporaneously with this supplement. Aside from these  
26 two adjustments, no other modifications have been made to Kerman's ratemaking proposal, and all  
27 other proposals presented in Kerman's original Application and its November 3, 2014 update

1 continue to represent Kerman's position in this case.

2 **II. UPDATES TO KERMAN'S PROPOSED REVENUE REQUIREMENT AND RATE**  
3 **DESIGN ARE NECESSARY TO ACCOUNT FOR REQUIREMENTS**  
4 **ESTABLISHED IN THE PHASE 1 DECISION.**

5 In order to account for the ratemaking requirements adopted in the Phase 1 Decision,  
6 Kerman has updated its rate design to incorporate a basic service rate that would be within the  
7 \$30.00 to \$37.00 inclusive rate range of reasonableness and provided updated financial  
8 information to address the appropriateness of the FCC's corporate operations cap as applied to  
9 Kerman. Kerman's basic rate should be set at \$30.00, inclusive of all applicable charges and fees  
10 comprising the FCC's ARC benchmark. Further, Kerman's updated revenue requirement is  
11 \$10,274,968, and, based on the updated projected revenue projection for the 2016 test year,  
12 Kerman would require a total CHCF-A draw of \$6,011,945 to meet its revenue requirement.  
13 These conclusions are based on the adjustments described herein, and they are computed with  
14 reference to an authorized rate of return on intrastate rate base of 13.63%, as explained in Mr.  
15 Burke's testimony that was served with Kerman's initial Application, as updated on November 3,  
16 2014.

17 **A. Adjustments to Kerman's Proposed Basic Service Rate Must Be Made to**  
18 **Comply with the Phase 1 Decision's Range of Reasonableness.**

19 Kerman is submitting supplemental information by which it proposes to modify Kerman's  
20 residential basic service rate in order to comply with the Phase 1 Decision. The Phase 1 Decision  
21 requires that:

22 The Small Incumbent Local Exchange Carriers' Basic Residential Service  
23 Rates must be in a range of \$30, inclusive of additional charges, to \$37.00,  
24 inclusive of additional charges. This rate range of \$30.00 to \$37.00 will be  
25 presumptively reasonable and non-rebuttable. Actual rates will be set in  
26 the individual General Rates Cases of the Small Incumbent Local  
27 Exchange Carriers.

28 Phase 1 Decision, O.P. 9, at p. 102. In order to comply with this requirement, Kerman proposes  
that a local service rate of \$22.58, or \$30.00 when accounting for additional charges, should be

1 adopted. Kerman's initial local service rate proposal was set at \$20.25, or \$29.80, inclusive of  
2 additional charges. Absent this modification, Kerman's initial rate proposal would not be  
3 compliant with the Phase 1 Decision's "range of reasonableness." Specific information regarding  
4 Kerman's proposal and support for this result is provided in the contemporaneously-served  
5 updated testimony of Mr. Clark. As explained in Mr. Clark's testimony, Kerman is a low-income  
6 area, and its rates are properly set at the bottom of the range of reasonableness identified in the  
7 Phase 1 Decision.

8 **B. Adjustments to Kerman's Revenue Requirement Should Be Made to Account**  
9 **for the Adopted Cap on Corporate Expenses, as Adjusted by Kerman's**  
10 **Evidence Rebutting the Full Impact of the Cap.**

11 In testimony served contemporaneously with this filing, Kerman is submitting updated  
12 financial information for the 2016 test period, with adjustments necessary to comply with the  
13 Phase 1 Decision's newly-adopted cap on corporate operations expenses. The Phase 1 Decision  
14 established a framework that would incorporate the FCC's corporate expense cap limitations into  
15 the calculation of intrastate revenue requirement, as follows:

16 Small Incumbent Local Exchange Carriers which receive funds from the  
17 California High Cost Fund-A must adhere to the Federal Communications  
18 Commission's standards for corporate expense limits in their General Rate  
19 Cases.

20 *Phase 1 Decision, O.P. 2*, at p. 100. In addition, the Phase 1 Decision also provides that the  
21 reasonableness of the corporate cap may be challenged as applied to an individual company:

22 If a Small Incumbent Local Exchange Carrier's actual corporate expense  
23 amounts exceed the Federal Communications Commission's corporate  
24 expenses caps, that carrier has the opportunity in the General Rate Case  
25 application to rebut the presumption of unreasonableness to seek  
26 additional support from the California High Cost Fund-A Program.  
27 Conversely, corporate expenses that fall below the cap would be presumed  
28 reasonable subject to an opportunity by other parties to rebut that  
conclusion in the General Rate Case.

29 *Phase 1 Decision, O.P. 3*, at p. 101. In accordance with Ordering Paragraph 2 of the Phase 1

1 Decision, Kerman is modifying its proposal to acknowledge the cap on the corporate operations  
2 expenses, but to rebut the reasonableness of applying the cap in full to Kerman. Consistent with  
3 Ordering Paragraph 3 in the Phase 1 Decision, Kerman proposes to include reasonable expenses  
4 above the corporate cap in its intrastate revenue requirement. Although a full application of the  
5 cap would result in a \$1,672,635 reduction in Kerman's corporate expenses, Kerman proposes  
6 only a \$1,116,530 reduction, which is more consistent with the higher corporate expenses and  
7 increased regulatory burdens of operating in California. Financial and other relevant information  
8 in support of Kerman's proposal is also being submitted in Mr. Clark's updated testimony.

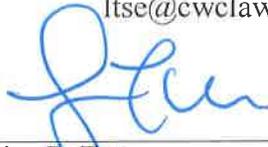
9 **III. CONCLUSION.**

10 Based on Kerman's original Application, Kerman's update submitted on November 3,  
11 2014, this supplement to comply with the Phase 1 Decision, and the associated testimony and  
12 exhibits provided with these filings, Kerman has presented extensive support for its rate case  
13 proposal. Kerman asks that its revenue requirement of \$10,274,968 be adopted, that its proposed  
14 end user rate adjustment be approved, and that its rate design include a \$6,011,945 draw from the  
15 CHCF-A.

16 Dated this 30<sup>th</sup> day of January, 2015, at San Francisco, California.

17  
18 Respectfully submitted,

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