Decision 11-05-032 May 26, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Ducor Telephone Company (U1007C) for Modification of Resolution T-17157.	Application 09-07-022 (Filed July 24, 2009)

DECISION REGARDING PETITION TO MODIFY RESOLUTION T-17157

1. Summary

On July 24, 2009, Ducor Telephone Company (Ducor) filed a Petition to Modify Resolution T-17157 (Resolution), by application, asserting that the Resolution contains calculation and/or methodological errors. This Decision grants, in part, Ducor's Petition to Modify the Resolution to correct those calculation errors.

2. Factual Background

Ducor Telephone Company (Ducor) is an incumbent local exchange carrier (ILEC) serving approximately 1,200 access lines in Tulare, Kern, and Tehama Counties, and areas contiguous thereto, furnishing local, toll and access telephone services. Ducor's principal place of business is located in Ducor, California. Ducor serves three exchanges, Ducor, Kennedy Meadows, and Rancho Tehama.

Ducor filed its General Rate Case (GRC) on December 19, 2007, for Test Year 2009, through Advice Letter (AL) 318 in compliance with Decision (D.) 01-05-031.[1] On January 29, 2009, the Commission adopted Resolution T-17157 (Resolution), which approved the Ducor GRC. The Resolution authorized Ducor to receive $2,514,450 in California High Cost Fund-A (CHCF-A) support beginning January 1, 2009.

Rule 16.4 [2] of the California Public Utilities Commission's Rules of Practice and Procedure permits a utility to file a Petition for Modification to request changes be made to an issued Decision or Resolution. The Petition must concisely state the justification for the requested relief, and must propose specific wording to carry out all the requested modifications to the Decision or Resolution. Any factual allegations must be supported with specific citations to the record in the proceeding or to matters that may be officially noticed. Unless the Commission orders otherwise, the filing of a Petition for Modification does not stay or excuse compliance with the order of the Decision proposed to be modified. Therefore, the order remains in effect until the effective date of any decision modifying it.

Ducor filed a Petition for Modification on July 24, 2009. In its Petition, Ducor stated: "The basis for filing this Petition are five discrete and straight forward calculation/methodological errors in the Final Resolution that require correction." Ducor filed its petition within one year of the effective date of the proposed resolution and Communications Division (CD) Staff finds the Petition

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[1] Formal GRCs are filed as Applications with the Commission (See General Order 96-B and General Rules 3.7, 5.1, and 5.2).

[2] Petition for Modification, August 2009.

for Modification to be in compliance with Rule 16.4. The Commission will review whether Ducor's assertions that the Resolution contains five calculation/methodological errors are valid and justified.

3. Issues Before the Commission

3.1. Benefits Ratio

According to its Petition, Ducor states that the Resolution should be modified to correct an error with respect to total benefits. The Resolution stated that, "CD applied a ratio of 42% that it deemed to be more reasonable for rate making purposes." However, Ducor indicates that dividing the total benefits included in CD Staff's work papers by the total salaries results in a 41.1% benefit ratio.

As part of the GRC process, CD asked Ducor to provide a listing of all employees and a breakout of their wages and benefits. CD made adjustments to the wages and benefits and provided Ducor a copy. In the listing, provided by Ducor, CD noted that there are two Service Representatives and one Outside Plant employee who receive no benefits. CD therefore excluded these two employees from the calculation, the resulting benefits to total wages ratio is 42% as stated in the Resolution. CD finds that it did not commit any calculation errors to arrive at the 42% ratio. The Commission finds that no error was committed, and we deny the request with respect to this issue.

3.2. Executive Wages and Benefits

Ducor asserts the Resolution should be modified to correct a calculation error with respect to executive wages and benefits. According to page 8 of the Resolution, CD adjusted Ducor's executive wages to, "appropriately reflect those paid by other California small utilities by limiting the salary of the President to $250,000 per year, the Executive Vice President to $160,000, and the

Vice President to $140,000." Ducor claims that, "CD staff's work papers incorrectly adjust the combined wages and benefits of the three executives referenced to the amounts stated above, and it appears this error is carried forward into the Resolution."

As part of the GRC process, CD requested that Ducor provide a listing of all employees indicating their wages and benefits. CD made adjustments to this listing for ratemaking purposes and provided Ducor a copy of the report that specified "Wages + Benefits: President = $250,000; Executive Vice President = $160,000; Vice President = $140,000." CD used these revised wages and benefits for the three executives in the Resolution.

Upon review of the Petition, CD notes that on page 8, the third paragraph, second sentence of the Resolution may be unclear and should be modified to read: "CD adjusted Ducor's executive total compensation to more appropriately reflect those paid by other California small utilities by limiting the wages and benefits of the President to $250,000 per year, the Executive Vice President to $160,000, and the Vice President to $140,000."

CD concludes that it did not commit any calculation errors but recommends modification of the sentence in question. The Commission finds that no error was committed, and we therefore deny this modification request. We do find the language changes beneficial and we will adopt them here.

3.3. Non-Regulated Allocation Factors for Employee Wages and Benefits

Ducor asserts the Resolution should be modified to correct a calculation error with respect to non-regulated allocation factors for employee wages and benefits. Ducor asserts that the Resolution's non-regulated allocations of employee wages and benefits are incorrect in several respects.

Ducor asserts as follows:

> CD staff used allocation factors that were rounded up from the 2007 allocation factor or, in some cases, were simply the incorrect factor. The result is that the non-regulated allocations are overstated, and expenses understated, by $2,202 in CD Staff's work papers and in the Resolution. The intrastate separations factor results in an additional $1,538 of intrastate expense.

As part of the GRC process, CD asked Ducor to provide a listing of all employees and a break out of their wages and benefits. Ducor had included columns for separations factors for non-regulated and regulated for certain employees. CD made adjustments to the document and gave Ducor a copy. Ducor asserts that the separations factors in this document were used in the GRC and are incorrect. However, Ducor provided the separations factors in its work papers. CD did not change those factors and they were included in the Resolution.

For these reasons, CD concludes that it did not commit any calculation errors. The Commission concurs with CD, and we deny the request with respect to this issue.

3.4. Non-Regulated Adjustments to Total Wages and Expense

Ducor asserts the Resolution should be modified to correct a calculation error with respect to the removal of $287,031 from test year 2009 salaries and wages but did not adjust this number for non-regulated allocations. Ducor states that CD's staff adjustments show that the non-regulated portion of the executive compensation adjustment is $1,404 and instead of removing $287,031 of non-regulated expenses, CD staff should have removed

$285,627 ($287,031-$1,404). In summary, Ducor believes that the salaries and benefits adjustment is overstated by $1,404.

As part of the GRC process, CD asked Ducor to provide a listing of all employees and a breakout of their wages and benefits. Ducor had included columns for separations factors for non-regulated and regulated for certain employees. CD reduced total wages and benefits by $287,031 in the document and used those numbers in calculation of wages and benefits in the Resolution. Ducor asserts that the separations factors in this document were used in the GRC. However, Ducor provided the separations factors in its work papers. CD did not change those factors and they were included in the Resolution.

For these reasons, CD concludes that it did not commit any calculation errors. The Commission concurs with CD, and we deny the request with respect to this issue.

3.5. Demand Elasticity Factor for Residential Toll Restriction and Residential Anonymous Call Rejection

In the Resolution, CD adjusted revenues by a demand elasticity factor of 5% when custom calling and access service rates were increased by 25% or more. However, Ducor asserts that CD failed to apply the 5% elasticity factor to residential toll restriction and residential anonymous call rejection, even though a 25% rate increase was adopted for those services. Therefore, the demand for these two services is overstated by 5% or 44 units rather than 42 for residential toll restriction and 73 units rather than 69 for residential anonymous call rejection. As a result, the test year intrastate revenues are overstated by $175.

CD reviewed the work papers and determined that CD had not applied a 5% elasticity factor to residential toll restriction but did apply that factor to anonymous call rejection. As a result, 2009 test year intrastate revenues are overstated by $66.

Therefore, the Local Network Service amount in the revenue section of Appendix C of the Resolution should be reduced by $66. This change will also result in an additional $66 in CHCF-A funding to Ducor. The Commission finds that a reduction in revenues to reflect the application of an elasticity factor to residential toll restriction should be made and the Resolution modified accordingly.

4. Conclusion

CD found one calculation error in the Resolution. Specifically, the calculation made in Section (3.5): Demand Elasticity Factor: residential toll restriction. While the total impact of the error is negligible, an adjustment is warranted. Accordingly, CD will do the following: (1) Modify the Resolution to correct the error discussed herein, and (2) Remit to Ducor an additional $66 from the CHCF-A.

CD did not find any calculation errors in Section (3.1) benefits ratio; Section (3.2) executive wages and benefits; Section (3.3) non-regulated allocation factors for employee wages and benefits; Section (3.4) non-regulated adjustments to total wages and expense; and (3.5) as it relates to the demand elasticity factor for residential anonymous call rejection. Accordingly, we will make no changes to those items.

5. Notice and Protests

The Application to Modify Resolution T-17157 appeared in the Commission's Daily Calendar on July 28, 2009. No protests were received.

6. Comments on Proposed Decision

The Proposed Decision of the assigned Examiner in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. No comments were filed.

7. Assignment of Proceeding

Jack Leutza is the assigned Examiner in this proceeding.

Findings of Fact

1. The Resolution addressed Ducor's GRC filing.
2. On July 24, 2009, Ducor filed Application 09-07-022, a Petition to Modify Resolution T-17157, alleging the Resolution contained several calculation/methodological errors.
3. The Resolution correctly calculated the 42% benefits to salaries ratio.
4. The Resolution correctly calculated the executive wages and benefits.
5. The Resolution contains wording that is unclear and on page 8, third paragraph, the second sentence is changed to the following: "CD adjusted Ducor's executive total compensation to more appropriately reflect those paid by other California small utilities by limiting the wages and benefits of the President to $250,000 per year, the Executive Vice President to $160,000, and the Vice President to $140,000."
6. The Resolution correctly calculated the non-regulated allocation factors for employee wages and benefits by using the separations factors provided by Ducor in their work papers.

7. The Resolution correctly calculated the non-regulated adjustments to total wages and expense by using the separations factors provided by Ducor in their work papers.

8. The Resolution contains a calculation error with respect to the demand elasticity factor for residential toll restriction. Since the rate for residential toll restriction was increased by 25%, a demand elasticity factor of 5% will be applied to the units. The Resolution will be adjusted accordingly.

9. The Resolution correctly calculated the demand elasticity factor for residential anonymous call rejection.

10. Attachment I contains a corrected version of the Resolution, and its associated revised results of operations.

11. No protests were received.

Conclusions of Law

1. The Applicant's requests should be approved in part, and denied in part.

2. There is no error in the calculation of benefits to salaries ratio.

3. There is no error in the calculation of executive wages and benefits but the text at page 8, paragraph 3, sentence 2 should be changed to read:

> CD adjusted Ducor's executive total compensation to more appropriately reflect those paid by other California small utilities by limiting the wages and benefits of the President to $250,000 per year, the Executive Vice President to $160,000, and the Vice President to $140,000.

4. There is no error in the calculation of non-regulated allocation factors for employee wages and benefits.

5. There is no error in the calculation of non-regulated adjustments to total wages and expense.

6. The Resolution did not apply a 5% demand elasticity factor to the rate for residential toll restriction, and should be modified accordingly.

7. There is no error in the calculation of a demand elasticity factor for residential anonymous call rejection.

8. The revised intrastate revenues for test year 2009 as identified in Appendix C of Resolution T-17157 as modified by this Decision, should be adopted for Ducor Telephone Company.

9. The Commission finds Communication Division's recommended increase to Ducor's test year 2009 CHCF-A support, as shown in Appendix D of Resolution T-17157 in the amount of $66, to $2,514,516, to be reasonable.

O R D E R

IT IS ORDERED that:

1. The Petition for Modification of Resolution T-17157, filed by Ducor Telephone Company on July 24, 2009, is partially granted and partially denied.

2. Resolution T-17157 as modified by Decision 11-05-032, as set forth in Attachment I, is adopted and replaces Resolution T-17157 in its entirety.

3. The Communications Division shall publish Resolution T-17157 as modified by Decision 11-05-032 on the Commission's website and place it in the file of Advice Letter 318.

4. Ducor Telephone Company's test year 2009 California High Cost Fund-A support is increased by $66 to $2,514,516, as shown in Appendix D of Resolution T-17157.

5. The Communications Division shall remit the additional California High Cost Fund-A amount of $66, for test year 2009, to Ducor Telephone Company.

This amount represents the California High Cost Fund-A amount that Ducor Telephone Company would have received if the calculation error, as identified in Sections 3.5, had not occurred.

6. Application 09-07-022 is closed.

This order is effective today.

Dated May 26, 2011, at San Francisco, California.

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners

D1105032 Attachment I