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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division **RESOLUTION T-17048**
Carrier Branch **December 14, 2006**

R E S O L U T I O N

Resolution T-17048. Foresthill Telephone Company. (U-1009-C). General Rate Case Filing In Compliance With G. O. 96-A, Paragraph VI; And To Withdraw Interexchange Receiving Service in Cal. P.U.C. Schedule No. A-9.

By Advice Letter No. 263, filed on March 2, 2006, as Supplemented by Advice Letter No. 263A, filed on March 20, 2006.

Summary

This Resolution authorizes California High Cost Fund-A (CHCF-A) support for Foresthill Telephone Company (FTC) of $3,022,819 for test year 2007, with an overall Intrastate Rate of Return of 10.00%, resulting in an intrastate revenue increase of $3,022,819 from Telecommunication Division's proposed rates.

This Resolution also authorizes FTC to withdraw the Interexchange Receiving Service (IRS) in Cal. P.U.C. Schedule No. A-9.

Primarily, this Resolution addresses the General Rate Case (GRC) Request filed by FTC on March 2, 2006 in Advice Letter (AL) 263, as supplemented by AL 263A, filed on March 20, 2006. In AL Nos. 263 and 263A, FTC proposes that: a) its multiple zone rate structure be eliminated for residential and business services. The proposed monthly residential rate is $16.05, which is approximately equal to the 150% level of comparable California urban rates.[1] The proposed monthly business rate is $29.30, which is the current Zone 2 business rate; b) its IRS be withdrawn as there are no customers currently receiving this service; c) its tariff schedules be revised to reflect the changes authorized by this

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[1] See page 5 for discussion about the relevance of the 150% level of comparable California urban rates.

Resolution; d) it be granted a 10.00% intrastate Rate of Return (ROR); e) its California High Cost Fund-A (CHCF-A) draw for 2007 be $3,521,727; and f) the majority of its depreciation rates for test year 2007 be revised.

Background

FTC is a local exchange carrier providing telephone services with approximately 3,200 access-lines in the Sierra foothills just east of Sacramento. Its service territory is a rugged and sparsely populated section of Placer County. FTC furnishes telephone services throughout its service area largely to residential customers with relatively few business customers.

FTC was founded in 1907 by the Langstaff Family. In 1946, FTC passed from the Langstaffs to the Hoeper Family. In Decision (D.) 05-05-045, dated May 26, 2005, the Commission approved Application (A.) 05-03-008, authorizing the sale and transfer of Hoeper's stock to Sebastian Enterprises, Inc. (SEI), for approximately $14.5 million in cash, and recognized that SEI may take control of Foresthill through an intermediate subsidiary, if deemed necessary or convenient to secure financing or for related reasons. SEI, a California corporation, is a holding company located in Kerman, California. SEI is the parent company of Kerman Telephone Co., a rural incumbent local exchange carrier and Kertel Communications, Inc., a provider of communications equipment and various communications services.

In A.05-03-008, FTC discussed a federally sponsored Rural Utilities Service (RUS) financing contingency, in which SEI would obtain financing from RUS for an amount not less than $10 million on terms reasonably satisfactory to SEI, to help finance SEI's acquisition of FTC's stock. To accomplish this stock purchase, SEI formed a subsidiary named Fortel, a California corporation, and used Fortel to purchase the stock of FTC. According to FTC, SEI made an equity contribution of $4 million for the acquisition of Hoeper's stock. Fortel and SEI also obtained a line of credit in the amount of $10.5 million with Bank of America (BofA) to complete the stock acquisition transaction. The BofA line of credit was secured by the assets of the borrowers and carried an interest rate of prime minus 0.50 percentage points and had an initial term of 150 days, which was extended for up to 12 months when the loan commitment from RUS was issued.[2] The term for the BofA line of credit ended on July 31, 2006.

[2] The bank prime rate is 8%, as of the June 1, 2006 Federal Reserve Statistical Release daily update.

As a result of the initial stock purchase, Fortel became the owner of all the outstanding shares of Foresthill. On August 25, 2005, SEI merged Foresthill with Fortel.[3] Each outstanding share of Fortel was converted to one (1) share of Foresthill. As part of the merger, Foresthill assumed all the liabilities of Fortel. Fortel then ceased to exist and Foresthill became a wholly owned subsidiary of SEI. Thus, Foresthill assumed co-liability for the BofA debt used to acquire it and attempted to pledge its assets as security for the loan.

On August 26, 2005, in compliance with Ordering Paragraph Number 3 of D.05-05-045, FTC sent a letter to the Commission informing it that the control and ownership of FTC had been legally transferred to SEI, as of August 25, 2005.

On June 29, 2006, in D.06-06-068 the Commission authorized FTC, with conditions, to enter into a loan agreement with the United States of America, acting through the RUS and the Rural Telephone Bank (Bank) for the purpose of borrowing $24,901,250 to be used for system upgrades and to replace a higher cost interim financing arrangement; and in connection with the loan, to execute mortgages and security instruments, pursuant to Pub. Util. Code (Code) §§ 816, 817, 818 and 851.[4] The decision also approved, on a prospective basis, the merger of Fortel, Inc. (Fortel) into FTC.

Over the past several years, FTC has experienced a decline in its intrastate rate of return. SEI claims that since the existing plant has been neglected, FTC is not able to continue to keep pace with changing technology. With the change in ownership, SEI states it intends to upgrade and modernize both the plant and operations of FTC. FTC indicates that it will invest over $9,670,000 in upgrades to plant during 2006 and test year 2007.

Notice/Protests

FTC states that copies of the Advice Letter Nos. 263 and 263A were mailed to competing and adjacent utilities and/or other utilities. Notice of AL 263 was published in the Commission Daily Calendar of March 6, 2006. Notice of AL No. 263A was published in the Commission Daily Calendar of March 22, 2006. No protests to Advice Letter Nos. 263 and 263A have been received.

On April 26, 2006, TD Staff held a Public Meeting in Foresthill, CA, to explain FTC's filing to its customers and to give customers the opportunity to ask questions of FTC's management and TD staff. FTC notified customers of the rate review request and public

[3] On August 25, 2005, Fortel filed a Certificate of Ownership Merging Fortel, Inc. into Foresthill Telephone Company with the Office of the Secretary of State of the State of California, attached as part of Exhibit A to A.05-10-026.

[4] All statutory references are to the Public Utilities Code unless otherwise indicated.

meeting by a bill insert. Approximately 12 current FTC employees; 4 TD staff members; the former owner of FTC; and a friend of the former owner attended the Public Meeting.

Discussion

Total Operating Revenues

FTC stated in its AL-263A supplemental filing that its projected total company operating revenues for test year 2007 (before any CHCF-A support) is $4,179,205. This amount is comprised of local exchange revenues of $799,751, proposed 2007 Federal Universal Service Fund (USF) support of $527,714; intrastate access revenues of $662,630; interstate access revenues of $2,129,367; miscellaneous revenues of $61,029; and uncollectible revenues of ($1,286). See Appendix A.

FTC is requesting $3,521,727 in CHCF-A support to supplement its revenues. CHCF-A provides a source of supplemental revenue to 17 small local exchange carriers (LECs) for the purpose of mitigating rate disparity of basic telephone service between rural and metropolitan areas.

TD estimates that FTC's projected total company operating revenues for test year 2007 (before any CHCF-A support) to be $4,057,879. TD's estimate is $220,686 (or 5.44%) lower than FTC's 2007 projected total company revenue amount (before any CHCF-A support). TD's amount is comprised of local exchange revenues of $902,021; proposed 2007 USF support of $303,773; intrastate access revenues of $662,630; interstate access revenues of $2,129,367; miscellaneous revenues of $61,310; and uncollectible revenues of ($1,222). See Appendix B.

On October 12, 2006, TD received the National Exchange Carrier Association's (NECA) projected 2007 USF Payments, which listed the 2007 USF payment to Foresthill in the amount of $303,948.

A comparison of TD's and FTC's estimates of total company results of operations at present rates for test year 2007 (before CHCF-A support) is shown in Appendix B. A comparison of TD's and FTC's estimates of results of operations for test year 2007 broken down into total company, interstate and intrastate, at proposed rates (before CHCF-A support) is shown in Appendix C.

FTC proposes to make several major changes that will affect their projected revenues. FTC proposes to add new services such as: (1) Digital Subscriber Line (DSL) broadband Internet access; (2) custom calling (CLASS) features; (3) inside wire maintenance; and (4) voice mail. FTC also proposes to eliminate its zone rate structure and bring its residential and business monthly rates to one rate each of $16.05 for residential customers and $29.30 for business customers. Currently, FTC's zone rate structure consists of 4 different zone rates for residential customers and 4 different zone rates for business customers. FTC stated that its zone rate structure had to be eliminated in order to meet the requirements for an RUS loan from the United States Department of Agriculture (USDA).

FTC's proposed monthly residential rate of $16.05 per line is approximately 150% of SBC's monthly local flat rate (currently $10.69[5]), and is in accordance with the recommendation of D.91-09-042. The CHCF-A guidelines in Appendix B of D.91-09-042 requires a small LEC's CHCF-A requirement to first be met by increases in its local exchange rates up to, but not to exceed, 150% of comparable California urban rates. After this rate limit has been met, the small LECs can then apply for CHCF-A funding if they make regular GRC filings as indicated in D.91-09-042.

TD accepts FTC's proposal to eliminate its zone rate structure, but recommends that FTC raise its monthly business rate to $30.80 per line, from its proposed $29.30 per line. Under this new single business rate, current Zone 1 business customers' per line local rates will increase by approximately 17%; current Zone 2 rates will increase by approximately 5%; current Zone 3 rates will decrease by approximately 5%; and current Zone 4 rates will decrease by approximately 13%. This increase from $29.30 (FTC's original request in AL 263) to $30.80 (TD's recommendation) is reasonable as it can easily be borne by the approximate 300 business customers in the current Zones 1 and 2 of FTC's territory. Unlike residential customers, businesses have the option of passing rate increases onto their customers through higher prices. In addition, the $30.80 rate is less than or comparable to the local monthly business rates for other small phone companies such as Volcano Telephone Company[6], and Kerman Telephone Company[7].

The total incremental impact of the rate restructuring is ($100,558), which is the difference between the present rate condition and the proposed rate condition. This is illustrated further in Appendices C and D.

FTC indicated that its billing and collection revenues will be reduced by 90% from 2006 to 2007 due to the discontinuance of its Billing and Collection (B&C) services for AT&T. FTC stated that these services were discontinued because B&C services provided to interexchange carriers (IXCs) typically are not profitable in today's marketplace; its B&C contracting process with IXCs has become more difficult; and the IXC contract

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[5] SBC/AT&T Tariff A5; Sheet 215 at: http://www.sbc.com/search/tariffs.jsp?category=CALIFORNIA/NETWORK_AND_EXCHANGE_SERVICES

[6] Pioneer and Volcano exchanges - $30.70 per line; Kirkwood exchange - $31.00 per line and West Point exchange - $31.60 per line.

[7] Kerman and Biola exchanges - $34.80 per line. Kerman is FTC's sister company under Sebastian Enterprises. Inc. (SEI).

requirements to bill and collect toll revenues has led to additional costs and administrative complexities. FTC states that AT&T is the last carrier for which it provided billing and collection services.

FTC also states that it had made an adjustment to revenues associated with wireless billed access minutes. In 2005, the FCC changed the reciprocal compensation requirements between LECs and commercial mobile radio service providers whereby compensation arrangements must now be negotiated and can no longer be in the LECs' tariffs.[8] FTC indicated that its current negotiations with wireless carriers reveal that FTC may only be able to collect 50%, or less, of the current amounts owed compared with what FTC had been able to collect in years prior to 2005.

FTC originally estimated an annual decline of 1% in its intrastate access line revenue (the revenue received by a LEC from subscribers or other telephone companies for the use of the LECs local exchange network facilities) for the coming years. In its supplemental filing (AL 263 A), FTC stated that a review of their 2003 and 2004 access revenue figures revealed an actual annual decline of 4%. FTC expects this 4% annual decline to continue into future years. FTC explains that this decline in access minutes is likely due to its customers increasingly using their wireless telephone, instead of their landline telephones, to make and receive calls and that sometimes these wireless calls are never even routed over FTC facilities. FTC explains that this trend is expected to continue and at some point in the future, access minutes will disappear completely.

FTC states Federal USF support is provided in arrears and is distributed to carriers approximately 2 years after investments are made or costs incurred. FTC estimates that it will receive approximately $500,000 in Federal USF support in 2007, over $1 million in 2008 and over $1.5 million in 2009. These amounts will offset the amounts that FTC will request from the CHCF-A which it estimates will steadily decline from $3.5 million in 2007, to 2.5 million in 2008, and to $2 million in 2009.

FTC representatives informed TD staff that the number of access lines is declining as many FTC customers cancel their second telephone line when they subscribe to FTC's new DSL service offering. Customers previously used the second line only for voice while using the primary line to dial-up Internet access.

[8] On February 24, 2005, the Federal Communications Commission (FCC) released its Declaratory Ruling and Report and Order in its Inter-carrier Compensation Docket (CC Docket No. 01-92; (the T-Mobile Decision). The T-Mobile Decision established a new rule prohibiting LECs from imposing compensation arrangements on commercial mobile radio service providers ("CMRS") through tariffs. Instead, local exchange carriers must negotiate compensation arrangements with CMRS providers.

In a data request response, FTC indicates that they currently collect $1,060.90 per month ($12,731 per year) in rent revenue from Verizon (Wireless). This payment is for FTC allowing Verizon to locate its wireless antennas on FTC's microwave tower, which is adjacent to FTC's central/business office. This amount is booked in FTC's "Rents" account as $12,450 per year. TD has increased its revenue calculation by $281 ($12,731 minus $12,450) for the 2007 test year to correct for this minor error.

On June 8, 2006, FTC filed Advice Letter No. 268, to add a discount concession calling plan for its employees. FTC indicated the revenue impact of the plan would be a decrease of $2,311 ($2,311) in test year 2007 and that the plan would be effective on July 12, 2006. TD reviewed and approved FTC's request and accordingly, reduced FTC's revenue calculation by $2,311 for the 2007 test year.

FTC representatives also informed TD that there were several new residential and/or commercial developments planned for the FTC area. Forest Ranch, a major development, is a proposed planned residential/commercial development on 2,615 acres. The plan includes 2,213 residential units (1,700 age-restricted units for persons 55 years of age and older), with a mixture of housing options from townhomes to rural residential units; an 18-hole golf course, clubhouse and other recreational facilities; 5 acres of office and professional uses; a 100-unit recreational vehicle park; an equestrian center for the boarding of horses and a staging area; approximately 1,128 acres (43% of project site) to be maintained as open space. In April 2006, the final draft environmental impact report (EIR) was scheduled to be released for public review and the project was awaiting the preparation and recirculation of the draft EIR.

Nellie Jo Ranch is another proposed residential development with 80 single family residential lots ranging in size from 3 to 11.89 acres with an average lot size of 3.73 acres. Approximately eighty-three (83) acres will be dedicated to open space. In April 2006, the final EIR was released for public review.

Baker Ranch is a small commercial development which consists of a new mini-mart and gas station on a parcel of land that currently has an existing business. As of April 2006, the second submittal of this application is due by September 18, 2006 to the Placer County Planning Commission.

FTC Representatives indicated that as a Carrier of Last Resort (COLR)[9] FTC was obligated to first install facilities to these new development sites and incur costs. However, new homes/structures would be built slowly over a period of time. This requires a large up-

[9] "Carrier of Last Resort" means a carrier that has specific duties regarding the provision of Basic Service and Universal Service, as specified in Decision 96-10-066 and as modified from time to time by the Commission.

front investment for facilities by FTC without the utility receiving a positive revenue stream until future years.

FTC will not realize any immediate revenues from these proposed developments in the 2007 test year, but will instead incur outside plant expenses. This coupled with the loss of revenues from customers' canceling their second telephone lines when subscribing to DSL services, results in FTC forecasting decreases in revenues for test year 2007.

Operating Expenses

FTC's estimate of test year 2007 total company after tax operating expenses of $5,304,731 exceeds TD's estimate of $4,658,232 by $646,499, or approximately 13.88%. A significant portion of this difference is due to the method of equipment depreciation used by FTC which is explained in the Rate Base section of this resolution. Other differences between TD's and FTC's estimates are described below. A comparison of TD's and FTC's estimates of total company operating expenses for test year 2007 is shown in Appendix B.

In estimating operating expenses for 2006, FTC annualized its operating expenses for the last four months of 2005, after SEI's acquisition of the company in late August 2005. FTC separated these expenses into four general categories: Plant Specific, Plant Non-Specific, Customer Operations and Corporate Operations. FTC increased the 2005 annualized operating expenses by 3% for inflation to estimate 2006 expenses and again by 3% to estimate 2007 expenses.

In its supplemental filing AL 263A, FTC increased its operating expenses to $6,069,732. The increase was necessary as FTC determined it could not provide adequate service with the existing number of employees and revised its employee count to add 15 new employees for a total of 25 for 2007 test year.

After reviewing AL 263A and FTC's request for the additional employees, TD requested FTC to provide a job description for each of the 15 additional employee positions. TD also requested FTC to separate each expense category into components, such as payroll, benefits, rent and other.

FTC responded to the request and submitted a Staffing Strategy worksheet which described each employee's function. FTC also submitted a revised Operating Expense worksheet with a total expense of $6,094,419 vs. $6,069,732 as originally supplemented in AL 263A. This expense worksheet identified expenses for each account[10] broken down into sub-accounts which are further separated into components, such as payroll, benefits

[10] Telephone companies are required to follow FCC's Part 32 Uniform System of Accounts (USOA). The Commission adopted the FCC's revised USOA with certain modifications, in D.87-12-063 on December 22, 1987.

and rent. In its breakdown, FTC also added an additional expense column which included adjustments for its new employees and new computer billing system.

TD reviewed FTC's response and noted some discrepancies. First, the total operating expenses of $6,094,419 was $24,687 more than the total operating expenses of $6,069,732 in FTC's supplemental filing. Second, the total employee expense adjustments for 2006 and 2007 in FTC's Operating Expense worksheet totaled $488,298 and $517,570, respectively, while the 2006 and 2007 total in its Staffing Strategy worksheet were $587,353 and $931,398, respectively. This represents a total difference of $512,883 ($99,055 for 2006, and $413,828 for 2007).

TD requested FTC to explain these discrepancies. FTC responded that the $24,687 discrepancy was a result of incomplete financial information at the time of its filing. FTC also explained that there were several factors that contributed to the employee adjustment discrepancy. First, some salaries entered on the Operating Expense worksheet were at estimated pre-hiring salary levels. These salaries were later adjusted on the Staffing Strategy worksheet after the employees were hired. Second, one new employee's salary was left off the Operating Expense worksheet. Finally, FTC counted three new executive positions as existing employees on its Staffing Strategy worksheet but did not include these salaries in its Operating Expense worksheet.

TD does not agree with FTC's methodology and escalation computations. TD utilized a more detailed methodology in forecasting the test year expenses. First, TD used actual expense data from FTC's 2005 annual report. Next, TD made ratemaking adjustments for items such as one-time occurrences, bonuses and employee adjustments provided by FTC where appropriate, to each of the expense accounts, and then, TD used the Division of Ratepayer Advocates' inflation factors[11] to adjust the labor and non-labor 2006 expenses for 2007.

FTC's request for 15 new staff positions include, but are not limited to, two customer service representatives and two accounting personnel. TD reviewed FTC's justification for these proposed positions, and determined that two positions are not necessary for the reasons as described below.

The first of these proposed staff additions is a customer service representative with an estimated annual labor cost of $61,298, whose responsibilities would be to keep all accounts receivable on a current basis; collect, reconcile and post payments to customer accounts; enter customer information into FTC's Line Identification Data Base and 911 database; and run service order process. In the service order clerk's absence, this

[11] On February 28, 2006, the Commission's DRA Energy Cost of Service Branch submitted an Escalation Memorandum summarizing the major changes in forecasted labor and non-labor inflation rates. These are 3.4% labor and 3.6% non-labor for 2006; and 2.5% labor and 1.1% non-labor for 2007.

customer service representative would then take applications for service and coordinate service installations.

The next proposed staff addition is an accounting employee with an estimated annual labor cost of $69,888, whose primary function is to process accounts payable, cash balances and documentation, complete work orders, payroll accounting, complete quarterly reports/data requests and deal with internal and external audits.

FTC currently has three customer service representatives and one billing specialist. TD has determined that only one additional customer service representative and one additional billing specialist is sufficient for FTC to provide adequate service to its customers. This is supported by the fact that FTC has stated that it installed a new computer billing system which automates certain business processes such as generating billing statements and notices. Certain data such as customer information, once entered manually by an accounting specialist may only need updating when changes occur however the system as a whole reduces time, cost and human resources devoted to managing receivables and payables.

FTC stated that most of the current twelve (12) remote switches have been manufacturer discontinued, are analog and would need to be digitally upgraded in order to provide advanced features such as CLASS and DSL services. Also, many of these remote switches are experiencing capacity exhaust and service issues such as noise and service complaints.

While TD recognizes the need for additional FTC employees to install and maintain technologies such as DSL services, TD has an obligation to FTC's ratepayers (as well as to all California ratepayers) in this GRC to exclude that part of salary expenses of employees that devote all or part of their time to technologies that we do not regulate and for which FTC's ratepayers should not have to subsidize. Additionally, FTC representatives indicated that residential line growth for test year 2007, even with three new subdivisions, will be flat or negative. Again, the provision of DSL services is replacing the need for a second voice line in many customer residences.

TD recommends a 2007 test year intrastate expense (before taxes) of $3,639,561 which is $643,466 lower than FTC's current proposal of $4,283,027. TD's recommendation is derived by basing the forecast of test year 2007's expense with a three-year average inflation growth rate of 3.4% labor and 3.6% non-labor for 2006; and 2.5% labor and 1.1% non-labor for 2007 for each of the four major accounts: Plant Specific; Plant Non-Specific; Customer and Corporate Operations. Adjustments were also made to include some of FTC's proposed staff additions.

Rate Base

Rate Base is the investor-supplied plant facilities and other assets used in supplying utility service to the customer. This investment (rate) base is the amount to which the rate of return is applied (i.e., Rate Base x Rate of Return = Net Operating Income). Rate Base consists of Plant in Service, Telephone Plant under Construction, Materials and Supplies, Working Cash, Depreciation Reserve and Amortization, Deferred Taxes and Customer Deposits.

FTC states that its current outside plant and central office switching equipment are old, obsolete, and in a state of neglect. FTC says its central office 5ESS[12] switch was purchased in 1993 and is expensive to upgrade and maintain as software patches and generic upgrades are continually needed. FTC informs TD that an investment of $1.56 million is budgeted for a new switch in 2007.

In addition to the $1.56 million budget for switch replacement, FTC proposes investing an additional $8.11 million for a total of over $9.67 million in plant improvements during 2006 and test year 2007. FTC projects that approximately $4 million of this amount will be invested in cable, fiber, and electronic loop plant over the 2006/2007 period. TD views this large amount as an overly aggressive plant investment program for a small telephone utility with only about 3,200 customers.

FTC included a projection of its 2005 plant in service with its original GRC filing (AL No. 263). FTC's 2005 Annual Report showed that actual plant additions were $185,528 more than its 2005 budget. Since some projects scheduled for 2006 had been started or completed in 2005, TD deducted $185,528 from FTC's 2006 projected plant additions account.

TD also excludes $50,000 from FTC's 2006 investment budget for a "Thomas/Powerline Area Remote" project. This unit is an electronic switching system that is remote from its host or central office. This item was excluded because FTC did not indicate an exact deployment date for this project in its filings or in data request responses.

While plant improvements are needed, TD believes that based on a comparison with other small telephone company plant additions in California, FTC's proposed plant additions are too extensive for such a small company to construct and deploy in a short time. In order to determine which investment projects could be deferred past the 2007 test year, TD requested FTC to rank their capital/investment projects for 2006/2007 by assigning a number 1 through 5 for each project, with 1 representing a high priority and 5 as a low priority. From FTC's rankings of its future projects, TD concludes that five (5) of

[12] The 5ESS is an electronic switching system establishing a connection between two telephone lines, or two switching systems.

FTC's lower ranked projects could be delayed until after the 2007 test year. Because the growth rate in FTC's service territory is relatively low, these TD adjustments should have minimal impact on FTC's customers. Accordingly, TD reduces FTC's 2007 investment budget by $908,815 by pushing these 5 remote change-outs past the 2007 test year.

FTC proposes that its 2007 "Construction Work in Progress" (CWIP) account equal 1.25% of its total company plant in service. TD acknowledges that the Commission has historically allowed the inclusion of CWIP in the rate base for general rate cases and for annual CHCF-A filings. Based on previously Commission-adopted general rate cases and CHCF-A filings, TD accepts 1.25% of total company plant as a reasonable estimate for CWIP.

As FTC operates differently under the new ownership, much of the historic information is not applicable or relevant to its future operations. In its supplemental AL filing, FTC provided a few introductory pages and a few charts from the "TELERGEE Benchmarking Study 2005 (TBS)." The TBS includes 2004 financial data from 236 U.S. rural incumbent Local Exchange Carriers. Among other things, FTC used the data in this study to estimate the amount of its "Materials and Supplies" account for test year 2007. The estimated amount for materials and supplies is based on a percentage of total company's plant. This is a reasonable method since the inventory of parts and supplies usually increases at the same rate as does a company's plant. TD has reviewed TBS data and found 1.20% of the total company plant for materials and supplies reasonable. TD accepts 1.20% of FTC's proposed total plant for materials and supplies in rate base for test year 2007.

Both FTC and TD use Commission's Standard Practice U-16 Simplified Method to develop working cash in rate bases. The reason for allowing cash working capital in the rate base is to compensate investors for funds provided by them for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers. The difference of working cash amount between FTC and TD is due to the difference in estimated expenses.

FTC proposes to change eleven of its depreciation rate/expense levels for its capital asset accounts for test year 2007. FTC did not conduct a depreciation study, but instead adopted part of the depreciation rates used by its sister company, Kerman Telephone Company. FTC has provided a comparison of its depreciation rates with 13 other small companies in California. TD has reviewed FTC's proposed depreciation rates and the comparison with 13 other companies' depreciation rates. TD finds FTC's proposed depreciation rates reasonable and accepts FTC's proposed depreciation rates.

FTC included $531,003 in intangible amortization expenses for test year 2007 and to also amortize this same amount in 2008 and again in 2009. In a data request response FTC averred that, "given the nature of the acquisition process, the new owners were not afforded any ability to address the operational situation of the company and have no ability or opportunity to earn an appropriate return on their investment in 2006." FTC projected that it would experience a negative intrastate return (7.63%) in 2006. FTC theorized that it should be allowed to experience a 10% rate of return for 2006, which would necessitate it receiving a revenue requirement of $1,593,010 for 2006. FTC further propounded that this $1,593,010 revenue amount be amortized over 3 years ($531,003 in each year), starting with 2007.

TD does not concur with FTC's amortization scheme. There is California High Cost Fund-A (CHCF-A) support available for small LECs in California. But LECs are not eligible to receive any CHCF-A funding until they file a GRC. FTC has not filed a rate case since 1997 and has not received CHCF-A funding since 2003. FTC is not eligible to push revenue requirement losses (for which it incurred in years it did not qualify for CHCF-A support) forward to future years in which it will qualify for CHCF-A support.

FTC's current CHCF-A funding level is at 0%. The phase down of the CHCF-A funding level is reinitiated effective on January 1st following the year after the completion of a GRC. The funding levels are 100% for the first 3 years, 80% the fourth year, 50% the fifth year, and 0% thereafter unless a GRC is filed. This 6-year phase down of funding level is known as the "Waterfall." FTC could have filed for CHCF-A support for 2006 if it had filed a GRC at the proper time.

In conclusion, TD finds that FTC's proposal to amortize the 2006 revenue requirement of $1,593,010 over 3 years unreasonable and TD excludes the intangible amortization expense amount of $531,003 for test year 2007.

The difference between FTC's intrastate deferred taxes[13] amount of ($327,716) and TD's intrastate deferred taxes amount of ($315,576), results because the amount for Plant-in-Service is used to compute the deferred taxes amount. TD's calculation for Plant-in-Service of $15,576,775 differs from FTC's calculation for Plant-in-Service of $15,920,049; hence this leads to the difference in FTC's and TD's respective deferred taxes amounts.

There are no customer deposits reflected in FTC's estimated rate base. In Data Request No. 3 dated May 2, 2006, TD requested FTC to explain why it did not report any customer deposits for 2005, 2006 or 2007 in its Advice Letters No. 263 and 263A filings. FTC responded to TD by stating that local services are relatively stable with few uncollectible accounts. FTC also said that deposits are unnecessary given the nature of the relationship

[13]. Deferred taxes is a liability recorded on the balance sheet that results from income already earned and recognized for accounting purposes, but not for tax purposes. Also, differences between tax laws and accounting methods can result in a temporary difference in the amount of income tax payable by a company. This difference is recorded as deferred income tax.

between the local exchange company and its customers. FTC stated that it anticipates that deposits will not be collected and will disappear over time. TD accepts FTC's explanations and its estimate of customer deposits for its estimated 2007 test year rate base.

Appendix D shows FTC's and TD's Intrastate Results of Operations (Operating Revenues, Operating Expenses, Average Rate Base and Rate of Return) at Proposed Rates for test Year 2007, as well as at the Adopted Rates. Appendix D also shows FTC's and TD's proposed CHCF-A fund amounts, as well as the adopted CHCF-A fund amount.

Separations

FTC provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because FTC's property serves both jurisdictions, the utility's revenues, expenses, taxes, investments, and reserves are allocated between interstate and intrastate services.

"Separations" is a process of apportioning a telephone company's property costs, related reserves, operating expenses, taxes, and rate base between the intrastate and interstate jurisdictions. It is a method by which a telephone company can separately identify the amount of expenses and investments associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs to be apportioned are identified in the FCC's Part 36 Separations Manual, according to the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

FTC used FCC's Part 36 separation factors to apportion its interstate and intrastate services. TD reviewed FTC's separation factors and found them reasonable, and accordingly TD used FTC's separation factors to estimate FTC's total company and plant expenses which allowed TD to calculate FTC's Intrastate Results of Operations.

Appendix C compares FTC's and TD's interstate and intrastate results of operations for test year 2007.

Interexchange Receiving Service

Interexchange Receiving Service (IRS) is a billing service which allows a subscriber to pay for all incoming toll calls made from other designated exchanges to which he subscribes this service from.

IRS is currently available to customers with business individual, two-party, or PBX access line services located in the receiving exchange. However, FTC requests Commission authority to; a) withdraw Interexchange Service in Cal. P.U.C. Schedule No. A-9 since there are no current customers and no currently requests for IRS and b) revise its tariff schedule to reflect this change effective with the effective date of this resolution.

After reviewing this AL filing, TD recommends that the Commission approve FTC's request to: a) withdraw Interexchange Service in Cal. P.U.C. Schedule No. A-9, as there are no customers subscribed to this service and, b) revise its tariff schedule to reflect this change effective with the effective date of this resolution.

Cost of Capital

FTC requests an overall intrastate rate of return of 10.00%. TD believes that the Return on Equity (ROE) for all rural ILECs would be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar and on January 26, 2006, the Commission authorized a 10.00% rate of return in the Siskiyou general rate case[14]. TD recommends that the Commission approve FTC's request for an overall rate of return of 10.00% at this time.

FTC also proposed a 40.00% debt and 60.0% equity capital structure. In Decision (D.)97-04-036[15], the Commission adopted a 39.98% debt and 60.02% equity, therefore, TD finds FTC's proposed capital structure reasonable.

Taxes

The differences in the income tax estimates between FTC and TD are due to differences in each party's calculations of intrastate net operating revenues (estimated operating revenues minus estimated operating expenses) for test year 2007. TD and FTC both used a California Income Tax rate of 8.84% and a Federal Income Tax rate of 34.00%.

Therefore, TD's estimate of state income tax expense of $73,968 is $6,836 lower than FTC's estimated state income tax expense of $80,804. And TD's estimate of federal income tax expense of $259,344 is $23,968 lower than FTC's estimated federal income tax expense of $283,312.

Net-to-Gross Multiplier

The Net-to-Gross Multiplier indicates the unit change in gross revenues required to produce a unit change in net revenues. It is a factor that accounts for the additional revenue required to pay taxes and achieve a given revenue requirement after taxes.

[14] Resolution T-16968, the Siskiyou Telephone Company's general rate case.
[15] Commission's Decision on an Application filed by California Oregon Telephone Company in its general rate case with a request to earn a 15.59% rate of return on equity.

Appendix E shows TD's computation of FTC's Net-to-Gross Multiplier. The Net-to-Gross Multiplier of 1.66207 means that a $1.66207 change in gross revenues before taxes would be required to produce $1.00 in net revenues after expenses and taxes.

The Net Revenues (adopted at a 10.00% Rate of Return) of $767,704 is calculated by multiplying the Adopted Intrastate Rate Base of $7,677,035 times the Adopted Rate of Return of 10.00%. This Net Revenue figure of $767,704 minus FTC's actual 2007 Net Revenues of ($990,502) equals the Change in Net Revenues of $1,758,206.

The Change in Net Revenues of $1,758,206 times the Net-To-Gross Multiplier of 1.66207 equals the Gross Revenue Change Requirement of $2,922,261. However, an additional revenue requirement of $100,558 is needed to reflect the decrease in FTC's revenue due to our authorization of FTC's proposed rate restructuring and TD's proposed rate design. This means that based on our adoption of TD's intrastate results of operation, FTC will need an additional $3,022,819 in Gross Revenues to realize a 10.00% Rate of Return. This increase in FTC's Gross Revenues will come from $3,022,819 in CHCF-A support amount to FTC.

<u>CHCF-A Support</u>

TD's total company results of operations at present rates show that FTC would register a ($600,353) in Net Operating Revenues and a total company rate of return of a (5.43%) (Appendix B, Column B) prior to any CHCF-A adjustment.

As described above in the <u>Net-to-Gross Multiplier</u> section of this resolution, FTC will need $3,022,819 in CHCF-A support in order to realize a 10.00% Rate of Return for intrastate results of operation.

Appendix E shows TD's calculations of the recommended Net-to-Gross Multiplier, the Intrastate Revenue Requirement and the CHCF-A Support amount.

For test year 2007, TD's computation of FTC's CHCF-A requirement is $3,022,819. This is based on TD's calculation involving TD's projections of FTC's revenues, expenses, and rate base and using an overall intrastate rate of return of 10.00%.

Comments

In accordance with P.U. Code Section 311 (g), TD mailed copies of the original draft Resolution on November 14, 2006 to FTC and other interested parties. Comments received on a timely basis will be addressed in the final resolution.

On November 28, 2006, FTC filed timely comments to the Commission's Draft Resolution T-17048 (DR). FTC requested two changes to the DR in their submission. In the first change FTC requested that the lengthy discussion of Acquisition Issues within the background section of the DR be eliminated or the topic summarized in less detail. In response to FTC's request, TD has summarized the acquisition process in the Background section of this DR to present only the most salient points.

FTC also requested that the Commission revise its recommendation for FTC to defer five of its lower ranked investment projects past the 2007 test year. FTC states that delaying these upgrades only serves to delay the availability of additional services. FTC also states that it will continue to have inferior service quality in those areas until the upgrades are completed.

TD staff does not believe that FTC's proposed 16 new investment projects over a two-year period are realistic. First, based on a comparison with other small telephone company plant additions in California, FTC's proposed plant additions are too extensive for such a small company to construct and deploy in a short time. Secondly, TD believes that FTC does not have sufficient staff needed to complete all of its proposed projects in such a short timeframe. FTC currently has six full time employees and plans to hire an additional five plant engineers however, in response to data request No. 6, FTC states that it does not assign its employees to specific projects. In other words, current and new employees are required to cross train to obtain a general experience in other areas of utility operations. TD believes that it would take more than one year to hire, cross train and complete all of FTC's proposed projects.

We agree with TD's assessment that FTC's proposed 16 new investment projects over a two-year period are unrealistic and we therefore, adopt TD's recommendation to defer five of FTC's lower ranked investment projects past the 2007 test year.

In addition to TD's response to FTC's comments as stated above, TD inadvertently omitted FTC's requested tariff changes as contained in AL 263. TD reviewed all of FTC's requested tariff changes and recommends that the Commission adopt the changes. FTC's requested changes are as follows:

> The PBX trunk line rate was removed since there are no customers. The text was also cleaned up by FTC to reflect these and other clerical changes in Schedule No. A-1.
>
> Schedule No. A-7, the outdated CTF discounts were deleted and a reference was added to see Schedule No. A-2, California Teleconnect Fund Discounted Services.

Schedule No. A-8, the High Capacity Service is located in Schedule No. B-7 and not in Schedule No. G-1 so the text was changed accordingly by FTC. Also, the CTF discounts were replaced with a reference to Schedule No. A-2.

Schedule No. A-14, the premises visit was clarified so that it applied when the Utility enters the customer's home. Also the Application of Multi-Element Service Charges was added to clarify what charges apply for various situations. FTC points out that this matrix for its multi-element charges is similar to that found in Kerman Telephone Co.'s Tariff Schedule.

Schedule No. A-16, the remaining Custom Calling Service feature packages were removed and a reference to the discounts were added. There are no customers affected by this change.

Schedule No. A-23, FTC plans to offer the inside wire repair monthly plan at the rates authorized for Verizon in Schedule No. K-1, Sheet 18.1 for residential service. The Special Conditions for the inside wire repair plan were updated to match Kerman's Schedule No. A-32. FTC's proposed rate of $2.99 for the inside wire repair plan is reasonable and will apply to both business and residential customers.

Schedule No. A-27, Special Conditions 12 had the incorrect Schedule listed for the Multi-Element Service Charges and has been revised.

Schedule No. B-7, the High Capacity Service channel mileage termination was added to the sheet. This rate was inadvertently left off by FTC.

Schedule No G-1, the section was changed to clarify that this is analog and Intra-exchange Service. Inter-exchange Service and other private line (special access) products are shown in Schedule No. B-7.

Schedule No. L-1, Mobile Telephone Service is detariffed and the entire Schedule No. L-1 has been deleted.

Rule No. 2, the reference to bells (ringing tones) and zones areas were removed. This Rule was updated to reflect current technology

We find TD's recommendation to adopted FTC's requested tariff revisions and estimates reasonable.

Commission approval is based only on the specifics of Advice Letters No. 263 and 263A and does not establish a precedent for the contents of any future filings by small ILECs

Findings

1. FTC filed its 2007 test year GRC by AL 263 on March 2, 2006, as supplemented by AL 263A on March 20, 2006.

2. FTC requests the following for test year 2007:

   - Its zone rate structure be eliminated and replaced by one rate for residential and one rate for business services. The proposed residential rate be $16.05 per month, which is approximately 150% level of comparative California urban rates; the proposed business rate be changed to $29.30 per month;
   - The Interexchange Receiving Service in its Tariff Schedule No. A-9; Cal. P.U.C. Sheet No. 1693-T, be withdrawn since there are no customers and no current request for this service;
   - The tariff schedules be revised to reflect these changes;
   - It earn an intrastate Rate of Return (ROR) of 10.00%;
   - It receive a California High Cost Fund-A (CHCF- A) draw of $3,522,000;
   - It be allowed to change the majority of its depreciation rates for test year 2007.

3. The Telecommunications Division recommends the following changes for FTC for test year 2007:

   - Zone rate structure is eliminated and replaced by one rate for residential and one rate for business services. The proposed residential rate is $16.05 per month and the proposed business rate be changed to $30.80 per month;
   - Foresthill shall file an advice letter, within 14 calendar days from the effective date of this resolution, to revise its tariff schedule No. A-1; Cal. P.U.C. Sheet No. 1687-T, to reflect the one rate of $16.05 per month for local residential service and one rate of $30.80 per month for local business service, to be effective on January 1, 2007;
   - Foresthill shall provide notice to all of its customers of the change in rates, within 7 days from the effective date of this resolution.
   - FTC’s Interexchange Receiving Service in Tariff Schedule No. A-9; Cal. P.U.C. Sheet No. 1693-T, is to be withdrawn since there are no customers and no current request for this service;
   - FTC’s Tariff Schedule No. A-9; Cal. P.U.C. Sheet No. 1693-T, shall be revised to reflect the withdrawal of the Interexchange Receiving Service;
   - FTC’s intrastate Rate of Return (ROR) will be 10.00%;
   - The depreciation rates as proposed by FTC for the test year 2007 be accepted;

- A California High Cost Fund-A (CHCF- A) draw $3,022,819 for 2007 be granted.

4. The differences in the estimates between FTC and TD result from the use of different assumptions for estimating revenues, expenses, and rate base.

5. We find TD's methodology of using ratemaking adjustments to each of the expense accounts and its use of the Division of Ratepayer Advocates' inflation factors to adjust the labor and non-labor 2006 expenses for test year 2007, reasonable. We therefore adopt TD's recommended test year 2007 expenses contained in Appendix D.

6. We find TD's methodology in estimating revenues reasonable. We, therefore, adopt TD's recommended intrastate revenues for the test year 2007 as shown in Appendix D.

7. We find TD's methodology in estimating FTC's plant and other rate base items reasonable. We, therefore, adopt TD's recommended plant and other rate base items for the 2007 test year as shown in Appendix D.

8. We accept TD's recommended overall intrastate rate of return of 10.00% for Foresthill for test year 2007.

9. We find TD's recommended $3,022,819 CHCF-A support for Foresthill for test year 2007 acceptable. The $3,022,819 CHCF-A support is based on our adoption of TD's intrastate results of operations for Foresthill for test year 2007.

10. We find Foresthill's requested tariff changes, as listed in the Comments section of this resolution, acceptable.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2007 identified in Appendix D, column (E) are adopted for Foresthill Telephone Company.

2. Zone rate structure shall be eliminated and replaced by one rate of $16.05 per month for local residential service and one rate of $30.80 per month for local business service.

3. Foresthill shall file an advice letter, within 14 calendar days from the effective date of this resolution, to revise its tariff schedule No. A-1; Cal. P.U.C. Sheet No. 1687-T, to reflect the one rate of $16.05 per month for local residential service and the one rate of $30.80 per month for local business service, to be effective on January 1, 2007. Foresthill shall provide notice to all of its customers of the change in rates, within 7 days from the effective date of this resolution.

4. Foresthill's Interexchange Receiving Service in Tariff Schedule No. A-9; Cal. P.U.C. Sheet No. 1693-T, is withdrawn, as requested in Advice Letter No. 263, since there are no customers and no current request for this service.

5. Foresthill's Revised Tariff Schedule No. A-9; Cal. P.U.C. Sheet No. 1693-T, as filed in Advice Letter No. 263 to reflect the withdrawal of the Interexchange Receiving Service, is accepted with the effective date of this resolution.

6. Foresthill's requested tariff changes, as listed in the Comments section of this resolution, are approved.

7. The overall intrastate rate of return of 10.00% is adopted for Foresthill for test year 2007.

8. Foresthill's proposed depreciation rates for plant-in-service for test year 2007 are adopted.

9. Foresthill's CHCF-A draw for 2007 shall be $3,022,819.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 14, 2006. The following Commissioners approved it:

DRAFT

APPENDIX A
FORESTHILL TELEPHONE COMPANY
RESULTS OF OPERATIONS - TOTAL COMPANY
TEST YEAR 2007

		FORESTHILL AL 263 2-Mar-06 (A)	DIFFERENCE (B)=(C)-(A)	FORESTHILL AL 263A 20-Mar-06 (C)
OPERATING REVENUES:				
1	Local Network Services	799,751	-	799,751
2	Local Service - CHCF - A	-	-	-
3	Interstate USF	527,714	-	527,714
4	Network Access Services:			
5	Intrastate	742,167	(79,537)	662,630
6	Interstate	2,129,367	-	2,129,367
7	Miscellaneous	61,029	-	61,029
8	Less: Uncollectible Revenue	(1,286)	-	(1,286)
9	**Total Oper. Revenue**	4,258,742	(79,537)	4,179,205
OPERATING EXPENSES:				
10	Plant Specific	1,174,616	162,014	1,336,630
11	Plant Non-Specific (less depr.)	336,919	-	336,919
12	Customer Operations	682,261	61,298	743,559
13	Corporate Operations	1,228,867	294,258	1,523,125
14	**Subtotal**	3,422,663	517,570	3,940,233
15	Depreciation & Amortization	2,129,499	-	2,129,499
16	Other Taxes	165,366	-	165,366
17	State Income Taxes	(162,466)	(52,784)	(215,250)
18	Federal Income Taxes	(569,627)	(185,069)	(754,696)
19	**Total Oper. Expense**	4,985,435	279,717	5,265,152
20	**Net Oper. Revenues**	(726,693)	(359,254)	(1,085,947)
AVERAGE RATE BASE:			-	
21	Telephone Plant-in-Service	23,893,305	-	23,893,305
22	Tel. Plant Under Construct.	-	303,133	303,133
23	Material & Supplies	72,495	381,337	453,832
24	Working Cash	473,100	71,600	544,700
25	Less: Deprec. Reserve	(13,094,316)	-	(13,094,316)
26	Def. Taxes	(360,523)	-	(360,523)
27	Customer Deposit	-	-	-
28	**Total Rate Base**	10,984,061	756,070	11,740,131
29	**Rate of Return**	(6.62%)		(9.25%)

STEVE LARSON
Executive Director

APPENDIX B
FORESTHILL TELEPHONE COMPANY
RESULTS OF OPERATIONS TEST YEAR 2007
TOTAL COMPANY AT PRESENT RATES

		FORESTHILL	TD	UTILITY EXCEED STAFF AMOUNT	UTILITY EXCEED STAFF PERCENTAGE DIFFERENCE
		(A)	(B)	(C=A-B)	(D= C/B)
OPERATING REVENUES:					
1	Local Network Services	899,111	902,021	(2,910)	(0.32%)
2	Local Services - CHCF-A	-	-	-	-
3	Interstate USF	527,714	303,773	223,941	73.72%
4	Network Access Services:				
5	Intrastate	662,630	662,630	-	0.00%
6	Interstate	2,129,367	2,129,367	-	0.00%
7	Miscellaneous	61,029	61,310	(281)	(0.46%)
8	LESS: Uncollectible Rev.	(1,286)	(1,222)	(64)	5.24%
9	**Total Oper. Revenues**	4,278,565	4,057,879	220,686	5.44%
OPERATING EXPENSES:					
10	Plant Specific	1,336,630	817,948	518,682	63.41%
11	Plant Non-Specific (less depr.)	336,919	178,654	158,265	88.59%
12	Customer Operations	743,559	732,814	10,745	1.47%
13	Corporate Operations	1,523,125	1,909,910	(386,785)	(20.25%)
14	**Subtotal**	3,940,233	3,639,326	300,907	8.27%
15	Depreciation & Amortization	2,129,499	1,501,985	627,514	41.78%
16	Other Taxes	165,366	165,366	-	0.00%
17	State Income Taxes	(206,466)	(143,902)	(62,564)	43.48%
18	Federal Income Taxes	(723,901)	(504,543)	(219,358)	43.48%
19	**Total Oper. Expenses**	5,304,731	4,658,232	646,499	13.88%
20	**Net Oper. Revenues**	(1,026,166)	(600,353)	(425,813)	70.93%
AVERAGE RATE BASE:					
21	Telephone Plant-in-Service	23,893,305	23,378,021	515,284	2.20%
22	Tel. Plant Under Construct.	303,133	292,225	10,908	3.73%
23	Mat & Supplies	453,832	280,536	173,296	61.77%
24	Working Cash	544,700	503,500	41,200	8.18%
25	Less: Deprec. Reserve	(13,094,316)	(13,060,092)	(34,224)	0.26%
26	Def. Taxes	(360,523)	(347,168)	(13,355)	3.85%
27	Customer Deposit	-	-	-	0.00%
28	**Total Rate Base**	11,740,131	11,047,022	693,109	6.27%
			-		
29	**Rate of Return**	**(8.74%)**	**(5.43%)**		

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APPENDIX C
FORESTHILL TELEPHONE COMPANY
RESULTS OF OPERATIONS TEST YEAR 2007
INTERSTATE AND INTRASTATE
AT PRESENT RATES

			TD	
		TOTAL COMPANY (A)	**INTERSTATE (B)**	**INTRASTATE (C)**
OPERATING REVENUES:				
1 Local Network Services[16]		902,021		902,021
2 Local Services - CHCF-A		-		-
3 Interstate USF		303,773		303,773
4 Network Access Services:				
5 Intrastate		662,630		662,630
6 Interstate		2,129,367	2,129,367	
7 Miscellaneous		61,310	22	61,288
8 LESS: Uncollectible Rev.		(1,222)		(1,222)
9 **Total Oper. Revenues**		4,057,879	2,129,389	1,928,490
OPERATING EXPENSES:				
10 Plant Specific		817,948	272,925	545,023
11 Plant Non-Specific (less depr.)		178,654	67,126	111,528
12 Customer Operations		732,814	183,526	549, 288
13 Corporate Operations		1,909,910	578,645	1,331,265
14 **Subtotal**		3,639,326	1,102,222	2,537,104
15 Depreciation & Amortization		1,501,985	399,528	1,102,457
16 Other Taxes		165,366	55,183	110,183
17 State Income Taxes		(143,902)	40,457	(184,360)
18 Federal Taxes		(504,543)	141,850	(646,393)
19 **Total Oper. Expenses**		4,658,232	1,739,239	2,918,992
20 **Net Oper. Revenues**		(600,353)	390,150	(990,502)
AVERAGE RATE BASE:				
21 Telephone Plant-in-Service		23,378,021	7,801,246	15,576,775
22 Tel. Plant Under Construct.		292,225	98,977	193,248
23 Mat & Supplies		280,536	80,160	200,376
24 Working Cash		503,500	188,000	315,500
25 Less: Depr. Reserve		(13,060,092)	(4,766,803)	(8,293,289)
26 Def. Taxes		(347,168)	(31,592)	(315,576)
27 Customer Deposit		-	-	-
28 **Total Rate Base**		11,047,022	3,369,987	7,677,035
29 **Rate of Return**		**(5.43%)**	**11.58%**	**(12.90%)**

[16] Does not include the ($100,558) rate design/restructuring effect of the Proposed Rates.

APPENDIX D
FORESTHILL TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATES
TEST YEAR 2007

		FORESTHILL PROPOSED (A)	TD PROPOSED (B)	UTILITY EXCEED STAFF AMOUNT (C=A-B)	UTILITY EXCEED STAFF PERCENTAGE DIFFERENCE (D=C/B)	ADOPTED (E)
OPERATING REVENUES:						
1	Local Network Services	799,751	801,463	(1,712)	(0.21%)	801,463[17]
2	Local Services - CHCF-A	3,521,727	3,022,819	498,908	16.50%	3,022,819
3	Interstate USF	527,714	303,773	223,941	73.72%	303,773
4	Network Access Services:					
5	Intrastate	662,630	662,630	-	0.00%	662,630
6	Interstate	-	-	-	-	-
7	Miscellaneous	61,007	61,288	(281)	(0.46%)	61,288
8	LESS: Uncollectible Revenue	(1,286)	(1,222)	(64)	5.24%	(1,222)
9	**Total Operating Revenue**	5,571,543	4,850,751	720,792	14.86%	4,850,751
OPERATING EXPENSES:						
10	Plant Specific	890,641	545,023	345,618	63.41%	545,023
11	Plant Non-Specific (less deprec.)	210,330	111,528	98,802	88.59%	111,528
12	Customer Operations	557,341	549,288	8,053	1.47%	549,288
13	Corporate Operations	1,061,658	1,331,265	(269,607)	(20.25%)	1,331,265
14	**Subtotal**	2,719,970	2,537,104	182,866	7.21%	2,537,104
15	Depreciation & Amortization	1,563,057	1,102,457	460,600	41.78%	1,102,457
16	Other Taxes	110,183	110,183	-	0.00%	110,183
17	State Income Taxes	80,804	73,968	6,836	9.24%	73,968
18	Federal Income Taxes	283,312	259,344	23,968	9.24%	259,344
19	**Total Operating Expense**	4,757,326	4,083,056	674,270	16.51%	4,083,056
20	**Net Operating Revenue**	814,217	767,695	46,522	6.06%	767,695
AVERAGE RATE BASE:						
21	Telephone Plant-in-Service	15,920,049	15,576,775	343,274	2.20%	15,576,775
22	Tel. Plant Under Construction	200,461	193,248	7,213	3.73%	193,248
23	Materials & Supplies	324,153	200,376	123,777	61.77%	200,376
24	Working Cash	341,300	315,500	25,800	8.18%	315,500
25	Less: Deprec. Res.	(8,315,053)	(8,293,289)	(21,764)	0.26%	(8,293,289)
26	Def. Taxes	(327,716)	(315,576)	(12,140)	3.85%	(315,576)
27	Customer Deposit	-	-	-	-	-
28	**Total Rate Base**	8,143,194	7,677,034	466,160	6.07%	7,677,034
29	Rate of Return	10.00%	10.00%			10.00%

[17] Includes ($100,558) rate design/restructuring effect.

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APPENDIX E
FORESTHILL TELEPHONE COMPANY
ADOPTED NET-TO-GROSS MULTIPLIER
INTRASTATE REVENUE REQUIREMENT AND CHCF-A SUPPORT

1	Gross Revenues		1.00000
2	Uncollectible		0.00000
3	Net Revenues		1.00000
4	State Income Tax (Tax Rate times Line 3)	8.84%	0.08840
5	Federal Taxable Income(Line 3 less Line 4)		0.91160
6	Federal Income Tax (Tax Rate times Line 5)	34.00%	0.30994
7	Net Income (Line 5 less Line 6)		0.60166
8	**Net-To-Gross Multiplier (Line 1 divided by Line 7)**		**1.66207**
	Intrastate Revenue Requirement		
9	Adopted State Rate Base		$7,677,035
10	Net Revenues Adopted at 10.00% (Line 9 times 10%)		767,704
11	Net Revenue in Test Year 2007 at Present Rates		(990,502)
12	Change in Net Revenues (Line 10 less Line 11)		1,758,206
13	**GROSS REVENUE CHANGE REQUIRED (Line 12 times Line 8)**		**2,922,261**
14	**IMPACT OF PROPOSED RATES**		**(100,558)**
15	**2007 CHCF-A SUPPORT ADOPTED** (Ln. 13 less Ln. 14)		**$3,022,819**