

EXHIBIT 1

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

In the Matter of the Application of Volcano Telephone Company (U 1019 C) 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.15-12-002

(filed December 1, 2015)

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into as of June 13, 2016, by and between Applicant Volcano Telephone Company ("Volcano") and the Office of Ratepayer Advocates of the California Public Utilities Commission ("ORA") in accordance with Article 12 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"). Volcano and ORA are identified herein collectively as the "Parties."

RECITALS

WHEREAS, on December 1, 2015, Volcano filed a general rate case application ("Application") seeking an increase in its revenue requirement, an increase to its draw from the California High Cost Fund A ("CHCF-A"), and modifications to selected rates;

WHEREAS, on December 3, 2015, the California Public Utilities Commission ("CPUC" or "Commission") published in its Daily Calendar public notice of the filing of the Application;

WHEREAS, on January 4, 2016, ORA filed its Protest to the Application opposing certain aspects of Volcano's application;

WHEREAS, Volcano submitted pre-filed testimony from three witnesses addressing the issues raised by the Application;

WHEREAS, ORA issued sixteen detailed sets of data requests, including more than 80 specific questions, many with numerous subparts, and requested additional materials via email correspondence as well as during conference calls and ORA's site visit with Volcano, to examine the issues raised by the Application and test the validity of Volcano's statements and conclusions, and Volcano responded to each of those data requests with substantial responsive information;

WHEREAS, a Pre-Hearing Conference in this proceeding took place on February 5, 2016;

WHEREAS, a Public Participation Hearing took place on April 11, 2016 in Jackson, California;

WHEREAS, ORA submitted its opening testimony on April 25, 2016;

WHEREAS, Volcano submitted its rebuttal testimony on May 23, 2016;

WHEREAS, the Parties engaged in substantive settlement discussions starting shortly after Volcano submitted its rebuttal testimony on May 23, 2016, and leading up until execution of this agreement;

WHEREAS, on June 13, 2016, the Parties held a duly-noticed all-party formal settlement conference in compliance with Rule 12.1(b);

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

AGREEMENT

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

1. The results of operations figures incorporate the following elements:

a. Rate of return: For purposes of calculating revenue requirement, the parties agree to an assumed 14.51% rate of return. The parties further agree, however, that the revenue requirement to be adopted for the 2017 test year should reflect the results of the cost of capital adopted in A.15-09-005.

b. Revenue requirement: Based on the assumed 14.51% rate of return, the parties agree to a revenue requirement in the amount of \$11,148,636. The revenue requirement will be updated based on the results of the cost of capital adopted in A.15-09-005 according to the following formula:

$$\text{Revenue requirement} = \$11,148,636 - [(\$2,443,887 \{\text{current return}\} \times 1.66208)] - (\$16,842,777 \{\text{rate base}\} \times \text{new cost of capital percentage} \times 1.66208).$$

Within 30 days of the issuance of a final decision in A.15-09-005, Volcano will submit a Tier 2 advice letter recalculating its revenue requirement pursuant to the above formula. The resulting revenue requirement will be implemented as of January 1, 2017. To the extent that the cost of capital adopted in A.15-09-005 defers the cost of debt to a calculation in this rate case, Volcano shall submit information calculating its cost of debt in its Tier 2 advice letter filing in accordance with any direction or criteria in A.15-09-005.

c. End user rates and rate design:

- i. Volcano's tariffed basic, residential rates will be modified to \$24.00, exclusive of any surcharges, fees, or taxes, effective January 1, 2017, with no further adjustments until Volcano's next rate case.
- ii. Volcano's tariffed business rates will be modified to \$34.00, exclusive of any surcharges, fees, or taxes, effective January 1, 2017, with no further adjustments until Volcano's next rate case.
- iii. Volcano's rate design will be comprised of the following forecasted revenues:
 1. \$3,433,414 in Local Network Services revenues.

2. \$759,475 in Interstate Universal Service Fund support for intrastate revenue requirement.
3. \$672,250 in intrastate access revenues.
4. \$102,549 in miscellaneous and uncollectible revenues.
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 current assumption of 14.51% cost of capital, a CHCF-A draw of \$6,180,949.

2. Volcano will abide by the following requirements relative to its affiliates:
 - a. Volcano and each of its affiliates must be held in separate legal entities.
 - b. Volcano shall maintain separate books from its affiliates as to all transactions.
 - c. Volcano 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 Volcano and any of its affiliates will be apportioned according to the extent that the advertising or marketing benefits each company. Volcano'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. Volcano shall not pay the cost of any joint sponsorships, fundraisers, or charitable donations with its affiliates.
 - f. Volcano shall not transfer any physical assets that are used and useful without first obtaining necessary approvals from the Commission.
 - g. Volcano shall conduct financial transactions with its affiliates at "arms-length."
 - h. Volcano will ensure that affiliate transactions are conducted at rates and upon terms no less advantageous than those otherwise available to Volcano from unaffiliated third parties for similar transactions.

3. The provisions of this Settlement Agreement are not severable and shall only become effective after the Commission has entered an order approving this Settlement Agreement without modification. In the event this Settlement Agreement is not accepted in its

entirety by the Commission, it shall be deemed to be withdrawn, without prejudice to any claims, positions or contentions that may have been made or are made in this proceeding by any party and shall not be admissible in evidence or in any way described in any proceedings hereinafter. Volcano and ORA agree to admit into the record of this proceeding testimony already served without waiving the right to object to such testimony or to cross-examine witnesses sponsoring such testimony in the event the Commission rejects or modifies the terms of this Settlement Agreement. The provisions of this Settlement Agreement shall not be construed as or deemed to be a precedent by any party or the Commission with respect to any issue, principle, or interpretation or application of law and regulations, for any purpose or in connection with any proceeding before a court of law or any state or federal government regulatory body.

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

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

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

7. The Settlement Agreement may be executed in counterparts.

8. 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.

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

10. This Settlement Agreement cannot be amended or changed except by a written amendment signed by both Parties and approved by the Commission.

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

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

OFFICE OF RATEPAYER ADVOCATES
OF THE CALIFORNIA PUBLIC UTILITIES
COMMISSION

Dated: 6-13-16

By: 
Elizabeth Echols
Director of the Office of Ratepayer Advocates
California Public Utilities Commission

VOLCANO TELEPHONE COMPANY

Dated: 6/14/16

By: 
President
Volcano Telephone Company

EXHIBIT 2

Comparison of Parties' Positions and Settlement Terms

<u>Issue</u>	<u>Volcano's Proposal</u>	<u>ORA's Recommendations</u>	<u>Settlement Terms</u>
Revenue Requirement	\$11,647,597	\$10,920,481	\$11,148,636 based on an assumed rate of return of 14.51%. Revenue requirement will be updated using an agreed-upon formula within 30 days of the issuance of a final decision in A.15-09-005.
End User Rates	Residential: \$21.63	Residential: \$23.17 for Test Year 2017 and increasing 4.91% annually beginning in 2018.	Residential: \$24.00
	Business: \$31.60	Business: \$34.12 for Test Year 2017 and increasing 4.91% annually beginning in 2018.	Business: \$34.00
CHCF-A Draw	\$6,960,938	\$5,983,207	\$6,180,949 (under the current assumption of 14.51% cost of capital)
Affiliate Rules	None	<p>Volcano and its affiliates shall accomplish the following:</p> <ul style="list-style-type: none"> • Be held in separate legal entities. • Maintain separate books for all transactions. • Maintain separate bank accounts for all transactions. • Have no joint advertising or marketing. • Have no overlapping of employees or responsibilities. • Have no joint events, sponsorships, fundraisers, or charitable donations. • Not transfer any physical assets without 	<p>Volcano will abide by the following requirements relative to its affiliates:</p> <ul style="list-style-type: none"> • Volcano and each of its affiliates must be held in separate legal entities. • Volcano shall maintain separate books from its affiliates as to all transactions. • Volcano shall maintain separate bank accounts from its affiliates as to all transactions. • The cost of any advertising or marketing conducted jointly on behalf of Volcano and any of its affiliates will be apportioned according to the extent that the advertising or marketing benefits each company.

Comparison of Parties' Positions and Settlement Terms

		<ul style="list-style-type: none">• first obtaining the necessary approvals from the Commission.• Conduct financial transactions with each other at "arms-length."• Ensure that affiliate transactions are conducted at rates and upon terms no less advantageous than those otherwise available to Volcano from unaffiliated third parties for similar transactions.	<p>Volcano'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.</p> <ul style="list-style-type: none">• Volcano shall not pay the cost of any joint sponsorships, fundraisers, or charitable donations with its affiliates.• Volcano shall not transfer any physical assets that are used and useful without first obtaining necessary approvals from the Commission.• Volcano shall conduct financial transactions with its affiliates at "arms-length."• Volcano will ensure that affiliate transactions are conducted at rates and upon terms no less advantageous than those otherwise available to Volcano from unaffiliated third parties for similar transactions.
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