

Decision 11-05-036 May 26, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of The Ponderosa Telephone
Co. (U1014C) for Modification of
Resolution T-17132.

Application 09-06-015
(Filed June 16, 2009)

DECISION REGARDING PETITION TO MODIFY RESOLUTION T-17132

1. Summary

On June 16, 2009, Ponderosa Telephone Company filed a Petition to Modify Resolution T-17132 (Petition) by application, asserting that the Resolution contains calculation and/or methodological errors. This decision grants, in part, Ponderosa's Petition to Modify the Resolution to correct calculation errors.

2. Background

Ponderosa Telephone Company is an Incumbent Local Exchange Carrier serving approximately 9,300 business and resident access lines in parts of Madera, Fresno and San Bernardino counties, and thereto, furnishing local, toll and access telephone service. Ponderosa's principal place of business is located in O'Neals, California. Ponderosa serves the following exchanges: Auberry, Big Creek, Cima, Friant, North Fork, O'Neals, Shaver and Wishon.

Ponderosa filed its Test Year 2009 General Rate Case (GRC) on December 28, 2007 and June 10, 2008, through Advice Letter (AL) 374 and AL 374A, respectively in compliance with Decision 01-05-031.¹

On January 29, 2009, the Commission adopted Resolution T-17132, which addressed the informal GRC filed by Ponderosa through AL 374. In that Resolution, the Commission authorized Ponderosa to receive \$3,680,994 in California High Cost Fund-A (CHCF-A) support for Test Year 2009.²

Rule 16.4³ of the California Public Utilities Commission 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 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 Resolution proposed to be modified. Therefore, the order remains in effect until the effective date of any Decision modifying it.

Ponderosa filed a Petition for Modification on June 16, 2009. In its Petition, Ponderosa states:

¹ Formal GRC's are filed as Applications with the Commission (see General Order 96-B General Rules 3.7, 5.1 and 5.20).

² See Attachment 1.

³ Petition for Modification, August 2009.

...this application is filed to rectify two discrete and straightforward calculation/methodological errors in the final Resolution.

Ponderosa filed its Petition within one year of the effective date of the proposed Resolution and Communications Division (CD) Staff finds the Petition for Modification to be compliant with Rule 16.4. The Commission will review whether Ponderosa's assertions of two calculation/methodological errors in the Resolution are valid and justified.

3. Issues Before the Commission

3.1. Income Tax Expense

According to its filed Petition, Ponderosa states the Resolution should be modified to correct a calculation error with respect to the income tax expense.

Ponderosa states:

...the income tax expense in the Resolution is an incorrect fixed charge amount as included by CD Staff...

and

The Resolution, in reliance on CD Staff's work papers, calculated the fixed charge amount as being \$450,036. That work paper is attached as Attachment A. The correct fixed charge amount is \$421,650.⁴

During the GRC process, Ponderosa revised its long term debt , resulting in a 2.035% weighted cost percentage calculation, as opposed to CD's initial calculation of 1.939% for the fixed charge amount. A lower amount for the fixed charge increases the tax calculation contained in the Resolution, which leads to a higher revenue requirement. The Resolution does not reflect this updated figure.

⁴ Application (A.) 09-06-015 at 2.

The revised figure causes a decrease of \$28,386 in the total company income tax expense, and consequentially a higher revenue requirement; which increases Ponderosa's CHCF-A draw to \$18,793 per year. CD Staff agrees with Ponderosa that the incorrect factor was utilized in the Resolution creating a lower income tax liability and a lower CHCF-A draw for Ponderosa.

The Commission finds that a correction for this item is necessary. CD Staff should make the necessary adjustment to Attachment 1 of Resolution T-17132, and revise the CHCF-A draw amount.

3.2. Rent Escalation Factor

According to its Petition, Ponderosa asserts that the Resolution should be modified to correct for a rent expense calculation error. Ponderosa states:

The Resolution states that rent is one of four detail expense accounts considered in Ponderosa's rate case...and that CD accepted Ponderosa's historical ratio of labor and non-labor expenses and used these ratios to escalate expenses into the test year using DRA's estimated labor and non-labor escalation factors.⁵

Ponderosa further asserts that the rent expense should be escalated for inflation using the Constant Dollar Method.

In its Petition, Ponderosa references Calaveras draft Resolution T-17184:

CD accepted Calaveras's recorded rent expense and escalated it into the test year using DRA's estimated non-labor escalation factor.⁶

⁵ A.09-06-015 at 3.

⁶ Calaveras Draft Resolution T-17184 at 6.

Ponderosa, however, is incorrect as the Commission revised Calaveras's Resolution T-17184 to read:

CD accepted Calaveras's recorded rent expenses **but did not** escalate it into the test year using DRA's estimated non-labor escalation factor.⁷ (Emphasis added)

Likewise, CD Staff also did not apply an escalation factor when calculating Ponderosa's rent expenses. Rent expenses are not subject to the same variability as other types of expenses, and are recognized as a fixed cost due to lease agreements, unless otherwise identified by the utility. CD Staff did accept Ponderosa's recorded rent expenses, but did not escalate it into the test year using the Commission's estimated non-labor escalation factor, as Ponderosa made no assertion, nor provided justification that it was subject to increase.

The Commission agrees with CD's recommendation, and does not find a calculation error in the rent expense estimate.

4. Conclusion

The Commission has determined that one error did occur in the calculations that CD performed in the Resolution. Specifically, there was an error in the Section (4.1) income tax calculation. The Commission did not find any calculation errors in the Section (4.2) rent escalation factor. Although the total impact of the error is modest, the Commission finds that an adjustment is warranted. Accordingly, CD will both modify Resolution T-17132 to correct the error discussed herein; and remit to Ponderosa an additional \$18,793 from the

⁷ T-17184 at 9.

CHCF-A. This modification and the revised results of operations will be shown in Attachment I of this Resolution.

5. Notice and Protests

The Application to Modify the Resolution appeared in the Commission's Daily Calendar on June 18, 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 Rule 14.3 of the Commission's Rule of Practice and Procedure. Comments were filed on May 16, 2011 by the Ponderosa Telephone Company. No changes were made in response to comments.

7. Assignment of Proceeding

Jack Leutza is the assigned Examiner in this proceeding.

Findings of Fact

1. Resolution T-17132 (Resolution) addressed Ponderosa Telephone Company's informal GRC filing.
2. On June 16, 2009, Ponderosa Telephone Company filed A.09-06-015; a Petition to Modify Resolution T-17132, alleging the Resolution contained two calculation/methodological errors.
3. The Resolution inadvertently calculated the income tax expense creating a lower income tax liability for Ponderosa Telephone Company and resulting in a lower CHCF-A draw than stated in the Resolution.
4. The Resolution correctly calculated the rent expense amount, and CD does not recommend making any adjustments.
5. Attachment I contains a corrected version of the Resolution T-17132 and its associated revised results of operations.

6. No protests were received.

Conclusions of Law

1. The Applicant's request should be approved in part, and denied in part.
2. Ponderosa Telephone Company revised its long-term debt expense from what it initially submitted in AL 374. This revision changed the weighted cost percentage calculation of an income tax expense.
3. CD Staff accepted an adjustment in the weighted cost percentage of an income tax expense and should make an adjustment in Attachment I of Resolution T-17132.
4. There is no error in the calculation of Rent Expense.
5. The reference to Calaveras Telephone Company's Draft Resolution T-17184 page 9, as cited by Ponderosa Telephone Company was revised by the Commission to read:
 6. [The]Communications Division accepted Calaveras's recorded rent expenses but did not escalate it into the Test Year using the Division of Ratepayer Advocates' estimated non-labor escalation factor.
7. The revised intrastate revenues, expenses, and rate base amounts for Test Year 2009, as identified in Attachment I of Resolution T-17132, Appendix C, column (E) of Resolution T-17132 as modified by D.11-05-036 should be adopted for the Ponderosa Telephone Company.

O R D E R

IT IS ORDERED that:

1. The Petition for Modification of Resolution T-17132, filed by Ponderosa Telephone Company on June 16, 2009 is partially granted and partially denied.
2. Resolution T-17132, as modified by Decision 11-05-036 and set forth in Attachment I, is adopted and replaces Resolution T-17132 in its entirety.
3. The Communications Division is directed to publish Resolution T-17132 as modified by Decision 11-05-036 on the Commission's website and place it in the file of Advice Letter 374.
4. The Communications Division is directed to remit the additional California High Cost Fund-A amount of \$18,794 to Ponderosa Telephone Company. This amount represents the California High Cost Fund-A amount that Ponderosa Telephone Company should have received if the calculation error, as identified in Section 3.1 above, had not been made.
5. Application 09-06-015 is closed.

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