PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T-17559**
Carrier Oversight and Programs Branch **May 11, 2017**

R E S O L U T I O N

Resolution T-17559. This Resolution Adopts $12.955 Million in California High Cost Fund-A Support for Calendar Year 2017 for Kerman Telephone Company, Siskiyou Telephone Company and Volcano Telephone Company.

Summary

This Resolution adopts $12.955 million in California High Cost Fund-A support for calendar year 2017, to be disbursed to three of the ten Small Incumbent Local Exchange Carriers. Resolution T-17549, adopted on February 9, 2017, approved $25.461 million in California High Cost-A support for the other seven carriers.

This Resolution directs the Communications Division, in concert with the Administrative Services Division, to issue the authorized California High Cost Fund-A support payments to each of the Small Incumbent Local Exchange Carriers on a monthly basis within 30 days after the close of each calendar month. The California High Cost Fund-A support payments for Calendar Year 2017 are contingent on the availability of funds and subject to final appropriations in the annual Budget Act.

Background

The California High Cost Fund (HCF) was implemented by Decision (D.) 88-07-022, as modified by D.91-05-016 and D.91-09-042, to provide a source of supplemental revenues to three mid-size and 17 Small Incumbent Local Exchange Carriers (Small ILECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service. These decisions provide program guidelines, referred to as Implementation Rules, and require an annual Advice Letter filing process that adjusts straightforward and non-controversial program adjustments, and also determines support for eligible Small ILECs that draw from the fund.

In D.96-10-066, the Commission renamed the HCF to California High Cost Fund-A (CHCF-A). There were originally 17 Small ILECs. Through mergers and consolidations,[1] there are now 13 Small ILECs eligible for CHCF-A funding, 10 of which currently receive CHCF-A support:

1) Calaveras Telephone Company (Calaveras);
2) Cal-Ore Telephone Company (Cal-Ore);
3) Ducor Telephone Company (Ducor);
4) Foresthill Telephone Company (Foresthill);
5) Happy Valley Telephone Company (Happy Valley);
6) Hornitos Telephone Company (Hornitos);
7) Kerman Telephone Company (Kerman);
8) Pinnacles Telephone Company (Pinnacles);
9) The Ponderosa Telephone Company (Ponderosa);
10) Sierra Telephone Company (Sierra).

Three Small ILECs currently do not request support:
1) Happy Valley Telephone Company (Happy Valley);
2) Hornitos Telephone Company (Hornitos); and
3) Winterhaven Telephone Company (Winterhaven).

Public Utilities (P.U.) Code § 275.6 requires the Commission to implement the CHCF-A program to reduce any rate disparity in rural areas charged by small telephone corporations that are subject to rate-of-return regulation. Rate-of-return regulation provides the Small ILECs with an opportunity to earn up to a specific rate-of-return. To facilitate that opportunity, the CHCF-A program funding bridges the revenue differential between the basic service rate revenue paid by the Small ILECs' customers and the revenue requirement needed by a Small ILEC to achieve its authorized rate-of-return. The CHCF-A program is scheduled to sunset on January 1, 2019.[2]

D.10-02-016 established the CHCF-A as a funding mechanism to close the gap between the costs of serving customers residing in high-cost rural exchanges and the revenue collected from those customers under Commission-approved rates, resulting in the

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[1] In D.08-10-010, the Commission authorized the consolidation of three Small ILECs: Citizens Telecommunications Company of Tuolumne, Citizens Telecommunications Company of the Golden State and Global Valley Networks, Inc. with the midsize ILEC of Citizens Telecommunications Company of California Inc., which is now known as Frontier Communications, and subject to the CHCF-B Fund and in D.13-05-028, the Commission authorized the consolidation of Frontier Communications West Coast Inc. into Citizens Telecommunications Company of California Inc. (doing business as Frontier Communications of California).

[2] On September 22, 2014, the Governor signed into law Senate Bill 1364, extending the program from January 1, 2015 to January 1, 2019. The bill is codified in P.U. Code § 275.6(g).

CHCF-A Rulemaking (R.)11-11-007. In this decision, the Commission ordered Communications Division (CD) to draft an Order Instituting Rulemaking to address all relevant issues regarding high-cost support for Small ILECs. On December 18, 2014, the Commission adopted D.14-12-084 and established a new rate floor and rate ceiling for basic residential service. D.14-12-084 also ruled that actual basic service rates would be determined in individual general rate cases.

On June 25, 2015, the Commission adopted D.15-06-048, which established a general rate case (GRC) plan for the Small ILECs. The decision adopted an annual application cycle for the Small ILECs' GRC submissions and established a timeline for processing the GRCs.[3] The decision also held that the Small ILECs' cost of capital would be examined in a consolidated proceeding and the results would be applied in individual GRCs.[4]

On December 15, 2016, the Commission adopted D.16-12-035 in the cost of capital Application (A.) 15-09-005, authorizing the Small ILECs' individual rates of return for each of the Small ILECs that draw from the CHCF-A Fund. D.16-12-035 also determined that with Kerman in (D.16-06-053), Siskiyou (D.16-09-047), and Volcano (D.16-09-049), each having received an interim cost of capital in their respective GRCs completed during 2016, then each of these Small ILECs would now be required to submit an AL separate from the annual AL filing process to incorporate their newly-adopted rates of return and resulting revenue requirements, from which their respective CHCF-A funding for 2017 would be determined. This will be discussed in more detail below.

On February 9, 2017, the Commission adopted Resolution T-17549 which approved a total of $25.461 million in CHCF-A support for Calendar Year (CY) 2017 for the other seven Small ILECs that draw from the fund. This Resolution addressed ALs submitted by the Small ILECs in September 2016 for the annual CHCF-A process, which also included ALs submitted by Kerman, Siskiyou, and Volcano.

However, since the Cost of Capital proceeding was decided late in 2016, Resolution T-17549 also recognized that CHCF-A support for Kerman, Siskiyou, and Volcano, each with respective GRCs already having being adopted with interim rates of return prior to the issuance of the Cost of Capital D.16-12-035, should be addressed through a separate AL submission and resolution.

[3] D.15-06-048, Appendix A, Table 2.
[4] D.15-06-048, OP 2.

This Resolution adopts CY 2017 funding for Kerman, Siskiyou and Volcano, using the rates of return for these companies adopted in D.16-12-035 and addresses adjustments requested for CY 2017. Adoption of this resolution also completes the CHCF-A funding requests for CY 2017.

Discussion

Kerman

In D.16-06-053, the Commission approved Kerman's Test Year (TY) 2016 GRC rate of return of 10%, a revenue requirement of $8,795,000 and a CHCF-A draw of $4,177,111. Ordering Paragraph (OP) 1(e), in D.16-06-053 stated "Kerman Telephone Company's rate of return shall remain 10% until a decision is issued in A.15-09-055 (sic)." [5] In D.16-12-035, the Commission adopted an 8.66% rate of return for Kerman.

Kerman filed AL 411, in February 2017, to reflect its revised CY 2017 rate of return of 8.66%, revenue requirement of $8,506,584, and resulting CHCF-A draw of $3,888,605. CD staff has reviewed Kerman's AL and confirms the accuracy of the proposed revised revenue requirement and CHCF-A draw. The calculation for Kerman's revised revenue requirement and CHCF-A draw is shown in Appendix A, page 1.

Siskiyou

In D.16-09-047, the Commission approved Siskiyou's TY 2017 GRC rate of return of 14.6%, revenue requirement of $15,524,581 and resulting CHCF-A draw of $7,647,647. OP 6 of D.16-09-047 held that "Within 30 days of the issuance of a final decision in A.15-09-005, The Siskiyou Telephone Company shall submit a Tier 2 advice letter recalculating its revenue requirement."

Siskiyou filed AL 409A in February 2017, to reflect its revised TY 2017 rate of return of 8.92%, revenue requirement of $12,271,056 and resulting CHCF-A draw of $4,394,122. CD staff has reviewed Siskiyou's AL and confirms the accuracy of the proposed revised revenue requirement and CHCF-A draw. The calculation for Siskiyou's revised revenue requirement and CHCF-A draw is shown in Appendix A, page 2.

[5] D.16-12-035 resulted from the Cost of Capital proceeding Application (A.)15-09-005.

Volcano
In D.16-09-049, the Commission approved Volcano's TY 2017 GRC rate of return of 14.51%, revenue requirement of $11,148,636 and resulting CHCF-A draw of $6,180,949. OP 9 of D.16-09-049 stated that "Volcano Telephone Company 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".

Volcano filed AL 394B, in February 2017, to reflect its revised TY 2017 rate of return of 9.12%, revenue requirement of $9,639,757 and resulting CHCF-A draw of $4,672,070. CD staff has reviewed Volcano's AL and confirms the accuracy of the proposed revised revenue requirement and CHCF-A draw. The calculations for Volcano's revised revenue requirement and CHCF-A draw is shown in Appendix A, page 3.

Table 1 summarizes the proposed revised revenue requirement and resulting CHCF-A support for CY 2017 for Kerman, Siskiyou and Volcano, based on each company's new rate of return issued in the cost of capital proceeding.

Table 1
Kerman, Siskiyou and Volcano
Calendar Year 2017

Small ILEC	Revenue Requirement	Rate of Return	Monthly Support	Annual Support
Kerman	$ 8,506,584	8.66%	$ 324,050.42	$ 3,888,605
Siskiyou	$ 12,271,056	8.92%	$ 366,176.83	$ 4,394,122
Volcano	$ 9,639,757	9.12%	$ 389,339.17	$ 4,672,070
Totals			$ 1,079,566.42	$ 12,954,797

Adjustments

Table 2 summarizes the adjustments that Kerman, Siskiyou and Volcano requested for CY 2017 as part of the annual CHCF-A AL process, filed in September 2016. [6]

Table 2 Calendar Year 2017 Kerman, Siskiyou and Volcano Requested Adjustments			
	Kerman 409A	Siskiyou AL 405	Volcano AL 390
1 Impacts (Non-Recurring)	**$ -**	$ 197,976.00	$ 55,495.00
a 2016: Rate of Return represcription-2016 FCC USF Reform Order HCLS Impacts (FCC 16-33, Section III.B.6)(FCC 14-190, Section VI.A)	$ -	$ 123,831.00	$ 29,398.00
b 2016: Budget Control Mechanism-2016 FCC USF Reform Order HCLS Impacts (FCC 16-33, Section II.B.6.)	$ -	$ 74,145.00	$ 26,097.00
2 Year 2017 Impacts (Recurring)	$ 8,981.80	$ -	**$ -**
a FCC National Broadband Plan(5% reduction Intercarrier Comp(FCC11-161, Paragraph 851)	$ 8,981.80	$ -	$ -
3 Net Interstate Expense Adjustment			
a Projected 2016 USF-HCLS (Resolution T-17505, Appendix A line 5b)	$ 2,032,176.00	$ -	$ -
b Projected 2017 USF-HCLS (Per NECA)	$ (1,969,663.00)	$ -	$ -
c Net Interstate Expense Adjustment (sum of lines 5a and 5b)	$ 62,513.00	$ -	$ -
4 Total Adjustments (Line 1 + 2 + 3)	$ 71,494.80	$ 197,976.00	$ 55,495.00

1. Revenue Adjustment Associated with Rate of Return Reform (Non-Recurring)

There are three new non-recurring revenue effects for CY 2016. The impacts of these effects, if any, are shown on lines 1a and 1b of Table 2.

Rate of Return Represcription (FCC 16-33, Section III.B.6.) Line 1a, Table 2

In FCC 16-33, Section III.B.6, the FCC will reduce the rate of return for rate-of-return carriers by 0.25% annually from the current 11.25% to 9.75% on July 1, 2021. Effective July 1, 2016, the rate of return was reduced to 11.00%.

[6] Kerman AL 409A; Siskiyou AL 405; and Volcano AL 390.

High Cost Loop Support Reimbursement Rates (FCC 14-190, Section VI.A.) Line 1a, Table 2

The FCC adopted a revised methodology for applying the cap on High Cost Loop Support (HCLS) so that support is distributed more equitably among all high-cost carriers, and to incentivize carriers with the highest loop costs to curb waste in the operation of their study areas. (FCC 14-190, Section VI. 99)

Budget Control Mechanism (FCC 16-33, Section II.B.6) Line 1b, Table 2

The FCC previously adopted an overall budget of $4.5 billion for the high-cost program, and a budget within that amount of $2 billion per year for high-cost support for rate-of-return carriers. It did not, however, adopt a method for enforcing the budget for rate of return carriers. The FCC now adopts a self-effectuating mechanism for controlling total support distributed pursuant to HCLS and CAF Fund Broadband Loop Support to stay within the budget for rate-of-return carriers.

Siskiyou and Volcano have sought reimbursement for Rate of Return Reform as discussed above. These adjustment requests should have been included in the respective GRCs. Since the Siskiyou and Volcano GRC proceedings were for TY 2017, no further adjustments for 2017 may be claimed.

2. **Revenue Adjustment Associated with Connect America Fund – Intercarrier Compensation (Recurring)**

The FCC's Connect America Fund (FCC 11-161) instituted a comprehensive intercarrier compensation reform and established that "For rate-of-return carriers, recovery will be calculated initially based on rate-of-return carriers' fiscal year 2011 interstate switched access revenue requirement, intrastate access revenues that are being reformed as part of this Order, and net reciprocal compensation revenues. This baseline will decline at five percent annually…" The CHCF-A program allows for annual recovery of the difference in the reduction in intercarrier compensation.[7] The resulting adjustment, if any, is reflected in Line 2a (National Broadband Plan (5% reduction Intercarrier Compensation) in Table 2.

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[7] D.91-09-042, Appendix, Part B: "Annual Settlements Effects and HCF Adjustments."

Kerman seeks support for reduced Intercarrier Compensation; however, Kerman is ineligible as, in accordance with rules established in D.91-05-016 and D.91-090-42, the means test cannot be applied in the 12 months following a Small ILEC's GRC, and it is therefore not possible to determine if Kerman is earning above their authorized rate of return.

3. Net Interstate Expense Adjustment

D.91-09-042 authorizes the Small ILECs to include any changes to their federal Universal Service Fund support in the annual CHCF-A filings. In addition, Resolution T-16117 states that any change in USF funding level must be determined for each carrier by the difference between the forecasted USF support for the current year and the forecasted USF support for the coming year. The current year's forecasted USF support is the amount adopted by the Commission for the current year CHCF-A revenue requirement. The coming year's forecasted USF is the amount projected by NECA, the administrator of USF. [8]

The resulting adjustment, if any, is reflected in Line 3c of Table 2.

Kerman seeks support for Net Interstate Expense Adjustment; however, Kerman is ineligible as the means test cannot be applied in the 12 months following a Small ILECs GRC and it is not possible to determine if Kerman is earning above its authorized rate of return.

Means Test and Requested Adjustments

D. 91-09-042 also provides that the means test is not permitted in determining a Small ILEC's CHCF-A funding for the first 12 months after a decision or resolution is issued by the Commission in a GRC proceeding, stating "Such a forecasted rate of return shall not be applied to determine a company's HCF funding levels following 12 months after a decision or resolution is rendered by the Commission in a company's general rate review proceeding." [9] Therefore, with Kerman's TY 2016 GRC having concluded, Kerman is ineligible for adjustments. Additionally, the Siskiyou and Volcano GRC proceedings have concluded for TY 2017, and therefore no further adjustments for 2017 may be claimed. Thus, none of the adjustments are approved.

[8] NECA provided projected 2017 USF payment data on September 30, 2016.
[9] D91.09-042, Appendix, Section B, under "Annual Settlement Affects and HCF Adjustments"

Late Interest

Since the January through March 2017 support payments for Kerman, Siskiyou and Volcano will be paid after their due dates, each company is entitled to late interest for the respective monthly payment due dates of February 1, March 1 and April 1. The late interest will be based on the three-month commercial paper rate issued by financial institutions as per OP 7 of D.02-04-059, as this rate fairly represents the changing time value of money.[10]

Evaluation of CHCF-A Support Level to CHCF-A Budget

The Commission adopted $43.485 million CHCF-A program budget for FY 2016-17 (Resolution T-17491) and estimates $49.611 million for FY 2017-18. Of the budgeted amounts, $41.813 million and $47.939 million (pending approval) are allocated for Local Assistance to the Small ILECs for FY 2016-17 and FY 2017-18, respectively. There are sufficient funds in both the FY 2016-17 and FY 2017-18 budgets to cover CY 2017 CHCF-A support payments to the Small ILECs. These adopted budgets and the associated program support payments are contingent on the availability of funds, and the State's adoption of the CHCF-A program budgets.

Conclusions and Recommendations

CD recommends that the revised CHCF-A support amounts which are based on the rates of return adopted in the Cost of Capital proceeding for Kerman, Siskiyou and Volcano be approved and the AL adjustments be disallowed.

CD therefore recommends that Kerman's support for CY 2017 is $3,888,605; Siskiyou's support for CY 2017 is $4,394,122; and Volcano's support for CY 2017 is $4,672,070, all as shown in Table 1.

Table 1 also shows that the total approved CY 2017 CHCF-A draw for Kerman, Siskiyou and Volcano is $12,954,797. The Commission finds CD's recommended CHCF-A support amounts for Kerman, Siskiyou and Volcano for CY 2017 to be consistent with D.16-06-053, D.16-09-047 and D.16-09-049, respectively.

CD, in concert with Administrative Services Division, shall make the monthly support payments within 30 days after the close of each calendar month subject to the availability of CHCF-A funds and final appropriations adopted in the annual Budget

[10] D.02-04-059 Ordering Paragraph 7, adopted on April 22, 2002.

Act.[11] In the event that the monthly support payments due to the Small ILECs are not paid within 30 days after the close of each calendar month, CD shall include in those payments interest equal to the three-month commercial paper rate.

Safety Considerations

The Small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including P.U. Code § 451 by undertaking all actions "…necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-A subsidy provides the Small ILECs with financial resources to provide safe, reliable and affordable telephone service to their customers in rural, high cost areas.

Reliable telephone service is essential in rural, remote and isolated areas that the Small ILECs serve. The CHCF-A fund provides rural customers with access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 811 for public infrastructure underground location information, and 911 to reach police, fire and emergency medical responders when fire, natural disasters, medical emergencies, or other crises occur.

The CHCF-A fund also promotes customer access to advanced services and deployment of broadband-capable facilities. It has allowed the Small ILECs to locate their facilities underground and use fiber optic cable which protects equipment in case of fire and allows for the quicker deployment of broadband-capable facilities. In some Small ILEC territories, emergency responders set up emergency command centers and the Small ILECs must quickly provide responders with access to high quality voice communications and broadband. This Resolution ensures that the CHCF-A program continues to promote the goals of universal service by subsidizing essential communications links in high cost, rural communities.

Comments

In compliance with P.U. Code § 311(g), the Commission emailed a notice letter on April 7, 2017 informing Kerman, Siskiyou and Volcano, CHCF-A Administrative Committee, and all parties of record in Application 99-09-044 and Rulemaking 01-08-002 and 11-11-007 service lists of the availability of this Resolution for public comments at the

[11] The January, February and March 2017 CHCF-A monthly support for Kerman, Siskiyou and Volcano will be paid upon adoption of this resolution, and the December 2017 CHCF-A monthly support will be paid in January 2018.

Commission's website www.cpuc.ca.gov. The notice letter also informed parties that the final conformed Resolution adopted by the Commission will be posted and available at this same website.

Findings and Conclusions

1. D.16-12-035 adopted Kerman Telephone Company's, Siskiyou Telephone Company's and Volcano Telephone Company's new rates of return of 8.66%, 8.92% and 9.12%, respectively, and ordered Kerman, Siskiyou, and Volcano to apply their new rates of return and resulting revenue requirements and California High Cost Fund-A support through Advice Letter, as directed in their recently concluded General Rate Cases.
2. Kerman filed AL 411 to revise its revenue requirement in accordance with Decision 16-12-035 to $8,506,584 and its CHCF-A draw to $3,888,605, based on its revised rate of return of 8.66% for Calendar Year (CY) 2017.
3. Siskiyou filed AL 409A to revise its revenue requirement in accordance with D.16-12-035 to $12,271,056 and its CHCF-A draw to $4,394,122, based on its revised rate of return of 8.92% for Test Year (TY) 2017.
4. Volcano filed AL 394B to revise its revenue requirement in accordance with D.16-12-035 to $9,639,757, its CHCF-A draw to $4,672,070, based on its revised rate of return of 9.12% for TY 2017.
5. Communications Division staff has reviewed each of these ALs and confirms the accuracy, respectively, of each carrier's proposed revised revenue requirement and CHCF-A draw.
6. Kerman filed its annual AL 409A for CHCF-A support for CY 2017 in September 2016. Siskiyou and Volcano filed their annual ALs (405 and 390, respectively) in September 2016 for CHCF-A support and adjustments.
7. The Commission's means test adopted in D. 91-09-042 is intended to ensure that the Small ILECs are not earning above their authorized rate of return.
8. The means test is not permitted in determining a Small ILEC's CHCF-A funding for the first 12 months after a decision or resolution is issued by the Commission in a GRC proceeding.
9. Kerman's total adjustment request for $71,494.80 is ineligible, as this request was for the TY 2016 GRC, and a means test is not applied in the 12 months following a GRC, per the Implementation Rules for the CHCF-A.

10. The total adjustment requests for Siskiyou and Volcano for $197,976 and $55,495, respectively, are disallowed as these adjustment requests should have been included in each respective GRC, and the proceedings for these GRCs have concluded.
11. The estimated CHCF-A program budget for FY 2017-18 is $49.611 million.
12. There are sufficient funds FY 2016-17 and proposed FY 2017-18 budgets to cover CY 2017 CHCF-A support payments to the Small ILECs.
13. CD's recommended CHCF-A support for CY 2017 of $12,954,797 for Kerman, Siskiyou and Volcano is reasonable and should be adopted.
14. The monthly support payments from January 2017 through December 2017 shall be paid by CD in concert with Administrative Services Division within 30 days after the close of each calendar month.
15. If monthly CHCF-A support payments are not paid within 30 days after the close of each calendar month, CD should include in those payments interest equal to the three-month commercial paper rate.

THERFORE, IT IS ORDERED that:

1. The Commission adopts California High Cost Fund-A support of $12,954,797 for Kerman Telephone Company ($3,888,605); Siskiyou Telephone Company ($4,394,122); and Volcano Telephone Company ($4,672,070) for Calendar Year 2017. This support is contingent on the availability of funds.

2. The Communications Division, in concert with the Administrative Services Division, shall pay monthly support payments to Kerman Telephone Company ($324,050.42); The Siskiyou Telephone Company ($366,176.83); and Volcano Telephone Company ($389,339.17) for January 2017 through December 2017, within 30 days after the close of each calendar month. Late payments for January through March 2017 shall accrue interest at the three-month commercial paper rate, and the total payment plus interest will be reflected in these payments.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 11, 2017, the following Commissioners voting favorable thereon:

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TIMOTHY J. SULLIVAN
Executive Director

APPENDIX A

Kerman Telephone
Revised CHCF-A Support Calculation

	Line 1			Line 5		Line 9
New Revenue Requirement Calculation	$ 8,795,090	-	[(	$ 2,153,024	-	$ 1,864,519)]
	$ 8,795,090	-		$ 288,505		
New Revenue Requirement	$ 8,506,584					
Revenue Requirement: Original less New	$ 8,795,090	-		$ 8,506,584		
Net Change	$ 288,506					
Original CHCF-A Support less Net Change	$ 4,177,111	-		$ 288,506		
Revised CHCF-A Support	$ 3,888,605					

Line		
1	Original Revenue Requirement	$ 8,795,090
2	Rate Base	$ 12,953,795
3	Original Rate of Return	10.00%
4	Net-To-Gross Multiplier*	1.66208
5	Net Revenue at Original Rate of Return	$ 2,153,024
	(Line 2 X 3 X 4)	
6	Rate Base	$ 12,953,795
7	New Rate of Return	8.66%
8	Net-To-Gross Multiplier*	1.66208
9	Net Revenue at New Rate of Return	$ 1,864,519
	(Line 6 X 7 X 8)	

* Net-To-Gross Multiplier calculation in Appendix A Page 4

Siskiyou Telephone
Revised CHCF-A Support Calculation

	Line 1			Line 5		Line 9	
New Revenue Requirement Calculation	$ 15,524,581	-	[(	$ 8,362,936	-	$5,109,410	)]
	$ 15,524,581	-		$ 3,253,526			
New Revenue Requirement	$ 12,271,056						
Revenue Requirement: Original less New	$ 15,524,581	-		$12,271,056			
Net Change	$ 3,253,525						
Original CHCF-A Support less Net Change	$ 7,647,647	-		$ 3,253,525			
Revised CHCF-A Support	$ 4,394,122						

Line		
1	Original Revenue Requirement	$ 15,524,581
2	Rate Base	$ 34,463,072
3	Original Rate of Return	14.60%
4	Net-To-Gross Multiplier*	1.66208
5	Net Revenue at Original Rate of Return	$ 8,362,936
	(Line 2 X 3 X 4)	
6	Rate Base	$ 34,463,072
7	New Rate of Return	8.92%
8	Net-To-Gross Multiplier*	1.66208
9	Net Revenue at New Rate of Return	$ 5,109,410
	(Line 6 X 7 X 8)	

* Net-To-Gross Multiplier calculation in Appendix A Page 4

Volcano Telephone Company
Revised CHCF-A Support Calculation

		Line 1			Line 5			Line 9	
New Revenue Requirement Calculation	$	11,148,636	-	[(	$ 4,061,936	-	$	2,553,057	)]
	$	11,148,636	-		$ 1,508,879				
New Revenue Requirement	$	9,639,757							
Revenue Requirement: Original less New	$	11,148,636	-		$ 9,639,757				
Net Change	$	1,508,879							
Original CHCF-A Support less Net Change	$	6,180,949	-		$ 1,508,879				
Revised CHCF-A Support	$	4,672,070							

Line			
1	Original Revenue Requirement	$	11,148,636
2	Rate Base	$	16,842,777
3	Original Rate of Return		14.51%
4	Net-To-Gross Multiplier*		1.66208
5	Net Revenue at Original Rate of Return	$	4,061,936
	(Line 2 X 3 X 4)		
6	Rate Base	$	16,842,777
7	New Rate of Return		9.12%
8	Net-To-Gross Multiplier*		1.66208
9	Net Revenue at New Rate of Return	$	2,553,057
	(Line 6 X 7 X 8)		

* Net-To-Gross Multiplier calculation in Appendix A Page 4

Net-to-Gross Multiplier Calculation

1	Gross revenue		1.00000
2	Uncollectible		0.00000
3	Net Revenues		1.00000
4	State Income Tax (Tax Rate times Ln. 3)	8.84%	0.08840
5	Federal Taxable Income (Ln. 3 Less Ln. 4)		0.91160
6	Federal Income Tax (Tax Rate time Ln. 5)	34.00%	0.309944
7	Net Income (Ln. 5 Less Ln. 6)		0.60166
8	**Net-To-Gross Multiplier** (Ln.1 Divided by Ln. 7)		1.66208

(End of Appendix A)