

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**
12/22/17
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December 22, 2017

Agenda ID #16218
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 16-10-004:

This is the proposed decision of Administrative Law Judge Houck. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's February 8, 2018, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ ANNE E. SIMON

Anne E. Simon

Acting Chief Administrative Law Judge

AES:jt2

Attachment

Decision PROPOSED DECISION OF ALJ HOUCK (Mailed 12/22/2017)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of Cal-Ore Telephone Co. (U1006C) to Review Intrastate Rates and Charges, Establish a New Intrastate Revenue Requirement and Rate Design, and Modify Selected Rates.

Application 16-10-004

(See Appendix 4 for Appearances)

**DECISION ADOPTING ALL-PARTY SETTLEMENT AGREEMENT;
APPROVING INTRASTATE RATES AND CHARGES; ESTABLISHING NEW
INTRASTATE REVENUE REQUIREMENT AND RATE DESIGN; AND
MODIFYING SELECTED RATES FOR THE CAL-ORE TELEPHONE CO. FOR
TEST YEAR 2018**

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¹ This document was received into the record on June 8, 2017 during the scheduled evidentiary hearing as Exhibit - JP 1.

**DECISION ADOPTING ALL-PARTY SETTLEMENT AGREEMENT;
APPROVING INTRASTATE RATES AND CHARGES; ESTABLISHING NEW
INTRASTATE REVENUE REQUIREMENT AND RATE DESIGN; AND
MODIFYING SELECTED RATES FOR THE CAL-ORE TELEPHONE CO. FOR
TEST YEAR 2018**

Summary

This decision adopts and approves the All-Party Settlement Agreement between the Office of Ratepayer Advocates (ORA) and the Cal-Ore Telephone Co. (Cal-Ore) (Settlement Agreement) attached as APPENDIX 1 to this decision and as Exhibit 1 to the Joint Motion for Adoption of All-Party Settlement Agreement submitted by Cal-Ore and ORA (collectively the Parties).

This decision finds that the Settlement Agreement between the parties is reasonable in light of the whole record in this proceeding, consistent with the law and in the public interest.

This decision adopts an overall intrastate revenue requirement of \$3,144,624 for Test Year 2018 including a subsidy draw of \$1,469,711 from the California High Cost Fund-A (CHCF-A).¹ Further, this decision: (1) adopts new rates for Cal-Ore's residential and business customers that are reasonably comparable to the rates urban customers pay, pursuant to Public Utilities (Pub. Util.) Code § 275.6(c)(3); (2) authorizes a revenue requirement for Cal-Ore based

¹ The intrastate revenue requirement agreed to by the parties is based on the 8.92 percent rate of return that the Commission adopted in Decision (D.) 16-12-035, and reflects several adjustments/deductions to Cal-Ore's requested intrastate revenue requirement. Accordingly, if D.16-12-035 is later revised by the Commission or a court of law, or the Commission adopts a new cost of capital for Cal-Ore in a subsequent cost of capital proceeding, any resulting adjustments/revision to cost of capital shall be applied to Cal-Ore based on the instructions from the Commission or the reviewing court.

on sound analysis of Cal-Ore's infrastructure and operational needs, revenue sources and income, costs and expenses, and deductions; (3) adopts new rules regarding Cal-Ore's interactions with its affiliates as discussed in Section 7 below; and (4) adopts requirements relating to service quality, safety and project reporting for Cal-Ore, among others.

Upon adoption this decision Cal-Ore's tariffed basic residential rates will be set at \$25.00 (exclusive of surcharges, fees or taxes), business rates at \$32.10 (exclusive of surcharges, fees or taxes), and new rates for other Cal-Ore services will be set as identified in Attachment 1 to the Settlement Agreement. There will be no further adjustments in its residential or business rates until the next Cal-Ore general rate case.

Based on the forecasted revenues sources noted below, this decision accepts and sets Cal-Ore's rate design as shown in the Settlement Agreement:²

² This information is based on the "Joint Settlement Agreement" filed by the parties on May 10, 2017 (**Appendix 1**), as clarified and further explained in "Cal-Ore Telephone Company Test Year 2018 Results of Operations" (RO) filed by the parties on June 5, 2017 in response to the Administrative Law Judge's May 26, 2017 ruling requiring additional information from the parties in support of proposed settlement. The parties emphasize that their clarifications and responses offered are not intended to modify the Settlement Agreement. The Commission finds it appropriate and reasonable based on the record in this case to adopt the RO submitted by the parties in the Settlement Agreement and the RO set forth in **Appendix 2, Exhibit A, Updated Attachment A**.

Forecasted Revenue Source	Amount
Local Network Services Revenues	\$712,207
Interstate Universal Service Fund Support for Intrastate Revenue Requirement	\$767,362
Intrastate Access Revenues.	\$145,410
Miscellaneous and Uncollectible Revenues	\$49,934 ³
CA High Cost Fund-A	\$1,469,711
Total Revenue Requirement for 2018 Test Year	\$3,144.624

1. Background and Procedural History

In response to the General Rate Case (GRC) Application cycle for the Small Local Exchange Carriers listed in Group B in the California Public Utilities Commission (Commission) Decision (D.) 15-06-048 (*Rate Case Plan for General Rate Case Applications filed by California High Cost Fund-A recipients, hereinafter Rate Case Plan*), The Cal-Ore Telephone Co. (Cal-Ore) submitted this GRC Application (A.) 16-10-004 to the Commission on October 3, 2016: (1) for the approval of its intrastate rates and charges for regulated intrastate telecommunications services; (2) to update its intrastate revenue requirement; and (3) to establish a rate design "that will give Cal-Ore a reasonable opportunity to meet its revenue requirement."⁴

³ This amount consists of: \$6,679 (intrastate billing and collections); - \$248 (uncollectible write-offs); \$11,364 (directory revenues); \$2,279 (reciprocal compensation); and \$29,868 (other incidental regulatory revenues). (See joint parties' June 5, 2017 response to the May 26, 2017 ruling, as referenced in Section 1.4 of this decision.)

⁴ Revenue requirement is defined as "the amount that is necessary for a telephone corporation to recover its reasonable expenses and tax liabilities and earn a reasonable rate of return on its rate base." (See Pub. Util. Code § 275.6(b)(5).)

In its October 3, 2016 Application, Cal-Ore requested that the Commission review and approve its estimated intrastate revenue requirement of \$3,846,947 for Test Year (TY) 2018, including a subsidy draw of \$2,257,256 from the California High Cost Fund-A (CHCF-A.)⁵ Cal-Ore's TY 2018 estimated intrastate revenue requirement represents an increase from its current Commission approved intrastate revenue requirement of \$3,604,658 and an increase in its current CHCF-A subsidy draw of \$471,499 based on its last rate case for TY 2009.⁶ Finally, Cal-Ore requested an increase in its basic residential local exchange rate to \$25.00 per month (exclusive of the Subscriber Line Charge and the other surcharges and fees), increase its basic business rate in all its exchanges to \$32.10 and make adjustments to its other business and foreign exchange rates by the same percentage of increase as its residential rate increase as provided in the Application. Concurrently with the Application, Cal-Ore served prepared direct testimony of five witnesses, including two company employees and three outside experts, in support of its Application and requests.

1.1 Customer Notice - Rule 3.2

As required by Rule 3.2, Cal-Ore complied with the Commission's Customer Notice requirements by timely notifying its customers on November 1, 2016 by bill inserts (or by electronic link for customers who receive bills electronically) of the proposed rate increases to its services effective January 1, 2018, and published Notice of its Application approved by the Commission's Public Advisor's Office in the "Herald and News," a newspaper of general

⁵ In 1987, the CHCF-A was established for the purpose of minimizing basic telephone service rates' disparity between rural and metropolitan areas. <http://www.ora.ca.gov/chcfa.aspx>.

⁶ See Res. T-17133 (2009), which was modified by D.11-05-033, increasing CHCF-A support to \$489,682.

circulation on October 11, 2016. Cal-Ore filed its Notice of compliance with Rule 3.2 with the Commission on November 10, 2016.

1.2 Protests

On November 2, 2016, the Office of Ratepayer Advocates (ORA) protested Cal-Ore's Application, and identified the following substantive issues/areas that it argued should be evaluated and addressed within the scope of this proceeding: (1) Cal-Ore's proposed level of revenue requirement, revenue projections and rate design; (2) Cal-Ore's proposed end-user rates; (3) Cal-Ore's proposed CHCF-A subsidy/draw for TY 2018; (4) Cal-Ore's corporate expenses and (5) Cal-Ore's overall service quality pertaining to safety and reliability;. Cal-Ore filed its reply to ORA's protest on November 14, 2016.

1.3 Prehearing Conference, Motion for Party Status, Scope and Issues

On December 13, 2016, the assigned Administrative Law Judge (ALJ) Darcie L. Houck held a prehearing conference in this proceeding, and on January 27, 2017, the assigned Commissioner, Carla J. Peterman, issued her Scoping Memo and Ruling, which, among others, confirmed the scope and schedule for the proceeding, and identified issues to be briefed and decided in this proceeding.

The issues identified in the Scoping Memo and Ruling were: (1) what level of revenue requirement is necessary for Cal-Ore to operate in a manner that allows it to deliver safe, reliable, high-quality service, fulfill its "carrier of Last Resort" obligations; (2) what end-user rates are just and reasonable for Cal-Ore's customers; (3) how should Cal-Ore's rate design be structured so as to afford Cal-Ore a fair opportunity to earn a reasonable rate of return utilizing a 2018 test year; and (4) should the Commission adopt new affiliates transaction rules for

Cal-Ore? The parties agreed that the issues identified in ORA's November 2, 2016 protest, listed above, should also be considered and addressed.

On March 10, 2017, ORA served its responsive testimony of five witnesses to Cal-Ore's Application, and on April 3, 2017, Cal-Ore served ORA with rebuttal testimony from three witnesses.

1.4 Settlement Efforts and Agreement

On May 3, 2017, the parties held a duly-noticed all-party formal settlement conference in compliance with Rule 12.1(b), which resulted in the execution of an All-Party Settlement Agreement (Settlement Agreement or Joint Settlement Agreement)⁷ that resolved all issues in this proceeding. On May 10, 2017, the parties filed a Joint Motion and the associated Settlement Agreement to the Commission seeking the adoption of the All-Party Settlement Agreement as a final resolution of this matter.

On June 5, 2017, the parties filed additional information with the Commission in support of the Settlement Agreement as directed by the ALJ in a ruling issued on May 26, 2017. The ALJ conducted additional follow up inquiry during the evidentiary hearing on June 8, 2017, and through issuance of a further ruling on July 25, 2017, with responses to be due by August 15, 2017. Parties responded on August 15, 2017 with additional information as to non-regulated revenue.

2. The Cal-Ore Telephone Co. and Organizational Structure

Cal-Ore is a telephone company that owns and operates a telephone system that provides local exchange telephone service in portions of Siskiyou

⁷ The "All-Party Settlement Agreement," "Joint Settlement Agreement," and "Settlement Agreement" are used interchangeably in this decision, and all mean one and the same.

and Modoc Counties. Cal-Ore services approximately 1,800 access lines in its four telephone exchanges: Tulelake, Dorris, Macdoel and Newell. Cal-Ore's telephone system consists mainly of a local exchange telephone network and facilities for its interconnection to the public switched telephone network, including underground and aerial cable and lines, radio equipment, central office equipment, land, buildings, and miscellaneous other equipment.

3. Public Participation Hearing

On April 20, 2017, the Commission held a publicly Noticed Public Participation Hearing (PPH) at the Butte Valley Community Center at 52900 US-97, Dorris, California, to take comments from the public, ratepayers, and elected or official representatives of the serviced communities and counties. Two members of the public attended the PPH. No member of the public provided comment.

4. Legal and Policy Framework for this GRC

Pub. Util. Code § 451 provides that public utilities may demand and receive only just and reasonable charges, and must provide “adequate, efficient, just and reasonable service” in a way that promotes the “safety, health, comfort, and convenience of [their] patrons, employees, and the public.” Pub. Util. Code § 454 requires the Commission to review proposed rates changes, make a finding that they are justified, and authorize the proposed rates changes before they can take effect.

Under Pub. Util. Code § 728, the Commission has the authority to “determine what is just and reasonable, disallow costs that are found to be unjust or unreasonable, and prevent a utility from passing on to the ratepayers unreasonable costs for materials and services by disallowing expenditures that

the Commission finds unreasonable.”⁸ Under the Public Utilities Act, the Commission’s primary purpose is to “insure the public adequate service at [just and] reasonable rates without discrimination...”⁹

Pub. Util. Code § 275.6 requires the Commission to minimize telephone rate disparities between rural and metropolitan areas to keep rates affordable in areas with lower population densities. According to Pub. Util. Code § 275.6(c)(2), the Commission must “employ rate of return regulation to determine a small independent telephone corporation’s revenue requirement in a manner that provides revenues and earnings sufficient to allow the telephone corporation to deliver safe, reliable, high-quality voice communication service and fulfill its obligations as a carrier of last resort in its service territory, and to afford the telephone corporation a fair opportunity to earn a reasonable return on its investments, attract capital for investment on reasonable terms, and ensure the financial integrity of the telephone corporation.” Thus, the scope of this proceeding must include all relevant information necessary to determine whether the applicant’s proposed revenue requirement and other requests are just and reasonable, and permit the utility to fulfill its duties under § 451.

5. California High Cost Fund-A

The purpose of the CHCF-A is to provide a source of supplemental revenues to Small Incumbent Local Exchange Carriers (Small ILECs) whose basic exchange access line service rates would otherwise be increased to levels that

⁸ *Id.*

⁹ *Pacific Telephone and Telegraph Company v. Public Utilities Commission* (1950) 34 Cal.2d 822,836 [215P.2d 441].

would threaten universal service. As stated in D.14-12-084, “[u]niversal, reliable, affordable, service is critical to public safety and benefits the state as a whole.”¹⁰

The CHCF-A currently supports eligible small independent telephone companies in helping rural residents stay connected to essential services to maintain public health and safety.

The CHCF-A program is funded by a surcharge assessed on revenues collected from end-users of intrastate telecommunications services subject to surcharge. The Commission periodically reviews the program fund levels and adjusts the surcharge rate to ensure the program is sufficiently funded. All telecommunications carriers¹¹ and interconnected Voice-over Internet Protocol service providers¹² are required to assess the CHCF-A surcharge rate of 0.35 percent.¹³

In administering the CHCF-A program, the Commission must “ensure that rates charged to customers of small independent telephone corporations are just and reasonable and are reasonably comparable to rates charged to customers of urban telephone corporations.”¹⁴ Historically, “comparable” has meant that target rates for residential customers are no more than 150 percent of basic service rates for California’s urban telephone customers. The “150 percent formula” was originally established in D.91-09-042, and the formula has been used in part to evaluate the reasonableness of rates charged to customers. In

¹⁰ D.14-12-084 at 53.

¹¹ See Pub. Util. Code § 275.

¹² See Pub. Util. Code § 285(c).

¹³ Resolution T-17453, issued on November 21, 2014, set a surcharge rate of 0.35 percent effective January 1, 2015.

¹⁴ Pub. Util. Code § 275.6(c)(3).

D.10-02-016, the Commission modified the 150 percent formula so that the Small ILECs were no longer required to charge up to 150 percent of the basic urban rate to qualify for CHCF-A support, instead setting the basic service rate for residential customers at \$20.25 per month.¹⁵ This requirement remained in effect until the Commission adopted D.14-12-084 in its CHCF-A rulemaking (R.) (R.11-11-007),¹⁶ which set the all-inclusive reasonable rate range, including federal and state fees and surcharges, of \$30.00 to \$37.00.¹⁷

In this GRC, as in all others, the Commission seeks to promote the public interest. Promoting the public interest in this case requires that the Commission carefully review the revenue requirement request of Cal-Ore with an eye toward protecting not only Cal-Ore's ratepayers and customers, but also all other carriers' customers that pay into the CHCF-A from which Cal-Ore is requesting funding. In carrying out this responsibility, the Commission assesses whether Cal-Ore has justified its revenue increase proposals, and disallows those proposals that have not been justified.

In response to ORA's data request, Cal-Ore reported a relatively large percentage of non-regulated miscellaneous revenue that it derived from General Order (GO) 69-C license agreements. This led to requests for additional information by Communications Division (CD) staff to better assess Cal-Ore's actual intrastate revenue. Given the large amount of miscellaneous revenues that were not addressed specifically in this proceeding and not addressed in the Settlement Agreement and to ensure that we have an adequate record to assess

¹⁵ See D.10-02-016, Ordering Paragraph (OP) 3.

¹⁶ See R.11-11-007.

¹⁷ See D.14-12-084, OP 9.

this compliance, Cal-Ore is to disclose all non-regulated revenue, including any and all revenues derived from GO 69-C transactions, in its next general rate case application and testimony.¹⁸

In its Application, Cal-Ore requested a CHCF-A draw of \$2,257,256 in this GRC for TY 2018, which is an increase from its currently authorized CHCF-A subsidy draw of \$471,499.¹⁹ Pursuant to Pub. Util. Code § 275.6(c)(7), the Commission must ensure that Cal-Ore's CHCF-A support is not excessive so that the burden on all contributors to the CHCF-A is limited."

5.1 Means Test for CHCF-A

The Commission limits the CHCF-A support to amounts which would provide no more than either: 1) a utility's authorized intrastate rate of return, or 2) the utility's current funding level for the year for which CHCF-A is being requested, whichever is lower. The foregoing is determined by using a "means test."²⁰ The means test is based, in part, upon at least seven months of recorded data which can then be compared to the utility's forecasted intrastate rate of return based upon its adopted RO for a particular year.

The CHCF-A support for a utility's test year is determined in its GRC decision.²¹ The CHCF-A support for TY 2018 is \$1,469,711 as reflected in Appendix 2 to this decision. Pursuant to D.91-09-042, "the means test shall not

¹⁸ Cal-Ore's is strongly encouraged to meet with CD staff to discuss what information should be included in the next GRC as well as the benefits of submitting a written report to CD of any and all GO 69-C transactions as they occur.

¹⁹ See Res. T-17133 for authorized CHCF-A subsidy draw of \$ \$471,499 for the 2008 TY, which was modified by D.11-05-033, increasing CHCF-A support to \$489,682.

²⁰ See D.91-05-016 as modified and clarified by D.91-09-042.

²¹ GRC decisions are generally issued by the Commission toward the end of a year prior to the Test Year.

be applied to the determination of a LEC's CHCF-A funding levels following 12 months after a decision or resolution is rendered by the Commission in a LEC's general rate review proceeding."²² Commission staff will rely upon the Results of Operation (RO) in set forth in Appendix 2 to determine CHCF-A support, as permitted by D.91-09-042 and confirmed by Cal-Ore's September 26, 2017 letter at Appendix 3.²³

6. ORA's Position

California consumer interests in this GRC are represented by ORA,²⁴ and ORA's statutory mandate requires it to "advocate on behalf of the interests of public utility customers and subscribers within the jurisdiction of the Commission," and "obtain the lowest possible rate for service consistent with reliable and safe service levels." Despite ORA's role in this case, the burden of presenting evidence and justifications for its request remains with Cal-Ore.

The record of this proceeding shows that ORA actively engaged with Cal-Ore, prior to and after the filing of this Application as required by the Rate Case Plan in D.15-06-048, and discharged its statutory responsibility in this proceeding. ORA filed its protest to Cal-Ore's GRC Application timely; and

²² See D.91-05-016 as modified and clarified by D.91-09-042, Ordering Paragraph 2; see also D.15-06-048, Appendix A, Table 1.

²³ Cal-Ore provided a letter dated September 26, 2017 regarding "A.16-10-004, Cal-Ore Telephone Co. General Rate Case: Results of Operations Details and the Annual CHCF-A Means Test. This letter stated, "...Cal-Ore does not object to C[ommunication]D[ivision] using the specific 'results of operation' information in Exhibit A [same as Appendix 2 to this ruling] to the parties' June 5, 2017 filing as a reference for reviewing Cal-Ore's future 'means test' submissions." ORA separately communicated with the Communications Division by email dated September 25, 2017 stating that it "is fine using Exhibit B[this should be Exhibit A consistent with Cal-Ore's September 26, 2017 letter] for purposes of the means test." This email was attached to Cal-Ore's September 26, 2017. See Appendix 3.

²⁴ See Pub. Util. Code § 309.5.

raised relevant questions to test and confirm Cal-Ore's assumptions and projections regarding its rate designs, revenue requirements and RO, end-user rates and proposed CHCF-A subsidy, among others. The issues raised in ORA's protest are referenced above.

ORA participated in the prehearing conference held on December 13, 2016, and conducted a site visit of Cal-Ore's business office located within Cal-Ore's service territory. ORA submitted testimony and work papers, and attended the public participation hearing held on April 20, 2017, in Dorris, California, to obtain comments and feedback from Cal-Ore's customers. ORA requested extensive information from Cal-Ore in order to examine the issues raised by the Application and test the validity of Cal-Ore's statements and conclusions. Cal-Ore responded to ORA's questions and provided ORA with requested information and materials.

ORA's work in this proceeding was helpful and persuasive, and ORA's effective advocacy in this proceeding was a contributing factor to the ALJ's recommendation that the Settlement Agreement be adopted by the Commission.

Due to ORA's participation in this case, Cal-Ore accepted: (1) an adjusted/reduced overall intrastate revenue requirement by eliminating unsupported expense items based on ORA's analysis and conclusions; (2) an adjusted/reduced CHCF-A subsidy draw of \$1,469,711;²⁵ (3) increased rates for its residential and business customers that are reasonably comparable to the rates urban customers pay, pursuant to Pub. Util. Code § 275.6(c); (4) new rules regarding Cal-Ore's dealings with its affiliates in order to foster greater

²⁵ The \$ 1,469,711 CHCF-A draw is based on the 8.92 percent rate of return (ROR) that the Commission adopted in A.15-09-005. In its Application, Cal-Ore had requested \$2,257,256.

accountability and benefits to ratepayers; and (5) new requirements relating to Cal-Ore's service quality, safety and project reporting, among others.

7. Settlement Agreement between the Parties

In accordance with Article 12 of the California Public Utilities Commission's Rules of Practice and Procedure (Rules), on May 10, 2017, Cal-Ore, and ORA (the parties) submitted a "Joint Motion for Adoption of All-Party Settlement Agreement" together with the fully executed "Joint Settlement Agreement" (Settlement Agreement). The parties request that the Commission approve the Settlement Agreement pursuant to Rule 12.1. A copy of the Settlement Agreement, which resolves Cal-Ore's GRC in its entirety, is attached hereto as **Appendix 1**.

As reflected in the Settlement Agreement, based upon the mutual agreement of the parties, the parties agree to a resolution of Cal-Ore's GRC Application for the Test Year 2018 as follows:

- A. Results of Operation. The results of Cal-Ore's operations figures shall incorporate the following elements:
 - i. **Rate of return**: For purposes of calculating Cal-Ore's 2018 test year revenue requirement, Cal-Ore shall apply the 8.92 percent cost of capital that the Commission adopted in D.16-12-035 unless D.16-12-035 is later annulled or revised by the Commission or a court of law, or the Commission adopts a new cost of capital for Cal-Ore in a subsequent cost of capital proceeding.²⁶
 - ii. **Revenue requirement**: Based on the 8.92 percent rate of return, Cal-Ore's intrastate revenue requirement in the amount of \$3,144,624 is agreed to. The revenue requirement

²⁶ Should D.16-12-035 be annulled or revised, any resulting adjustments to cost of capital shall be applied to Cal-Ore based on the instructions from the Commission or the reviewing court.

will be updated, based on the instructions from the Commission or the reviewing court, if D.16-12-035 is annulled or revised.

iii. **End-user rates and rate design:**

- a) Cal-Ore's tariffed basic, residential rates shall be increased to \$25.00, exclusive of any surcharges, fees, or taxes, effective January 1, 2018, with no further adjustments until Cal-Ore's next rate case.
- b) Cal-Ore's tariffed business rates shall be set at \$32.10, exclusive of any surcharges, fees, or taxes, effective January 1, 2018, with no further adjustments until Cal-Ore's next rate case.
- c) Additional services and other rates shall be increased by the same percentage increase as residential rates for 2018 as listed in Attachment 1 to the Settlement Agreement.
- d) **Rate Design.** Cal-Ore's rate design shall incorporate the tariff schedule rates set forth in Attachment 1 of the Settlement Agreement based upon the following forecasted revenue sources:
 1. \$712,207 in Local Network Services revenues;
 2. \$767,362 in Interstate Universal Service Fund (USF) support for intrastate revenue requirement;
 3. \$145,410 in intrastate access revenues;
 4. \$49,934 in miscellaneous and uncollectible revenues; and
 5. The remainder necessary to fulfill revenue requirement from the CHCF-A, based on the revenue requirement established pursuant to the formula in subpart (b), above. Under the currently approved 8.92 percent cost of capital, a CHCF-A draw of \$1,469,711.

iv. **Income Tax Liabilities:**

- a) The current income tax rate for Cal-Ore shall be used for purposes of this Agreement.

- b) If the current income tax rate changes after the decision is issued in this case and before January 1, 2018, then Cal-Ore shall file a Tier 2 Advice Letter informing the Commission of the revised revenue requirement within 30-days of the tax change taking effect.
 - c) If the current income tax rate changes on or after January 1, 2018 and after the decision is issued in this case, then Cal-Ore shall file a Tier 2 Advice Letter with revised revenue requirement within 30-days of the tax change taking effect.
- B. Affiliates Transaction Rules. Cal-Ore shall abide by the following requirements relative to its affiliate:
- i. Cal-Ore and each of its affiliates shall be held in separate legal entities.
 - ii. Cal-Ore shall maintain separate books from its affiliates as to all transactions.
 - iii. Cal-Ore shall maintain separate bank accounts from its affiliates as to all transactions.
 - iv. The cost of any advertising or marketing conducted jointly on behalf of Cal-Ore and any of its affiliates shall be apportioned according to the extent that the advertising or marketing benefits each company. Cal-Ore's share of the cost of such advertising or marketing shall not exceed an even division of the cost amongst all companies involved in the joint advertising or marketing.
 - v. Cal-Ore shall not include in its regulated expenses the costs of any joint sponsorships, fundraisers, or charitable donations with its affiliates.
 - vi. Cal-Ore shall not transfer any physical assets that are used and useful without first obtaining necessary approvals from the Commission.
 - vii. Cal-Ore shall conduct financial transactions with its affiliates at "arms-length."
 - viii. Cal-Ore shall ensure that affiliate transactions are conducted

at rates and upon terms no less advantageous than those otherwise available from Cal-Ore from unaffiliated third parties for similar transactions.

- C. Requirements Relating to Service Quality, Safety and Project Reporting. Cal-Ore shall abide by the following requirements relating to service quality, safety and project reporting:
- i. Cal-Ore shall serve ORA and the Commission on an ongoing basis with an Annual Progress Report ("Report") on the status of its plant additions. The report shall be submitted on or before September 15 of each year with information covering an annual period. The Report, which shall be submitted in excel format, and shall be submitted using the format attached herein as Attachment 2 to the Settlement Agreement.
 - ii. If Communications Division facilitates a workshop on the topic of service quality and investments in broadband infrastructure projects, Cal-Ore shall actively participate with ORA in such workshop.
 - iii. Cal-Ore shall make good-faith best efforts to establish formal Mutual Aid Agreements (MAA) with other utilities, emergency responders, and local organizations;
 - iv. Cal-Ore shall incorporate its emergency equipment list into its emergency planning documents;
 - v. Cal-Ore shall incorporate its recovery and restoration strategy into its emergency planning documents.
- D. Other Agreements. Other than the above specific provisions in the Settlement Agreement, resolving Cal-Ore's GRC Application for the Test Year 2018, the parties further agree as follows, among others:
- i. **Compromise and Settlement.** This Agreement constitutes a compromise and settlement of any and all disputed proposals or claims by the Parties; and no action taken by either Party in connection with this Agreement shall be deemed or construed to be (i) an admission of the truth or

- falsity of any proposals or claims made by the other party or (ii) a waiver of any objection or claim in any motion to strike.
- ii. **Settlement Agreement Not Precedent.** 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.
 - iii. **Settlement Agreement Not Severable or Modifiable, except by the parties.** The provisions of this Settlement Agreement are not severable and shall become effective only 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, the Settlement Agreement 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. The Settlement Agreement cannot be amended or changed except by a written amendment signed by all Parties and approved by the Commission.
 - iv. **Commission Has Exclusive Jurisdiction over Settlement Agreement.** The Commission shall have exclusive jurisdiction over all issues related to this Settlement Agreement. 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.
 - v. **Settlement Agreement Binding on Parties.** This Settlement Agreement shall be binding on each signatory to the Settlement Agreement.

- vi. **Parties' Entire Agreement and Understanding.** 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. Any uncertainty or ambiguity in the Settlement Agreement shall not be interpreted against any party on the basis that such party drafted or prepared the Settlement Agreement.
- vii. **Admission of Testimony into the Record of Proceeding.** As further provided in Section 10 below and in the Settlement Agreement, Cal-Ore and ORA agree (and thus request) to admit into the record of this proceeding testimony already served (by the parties), 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.
- viii. **Agreement Resolves All Issues.** The Settlement Agreement resolves all outstanding issues in this proceeding.

The parties assert that in reaching the above settlement, they applied their expertise, experience and knowledge of the issues in this case, and that based on "the breadth and thoroughness of discovery in this case [that] facilitated well-informed settlement discussions," that have demonstrated that the Settlement Agreement is reasonable. The parties argue that the mutual endorsement of the Settlement Agreement by the parties attests to the reasonableness of the pending settlement, and that all parties believe that the settlement is a fair, agreed-upon resolution of Cal-Ore's GRC.

The parties contend that the Settlement Agreement, of which essential terms are presented above, is reasonable in light of the whole record, consistent with law, and in the public interest. Accordingly, the parties request that the Commission finds that the Settlement Agreement meets the requirements and/or

standards under Rule 12.1(d), and adopts the Settlement Agreement as a full resolution of the issues in this proceeding.

7.1 Rulings and Information Received After the Filing of Settlement Agreement

Following the filing of the Joint Motion for the adoption of the Settlement Agreement, the ALJ issued a ruling on May 26, 2017 in order to obtain additional information in support of the proposed settlement from the parties, and/or require explanations (from the parties) regarding various provisions of the Settlement Agreement. The parties timely responded to the ALJ ruling, and submitted their joint response on June 5, 2017. The ALJ conducted additional follow up inquiry during the evidentiary hearing on June 8, 2017, and through issuance of a further ruling on July 25, 2017, with responses to be due by August 15, 2017. Parties responded on August 15, 2017.

Parties submitted information in the record that would allow us to adopt the RO in this case. However, the Settlement Agreement did not include the same level of detailed financial information that was in the supplemental information presented by the parties in support of the Settlement Agreement. Based upon the record in this case, the figures in Appendix 2 shall be adopted by the Commission as TY 2018 RO. We find that Appendix 2 is reasonable, and that it reflects TY 2018 RO based the record in this proceeding.

The parties contend that the TY 2018 RO updated and found at Appendix 2, should be used only for the limited purpose of determining and/or performing the “means test” component of Cal-Ore’s future annual CHCF-A filing. The Commission disagrees with the parties’ proposed limited use of Appendix 2, and finds it reasonable and appropriate to adopt the figures shown in Appendix 2 for all purposes consistent with established and historical GRC processes practiced by the Commission Industry Divisions, including

Communications Division. Adoption of the updated TY 2018 RO is not in conflict with the Settlement Agreement, is part of the record in this proceeding and may be adopted in addition to the terms of the Settlement Agreement.

7.2 Settlement Agreements and Rule 12.1 Analysis

In evaluating a settlement, the Commission is guided by Rule 12.1(d), which requires that the settlement be reasonable in light of the whole record, consistent with law, and be in the public interest.²⁷ Generally, the parties' evaluation carries material weight in the Commission's review of a settlement.²⁸

This Settlement Agreement was reached after significant data exchange between the parties, submission of testimony, provision of required notices by Cal-Ore to its customers, public and elected officials, public participation hearing and negotiations between the parties.²⁹ ORA conducted a site visit of Cal-Ore offices within its service territory, and issued detailed sets of data requests, in addition to "Minimum Data Requests" issued before the Application was submitted pursuant to the Rate Case Plan in order to examine the issues raised by Cal-Ore's Application, and test the validity of Cal-Ore's statements and conclusions. Cal-Ore responded to each of the data requests with substantially responsive information. In addition, Cal-Ore submitted direct testimony supporting the relief sought in the Application, and ORA submitted responsive testimony. Cal-Ore served rebuttal testimony to ORA's testimony. On May 3, 2017, the parties held a duly-noticed all-party settlement conference in

²⁷ Rule 12.1(d); *See also* D.07-05-060.

²⁸ *In re Southern California Gas Co.* (1999) D.00-09-034, 2000 Cal. PUC LEXIS 694 at *31.

²⁹ *See the parties' Joint Motion at 2; and the Settlement Agreement at 2.*

compliance with Rule 12.1(b), resulting in the execution of the All-Party Settlement Agreement herein. On May 10, 2017, the parties submitted a joint motion for adoption of the all All-Party Settlement Agreement.

The Settlement Agreement resolves each and every issue identified in the Assigned Commissioner's Scoping Memo and Ruling issued on January 27, 2017, and addresses issues raised in ORA's protests, and is a reasonable resolution of these issues. Pursuant to the Settlement Agreement, Cal-Ore accepts rate increases for its residential and business customers, and agrees to an overall intrastate revenue requirement of \$3,144,624 for the test year 2018 (TY 2018) including a subsidy draw of \$1,469,711 from the California High Cost Fund-A. The agreed-to intrastate revenue requirement reflects various adjustments/deductions requested by ORA,³⁰ and substantially addresses the issues raised by ORA in its protest and testimony. Based on this record, the agreed-to intrastate revenue requirement reflects a total reduction of \$702,323 from the originally requested intrastate revenue requirement of \$3,846,947 for the 2018 TY in Cal-Ore's application, and a reduction of \$787,545 in the CHCF-A draw from \$2,257,256.³¹ In addition, Cal-Ore accepts new affiliate transaction rules that will lead to greater transparency, greater accountability and greater reporting of Cal-Ore's dealing and transactions with its affiliates, and accepts new requirements relating to service quality, safety and project reporting that

³⁰ See the Comparison of Parties' Positions and Settlement Terms attached to this decision as Appendix 3.

³¹ The agreed-to \$3,144,624 intrastate revenue requirement and the \$1,469,711 CHCF-A subsidy draw for the test year 2018 are based on the 8.92 percent rate of return (ROR) agreed to by the parties in the Settlement, plus additional adjustments/reductions. Otherwise, Cal-Ore's requested intrastate revenue requirement for the test year 2018 in its application was \$3,353,519 based on the 16.89 percent ROR.

will benefit consumers and ratepayers.

Overall, the record of this proceeding demonstrates that the Settlement Agreement is reasonable in light of the whole record, consistent with law, and is in the public interest, as discussed below. The proposed Settlement Agreement is reasonable because it saves the Commission and the parties significant time and, protects the public interest when compared to the uncertain risk, expense and complexity of a litigated outcome.

The proposed settlement is supported by the record in this proceeding, and the settlement benefits the public by ensuring that: (1) Cal-Ore's CHCF-A subsidy draw for the 2018 TY is reasonable (by reducing the CHCF-A amount Cal-Ore requested in its Application); (2) Cal-Ore's residential and business customers pay rates that are reasonably comparable to the rates urban customers pay, pursuant to Pub. Util. Code § 275.6(c)(3);³² (3) Cal-Ore adopts new affiliate transaction rules that will lead to greater transparency, accountability and reporting of affiliates dealings and transactions; and (4) Cal-Ore adopts new requirements relating to service quality, safety and project reporting that will benefit consumers and ratepayers. Overall, the Settlement Agreement offers a reasonable resolution in light of the evidence, and avoids continued litigation and associated costs.³³

³² The rate increases move the rates paid by Cal-Ore's customers towards the target rates (of not more than 150 percent of basic service rates of California's urban telephone customers) for Cal-Ore's residential customers as established by the Commission in D.91-09-042, and are within the Commission established all-inclusive reasonable rate range of \$30.00 to \$37.00 for residential customers. By raising the rates, the amount of Cal-Ore's CHCF-A proposed subsidy draw is reduced, and the CHCF-A is not overburdened.

³³ See D.07-05-060, OP at 6.

While the Settlement Agreement is binding on the parties, it creates no precedent on the Commission. The Settlement Agreement preserves the Commission's authority and jurisdiction over each and every issue in this proceeding, and over the parties with regards to the interpretation, implementation and enforcement of the Settlement Agreement. The Settlement Agreement provides sufficient information to enable the Commission to enforce its terms and discharge the Commission's future regulatory responsibilities with respect to the parties and interests in this proceeding. The settlement does not contravene any statutory provisions or prior Commission decisions.

In conclusion, the All-Party Settlement Agreement fairly resolves all issues in this proceeding, and complies with Rule 12.1(d). Accordingly, the Commission should adopt the Settlement Agreement as is with the addition of the updated TY 2018 RO set forth in Appendix 2 to this decision.

7.3 Potential for Revenue Shortfall

Finally, given that this decision addressing Cal-Ore's GRC is not effective on January 1, 2018, and in recognizing that the revenue requirement is based on a full year of data, we anticipate a revenue shortfall would result in Cal-Ore not being able to recover its full revenue requirement. In light of this fact, we authorize Cal-Ore to submit a Tier 2 Advice Letter within 30 days of this decision to request the revenue differential between January 1, 2018 and the effective date of this decision, through the CHCF-A fund. The Advice Letter should provide a calculation to "true up" the revenue differential.

8. Safety Considerations

We have considered the potential safety implications of the Settlement Agreement and are satisfied that the intrastate revenue requirement approved in this decision will help Cal-Ore meet the Commission's minimum safety goals

and expectations for small local exchange telecommunications companies and/or carriers, and as a public utility that is required to “... furnish and maintain such adequate, efficient, just and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities ... as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public,” pursuant to Pub. Util. Code § 451.

9. Conclusion

We conclude that Cal-Ore’s GRC Application should be resolved by approving the parties’ All-Party Settlement Agreement. In addition, the intrastate revenue requirement of \$3,144,624 based on the terms of the Settlement Agreement should be adopted subject to the terms and conditions set forth in the Ordering Paragraphs below. The intrastate revenue requirement of \$3,144,624 adopted herein, will enable Cal-Ore fulfill its obligations as a carrier of last resort in its service territory; afford Cal-Ore a fair opportunity to earn a reasonable return on its investments, attract capital for investment on reasonable terms, and ensure the financial integrity of Cal-Ore; and assist Cal-Ore in meeting the Commission’s minimum safety goals and expectations for small local exchange telecommunications companies and/or carriers pursuant to Pub. Util. Code § 451.

10. Request to Admit Testimony

Cal-Ore and ORA agree and thus request that previously served testimony should be admitted into the record of this proceeding, without waiving the right to object to such testimony or to cross-examine witnesses sponsoring the testimony in the event the Commission rejects or modifies the terms of this Settlement Agreement. Based on the agreement of the parties and finding good cause, we admit into the record of this proceeding: (1) Cal-Ore’s opening

testimony (served on October 3, 2016 and supplemental testimony served on January 19, 2017, in support of its Application) consisting of the testimony of Chad Duval, Robert Hensley, Dale Lehman, Edward Ormsbee, Joanne Reuter; (2) ORA's testimony (served on March 10, 2017) consisting of the testimony Laura Roman, Enrique Gallardo, Patrick Hoglund, James Ahlstedt, Quang Pham, and (3) Cal-Ore's rebuttal testimony (served on March 31, 2017) consisting of the testimony of Chad Duval, Dale Lehman, and Edward Ormsbee.

11. Confidential Testimony and Materials under Seal

The parties submitted certain reports, exhibits and testimony designated as "confidential." The marking of these reports, exhibits and testimony as "confidential" is deemed to be a request by each party for leave to file those reports and testimony under seal pursuant to Rule 11.4. These materials, including the confidential work papers and exhibits to Cal-Ore Application and/or testimony, and the confidential testimony of Chad Duval (and supplemental testimony), as well as confidential declarations of Mr. Waihun Yee, Cal-Ore's Controller and Chief Financial Officer, as well as a letter and confidentiality declaration by Mr. Edward Ormsbee, Cal-Ore's President, in support of Cal-Ore's confidentiality designations, and confidential versions of ORA's Exhibits 1-5, along with attached confidential reports, materials and recommendations, contain sensitive financial data, operational and other privileged information, the disclosure of which could place the moving party in serious disadvantage or unfair business disadvantage. Accordingly, the requests to place these materials under seal pursuant to Rule 11.4 are granted as set forth in the Ordering Paragraphs below.

12. Categorization and Need for Hearing

In Resolution ALJ 176-3386, dated October 13, 2016, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were necessary. ORA filed a protest, and this proceeding was scheduled for evidentiary hearings. Although the parties have resolved all outstanding issues through the Settlement Agreement adopted by this decision, evidentiary hearings did occur on June 8, 2017.

13. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

14. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Darcie L. Houck is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On October 3, 2016, Cal-Ore filed this GRC Application seeking to update its intrastate rates and charges, intrastate revenue requirement, establish a rate design and increase its draw from the CHCF-A.
2. The Commission preliminarily categorized this Application as ratesetting, and determined that evidentiary hearings were necessary.
3. ORA filed its protest in this proceeding on November 2, 2016.
4. ORA and Cal-Ore are the only parties in this proceeding.
5. On April 20, 2017, a PPH took place in Dorris, California, to obtain comments and feedback from Cal-Ore's customers.

6. Cal-Ore and ORA served direct and rebuttal testimony of witnesses prepared to testify in support of their respective positions.

7. The parties engaged in significant data exchange, contests and analysis of each other's positions and arguments, after which substantive settlement negotiation occurred between the parties.

8. On May 3, 2017, the parties held a duly-noticed all-party formal settlement conference in compliance with Rule 12.1(b).

9. The parties have arrived at an All-Party Settlement Agreement (Settlement Agreement) resolving all issues in this proceeding.

10. On May 10, 2017, the parties filed a Joint Motion with Commission for adoption of the Settlement Agreement.

11. On June 5 and August 15, 2017, the parties filed additional information with the Commission in support of, and to explain, the Settlement Agreement as directed in rulings issued by the ALJ on May 26 and July 25, 2017 respectively.

12. On June 8, 2017 limited evidentiary hearings were held to receive exhibits into the record, request additional information from the applicant regarding reporting of non-regulated revenues, and to discuss the Test Year 2018 Results of Operations.

13. In response to ORA's data request, Cal-Ore reported a relatively large percentage of non-regulated miscellaneous revenue that it derived from General Order 69-C license agreements.

14. The Settlement Agreement resolves all issues in Cal-Ore's GRC Application for TY 2018.

15. The parties submitted Exhibit A "Updated Attachment A" to the Joint Response of Cal-Ore Telephone Company and the Office of Ratepayer Advocates to the May 26, 2017 ALJ Ruling Seeking Additional Information Regarding

Proposed Settlement as Exhibit JP-1 which was accepted into the record of this proceeding. Exhibit A, Updated Attachment A is labeled "Cal-Ore Telephone Company Test Year 2018 Results of Operations." This document is attached to this decision as Appendix 2.

16. Based on the Settlement Agreement, it is reasonable to approve intrastate revenue requirement of \$3,144,624 (inclusive of \$1,469,711 in CHCF-A subsidy draw), based on the currently approved 8.92 percent cost of capital in D.16-12-035, for Cal-Ore for the 2018 test year.

17. Based on the Settlement Agreement, it is reasonable to approve Cal-Ore's rate design based on the following forecasted revenues:

- a) \$712,207 in Local Network Services revenues;
- b) \$767,362 in Interstate USF support for intrastate revenue requirement;
- c) \$145,410 in intrastate access revenues;
- d) \$49,934 in miscellaneous and uncollectible revenues; and
- e) The remainder necessary to fulfill revenue requirement from the CHCF-A, based on the revenue requirement established pursuant to the formula in subpart (b), above. Under the current approved 8.92 percent cost of capital, a CHCF-A draw of \$1,469,711.

18. Based on the Settlement Agreement, it is reasonable to approve new requirements and/or rules for Cal-Ore and its affiliates as set forth in the Settlement Agreement.

19. Based on the Settlement Agreement, it is reasonable to approve new requirements relating to Cal-Ore's service quality, safety and project reporting as set forth in the Settlement Agreement.

20. Based on the Settlement Agreement, it is reasonable to approve new end-user rates for Cal-Ore's residential and business customers as set forth in the Settlement Agreement; and revision of Cal-Ore's rates for other services as set

forth in the Settlement Agreement.

21. Based on the Settlement Agreement, it is reasonable to permit Cal-Ore to use its current income tax rate for purposes of this Settlement Agreement. If the current income tax rate changes, after the decision is issued in this case and before January 1, 2018, it is reasonable to require Cal-Ore to file a Tier 2 Advice Letter informing the Commission of the revised revenue requirement within 30-days of the tax change taking effect. If the current income tax rate changes on or after January 1, 2018 and after the decision is issued in this case, it is reasonable to require Cal-Ore to file a Tier 2 Advice Letter with revised revenue requirement within 30-days of the tax change taking effect.

22. Given that this decision addressing Cal-Ore's GRC is not effective on January 1, 2018, and recognizing that the revenue requirement is based on a full year of data, we anticipate a revenue shortfall would result in Cal-Ore not being able to recover its full revenue requirement.

23. Cal-Ore is authorized to submit a Tier 2 Advice Letter within 30 days of this decision to request the revenue differential through the CHCF-A fund. The Advice Letter should provide a calculation to "true up" the revenue differential.

24. The Settlement Agreement and record in this proceeding convey sufficient information to permit the Commission to discharge its future regulatory obligations with respect to the parties and their interests.

25. Approving the Settlement Agreement grants the relief requested by the parties, and this relief is not opposed by any party in this proceeding.

26. Pursuant to Rule 11.4, the parties have requested to file under seal confidential materials, including reports, work papers and testimony.

Conclusions of Law

1. Cal-Ore's Application for new intrastate rates and charges for telephone services in California, and draw from the CHCF-A should be granted without modification as set forth in the All-Party Settlement Agreement between the parties (**Appendix 1**).

2. The All-Party Settlement Agreement between the parties complies with Rule 12.1(d) and is reasonable in light of the record, consistent with law and in the public interest and should be adopted. Nothing in the Settlement Agreement contravenes any statute or Commission decision or rule.

3. The Settlement Agreement is reasonable because it affords Cal-Ore the opportunity to provide "adequate, efficient, just and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [their] patrons, employees, and the public."

4. The Settlement Agreement is reasonable because it sets basic rates for Cal-Ore's residential customers that are no more than 150 percent of basic service rates for California's urban telephone customers, and reduces the amount of CHCF-A subsidy draw by Cal-Ore.

5. The Settlement Agreement is reasonable because it requires Cal-Ore to implement new requirements relating to dealings with its affiliate and new requirements relating to Cal-Ore's service quality, safety and project reporting designed to lead to greater accountability and benefits to ratepayers.

6. The Settlement Agreement is binding on all parties, resolves all issues in the proceeding, saves time and resources by avoiding lengthy and costly litigation, and protects public interests and safety by imposing new accountability and service quality requirements.

7. The benefits of the Settlement Agreement to the public outweigh the benefits and/or burden and uncertainties of continued litigation.

8. The agreed-to intrastate revenue requirement of \$3,144,624 (inclusive of \$1,469,711 in CHCF-A subsidy draw) based on the currently approved 8.92 percent cost of capital in D.16-12-035 for the 2018 test year, is reasonable and supported by the record in this proceeding, and should therefore be approved. The agreed-to intrastate revenue requirement for the 2018 TY reflected needed adjustments (deductions) to Cal-Ore's requested intrastate revenue requirement.

9. Cal-Ore's rate design as proposed in the Settlement Agreement, Attachment 1, and based on the following forecasted revenues should be approved:

- a) \$712,207 in Local Network Services revenues;
- b) \$767,362 in Interstate USF support for intrastate revenue requirement;
- c) \$145,410 in intrastate access revenues;
- d) \$49,934 in miscellaneous and uncollectible revenues; and
- e) The remainder necessary to fulfill revenue requirement from the CHCF-A, based on the revenue requirement established pursuant to the formula in subpart (b), above. Under the current approved 8.92 percent cost of capital, a CHCF-A draw of \$1,469,711.

10. Cal-Ore should be required to abide by the requirements relating to its affiliates as set forth in the Settlement Agreement.

11. Cal-Ore should be required to abide by the requirements relating to service quality, safety and project reporting as set forth in the Settlement Agreement.

12. Cal-Ore should be authorized to adopt new end-user rates for its residential and business customers as set forth in the Settlement Agreement; and revise its rates for other services as set forth in the Settlement Agreement.

13. Cal-Ore should be authorized to use its current income tax rate for purposes of this Settlement Agreement; and: (a) if the current income tax rate changes after the decision is issued in this case and before January 1, 2018, Cal-Ore should be required to file a Tier 2 Advice Letter informing the Commission of the revised revenue requirement within 30-days of the tax change taking effect; and (b) if the current income tax rate changes on or after January 1, 2018 and after the decision is issued in this case, Cal-Ore should be required to file a Tier 2 Advice Letter with revised revenue requirement within 30-days of the tax change taking effect.

14. The Commission should rely upon the figures provided in Appendix 2 – The “Cal-Ore Telephone Company, Test Year 2018 Results of Operations and Relevant Comparisons” to: (1) perform the means test to determine Cal-Ore’s annual CHCF-A support beyond calendar year 2019, and (2) for all purposes consistent with established and historical General Rate Case processes practiced by all Commission Industry Divisions, including the Communications Division.

15. The CHCF-A support for TY 2018 should be the CHCF-A amount adopted and reflected in Appendix 2 to this decision.

16. Cal-Ore should submit a Tier 2 Advice Letter within 30 days of this decision to request any revenue shortfall resulting from this decision not being approved as of January 1, 2018, through the CHCF-A fund.

17. Within thirty days of the issuance of this decision, Cal-Ore should file a Tier 2 advice letter with the revised tariff schedules that implement the Settlement Agreement in Appendix 1. The advice letter should be effective for tariffs and serviced rendered as of January 1, 2018. Within seven days of the date that the advice letter is effective, Cal-Ore should notify its customers of the revised tariffs and rates.

18. The parties' requests to file confidential materials, including confidential work papers, exhibits and testimony discussed in Section 11 above, under seal should be granted for three years.

19. All pending motions in this proceeding not specifically addressed in this decision, or previously addressed, should be denied as moot.

O R D E R

IT IS ORDERED that:

1. The May 10, 2017 Joint Motion by the Commission's Office of Ratepayer Advocates, and The Cal-Ore Telephone Co. (U1019C) for the Commission's Adoption of the All-Party Settlement Agreement in Application 16-10-004 is granted pursuant to Article 12.1 of the Commission's Rules of Practice and Procedure.

2. The All-Party Settlement Agreement between the parties (**Appendix 1**) is approved. Pursuant to the terms of the Settlement Agreement, The Cal-Ore Telephone Co.'s Application for new intrastate rates and charges for telephone services in California, and draw from the California High-Cost Fund-A, is granted.

3. The terms of the Settlement Agreement are adopted for the purpose of determining The Cal-Ore Telephone Co.'s intrastate revenue requirement for the 2018 test year, end-user rates, other service rates included in the Settlement Agreement (**Appendix 1**), such as rate of return, income tax liabilities, depreciation, affiliates rules, and requirements relating to service quality, safety and project reporting for the 2018 test year.

4. The Cal-Ore Telephone Co.'s rate design for Test Year 2018 shall be based on the following forecasted revenue sources:

- a) \$712,207 in Local Network Services revenues;
- b) \$767,362 in Interstate Universal Service Fund support for intrastate revenue requirement;
- c) \$145,410 in intrastate access revenues;
- d) \$49,934 in miscellaneous and uncollectible revenues; and
- e) The remainder necessary to fulfill revenue requirement from the California High-Cost Fund-A, based on the revenue requirement established pursuant to the formula in subpart (b), above.

5. Basic residential rate of \$25.00 per month, exclusive of any surcharges, fees, or taxes is adopted for The Cal-Ore Telephone Co. (Cal-Ore) effective January 1, 2018. Within 30 days of the issuance of this decision, Cal-Ore shall file a Tier 2 advice letter with revised tariffs setting the basic residential rate at \$25.00 per month, exclusive of any surcharges, fees, or taxes, effective January 1, 2018. Within seven days of the effective date of the advice letter, Cal-Ore shall notify its customers of the revised tariffs and rates.

6. Basic business rate of \$32.10 per month, exclusive of any surcharges, fees, or taxes is adopted for The Cal-Ore Telephone Co. (Cal-Ore) effective January 1, 2018. Within 30 days of the issuance of this decision, Cal-Ore shall file a Tier 2 advice letter with revised tariffs setting the basic business rate at \$32.10 per month, exclusive of any surcharges, fees, or taxes, effective January 1, 2018. Within seven days of the effective date of the advice letter, Cal-Ore shall notify its customers of the revised tariffs and rates.

7. The revision of Cal-Ore Telephone Co. (Cal-Ore)'s rates for other services as set forth in Attachment 1 to the Settlement Agreement is approved effective January 1, 2018. Within 30 days of the issuance of this decision, Cal-Ore shall file a Tier 2 advice letter with revised tariffs setting forth the revised rates for other services (as provided in the Settlement Agreement), effective January 1, 2018.

Within seven days of the effective date of the advice letter, Cal-Ore shall notify its customers of the revised tariffs and rates.

8. The Cal-Ore Telephone Co. (Cal-Ore) is authorized to utilize its current income tax rate for purposes of this Order. If the current income tax rate changes after the decision is issued in this case and before January 1, 2018, Cal-Ore shall file a Tier 2 Advice Letter informing the Commission of the revised revenue requirement within 30-days of the tax change taking effect. If the current income tax rate changes on or after January 1, 2018 and after the decision is issued in this case, Cal-Ore shall file a Tier 2 Advice Letter with revised revenue requirement within 30-days of the tax change taking effect.

9. The Cal-Ore Telephone Co. is authorized to submit a Tier 2 Advice Letter to the Communications Division within 30 days of this decision to request any revenue shortfall resulting from this decision not being approved as of January 1, 2018, through the California High Cost Fund -A. The advice letter should provide a calculation to “true up” the revenue differential for Test Year 2018.

10. The Cal-Ore Telephone Co. shall disclose all non-regulated revenues, including any and all revenues derived from General Order 69-C transactions, in its next general rate case application and testimony.

11. Pursuant to the Settlement Agreement, The Cal-Ore Telephone Co.’s assumed intrastate revenue requirement of \$ 3,144,624 (inclusive of \$1,469,711 in California High Cost Fund-A subsidy draw) is approved based on the currently approved 8.92 percent cost of capital in Decision 16-12-035, for its 2018 test year.

12. The Results of Operations (Appendix 2) is adopted for the Cal-Ore Telephone Co. for all purposes consistent with established and historical General Rate Case processes practiced by all Commission Industry Divisions, including Communications Division.

13. Subject to the specific terms of, and actual language in, the Settlement Agreement:

- a. The Cal-Ore Telephone Co. (Cal-Ore) and each of its affiliates must be held in separate legal entities.
- b. Cal-Ore shall maintain separate books from its affiliates as to all transactions.
- c. Cal-Ore shall maintain separate bank accounts from its affiliates as to all transactions.
- d. The cost of any advertising or marketing conducted jointly on behalf of Cal-Ore and any of its affiliates will be apportioned according to the extent that the advertising or marketing benefits each company. Cal-Ore's share of the cost of such advertising or marketing will not exceed an even division of the cost amongst all companies involved in the joint advertising or marketing.
- e. Cal-Ore shall not include in its regulated expenses the costs of any joint sponsorships, fundraisers, or charitable donations with its affiliates.
- f. Cal-Ore shall not transfer any physical assets that are used and useful without first obtaining necessary approvals from the Commission.
- g. Cal-Ore shall conduct financial transactions with its affiliates at "arms-length."
- h. Cal-Ore will ensure that affiliate transactions are conducted at rates and upon terms no less advantageous than those otherwise available to Cal-Ore from unaffiliated third parties for similar transactions.

14. Subject to the specific terms of, and actual language in, the Settlement Agreement, The Cal-Ore Telephone Co. (Cal-Ore) shall abide by the following requirements relating to service quality, safety and project reporting:

- a. Cal-Ore shall serve Office of Ratepayer Advocates and the Commission on an ongoing basis with an Annual Progress Report (Report) on the status of its plant additions. The report shall be submitted on or before September 15 of each year with

- information covering an annual period. The Report, which shall be submitted in excel format, will be submitted using the format provided in Attachment 2 to the Settlement Agreement.
- b. If Communications Division facilitates a workshop on the topic of service quality and investments in broadband infrastructure projects, Cal-Ore shall actively participate with ORA in such workshop.
 - c. Cal-Ore shall make good-faith best efforts to establish formal Mutual Aid Agreements with other utilities, emergency responders, and local organizations;
 - d. Cal-Ore shall incorporate its emergency equipment list into its emergency planning documents;
 - e. Cal-Ore shall incorporate its recovery and restoration strategy into its emergency planning documents.
15. The specific terms of the Settlement Agreement as approved and adopted herein shall be binding on all parties. The terms of the All-Party Settlement Agreement shall be enforceable by the Commission against The Cal-Ore Telephone Co. (Cal-Ore) and any violation of its terms may subject Cal-Ore to Commission actions, including penalties or sanctions.
16. All testimony served in this proceeding is admitted into the record of this proceeding. Confidential testimony is admitted and placed under seal.
17. The provisions of the Settlement Agreement shall not be construed as precedent and in no way bind the Commission.
18. The Commission shall have exclusive jurisdiction over all issues related to the Settlement Agreement.
19. The parties' request to place the confidential materials under seal as specifically identified in the June 8, 2017 Joint Motion of the Office of Ratepayer Advocates and the Cal-Ore Telephone Co. to seal portion of the evidentiary record is granted for three years from the date of this decision. The above

confidential materials shall remain under seal for three years. During the three-year period, this information shall not be publicly disclosed except on further Commission order or by an Administrative Law Judge ruling. If the parties believe that it is necessary for this information to remain under seal for longer than three years, the parties may file new motions showing good cause for extending this order by no later than 30 days before the expiration of this order.

20. All pending motions in this proceeding that are not specifically addressed in this decision, or previously addressed in this proceeding, are denied.

21. Application 16-10-004 is closed.

This order is effective today.

Dated _____, at San Francisco, California.